

Atlanticus Holdings Corp
Form 10-Q
August 11, 2017
Table of Contents

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

For the quarterly period ended June 30, 2017

of
ATLANTICUS HOLDINGS CORPORATION

a Georgia Corporation
IRS Employer Identification No. 58-2336689
SEC File Number 0-53717

Five Concourse Parkway, Suite 300
Atlanta, Georgia 30328
(770) 828-2000

Atlanticus' common stock, no par value per share, is registered pursuant to Section 12(b) of the Securities Exchange Act of 1934 (the "Act") and is listed on the NASDAQ Global Select Market.

Atlanticus is not a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933.

Atlanticus (1) is required to file reports pursuant to Section 13 of the Act, (2) has filed all reports required to be filed by Section 13 of the Act during the preceding 12 months and (3) has been subject to such filing requirements for the past 90 days.

Atlanticus has submitted electronically and posted on its corporate Web site every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.

Atlanticus is a smaller reporting company and is not a shell company or an emerging growth company.

As of August 7, 2017, 13,984,151 shares of common stock, no par value, of Atlanticus were outstanding. This excludes 1,459,233 loaned shares to be returned.

Table of Contents

Table of Contents

Page

PART I. FINANCIAL
INFORMATION

Item 1.	Financial Statements (Unaudited) Consolidated Balance Sheets Consolidated Statements of Operations Consolidated Statements of Comprehensive (Loss) Income Consolidated Statements of Equity Consolidated Statements of Cash Flows Notes to Consolidated Financial Statements Management's Discussion and Analysis of	<u>1</u> <u>1</u> <u>2</u> <u>3</u> <u>4</u> <u>5</u> <u>6</u>
Item 2.	Financial Condition and Results of Operations Quantitative and Qualitative	<u>25</u>
Item 3.	Disclosures About Market Risk	<u>42</u>
Item 4.	Controls and Procedures	<u>42</u>

Part II. OTHER INFORMATION

Item 1.	Legal Proceedings	<u>43</u>
Item 1A.	Risk Factors	<u>43</u>
Item 2.	Unregistered Sales of Equity Securities and	<u>51</u>

	Use of Proceeds	
	Defaults Upon	
Item 3.	Senior Securities	<u>51</u>
Item 4.	Mine Safety Disclosure	<u>51</u>
Item 5.	Other Information	<u>52</u>
Item 6.	Exhibits	<u>52</u>
	Signatures	<u>53</u>

Table of Contents

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Atlanticus Holdings Corporation and Subsidiaries

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands)

	June 30, 2017	December 31, 2016
Assets		
Unrestricted cash and cash equivalents	\$74,475	\$ 76,052
Restricted cash and cash equivalents	28,851	16,589
Loans and fees receivable:		
Loans and fees receivable, at fair value	12,770	15,648
Loans and fees receivable, gross	323,922	290,697
Allowances for uncollectible loans and fees receivable	(41,175)	(43,275)
Deferred revenue	(31,352)	(23,639)
Net loans and fees receivable	264,165	239,431
Rental merchandise, net of depreciation	—	27
Property at cost, net of depreciation	3,382	3,829
Investment in equity-method investee	5,404	6,725
Deposits	305	505
Prepaid expenses and other assets	23,065	19,389
Total assets	\$399,647	\$ 362,547
Liabilities		
Accounts payable and accrued expenses	\$112,400	\$ 86,768
Notes payable, at face value, net	165,746	141,166
Notes payable to related parties	40,000	40,000
Notes payable associated with structured financings, at fair value	10,031	12,276
Convertible senior notes	61,085	60,791
Income tax liability	11,729	15,769
Total liabilities	400,991	356,770
Commitments and contingencies (Note 9)		
Equity		
Common stock, no par value, 150,000,000 shares authorized: 15,443,384 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at June 30, 2017; and 15,348,086 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at December 31, 2016	—	—
Additional paid-in capital	212,572	211,646
Accumulated other comprehensive loss	—	—
Retained deficit	(213,915)	(205,859)
Total shareholders' equity	(1,343)	5,787
Noncontrolling interests	(1)	(10)
Total equity	(1,344)	5,777
Total liabilities and equity	\$399,647	\$ 362,547

See accompanying notes.

Table of Contents

Atlanticus Holdings Corporation and Subsidiaries
Consolidated Statements of Operations (Unaudited)
(Dollars in thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income:				
Consumer loans, including past due fees	\$26,613	\$21,462	\$52,472	\$39,610
Other	43	60	144	152
Total interest income	26,656	21,522	52,616	39,762
Interest expense	(6,419)	(4,792)	(12,236)	(9,436)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	20,237	16,730	40,380	30,326
Fees and related income on earning assets	3,971	5,878	6,772	13,765
Net recovery of charge off of loans and fees receivable recorded at fair value	519	6,140	8,370	11,051
Provision for losses on loans and fees receivable recorded at net realizable value	(15,744)	(10,811)	(26,397)	(15,542)
Net interest income, fees and related income on earning assets	8,983	17,937	29,125	39,600
Other operating income:				
Servicing income	861	981	1,950	2,428
Other income	240	75	349	145
Gain on repurchase of convertible senior notes	—	1,037	—	1,037
Equity in income of equity-method investee	404	325	738	1,327
Total other operating income	1,505	2,418	3,037	4,937
Other operating expense:				
Salaries and benefits	5,486	6,181	11,018	11,913
Card and loan servicing	7,794	7,285	15,179	16,273
Marketing and solicitation	3,127	932	4,659	1,787
Depreciation	243	2,099	553	6,255
Other	7,062	2,928	12,632	2,629
Total other operating expense	23,712	19,425	44,041	38,857
(Loss) Income before income taxes	(13,224)	930	(11,879)	5,680
Income tax benefit (expense)	4,443	(657)	3,825	(855)
Net (loss) income	(8,781)	273	(8,054)	4,825
Net (income) loss attributable to noncontrolling interests	(3)	4	(2)	5
Net (loss) income attributable to controlling interests	\$(8,784)	\$277	\$(8,056)	\$4,830
Net (loss) income attributable to controlling interests per common share—basic	\$(0.63)	\$0.02	\$(0.58)	\$0.35
Net (loss) income attributable to controlling interests per common share—diluted	\$(0.63)	\$0.02	\$(0.58)	\$0.35

See accompanying notes.

Table of Contents

Atlanticus Holdings Corporation and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income (Unaudited)
(Dollars in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net (loss) income	\$(8,781)	\$273	\$(8,054)	\$4,825
Other comprehensive income:				
Foreign currency translation adjustment	—	—	—	—
Reclassifications of foreign currency translation adjustment to consolidated statements of operations	—	300	—	600
Income tax expense related to other comprehensive income	—	—	—	—
Comprehensive (loss) income	(8,781)	573	(8,054)	5,425
Comprehensive (income) loss attributable to noncontrolling interests	(3)	4	(2)	5
Comprehensive (loss) income attributable to controlling interests	\$(8,784)	\$577	\$(8,056)	\$5,430

See accompanying notes.

Table of Contents

Atlanticus Holdings Corporation and Subsidiaries
Consolidated Statements of Equity
For the Six Months Ended June 30, 2017 (Unaudited)
(Dollars in thousands)

	Common Stock		Additional		Accumulated	Retained	Noncontrolling	Total
	Shares	Amount	Paid-In	Capital	Other	Earnings	Interests	Equity
	Issued				Comprehensive	Deficit		
					Loss			
Balance at December 31, 2016	15,348,086	\$	—	\$211,646	\$	—\$(205,859)	\$ (10)	\$5,777
Compensatory stock issuances, net of forfeitures	102,000	—	—	—	—	—	—	—
Contributions from owners of noncontrolling interests	—	—	—	—	—	—	7	7
Amortization of deferred stock-based compensation costs	—	—	944	—	—	—	—	944
Redemption and retirement of shares	(6,702)	—	(18)	—	—	—	—	(18)
Other comprehensive (loss) income	—	—	—	—	—	(8,056)	2	(8,054)
Balance at June 30, 2017	15,443,384	\$	—	\$212,572	\$	—\$(213,915)	\$ (1)	\$(1,344)

See accompanying notes.

Table of Contents

Atlanticus Holdings Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
(Dollars in thousands)

	For the Six Months Ended June 30, 2017	2016
Operating activities		
Net (loss) income	\$ (8,054)	\$ 4,825
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation of rental merchandise	27	4,714
Depreciation, amortization and accretion, net	526	1,541
Losses upon charge off of loans and fees receivable recorded at fair value	2,324	3,361
Provision for losses on loans and fees receivable	26,397	15,542
Interest expense from accretion of discount on convertible senior notes	267	258
Income from accretion of discount associated with receivables	(25,725)	(19,867)
purchases		
Unrealized gain on loans and fees receivable and underlying notes payable held at fair value	(3,092)	(4,529)
Income from equity-method investments	(738)	(1,327)
Gain on repurchase of convertible senior notes	—	(1,037)
Changes in assets and liabilities:		
Increase in uncollected fees on earning assets	(1,994)	(1,877)
(Decrease) increase in income tax liability	(4,040)	149
Decrease in deposits	200	287
Increase in accounts payable and accrued expenses	22,075	11,622
	—	(636)

Edgar Filing: Atlanticus Holdings Corp - Form 10-Q

Additions to rental merchandise			
Other	2,239	(299	)
Net cash provided by operating activities	10,412	12,727	
Investing activities			
(Increase) decrease in restricted cash	(12,244	)	3,613
Proceeds from equity-method investee	2,059	3,099	
Investments in earning assets	(211,523	)	(191,023
Proceeds from earning assets	185,393	144,461	
Purchases and development of property, net of disposals	(79	)	(177
Net cash used in investing activities	(36,394	)	(40,027
Financing activities			
Noncontrolling interests contributions, net	7	4	
Purchase and retirement of outstanding stock	(18	)	(745
Proceeds from borrowings	141,221	84,659	
Repayment of borrowings	(117,100	)	(76,332
Net cash provided by financing activities	24,110	7,586	
Effect of exchange rate changes on cash	295	(873	)
Net decrease in unrestricted cash	(1,577	)	(20,587
Unrestricted cash and cash equivalents at beginning of period	76,052	51,033	
Unrestricted cash and cash equivalents at end of period	\$ 74,475	\$ 30,446	
Supplemental cash flow information			
Cash paid for interest	\$ 11,342	\$ 9,209	
Net cash income tax payments	\$ 215	\$ 705	
Supplemental non-cash information			
Issuance of stock options and restricted stock	\$ 1,142	\$ 1,710	
See accompanying notes.			

Table of Contents

Atlanticus Holdings Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

1. Description of Our Business

Our accompanying consolidated financial statements include the accounts of Atlanticus Holdings Corporation (the “Company”) and those entities we control. We are primarily focused on providing financial technology and related services. Through our subsidiaries, we provide technology and other support services to lenders who offer an array of financial products and services to consumers who may have been declined under traditional financing options. In most cases, we invest in the receivables originated by lenders who utilize our technology platform and other related services. As discussed further below, we reflect our business lines within two reportable segments: Credit and Other Investments; and Auto Finance. See also Note 3, “Segment Reporting,” for further details.

Within our Credit and Other Investments segment, we facilitate consumer finance programs offered by our bank partners to originate consumer loans through multiple channels, including retail point-of-sale, direct mail solicitation, on-line and partnerships. In the retail credit (the “point-of-sale” operations) channel, we partner with retailers and service providers in various industries across the United States (“U.S.”) to enable them to provide credit to their customers for the purchase of goods and services. These services of our lending partners, are often extended to consumers who may have been declined under traditional financing options. We specialize in supporting this “second look” credit service in various industries across the U.S. Additionally, we support lenders who market general purpose personal loans and credit cards directly to consumers (collectively, the “direct-to-consumer” operations) through additional channels enabling them to reach consumers through a diverse origination platform which includes direct mail, Internet-based marketing and through partnerships. Using our infrastructure and technology platform, we also provide loan servicing activities, including risk management and customer service outsourcing for third parties. Beyond these activities within our Credit and Other Investments segment, we continue to service portfolios of credit card receivables. One of our portfolios of credit card receivables is encumbered by non-recourse structured financing, and for this portfolio our principal remaining economic interest is the servicing compensation we receive as an offset against our servicing costs given that the likely future collections on the portfolio are insufficient to allow for full repayment of the financing.

Additionally, we report within our Credit and Other Investments segment the income earned from an investment in an equity-method investee that holds credit card receivables for which we are the servicer.

Lastly, we report within our Credit and Other Investments segment gains associated with investments previously made in consumer finance technology platforms. These include investments in companies engaged in mobile technologies, marketplace lending and other financial technologies. These investments are carried at the lower of cost or market valuation as of June 30, 2017. Some of these investees have in the past raised capital at valuations substantially in excess of our associated book value. However, none of these companies are publicly-traded, there are no material pending liquidity events, and ascribing value to these investments at this time would be speculative.

Within our Auto Finance segment, our CAR subsidiary operations principally purchase and service loans secured by automobiles from or for, and also provide floor plan financing for, a pre-qualified network of independent automotive dealers and automotive finance companies in the buy-here, pay-here, used car business. We purchase auto loans at a discount and with dealer retentions or holdbacks that provide risk protection. Also within our Auto Finance segment, we are providing certain installment lending products in addition to our traditional loans secured by automobiles.

2. Significant Accounting Policies and Consolidated Financial Statement Components

The following is a summary of significant accounting policies we follow in preparing our consolidated financial statements, as well as a description of significant components of our consolidated financial statements.

Basis of Presentation and Use of Estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the U.S. (“GAAP”). The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our consolidated financial statements, as well as the reported amounts of revenues and expenses during each reporting

Table of Contents

period. We base these estimates on information available to us as of the date of the financial statements. Actual results could differ materially from these estimates. Certain estimates, such as credit losses, payment rates, costs of funds, discount rates and the yields earned on credit card receivables, significantly affect the reported amount of credit card receivables that we report at fair value and our notes payable associated with structured financings, at fair value; these estimates likewise affect the changes in these amounts reflected within our fees and related income on earning assets line item on our consolidated statements of operations. Additionally, estimates of future credit losses have a significant effect on loans and fees receivable, net, as shown on our consolidated balance sheets, as well as on the provision for losses on loans and fees receivable within our consolidated statements of operations.

We have eliminated all significant intercompany balances and transactions for financial reporting purposes.

Loans and Fees Receivable

Our loans and fees receivable include loans and fees receivable, at fair value and loans and fees receivable, gross.

As of June 30, 2017 and December 31, 2016, the weighted average remaining accretion period for the \$31.4 million and \$23.6 million of deferred revenue reflected in the consolidated balance sheets was 12 months and 11 months, respectively.

A roll-forward (in millions) of our allowance for uncollectible loans and fees receivable by class of receivable is as follows:

	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
For the Three Months Ended June 30, 2017				
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	\$(1.8)	\$(2.0)	\$(35.7)	\$(39.5)
Provision for loan losses	(1.5)	(0.4)	(13.8)	(15.7)
Charge offs	0.8	0.8	14.4	16.0
Recoveries	(0.7)	(0.4)	(0.9)	(2.0)
Balance at end of period	\$(3.2)	\$(2.0)	\$(36.0)	\$(41.2)

	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
For the Six Months Ended June 30, 2017				
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	\$(1.4)	\$(2.1)	\$(39.8)	\$(43.3)
Provision for loan losses	(1.9)	(0.8)	(23.7)	(26.4)
Charge offs	1.2	1.6	29.0	31.8
Recoveries	(1.1)	(0.7)	(1.5)	(3.3)
Balance at end of period	\$(3.2)	\$(2.0)	\$(36.0)	\$(41.2)

Table of Contents

As of June 30, 2017	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at end of period individually evaluated for impairment	\$—	\$ (0.1)	\$ (0.2)	\$ (0.3)
Balance at end of period collectively evaluated for impairment	\$(3.2)	\$(1.9)	\$(35.8)	\$(40.9)
Loans and fees receivable:				
Loans and fees receivable, gross	\$28.1	\$76.9	\$218.9	\$323.9
Loans and fees receivable individually evaluated for impairment	\$—	\$0.2	\$0.2	\$0.4
Loans and fees receivable collectively evaluated for impairment	\$28.1	\$76.7	\$218.7	\$323.5

For the Three Months Ended June 30, 2016	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	\$(1.3)	\$(1.8)	\$(16.8)	\$(19.9)
Provision for loan losses	0.4	(0.8)	(10.4)	(10.8)
Charge offs	0.6	0.9	6.6	8.1
Recoveries	(0.8)	(0.3)	(0.5)	(1.6)
Balance at end of period	\$(1.1)	\$(2.0)	\$(21.1)	\$(24.2)

For the Six Months Ended June 30, 2016	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	\$(1.2)	\$(1.7)	\$(18.6)	\$(21.5)
Provision for loan losses	0.6	(1.4)	(14.7)	(15.5)
Charge offs	1.0	1.7	13.2	15.9
Recoveries	(1.5)	(0.6)	(1.0)	(3.1)
Balance at end of period	\$(1.1)	\$(2.0)	\$(21.1)	\$(24.2)

Table of Contents

As of December 31, 2016	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at end of period individually evaluated for impairment	\$—	\$ (0.3)	\$ (0.3)	\$ (0.6)
Balance at end of period collectively evaluated for impairment	\$(1.4)	\$(1.8)	\$(39.5)	\$(42.7)
Loans and fees receivable:				
Loans and fees receivable, gross	\$11.0	\$77.1	\$202.6	\$290.7
Loans and fees receivable individually evaluated for impairment	\$—	\$0.7	\$0.3	\$1.0
Loans and fees receivable collectively evaluated for impairment	\$11.0	\$76.4	\$202.3	\$289.7

An aging of our delinquent loans and fees receivable, gross (in millions) by class of receivable as of June 30, 2017 and December 31, 2016 is as follows:

Balance at June 30, 2017	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
30-59 days past due	\$0.5	\$6.1	\$8.6	\$15.2
60-89 days past due	0.4	2.1	6.5	9.0
90 or more days past due	0.8	1.1	11.6	13.5
Delinquent loans and fees receivable, gross	1.7	9.3	26.7	37.7
Current loans and fees receivable, gross	26.4	67.6	192.2	286.2
Total loans and fees receivable, gross	\$28.1	\$76.9	\$218.9	\$323.9
Balance of loans 90 or more days past due and still accruing interest and fees	\$—	\$0.8	\$—	\$0.8

Balance at December 31, 2016	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
30-59 days past due	\$0.2	\$7.0	\$8.2	\$15.4
60-89 days past due	0.2	2.4	6.7	9.3
90 or more days past due	0.4	1.9	11.4	13.7
Delinquent loans and fees receivable, gross	0.8	11.3	26.3	38.4
Current loans and fees receivable, gross	10.2	65.8	176.3	252.3
Total loans and fees receivable, gross	\$11.0	\$77.1	\$202.6	\$290.7
Balance of loans 90 or more days past due and still accruing interest and fees	\$—	\$1.5	\$—	\$1.5

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses reflect both the billed and unbilled amounts owed at the end of a period for services rendered. Also included within accounts payable and accrued expenses are amounts which may be owed in respect of one of our portfolios.

