

Atlanticus Holdings Corp  
Form 10-Q  
May 12, 2016  
Table of Contents

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

For the quarterly period ended March 31, 2016

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").

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

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

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

Atlanticus is a smaller reporting company and is not a shell company.

As of May 6, 2016, 13,797,058 shares of common stock, no par value, of Atlanticus were outstanding. This excludes 1,459,233 loaned shares to be returned.

Table of Contents

Table of Contents

Page

PART I. FINANCIAL  
INFORMATION

Item 1.	Financial Statements (Unaudited) Consolidated Balance Sheets Consolidated Statements of Operations Consolidated Statements of Comprehensive Income Consolidated Statements of Equity Consolidated Statements of Cash Flows Notes to Consolidated Financial Statements Management's Discussion and Analysis of	<u>1</u>  <u>1</u>  <u>2</u>  <u>3</u>  <u>4</u>  <u>5</u>  <u>6</u>     <u>24</u>
Item 2.	Financial Condition and Results of Operations Quantitative and Qualitative	<u>40</u>
Item 3.	Disclosures About Market Risk	<u>40</u>
Item 4.	Controls and Procedures	<u>40</u>

Part II. OTHER INFORMATION

Item 1.	Legal Proceedings	<u>40</u>
Item 1A.	Risk Factors	<u>40</u>
Item 2.	Unregistered Sales of Equity Securities and	<u>50</u>

	Use of Proceeds	
	Defaults Upon	
Item 3.	Senior Securities	<u>50</u>
Item 4.	Mine Safety Disclosure	<u>50</u>
Item 5.	Other Information	<u>50</u>
Item 6.	Exhibits	<u>51</u>
	Signatures	<u>52</u>

Table of Contents

## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## Atlanticus Holdings Corporation and Subsidiaries

## Consolidated Balance Sheets (Unaudited)

(Dollars in thousands)

	March 31, 2016	December 31, 2015
Assets		
Unrestricted cash and cash equivalents	\$48,855	\$ 51,033
Restricted cash and cash equivalents	18,180	20,547
Loans and fees receivable:		
Loans and fees receivable, net (of \$17,649 and \$16,721 in deferred revenue and \$19,919 and \$21,474 in allowances for uncollectible loans and fees receivable at March 31, 2016 and December 31, 2015, respectively)	151,661	141,949
Loans and fees receivable, at fair value	6,275	6,353
Loans and fees receivable pledged as collateral under structured financings, at fair value	17,461	20,353
Rental merchandise, net of depreciation	1,832	4,666
Property at cost, net of depreciation	4,948	5,686
Investment in equity-method investee	9,525	10,123
Deposits	620	825
Prepaid expenses and other assets	19,958	19,194
Total assets	\$279,315	\$ 280,729
Liabilities		
Accounts payable and accrued expenses	\$57,621	\$ 51,722
Notes payable, at face value	80,834	90,000
Notes payable to related parties	20,000	20,000
Notes payable associated with structured financings, at fair value	18,069	20,970
Convertible senior notes	64,910	64,783
Income tax liability	22,276	22,303
Total liabilities	263,710	269,778
Commitments and contingencies (Note 9)		
Equity		
Common stock, no par value, 150,000,000 shares authorized: 15,331,727 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at March 31, 2016; and 15,332,041 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at December 31, 2015	—	—
Additional paid-in capital	210,881	211,083
Accumulated other comprehensive loss	(300 )	(600 )
Retained deficit	(194,971 )	(199,524 )
Total shareholders' equity	15,610	10,959
Noncontrolling interests	(5 )	(8 )
Total equity	15,605	10,951
Total liabilities and equity	\$279,315	\$ 280,729

See accompanying notes.



Table of Contents

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

	For the Three Months Ended March 31,	
	2016	2015
Interest income:		
Consumer loans, including past due fees	\$18,148	\$17,443
Other	92	32
Total interest income	18,240	17,475
Interest expense	(4,644 )	(4,557 )
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	13,596	12,918
Fees and related income on earning assets	7,887	13,219
Net recovery of charge off of loans and fees receivable recorded at fair value	4,911	10,372
Provision for losses on loans and fees receivable recorded at net realizable value	(4,731 )	(3,168 )
Net interest income, fees and related income on earning assets	21,663	33,341
Other operating income:		
Servicing income	1,447	1,560
Other income	70	267
Equity in income of equity-method investee	1,002	1,075
Total other operating income	2,519	2,902
Other operating expense:		
Salaries and benefits	5,732	4,120
Card and loan servicing	8,988	10,271
Marketing and solicitation	855	486
Depreciation, primarily related to rental merchandise	4,156	12,846
Other	(299 )	7,172
Total other operating expense	19,432	34,895
Income before income taxes	4,750	1,348
Income tax (expense) benefit	(198 )	618
Net income	4,552	1,966
Net loss attributable to noncontrolling interests	1	1
Net income attributable to controlling interests	\$4,553	\$1,967
Net income attributable to controlling interests per common share—basic	\$0.33	\$0.14
Net income attributable to controlling interests per common share—diluted	\$0.33	\$0.14

