Atlanticus Holdings Corp
Form 10-Q
November 14, 2018

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

For the quarterly period ended September 30, 2018

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 every Interactive Data File required to be submitted 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 November 6, 2018, 15,376,574 shares of common stock, no par value, of Atlanticus were outstanding, including 1,459,233 loaned shares to be returned.

Table of Contents

Table of Contents

		Page
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	1
	Consolidated Balance Sheets	1
	Consolidated Statements of Operations	2
	Consolidated Statements of Comprehensive Loss	3
	Consolidated Statement of Shareholders' Deficit	4
	Consolidated Statements of Cash Flows	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	45
Item 4.	Controls and Procedures	45

Part II. OTHER INFORMATION

Item 1.	Legal Proceedings	46
Item 1A.	Risk Factors	46
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	55
Item 3.	Defaults Upon Senior Securities	55
Item 4.	Mine Safety Disclosure	55
Item 5.	Other Information	56
Item 6.	Exhibits	56
	Signatures	57

Table of Contents

PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Atlanticus Holdings Corporation and Subsidiaries

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands)

	September 30, 2018	December 31, 2017
Assets		
Unrestricted cash and cash equivalents	$ *29,296*	$ *41,484*
Restricted cash and cash equivalents	*30,109*	*29,174*
Loans and fees receivable:		
Loans and fees receivable, at fair value	*7,125*	*11,109*
Loans and fees receivable, gross	*480,891*	*393,898*
Allowances for uncollectible loans and fees receivable	*(68,258*)	*(62,970*)
Deferred revenue	*(40,615*)	*(36,956*)
Net loans and fees receivable	*379,143*	*305,081*
Property at cost, net of depreciation	*2,724*	*3,229*
Investments in equity-method investees	*2,852*	*4,244*
Deposits	*488*	*252*
Prepaid expenses and other assets	*16,113*	*42,149*
Income tax asset	284	—
Total assets	$ *461,009*	$ *425,613*
Liabilities		
Accounts payable and accrued expenses	$ *107,254*	$ *115,737*
Notes payable, at face value	*293,298*	*226,238*
Notes payable to related parties	*40,000*	*40,000*
Notes payable associated with structured financings, at fair value	*6,220*	*9,240*
Convertible senior notes	*61,975*	*61,393*
Income tax liability	—	*9,132*
Total liabilities	*508,747*	*461,740*
Commitments and contingencies (Note 9)		
Equity		
Common stock, no par value, 150,000,000 shares authorized: 15,372,542 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at September 30, 2018; and 15,291,884 shares issued and outstanding (including 1,459,233 loaned shares to be returned)	—	—

at December 31, 2017		
Additional paid-in capital	*212,808*	*212,785*
Accumulated other comprehensive loss	*1,502*	*(2,178*)
Retained deficit	*(261,772*)	*(246,640*)
Total shareholders’ equity	*(47,462*)	*(36,033*)
Noncontrolling interests	*(276*)	*(94*)
Total equity	*(47,738*)	*(36,127*)
Total liabilities and equity	$*461,009*	$*425,613*

See accompanying notes.

1

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 September 30,		For the Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Interest income:				
Consumer loans, including past due fees	$41,901	$28,985	$115,325	$81,457
Other	51	34	137	178
Total interest income	41,952	29,019	115,462	81,635
Interest expense	(9,281)	(7,268)	(26,241)	(19,504)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	32,671	21,751	89,221	62,131
Fees and related income on earning assets	9,536	4,166	22,844	10,938
Net recovery of (losses upon) charge off of loans and fees receivable recorded at fair value	(1,957)	2,393	(2,396)	10,763
Provision for losses on loans and fees receivable recorded at net realizable value	(32,798)	(24,087)	(65,265)	(50,484)
Net interest income, fees and related income on earning assets	7,452	4,223	44,404	33,348
Other operating income:				
Servicing income	382	1,034	1,646	2,984
Other Income	898	590	2,185	939
Equity in income (loss) of equity-method investees	(49)	164	491	902
Total other operating income	1,231	1,788	4,322	4,825
Other operating expense:				
Salaries and benefits	5,838	5,589	17,738	17,102
Card and loan servicing	9,286	8,394	27,378	23,078
Marketing and solicitation	3,649	2,930	8,088	9,544
Depreciation	234	236	698	789
Other	5,725	3,352	14,871	14,029
Total other operating expense	24,732	20,501	68,773	64,542
Loss before income taxes	(16,049)	(14,490)	(20,047)	(26,369)
Income tax benefit (expense)	(121)	22	4,733	3,847
Net loss	(16,170)	(14,468)	(15,314)	(22,522)
Net (income) loss attributable to noncontrolling interests	78	1	182	(1)
Net loss attributable to controlling interests	$(16,092)	$(14,467)	$(15,132)	$(22,523)
Net loss attributable to controlling interests per common share—basic	$(1.16)	$(1.04)	$(1.09)	$(1.61)
Net loss attributable to controlling interests per common share—diluted	$(1.16)	$(1.04)	$(1.09)	$(1.61)

See accompanying notes.

2

Table of Contents

Atlanticus Holdings Corporation and Subsidiaries

Consolidated Statements of Comprehensive Loss (Unaudited)

(Dollars in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$(16,170)	$(14,468)	$(15,314)	$(22,522)
Other comprehensive income:				
Foreign currency translation adjustment	1,154	(1,721)	3,680	(1,721)
Reclassifications of foreign currency translation adjustment to Other operating expense on the consolidated statements of operations	—	—	—	—
Income tax expense related to other comprehensive income	—	625	—	625
Comprehensive loss	(15,016)	(15,564)	(11,634)	(23,618)
Comprehensive loss (income) attributable to noncontrolling interests	78	1	182	(1)
Comprehensive loss attributable to controlling interests	$(14,938)	$(15,563)	$(11,452)	$(23,619)

See accompanying notes.

Table of Contents

Atlanticus Holdings Corporation and Subsidiaries

Consolidated Statement of Shareholders' Deficit

For the Nine Months Ended September 30, 2018 (Unaudited)

(Dollars in thousands)

	Common Stock						
	Shares Issued	**Amount**	**Additional Paid-In Capital**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Deficit**	**Noncontrolling Interests**	**Total Equity**
Balance at December 31, 2017	15,291,884	$ —	$ 212,785	$ (2,178)	$ (246,640)	$ (94)	$ (36,127)
Stock options exercises and proceeds related thereto	14,000	—	32	—	—	—	32
Compensatory stock issuances, net of forfeitures	346,177	—	—	—	—	—	—
Amortization of deferred stock-based compensation costs	—	—	708	—	—	—	708
Redemption and retirement of shares	(279,519)	—	(717)	—	—	—	(717)
Other comprehensive income (loss)	—	—	—	3,680	(15,132)	(182)	(11,634)
Balance at September 30, 2018	15,372,542	$ —	$ 212,808	$ 1,502	$ (261,772)	$ (276)	$ (47,738)

See accompanying notes.

Table of Contents

Atlanticus Holdings Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	For the Nine Months Ended September 30,	
	2018	2017
Operating activities		
Net loss	$(15,314)	$(22,522)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and accretion, net	698	789
(Net recovery of) losses upon charge off of loans and fees receivable recorded at fair value	2,396	(10,763)
Provision for losses on loans and fees receivable	65,265	50,484
Interest expense from accretion of discount on notes	661	592
Income from accretion of discount associated with receivables purchases	(55,445)	(41,961)
Unrealized gain on loans and fees receivable and underlying notes payable held at fair value	(5,617)	(4,504)
Amortization of deferred loan costs	1,131	628
Income from equity-method investments	(491)	(902)
Changes in assets and liabilities:		
(Increase) decrease in uncollected fees on earning assets	(6,744)	12,206
Decrease in income tax liability	(9,417)	(4,084)
(Increase) decrease in deposits	(237)	199
(Decrease) increase in accounts payable and accrued expenses	(5,680)	21,846
Other	27,143	(14,023)
Net cash used in operating activities	(1,651)	(12,015)
Investing activities		
Proceeds from equity-method investees	1,883	2,882
Investments in earning assets	(429,899)	(335,664)
Proceeds from earning assets	352,948	282,064
Purchases and development of property, net of disposals	(193)	(229)
Net cash used in investing activities	(75,261)	(50,947)
Financing activities		
Noncontrolling interests contributions, net	—	7
Proceeds from exercise of stock options	32	—
Purchase and retirement of outstanding stock	(717)	(286)
Proceeds from borrowings	337,565	243,945
Repayment of borrowings	(271,715)	(176,417)
Net cash provided by financing activities	65,165	67,249
Effect of exchange rate changes on cash	494	313
Net (decrease) increase in cash and cash equivalents	(11,253)	4,600
Cash and cash equivalents at beginning of period	70,658	92,641
Cash and cash equivalents at end of period	$59,405	$97,241
Supplemental cash flow information		

Cash paid for interest	$25,528	$19,214
Net cash income tax payments	$4,684	$238
Supplemental non-cash information		
Issuance of stock options and restricted stock	$678	$1,364
Notes payable associated with capital leases	$—	$—

See accompanying notes.

Atlanticus Holdings Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

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 through partner relationships. 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 that includes retail point-of-sale, direct mail solicitation and partnerships with third parties. Using our infrastructure and technology platform, we also provide loan servicing, 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 historical credit card receivables. One of our historical 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.

Table of Contents

Additionally, we report within our Credit and Other Investments segment: *1*) the income earned from an investment in an equity-method investee that holds credit card receivables for which we are the servicer; and *2*) gains or losses 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. *None* of these companies are publicly-traded and there are *no* material pending liquidity events.

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.

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 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.

7

Table of Contents

Loans and Fees Receivable

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

We show both an allowance for uncollectible loans and fees receivable and unearned fees (or “deferred revenue”) for our loans and fees receivable (i.e., as opposed to those carried 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 attributes for 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. These reserves are considered in conjunction with (and potentially reduced by) any unearned fees and discounts that *may* be applicable for an outstanding loan receivable. A considerable amount of judgment is required to assess the ultimate amount of uncollectible loans and fees receivable, and we continuously evaluate and update our methodologies to determine the most appropriate allowance necessary. We *may* individually evaluate a receivable or pool of receivables for impairment if circumstances indicate that the receivable or pool of receivables *may* be at higher risk for non-performance than other receivables (e.g., if a particular retail or auto-finance partner has indications of non-performance (such as a bankruptcy) that could impact the underlying pool of receivables we purchased from the partner).