Table of Contents

Income Taxes

We experienced effective income tax benefit rates of 33.6% and 32.2% for the three and six months ended June 30, 2017, respectively, compared to effective income tax expense rates of 70.6% and 15.1% for the three and six months ended June 30, 2016, respectively. Our effective income tax benefit rates for the three and six months ended June 30, 2017 are below the statutory rate principally due to interest that we accrued on unpaid federal tax liabilities and our establishment of a valuation allowance in the three months ended June 30, 2017 against the net federal deferred tax asset that arose during that period associated with our net loss incurred during that period. Our effective income tax expense rate for the three months ended June 30, 2016 was significantly in excess of the statutory rate principally due to the significance of our accruals of interest and penalties on unpaid tax liabilities relative to our \$0.9 million of pre-tax income during that period. Our effective income tax expense rate for the six months ended June 30, 2016 was below the statutory rate principally due to income during that period of our U.K. subsidiary that was not subject to tax in the U.S. and the U.K. tax on which was fully offset by the release of U.K. valuation allowances in that period. Both of these factors also served to mute somewhat the reduction of our effective income tax benefit rate in the three months ended June 30, 2017 versus the statutory rate in that period.

We report potential accrued interest and penalties related to both our accrued liabilities for uncertain tax positions and unpaid tax liabilities, as well as any net payments of income tax-related interest and penalties, within our income tax benefit or expense line item on our consolidated statements of operations. We likewise report the reversal of such accrued interest and penalties within the income tax benefit or expense line item to the extent that we resolve our liabilities for uncertain tax positions or unpaid tax liabilities in a manner favorable to our accruals therefor. During the three and six months ended June 30, 2017, our income tax benefits were offset by \$0.2 million and \$0.4 million of net income tax-related interest and penalties charges. During the three and six months ended June 30, 2016 we included \$0.2 million and \$0.4 million of net income tax-related interest and penalties within those periods' respective income tax expense line items.

In December 2014, we reached a settlement with the IRS concerning the tax treatment of net operating losses that we incurred in 2007 and 2008 and carried back to obtain refunds of federal income taxes paid in earlier years dating back to 2003. Our net unpaid income tax assessment associated with that settlement was \$7.3 million at June 30, 2017; this amount excludes unpaid interest and penalties on the tax assessment, the accruals for which aggregated \$3.8 million at June 30, 2017. Prior to our filing amended return claims that would have eliminated the \$7.3 million assessment (and corresponding interest and penalties) under a negotiated provision of the IRS settlement, the IRS filed a lien (as is customarily the case) associated with the assessment. Subsequently, an IRS examination team has denied our amended return claims, and we have filed a protest with IRS Appeals. During the three months ended June 30, 2017, we were notified that the claims have been assigned to an IRS Appeals officer and an IRS Appeals conference has been scheduled for October 2017. To the extent we are unsuccessful in resolving this matter with IRS Appeals to our satisfaction, we plan to litigate this matter.

Fees and Related Income on Earning Assets

The components (in thousands) of our fees and related income on earning assets are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Fees on credit products	\$2,007	\$856	\$3,103	\$1,655
Changes in fair value of loans and fees receivable recorded at fair value	1,002	527	1,565	2,425
Changes in fair value of notes payable associated with structured financings recorded at fair value	821	939	1,527	2,104
Rental revenue	—	3,119	148	7,333

Edgar Filing: Atlanticus Holdings Corp - Form 10-Q

Other	141	437	429	248
Total fees and related income on earning assets	\$3,971	\$5,878	\$6,772	\$13,765

The above changes in the fair value of loans and fees receivable recorded at fair value category exclude the impact of charge offs associated with these receivables which are separately stated in Net recovery of charge off of loans and fees receivable recorded at fair value on our consolidated statements of operations. See Note 6, "Fair Values of Assets and Liabilities," for further discussion of these receivables and their effects on our consolidated statements of operations.

Table of Contents

Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13, Measurement of Credit Losses on Financial Instruments. The guidance requires an assessment of credit losses based on expected rather than incurred losses. This generally will result in the recognition of allowances for losses earlier than under current accounting guidance for trade and other receivables, held to maturity debt securities and other instruments. The standard will be adopted on a prospective basis with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. While we are continuing to evaluate the effect that ASU 2016-13 will have on our consolidated financial statements and related disclosures, this standard is expected to result in an increase to our allowance for loan losses given the change to expected losses for the estimated life of the financial asset. The extent of the increase will depend on the asset quality of the portfolio, and economic conditions and forecasts at adoption.

In March 2016, the FASB issued ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting. The ASU eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively, as if the equity method had been in effect during all previous periods that the investment had been held. The ASU requires that the cost of acquiring the additional interest in the investee should be combined with the current basis of the investor’s previously held interest and the equity method of accounting should be adopted as of the date the investment becomes qualified for equity method accounting. No retroactive adjustment of the investment is required. The ASU also requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings, the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The ASU was effective January 1, 2017. The impact of adoption of this authoritative guidance did not result in a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which would require lessees to recognize assets and liabilities for most leases, changing certain aspects of current lessor accounting, among other things. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The adoption of ASU 2016-02 will result in the Company recognizing a right-of-use asset and lease liability on the consolidated balance sheet based on the present value of remaining operating lease payments. We do not expect the adoption of ASU 2016-02 to have a material impact on our consolidated financial statements due to the limited lease activity we are involved in.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers.” ASU 2014-09 establishes a principles-based model under which revenue from a contract is allocated to the distinct performance obligations within the contract and recognized in income as each performance obligation is satisfied. Additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract is also required. In August 2015, the FASB delayed the effective date by one year and the guidance will now be effective for annual and interim periods beginning January 1, 2018 and early adoption is permitted. We do not plan to early adopt the guidance. The scope of ASU 2014-09 excludes interest and fee income on loans and as a result, the majority of our revenue will not be affected; however, our review is ongoing. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

Subsequent Events

We evaluate subsequent events that occur after our consolidated balance sheet date but before our consolidated financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements; and (2) nonrecognized, or those that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date. We have evaluated subsequent events occurring after June 30, 2017, and based on our evaluation we did not identify any recognized or nonrecognized subsequent events that would have required further adjustments to our consolidated financial statements.

3. Segment Reporting

We operate primarily within one industry consisting of two reportable segments by which we manage our business. Our two reportable segments are: Credit and Other Investments, and Auto Finance.

Table of Contents

As of both June 30, 2017 and December 31, 2016, we did not have a material amount of long-lived assets located outside of the U.S., and only a negligible portion of our revenues for the six months ended June 30, 2017 and 2016 were generated outside of the U.S.

We measure the profitability of our reportable segments based on their income after allocation of specific costs and corporate overhead; however, our segment results do not reflect any charges for internal capital allocations among our segments. Overhead costs are allocated based on headcounts and other applicable measures to better align costs with the associated revenues.

Summary operating segment information (in thousands) is as follows:

Three months ended June 30, 2017	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	\$ 19,589	\$ 7,024	\$ 26,613
Other	43	—	43
Total interest income	19,632	7,024	26,656
Interest expense	(6,166)	(253)	(6,419)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	\$ 13,466	\$ 6,771	\$ 20,237
Fees and related income on earning assets	\$ 3,943	\$ 28	\$ 3,971
Servicing income	\$ 644	\$ 217	\$ 861
Depreciation of rental merchandise	\$ —	\$ —	\$ —
Equity in income of equity-method investee	\$ 404	\$ —	\$ 404
(Loss) income before income taxes	\$ (15,137)	\$ 1,913	\$ (13,224)
Income tax benefit (expense)	\$ 5,055	\$ (612)	\$ 4,443
Six months ended June 30, 2017	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	\$ 38,419	\$ 14,053	\$ 52,472
Other	144	—	144
Total interest income	38,563	14,053	52,616
Interest expense	(11,760)	(476)	(12,236)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	\$ 26,803	\$ 13,577	\$ 40,380
Fees and related income on earning assets	\$ 6,722	\$ 50	\$ 6,772
Servicing income	\$ 1,501	\$ 449	\$ 1,950
Depreciation of rental merchandise	\$ (27)	\$ —	\$ (27)
Equity in income of equity-method investee	\$ 738	\$ —	\$ 738
(Loss) income before income taxes	\$ (15,524)	\$ 3,645	\$ (11,879)
Income tax benefit (expense)	\$ 5,022	\$ (1,197)	\$ 3,825
Total assets	\$ 332,001	\$ 67,646	\$ 399,647

Table of Contents

Three months ended June 30, 2016	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	\$ 14,132	\$7,330	\$21,462
Other	60	—	60
Total interest income	14,192	7,330	21,522
Interest expense	(4,454	) (338	) (4,792)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	\$ 9,738	\$6,992	\$16,730
Fees and related income on earning assets	\$ 5,840	\$38	\$5,878
Servicing income	\$ 732	\$249	\$981
Gain on repurchase of convertible senior notes	\$ 1,037	\$—	\$1,037
Depreciation of rental merchandise	\$ (1,335	) \$—	\$(1,335)
Equity in income of equity-method investee	\$ 325	\$—	\$325
(Loss) income before income taxes	\$ (664	) \$1,594	\$930
Income tax expense	\$ (113	) \$(544	) \$(657)
Six months ended June 30, 2016	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	\$ 25,317	\$14,293	\$39,610
Other	152	—	152
Total interest income	25,469	14,293	39,762
Interest expense	(8,791	) (645	) (9,436)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	\$ 16,678	\$13,648	\$30,326
Fees and related income on earning assets	\$ 13,669	\$96	\$13,765
Servicing income	\$ 1,924	\$504	\$2,428
Gain on repurchase of convertible senior notes	\$ 1,037	\$—	\$1,037
Depreciation of rental merchandise	\$ (4,714	) \$—	\$(4,714)
Equity in income of equity-method investee	\$ 1,327	\$—	\$1,327
Income before income taxes	\$ 2,662	\$3,018	\$5,680
Income tax benefit (expense)	\$ 204	\$(1,059	) \$(855)
Total assets	\$ 228,729	\$71,579	\$300,308

4. Shareholders' Equity

During the six months ended June 30, 2017, we repurchased and contemporaneously retired 6,702 shares of our common stock at an aggregate cost of \$18,000 pursuant to both open market and private purchases and the return of stock by holders of equity incentive awards to pay tax withholding obligations. No shares were repurchased during the three months ended June 30, 2017. During the three and six months ended June 30, 2016, we repurchased and contemporaneously retired 123,662 and 246,643 shares of our common stock at an aggregate cost of \$374,000 and \$745,000, respectively, pursuant to both open market and private purchases and the return of stock by holders of equity incentive awards to pay tax withholding obligations.

We had 1,459,233 loaned shares outstanding at June 30, 2017 and December 31, 2016, which were originally lent in connection with our November 2005 issuance of convertible senior notes. We retire lent shares as they are returned to

us.

13

Table of Contents

5. Investment in Equity-Method Investee

Our equity-method investment outstanding at June 30, 2017 consists of our 66.7% interest in a joint venture formed to purchase a credit card receivable portfolio.

In the following tables, we summarize (in thousands) balance sheet and results of operations data for our equity-method investee:

	As of			
	June 30,	December 31,		
	2017	2016		
Loans and fees receivable, at fair value	\$7,775	\$ 9,650		
Total assets	\$8,136	\$ 10,291		
Total liabilities	\$31	\$ 204		
Members' capital	\$8,105	\$ 10,087		

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net interest income, fees and related income on earning assets	\$607	\$496	\$1,111	\$2,008
Net income	\$511	\$355	\$908	\$1,715
Net income attributable to our equity investment in investee	\$404	\$325	\$738	\$1,327

6. Fair Values of Assets and Liabilities

Valuations and Techniques for Assets

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The table below summarizes (in thousands) by fair value hierarchy the June 30, 2017 and December 31, 2016 fair values and carrying amounts of (1) our assets that are required to be carried at fair value in our consolidated financial statements and (2) our assets not carried at fair value, but for which fair value disclosures are required:

	Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Assets
Assets – As of June 30, 2017 (1)						
Loans and fees receivable, net for which it is practicable to estimate fair value	\$	—\$			—\$ 280,365	\$251,395
Loans and fees receivable, at fair value	\$	—\$			—\$ 12,770	\$12,770

Assets – As of December 31, 2016 (1)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Assets
Loans and fees receivable, net for which it is practicable to estimate fair value	\$ —	\$ —	\$ 248,171	\$ 223,783
Loans and fees receivable, at fair value	\$ —	\$ —	\$ 15,648	\$ 15,648

(1) For cash, deposits and other short-term investments, the carrying amount is a reasonable estimate of fair value.

Table of Contents

For those asset classes above that are required to be carried at fair value in our consolidated financial statements, gains and losses associated with fair value changes are detailed on our fees and related income on earning assets table within Note 2, "Significant Accounting Policies and Consolidated Financial Statement Components."

For Level 3 assets carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents (in thousands) a reconciliation of the beginning and ending balances for the six months ended June 30, 2017 and 2016:

	Loans and Fees Receivable, at Fair Value	
	2017	2016
Balance at January 1,	\$ 15,648	\$ 26,706
Total gains—realized/unrealized:		
Net revaluations of loans and fees receivable, at fair value	1,565	2,425
Settlements	(4,475)	(8,422)
Impact of foreign currency translation	32	(189)
Balance at June 30,	\$ 12,770	\$ 20,520

The unrealized gains and losses for assets within the Level 3 category presented in the tables above include changes in fair value that are attributable to both observable and unobservable inputs. Impacts related to foreign currency translation are included as a component of other operating expense on the consolidated statements of operations.

Net Revaluation of Loans and Fees Receivable. We record the net revaluation of loans and fees receivable (including those pledged as collateral) in the fees and related income on earning assets category in our consolidated statements of operations, specifically as changes in fair value of loans and fees receivable recorded at fair value.

For Level 3 assets carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents (in thousands) quantitative information about the valuation techniques and the inputs used in the fair value measurement as of June 30, 2017 and December 31, 2016:

Table of Contents

Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at June 30, 2017	Valuation Technique	Unobservable Input	Range (Weighted Average)
Loans and fees receivable, at fair value	\$12,770	Discounted cash flows	Gross yield	15.5% to 29.2% (24.9%)
			Principal payment rate	1.7% to 3.8% (2.5%)
			Expected credit loss rate	6.3% to 14.0% (12.8%)
			Servicing rate	9.3% to 10.7% (9.5%)
			Discount rate	5.8% to 13.9% (12.7%)

Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average)
Loans and fees receivable, at fair value	\$15,648	Discounted cash flows	Gross yield	24.2% to 35.8% (26.1%)
			Principal payment rate	2.2% to 3.5% (2.4%)
			Expected credit loss rate	11.8% to 18.0% (12.9%)
			Servicing rate	8.6% to 9.6% (8.8%)
			Discount rate	5.8% to 13.6% (12.5%)

Table of Contents

Valuations and Techniques for Liabilities

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the liability. The table below summarizes (in thousands) by fair value hierarchy the June 30, 2017 and December 31, 2016 fair values and carrying amounts of (1) our liabilities that are required to be carried at fair value in our consolidated financial statements and (2) our liabilities not carried at fair value, but for which fair value disclosures are required:

Liabilities – As of June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Inputs	Significant Unobservable Inputs (Level 3)	Carrying Amount of Liabilities
Liabilities not carried at fair value					
Revolving credit facilities	\$	—\$ —		\$ 109,322	\$ 109,322
Amortizing debt facilities	\$	—\$ —		\$ 57,223	\$ 57,223
Senior secured term loan	\$	—\$ —		\$ 40,000	\$ 40,000
5.875% convertible senior notes	\$	—\$ 39,064		\$ —	\$ 61,085
Liabilities carried at fair value					
Notes payable associated with structured financings, at fair value	\$	—\$ —		\$ 10,031	\$ 10,031
Liabilities - As of December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Inputs	Significant Unobservable Inputs (Level 3)	Carrying Amount of Liabilities
Liabilities not carried at fair value					
Revolving credit facilities	\$	—\$ —		\$ 83,399	\$ 83,399
Amortizing debt facilities	\$	—\$ —		\$ 58,190	\$ 58,190
Senior secured term loan	\$	—\$ —		\$ 40,000	\$ 40,000
5.875% convertible senior notes	\$	—\$ 40,609		\$ —	\$ 60,791
Liabilities carried at fair value					
Notes payable associated with structured financings, at fair value	\$	—\$ —		\$ 12,276	\$ 12,276

For our material Level 3 liabilities carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents (in thousands) a reconciliation of the beginning and ending balances for the six months ended June 30, 2017 and 2016.