See accompanying notes.

Table of Contents

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

	For the Three Months Ended March 31,	
	2016	2015
Net income	\$4,552	\$1,966
Other comprehensive income (loss):		
Foreign currency translation adjustment	—	(443 )
Reclassifications of foreign currency translation adjustment to consolidated statements of operations	300	1,535
Income tax (expense) benefit related to other comprehensive income (loss)	—	(319 )
Comprehensive income	4,852	2,739
Comprehensive loss attributable to noncontrolling interests	1	1
Comprehensive income attributable to controlling interests	\$4,853	\$2,740

See accompanying notes.

Table of Contents

Atlanticus Holdings Corporation and Subsidiaries  
Consolidated Statements of Equity  
For the Three Months Ended March 31, 2016 (Unaudited)  
(Dollars in thousands)

	Common Stock		Additional		Accumulated	Retained	Noncontrolling	Total
	Shares	Amount	Paid-In	Other	Comprehensive	Deficit	Interests	Equity
	Issued		Capital	Loss				
Balance at December 31, 2015	15,332,041	\$	—\$211,083	\$ (600 )		\$(199,524)	\$ (8 )	\$10,951
Compensatory stock issuances, net of forfeitures	122,667	—	—	—	—	—	—	—
Contributions from owners of noncontrolling interests	—	—	—	—	—	—	4	4
Amortization of deferred stock-based compensation costs	—	—	206	—	—	—	—	206
Redemption and retirement of shares	(122,981 )	—	(371 )	—	—	—	—	(371 )
Tax effects of stock-based compensation plans	—	—	(37 )	—	—	—	—	(37 )
Other comprehensive income	—	—	—	300	4,553	(1 )		4,852
Balance at March 31, 2016	15,331,727	\$	—\$210,881	\$ (300 )		\$(194,971)	\$ (5 )	\$15,605

See accompanying notes.



Table of Contents

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

	For the Three Months Ended March 31, 2016	2015	
Operating activities			
Net income	\$ 4,552	\$ 1,966	
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation of rental merchandise	3,379	12,253	
Depreciation, amortization and accretion, net	777	529	
Losses upon charge off of loans and fees receivable recorded at fair value	1,682	1,739	
Provision for losses on loans and fees receivable	4,731	3,168	
Interest expense from accretion of discount on convertible senior notes	127	116	
Income from accretion of discount associated with receivables purchases	(9,610)	(9,375)	)
Unrealized gain on loans and fees receivable and underlying notes payable held at fair value	(3,063)	(869)	)
Income from equity-method investments	(1,002)	(1,075)	)
Changes in assets and liabilities:			
Decrease (increase) in uncollected fees on earning assets	76	(16)	)
Decrease in income tax liability	(64)	(674)	)
Decrease in deposits	205	563	
Increase (decrease) in accounts payable and accrued expenses	6,403	(3,344)	)
Additions to rental merchandise	(546)	(8,433)	)
Other	1,123	(5,720)	)

Edgar Filing: Atlanticus Holdings Corp - Form 10-Q

Net cash provided by (used in) operating activities	8,770		(9,172	)
Investing activities				
Decrease in restricted cash	2,352		5,033	
Proceeds from equity-method investee	1,600		2,471	
Investments in earning assets	(77,041	)	(60,586	)
Proceeds from earning assets	73,704		72,745	
Purchases and development of property, net of disposals	(40	)	(359	)
Net cash provided by investing activities	575		19,304	
Financing activities				
Noncontrolling interests contributions	4		(2	)
(distributions), net				
Purchase and retirement of outstanding stock	(371	)	(54	)
Proceeds from borrowings	26,345		23,132	
Repayment of borrowings	(37,249	)	(40,974	)
Net cash used in financing activities	(11,271	)	(17,898	)
Effect of exchange rate changes on cash	(252	)	(764	)
Net decrease in unrestricted cash	(2,178	)	(8,530	)
Unrestricted cash and cash equivalents at beginning of period	51,033		39,925	
Unrestricted cash and cash equivalents at end of period	\$ 48,855		\$ 31,395	
Supplemental cash flow information				
Cash paid for interest	\$ 5,894		\$ 5,909	
Net cash income tax payments	\$ 262		\$ 62	
Supplemental non-cash information				
Issuance of stock options and restricted stock	\$ 1,549		\$ 234	

See accompanying notes.