As of *September 30, 2018* and *December 31, 2017,* the weighted average remaining accretion period for the *$40.6* million and *$37.0* 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:

For the three months ended September 30, 2018	**Credit Cards**	**Auto Finance**	**Other Unsecured Lending Products**	**Total**
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	$ *(19.9*)	$ *(1.5*)	$ *(33.4*)	$ *(54.8*)
Provision for loan losses	*(14.0*)	*0.3*	*(19.1*)	*(32.8*)
Charge offs	*7.4*	*0.4*	*13.1*	*20.9*
Recoveries	*(0.2*)	*(0.2*)	*(1.2*)	*(1.6*)
Balance at end of period	$ *(26.7*)	$ *(1.0*)	$ *(40.6*)	$ *(68.3*)

For the nine months ended September 30, 2018	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	$(18.2)	$ (2.3)	$ (42.5)	$(63.0)
Provision for loan losses	(29.1)	0.6	(36.8)	(65.3)
Charge offs	20.9	1.4	42.3	64.6
Recoveries	(0.3)	(0.7)	(3.6)	(4.6)
Balance at end of period	$(26.7)	$ (1.0)	$ (40.6)	$(68.3)

8

Table of Contents

As of September 30, 2018	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)	$ —	$(0.1)
Balance at end of period collectively evaluated for impairment	$(26.7)	$ (0.9)	$ (40.6)	$(68.2)
Loans and fees receivable:				
Loans and fees receivable, gross	$146.8	$ 85.3	$ 248.8	$480.9
Loans and fees receivable individually evaluated for impairment	$—	$ 0.2	$ 0.1	$0.3
Loans and fees receivable collectively evaluated for impairment	$146.8	$ 85.1	$ 248.7	$480.6

For the three months ended September 30, 2017	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	$ (3.2)	$ (2.0)	$ (36.0)	$(41.2)
Provision for loan losses	(6.2)	(0.2)	(17.7)	(24.1)
Charge offs	0.7	0.5	13.2	14.4
Recoveries	(0.1)	(0.3)	(0.8)	(1.2)
Balance at end of period	$ (8.8)	$ (2.0)	$ (41.3)	$(52.1)

For the nine months ended September 30, 2017	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	$ (1.4)	$ (2.1)	$ (39.8)	$(43.3)
Provision for loan losses	(8.1)	(1.0)	(41.4)	(50.5)
Charge offs	1.9	2.1	42.2	46.2
Recoveries	(1.2)	(1.0)	(2.3)	(4.5)
Balance at end of period	$ (8.8)	$ (2.0)	$ (41.3)	$(52.1)

Table of Contents

As of December 31, 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	$—	$ *(0.2*)	$ *(0.2*)	$*(0.4*)
Balance at end of period collectively evaluated for impairment	$*(18.2*)	$ *(2.1*)	$ *(42.3*)	$*(62.6*)
Loans and fees receivable:				
Loans and fees receivable, gross	$*87.2*	$ *77.8*	$ *228.9*	$*393.9*
Loans and fees receivable individually evaluated for impairment	$—	$ *0.4*	$ *0.2*	$*0.6*
Loans and fees receivable collectively evaluated for impairment	$*87.2*	$ *77.4*	$ *228.7*	$*393.3*

An aging of our delinquent loans and fees receivable, gross (in millions) by class of receivable as of *September 30, 2018* and *December 31, 2017* is as follows:

As of September 30, 2018	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
30-59 days past due	$*4.6*	$ *7.6*	$ *9.0*	$*21.2*
60-89 days past due	*4.1*	*2.2*	*7.6*	*13.9*
90 or more days past due	*9.1*	*1.5*	*16.7*	*27.3*
Delinquent loans and fees receivable, gross	*17.8*	*11.3*	*33.3*	*62.4*
Current loans and fees receivable, gross	*129.0*	*74.0*	*215.5*	*418.5*
Total loans and fees receivable, gross	$*146.8*	$ *85.3*	$ *248.8*	$*480.9*
Balance of loans greater than 90-days delinquent still accruing interest and fees	$—	$ *1.3*	$ —	$*1.3*

As of December 31, 2017	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
30-59 days past due	$ *3.2*	$ *6.4*	$ *9.0*	$*18.6*
60-89 days past due	*3.3*	*2.1*	*7.1*	*12.5*
90 or more days past due	*4.9*	*1.9*	*15.7*	*22.5*
Delinquent loans and fees receivable, gross	*11.4*	*10.4*	*31.8*	*53.6*
Current loans and fees receivable, gross	*75.8*	*67.4*	*197.1*	*340.3*
Total loans and fees receivable, gross	$ *87.2*	$ *77.8*	$ *228.9*	$*393.9*
Balance of loans greater than 90-days delinquent still accruing interest and fees	$ —	$ *1.6*	$ —	$*1.6*

Troubled Debt Restructurings. As part of ongoing collection efforts, once an account in our Credit and Other Investments segment is *90* days or more past due, the account is placed on a non-accrual status. Placement on a

non-accrual status results in the elimination of the annual percentage rate (*“APR”)* charged to an account and a cessation of fee billing. Following this adjustment, if a customer demonstrates a willingness and ability to resume making monthly payments and meets certain additional criteria, we will re-age the customer’s account. When we re-age an account, we adjust the status of the account to bring a delinquent account current, but generally do *not* make any further modifications to the payment terms or amount owed. Once an account is placed on a non-accrual status, it is closed for further purchases. Accounts that are placed on a non-accrual status and thereafter make at least *one* payment qualify as troubled debt restructurings (“TDRs”).

Table of Contents

The following table details by class of receivable, the number and amount of modified loans, including TDRs that have been re-aged, as of *September 30, 2018* and *December 31, 2017:*

	As of			
	September 30, 2018		December 31, 2017	
	Point-of-sale	Direct-to-consumer	Point-of-sale	Direct-to-consumer
Number of accounts on non-accrual status	*13,477*	*10,041*	*11,432*	*6,681*
Number of accounts on non-accrual status above that have been re-aged	*1,359*	*504*	*915*	*80*
Amount of receivables on non-accrual status (in thousands)	$*19,352*	$ *10,858*	$*17,169*	$ *7,067*
Amount of receivables on non-accrual status above that have been re-aged (in thousands)	$*2,541*	$ *524*	$*1,570*	$ *86*
Carrying value of receivables on non-accrual status (in thousands)	$*5,425*	$ *1,889*	$*4,247*	$ *1,173*
TDRs - Performing (carrying value, in thousands)*	$*3,306*	$ *1,129*	$*2,368*	$ *508*
TDRs - Nonperforming (carrying value, in thousands)*	$*2,119*	$ *760*	$*1,879*	$ *665*

*"TDRs - Performing" include accounts that are current on all amounts owed, while "TDRs - Nonperforming" include all accounts with past due amounts owed.

Given that the above TDRs have a high reserve rate prior to modification as TDRs, we do *not* separately reserve or impair these receivables outside of our general reserve process.

The following table details by class of receivable, the number of accounts and carrying value of loans that completed a modification (including those that were classified as TDRs) within the prior *twelve* months and subsequently charged off.

	Twelve Months Ended			
	September 30, 2018		September 30, 2017	
	Point-of-Sale	Direct-to-consumer	Point-of-Sale	Direct-to-consumer
Number of accounts	*6,027*	*3,088*	*5,400*	*1,003*
Loan balance at time of charge off (in thousands)	$*7,385*	$ *2,633*	$*5,113*	$ *1,581*

Prepaid Expenses and Other Assets

Prepaid expenses and other assets include amounts paid to *third* parties for marketing and other services as well as amounts owed to us by *third* parties. Prepaid amounts are expensed as the underlying related services are performed. Also included are (*1*) commissions paid associated with our various office leases which we amortize into

expense over the lease terms, (*2*) amounts due from a *third* party in respect of a servicing agreement totaling *$5.2* million as of *September 30, 2018, (3*) ongoing deferred costs associated with service contracts and (*4*) investments in consumer finance technology platforms carried at the lower of cost or market valuation.

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.

Income Taxes

We experienced a negative effective income tax expense rate of 0.8% for the three months ended September 30, 2018, and an effective income tax benefit rate of 23.6% for the nine months ended September 30, 2018; this compares to effective income tax benefit rates of 0.2% and 14.6% for the three and nine months ended September 30, 2017, respectively. Our negative effective income tax expense rate for the three months ended September 30, 2018 differs from the statutory rate, primarily due to the unfavorable effects of our (1) accruals of local, state and foreign income taxes, (2) accruals of interest on liabilities for uncertain tax positions and unpaid taxes, and (3) increase in our valuation allowance associated with net federal deferred tax assets that arose due to our net loss incurred in this period. A variety of factors influenced our effective income tax benefit rate for the nine months ended September 30, 2018, including (1) an increase in our valuation allowance for the net losses incurred during the period, (2) our accruals of local, state and foreign taxes, and (3) significant net reductions in our accruals of interest on liabilities for uncertain tax positions and unpaid taxes, primarily due to the favorable effects of our settlement in such period of the IRS examination of our 2008 tax return and the carryback of its resulting net operating losses to pre-2008 tax years. Our effective income tax benefit rates for the three and nine months ended September 30, 2017 were below the statutory rate principally due to (1) interest and penalties we accrued on unpaid federal tax liabilities and (2) our establishment of, and increases in, our valuation allowances during such periods against our net federal deferred tax assets that arose during such periods associated with our net loss incurred during such periods.