Notes Payable Associated with Structured Financings, at Fair Value	
2017	2016

Edgar Filing: Atlanticus Holdings Corp - Form 10-Q

Beginning balance, January 1	\$	12,276		\$	20,970
Total (gains)					
losses—realized/unrealized:					
Net revaluations of notes payable					
associated with structured	(1,527	)		(2,104	)
financings, at fair value					
Repayments on outstanding notes	(718	)		(3,240	)
payable, net					
Ending balance, June 30	\$	10,031		\$	15,626

The unrealized gains and losses for liabilities within the Level 3 category presented in the table above include changes in fair value that are attributable to both observable and unobservable inputs. We provide below a brief description of the valuation techniques used for Level 3 liabilities.

Table of Contents

Net Revaluation of Notes Payable Associated with Structured Financings, at Fair Value. We record the net revaluations of notes payable associated with structured financings, at fair value, in the changes in fair value of notes payable associated with structured financings line item within the fees and related income on earning assets category of our consolidated statements of operations.

For material Level 3 liabilities carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents (in thousands) quantitative information about the valuation techniques and the inputs used in the fair value measurement as of June 30, 2017 and December 31, 2016:

Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at June 30, 2017	Valuation Technique	Unobservable Input	Weighted Average
Notes payable associated with structured financings, at fair value	\$ 10,031	Discounted cash flows	Gross yield	26.1 %
			Principal payment rate	2.5 %
			Expected credit loss rate	14.0 %
			Discount rate	13.9 %

Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input	Weighted Average
Notes payable associated with structured financings, at fair value	\$ 12,276	Discounted cash flows	Gross yield	24.6 %
			Principal payment rate	2.2 %
			Expected credit loss rate	11.8 %
			Discount rate	13.6 %

Other Relevant Data

Other relevant data (in thousands) as of June 30, 2017 and December 31, 2016 concerning certain assets and liabilities we carry at fair value are as follows:

	Loans and Fees Receivable at Fair Value	Loans and Fees Receivable at Fair Value
As of June 30, 2017	\$ 5,225	\$ 13,753

Edgar Filing: Atlanticus Holdings Corp - Form 10-Q

Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value

Aggregate fair value of loans and fees receivable that are reported at fair value	\$ 2,742	\$ 10,028
---	----------	-----------

Aggregate fair value of receivables carried at fair value that are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies)	\$ 8	\$ 30
---	------	-------

Aggregate excess of balance of unpaid principal receivables within loans and fees receivable that are reported at fair value and are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies) over the fair value of such loans and fees receivable	\$ 164	\$ 384
---	--------	--------

Table of Contents

As of December 31, 2016	Loans and Fees Receivable at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings at Fair Value
Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value	\$ 6,251	\$ 16,614
Aggregate fair value of loans and fees receivable that are reported at fair value	\$ 3,484	\$ 12,164
Aggregate fair value of receivables carried at fair value that are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies)	\$ 6	\$ 22
Aggregate excess of balance of unpaid principal receivables within loans and fees receivable that are reported at fair value and are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies) over the fair value of such loans and fees receivable	\$ 204	\$ 562

	Notes Payable Associated with Structured Financings, at Fair Value as of June 30, 2017	Notes Payable Associated with Structured Financings, at Fair Value as of December 31, 2016
Notes Payable		
Aggregate unpaid principal balance of notes payable	\$ 101,317	\$ 102,035
Aggregate fair value of notes payable	\$ 10,031	\$ 12,276

7. Notes Payable

Notes Payable Associated with Structured Financings, at Fair Value

Scheduled (in millions) in the table below are (1) the carrying amount of our structured financing note secured by certain credit card receivables and reported at fair value as of June 30, 2017 and December 31, 2016, (2) the outstanding face amount of our structured financing note secured by certain credit card receivables and reported at fair value as of June 30, 2017, and (3) the carrying amount of the credit card receivables and restricted cash that provide the exclusive means of repayment for the note (i.e., lenders have recourse only to the specific credit card receivables and restricted cash underlying each respective facility and cannot look to our general credit for repayment) as of June 30, 2017 and December 31, 2016.

Carrying Amounts at Fair Value as of	
June 30, 2017	December 31, 2016
\$10.0	\$ 12.3

Amortizing securitization facility (stated maturity of December 2021), outstanding face amount of \$101.3 million as of June 30, 2017 (\$102.0 million as of December 31, 2016) bearing interest at a weighted average 6.5% interest rate at June 30, 2017 (6.1% at December 31, 2016), which is secured by credit card receivables and restricted cash aggregating \$10.0 million as of June 30, 2017 (\$12.3 million as of December 31, 2016) in carrying amount

Contractual payment allocations within this credit card receivables structured financing provide for a priority distribution of cash flows to us to service the credit card receivables, a distribution of cash flows to pay interest and principal due on the notes, and a distribution of all excess cash flows (if any) to us. The structured financing facility in the above table is amortizing down along with collections of the underlying receivables and there are no provisions within the debt agreement that allow for acceleration or bullet repayment of the facility prior to its scheduled expiration date. The aggregate carrying amount of the credit card receivables and restricted cash that provide security for the \$10.0 million in fair value of the structured financing note in the above table is \$10.0 million, which means that we have no aggregate exposure to pre-tax equity loss associated with the above structured financing arrangement at June 30, 2017.

Table of Contents

Beyond our role as servicer of the underlying assets within the credit cards receivables structured financing, we have provided no other financial or other support to the structures, and we have no explicit or implicit arrangements that could require us to provide financial support to the structures.

Notes Payable, at Face Value and Notes Payable to Related Parties

Other notes payable outstanding as of June 30, 2017 and December 31, 2016 that are secured by the financial and operating assets of either the borrower, another of our subsidiaries or both, include the following, scheduled (in millions); except as otherwise noted, the assets of our holding company (Atlanticus Holdings Corporation) are subject to creditor claims under these scheduled facilities:

	As of	
	June 30, 2017	December 31, 2016
Revolving credit facilities at a weighted average interest rate equal to 6.4% at June 30, 2017 (4.8% at December 31, 2016) secured by the financial and operating assets of CAR and/or certain receivables and restricted cash with a combined aggregate carrying amount of \$157.3 million as of June 30, 2017 (\$127.9 million at December 31, 2016)		
Revolving credit facility, not to exceed \$20.0 million (expiring December 31, 2019) (1) (2)	19.8	19.5
Revolving credit facility, not to exceed \$40.0 million (expiring November 1, 2018) (3)	30.4	29.2
Revolving credit facility, not to exceed \$35.0 million (expiring October 29, 2017) (1) (2)	34.6	34.7
Revolving credit facility, not to exceed \$90.0 million (expiring February 8, 2022) (1) (4)	26.0	—
Amortizing facilities at a weighted average interest rate equal to 5.8% at June 30, 2017 (5.4% at December 31, 2016) secured by certain receivables and restricted cash with a combined aggregate carrying amount of \$78.4 million as of June 30, 2017 (\$69.9 million as of December 31, 2016)		
Amortizing debt facility (expiring March 31, 2018) (1) (2) (5)	11.0	14.6
Amortizing debt facility (repaid in June 2017) (1) (2) (5)	—	20.4
Amortizing debt facility (expiring June 30, 2018) (1) (2) (5)	36.7	—
Amortizing debt facility (expiring May 31, 2018) (1) (2)	4.5	6.0
Amortizing debt facility (expiring August 24, 2018) (1) (2)	2.5	9.7
Amortizing debt facility (expiring September 1, 2017) (1) (2)	2.5	7.5
Other facilities		
Senior secured term loan from related parties (expiring November 22, 2017) that is secured by certain assets of the Company with an annual interest rate equal to 9.0% (4)	40.0	40.0
Total notes payable before unamortized debt issuance costs and discounts	208.0	181.6
Unamortized debt issuance costs and discounts	2.3	0.4
Total notes payable outstanding, net	\$205.7	\$ 181.2

(1) Loans are subject to certain affirmative covenants tied to default rates and other performance metrics the failure of which could result in required early repayment of the remaining unamortized balances of the notes.

(2) These notes reflect modifications to either extend the maturity date, increase the loaned amount or both.

Loan is subject to certain affirmative covenants, including a coverage ratio, a leverage ratio and a collateral performance test, the failure of which could result in required early repayment of all or a portion of the outstanding balance by our CAR Auto Finance operations.

(4) See below for additional information.

(5) Loans are comprised of three tranches with the same lender. Terms and conditions are substantially identical with the exception of maturity date as indicated in the table above.

Table of Contents

On November 26, 2014, we and certain of our subsidiaries entered into a Loan and Security Agreement with Dove Ventures, LLC, a Nevada limited liability company (“Dove”). The agreement provides for a senior secured term loan facility in an amount of up to \$40.0 million at any time outstanding. The Loan and Security Agreement is fully drawn with \$40.0 million outstanding as of June 30, 2017. In November 2016, the agreement was amended to extend the maturity date of the term loan to November 22, 2017. All other terms remain unchanged.

Our obligations under the agreement are guaranteed by certain subsidiary guarantors and secured by a pledge of certain assets of ours and the subsidiary guarantors. The loans bear interest at the rate of 9.0% per annum, payable monthly in arrears. The principal amount of these loans is payable in a single installment on November 22, 2017 (as amended). The agreement includes customary affirmative and negative covenants, as well as customary representations, warranties and events of default. Subject to certain conditions, we can prepay the principal amounts of these loans without premium or penalty.

Dove is a limited liability company owned by three trusts. David G. Hanna is the sole shareholder and the President of the corporation that serves as the sole trustee of one of the trusts, and David G. Hanna and members of his immediate family are the beneficiaries of this trust. Frank J. Hanna, III is the sole shareholder and the President of the corporation that serves as the sole trustee of the other two trusts, and Frank J. Hanna, III and members of his immediate family are the beneficiaries of these other two trusts.

In February 2017, we (through a wholly owned subsidiary) established a program under which we sell certain receivables to a consolidated trust in exchange for notes issued by the trust. The notes are secured by the receivables and other assets of the trust. Simultaneously with the establishment of the program, the trust issued a series of variable funding notes and sold an aggregate amount of up to \$90.0 million (of which \$26.0 million was outstanding as of June 30, 2017) to an unaffiliated third party pursuant to a facility that can be drawn upon to the extent of outstanding eligible receivables.

The facility matures on February 8, 2022 and is subject to certain affirmative covenants and collateral performance tests, the failure of which could result in required early repayment of all or a portion of the outstanding balance of notes. The facility also may be prepaid subject to payment of a prepayment fee.

8.Convertible Senior Notes

In November 2005, we issued \$300.0 million aggregate principal amount of 5.875% convertible senior notes due November 30, 2035 (“5.875% convertible senior notes”). The 5.875% convertible senior notes are unsecured, subordinate to existing and future secured obligations and structurally subordinate to existing and future claims of our subsidiaries’ creditors. These notes (net of repurchases since the issuance dates) are reflected within convertible senior notes on our consolidated balance sheets. No put rights exist under our 5.875% convertible senior notes.

In 2016 we repurchased \$5.0 million aggregate principal amount of outstanding 5.875% convertible senior notes for \$2.3 million plus accrued interest from unrelated third parties. The purchase resulted in a gain of \$1.2 million (net of the notes’ applicable share of deferred costs, which were written off in connection with the repurchases). Upon acquisition, the notes were retired.

The following summarizes (in thousands) components of our consolidated balance sheets associated with our convertible senior notes:

As of	
June 30,	December 31,
2017	2016

Edgar Filing: Atlanticus Holdings Corp - Form 10-Q

Face amount of 5.875% convertible senior notes	\$88,280	\$ 88,280
Discount	(27,195)	(27,489)
Net carrying value	\$61,085	\$ 60,791
Carrying amount of equity component included in additional paid-in capital	\$108,714	\$ 108,714
Excess of instruments' if-converted values over face principal amounts	\$—	\$ —

Table of Contents

9. Commitments and Contingencies

General

Under finance products available in the point-of-sale and direct-to-consumer channels, consumers have the ability to borrow up to the maximum credit limit assigned to each individual's account. Unfunded commitments under these products aggregated \$346.7 million at June 30, 2017. We have never experienced a situation in which all borrowers have exercised their entire available lines of credit at any given point in time, nor do we anticipate this will ever occur in the future. Moreover, there would be a concurrent increase in assets should there be any exercise of these lines of credit. We also have the effective right to reduce or cancel these available lines of credit at any time.

Additionally our CAR operations provide floor-plan financing for a pre-qualified network of independent automotive dealers and automotive finance companies in the buy-here, pay-here used car business. The financings allow dealers and finance companies to borrow up to the maximum pre-approved credit limit allowed in order to finance ongoing inventory needs. These loans are secured by the underlying auto inventory and, in certain cases where we have other lending products outstanding with the dealer, are secured by the collateral under those lending arrangements as well, including any outstanding dealer reserves. As of June 30, 2017, CAR had unfunded outstanding floor-plan financing commitments totaling \$8.5 million. Each draw against unused commitments is reviewed for conformity to pre-established guidelines.

Under agreements with third-party originating and other financial institutions we have pledged security (collateral) related to their issuance of consumer credit and purchases thereunder, of which \$9.7 million remains pledged as of June 30, 2017 to support various ongoing contractual obligations.

Under agreements with third-party originating and other financial institutions, we have agreed to indemnify the financial institutions for certain liabilities associated with the services we provide on behalf of the financial institutions—such indemnification obligations generally being limited to instances in which we either (a) have been afforded the opportunity to defend against any potentially indemnifiable claims or (b) have reached agreement with the financial institutions regarding settlement of potentially indemnifiable claims. As of June 30, 2017, we have assessed the likelihood of any potential payments related to the aforementioned contingencies as remote. We will accrue liabilities related to these contingencies in any future period if and in which we assess the likelihood of an estimable payment as probable.

We also are subject to certain minimum payments under cancelable and non-cancelable lease arrangements. For further information regarding these commitments, see Note 8, "Leases" to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Litigation

We are involved in various legal proceedings that are incidental to the conduct of our business, none of which are expected to be material to us.

Table of Contents

10. Net (Loss) Income Attributable to Controlling Interests Per Common Share

The following table sets forth the computations of net (loss) income per common share (in thousands, except per share data):

	For the Three Months Ended June 30, 2017		For the Six Months Ended June 30, 2016	
Numerator:				
Net (loss) income attributable to controlling interests	\$(8,784)	\$ 277	\$(8,056)	\$4,830
Denominator:				
Basic (including unvested share-based payment awards) (1)	13,984	13,806	13,964	13,852
Effect of dilutive stock compensation arrangements (2)	13	66	23	71
Diluted (including unvested share-based payment awards) (1)	13,997	13,872	13,987	13,923
Net (loss) income attributable to controlling interests per common share—basic	\$(0.63)	\$ 0.02	\$(0.58)	\$ 0.35
Net (loss) income attributable to controlling interests per common share—diluted	\$(0.63)	\$ 0.02	\$(0.58)	\$ 0.35

Shares related to unvested share-based payment awards included in our basic and diluted share counts were (1) 371,576 and 358,553 for the three and six months ended June 30, 2017, compared to 249,665 and 236,107 for the three and six months ended June 30, 2016.

The effect of dilutive stock compensation arrangements is shown only for informational purposes where we are in (2) a net loss position. In such situations, the effect of including outstanding options and restricted stock would be anti-dilutive, and they are thus excluded from all loss period calculations.

For the three and six months ended June 30, 2017 and 2016, there were no shares potentially issuable and thus includible in the diluted net income attributable to controlling interests per common share calculations pursuant to our 5.875% convertible senior notes. However, in future reporting periods during which our closing stock price is above the \$24.61 conversion price for the 5.875% convertible senior notes, and depending on the closing stock price at conversion, the maximum potential dilution under the conversion provisions of such notes is 3.6 million shares, which could be included in diluted share counts in net income per common share calculations. See Note 8, “Convertible Senior Notes,” for a further discussion of these convertible securities.

11. Stock-Based Compensation

We currently have two stock-based compensation plans, the Employee Stock Purchase Plan (the “ESPP”) and the Second Amended and Restated 2014 Equity Incentive Plan (the “2014 Plan”). As of June 30, 2017, 19,076 shares remained available for issuance under the ESPP and 1,210,635 shares remained available for issuance under the 2014 Plan.

Exercises and vestings under our stock-based compensation plans resulted in \$0 in income tax-related charges to additional paid-in capital during both the three and six months ended June 30, 2017 with \$0 and \$37,000 in such charges for the three and six months ended June 30, 2016, respectively.

Restricted Stock and Restricted Stock Unit Awards

During the six months ended June 30, 2017 and 2016, we granted 102,000 and 122,134 shares of restricted stock (net of any forfeitures), respectively, with aggregate grant date fair values of \$0.3 million and \$0.4 million, respectively. We incurred expenses of \$0.4 million and \$0.2 million during the six months ended June 30, 2017 and 2016, respectively, related to restricted stock and restricted stock unit awards. When we grant restricted stock, we defer the

grant date value of the restricted stock and amortize that value (net of the value of anticipated forfeitures) as compensation expense with an offsetting entry to the additional paid-in capital component of our consolidated shareholders' equity. Our restricted stock awards typically vest over a range of 12 to 60 months (or other term as specified in the grant) and are amortized to salaries and benefits expense ratably over applicable vesting periods. As of June 30, 2017, our unamortized deferred compensation costs associated with non-vested restricted stock awards were \$0.3 million with a weighted-average remaining amortization period of 0.5 years.