Table of Contents

Atlanticus Holdings Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
March 31, 2016 and 2015

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 services. Through our subsidiaries, we offer an array of financial products and services to consumers who may have been declined under traditional financing options. 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 originate consumer loans through multiple channels, including retail point-of-sale, direct solicitation and most recently through testing of domestic credit card originations through third-party financial institutions. These products are all offered through our Fortiva brand. In our Fortiva Retail Credit (our "point-of-sale" operations) channel, we partner with retailers and service providers in various industries across the United States ("U.S.") to provide credit to their customers for the purchase of goods and services. These services are often extended to customers who may have been declined under traditional financing options. We specialize in providing this "second look" credit service in various industries across the U.S. Additionally, we are able to market our general purpose Fortiva Personal Loans and Fortiva Credit Cards (collectively, our "direct-to-consumer" operations) directly to consumers through additional channels enabling us to reach consumers through a diverse origination platform which includes direct mail, Internet-based marketing and through partnerships.

Using our infrastructure and technology platform, we also provide loan servicing activities, including underwriting, marketing, customer service and collections operations for third parties.

Beyond these activities within our Credit and Other Investments segment, we continue to collect on portfolios of credit card receivables. These receivables include both receivables we originated through third-party financial institutions and portfolios of receivables we purchased from third-party financial institutions. One of our portfolios of credit card receivables is encumbered by non-recourse structured financing, and for this portfolio our principal remaining economic interest is the servicing compensation we receive as an offset against our servicing costs given that the likely future collections on the portfolio are insufficient to allow for full repayment of the financing.

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

Lastly, we report within our Credit and Other Investments segment gains associated with investments previously made in consumer finance technology platforms. These include investments in companies engaged in mobile technologies, marketplace lending and other financial technologies. These investments are carried at the lower of cost or market valuation as of March 31, 2016. Some of these investees have raised, and continue to seek, capital at valuations substantially in excess of our associated book value. However, none of these companies are publicly-traded, there are no pending liquidity events, and ascribing value to these investments at this time would be speculative. Based on the performance and/or marketability of these investments in future periods, we could have material gains for our remaining ownership in these or other investment assets.

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”), under which we are required 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

Table of Contents

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

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

**Loans and Fees Receivable**

Our loans and fees receivable include: (1) loans and fees receivable, net; (2) loans and fees receivable, at fair value; and (3) loans and fees receivable pledged as collateral under structured financings, at fair value.

Components of our loans and fees receivable, net (in millions) are as follows:

	Balance at December 31, 2015	Additions	Subtractions	Balance at March 31, 2016
Loans and fees receivable, gross	\$ 180.1	\$ 91.8	\$ (82.7 )	\$ 189.2
Deferred revenue	(16.7 )	(10.5 )	9.6	(17.6 )
Allowance for uncollectible loans and fees receivable	(21.5 )	(4.7 )	6.3	(19.9 )
Loans and fees receivable, net	\$ 141.9	\$ 76.6	\$ (66.8 )	\$ 151.7

	Balance at December 31, 2014	Additions	Subtractions	Balance at March 31, 2015
Loans and fees receivable, gross	\$ 141.6	\$ 76.3	\$ (77.7 )	\$ 140.2
Deferred revenue	(15.7 )	(10.5 )	9.4	(16.8 )
Allowance for uncollectible loans and fees receivable	(20.0 )	(3.2 )	7.6	(15.6 )
Loans and fees receivable, net	\$ 105.9	\$ 62.6	\$ (60.7 )	\$ 107.8

As of March 31, 2016 and March 31, 2015, the weighted average remaining accretion period for the \$17.6 million and \$16.8 million, respectively, of deferred revenue reflected in the above tables was 11 months for both periods presented.