Table of Contents

We report income tax-related interest and penalties (including those associated with both our accrued liabilities for uncertain tax positions and unpaid tax liabilities) within our income tax benefit or expense line item on our consolidated statements of operations. We likewise report the reversal of income tax-related interest and penalties within such 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 nine months ended September 30, 2018, we accrued a net $0.2 million and $0.6 million of income tax-related interest and penalties, respectively. In June 2018, we reached a favorable settlement with the IRS concerning the level of our 2008 net operating losses eligible to be carried back to pre-2008 tax years for refunds. As a result, for the nine months ended September 30, 2018, we reduced income tax expense based on the reversal of $1.6 million of accrued interest on over-assessed taxes we will not be required to pay under the terms of our June 2018 settlement with the IRS, further background on which is set forth below.

In December 2014, we reached a settlement with the IRS concerning the tax treatment of net operating losses we incurred in 2007 and 2008 and carried back to obtain refunds of federal income taxes paid in earlier years dating back to 2003. At March 31, 2018 (i.e., prior to our June 2018 settlement with the IRS), our net unpaid income tax assessment associated with the December 2014 settlement was $7.4 million, such amount excluding unpaid interest and penalties on the tax assessment, the accruals for which aggregated $4.3 million at March 31, 2018. Prior to our filing amended return claims that, if accepted, would have eliminated the $7.4 million assessment (and corresponding interest and penalties) under a negotiated provision of the December 2014 IRS settlement, the IRS filed a lien (as is customarily the case), associated with the assessment. Subsequently, an IRS examination team denied our amended return claims, and we filed a protest with IRS Appeals. Following correspondence and conferences held with IRS Appeals, we received and accepted a settlement offer from IRS Appeals in June 2018 that reduced our $7.4 million net unpaid income tax assessment referenced above to $3.7 million. In July 2018, we paid $5.4 million to the IRS to cover the $3.7 million unpaid income tax assessment and most of the interest that had accrued thereon; subsequently, during the three months ended September 30, 2018, the IRS refunded $0.5 million of our $5.4 million payment. Accordingly, although we have paid all assessed income taxes related to this matter, we still have an outstanding accrued liability for some of the interest and for failure-to-pay penalties related to this matter. We are pursuing complete abatement of the failure-to-pay penalties and removal of the aforementioned lien.

Revenue Recognition and Revenue from Contracts with Customers

Consumer Loans, Including Past Due Fees

Consumer loans, including past due fees reflect interest income, including finance charges, and late fees on loans in accordance with the terms of the related customer agreements. Premiums and discounts paid or received associated with a loan are generally deferred and amortized over the average life of the related loans using the effective interest method. Finance charges and fees, net of amounts that we consider uncollectible, are included in loans and fees receivable and revenue when the fees are earned.

Fees and Related Income on Earning Assets

Fees and related income on earning assets primarily include: (*1*) fees associated with our credit products, including the receivables underlying our U.S. point-of-sale finance and direct-to-consumer activities, and our historical credit card receivables; (*2*) changes in the fair value of loans and fees receivable recorded at fair value; (*3*) changes in fair value of notes payable associated with structured financings recorded at fair value; (*4*) revenues associated with rent payments on rental merchandise; and (*5*) gains or losses associated with our investments in securities.

We assess fees on credit card accounts underlying our credit card receivables according to the terms of the related cardholder agreements and, except for annual membership fees, we recognize these fees as income when they are charged to the customers' accounts. We accrete annual membership fees associated with our credit card receivables into income on a straight-line basis over the cardholder privilege period. Similarly, fees on our other credit products are recognized when earned, which coincides with the time they are charged to the customer's account. Fees and related income on earning assets, net of amounts that we consider uncollectible, are included in loans and fees receivable and revenue when the fees are earned.

In periods where applicable, we accrue periodic billed rental amounts (net of allowances for uncollectible billings) into revenues over the rental period to which the billed amounts relate, and we defer recognition in revenues of any advanced customer rental payments until the rental period in which they are properly recognizable under the terms of the contract.

Table of Contents

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Fees on credit products	$6,823	$3,248	$17,226	$6,351
Changes in fair value of loans and fees receivable recorded at fair value	2,102	1,153	2,597	2,718
Changes in fair value of notes payable associated with structured financings recorded at fair value	577	259	3,020	1,786
Rental revenue	—	—	—	148
Other	34	(494)	1	(65)
Total fees and related income on earning assets	$9,536	$4,166	$22,844	$10,938

The above changes in the fair value of loans and fees receivable recorded at fair value category exclude the impact of current period charge offs associated with these receivables which are separately stated in Net (losses upon) 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.

Revenue from Contracts with Customers

In the *first* quarter of *2018,* we adopted Accounting Standards Update ("ASU") *No. 2014-09,* "Revenue from Contracts with Customers" under the modified retrospective transition method. We have determined that revenue from contracts with customers would primarily consist of interchange revenues in our Credit and Other Investments segment and servicing revenue and other customer-related fees in both our Credit and Other Investments segment and our Auto Finance segment. Revenue from these contracts with customers is included as a component of Other income on our consolidated statements of operations. Components (in thousands) of our revenue from contracts with customers is as follows:

Three months ended September 30, 2018	**Credit and Other Investments**	**Auto Finance**	**Total**
Interchange revenues, net [(1)]	$ 707	$ —	$707
Servicing income	122	260	382
Service charges and other customer related fees	174	17	191
Total Other income	$ 1,003	$ 277	$1,280

Nine months ended September 30, 2018	Credit and Other Investments	Auto Finance	Total
Interchange revenues, net [1]	$ 1,846	$ —	$1,846
Servicing income	862	784	1,646
Service charges and other customer related fees	288	51	339
Total Other income	$ 2,996	$ 835	$3,831

(1) Interchange revenue is presented net of customer reward expense.

Recent Accounting Pronouncements

In *June 2016,* the FASB issued 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 (known as the current expected credit loss model). 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. We are currently in the process of reviewing accounting interpretations, expected data requirements and necessary changes to our loss estimation methods, processes and systems. 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.

Table of Contents

In *February 2016,* the FASB issued ASU *No. 2016-02,* Leases, which requires lessees to recognize assets and liabilities for most leases and changes 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. Net future minimum lease payments totaled *$12.2* million as of *December 31, 2017.* 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 was effective for annual and interim periods beginning *January 1, 2018.* Most revenue associated with financial instruments, including interest income, loan origination fees and credit card fees, is outside the scope of the guidance. We adopted this standard as of *January 1, 2018* using the modified retrospective method of adoption. Our adoption of this standard did *not* 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 *September 30, 2018,* 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 other than the disclosure related to the sale of asset backed securities as described in Note 7, "Notes Payable".

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.

As of both *September 30, 2018* and *December 31, 2017,* 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 *nine* months ended *September 30, 2018* and *2017* 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.

Table of Contents

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

Three months ended September 30, 2018	**Credit and Other Investments**	**Auto Finance**	**Total**
Interest income:			
Consumer loans, including past due fees	$ *34,164*	$ *7,737*	$ *41,901*
Other	*51*	—	*51*
Total interest income	*34,215*	*7,737*	*41,952*
Interest expense	*(8,920*)	*(361*)	*(9,281*)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	$ *25,295*	$ *7,376*	$ *32,671*
Fees and related income on earning assets	$ *9,509*	$ *27*	$ *9,536*
Servicing income	$ *122*	$ *260*	$ *382*
Equity in loss of equity-method investees	$ *(49*)	$ —	$ *(49*)
(Loss) income before income taxes	$ *(19,079*)	$ *3,030*	$ *(16,049*)
Income tax benefit (expense)	$ *1,055*	$ *(1,176*)	$ *(121*)

Nine months ended September 30, 2018	**Credit and Other Investments**	**Auto Finance**	**Total**
Interest income:			
Consumer loans, including past due fees	$ *93,028*	$ *22,297*	$ *115,325*
Other	*137*	—	*137*
Total interest income	*93,165*	*22,297*	*115,462*
Interest expense	*(25,274*)	*(967*)	*(26,241*)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	$ *67,891*	$ *21,330*	$ *89,221*
Fees and related income on earning assets	$ *22,781*	$ *63*	$ *22,844*
Servicing income	$ *862*	$ *784*	$ *1,646*
Equity in income of equity-method investees	$ *491*	$ —	$ *491*
(Loss) income before income taxes	$ *(28,329*)	$ *8,282*	$ *(20,047*)
Income tax benefit (expense)	$ *6,694*	$ *(1,961*)	$ *4,733*
Total assets	$ *387,430*	$ *73,579*	$ *461,009*

Table of Contents

Three months ended September 30, 2017	**Credit and Other Investments**	**Auto Finance**	**Total**
Interest income:			
Consumer loans, including past due fees	$ *21,901*	$ *7,084*	$*28,985*
Other	*34*	—	*34*
Total interest income	*21,935*	*7,084*	*29,019*
Interest expense	*(6,998*)	*(270*)	*(7,268*)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	$ *14,937*	$ *6,814*	$*21,751*
Fees and related income on earning assets	$ *4,137*	$ *29*	$*4,166*
Servicing income	$ *831*	$ *203*	$*1,034*
Equity in income of equity-method investees	$ *164*	$ —	$*164*
(Loss) income before income taxes	$ *(16,547*)	$ *2,057*	$*(14,490*)
Income tax benefit (expense)	$ *655*	$ *(633*)	$*22*

Nine months ended September 30, 2017	**Credit and Other Investments**	**Auto Finance**	**Total**
Interest income:			
Consumer loans, including past due fees	$ *60,320*	$*21,137*	$*81,457*
Other	*178*	—	*178*
Total interest income	*60,498*	*21,137*	*81,635*
Interest expense	*(18,758*)	*(746*)	*(19,504*)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	$ *41,740*	$*20,391*	$*62,131*
Fees and related income on earning assets	$ *10,859*	$*79*	$*10,938*
Servicing income	$ *2,332*	$*652*	$*2,984*
Depreciation of rental merchandise	$ *(27*)	$—	$*(27*)
Equity in income of equity-method investees	$ *902*	$—	$*902*
(Loss) income before income taxes	$ *(32,071*)	$*5,702*	$*(26,369*)
Income tax benefit (expense)	$ *5,677*	$*(1,830*)	$*3,847*
Total assets	$ *363,526*	$*65,541*	$*429,067*

4. Shareholders' Equity

During the *three* and *nine* months ended *September 30, 2018,* we repurchased and contemporaneously retired *260,060* and *279,519* shares of our common stock at an aggregate cost of *$676,000* and *$717,000,* 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. During the *three* and *nine* months ended *September 30, 2017,* we repurchased and contemporaneously retired *107,916* and *114,618* shares of our common stock at an aggregate cost of *$268,000* and *$286,000,* 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 *September 30, 2018* and *December 31, 2017,* 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.