Table of Contents

Stock Options

We had expense of \$0.5 million and \$0.3 million related to stock option-related compensation costs during the six months ended June 30, 2017 and 2016, respectively. When applicable, we recognize stock option-related compensation expense for any awards with graded vesting on a straight-line basis over the vesting period for the entire award. Information related to options outstanding is as follows:

	June 30, 2017			
	Number of	Weighted-	Weighted-	Aggregate
	Shares	Average	Average of Remaining	Intrinsic
		Exercise	Contractual Life (in years)	Value
		Price		
Outstanding at December 31, 2016	1,411,667	\$ 3.09		
Issued	1,015,000	\$ 2.78		
Exercised	—	\$ —		
Cancelled/Forfeited	(2,000)	\$ 3.04		
Outstanding at June 30, 2017	2,424,667	\$ 2.96	3.8	\$ 59,135
Exercisable at June 30, 2017	758,706	\$ 2.87	2.6	\$ 57,935

We had \$1.1 million and \$1.2 million of unamortized deferred compensation costs associated with non-vested stock options as of June 30, 2017 and 2016, respectively.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and the related notes included therein and our Annual Report on Form 10-K for the year ended December 31, 2016, where certain terms (including trust, subsidiary and other entity names and financial, operating and statistical measures) have been defined.

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements. We base these forward-looking statements on our current plans, expectations and beliefs about future events. There are risks, including the factors discussed in "Risk Factors" in Part II, Item 1A and elsewhere in this Report, that our actual experience will differ materially from these expectations. For more information, see "Forward Looking Information" below.

In this Report, except as the context suggests otherwise, the words "Company," "Atlanticus Holdings Corporation," "Atlanticus," "we," "our," "ours," and "us" refer to Atlanticus Holdings Corporation and its subsidiaries and predecessors.

OVERVIEW

We utilize proprietary analytics and a flexible technology platform to enable financial institutions to provide various credit and related financial services and products to or associated with the financially underserved consumer credit market. Currently, within our Credit and Other Investments segment, we are applying the experiences gained and infrastructure built from servicing over \$25 billion in consumer loans over our 21-year operating history to support lenders who originate a range of consumer loan products. These products include retail credit, personal loans, and credit cards marketed through multiple channels, including retail point-of-sale, direct mail solicitation, Internet-based marketing and partnerships with third parties. In the point-of-sale channel, we partner with retailers and service providers in various industries across the U.S. to allow them to provide credit to their customers for the purchase of a variety of goods and services including consumer electronics, furniture, elective medical procedures, healthcare, educational services and home-improvements. Our flexible technology platform allows our lending partners to integrate our paperless process and instant decision-making platform with the technology infrastructure of participating retailers and service providers. These services of our lending partners are often extended to consumers who may have been declined under traditional financing options. We specialize in supporting this "second-look" credit service. Additionally, we support lenders who market general purpose personal loans and credit cards directly to consumers through additional channels, which enables them to reach consumers through a diverse origination platform that includes direct mail, Internet-based marketing and our retail partnerships. Our technology platform and proprietary analytics enable lenders to make instant credit decisions utilizing hundreds of inputs from multiple sources and thereby offer credit to consumers overlooked by traditional providers of credit. By offering a range of products through a multitude of channels, we enable lenders to provide the right type of credit, whenever and wherever the consumer has a need. In most cases, we invest in the receivables originated by lenders who utilize our technology platform and other related services.

Using our infrastructure and technology platform, we also provide loan servicing, including risk management and customer service outsourcing, for third parties. Also through our Credit and Other Investments segment, we engage in testing and limited investment in consumer finance technology platforms as we seek to capitalize on our expertise and infrastructure.

Beyond these activities within our Credit and Other Investments segment, we invest in and service portfolios of credit card receivables. One of our portfolios of credit card receivables is encumbered by non-recourse structured financing, and for this portfolio our principal remaining economic interest is the servicing compensation we receive as an offset against our servicing costs given that the likely future collections on the portfolio are insufficient to allow for full

repayment of the financing.

Additionally, we report within our Credit and Other Investments segment the income earned from an investment in an equity-method investee that holds credit card receivables for which we are the servicer.

Lastly, we report within our Credit and Other Investments segment gains associated with investments previously made in consumer finance technology platforms. These include investments in companies engaged in mobile technologies, marketplace lending and other financial technologies. These investments are carried at the lower of cost or market valuation. Some of these investees have in the past raised capital at valuations in excess of our associated book value. However, none of these companies are publicly-traded, there are no material pending liquidity events, and ascribing value to these investments at this time would be speculative.

Table of Contents

The recurring cash flows we receive within our Credit and Other Investments segment principally include those associated with (1) point-of-sale and direct-to-consumer receivables, (2) servicing compensation and (3) credit card receivables portfolios that are unencumbered or where we own a portion of the underlying structured financing facility.

We historically financed most of our investments in the credit card receivables originated through our platform through the asset-backed securitization markets. These markets deteriorated significantly in 2008, and the level of “advance rates,” or leverage against credit card receivable assets, in the current asset-backed securitization markets is below pre-2008 levels. We do believe, however, that point-of-sale and direct-to-consumer receivables are generating, and will continue to generate, attractive returns on assets, thereby facilitating debt financing under terms and conditions (including advance rates and pricing) that will support attractive returns on equity, and we continue to pursue growth in this area.

Within our Auto Finance segment, our CAR subsidiary operations principally purchase and/or service loans secured by automobiles from or for, and also provide floor plan financing for, a pre-qualified network of independent automotive dealers and automotive finance companies in the buy-here, pay-here, used car business. We purchase auto loans at a discount and with dealer retentions or holdbacks that provide risk protection. Also within our Auto Finance segment, we are providing certain installment lending products in addition to our traditional loans secured by automobiles.

We closely monitor and manage our expenses based on current product offerings (and in recent years have significantly reduced our overhead infrastructure which was built to accommodate higher managed receivables levels and a much greater number of accounts serviced). As such, we are maintaining our infrastructure and incurring increased overhead and other costs in order to expand point-of-sale and direct-to-consumer finance and credit solutions and new product offerings that we believe have the potential to grow into our existing infrastructure and allow for long-term shareholder returns.

Subject to the availability of capital at attractive terms and pricing, we plan to continue to evaluate and pursue a variety of activities, including: (1) investments in additional financial assets associated with point-of-sale and direct-to-consumer finance and credit activities as well as the acquisition of interests in receivables portfolios; (2) investments in other assets or businesses that are not necessarily financial services assets or businesses; and (3) the repurchase of our convertible senior notes and other debt or our outstanding common stock.

Table of Contents

CONSOLIDATED RESULTS OF OPERATIONS

	For the Three Months Ended June 30,		Income Increases (Decreases) from 2016 to 2017
(In Thousands)	2017	2016	
Total interest income	\$26,656	\$21,522	\$ 5,134
Interest expense	(6,419)	(4,792)	(1,627)
Fees and related income on earning assets:			
Fees on credit products	2,007	856	1,151
Changes in fair value of loans and fees receivable recorded at fair value	1,002	527	475
Changes in fair value of notes payable associated with structured financings recorded at fair value	821	939	(118)
Rental revenue	—	3,119	(3,119)
Other	141	437	(296)
Other operating income:			
Servicing income	861	981	(120)
Other income	240	75	165
Gain on repurchase of convertible senior notes	—	1,037	(1,037)
Equity in income equity-method investee	404	325	79
Total	\$25,713	\$25,026	\$ 687
Net recovery of losses upon charge off of loans and fees receivable recorded at fair value	(519)	(6,140)	(5,621)
Provision for losses on loans and fees receivable recorded at net realizable value	15,744	10,811	(4,933)
Other operating expenses:			
Salaries and benefits	5,486	6,181	695
Card and loan servicing	7,794	7,285	(509)
Marketing and solicitation	3,127	932	(2,195)
Depreciation, primarily related to rental merchandise	243	2,099	1,856
Other	7,062	2,928	(4,134)
Net (loss) income	(8,781)	273	(9,054)
Net (income) loss attributable to noncontrolling interests	(3)	4	(7)
Net (loss) income attributable to controlling interests	(8,784)	277	(9,061)

Table of Contents

(In Thousands)	For the Six Months Ended June 30,		Income Increases (Decreases) from 2016 to 2017
	2017	2016	
Total interest income	\$52,616	\$39,762	\$ 12,854
Interest expense	(12,236)	(9,436)	(2,800)
Fees and related income on earning assets:			
Fees on credit products	3,103	1,655	1,448
Changes in fair value of loans and fees receivable recorded at fair value	1,565	2,425	(860)
Changes in fair value of notes payable associated with structured financings recorded at fair value	1,527	2,104	(577)
Rental revenue	148	7,333	(7,185)
Other	429	248	181
Other operating income:			
Servicing income	1,950	2,428	(478)
Other income	349	145	204
Gain on repurchase of convertible senior notes	—	1,037	(1,037)
Equity in income equity-method investee	738	1,327	(589)
Total	\$50,189	\$49,028	\$ 1,161
Net recovery of losses upon charge off of loans and fees receivable recorded at fair value	(8,370)	(11,051)	(2,681)
Provision for losses on loans and fees receivable recorded at net realizable value	26,397	15,542	(10,855)
Other operating expenses:			
Salaries and benefits	11,018	11,913	895
Card and loan servicing	15,179	16,273	1,094
Marketing and solicitation	4,659	1,787	(2,872)
Depreciation, primarily related to rental merchandise	553	6,255	5,702
Other	12,632	2,629	(10,003)
Net (loss) income	(8,054)	4,825	(12,879)
Net (income) loss attributable to noncontrolling interests	(2)	5	(7)
Net (loss) income attributable to controlling interests	(8,056)	4,830	(12,886)

Three and Six Months Ended June 30, 2017, Compared to Three and Six Months Ended June 30, 2016

Total interest income. Total interest income consists primarily of finance charges and late fees earned on point-of-sale and direct-to-consumer receivables, credit card and auto finance receivables. Period-over-period results primarily relate to growth in point-of-sale finance and direct-to-consumer products, the receivables of which increased from \$167.0 million as of June 30, 2016 to \$247.0 million as of June 30, 2017. These increases were offset, however, by continued net liquidations of our historical credit card receivable portfolios over the past year. We are currently experiencing continued growth in point-of-sale and direct-to-consumer receivables and our CAR receivables—growth which we expect to result in net period over period growth in our total interest income for these operations throughout 2017. Future periods' growth is also dependent on the addition of new retail partners to expand the reach of point-of-sale operations as well as growth within existing partnerships and continued growth within the direct-to-consumer receivables. Despite anticipated increases in point-of-sale and direct-to-consumer receivables, continued net liquidations of our historical credit card receivables will continue to offset some of the expected increases and could result in overall net declines in interest income period over period if our investments in new receivable originations decline.

Table of Contents

Interest expense. Variations in interest expense are due to our debt facilities being repaid commensurate with net liquidations of the underlying credit card, auto finance and installment loan receivables that serve as collateral for the facilities offset by new borrowings associated with growth in point-of-sale and direct-to-consumer receivables and CAR operations as evidenced within Note 7, "Notes Payable," to our consolidated financial statements. We anticipate additional debt financing over the next few quarters as we continue to grow, and as such, we expect our quarterly interest expense to be above that experienced in the prior periods for these operations.

Fees and related income on earning assets. The significant factors affecting our differing levels of fees and related income on earning assets include:

- declines in rental revenue as we significantly reduced rent-to-own operations in the fourth quarter of 2015 and for which we discontinued new acquisitions in 2016. We do not expect future revenues associated with this product offering as existing rent-to-own contracts have effectively concluded with no new acquisitions expected;
- reductions in fees on receivables, associated with general net declines in historical credit card receivables, offset by new acquisitions of credit card receivables under our direct-to-consumer product offerings; and
- the effects of changes in the fair values of credit card receivables recorded at fair value and notes payable associated with structured financings recorded at fair value as described below.

We expect increasing levels of credit card fee income for 2017 as we continue to invest in new credit card receivables as part of our direct-to-consumer operations, offset somewhat by diminishing fee income associated with our existing portfolios of liquidating credit card receivables. Additionally, for credit card accounts for which we use fair value accounting, we expect our change in fair value of credit card receivables recorded at fair value and our change in fair value of notes payable associated with structured financings recorded at fair value amounts to gradually diminish (absent significant changes in the assumptions used to determine these fair values) in the future. These amounts, however, are subject to potentially high levels of volatility if we experience changes in the quality of our credit card receivables or if there are significant changes in market valuation factors (e.g., interest rates and spreads) in the future. Such volatility will be muted somewhat, however, by the offsetting nature of the receivables and underlying debt being recorded at fair value and with the expected reductions in the face amounts of such outstanding receivables and debt as we experience further credit card receivables liquidations and associated debt amortizing repayments. Further, as discussed above, we do not expect meaningful levels of rental revenue in 2017 as existing rent-to-own contracts have effectively concluded with no new acquisitions expected. This decline in rental revenues will serve to offset some of the aforementioned growth we expect in our credit card fee income.

Servicing income. We earn servicing income by servicing loan portfolios for third parties (including our equity-method investee). Unless and/or until we grow the number of contractual servicing relationships we have with third parties or our current relationships grow their loan portfolios, we will not experience significant growth and income within this category, and we currently expect to experience limited growth in this category of revenue relative to revenue earned in prior periods.

Other income. Historically included within our other income category are ancillary and interchange revenues, which are now relatively insignificant for us due to credit card account closures and net credit card receivables portfolio liquidations. Given recent growth associated with new credit card offerings and related receivables, we expect ancillary and interchange revenues to grow modestly throughout the year. Also included within our other income category are certain reimbursements we receive in respect of one of our portfolios.

Equity in income of equity-method investee. Because our equity-method investee uses the fair value option to account for its financial assets and liabilities, changes in fair value estimates can cause some volatility in the earnings of this investee. Because of continued liquidations in the credit card receivables portfolio of our equity-method investee, absent additional investments in our existing or in new equity-method investees in the future, we expect

gradually declining effects from our equity-method investment on our operating results.

Net recovery of losses upon charge off of loans and fees receivable recorded at fair value. This account reflects charge offs (net of recoveries) of the face amount of credit card receivables we record at fair value on our consolidated balance sheet. We have experienced a general trending decline in, and we expect future trending declines in, these charge offs as we continue to liquidate our historical credit card receivables. Additionally, net recovery in both periods reflects the effects of reimbursements received in respect of one of our portfolios. In the three and six months ended June 30, 2017 and 2016, these reimbursements exceeded the charge-offs experienced within the portfolio during the periods presented as the reimbursements are not directly associated with the timing of actual charge offs. The timing of these reimbursements cannot be reliably determined and as such we may not continue to experience similar positive impacts in future quarters.

Table of Contents

Provision for losses on loans and fees receivable recorded at net realizable value. Our provision for losses on loans and fees receivable recorded at net realizable value covers, with respect to such receivables, changes in estimates regarding our aggregate loss exposures on (1) principal receivable balances, (2) finance charges and late fees receivable underlying income amounts included within our total interest income category, and (3) other fees receivable. We have experienced a period-over-period increase in this category between the three months ended June 30, 2017 and 2016 and the six months ended June 30, 2017 and 2016 primarily reflecting the effects of volume associated with point-of-sale, direct-to-consumer and credit card finance receivables (i.e., growth of new product receivables and their subsequent maturation), rather than specific credit quality changes or deterioration which also impacted our provision for losses on loans and fees receivable recorded at net realizable value to a lesser degree. See Note 2, “Significant Accounting Policies and Consolidated Financial Statement Components,” to our consolidated financial statements and the discussions of our Credit and Other Investments and Auto Finance segments for further credit quality statistics and analysis.

Total other operating expense. Total other operating expense variances for the three and six months ended June 30, 2017, relative to the three and six months ended June 30, 2016, reflect the following:

slight decrease in card and loan servicing expenses in the six months ended June 30, 2017 when compared to the six months ended June 30, 2016 based on discontinuation of acquisitions of our rent-to-own products as well as continued net liquidations in our historical credit card portfolios, the receivables of which declined from \$38.9 million outstanding to \$26.1 million outstanding at June 30, 2016 and June 30, 2017, respectively. Further, as our relative level and mix of receivables have changed we have been better able to negotiate certain third party fixed costs as existing contracts expired. These declines have been offset as noted by the slight increase in expenses for the three months ended June 30, 2017 when compared to the three months ended June 30, 2016 by expenses related to growth in point-of-sale and direct-to-consumer products, the receivables of which grew from \$167.0 million outstanding to \$247.0 million outstanding at June 30, 2016 and June 30, 2017, respectively; and decreases in depreciation primarily associated with discontinuation of acquisitions under our rent-to-own program which had no meaningful depreciation in 2017 compared to \$1.3 million and \$4.7 million for the three and six months ended 2016, respectively;

Offsetting these declines are:

increases in other expenses due to the reversal of a £3.4 million (\$5.0 million) reserve in the six months ended June 30, 2016. This reserve related to a review in the U.K. by HM Revenue and Customs (“HMRC”) associated with filings by one of our U.K. subsidiaries to reclaim value-added-tax. Additionally impacting the higher expenses noted during the three and six months ended June 30, 2017 are increased occupancy costs, legal costs associated with new product offerings and increased costs associated with translation impacts for U.K. liabilities. increases in marketing and solicitation costs for the three and six months ended June 30, 2017 primarily due to volume related increases in costs attributable to the growth in our retail point-of-sale and direct-to-consumer portfolios. We expect that increased origination and brand marketing support will result in overall increases in year over year costs during 2017 although the frequency and timing of marketing efforts could result in reductions in quarter over quarter marketing costs; and general increases in other expenses related to receivables acquisition, risk management costs and third party costs associated with ongoing information technology upgrades.

Certain operating costs are variable based on the levels of accounts and receivables we service (both for our own account and for others) and the pace and breadth of our growth in receivables. However, a number of our operating costs are fixed and until recently have comprised a larger percentage of our total costs based on the ongoing contraction of our historical credit card receivables. This trend is gradually reversing, however, as we continue to grow our earning assets (including loans and fees receivable) based principally on growth of point-of-sale and

direct-to-consumer receivables and to a lesser extent, growth within our CAR operations. This is evidenced by the growth we experienced in our managed receivables levels with minimal growth in the fixed portion of our card and loan servicing expenses as well as our salaries and benefits costs as we were able to better utilize our fixed costs to grow our asset base. We continue to perform extensive reviews of all areas of our businesses for cost savings opportunities to better align our costs with our portfolio of managed receivables.

