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## SquareTwo moves well beyond square one

BY RENEE MCGAW

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When the recession hit, SquareTwo Financial Corp. saw opportunity. But to take advantage of it, changes were needed.

"The capital structure of the company was adequate, but not appropriate for the growth that we were going to experience," said Paul Larkins, CEO of the Denver-based company. "So we recapitalized the company."

On April 6, SquareTwo — which buys charged-off consumer debt, primarily from banks and hospitals — issued \$300 million in seven-year senior secured second-lien notes, marking the first time a company in the distressed-debt industry has sold fixed-rate debt, Larkins said.

"Our bonds are now publicly traded," Larkins said. "We reorganized our revolving debt facility, so we now have ample liquidity to grow the company over a longer horizon. Our plan is to diversify our asset purchases, to invest heavily in our technology and our people, and we're making great progress on those fronts."

Founded in 1994 by attorney Scott Lowery as Collect America Ltd., SquareTwo Financial has grown into one of the top five debt buyers in the United States, employing more than 200 people at its headquarters near the Denver Tech Center. In 2005, it was acquired by KRG Capital Partners, a Denver-based private equity firm. The company's name was changed in December 2009.

In the past 15 years, it has purchased more than \$24 billion in debt, \$3.2 billion of it in the past year alone.

SquareTwo acquires debt, models it into various categories based on expected ability to collect, and places it with a network of 32 franchisee law firms that work with debtors on repayment and credit score rehabilitation. The law firms send the debt repayments back to SquareTwo, minus a portion for their fees.

SquareTwo manages about \$6.7 billion in debt, Larkins said. Most of it is consumer credit card receivables, primarily from banks that have written the debt off as uncollectable. SquareTwo also works with nonbank financial services companies and hospitals, and a Kan-



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Paul Larkins is CEO of SquareTwo Financial Corp.

sas City-based office acquires small-business loans and leases. It doesn't buy mortgages.

Larkins, a longtime KeyCorp executive, joined SquareTwo last year; he was promoted to CEO in February.

"The first thing I did when I arrived here was look at the leadership team, and where we had strengths and weaknesses, and I made a lot of changes," Larkins said.

That included bringing on Heath Sampson, formerly with First Data Corp., as CFO in February. Brian Tuite, formerly with Bank of America, joined the same month as chief business development officer. Rick Roth, previously with ProLogis., was named chief marketing officer in March.

Although the economic slowdown means that there's lots of debt available to purchase — credit card charge offs topped 11 percent in the first quarter, the highest rate in 20 years, according to Moody's Investors Service — the company still faces challenges.

"The estimate in the banking industry is that credit card charge offs will exceed 14

### DETAILS

#### SquareTwo Financial Corp.

**Address:** 4340 S. Monaco St., Denver, Colo. 80237

**Phone:** 303-296-3345

**President and CEO:** Paul Larkins

**Employees:** 225

### LESSONS LEARNED

"Leading a company during a recession has reinforced my fundamental belief that educating and communicating with employees is the foundation for success, particularly in a challenging economy. While others may want to refrain from communicating with employees during tough times, I believe that's exactly when it's needed most. I am also a strong believer that establishing clear goals and accountabilities increases employee confidence and improves productivity."

— Paul Larkins

percent," Larkins said. "Our business model doesn't need 14 percent charge offs. We actually have to work harder to grade and understand the debt we acquire when there's that much of it."

In April, Moody's graded SquareTwo debt at B2, its fifth-highest junk rating, and S&P rated it B, or two levels below investment grade.

On the other hand, SquareTwo enjoys a strong market position, efficient business model, and currently favorable market conditions for purchasing credit card receivables, analysts said.

It's also hiring at a healthy clip — it added about 35 people in the past year, and expects to maintain that pace for the near future.

Larkins declined to discuss revenue or earnings in any detail, noting that the company doesn't yet report publicly. Because it now has publicly traded debt, it will start filing reports to the Securities and Exchange Commission later this year, beginning with second-quarter 2010 data.