Table of Contents

5. Investment in Equity-Method Investee

Our equity-method investment outstanding at *September 30, 2018* 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 September 30, 2018	**December 31, 2017**
Loans and fees receivables, at fair value	$*4,151*	$ *6,123*
Total assets	$*4,298*	$ *6,392*
Total liabilities	$*20*	$ *26*
Members' capital	$*4,278*	$ *6,366*

	Three months ended September 30,		**Nine months ended September 30,**	
	2018	**2017**	**2018**	**2017**
Net interest income, fees and related income (loss) on earning assets	$*(73*)	$*607*	$*739*	$*1,111*
Net income (loss)	$*(135*)	$*511*	$*534*	$*908*
Net income (loss) attributable to our equity investment investee	$*(49*)	$*164*	$*491*	$*902*

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 *September 30, 2018* and *December 31, 2017* 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:

Assets – As of September 30, 2018 (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	$ —	$ —	$ *395,920*	$*372,018*
Loans and fees receivable, at fair value	$ —	$ —	$ *7,125*	$*7,125*

Assets – As of December 31, 2017 (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	$ —	$ —	$ *324,945*	$*293,972*
Loans and fees receivable, at fair value	$ —	$ —	$ *11,109*	$*11,109*

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

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.”

Table of Contents

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 *nine* months ended *September 30, 2018* and *2017:*

	Loans and Fees Receivables, at Fair Value	
	2018	**2017**
Balance at January 1,	$*11,109*	$*15,648*
Total gains—realized/unrealized:		
Net revaluations of loans and fees receivable, at fair value	*2,597*	*2,718*
Settlements	*(6,567*)	*(6,398*)
Impact of foreign currency translation	*(14*)	*51*
Balance at September 30,	$*7,125*	$*12,019*

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. The net revaluation of loans and fees receivable 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. Accrued interest income on receivables underlying our asset classes that are carried at fair value in our consolidated financial statements is recorded in Interest income - Consumer loans, including past due fees in our consolidated statements of operations.

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 *September 30, 2018* and *December 31, 2017:*

Quantitative Information about Level *3* Fair Value Measurements

Fair Value Measurements	**Unobservable Input**

	Fair Value at September 30, 2018 (in thousands)	Valuation Technique		Range (Weighted Average)
Loans and fees receivable, at fair value	$ *7,125*	Discounted cash flows	Gross yield	*25.8% to 30.0% (26.3%)*
			Principal payment rate	*2.3% to 3.3% (2.4%)*
			Expected credit loss rate	*9.3% to 11.0% (9.5%)*
			Servicing rate	*12.8% to 16.4% (13.3%)*
			Discount rate	*14.6% to 14.6% (14.6%)*

Table of Contents

Quantitative Information about Level *3* Fair Value Measurements

Fair Value Measurements	**Fair Value at December 31, 2017 (in thousands)**	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
Loans and fees receivable, at fair value	$ *11,109*	Discounted cash flows	Gross yield	*15.8% to 27.4% (24.5%)*
			Principal payment rate	*1.9% to 3.6% (2.6%)*
			Expected credit loss rate	*9.4% to 10.4% (9.7%)*
			Servicing rate	*10.2% to 12.3% (10.5%)*
			Discount rate	*6.0% to 14.2% (12.8%)*

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 *September 30, 2018* and *December 31, 2017* 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 September 30, 2018	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Carrying Amount of Liabilities**
Liabilities not carried at fair value				
Revolving credit facilities	$ —	$ —	$ *223,593*	$ *223,593*
Amortizing debt facilities	$ —	$ —	$ *69,705*	$ *69,705*
Senior secured term loan	$ —	$ —	$ *40,000*	$ *40,000*
5.875% convertible senior notes	$ —	$ *46,788*	$ —	$ *61,975*
Liabilities carried at fair value				

Notes payable associated with structured financings, at fair value	$ —	$ —	$ *6,220*	$ *6,220*

Liabilities - As of December 31, 2017	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Carrying Amount of Liabilities**
Liabilities not carried at fair value				
Revolving credit facilities	$ —	$ —	$ *160,854*	$ *160,854*
Amortizing debt facilities	$ —	$ —	$ *65,384*	$ *65,384*
Senior secured term loan	$ —	$ —	$ *40,000*	$ *40,000*
5.875% convertible senior notes	$ —	$ *43,588*	$ —	$ *61,393*
Liabilities carried at fair value				
Notes payable associated with structured financings, at fair value	$ —	$ —	$ *9,240*	$ *9,240*

Table of Contents

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 *nine* months ended *September 30, 2018* and *2017.*

	Notes Payable Associated with Structured Financings, at Fair Value	
	2018	**2017**
Beginning balance, January 1,	$*9,240*	$*12,276*
Total (gains) losses—realized/unrealized:		
Net revaluations of notes payable associated with structured financings, at fair value	*(3,020*)	*(1,786*)
Repayments on outstanding notes payable, net	—	*(721*)
Ending balance, September 30,	$*6,220*	$*9,769*

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.

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. The net revaluation of these notes 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. Accrued interest expense on notes payable underlying our notes payable associated with structured financings, at fair value is recorded in Interest expense in 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 *September 30, 2018* and *December 31, 2017:*

Quantitative Information about Level *3* Fair Value Measurements

Fair Value Measurements	Fair Value at September 30, 2018 (in thousands)	Valuation Technique	Unobservable Input	Weighted Average
Notes payable associated with structured financings, at fair value	$ *6,220*	Discounted cash flows	Gross yield	*25.8* %
			Principal payment rate	*2.3* %
			Expected credit loss rate	*9.3* %
			Discount rate	*14.6* %

Quantitative Information about Level *3* Fair Value Measurements

Fair Value Measurements	Fair Value at December 31, 2017 (in thousands)	Valuation Technique	Unobservable Input	Weighted Average
Notes payable associated with structured financings, at fair value	$ *9,240*	Discounted cash flows	Gross yield	*25.9* %
			Principal payment rate	*2.5* %
			Expected credit loss rate	*9.4* %
			Discount rate	*14.2* %

Table of Contents

Other Relevant Data

Other relevant data (in thousands) as of *September 30, 2018* and *December 31, 2017* concerning certain assets and liabilities we carry at fair value are as follows:

As of September 30, 2018	**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	$ *1,306*	$ *8,437*
Aggregate fair value of loans and fees receivable that are reported at fair value	$ *905*	$ *6,220*
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)	$ *2*	$ *7*
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	$ *26*	$ *218*

As of December 31, 2017	**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	$ *4,416*	$ *11,349*
Aggregate fair value of loans and fees receivable that are reported at fair value	$ *1,869*	$ *9,240*
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)	$ *5*	$ *17*

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	$ *107*	$ *369*

Notes Payable	**Notes Payable Associated with Structured Financings, at Fair Value as of September 30, 2018**	**Notes Payable Associated with Structured Financings, at Fair Value as of December 31, 2017**
Aggregate unpaid principal balance of notes payable	$ *101,314*	$ *101,314*
Aggregate fair value of notes payable	$ *6,220*	$ *9,240*

Table of Contents

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 *September 30, 2018* and *December 31, 2017,* (*2*) the outstanding face amount of our structured financing note secured by certain credit card receivables and reported at fair value as of *September 30, 2018* and *December 31, 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 *September 30, 2018* and *December 31, 2017.*

	Carrying Amounts at Fair Value as of	
	September 30, 2018	**December 31, 2017**
Amortizing securitization facility (stated maturity of December 2021), outstanding face amount of $101.3 million as of September 30, 2018 ($101.3 million as of December 31, 2017) bearing interest at a weighted average 7.3% interest rate at September 30, 2018 (6.7% at December 31, 2017), which is secured by credit card receivables and restricted cash aggregating $6.2 million as of September 30, 2018 ($9.2 million as of December 31, 2017) in carrying amount	$*6.2*	$ *9.2*

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 included 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 *$6.2* million in fair value of the structured financing facility included in the above table is *$6.2* million, which means that we have *no* aggregate exposure to pre-tax equity loss associated with the above structured financing arrangement at *September 30, 2018.*

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 structure, and we have *no* explicit or implicit arrangements that could require us to provide financial support to the structure.

22

Table of Contents

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

Other notes payable outstanding as of *September 30, 2018* and *December 31, 2017* 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 September 30, 2018	**December 31, 2017**
Revolving credit facilities at a weighted average interest rate equal to 9.8% at September 30, 2018 (7.8% at December 31, 2017) secured by the financial and operating assets of CAR and/or certain receivables and restricted cash with a combined aggregate carrying amount of $315.1 million as of September 30, 2018 ($216.0 million at December 31, 2017)		
Revolving credit facility, not to exceed $40.0 million (expiring November 1, 2019) (1)	*30.1*	*24.8*
Revolving credit facility, not to exceed $50.0 million (expiring October 30, 2019) (2) (3) (4)	*49.5*	*49.4*
Revolving credit facility, not to exceed $12.0 million (expiring December 21, 2019) (2) (3) (4)	*10.8*	*3.8*
Revolving credit facility, not to exceed $20.0 million (expiring December 31, 2019) (2) (3) (4)	*19.8*	*19.8*
Revolving credit facility, not to exceed $90.0 million (expiring February 8, 2022) (2) (5)	*47.0*	*65.0*
Revolving credit facility, not to exceed $100.0 million (expiring June 11, 2020) (2) (5)	*68.8*	—
Revolving credit facility, not to exceed $15.0 million (expiring June 25, 2020) (2) (3) (4)	*13.3*	*7.5*
Revolving credit facility, not to exceed $50.0 million (expiring September 19, 2021) (2) (3) (4)	*10.0*	—
Amortizing facilities at a weighted average interest rate equal to 6.7% at September 30, 2018 (6.0% at December 31, 2017) secured by certain receivables and restricted cash with a combined aggregate carrying amount of $61.2 million as of September 30, 2018 ($77.9 million as of December 31, 2017)		
Amortizing debt facility (repaid in March 2018) (2) (3) (6)	—	*3.7*
Amortizing debt facility (repaid in June 2018) (2) (3) (6)	—	*18.3*
Amortizing debt facility (repaid in September 2018) (2) (3)	—	*6.0*
Amortizing debt facility (expiring November 30, 2018) (2) (3) (4) (6)	*3.7*	*20.5*
Amortizing debt facility (expiring April 22, 2019) (2) (3) (4) (6)	*15.2*	*10.0*
Amortizing debt facility (expiring September 29, 2019) (2) (3) (4) (6)	*28.7*	—
Other facilities		
Senior secured term loan to related parties (expiring November 21, 2018) that is secured by certain assets of the Company with an annual rate equal to 9.0% (5)	*40.0*	*40.0*
Total notes payable before unamortized debt issuance costs and discounts	*336.9*	*268.8*
Unamortized debt issuance costs and discounts	*(3.6*)	*(2.6*)
Total notes payable outstanding	$*333.3*	$ *266.2*

(*1*) 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.