Notwithstanding our cost-control efforts and focus, we expect increased levels of expenditures associated with anticipated growth in point-of-sale and direct-to-consumer personal loan and credit card related operations. These expenses will primarily relate to the variable costs of marketing efforts and card and loan servicing expenses associated with new receivable acquisitions. While we have greater control over our variable expenses, it is difficult (as explained above) for us to appreciably reduce our fixed and other costs associated with an infrastructure (particularly within our Credit and Other Investments segment) that was built to support levels of managed receivables that are significantly higher than both our current

Table of Contents

levels and the levels that we expect to see in the near future. At this point, our Credit and Other Investments segment cash inflows are sufficient to cover its direct variable costs and a portion, but not all, of its share of overhead costs (including, for example, corporate-level executive and administrative costs and our convertible senior notes interest costs). As such, if we are unable to contain overhead costs or expand revenue-earning activities to levels commensurate with such costs, then, depending upon the earnings generated from our Auto Finance segment and our liquidating credit card portfolios, we may experience continuing pressure on our ability to achieve consistent profitability.

Noncontrolling interests. We reflect the ownership interests of noncontrolling holders of equity in our majority-owned subsidiaries as noncontrolling interests in our consolidated statements of operations. Unless we enter into significant new majority-owned subsidiary ventures with noncontrolling interest holders in the future, we expect to have negligible noncontrolling interests in our majority-owned subsidiaries and negligible allocations of income or loss to noncontrolling interest holders in future quarters.

Income Taxes. We experienced effective income tax benefit rates of 33.6% and 32.2% for the three and six months ended June 30, 2017, respectively, compared to effective income tax expense rates of 70.6% and 15.1% for the three and six months ended June 30, 2016, respectively. Our effective income tax benefit rates for the three and six months ended June 30, 2017 are below the statutory rate principally due to interest that we accrued on unpaid federal tax liabilities and our establishment of a valuation allowance in the three months ended June 30, 2017 against the net federal deferred tax asset that arose during that period associated with our net loss incurred during that period. Our effective income tax expense rate for the three months ended June 30, 2016 was significantly in excess of the statutory rate principally due to the significance of our accruals of interest and penalties on unpaid tax liabilities relative to our \$0.9 million of pre-tax income during that period. Our effective income tax expense rate for the six months ended June 30, 2016 was below the statutory rate principally due to income during that period of our U.K. subsidiary that was not subject to tax in the U.S. and the U.K. tax on which was fully offset by the release of U.K. valuation allowances in that period. Both of these factors also served to mute somewhat the reduction of our effective income tax benefit rate in the three months ended June 30, 2017 versus the statutory rate in that period.

We report potential accrued interest and penalties related to both our accrued liabilities for uncertain tax positions and unpaid tax liabilities, as well as any net payments of income tax-related interest and penalties, within our income tax benefit or expense line item on our consolidated statements of operations. We likewise report the reversal of such accrued interest and penalties within the income tax benefit or expense line item to the extent that we resolve our liabilities for uncertain tax positions or unpaid tax liabilities in a manner favorable to our accruals therefor. During the three and six months ended June 30, 2017, our income tax benefits were offset by \$0.2 million and \$0.4 million of net income tax-related interest and penalties charges. During the three and six months ended June 30, 2016 we included \$0.2 million and \$0.4 million of net income tax-related interest and penalties within those periods' respective income tax expense line items.

In December 2014, we reached a settlement with the IRS concerning the tax treatment of net operating losses that we incurred in 2007 and 2008 and carried back to obtain refunds of federal income taxes paid in earlier years dating back to 2003. Our net unpaid income tax assessment associated with that settlement was \$7.3 million at June 30, 2017; this amount excludes unpaid interest and penalties on the tax assessment, the accruals for which aggregated \$3.8 million at June 30, 2017. Prior to our filing amended return claims that would have eliminated the \$7.3 million assessment (and corresponding interest and penalties) under a negotiated provision of the IRS settlement, the IRS filed a lien (as is customarily the case) associated with the assessment. Subsequently, an IRS examination team has denied our amended return claims, and we have filed a protest with IRS Appeals. During the three months ended June 30, 2017, we were notified that the claims have been assigned to an IRS Appeals officer and an IRS Appeals conference has been scheduled for October 2017. To the extent we are unsuccessful in resolving this matter with IRS Appeals to our satisfaction, we plan to litigate this matter.

Credit and Other Investments Segment

Our Credit and Other Investments segment includes our activities relating to our servicing of and our investments in the point-of-sale, direct-to-consumer personal finance and credit card operations, our various credit card receivables portfolios, as well as other product testing and investments that generally utilize much of the same infrastructure. The types of revenues we earn from our investments in receivables portfolios and services primarily include finance charges, fees and the accretion of discounts associated with the point-of-sale receivables.

Table of Contents

We record (i) the finance charges, discount accretion and late fees assessed on our Credit and Other Investments segment receivables in the interest income - consumer loans, including past due fees category on our consolidated statements of operations, (ii) the rental revenue, over-limit, annual, activation, monthly maintenance, returned-check, cash advance and other fees in the fees and related income on earning assets category on our consolidated statements of operations, and (iii) the charge offs (and recoveries thereof) within our provision for losses on loans and fees receivable on our consolidated statements of operations (for all credit product receivables other than those for which we have elected the fair value option) and within losses upon charge off of loans and fees receivable recorded at fair value on our consolidated statements of operations (for all of our other receivables for which we have elected the fair value option). Additionally, we show the effects of fair value changes for those credit card receivables for which we have elected the fair value option as a component of fees and related income on earning assets in our consolidated statements of operations.

We historically have invested in receivables portfolios through subsidiary entities. If we control through direct ownership or exert a controlling interest in the entity, we consolidate it and reflect its operations as noted above. If we exert significant influence but do not control the entity, we record our share of its net operating results in the equity in income of equity-method investee category on our consolidated statements of operations.

Managed Receivables

We make various references within our discussion of the Credit and Other Investments segment to our managed receivables. In calculating managed receivables data, we include within managed receivables those receivables we manage for our consolidated subsidiaries, but we exclude from managed receivables any noncontrolling interest holders' shares of the receivables. Additionally, we include within managed receivables only our economic share of the receivables that we manage for our equity-method investee.

Financial, operating and statistical data based on aggregate managed receivables are important to any evaluation of the performance of our credit portfolios, including our risk management, servicing and collection activities and our valuing of purchased receivables. In allocating our resources and managing our business, management relies heavily upon financial data and results prepared on this "managed basis." Analysts, investors and others also consider it important that we provide selected financial, operating and statistical data on a managed basis because this allows a comparison of us to others within the specialty finance industry. Moreover, our management, analysts, investors and others believe it is critical that they understand the credit performance of the entire portfolio of our managed receivables because it reveals information concerning the quality of loan originations and the related credit risks inherent within the portfolios.

Reconciliation of the managed receivables data to our GAAP financial statements requires: (1) an understanding that our managed receivables data are based on billings and actual charge offs as they occur, without regard to any changes in our allowance for uncollectible loans and fees receivable or any changes in the fair value of loans and fees receivable and their associated structured financing notes; (2) inclusion of our economic share of (or equity interest in) the receivables we manage for our equity-method investee; (3) removal of any noncontrolling interest holders' shares of the managed receivables underlying our GAAP consolidated results; (4) treatment of the transaction in which our 50%-owned equity-method investee acquired our structured financing trust notes (a) as a deemed sale of the trust receivables at their face amount, (b) followed by the 50%-owned equity-method investee's deemed repurchase of such receivables for consideration equal to the discounted purchase price that it paid for the notes, and (c) as though the difference between the deemed face amount and the deemed discounted repurchase price of the receivables is to be treated as credit quality discount to be accreted into managed earnings as a reduction of net charge offs over the remaining life of the receivables; and (5) the exclusion from our managed receivables data of certain reimbursements received in respect of one of our portfolios which resulted in pre-tax income benefits within our total interest income, fees and related income on earning assets, losses upon charge off of loans and fees receivable recorded at fair value,

net of recoveries, other income, servicing income, and equity in income of equity-method investee line items on our consolidated statements of operations totaling approximately \$1.1 million for the three months ended June 30, 2017, \$8.6 million for the three months ended March 31, 2017, \$10.3 million for the three months ended December 31, 2016, \$2.4 million for the three months ended September 30, 2016, \$7.1 million for the three months ended June 30, 2016, \$5.9 million for the three months ended March 31, 2016, \$10.7 million for the three months ended December 31, 2015, and \$11.4 million for the three months ended September 30, 2015. This last category of reconciling items above is excluded because it does not bear on our performance in managing our credit card portfolios, including our risk management, servicing and collection activities and our valuing of purchased receivables; moreover, it is difficult to determine the future effects of any such reimbursements that may be received.

Table of Contents

Asset quality. Our delinquency and charge-off data at any point in time reflect the credit performance of our managed receivables. The average age of the accounts underlying our receivables, the timing of portfolio purchases, the success of our collection and recovery efforts and general economic conditions all affect our delinquency and charge-off rates. The average age of the accounts underlying our receivables portfolio also affects the stability of our delinquency and loss rates. We consider this delinquency and charge-off data in our determination of the fair value of our credit card receivables underlying formerly off-balance-sheet securitization structures, as well as our allowance for uncollectible loans and fees receivable in the case of our other credit product receivables that we report at net realizable value. Our strategy for managing delinquency and receivables losses consists of account management throughout the life of the receivable. This strategy includes credit line management and pricing based on the risks. See also our discussion of collection strategies under the “How Do We Collect?” in Item 1, “Business” of our Annual Report on Form 10-K for the year ended December 31, 2016.

The following table presents the delinquency trends of the receivables we manage within our Credit and Other Investments segment, as well as charge-off data and other managed receivables statistics (in thousands; percentages of total):

	At or for the Three Months Ended							
	2017				2016			
	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30
Period-end managed receivables	\$272,725	\$253,308	\$245,007	\$221,683	\$201,406	\$155,425	\$152,528	\$151,055
Percent 30 or more days past due	10.9%	10.9 %	11.8%	10.9 %	8.2 %	9.7 %	11.5%	10.5 %
Percent 60 or more days past due	7.4 %	7.8 %	8.1 %	7.3 %	5.3 %	7.1 %	7.9 %	7.2 %
Percent 90 or more days past due	4.8 %	5.2 %	5.2 %	4.7 %	3.4 %	5.1 %	5.4 %	5.0 %
Average managed receivables	\$265,175	\$250,862	\$236,108	\$216,951	\$188,128	\$152,831	\$152,988	\$143,946
Total yield ratio	34.7%	34.4 %	32.6%	33.5 %	36.8 %	35.4 %	35.2%	41.3 %
Combined gross charge-off ratio	21.6%	23.6 %	21.1%	13.3 %	14.9 %	18.2 %	16.8%	21.5 %
Adjusted charge-off ratio	18.4%	20.1 %	17.8%	10.7 %	11.7 %	14.1 %	12.9%	16.5 %

Managed receivables levels. We have experienced overall quarterly growth throughout the periods presented related to our current product offerings with over \$80.0 million in net receivables growth associated with our point-of-sale and direct-to-consumer products from June 30, 2016 to June 30, 2017. Our historical credit card receivables continue to decline given the closure of substantially all credit card accounts underlying the portfolios. While we expect continued quarterly growth in our managed receivables balances for all of our products throughout 2017, this growth in future periods largely is dependent on the addition of new retail partners to the point-of-sale operations as well as the timing of solicitations within the direct-to-consumer operations. Further, the loss of existing retail partner relationships could adversely affect new loan acquisition levels.

Delinquencies. Delinquencies have the potential to impact net income in the form of net credit losses. Delinquencies also are costly in terms of the personnel and resources dedicated to resolving them. We intend for the receivables management strategies we use on our portfolios to manage and, to the extent possible, reduce the higher delinquency rates that can be expected in the more mature portion of our managed portfolio. These account management strategies include conservative credit line management, purging of inactive accounts and collection strategies intended to optimize the effective account-to-collector ratio across delinquency categories. We measure the success of these efforts by measuring delinquency rates. These rates exclude receivables that have been charged off.

Given that the vast majority of credit card accounts related to our historical credit card receivables have been closed and there has been no significant new activity for these accounts, we generally have noted declines in delinquency statistics of our managed credit card receivables (when compared to the same quarters in the prior year).

As our investments in point-of-sale and direct-to-consumer receivables have become a larger component of our managed receivables base, our delinquency rates have increased (when compared to periods during which seasoned credit cards made up a larger portion of our managed receivables). This is largely a result of the risk profiles (and corresponding expected returns) for these receivables being higher than that experienced under our mature credit card receivables underlying closed

Table of Contents

credit card accounts as discussed above. Our delinquency rates have continued to be somewhat lower than what we ultimately expect for our new point-of-sale and direct-to-consumer receivables given the continued growth and age of the related accounts. If and when growth for these product lines moderates, we expect increased overall delinquency rates as the existing receivables mature through their peak charge-off periods. Additionally, seasonal payment patterns on these receivables are similar to those experienced with our historical credit card receivables and we expect those patterns to continue. For example, delinquency rates historically are lower in the first quarter of each year due to the benefits of seasonally strong payment patterns associated with year-end tax refunds for most consumers.

Total yield ratio. Currently, we are experiencing growth in our newer, higher yielding receivables, including point-of-sale receivables and direct-to-consumer loans. While this growth has contributed to increases in our total yield ratio, we expect this growth will continue to reverse the trend of our declining charge-off rates as noted in the fourth quarter of 2016, because we expect these receivables to season, mature, and charge off at higher rates than we currently experience on our liquidating pool of credit card receivables associated with closed credit card accounts. We anticipate continued growth in our higher yielding point-of-sale and direct-to-consumer receivables over the next few quarters which should continue to stabilize our yield (with some modest increases) consistent with what we experienced in the past several quarters. However, the timing of receivable acquisitions as well as the relative mix of receivables acquired within a given quarter may contribute to some continued minor variability in our total yield ratio.

Although we have seen generally improving total yield ratio trend-lines, our third quarter 2015 total yield ratio was positively impacted by the recovery of approximately \$2.0 million associated with a receivable that was fully reserved in a prior period. Absent this item, our total yield ratio would have been 35.8% in the third quarter of 2015.

Combined gross charge-off ratio and Adjusted charge-off ratio. We charge off our Credit and Other Investments segment receivables when they become contractually more than 180 days past due or 120 days past due for the direct-to-consumer personal loan receivables. We charge off rent-to-own receivables and impair associated rental merchandise if a payment has not been made within the previous 90 days. However, if a payment is made greater than or equal to two minimum payments within a month of the charge-off date, we may reconsider whether charge-off status remains appropriate. Typically, we charge off receivables within 30 days of notification and confirmation of a consumer's bankruptcy or death. However, in some cases of death, we do not charge off receivables if there is a surviving, contractually liable individual or an estate large enough to pay the debt in full.

Given that our historical credit card portfolios now account for less than 15% of our total managed receivables, the impacts of these historical portfolios are no longer key drivers in the performance of our managed receivables. Instead, growth within point-of-sale finance and direct-to-consumer receivables that have higher charge-off rates than the liquidating credit card portfolios that have historically comprised a larger portion of our managed receivables has resulted in increases in our charge-off rates over time. Our recent combined gross charge-off and adjusted charge-off ratios benefited in the first few quarters of 2016 from growth we experienced in our point-of-sale operations and more directly from growth in our direct-to-consumer receivables, many of which reached peak charge off periods in the fourth quarter of 2016 but continued to negatively impact the first and second quarters of 2017. We made substantial investments in our personal loan offerings in the second quarter of 2016 which did not reach their peak-charge off period until the fourth quarter of 2016, thus positively impacting our second and third quarter combined and adjusted gross charge-off ratios and negatively impacting the same ratios in the fourth quarter of 2016 and the first and second quarters of 2017.

The continued growth in the point-of-sale and direct-to-consumer receivables continues to result in higher charge-offs than those experienced historically. In the next few quarters, we expect increasing charge off rates on a period-over-period comparison basis. This expectation is based on (1) higher expected charge off rates on the point-of-sale and direct-to-consumer receivables, offset slightly by lower charge offs associated with historical credit card receivables due to the continued liquidation of these receivables, (2) continued testing of receivables that may

lead to higher charge-offs, (3) the low charge-off ratios experienced in the second and third quarters of 2016 as discussed above and (4) recent vintages reaching peak charge-off periods. Offsetting these increases will be growth in the underlying receivables base which will serve to mute to a varying degree, some of the aforementioned impacts as has been seen in recent quarters.

Auto Finance Segment

Our Auto Finance segment historically included a variety of auto sales and lending activities.

Our original platform, CAR, acquired in April 2005, principally purchases and/or services loans secured by automobiles from or for, and also provides floor-plan financing for, a pre-qualified network of independent automotive dealers and automotive finance companies in the buy-here, pay-here used car business. We have expanded these operations to also

Table of Contents

include certain installment lending products in addition to our traditional loans secured by automobiles both in the U.S. and U.S. territories.

Collectively, as of June 30, 2017, we served more than 570 dealers through our Auto Finance segment in 33 states, the District of Columbia and two U.S. territories.

Managed Receivables Background

For reasons set forth above within our Credit and Other Investments segment discussion, we also provide managed receivables-based financial, operating and statistical data for our Auto Finance segment. Reconciliation of the auto finance managed receivables data to our GAAP financial statements requires an understanding that our managed receivables data are based on billings and actual charge offs as they occur, without regard to any changes in our allowance for uncollectible loans and fees receivable.