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

	Credit Auto Cards	Finance	Other Unsecured Lending Products	Total
For the Three Months Ended March 31, 2016				
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	\$(1.2)	\$(1.7 )	\$(18.6 )	\$(21.5)

Edgar Filing: Atlanticus Holdings Corp - Form 10-Q

Provision for loan losses	0.2	(0.6	) (4.3	) (4.7	)
Charge offs	0.4	0.8	6.6	7.8	
Recoveries	(0.7	) (0.3	) (0.5	) (1.5	)
Balance at end of period	\$(1.3)	\$ (1.8	) \$ (16.8	) \$(19.9)	

7

---

Table of Contents

As of March 31, 2016	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at end of period individually evaluated for impairment	\$—	\$ (0.1 )	\$ (0.8 )	\$ (0.9 )
Balance at end of period collectively evaluated for impairment	\$(1.3)	\$(1.7 )	\$(16.0 )	\$(19.0 )
Loans and fees receivable:				
Loans and fees receivable, gross	\$4.5	\$76.4	\$108.3	\$189.2
Loans and fees receivable individually evaluated for impairment	\$—	\$0.1	\$0.9	\$1.0
Loans and fees receivable collectively evaluated for impairment	\$4.5	\$76.3	\$107.4	\$188.2

For the Three Months Ended March 31, 2015	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	\$(2.7)	\$(1.2 )	\$(16.1 )	\$(20.0)
Provision for loan losses	(0.5 )	(0.2 )	(2.5 )	(3.2 )
Charge offs	1.4	0.5	6.5	8.4
Recoveries	(0.1 )	(0.3 )	(0.4 )	(0.8 )
Balance at end of period	\$(1.9)	\$(1.2 )	\$(12.5 )	\$(15.6)

As of December 31, 2015	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 )	\$ (1.3 )	\$ (1.4 )
Balance at end of period collectively evaluated for impairment	\$(1.2)	\$(1.6 )	\$(17.3 )	\$(20.1 )
Loans and fees receivable:				
Loans and fees receivable, gross	\$5.2	\$76.0	\$98.9	\$180.1
Loans and fees receivable individually evaluated for impairment	\$—	\$0.2	\$1.5	\$1.7
Loans and fees receivable collectively evaluated for impairment	\$5.2	\$75.8	\$97.4	\$178.4



## Table of Contents

The components (in millions) of loans and fees receivable, gross as of the date of each of our consolidated balance sheets are as follows:

	March 31, December 31,	
	2016	2015
Current loans receivable	\$ 164.6	\$ 150.0
Current fees receivable	3.8	4.5
Delinquent loans and fees receivable	20.8	25.6
Loans and fees receivable, gross	\$ 189.2	\$ 180.1

An aging of our delinquent loans and fees receivable, gross (in millions) by class of receivable as of March 31, 2016 and December 31, 2015 is as follows:

	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Balance at March 31, 2016				
30-59 days past due	\$ 0.2	\$ 4.6	\$ 3.2	\$8.0
60-89 days past due	0.2	1.6	2.5	4.3
90 or more days past due	0.5	1.7	6.3	8.5
Delinquent loans and fees receivable, gross	0.9	7.9	12.0	20.8
Current loans and fees receivable, gross	3.6	68.5	96.3	168.4
Total loans and fees receivable, gross	\$ 4.5	\$ 76.4	\$ 108.3	\$189.2
Balance of loans 90 or more days past due and still accruing interest and fees	\$ —	\$ 1.5	\$ —	\$1.5

	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Balance at December 31, 2015				
30-59 days past due	\$ 0.2	\$ 6.9	\$ 4.4	\$11.5
60-89 days past due	0.1	2.2	3.1	5.4
90 or more days past due	0.4	1.8	6.5	8.7
Delinquent loans and fees receivable, gross	0.7	10.9	14.0	25.6
Current loans and fees receivable, gross	4.5	65.1	84.9	154.5
Total loans and fees receivable, gross	\$ 5.2	\$ 76.0	\$ 98.9	\$180.1
Balance of loans 90 or more days past due and still accruing interest and fees	\$ —	\$ 1.5	\$ —	\$1.5

## Income Taxes

We experienced an effective income tax expense rate of 4.2% for the three months ended March 31, 2016 compared to a negative effective income tax expense rate of 45.8% for the three months ended March 31, 2015. Our effective income tax expense rate for the three months ended March 31, 2016 differs from the statutory rate principally based on income of our U.K. subsidiary that is not subject to tax in the U.S. and the U.K. tax on which was fully offset by the release of U.K. valuation allowances. Our negative effective income tax expense rate for the three months ended March 31, 2015 resulted principally from a favorable effective settlement we reached with the Internal Revenue Service (“IRS”) in February 2015 relative to accruals for uncertain tax positions and interest accruals thereon associated with our 2012 income tax return.