(*2*) 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.

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

(*4*) Loans were paid down subsequent to *September 30, 2018* as part of securitization discussed below.

(5) See below for additional information.

(6) Loans are comprised of *five* tranches with the same lenders. 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 was fully drawn with *$40.0* million outstanding as of *September 30, 2018.* In *November 2017,* the agreement was amended to extend the maturity date of the term loan to *November 21, 2018.* 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 21, 2018* (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 *$47.0* million was outstanding as of *September 30, 2018)* to an unaffiliated *third* party pursuant to a facility that can be drawn upon to the extent of outstanding eligible receivables. Interest rates on the notes range from *8.0%* to *14.0%.*

In *June 2018,* we (through a wholly owned subsidiary) expanded the above mentioned program to sell up to an additional *$100.0* million of notes which are secured by the receivables and other assets of the trust (of which *$68.8* million was outstanding as of *September 30, 2018)* to a separate unaffiliated *third* party pursuant to a facility that can be drawn upon to the extent of outstanding eligible receivables. Interest rates on the notes are based on commercial paper rates plus *4.25%.*

The facilities mature on *February 8, 2022* and *June 11, 2020,* respectively, and are 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 facilities also *may* be prepaid subject to payment of a prepayment or other fee.

In November 2018, we sold $167.3 million of asset backed securities (“ABS”) secured by certain retail point-of-sale receivables. A portion of the proceeds from the sale were used to pay-down our existing term and revolving facilities associated with our point-of-sale receivables, noted in the table above, and the remaining proceeds are available to fund the acquisition of future receivables. The terms of the ABS allow for a two-year revolving structure with a subsequent 18-month amortization period. The weighted average interest rate on the securities is 5.76%.

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*. The 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 convertible senior notes.

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

	As of September 30, 2018	**December 31, 2017**
Face amount of 5.875% convertible senior notes	$ *88,280*	$ *88,280*
Discount	*(26,305*)	*(26,887*)
Net carrying value	$ *61,975*	$ *61,393*
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 *$563.7* million at *September 30, 2018.* 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 *September 30, 2018,* CAR had unfunded outstanding floor-plan financing commitments totaling *$8.4* 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 *$9.9* million remains pledged as of *September 30, 2018* 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 *September 30, 2018,* 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, 2017.*

Litigation

See Note *11,* “Commitments and Contingencies” to the consolidated financial statements included in our Annual Report on Form *10*-K for the year ended *December 31, 2017* for information regarding outstanding litigation.

Additionally, we are involved in various other 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 Attributable to Controlling Interests Per Common Share

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net loss attributable to controlling interests	$*(16,092*)	$*(14,467*)	$*(15,132*)	$*(22,523*)
Denominator:				
Basic (including unvested share-based payment awards) (1)	*13,908*	*13,984*	*13,898*	*13,964*
Effect of dilutive stock compensation arrangements (2)	—	*13*	—	*23*
Diluted (including unvested share-based payment awards) (1)	*13,908*	*13,997*	*13,898*	*13,987*
Net loss attributable to controlling interests per common share—basic	$*(1.16*)	$*(1.04*)	$*(1.09*)	$*(1.61*)
Net loss attributable to controlling interests per common share—diluted	$*(1.16*)	$*(1.04*)	$*(1.09*)	$*(1.61*)

(*1*) Shares related to unvested share-based payment awards included in our basic and diluted share counts were *315,707* and *217,245,* respectively, for the *three* and *nine* months ended *September 30, 2018,* compared to *238,967* and *318,253,* respectively, for the *three* and *nine* months ended *September 30, 2017.*

(*2*) The effect of dilutive stock compensation arrangements is shown only for informational purposes where we are in 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 *nine* months ended *September 30, 2018* and *2017,* 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 convertible senior notes. However, in future reporting periods during which our closing stock price is above the *$24.61* conversion price for the 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 Second Amended and Restated Employee Stock Purchase Plan (the “ESPP”) and the Second Amended and Restated *2014* Equity Incentive Plan (the *“2014* Plan”). As of *September 30, 2018, 90,292* shares remained available for issuance under the ESPP and *732,826* shares remained

available for issuance under the *2014* Plan.

Exercises and vestings under our stock-based compensation plans resulted in *no* income tax-related charges to additional paid-in capital during the *three* and *nine* months ended *September 30, 2018* and *2017.*

Restricted Stock

During the *nine* months ended *September 30, 2018* and *2017,* we granted *346,177* and *102,000* shares of restricted stock (net of any forfeitures), respectively, with aggregate grant date fair values of *$0.6* million and *$0.3* million, respectively. We incurred expenses of *$0.3* million and *$0.6* million during the *nine* months ended *September 30, 2018* and *2017,* respectively, related to restricted stock 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 *September 30, 2018,* our unamortized deferred compensation costs associated with non-vested restricted stock awards were *$0.5* million with a weighted-average remaining amortization period of *2.5* years.

Table of Contents

Stock Options

Our *2014* Plan provides that we *may* grant options on or shares of our common stock (and other types of equity awards) to members of our Board of Directors, employees, consultants and advisors. The exercise price per share of the options must be equal to or greater than the market price on the date the option is granted. The option period *may not* exceed *10* years from the date of grant. The vesting requirements for options are determined by the Compensation Committee of the Board of Directors. We had expense of *$0.2* million, *$0.5* million, *$0.2* million and *$0.7* million related to stock option-related compensation costs during the *three* and *nine* months ended *September 30, 2018* and *2017,* 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. The table below includes additional information about outstanding options:

	September 30, 2018			
	Number of Shares	**Weighted-Average Exercise Price**	**Weighted-Average of Remaining Contractual Life (in years)**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2017	*2,619,334*	$ *3.04*		
Issued	*33,500*	$ *1.77*		
Exercised	*(14,000*)	$ *2.27*		
Cancelled/Forfeited	*(11,334*)	$ *3.04*		
Outstanding at September 30, 2018	*2,627,500*	$ *3.02*	*2.6*	$ *403,800*
Exercisable at September 30, 2018	*1,165,316*	$ *3.10*	*1.8*	$ *180,126*

We had *$0.5* million and *$0.9* million of unamortized deferred compensation costs associated with non-vested stock options as of *September 30, 2018* and *December 31, 2017,* 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, 2017, where certain terms 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 22-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, 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 retail point-of-sale, direct mail solicitation and partnerships with third parties. 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: (1) the income earned from an investment in an equity-method investee that holds credit card receivables for which we are the servicer; and (2) gains or losses 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. None of these companies are publicly-traded and there are no material pending liquidity events.

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.

Table of Contents

We believe that our 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. At this time, 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.

CONSOLIDATED RESULTS OF OPERATIONS

(In Thousands)	**For the Three Months Ended September 30,**		**Income Increases (Decreases) from 2017 to 2018**
	2018	**2017**	
Total interest income	$41,952	$29,019	$ 12,933
Interest expense	(9,281)	(7,268)	(2,013)
Fees and related income on earning assets:			
Fees on credit products	6,823	3,248	3,575
Changes in fair value of loans and fees receivable recorded at fair value	2,102	1,153	949
Changes in fair value of notes payable associated with structured financings recorded at fair value	577	259	318
Other	34	(494)	528

Other operating income:			
Servicing income	382	1,034	(652)
Other income	898	590	308
Equity in income (loss) of equity-method investee	(49)	164	(213)
Total	$43,438	$27,705	$ 15,733
Net losses upon (recovery of) charge off of loans and fees receivable recorded at fair value	1,957	(2,393)	(4,350)
Provision for losses on loans and fees receivable recorded at net realizable value	32,798	24,087	(8,711)
Other operating expenses:			
Salaries and benefits	5,838	5,589	(249)
Card and loan servicing	9,286	8,394	(892)
Marketing and solicitation	3,649	2,930	(719)
Depreciation	234	236	2
Other	5,725	3,352	(2,373)
Net loss	(16,170)	(14,468)	(1,702)
Net loss attributable to noncontrolling interests	78	1	77
Net loss attributable to controlling interests	(16,092)	(14,467)	(1,625)

Table of Contents

(In Thousands)	For the Nine Months Ended September 30, 2018	2017	Income Increases (Decreases) from 2017 to 2018
Total interest income	$115,462	$81,635	$ 33,827
Interest expense	(26,241)	(19,504)	(6,737)
Fees and related income on earning assets:			
Fees on credit products	17,226	6,351	10,875
Changes in fair value of loans and fees receivable recorded at fair value	2,597	2,718	(121)
Changes in fair value of notes payable associated with structured financings recorded at fair value	3,020	1,786	1,234
Rental revenue	—	148	(148)
Other	1	(65)	66
Other operating income:			
Servicing income	1,646	2,984	(1,338)
Other income	2,185	939	1,246
Equity in income of equity-method investee	491	902	(411)
Total	$116,387	$77,894	$ 38,493
Net losses upon (recovery of) charge off of loans and fees receivable recorded at fair value	2,396	(10,763)	(13,159)
Provision for losses on loans and fees receivable recorded at net realizable value	65,265	50,484	(14,781)
Other operating expenses:			
Salaries and benefits	17,738	17,102	(636)
Card and loan servicing	27,378	23,078	(4,300)
Marketing and solicitation	8,088	9,544	1,456
Depreciation	698	789	91
Other	14,871	14,029	(842)
Net loss	(15,314)	(22,522)	7,208
Net loss attributable to noncontrolling interests	182	(1)	183
Net loss attributable to controlling interests	(15,132)	(22,523)	7,391

Three and Nine Months Ended September 30, 2018, Compared to Three and Nine Months Ended September 30, 2017

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 $284.9 million as of September 30, 2017 to $395.6 million as of September 30, 2018. These increases were partially offset, however, by continued net liquidations of our historical credit card receivable portfolios over the past year. We are currently experiencing continued period-over-period growth in point-of-sale and direct-to-consumer receivables and to a lesser extent in our CAR receivables—growth which we expect to result in net period-over-period growth in our total interest income for these operations for the remainder of 2018 and early 2019. 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 and marketing 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 but are not expected to result in overall net declines in interest income period-over-period.