Analysis of Statistical Data

Financial, operating and statistical metrics for our Auto Finance segment are detailed (in thousands; percentages of total) in the following table:

	At or for the Three Months Ended							
	2017				2016			
	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30
Period-end managed receivables	\$80,014	\$75,311	\$79,683	\$76,615	\$80,903	\$78,415	\$77,833	\$75,428
Percent 30 or more days past due	11.7	% 10.0	% 14.2	% 12.7	% 12.3	% 10.2	% 14.0	% 13.3
Percent 60 or more days past due	4.0	% 4.2	% 5.4	% 4.5	% 3.9	% 4.2	% 5.5	% 5.3
Percent 90 or more days past due	1.4	% 2.1	% 2.4	% 1.8	% 1.5	% 2.2	% 2.5	% 2.6
Average managed receivables	\$78,258	\$75,986	\$78,209	\$78,089	\$80,213	\$78,122	\$76,413	\$75,987
Total yield ratio	37.2	% 38.4	% 37.8	% 39.1	% 38.0	% 37.3	% 38.3	% 38.2
Combined gross charge-off ratio	2.4	% 2.4	% 2.6	% 2.8	% 3.1	% 2.7	% 3.3	% 3.0
Recovery ratio	1.9	% 1.6	% 1.6	% 1.0	% 1.5	% 1.3	% 1.6	% 1.3

Managed receivables. We expect modest growth in the level of our managed receivables. Although we are expanding our CAR operations, the Auto Finance segment faces strong competition from other specialty finance lenders, as well as the indirect effects on us of our buy-here, pay-here dealership customers' competition with more traditional franchise dealerships for consumers interested in purchasing automobiles. We expect managed receivable levels to continue to grow slightly from current levels during 2017 in both the U.S. and U.S. territories.

Delinquencies. Current delinquency levels are consistent with our expectations for levels in the near term with some marginal increases noted within the overall buy-here pay-here market. Delinquency rates tend to fluctuate based on seasonal trends and historically are lower in the first quarter of each year as seen above due to the benefits of strong payment patterns associated with year-end tax refunds for most consumers. Second quarter 2016 delinquency rates were positively impacted by higher than anticipated customer payments experienced in the first quarter of 2016. We are not concerned with modest fluctuations in delinquency rates and do not believe they will have a significantly positive or adverse impact on our results of operations; even at slightly elevated rates, we earn significant yields on

CAR's receivables and have significant dealer reserves (i.e., retainages or holdbacks on the amount of funding CAR provides to its dealer customers) to protect against meaningful credit losses.

Total yield ratio. We have experienced modest fluctuations in our total yield ratio largely impacted by the relative mix of receivables in our various products offered by CAR as some shorter term product offerings tend to have higher yields. Slightly depressing the overall total yield ratio in the second quarter of 2016 is the growth we experienced in the average managed receivables levels which negatively impacted the ratio ahead of the positive impacts of associated billed yield on this

Table of Contents

growth. As we experienced slight declines in our managed receivables levels in the third quarter of 2016 we realized this delayed impact. Yields on our CAR products over the last few quarters are consistent with our expectations and we expect our total yield ratio to remain in line with current experience with moderate fluctuations based on relative growth or declines in average managed receivables for a given quarter as noted above. Excluded from our total yield ratio in the third quarter of 2015 is the resolution of an outstanding dispute that resulted in the recovery of approximately \$2.0 million associated with a receivable that was fully reserved in a prior period.

Combined gross charge-off ratio and recovery ratio. We charge off auto finance receivables when they are between 120 and 180 days past due, unless the collateral is repossessed and sold before that point, in which case we will record a charge off when the proceeds are received. Combined gross charge-off ratios in 2016 and 2017 reflect the lower delinquency rates we have recently experienced. While we anticipate our charge-offs to be incurred ratably across our portfolio of dealers, specific dealer related losses are difficult to predict and can negatively influence our combined gross charge-off ratio. We continually re-assess our dealers and will take appropriate action if we believe a particular dealer's risk characteristics adversely change. While we have appropriate dealer reserves to mitigate losses across the majority of our pool of receivables, the timing of recognition of these reserves as an offset to charge offs is largely dependent on various factors specific to each of our dealer partners including ongoing purchase volumes, outstanding balances of receivables and current performance of outstanding loans. As such, the timing of charge off offsets is difficult to predict, however we believe that these reserves are adequate to offset any loss exposure we may incur. Additionally, the products we issue in the U.S. territories do not have dealer reserves with which we can offset losses. As our investments in these loans grow, we expect that gross charge-off rates will climb slightly over existing rates. We also expect our recovery rate to fluctuate modestly from quarter to quarter due to the timing of the sale of repossessed autos.

Definitions of Financial, Operating and Statistical Measures

Total yield ratio. Represents an annualized fraction, the numerator of which includes all finance charge and late fee income billed on all outstanding receivables, plus credit card fees (including over-limit fees, cash advance fees, returned check fees and interchange income), plus earned, amortized amounts of annual membership fees and activation fees with respect to certain credit card receivables, plus ancillary income, plus amortization of the accretable yield component of our acquisition discounts for portfolio purchases, plus gains (or less losses) on debt repurchases and other activities within our Credit and Other Investments segment less any adjustments to finance and fee billings, and the denominator of which is average managed receivables.

Combined gross charge-off ratio. Represents an annualized fraction the numerator of which is the aggregate amounts of finance charge, fee and principal losses from consumers unwilling or unable to pay their receivables balances, as well as from bankrupt and deceased consumers, less current-period recoveries (including recoveries from dealer reserve offsets for our CAR operations), and the denominator of which is average managed receivables. Recoveries on managed receivables represent all amounts received related to managed receivables that previously have been charged off, including payments received directly from consumers and proceeds received from the sale of those charged-off receivables. Recoveries typically have represented less than 2% of average managed receivables.

Adjusted charge-off ratio. Represents an annualized fraction the numerator of which is the principal amount of losses, net of recoveries as adjusted to apply discount accretion related to the credit quality of acquired portfolios to offset a portion of the actual face amount of net charge offs, and the denominator of which is average managed receivables. (Historically, upon our acquisitions of credit card receivables, a portion of the discount reflected within our acquisition prices has related to the credit quality of the acquired receivables—that portion representing the excess of the face amount of the receivables acquired over the future cash flows expected to be collected from the receivables. Because we treat the credit quality discount component of our acquisition discount as related exclusively to acquired principal balances, the difference between our net charge offs and our adjusted charge offs for each respective reporting period represents the total dollar amount of our charge offs that were charged against our credit quality discount during each respective reporting period.)

LIQUIDITY, FUNDING AND CAPITAL RESOURCES

As discussed elsewhere in this Report, we incur a significant level of costs associated with a fixed infrastructure that had been designed to support our significant legacy credit card operations. Our infrastructure costs are still somewhat elevated, and while we had in the past focused on cost reduction, our primary focus now is growing the point-of-sale and direct-to-consumer personal loan and credit card receivables so that our revenues from these investments can cover our infrastructure costs and return us to consistent profitability. Increases in new and existing retail partnerships and the expansion of our investments in direct-to-consumer finance products have resulted in quarterly growth of total managed receivables levels, and we expect this growth to continue in the coming quarters.

Table of Contents

Accordingly, we will continue to focus in the coming quarters on (i) containing costs (as opposed to our previous focus on reducing expenses) (ii) obtaining new retail partners to continue growth of the point-of-sale receivables (iii) continuing growth in direct-to-consumer and credit card receivables and (iv) obtaining the funding necessary to meet capital needs required by the growth of our receivables and to cover our infrastructure costs until our receivables investments generate enough revenues and cash flows to cover such costs.

All of our Credit and Other Investments segment's structured financing facilities are expected to amortize down with collections on the receivables within their underlying trusts and should not represent significant refunding or refinancing risks to our consolidated balance sheet. Additionally, we do not expect any imminent refunding or financing needs associated with our 5.875% convertible senior notes given their maturity in 2035. As such, the only facilities that could represent near-term significant refunding or refinancing needs as of June 30, 2017 are those associated with the following notes payable in the amounts indicated (in millions):

Revolving credit facility (expiring October 29, 2017) that is secured by certain receivables and restricted cash	\$34.6
Revolving credit facility (expiring November 1, 2018) that is secured by the financial and operating assets of our CAR operations	30.4
Revolving credit facility (expiring December 31, 2019) that is secured by certain receivables and restricted cash	19.8
Senior secured term loan from related parties (expiring November 22, 2017) that is secured by certain assets of the Company with an annual interest rate equal to 9.0%	40.0
Total	\$124.8

Further details concerning the above debt facilities are provided in Note 7, "Notes Payable," and Note 8, "Convertible Senior Notes," to our consolidated financial statements included herein. Based on the state of the debt capital markets, the performance of our assets that serve as security for the above facilities, and our relationships with lenders, we view imminent refunding or refinancing risks with respect to the above facilities as low in the current environment, and we believe that the quality of our new receivables should allow us to raise more capital through increasing the size of our facilities with our existing lenders and attracting new lending relationships.

In February 2017, we (through a wholly owned subsidiary) established a program under which we sell certain receivables to a consolidated trust in exchange for notes issued by the trust. The notes are secured by the receivables and other assets of the trust. Simultaneously with the establishment of the program, the trust issued a series of variable funding notes and sold an aggregate amount of up to \$90.0 million (of which \$26.0 million was outstanding as of June 30, 2017) to an unaffiliated third party pursuant to a facility that can be drawn upon to the extent of outstanding eligible receivables.

The facility matures on February 8, 2022 and is subject to certain affirmative covenants and collateral performance tests, the failure of which could result in required early repayment of all or a portion of the outstanding balance of notes. The facility also may be prepaid subject to payment of a prepayment fee.

In December 2014, we reached a settlement with the IRS concerning the tax treatment of net operating losses that we incurred in 2007 and 2008 and carried back to obtain refunds of federal income taxes paid in earlier years dating back to 2003. Our net unpaid income tax assessment associated with that settlement was \$7.3 million at June 30, 2017; this amount excludes unpaid interest and penalties on the tax assessment, the accruals for which aggregated \$3.8 million at June 30, 2017. An IRS examination team denied amended return claims we filed that would have eliminated the \$7.3 million assessment (and corresponding interest and penalties), and we filed a protest with IRS Appeals. During the three months ended June 30, 2017, the Company was notified that the claim had been assigned to an IRS Appeals officer and an IRS Appeals conference has been scheduled for October, 2017. Pending the resolution of this matter, and as is customary in such cases, the IRS filed a lien in respect of the \$7.3 million assessment. To the extent we are unsuccessful in resolving this matter with IRS Appeals to our satisfaction, we plan to litigate this matter.

At June 30, 2017, we had \$74.5 million in unrestricted cash held by our various business subsidiaries. Because the characteristics of our assets and liabilities change, liquidity management has been a dynamic process for us, driven by the pricing and maturity of our assets and liabilities. We historically have financed our business through cash flows from operations, asset-backed structured financings and the issuance of debt and equity. Details concerning our cash flows for the six months ended June 30, 2017 are as follows:

Table of Contents

During the six months ended June 30, 2017, we generated \$10.4 million of cash flows from operations compared to the generation of \$12.7 million of cash flows from operations during the six months ended June 30, 2016. The decrease in cash provided by operating activities was principally related to decreases in 1) collections associated rental payments in the six months ended June 30, 2017 relative to the same period in 2016, given the cessation of our rent-to-own program; and 2) reductions in collections received in respect of one of our portfolios . These decreases were offset by the timing of payments associated with accrued liabilities including those in respect of one of our portfolios which may be owed.

During the six months ended June 30, 2017, we used \$36.4 million of cash from our investing activities, compared to use of \$40.0 million of cash from investing activities during the six months ended June 30, 2016. This decrease is primarily due to the shrinking size of our historical credit card receivables resulting in corresponding payments from consumers and as well as cash returns on our increasing investments in point-of-sale and direct-to-consumer receivables which contributed positively to our cash generated from investing activities. Offsetting these declines are the increasing levels of investments in the point-of-sale and direct-to-consumer receivables relative to the same period in 2016 and which we expect to continue to make throughout 2017.

During the six months ended June 30, 2017, we generated \$24.1 million of cash in financing activities, compared to our generating \$7.6 million of cash in financing activities during the six months ended June 30, 2016. In both periods, the data reflect borrowings associated with point-of-sale and direct-to-consumer receivables offset by net repayments of amortizing debt facilities as payments are made on the underlying receivables that serve as collateral.

Beyond our immediate financing efforts discussed throughout this report, we will continue to evaluate debt and equity issuances as a means to fund our investment opportunities. We expect to take advantage of any opportunities to raise additional capital if terms and pricing are attractive to us. Any proceeds raised under these efforts or additional liquidity available to us could be used to fund (1) the acquisition of additional financial assets associated with the point-of-sale and direct-to-consumer finance operations as well as the acquisition of credit card receivables portfolios, (2) further repurchases of our 5.875% convertible senior notes and common stock, and (3) investments in certain financial and non-financial assets or businesses. Pursuant to a share repurchase plan authorized by our Board of Directors on May 12, 2016, we are authorized as of June 30, 2017 to repurchase an additional 4,912,401 shares of our common stock through June 30, 2018.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF-BALANCE-SHEET ARRANGEMENTS

See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Annual Report on Form 10-K for the year ended December 31, 2016.

Commitments and Contingencies

We do not currently have any off-balance-sheet arrangements; however, we do have certain contractual arrangements that would require us to make payments or provide funding if certain circumstances occur, which we refer to as contingent commitments. We do not currently expect that these contingent commitments will result in any material amounts being paid by us. See Note 9, “Commitments and Contingencies,” to our consolidated financial statements included herein for further discussion of these matters.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2, “Significant Accounting Policies and Consolidated Financial Statement Components,” to our consolidated financial statements included herein for a discussion of recent accounting pronouncements.

CRITICAL ACCOUNTING ESTIMATES

We have prepared our financial statements in accordance with GAAP. These principles are numerous and complex. We have summarized our significant accounting policies in the notes to our consolidated financial statements. In many instances, the application of GAAP requires management to make estimates or to apply subjective principles to particular facts and circumstances. A variance in the estimates used or a variance in the application or interpretation of GAAP could yield a materially different accounting result. It is impracticable for us to summarize every accounting principle that requires us to use judgment or estimates in our application. Nevertheless, we describe below the areas for which we believe that the estimations, judgments or interpretations that we have made, if different, would have yielded the most significant differences in our consolidated financial statements.

On a quarterly basis, we review our significant accounting policies and the related assumptions, in particular, those mentioned below, with the audit committee of the Board of Directors.

Table of Contents

Measurements for Loans and Fees Receivable at Fair Value and Notes Payable Associated with Structured Financings at Fair Value

Our valuation of loans and fees receivable, at fair value is based on the present value of future cash flows using a valuation model of expected cash flows and the estimated cost to service and collect those cash flows. We estimate the present value of these future cash flows using a valuation model consisting of internally developed estimates of assumptions third-party market participants would use in determining fair value, including estimates of net collected yield, principal payment rates, expected principal credit loss rates, costs of funds, discount rates and servicing costs. Similarly, our valuation of notes payable associated with structured financings, at fair value is based on the present value of future cash flows utilized in repayment of the outstanding principal and interest under the facilities using a valuation model of expected cash flows net of the contractual service expenses within the facilities. We estimate the present value of these future cash flows using a valuation model consisting of internally developed estimates of assumptions third-party market participants would use in determining fair value, including: estimates of net collected yield, principal payment rates and expected principal credit loss rates on the credit card receivables that secure the non-recourse notes payable; costs of funds; discount rates; and contractual servicing fees.

The estimates for credit losses, payment rates, servicing costs, contractual servicing fees, costs of funds, discount rates and yields earned on credit card receivables significantly affect the reported amount of our loans and fees receivable, at fair value and our notes payable associated with structured financings, at fair value on our consolidated balance sheet, and they likewise affect our changes in fair value of loans and fees receivable recorded at fair value and changes in fair value of notes payable associated with structured financings recorded at fair value categories within our fees and related income on earning assets line item on our consolidated statement of operations.

Allowance for Uncollectible Loans and Fees

Through our analysis of loan performance, delinquency data, charge-off data, economic trends and the potential effects of those economic trends on consumers, we establish an allowance for uncollectible loans and fees receivable as an estimate of the probable losses inherent within those loans and fees receivable that we do not report at fair value. Our loans and fees receivable consist of smaller-balance, homogeneous loans, divided into two portfolio segments: Credit and Other Investments; and Auto Finance. Each of these portfolio segments is further divided into pools based on common characteristics such as contract or acquisition channel. For each pool, we determine the necessary allowance for uncollectible loans and fees receivable by analyzing some or all of the following unique to each type of receivable pool: historical loss rates; current delinquency and roll-rate trends; vintage analyses based on the number of months an account has been in existence; the effects of changes in the economy on our customers; changes in underwriting criteria; and estimated recoveries. To the extent that actual results differ from our estimates of uncollectible loans and fees receivable, our results of operations and liquidity could be materially affected.

RELATED PARTY TRANSACTIONS

Under a shareholders' agreement into which we entered with David G. Hanna, Frank J. Hanna, III, Richard R. House, Jr., Richard W. Gilbert and certain trusts that were Hanna affiliates, following our initial public offering (1) if one or more of the shareholders accepts a bona fide offer from a third party to purchase more than 50% of the outstanding common stock, each of the other shareholders that is a party to the agreement may elect to sell his shares to the purchaser on the same terms and conditions, and (2) if shareholders that are a party to the agreement owning more than 50% of the common stock propose to transfer all of their shares to a third party, then such transferring shareholders may require the other shareholders that are a party to the agreement to sell all of the shares owned by them to the proposed transferee on the same terms and conditions.

In June 2007, we entered into a sublease for 1,000 square feet of excess office space at our Atlanta headquarters with HBR Capital, Ltd. (“HBR”), a company co-owned by David G. Hanna and his brother Frank J. Hanna, III. The sublease rate per square foot is the same as the rate that we pay under the prime lease. Under the sublease, HBR paid us \$26,103 and \$25,588 for 2016 and 2015, respectively. The aggregate amount of payments required under the sublease from January 1, 2017 to the expiration of the sublease in May 2022 is \$150,717.

In January 2013, HBR began leasing four employees from us. HBR reimburses us for the full cost of the employees, based on the amount of time devoted to HBR. In the six months ended June 30, 2017 and 2016, we received \$132,077 and \$130,372, respectively, of reimbursed costs from HBR associated with these leased employees.

On November 26, 2014, we and certain of our subsidiaries entered into a Loan and Security Agreement with Dove Ventures, LLC, a Nevada limited liability company (“Dove”). The agreement provides for a senior secured term loan facility in

Table of Contents

an amount of up to \$40.0 million at any time outstanding. The Loan and Security Agreement is fully drawn with \$40.0 million outstanding as of June 30, 2017.

Our obligations under the agreement are guaranteed by certain subsidiary guarantors and secured by a pledge of certain assets of ours and the subsidiary guarantors. The loans bear interest at the rate of 9.0% per annum, payable monthly in arrears. The principal amount of these loans is payable in a single installment on November 22, 2017 (as amended). The agreement includes customary affirmative and negative covenants, as well as customary representations, warranties and events of default. Subject to certain conditions, we can prepay the principal amounts of these loans without premium or penalty.

Dove is a limited liability company owned by three trusts. David G. Hanna is the sole shareholder and the President of the corporation that serves as the sole trustee of one of the trusts, and David G. Hanna and members of his immediate family are the beneficiaries of this trust. Frank J. Hanna, III is the sole shareholder and the President of the corporation that serves as the sole trustee of the other two trusts, and Frank J. Hanna, III and members of his immediate family are the beneficiaries of these other two trusts.

FORWARD-LOOKING INFORMATION

We make forward-looking statements in this report and in other materials we file with the Securities and Exchange Commission ("SEC") or otherwise make public. This Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements. In addition, our senior management might make forward-looking statements to analysts, investors, the media and others. Statements with respect to expected revenue; income; receivables; income ratios; net interest margins; long-term shareholder returns; acquisitions of financial assets and other growth opportunities; divestitures and discontinuations of businesses; loss exposure and loss provisions; delinquency and charge-off rates; the effects of account actions we may take or have taken; changes in collection programs and practices; changes in the credit quality and fair value of our credit card loans and fees receivable and the fair value of their underlying structured financing facilities; the impact of actions by the Federal Deposit Insurance Corporation ("FDIC"), Federal Reserve Board, Federal Trade Commission ("FTC"), Consumer Financial Protection Bureau ("CFPB") and other regulators on both us, banks that issue credit cards and other credit products on our behalf, and merchants that participate in our point-of-sale finance operations; account growth; the performance of investments that we have made; operating expenses; the impact of bankruptcy law changes; marketing plans and expenses; the performance of our Auto Finance segment; our plans in the U.K.; the impact of our credit card receivables on our financial performance; the sufficiency of available capital; the prospect for improvements in the capital and finance markets; future interest costs; sources of funding operations and acquisitions; growth and profitability of our point-of-sale finance operations; our entry into international markets; our ability to raise funds or renew financing facilities; share repurchases or issuances; debt retirement; the results associated with our equity-method investee; our servicing income levels; gains and losses from investments in securities; experimentation with new products and other statements of our plans, beliefs or expectations are forward-looking statements. These and other statements using words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "could," "may," "should," "will," "would" and similar expressions also are forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. The forward-looking statements we make are not guarantees of future performance, and we have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or historical earnings levels. Although it is not possible to identify all factors, we continue to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially from our expectations are the risks and uncertainties

described under “Risk Factors” set forth in Part II, Item 1A, and the risk factors and other cautionary statements in other documents we file with the SEC, including the following:

- the availability of adequate financing to support growth;
- the extent to which federal, state, local and foreign governmental regulation of our various business lines and the products we service for others limits or prohibits the operation of our businesses;
- current and future litigation and regulatory proceedings against us;
- the effect of adverse economic conditions on our revenues, loss rates and cash flows;
- competition from various sources providing similar financial products, or other alternative sources of credit, to consumers;
- the adequacy of our allowances for uncollectible loans and fees receivable and estimates of loan losses used within our risk management and analyses;
- the possible impairment of assets;

Table of Contents

- our ability to manage costs in line with the expansion or contraction of our various business lines;
- our relationship with (i) the merchants that participate in point-of-sale finance operations and (ii) the banks that issue credit cards and provide certain other credit products utilizing our technology platform and related services; and
- theft and employee errors.

Most of these factors are beyond our ability to predict or control. Any of these factors, or a combination of these factors, could materially affect our future financial condition or results of operations and the ultimate accuracy of our forward-looking statements. There also are other factors that we may not describe (because we currently do not perceive them to be material) that could cause actual results to differ materially from our expectations.

We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a “smaller reporting company,” as defined by Item 10 of Regulation S-K, we are not required to provide this information.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Act) was carried out on behalf of Atlanticus Holdings Corporation and our subsidiaries by our management and with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer). Based upon the evaluation, our principal executive officer and principal financial officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

During the quarter ended June 30, 2017, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) occurred that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various legal proceedings that are incidental to the conduct of our business. There are currently no pending legal proceedings that are expected to be material to us.

ITEM 1A. RISK FACTORS

An investment in our common stock or other securities involves a number of risks. You should carefully consider each of the risks described below before deciding to invest in our common stock or other securities. If any of the following risks develops into actual events, our business, financial condition or results of operations could be negatively affected, the market price of our common stock or other securities could decline and you may lose all or part of your investment.

Investors should be particularly cautious regarding investments in our common stock or other securities at the present time in light of uncertainties as to the profitability of our business model going forward and our inability to achieve consistent earnings from our operations in recent years.

Our Cash Flows and Net Income Are Dependent Upon Payments from Our Investments in Receivables

The collectibility of our investments in receivables is a function of many factors including the criteria used to select who is issued credit, the pricing of the credit products, the lengths of the relationships, general economic conditions, the rate at which consumers repay their accounts or become delinquent, and the rate at which consumers borrow funds. Deterioration in these factors would adversely impact our business. In addition, to the extent we have over-estimated collectibility, in all likelihood we have over-estimated our financial performance. Some of these concerns are discussed more fully below.

Our portfolio of receivables is not diversified and primarily originates from consumers whose creditworthiness is considered sub-prime. Historically, we have invested in receivables in one of two ways—we have either (i) invested in receivables originated by lenders who utilize our services or (ii) invested in or purchased pools of receivables from other issuers. In either case, substantially all of our receivables are from financially underserved borrowers—borrowers represented by credit risks that regulators classify as “sub-prime.” Our reliance on sub-prime receivables has negatively impacted and may in the future negatively impact, our performance. Our various past and current losses might have been mitigated had our portfolios consisted of higher-grade receivables in addition to our sub-prime receivables.

Economic slowdowns increase our credit losses. During periods of economic slowdown or recession, we experience an increase in rates of delinquencies and frequency and severity of credit losses. Our actual rates of delinquencies and frequency and severity of credit losses may be comparatively higher during periods of economic slowdown or recession than those experienced by more traditional providers of consumer credit because of our focus on the financially underserved consumer market, which may be disproportionately impacted.

We are subject to foreign economic and exchange risks. Because of our operations in the U.K., we have exposure to fluctuations in the U.K. economy. We also have exposure to fluctuations in the relative values of the U.S. dollar and the British pound. Because the British pound has experienced a net decline in value relative to the U.S. dollar since we commenced our most significant operations in the U.K., we have experienced significant transaction and translation losses within our financial statements.

Because a significant portion of our reported income is based on management’s estimates of the future performance of receivables, differences between actual and expected performance of the receivables may cause fluctuations in net income. Significant portions of our reported income (or losses) are based on management’s estimates of cash flows we expect to receive on receivables, particularly for such assets that we report based on fair value. The expected cash

flows are based on management's estimates of interest rates, default rates, payment rates, cardholder purchases, servicing costs, and discount rates. These estimates are based on a variety of factors, many of which are not within our control. Substantial differences between actual and expected performance of the receivables will occur and cause fluctuations in our net income. For instance, higher than expected rates of delinquencies and losses could cause our net income to be lower than expected. Similarly, levels of loss and delinquency can result in our being required to repay lenders earlier than expected, thereby reducing funds available to us for future growth. Because all of the credit card receivables structured financing facilities are now in amortization status—which for us generally means that the only meaningful cash flows that we are receiving with respect to the credit card receivables that are encumbered by such structured financing facilities are those associated with our contractually specified fee for servicing the receivables—recent payment and default trends have substantially reduced the cash flows that we receive from these receivables.

Table of Contents

Due to our relative lack of historical experience with Internet consumers, we may not be able to evaluate their creditworthiness. We have less historical experience with respect to the credit risk and performance of receivables owed by consumers acquired over the Internet. As a result, we may not be able to target and evaluate successfully the creditworthiness of these potential consumers. Therefore, we may encounter difficulties managing the expected delinquencies and losses and appropriately pricing products.

We Are Substantially Dependent Upon Borrowed Funds to Fund Receivables We Purchase

We finance receivables that we acquire in large part through financing facilities. All of our financing facilities are of finite duration (and ultimately will need to be extended or replaced) and contain financial covenants and other conditions that must be fulfilled in order for funding to be available. Moreover, some of our facilities currently are in amortization stages (and are not allowing for the funding of any new loans) based on their original terms. The cost and availability of equity and borrowed funds is dependent upon our financial performance, the performance of our industry generally and general economic and market conditions, and at times equity and borrowed funds have been both expensive and difficult to obtain.

If additional financing facilities are not available in the future on terms we consider acceptable—an issue that has been made even more acute in the U.S. given regulatory changes that reduced asset-level returns on credit card lending—we will not be able to purchase additional receivables and those receivables may contract in size.

Our Financial Performance Is, in Part, a Function of the Aggregate Amount of Receivables That Are Outstanding

The aggregate amount of outstanding receivables is a function of many factors including purchase rates, payment rates, interest rates, seasonality, general economic conditions, competition from credit card issuers and other sources of consumer financing, access to funding, and the timing and extent of our receivable purchases.

Despite our recent purchases of credit card receivables, our aggregate credit card receivables contracted over the last several years. The amount of our credit card receivables is a product of a combination of factors, many of which are not in our control. Factors include:

- the availability of funding on favorable terms;
- our relationships with the banks that issue credit cards;
- the degree to which we lose business to competitors;
- the level of usage of our credit card products by consumers;
- the availability of portfolios for purchase on attractive terms;
- levels of delinquencies and charge offs;
- the level of costs of acquiring new receivables;
- our ability to employ and train new personnel;
- our ability to maintain adequate management systems, collection procedures, internal controls and automated systems;
- and
- general economic and other factors beyond our control.

Reliance upon relationships with a few large retailers in the point-of-sale finance operations may adversely affect our revenues and operating results from these operations. Our five largest retail partners accounted for over 50% of our outstanding point-of-sale receivables as of December 31, 2016. Although we are adding new retail partners on a regular basis, it is likely that we will continue to derive a significant portion of this operations' receivables base and corresponding revenue from a relatively small number of partners in the future. If a significant partner reduces or terminates its relationship with us, these operations' revenue could decline significantly and our operating results and

financial condition could be harmed.

We Operate in a Heavily Regulated Industry

Changes in bankruptcy, privacy or other consumer protection laws, or to the prevailing interpretation thereof, may expose us to litigation, adversely affect our ability to collect receivables, or otherwise adversely affect our operations. Similarly, regulatory changes could adversely affect the ability or willingness of lenders who utilize our technology platform and related services to market credit products and services to consumers. While the new Presidential Administration and the congressional majorities in the U.S. Senate and House of Representatives support reducing regulatory burdens, the prospects for significant modifications are uncertain. Also, the accounting rules that apply to our business are exceedingly complex, difficult to apply

Table of Contents

and in a state of flux. As a result, how we value our receivables and otherwise account for our business is subject to change depending upon the changes in, and, interpretation of, those rules. Some of these issues are discussed more fully below.

Reviews and enforcement actions by regulatory authorities under banking and consumer protection laws and regulations may result in changes to our business practices, may make collection of receivables more difficult or may expose us to the risk of fines, restitution and litigation. Our operations and the operations of the issuing banks through which the credit products we service are originated are subject to the jurisdiction of federal, state and local government authorities, including the CFPB, the SEC, the FDIC, the Office of the Comptroller of the Currency, the FTC, U.K. banking and licensing authorities, state regulators having jurisdiction over financial institutions and debt origination and collection and state attorneys general. Our business practices and the practices of issuing banks, including the terms of products, servicing and collection practices, are subject to both periodic and special reviews by these regulatory and enforcement authorities. These reviews can range from investigations of specific consumer complaints or concerns to broader inquiries. If as part of these reviews the regulatory authorities conclude that we or issuing banks are not complying with applicable law, they could request or impose a wide range of remedies including requiring changes in advertising and collection practices, changes in the terms of products (such as decreases in interest rates or fees), the imposition of fines or penalties, or the paying of restitution or the taking of other remedial action with respect to affected consumers. They also could require us or issuing banks to stop offering some credit products or obtain licenses to do so, either nationally or in selected states. To the extent that these remedies are imposed on the issuing banks that originate credit products using our platform, under certain circumstances we are responsible for the remedies as a result of our indemnification obligations with those banks. We also may elect to change practices that we believe are compliant with law in order to respond to regulatory concerns. Furthermore, negative publicity relating to any specific inquiry or investigation could hurt our ability to conduct business with various industry participants or to generate new receivables and could negatively affect our stock price, which would adversely affect our ability to raise additional capital and would raise our costs of doing business.

If any deficiencies or violations of law or regulations are identified by us or asserted by any regulator, or if the CFPB, the FDIC, the FTC or any other regulator requires us or issuing banks to change any practices, the correction of such deficiencies or violations, or the making of such changes, could have a material adverse effect on our financial condition, results of operations or business. In addition, whether or not these practices are modified when a regulatory or enforcement authority requests or requires, there is a risk that we or other industry participants may be named as defendants in litigation involving alleged violations of federal and state laws and regulations, including consumer protection laws. Any failure to comply with legal requirements by us or the banks that originate credit products utilizing our platform in connection with the issuance of those products, or by us or our agents as the servicer of our accounts, could significantly impair our ability to collect the full amount of the account balances. The institution of any litigation of this nature, or any judgment against us or any other industry participant in any litigation of this nature, could adversely affect our business and financial condition in a variety of ways.

We are dependent upon banks to issue credit cards and provide certain other credit products utilizing our technology platform and related services. We acquire receivables generated by banks from credit cards that they have issued and other products, and their regulators could at any time limit their ability to issue some or all of these products that we service, or to modify those products significantly. Any significant interruption of those relationships would result in our being unable to acquire new receivables or help develop other credit products. It is possible that a regulatory position or action taken with respect to any of the issuing banks might result in the bank's inability or unwillingness to originate future credit products in collaboration with us. In the current state, such a disruption of our issuing bank relationships principally would adversely affect our ability to grow our investments in the point-of-sale and direct-to-consumer receivables.

Changes to consumer protection laws or changes in their interpretation may impede collection efforts or otherwise adversely impact our business practices. Federal and state consumer protection laws regulate the creation and enforcement of consumer credit card receivables and other loans. Many of these laws (and the related regulations) are focused on sub-prime lenders and are intended to prohibit or curtail industry-standard practices as well as non-standard practices. For instance, Congress enacted legislation that regulates loans to military personnel through imposing interest rate and other limitations and requiring new disclosures, all as regulated by the Department of Defense. Similarly, in 2009 Congress enacted legislation that required changes to a variety of marketing, billing and collection practices, and the Federal Reserve recently adopted significant changes to a number of practices through its issuance of regulations. While our practices are in compliance with these changes, some of the changes (e.g., limitations on the ability to assess up-front fees) have significantly affected the viability of certain credit products within the U.S. Changes in the consumer protection laws could result in the following:

- receivables not originated in compliance with law (or revised interpretations) could become unenforceable and uncollectible under their terms against the obligors;
- we may be required to credit or refund previously collected amounts;

Table of Contents

- certain fees and finance charges could be limited, prohibited or restricted, which would reduce the profitability of certain investments in receivables;
- certain collection methods could be prohibited, forcing us to revise our practices or adopt more costly or less effective practices;
- limitations on our ability to recover on charged-off receivables regardless of any act or omission on our part;
- some credit products and services could be banned in certain states or at the federal level;
- federal or state bankruptcy or debtor relief laws could offer additional protections to consumers seeking bankruptcy protection, providing a court greater leeway to reduce or discharge amounts owed to us; and
- a reduction in our ability or willingness to invest in receivables arising under loans to certain consumers, such as military personnel.

Material regulatory developments may adversely impact our business and results from operations.

Our Automobile Lending Activities Involve Risks in Addition to Others Described Herein

Automobile lending exposes us not only to most of the risks described above but also to additional risks, including the regulatory scheme that governs installment loans and those attendant to relying upon automobiles and their repossession and liquidation value as collateral. In addition, our Auto Finance segment operation acquires loans on a wholesale basis from used car dealers, for which we rely upon the legal compliance and credit determinations by those dealers.

Funding for automobile lending may become difficult to obtain and expensive. In the event we are unable to renew or replace any Auto Finance segment facilities that bear refunding or refinancing risks when they become due, our Auto Finance segment could experience significant constraints and diminution in reported asset values as lenders retain significant cash flows within underlying structured financings or otherwise under security arrangements for repayment of their loans. If we cannot renew or replace future facilities or otherwise are unduly constrained from a liquidity perspective, we may choose to sell part or all of our auto loan portfolios, possibly at less than favorable prices.

Our automobile lending business is dependent upon referrals from dealers. Currently we provide substantially all of our automobile loans only to or through used car dealers. Providers of automobile financing have traditionally competed based on the interest rate charged, the quality of credit accepted and the flexibility of loan terms offered. In order to be successful, we not only need to be competitive in these areas, but also need to establish and maintain good relations with dealers and provide them with a level of service greater than what they can obtain from our competitors.