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. Outstanding notes payable associated with our point-of-sale and direct-to-consumer operations increased from $185.1 million as of September 30, 2017 to $266.8 million as of September 30, 2018. We anticipate additional debt financing over the next few quarters as we continue to acquire receivables, and as such, we expect our quarterly interest expense to be above that experienced in the prior periods for these operations.

Table of Contents

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

- increases in fees on credit products, primarily associated with growth in direct-to-consumer products and to a lesser degree by growth in point-of-sale finance products, offset somewhat by general net declines in historical credit card receivables; 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 direct-to-consumer fee income for the remainder of 2018 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 historical credit card receivables liquidations and associated debt amortizing repayments.

Servicing income. We earn servicing income by servicing loan portfolios for third parties (including our equity-method investee) in both our Credit and Other Investments segment and our Auto Finance segment. Additionally, we will receive periodic compensation for processing reimbursements to consumers with respect to one of our portfolios. 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 continued declines 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 previous 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 for the remainder of 2018. Also included within our other income category are gains or losses associated with investments previously made in consumer finance technology platforms carried at the lower of cost or market valuation.

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 losses upon (recovery of) 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 the three and nine months ended September 30, 2017 reflects the effects of reimbursements received in respect of one of our portfolios. In the three and nine months ended September 30, 2017, these reimbursements exceeded the charge-offs experienced within the portfolio during the period as the reimbursements are not directly associated with the timing of actual charge-offs. The timing of these reimbursements cannot be reliably determined and we currently do not expect that these reimbursements will result in a net recovery of losses upon charge-off for the remainder of 2018.

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 and nine months ended September 30, 2018 and 2017 primarily reflecting the effects of volume associated with point-of-sale and direct-to-consumer 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. Partially offsetting this increase was a reduction in our provision for loan losses for unearned fees and discounts that may be applicable for outstanding loan receivables and which would serve to reduce the financial impact of an eventual charge-off. The offsetting of unearned fees and discounts against our provision for losses resulted in an initial $3.3 million reduction in the provision recognized for the nine months ended September 30, 2018. 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 nine months ended September 30, 2018, relative to the three and nine months ended September 30, 2017, reflect the following:

- increases in card and loan servicing expenses in the three and nine months ended September 30, 2018 when compared to the three and nine months ended September 30, 2017 due to growth in receivables associated with our investments in point-of-sale and direct-to-consumer receivables which grew from $284.9 million outstanding to $395.6 million outstanding at September 30, 2017 and September 30, 2018, respectively, offset by the continued net liquidations in our historical credit card portfolios, the receivables of which declined from $18.2 million outstanding to $10.5 million outstanding at September 30, 2017 and September 30, 2018, respectively; offset by
- decreases in marketing and solicitation costs for the nine months ended September 30, 2018 primarily due to volume-related decreases in new accounts and the timing of solicitations during the first nine months of 2018. We expect increased origination and brand marketing support will result in modest overall increases in year-over-year costs (as was apparent for the three months ended September 30, 2018) during the remainder of 2018 although the frequency and timing of marketing efforts could result in reductions in quarter-over-quarter marketing costs; and
- increases in other expenses primarily related to realized translation gains and losses recognized during both periods.

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 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 relative to 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 ongoing 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 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.

Table of Contents

Income Taxes. We experienced a negative effective income tax expense rate of 0.8% for the three months ended September 30, 2018, and an effective income tax benefit rate of 23.6% for the nine months ended September 30, 2018; this compares to effective income tax benefit rates of 0.2% and 14.6% for the three and nine months ended September 30, 2017, respectively. Our negative effective income tax expense rate for the three months ended September 30, 2018 differs from the statutory rate, primarily due to the unfavorable effects of our (1) accruals of local, state and foreign income taxes, (2) accruals of interest on liabilities for uncertain tax positions and unpaid taxes, and (3) increase in our valuation allowance associated with net federal deferred tax assets that arose due to our net loss incurred in this period. A variety of factors influenced our effective income tax benefit rate for the nine months ended September 30, 2018, including (1) an increase in our valuation allowance for the net losses incurred during the period, (2) our accruals of local, state and foreign taxes, and (3) significant net reductions in our accruals of interest on liabilities for uncertain tax positions and unpaid taxes, primarily due to the favorable effects of our settlement in such period of the IRS examination of our 2008 tax return and the carryback of its resulting net operating losses to pre-2008 tax years. Our effective income tax benefit rates for the three and nine months ended September 30, 2017 were below the statutory rate principally due to (1) interest and penalties we accrued on unpaid federal tax liabilities and (2) our establishment of, and increases in, our valuation allowances during such periods against our net federal deferred tax assets that arose during such periods associated with our net loss incurred during such periods.

We report income tax-related interest and penalties (including those associated with both our accrued liabilities for uncertain tax positions and unpaid tax liabilities) within our income tax benefit or expense line item on our consolidated statements of operations. We likewise report the reversal of income tax-related interest and penalties within such 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 nine months ended September 30, 2018, we accrued a net $0.2 million and $0.6 million of income tax-related interest and penalties, respectively. In June 2018 we reached a favorable settlement with the IRS concerning the level of our 2008 net operating losses eligible to be carried back to pre-2008 tax years for refunds. As a result, for the nine months ended September 30, 2018, we reduced income tax expense based on the reversal of $1.6 million of accrued interest on over-assessed taxes we will not be required to pay under the terms of our June 2018 settlement with the IRS, further background on which is set forth below.

In December 2014, we reached a settlement with the IRS concerning the tax treatment of net operating losses we incurred in 2007 and 2008 and carried back to obtain refunds of federal income taxes paid in earlier years dating back to 2003. At March 31, 2018 (i.e., prior to our June 2018 settlement with the IRS), our net unpaid income tax assessment associated with the December 2014 settlement was $7.4 million, such amount excluding unpaid interest and penalties on the tax assessment, the accruals for which aggregated $4.3 million at March 31, 2018. Prior to our filing amended return claims that, if accepted, would have eliminated the $7.4 million assessment (and corresponding interest and penalties) under a negotiated provision of the December 2014 IRS settlement, the IRS filed a lien (as is customarily the case), associated with the assessment. Subsequently, an IRS examination team denied our amended return claims, and we filed a protest with IRS Appeals. Following correspondence and conferences held with IRS Appeals, we received and accepted a settlement offer from IRS Appeals in June 2018 that reduced our $7.4 million net unpaid income tax assessment referenced above to $3.7 million. In July 2018, we paid $5.4 million to the IRS to cover the $3.7 million unpaid income tax assessment and most of the interest that had accrued thereon; subsequently, during the three months ended September 30, 2018, the IRS refunded $0.5 million of our $5.4 million payment. Accordingly, although we have paid all assessed income taxes related to this matter, we still have an outstanding accrued liability for some of the interest and for failure-to-pay penalties related to this matter. We are pursuing complete abatement of the failure-to-pay penalties and removal of the aforementioned lien.

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 or annual fees on our direct-to-consumer receivables.

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 net losses upon (recovery of) 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.

Table of Contents

Managed Receivables

We make various references within our discussion of the Credit and Other Investments segment to our managed receivables. Historically, our managed receivables data included the current period results for our ownership in receivables, regardless of the manner of accounting. This included those receivables that are shown as Loans and fees receivable, gross on our consolidated balance sheet, the liquidating credit card portfolios underlying our Loans and fees receivable, at fair value on our consolidated balance sheet and those liquidating credit card portfolios underlying non-consolidated equity-method investees. In order to provide data that are more reflective of our current operations, we have changed our methodology for calculating managed receivables data to include only the performance of those receivables underlying consolidated subsidiaries and exclude from managed receivables data the performance of receivables held by our equity method investee. As the receivables underlying our equity method investee reflect a diminishing portion of our overall receivables base, we do not believe their inclusion or exclusion in the overall results is material. Additionally, we now calculate average managed receivables based on the quarter ending balances. In this report, we have calculated managed receivables and the related ratios for all periods presented in accordance with this new methodology.

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 our managed receivables because it provides 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 an understanding that: (1) 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; (2) our managed receivables data exclude non-consolidated receivables (3) the period-end and average managed receivables data include the face value of consolidated receivables which are accounted for under the fair value option; and (4) we exclude from our managed receivables data certain reimbursements received in respect of one of our portfolios which are included as a component of our net recovery of charge off of loans and fees receivable recorded at fair value line item on our consolidated statements of operations totaling approximately $0.4 million for the three months ended September 30, 2018, $1.7 million for the three months ended June 30, 2018, $2.9 million for the three months ended September 30, 2017, $1.1 million for the three months ended June 30, 2017, $8.6 million for the three months ended March 31, 2017, and $10.3 million for the three months ended December 31, 2016. 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.

A reconciliation of our Loans and fees receivable, at fair value to the assets underlying those receivables which are included in our managed receivables are as follows (in thousands):

	At or for the Three Months Ended							
	2018			2017				2016
	Sept. 30	Jun. 30	Mar. 31	Dec .31	Sept. 30	Jun. 30	Mar. 31	Dec .31
Loans and fees receivable, gross	10,504	13,790	15,557	16,601	18,180	20,102	21,922	24,229
Fair value adjustment	(3,379)	(5,504)	(6,144)	(5,492)	(6,161)	(7,332)	(8,331)	(8,581)
Loans and fees receivable, at fair value	7,125	8,286	9,413	11,109	12,019	12,770	13,591	15,648

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 allowance for uncollectible loans and fees receivable for 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, 2017.

Table of Contents

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							
	2018			2017				2016
	Sept. 30	Jun. 30	Mar. 31	Dec .31	Sept. 30	Jun. 30	Mar. 31	Dec .31
Period-end managed receivables	$406,057	$371,331	$337,848	$333,286	$303,080	$267,637	$247,569	$238,493
Percent 30 or more days past due	12.7 %	11.8 %	12.1 %	13.7 %	12.1 %	11.5 %	11.5 %	12.7 %
Percent 60 or more days past due	9.3 %	8.5 %	9.1 %	9.8 %	8.3 %	7.8 %	8.3 %	8.8 %
Percent 90 or more days past due	6.4 %	5.7 %	6.5 %	6.5 %	5.5 %	4.9 %	5.5 %	5.5 %
Averaged managed receivables	$388,694	$354,590	$335,567	$318,183	$285,359	$257,603	$243,031	$228,755
Total yield ratio	43.2 %	41.6 %	41.0 %	39.5 %	36.5 %	35.1 %	34.8 %	33.4 %
Combined gross charge-off ratio	19.7 %	22.4 %	24.2 %	20.1 %	18.2 %	21.1 %	22.4 %	20.1 %

The following tables present additional trends and data with respect to our current point-of-sale (“Retail”) and direct-to-consumer operations (“Direct”) (dollars in thousands) included in the table above. Results of our historical credit card receivables portfolios are excluded:

	Retail - At or for the Three Months Ended							
	2018			2017				2016
	Sept. 30	Jun. 30	Mar. 31	Dec .31	Sept. 30	Jun. 30	Mar. 31	Dec .31
Period-end managed receivables	$238,851	$223,873	$207,231	$206,877	$193,403	$180,830	$161,876	$141,261
Percent 30 or more days past due	13.4 %	12.4 %	12.6 %	14.0 %	14.0 %	12.3 %	11.8 %	13.4 %
	9.8 %	8.8 %	9.4 %	10.1 %	9.9 %	8.4 %	8.6 %	9.6 %

Percent 60 or more days past due								
Percent 90 or more days past due	6.9 %	5.8 %	6.8 %	7.2 %	6.9 %	5.6 %	6.1 %	6.4 %
Average APR	24.7 %	24.8 %	24.2 %	24.2 %	26.7 %	26.7 %	26.5 %	26.3 %
Receivables purchased during period	$70,860	$74,391	$60,932	$64,036	$59,293	$65,786	$64,617	$60,118

35

Table of Contents

	Direct - At or for the Three Months Ended							
	2018			2017				2016
	Sept. 30	Jun. 30	Mar. 31	Dec .31	Sept. 30	Jun. 30	Mar. 31	Dec .31
Period-end managed receivables	$156,702	$133,668	$115,060	$109,808	$91,497	$66,705	$63,771	$73,003
Percent 30 or more days past due	12.1 %	11.5 %	12.2 %	12.9 %	8.3 %	9.3 %	10.8 %	10.8 %
Percent 60 or more days past due	8.9 %	8.5 %	9.2 %	9.1 %	5.0 %	6.2 %	7.4 %	6.9 %
Percent 90 or more days past due	6.0 %	5.9 %	6.4 %	5.3 %	2.7 %	3.4 %	3.8 %	3.6 %
Average APR	27.6 %	27.2 %	26.9 %	27.5 %	28.5 %	28.0 %	27.8 %	28.3 %
Receivables purchased during period	$48,729	$48,966	$33,747	$38,338	$38,005	$15,051	$5,782	$5,602

The following discussion relates to the tables above.

Managed receivables levels. We experienced overall quarterly growth for the last eight quarters related to our current product offerings with over $110.7 million in net receivables growth associated with our point-of-sale and direct-to-consumer products from September 30, 2017 to September 30, 2018. The continued growth of large point-of-sale retail partners and ongoing purchases of receivables from existing retail partners during 2017 and 2018 facilitated the continued growth of our point-of-sale receivables into the third quarter of 2018. Similarly, our direct-to-consumer acquisitions continued to grow into the third quarter of 2018 as we acquired additional receivables during that period. Towards the end of 2016, we changed the product mix of direct-to-consumer receivables we purchased such that new receivable acquisitions in this business line decreased for the last quarter of 2016 and the first quarter of 2017. While we expect continued quarterly growth in our managed receivables balances for all of our products for the remainder of 2018, 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 or timing of acquisition of new retail partnerships could adversely affect new loan acquisition levels. In the third quarter of 2018, our top five retail partnerships accounted for over 54% of the above referenced Retail receivables purchased during the period.

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 with the younger average age of the newer originations in 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 reviewing delinquency rates. These rates exclude receivables that have been charged off.

As we continue to invest in our newer point-of-sale and direct-to-consumer receivables, our delinquency rates have increased when compared to the same periods in prior years. This is largely a result of the risk profiles (and corresponding expected returns) for these receivables. 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. This trend can be seen in periods of large growth in the charts above which result in lower delinquency rates. 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, we expect to continue to see seasonal payment patterns on these receivables which impact our delinquencies. 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 also will continue to result in higher charge-off and delinquency rates than those experienced historically. Our fourth quarter 2017 total yield ratio excludes the impact of our $2.1 million write-down of the carrying value associated with a previous investment in a consumer finance technology platform.

We expect total yield ratios to continue to fluctuate somewhat based on the relative mix of growth in point-of-sale receivables and our higher yielding direct-to-consumer credit card receivables as well as the timing of this growth during the period. This growth will be offset somewhat by the continued liquidation and thus reduced impacts of our historical loans and fees receivable, at fair value.

Table of Contents

Combined gross 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. 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.

Growth within point-of-sale finance and direct-to-consumer receivables has resulted in increases in our charge-off rates over time. Our recent combined gross 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 these receivables reached peak charge off periods in the fourth quarter of 2016 but continued to negatively impact the first and second quarters of 2017. Additionally, 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 negatively impacting the combined gross charge-off ratio in the fourth quarter of 2016 and the first and second quarters of 2017. Our fourth quarter 2017 and first quarter 2018 combined gross charge-off ratios reflect further significant investments during the second and third quarters in 2017 in direct-to-consumer receivables, which reached their peak charge off periods during the fourth quarter of 2017 and first quarter of 2018. Second and third quarter 2018 declines in the gross charge-off ratio are reflective of this as well and are also indicative of some of the seasonal delinquency benefits discussed above.

The 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 continued elevated charge off rates when compared to historical results, given the following: (1) higher expected charge off rates on the point-of-sale and direct-to-consumer receivables corresponding with higher yields on these product offerings, (2) continued testing of receivables with higher risk profiles, which could lead to periodic increases in combined gross 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. Further impacting our charge-off rates are the timing of solicitations which serve to minimize charge off rates in periods of high receivable acquisitions but also exacerbate charge-off rates in periods of lower receivable acquisitions.

Average APR. Our average annual percentage rate ("APR") charged to customers varies by receivable type, credit history and other factors. The APR for receivables in our point-of-sale operations range from 9.99% to 36.0%. For our direct-to-consumer receivables, APR ranges from 19.99% to 36.0%. We have experienced minor fluctuations in our average APR based on the relative product mix of receivables purchased during a period. We currently expect average APRs in 2018 to remain consistent with the average APRs we have experienced over the past several quarters; however, these expectations are largely dependent on the timing and relative mix of receivables acquired.

Receivables purchased during period. Receivables purchased during the period reflect the gross amount of investments we have made in a given period, net of any credits issued to consumers during that same period. For most periods presented, our point-of-sale receivable purchases experienced overall growth throughout the periods presented largely based on the addition of new point-of-sale retail partners, as previously discussed. We may experience periodic declines in these acquisitions due to: the loss of one or more retail partners; seasonal purchase activity by consumers; or the timing of new customer originations by our lending partners. We currently expect to see slight increases in receivable acquisitions when compared to the same period in prior years. Our direct-to-consumer receivable acquisitions tend to have more volatility based on the issuance of new credit card accounts by our banking partner and the availability of capital to fund new purchases. Nonetheless, we expect continued growth in the acquisition of these receivables for the remainder of 2018 and into 2019.

Auto Finance Segment

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

Table of Contents

Collectively, as of September 30, 2018, we served more than 590 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.

Similar to changes in the managed calculation above, the average managed receivables used in the ratios below is now calculated based on the quarter ending balances of consolidated receivables. In this report, we have calculated managed receivables and the related ratios for all periods presented in accordance with this new methodology.

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							
	2018			**2017**				**2016**
	Sept. 30	**Jun. 30**	**Mar. 31**	**Dec .31**	**Sept. 30**	**Jun. 30**	**Mar. 31**	**Dec .31**
Period-end managed receivables	$85,338	$83,872	$78,436	$77,213	$74,923	$76,387	$72,121	$76,433
Percent 30 or more days past due	13.3 %	10.8 %	8.8 %	12.8 %	13.0 %	11.7 %	10.0 %	14.2 %
Percent 60 or more days past due	4.3 %	3.6 %	3.3 %	5.0 %	5.0 %	4.0 %	4.2 %	5.4 %
Percent 90 or more days past due	1.7 %	1.4 %	1.6 %	2.4 %	2.2 %	1.4 %	2.1 %	2.4 %
Average managed receivables	$84,605	$81,154	$77,825	$76,068	$75,655	$74,254	$74,278	$75,029
Total yield ratio	37.9 %	38.2 %	37.9 %	37.9 %	38.8 %	39.2 %	39.3 %	39.5 %
Combined gross charge-off ratio	0.9 %	0.5 %	2.1 %	3.0 %	1.1 %	2.5 %	2.5 %	2.8 %

Recovery ratio	0.9 %	1.0 %	1.5 %	1.5 %	1.7 %	2.0 %	1.6 %	1.6 %

Managed receivables. We expect modest growth in the level of our managed receivables when compared to the same periods in prior years in both the U.S. and U.S. territories as CAR expands within its existing locations and continues plans for service area expansion. 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 partners' competition with more traditional franchise dealerships for consumers interested in purchasing automobiles. Managed receivable levels are higher in each period of 2018 when compared to the same period in 2017 primarily due to the acquisition of new dealer relationships which has resulted in the ability to purchase higher levels of auto receivables.