The financial performance of our automobile loan portfolio is in part dependent upon the liquidation of repossessed automobiles. In the event of certain defaults, we may repossess automobiles and sell repossessed automobiles at wholesale auction markets located throughout the U.S. Auction proceeds from these types of sales and other recoveries rarely are sufficient to cover the outstanding balances of the contracts; where we experience these shortfalls, we will experience credit losses. Decreased auction proceeds resulting from depressed prices at which used automobiles may be sold would result in higher credit losses for us.

Repossession of automobiles entails the risk of litigation and other claims. Although we have contracted with reputable repossession firms to repossess automobiles on defaulted loans, it is not uncommon for consumers to assert that we were not entitled to repossess an automobile or that the repossession was not conducted in accordance with applicable law. These claims increase the cost of our collection efforts and, if correct, can result in awards against us.

We Routinely Explore Various Opportunities to Grow Our Business, to Make Investments and to Purchase and Sell Assets

We routinely consider acquisitions of, or investments in, portfolios and other assets as well as the sale of portfolios and portions of our business. There are a number of risks attendant to any acquisition, including the possibility that we will overvalue the assets to be purchased and that we will not be able to produce the expected level of profitability from the acquired business or assets. Similarly, there are a number of risks attendant to sales, including the possibility that we will undervalue the assets to be sold. As a result, the impact of any acquisition or sale on our future performance may not be as favorable as expected and actually may be adverse.

Portfolio purchases may cause fluctuations in our reported Credit and Other Investments segment's managed receivables data, which may reduce the usefulness of this data in evaluating our business. Our reported Credit and Other Investments segment managed receivables data may fluctuate substantially from quarter to quarter as a result of recent and future credit card portfolio acquisitions.

Table of Contents

Receivables included in purchased portfolios are likely to have been originated using credit criteria different from the criteria of issuing bank partners that have originated accounts utilizing our technology platform. Receivables included in any particular purchased portfolio may have significantly different delinquency rates and charge-off rates than the receivables previously originated and purchased by us. These receivables also may earn different interest rates and fees as compared to other similar receivables in our receivables portfolio. These variables could cause our reported managed receivables data to fluctuate substantially in future periods making the evaluation of our business more difficult.

Any acquisition or investment that we make will involve risks different from and in addition to the risks to which our business is currently exposed. These include the risks that we will not be able to integrate and operate successfully new businesses, that we will have to incur substantial indebtedness and increase our leverage in order to pay for the acquisitions, that we will be exposed to, and have to comply with, different regulatory regimes and that we will not be able to apply our traditional analytical framework (which is what we expect to be able to do) in a successful and value-enhancing manner.

Other Risks of Our Business

We are a holding company with no operations of our own. As a result, our cash flow and ability to service our debt is dependent upon distributions from our subsidiaries. The distribution of subsidiary earnings, or advances or other distributions of funds by subsidiaries to us, all of which are subject to statutory and could be subject to contractual restrictions, are contingent upon the subsidiaries' cash flows and earnings and are subject to various business and debt covenant considerations.

Unless we obtain a bank charter, we cannot issue credit cards other than through agreements with banks. Because we do not have a bank charter, we currently cannot issue credit cards ourselves. Unless we obtain a bank or credit card bank charter, we will continue to rely upon banking relationships to provide for the issuance of credit cards to consumers. Even if we obtain a bank charter, there may be restrictions on the types of credit that the bank may extend. Our various issuing bank agreements have scheduled expiration dates. If we are unable to extend or execute new agreements with our issuing banks at the expirations of our current agreements with them, or if our existing or new agreements with our issuing banks were terminated or otherwise disrupted, there is a risk that we would not be able to enter into agreements with an alternate issuer on terms that we consider favorable or in a timely manner without disruption of our business.

We are party to litigation. We are defendants in certain legal proceedings which include litigation customary for a business of our nature. In each case we believe that we have meritorious defenses or that the positions we are asserting otherwise are correct. However, adverse outcomes are possible in these matters, and we could decide to settle one or more of our litigation matters in order to avoid the ongoing cost of litigation or to obtain certainty of outcome. Adverse outcomes or settlements of these matters could require us to pay damages, make restitution, change our business practices or take other actions at a level, or in a manner, that would adversely impact our business.

We face heightened levels of economic risk associated with new investment activities. We have made a number of investments in businesses that are not directly related to our traditional servicing and receivables financing activities to, or associated with, the underserved consumer credit market. In addition, some of these investments that we have made and may make in the future are or will be in debt or equity securities of businesses over which we exert little or no control, which likely exposes us to greater risks of loss than investments in activities and operations that we control. We make only those investments we believe have the potential to provide a favorable return. However, because some of the investments are outside of our core areas of expertise, they entail risks beyond those described elsewhere in this report. As occurred with respect to certain such investments in 2012 and 2011, these risks could

result in the loss of part or all of our investments.

Because we outsource account-processing functions that are integral to our business, any disruption or termination of that outsourcing relationship could harm our business. We generally outsource account and payment processing, and in 2016, we paid Total System Services, Inc. \$3.8 million for these services. If these agreements were not renewed or were terminated or the services provided to us were otherwise disrupted, we would have to obtain these services from an alternative provider. There is a risk that we would not be able to enter into a similar agreement with an alternate provider on terms that we consider favorable or in a timely manner without disruption of our business.

If we are unable to protect our information systems against service interruption our operations could be disrupted and our reputation may be damaged. We rely heavily on networks and information systems and other technology, that are largely hosted by third-parties to support our business processes and activities, including processes integral to the origination and collection of loans and other financial products, and information systems to process financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting and legal and tax requirements.

Table of Contents

Because information systems are critical to many of our operating activities, our business may be impacted by hosted system shutdowns, service disruptions or security breaches. These incidents may be caused by failures during routine operations such as system upgrades or user errors, as well as network or hardware failures, malicious or disruptive software, computer hackers, rogue employees or contractors, cyber-attacks by criminal groups, geopolitical events, natural disasters, failures or impairments of telecommunications networks, or other catastrophic events. If our information systems suffer severe damage, disruption or shutdown and our business continuity plans do not effectively resolve the issues in a timely manner, we could experience delays in reporting our financial results, and we may lose revenue and profits as a result of our inability to collect payments in a timely manner. We also could be required to spend significant financial and other resources to repair or replace networks and information systems.

Unauthorized or unintentional disclosure of sensitive or confidential customer data could expose us to protracted and costly litigation, and civil and criminal penalties. To conduct our business, we are required to manage, use, and store large amounts of personally identifiable information, consisting primarily of confidential personal and financial data regarding consumers across all operations areas. We also depend on our IT networks and systems, and those of third parties, to process, store, and transmit this information. As a result, we are subject to numerous U.S. federal and state laws designed to protect this information. Security breaches involving our files and infrastructure could lead to unauthorized disclosure of confidential information.

We take a number of measures to ensure the security of our hardware and software systems and customer information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in the technology used by us to protect data being breached or compromised. In the past, banks and other financial service providers have been the subject of sophisticated and highly targeted attacks on their information technology. An increasing number of websites have reported breaches of their security.

If any person, including our employees or those of third-party vendors, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to costly litigation, monetary damages, fines, and/or criminal prosecution. Any unauthorized disclosure of personally identifiable information could subject us to liability under data privacy laws. Further, under credit card rules and our contracts with our card processors, if there is a breach of credit card information that we store, we could be liable to the credit card issuing banks for their cost of issuing new cards and related expenses. In addition, if we fail to follow credit card industry security standards, even if there is no compromise of customer information, we could incur significant fines. Security breaches also could harm our reputation, which could potentially cause decreased revenues, the loss of existing merchant credit partners, or difficulty in adding new merchant credit partners.

Internet and data security breaches also could impede our bank partners from originating loans over the Internet, cause us to lose consumers or otherwise damage our reputation or business. Consumers generally are concerned with security and privacy, particularly on the Internet. As part of our growth strategy, we have enabled lenders to originate loans over the Internet. The secure transmission of confidential information over the Internet is essential to maintaining customer confidence in such products and services offered online.

Advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology used by us to protect our client or consumer application and transaction data transmitted over the Internet. In addition to the potential for litigation and civil penalties described above, security breaches could damage our reputation and cause consumers to become unwilling to do business with our clients or us, particularly over the Internet. Any publicized security problems could inhibit the growth of the Internet as a means of conducting commercial transactions. Our ability to service our clients' needs over the Internet would be severely impeded if consumers become unwilling to transmit confidential information online.

Also, a party that is able to circumvent our security measures could misappropriate proprietary information, cause interruption in our operations, damage our computers or those of our users, or otherwise damage our reputation and business.

Regulation in the areas of privacy and data security could increase our costs. We are subject to various regulations related to privacy and data security/breach, and we could be negatively impacted by these regulations. For example, we are subject to the safeguards guidelines under the Gramm-Leach-Bliley Act. The safeguards guidelines require that each financial institution develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to the financial institution's size and complexity, the nature and scope of the financial institution's activities and the sensitivity of any customer information at issue. Broad-ranging data security laws that affect our business also have been adopted by various states. Compliance with these laws regarding the protection of consumer and employee data could result in higher compliance and technology costs for us, as well as potentially significant fines and penalties for non-compliance.

Table of Contents

Further, there are various other statutes and regulations relevant to the direct email marketing, debt collection and text-messaging industries including the Telephone Consumer Protection Act. The interpretation of many of these statutes and regulations is evolving in the courts and administrative agencies and an inability to comply with them may have an adverse impact on our business.

In addition to the foregoing enhanced data security requirements, various federal banking regulatory agencies, and at least 48 states, the District of Columbia, Puerto Rico and the Virgin Islands, have enacted data security regulations and laws requiring varying levels of consumer notification in the event of a security breach.

Also, federal legislators and regulators are increasingly pursuing new guidelines, laws and regulations that, if adopted, could further restrict how we collect, use, share and secure consumer information, which could impact some of our current or planned business initiatives.

Unplanned system interruptions or system failures could harm our business and reputation. Any interruption in the availability of our transactional processing services due to hardware and operating system failures will reduce our revenues and profits. Any unscheduled interruption in our services results in an immediate, and possibly substantial, loss of revenues. Frequent or persistent interruptions in our services could cause current or potential consumers to believe that our systems are unreliable, leading them to switch to our competitors or to avoid our websites or services, and could permanently harm our reputation.

Although our systems have been designed around industry-standard architectures to reduce downtime in the event of outages or catastrophic occurrences, they remain vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, computer viruses, computer denial-of-service attacks, and similar events or disruptions. Some of our systems are not fully redundant, and our disaster recovery planning may not be sufficient for all eventualities. Our systems also are subject to break-ins, sabotage, and intentional acts of vandalism. Despite any precautions we may take, the occurrence of a natural disaster, a decision by any of our third-party hosting providers to close a facility we use without adequate notice for financial or other reasons, or other unanticipated problems at our hosting facilities could cause system interruptions, delays, and loss of critical data, and result in lengthy interruptions in our services. Our business interruption insurance may not be sufficient to compensate us for losses that may result from interruptions in our service as a result of system failures.

Climate change and related regulatory responses may impact our business. Climate change as a result of emissions of greenhouse gases is a significant topic of discussion and may generate federal and other regulatory responses. It is impracticable to predict with any certainty the impact on our business of climate change or the regulatory responses to it, although we recognize that they could be significant. The most direct impact is likely to be an increase in energy costs, which would adversely impact consumers and their ability to incur and repay indebtedness. However, we are uncertain of the ultimate impact, either directionally or quantitatively, of climate change and related regulatory responses on our business.

Risks Relating to an Investment in Our Securities

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell your shares of our common stock when you want or at prices you find attractive. The price of our common stock on the NASDAQ Global Select Market constantly changes. We expect that the market price of our common stock will continue to fluctuate. The market price of our common stock may fluctuate in response to numerous factors, many of which are beyond our control. These factors include the following:

- actual or anticipated fluctuations in our operating results;

-

changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;

- the overall financing environment, which is critical to our value;
- the operating and stock performance of our competitors;
- announcements by us or our competitors of new products or services or significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in interest rates;
- the announcement of enforcement actions or investigations against us or our competitors or other negative publicity relating to us or our industry;
- changes in GAAP, laws, regulations or the interpretations thereof that affect our various business activities and segments;
- general domestic or international economic, market and political conditions;

Table of Contents

• changes in ownership by executive officers, directors and parties related to them who control a majority of our common stock;
• additions or departures of key personnel; and
• future sales of our common stock and the transfer or cancellation of shares of common stock pursuant to a share lending agreement.

In addition, the stock markets from time to time experience extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of companies. These broad fluctuations may adversely affect the trading price of our common stock, regardless of our actual operating performance.

Future sales of our common stock or equity-related securities in the public market, including sales of our common stock pursuant to share lending agreements or short sale transactions by purchasers of convertible senior notes, could adversely affect the trading price of our common stock and our ability to raise funds in new stock offerings. Sales of significant amounts of our common stock or equity-related securities in the public market, including sales pursuant to share lending agreements, or the perception that such sales will occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. Future sales of shares of common stock or the availability of shares of common stock for future sale, including sales of our common stock in short sale transactions by purchasers of our convertible senior notes, may have a material adverse effect on the trading price of our common stock.

We have the ability to issue preferred stock, warrants, convertible debt and other securities without shareholder approval. Our common stock may be subordinate to classes of preferred stock issued in the future in the payment of dividends and other distributions made with respect to common stock, including distributions upon liquidation or dissolution. Our articles of incorporation permit our Board of Directors to issue preferred stock without first obtaining shareholder approval. If we issue preferred stock, these additional securities may have dividend or liquidation preferences senior to the common stock. If we issue convertible preferred stock, a subsequent conversion may dilute the current common shareholders' interest. We have similar abilities to issue convertible debt, warrants and other equity securities.

Our executive officers, directors and parties related to them, in the aggregate, control a majority of our common stock and may have the ability to control matters requiring shareholder approval. Our executive officers, directors and parties related to them own a large enough share of our common stock to have an influence on, if not control of, the matters presented to shareholders. As a result, these shareholders may have the ability to control matters requiring shareholder approval, including the election and removal of directors, the approval of significant corporate transactions, such as any reclassification, reorganization, merger, consolidation or sale of all or substantially all of our assets and the control of our management and affairs. Accordingly, this concentration of ownership may have the effect of delaying, deferring or preventing a change of control of us, impede a merger, consolidation, takeover or other business combination involving us or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could have an adverse effect on the market price of our common stock.

The right to receive payments on our convertible senior notes is subordinate to the rights of our existing and future secured creditors. Our convertible senior notes are unsecured and are subordinate to existing and future secured obligations to the extent of the value of the assets securing such obligations. As a result, in the event of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding of our company, our assets generally would be available to satisfy obligations of our secured debt before any payment may be made on the convertible senior notes. To the extent that such assets cannot satisfy in full our secured debt, the holders of such debt would have a claim for any shortfall that would rank equally in right of payment (or effectively senior if the debt were issued by a subsidiary) with the convertible senior notes. In such an event, we may not have sufficient assets remaining to pay amounts on

any or all of the convertible senior notes.

As of June 30, 2017, Atlanticus Holdings Corporation had outstanding: \$177.6 million of secured indebtedness, which would rank senior in right of payment to the convertible senior notes; \$111.3 million of senior unsecured indebtedness in addition to the convertible senior notes that would rank equal in right of payment to the convertible senior notes; and no subordinated indebtedness. Included in senior secured indebtedness are certain guarantees we have executed in favor of our subsidiaries. For more information on our outstanding indebtedness, See Note 7, "Notes Payable," to our consolidated financial statements included herein.

Our convertible senior notes are junior to the indebtedness of our subsidiaries. Our convertible senior notes are structurally subordinated to the existing and future claims of our subsidiaries' creditors. Holders of the convertible senior notes are not creditors of our subsidiaries. Any claims of holders of the convertible senior notes to the assets of our subsidiaries

Table of Contents

derive from our own equity interests in those subsidiaries. Claims of our subsidiaries' creditors will generally have priority as to the assets of our subsidiaries over our own equity interest claims and will therefore have priority over the holders of the convertible senior notes. Consequently, the convertible senior notes are effectively subordinate to all liabilities, whether or not secured, of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish. Our subsidiaries' creditors also may include general creditors and taxing authorities. As of June 30, 2017, our subsidiaries had total liabilities of approximately \$264.4 million (including the \$177.6 million of senior secured indebtedness mentioned above), excluding intercompany indebtedness. In addition, in the future, we may decide to increase the portion of our activities that we conduct through subsidiaries.

Note Regarding Risk Factors

The risk factors presented above are all of the ones that we currently consider material. However, they are not the only ones facing our company. Additional risks not presently known to us, or which we currently consider immaterial, also may adversely affect us. There may be risks that a particular investor views differently from us, and our analysis might be wrong. If any of the risks that we face actually occurs, our business, financial condition and operating results could be materially adversely affected and could differ materially from any possible results suggested by any forward-looking statements that we have made or might make. In such case, the trading price of our common stock or other securities could decline, and you could lose part or all of your investment. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES

There were no repurchases of equity securities during the three months ended June 30, 2017.

We will continue to evaluate our stock price relative to other investment opportunities and, to the extent we believe that the repurchase of our stock represents an appropriate return of capital, we will repurchase shares of our stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

Table of Contents

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit	Incorporated by Reference from Atlanticus' SEC Filings Unless Otherwise Indicated
3.1	Articles of Incorporation, as amended	May 16, 2017 Form 8-K, exhibit 3.1
3.2	Amended and Restated Bylaws (as amended through May 12, 2017)	May 16, 2017 Form 8-K, exhibit 3.2
10.1	Atlanticus Holdings Corporation Second Amended and Restated 2014 Equity Incentive Plan	April 10, 2017, Definitive Proxy Statement on Schedule 14A, Appendix A
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)	Filed herewith
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)	Filed herewith
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Presentation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ATLANTICUS HOLDINGS CORPORATION

August 11, 2017 ~~By~~/ WILLIAM R. McCAMEY
William R. McCamey
Chief Financial Officer
(duly authorized officer and principal financial officer)