Delinquencies. Current delinquency levels are consistent with our expectations for levels in the near term with some improvement noted in the first and second quarter of 2018 due to a shift in the underlying mix of receivables held that, under certain conditions, require participating dealers to guarantee the performance of the underlying receivables. Delinquency rates also 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. 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 various products offered by CAR as some shorter term product offerings tend to have higher yields. 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 and the relative mix of receivables in our various product offerings. Additionally, our product offerings in the U.S. territories tend to have slightly lower yields than those offered in the U.S. As such, continued growth in that region also will serve to slightly depress our overall total yield ratio, yet we expect growth in that region to continue to generate attractive returns on assets.

Table of Contents

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 the above table 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 although as indicated above, the timing of individual dealer-related losses is difficult to predict. 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 (as appropriate for each applicable disclosed segment) the: 1) finance charge and late fee income billed on all consolidated outstanding receivables and the amortization of the accretable yield component of our acquisition discounts for portfolio purchases, collectively included in the consumer loans, including past due fees category on our consolidated statements of income; plus 2) credit card fees (including over-limit fees, cash advance fees, returned check fees and interchange income), earned, amortized amounts of annual membership fees and activation fees with respect to certain credit card receivables, collectively included in our fees and related income on earning assets category on our consolidated statements of income; plus 3) servicing, other income and other activities collectively included in our other operating income category on our consolidated statements of income. The denominator used represents our average managed receivables.

Combined gross charge-off ratio. Represents an annualized fraction, the numerator of which is the aggregate consolidated 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 related portion of unamortized discounts, as reflected in Note 2 "Significant Accounting Policies and Consolidated Financial Statement Components-Loans and Fees Receivable", 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.

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.

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 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.

Table of Contents

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 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 September 30, 2018 are those associated with the following notes payable in the amounts indicated (in millions):

Revolving credit facility (expiring October 30, 2019) that is secured by certain receivables and restricted cash	$49.5
Revolving credit facility (expiring November 1, 2019) that is secured by the financial and operating assets of our CAR operations	30.1
Revolving credit facility (expiring December 31, 2019) that is secured by certain receivables and restricted cash	19.8
Revolving credit facility (expiring December 21, 2019) that is secured by certain receivables and restricted cash	10.8
Revolving credit facility (expiring June 11, 2020) that is secured by certain receivables and restricted cash	68.8
Revolving credit facility (expiring June 25, 2020) that is secured by certain receivables and restricted cash	13.3
Senior secured term loan from related parties (expiring November 21, 2018) that is secured by certain assets of the Company with annual interest rate equal to 9.0%	40.0
Total	$232.3

Further details concerning the above debt facilities and our convertible senior notes 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 $47.0 million was outstanding as of September 30, 2018) to an unaffiliated third party pursuant to a facility that can be drawn upon to the extent of outstanding eligible receivables.

In June 2018, we (through a wholly owned subsidiary) expanded the above mentioned program to sell up to an additional $100.0 million of notes which are secured by the receivables and other assets of the trust (of which $68.8 million was outstanding as of September 30, 2018) to a separate unaffiliated third party pursuant to a facility that can be drawn upon to the extent of outstanding eligible receivables.

The facilities mature on February 8, 2022 and June 11, 2020, respectively, and are 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 facilities also may be prepaid subject to payment of a prepayment or other fee.

In November 2018, we sold $167.3 million of asset backed securities (“ABS”) secured by certain retail point-of-sale receivables. A portion of the proceeds from the sale were used to pay-down our existing term and revolving facilities associated with our point-of-sale receivables and the remaining proceeds are available to fund the acquisition of future receivables. The terms of the ABS allow for a two-year revolving structure with a subsequent 18-month amortization period. The weighted average interest rate on the securities is 5.76%. See Note 7 "Notes Payable" to our consolidated financial statements included herein for further information.

Table of Contents

At September 30, 2018, we had $29.3 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 three and nine months ended September 30, 2018 and 2017 are as follows:

- During the nine months ended September 30, 2018, we used $1.7 million of cash flows from operations compared to the use of $12.0 million of cash flows from operations during the nine months ended September 30, 2017. The decrease in cash used for operating activities was principally related to reimbursements received in the second quarter of 2018 in respect of one of our portfolios as well as the timing of payments to consumers with respect to the same portfolio in prior periods.
- During the nine months ended September 30, 2018, we used $75.3 million of cash from our investing activities, compared to use of $50.9 million of cash from investing activities during the nine months ended September 30, 2017. This increase is primarily due to: 1) the shrinking size of our historical credit card receivables, resulting in lower corresponding payments from consumers; and 2) increasing levels of investments for 2018 in the point-of-sale and direct-to-consumer receivables relative to the same period in 2017 and which we expect to continue to make throughout 2018 and 2019. Slightly offsetting this increase in cash used by investing activities are returns on our aforementioned investments in point-of-sale and direct-to-consumer receivables which contributed positively to our cash generated from investing activities.
- During the nine months ended September 30, 2018, we generated $65.2 million of cash in financing activities, compared to our generating $67.2 million of cash in financing activities during the nine months ended September 30, 2017. 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. Further discussions related to our financings are found in Note 7, "Notes Payable."

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 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 10, 2018, we are authorized to repurchase an additional 5,000,000 million shares of our common stock through June 30, 2020.

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, 2017.

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.

Table of Contents

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.

Revenue Recognition

Consumer Loans, Including Past Due Fees

Consumer loans, including past due fees reflect interest income, including finance charges, and late fees on loans in accordance with the terms of the related customer agreements. Premiums and discounts paid or received associated with a loan are generally deferred and amortized over the average life of the related loans using the effective interest method. Finance charges and fees, net of amounts that we consider uncollectible, are included in loans and fees receivable and revenue when the fees are earned.

Fees and Related Income on Earning Assets

Fees and related income on earning assets primarily include: (1) fees associated with our credit products, including the receivables underlying our U.S. point-of-sale finance and direct-to-consumer activities, and our historical credit card receivables; (2) changes in the fair value of loans and fees receivable recorded at fair value; (3) changes in fair value of notes payable associated with structured financings recorded at fair value; (4) revenues associated with rent payments on rental merchandise; and (5) gains or losses associated with our investments in securities.

We assess fees on credit card accounts underlying our credit card receivables according to the terms of the related cardholder agreements and, except for annual membership fees, we recognize these fees as income when they are charged to the customers' accounts. We accrete annual membership fees associated with our credit card receivables into income on a straight-line basis over the cardholder privilege period. Similarly, fees on our other credit products are recognized when earned, which coincides with the time they are charged to the customer's account. Fees and related income on earning assets, net of amounts that we consider uncollectible, are included in loans and fees receivable and revenue when the fees are earned.

In periods where applicable, we accrue periodic billed rental amounts (net of allowances for uncollectible billings) into revenues over the rental period to which the billed amounts relate, and we defer recognition in revenues of any advanced customer rental payments until the rental period in which they are properly recognizable under the terms of the contract.

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 statements 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. These inputs are considered in conjunction with (and potentially reduced by) any unearned fees and discounts that may be applicable for an outstanding loan receivable. 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, 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 $26,629 and $26,103 for 2017 and 2016, respectively. The aggregate amount of payments required under the sublease from January 1, 2018 to the expiration of the sublease in May 2022 is $124,087.

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 nine months ended September 30, 2018 and 2017, we received $204,379 and $197,563, 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 an amount of up to $40.0 million at any time outstanding. The Loan and Security Agreement was fully drawn with $40.0 million outstanding as of September 30, 2018. In November 2017, the agreement was amended to extend the maturity date of the term loan to November 21, 2018. 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 21, 2018 (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.

Table of Contents

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; 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; 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 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," "can," "coul "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;
- 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 Securities Exchange Act of 1934, as amended (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 September 30, 2018, 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

See Part I, Item 3 “Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2017 for information regarding outstanding litigation.

Additionally, we are involved in various other legal proceedings that are incidental to the conduct of our business. There are currently no other 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, 2017. 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 Presidential Administration supports 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 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.

Table of Contents

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 point-of-sale and direct-to-consumer receivables.

48

Table of Contents

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 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;
- 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.

Table of Contents

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.

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 party to 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 2017, we paid Total System Services, Inc. $4.7 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. 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. 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 all 50 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;

Table of Contents

- 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;
- 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.

Table of Contents

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 September 30, 2018, Atlanticus Holdings Corporation had outstanding: $307.0 million of secured indebtedness, which would rank senior in right of payment to the convertible senior notes; $95.1 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 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 September 30, 2018, our subsidiaries had total liabilities of approximately $388.4 million (including the $307.0 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.**

Table of Contents

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

ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth information with respect to our repurchases of common stock during the three months ended September 30, 2018.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs (1)(2)
July 1 - July 31	10,571	$ 1.93	10,571	4,980,931
August 1 - August 31	222,781	$ 2.59	214,415	4,766,516
September 1 - September 30	26,708	$ 2.95	26,708	4,739,808
Total	260,060	$ 2.60	251,694	4,739,808

(1) Because withholding tax-related stock repurchases are permitted outside the scope of our 5,000,000 share Board-authorized repurchase plan, these amounts exclude shares of stock returned to us by employees in satisfaction of withholding tax requirements on vested stock grants. There were 8,366 such shares returned to us during the three months ended September 30, 2018.

(2) Pursuant to a share repurchase plan authorized by our Board of Directors on May 10, 2018, we are authorized to repurchase 5,000,000 shares of our common stock through June 30, 2020.

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
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

November 14, 2018 By /s/ WILLIAM R. McCAMEY
William R. McCamey
Chief Financial Officer
(duly authorized officer and principal financial officer)