We report potential accrued interest and penalties related to 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 such accrued interest and penalties within the income tax benefit or

expense line item to the extent that we resolve our liabilities for uncertain tax positions or our unpaid tax liabilities in a manner favorable to our accruals therefor. During the three months ended March 31, 2016, our income tax expense includes \$0.2 million accrued for

## Table of Contents

income tax-related interest and penalties. During the three months ended March 31, 2015, there was no effect of income tax-related interest and penalties on our income tax expense.

In December 2014, we reached a settlement with the IRS concerning the tax treatment of net operating losses that we incurred in 2007 and 2008 and carried back to obtain refunds of federal income taxes paid in earlier years dating back to 2003. Our net unpaid income tax assessment associated with that settlement was \$7.3 million at March 31, 2016; this amount excludes unpaid interest and penalties on the tax assessment, the accruals for which aggregated \$2.9 million at March 31, 2016. The IRS is currently examining amended return claims we have made, which, if ultimately approved by the IRS, would eliminate the \$7.3 million assessment and cause the reversal of the \$2.9 million accrual we have made for interest and penalties thereon.

## Fees and Related Income on Earning Assets

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

	Three months ended March 31,	
	2016	2015
Fees on credit products	\$799	\$2,174
Changes in fair value of loans and fees receivable recorded at fair value	1,898	1,231
Changes in fair value of notes payable associated with structured financings recorded at fair value	1,165	(362 )
Rental revenue	4,214	10,109
Other	(189 )	67
Total fees and related income on earning assets	\$7,887	\$13,219

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

## Recent Accounting Pronouncements

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

In February 2016, the FASB issued ASU No. 2016-02, Leases, which would require lessees to recognize assets and liabilities for most leases, changing certain aspects of current lessor accounting, among other things. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. We have not yet determined the potential effects of adopting ASU 2016-02 on our consolidated financial statements.

In April 2015, the FASB issued updated authoritative guidance related to debt issuance costs. The amendment modifies the presentation of unamortized debt issuance costs to present such amounts as a direct deduction from the face amount of the debt, similar to unamortized debt discounts and premiums, rather than as an asset. Amortization of the debt issuance costs continues to be reported as interest expense. The guidance was effective for us beginning January 1, 2016. The impact of adoption of this authoritative guidance did not result in a material impact on our consolidated financial statements.

Table of Contents

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 establishes a principles-based model under which revenue from a contract is allocated to the distinct performance obligations within the contract and recognized in income as each performance obligation is satisfied. Additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract is also required. In August 2015, the FASB delayed the effective date by one year and the guidance will now be effective for annual and interim periods beginning January 1, 2018 and early adoption is permitted. We do not plan to early adopt the guidance. We have not yet determined the potential effects of the adoption of ASU 2014-09 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 March 31, 2016, and based on our evaluation we did not identify any recognized or nonrecognized subsequent events that would have required further adjustments to our consolidated financial statements.

## 3. Segment Reporting

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

As of both March 31, 2016 and December 31, 2015, we did not have a material amount of long-lived assets located outside of the U.S., and only a negligible portion of our first quarter 2016 and 2015 revenues were generated outside of the U.S.

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

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

Three months ended March 31, 2016	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	\$ 11,185	\$ 6,963	\$ 18,148
Other	92	—	92
Total interest income	11,277	6,963	18,240
Interest expense	(4,337)	(307)	(4,644)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	\$ 6,940	\$ 6,656	\$ 13,596
Fees and related income on earning assets	\$ 7,829	\$ 58	\$ 7,887
Servicing income	\$ 1,192	\$ 255	\$ 1,447

Edgar Filing: Atlanticus Holdings Corp - Form 10-Q

Depreciation of rental merchandise	\$ (3,379 )	\$ —	\$(3,379 )
Equity in income of equity-method investee	\$ 1,002	\$ —	\$1,002
Income before income taxes	\$ 3,326	\$1,424	\$4,750
Income tax benefit (expense)	\$ 317	\$(515 )	\$(198 )
Total assets	\$ 210,211	\$69,104	\$279,315

Table of Contents

Three months ended March 31, 2015	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	\$ 10,720	\$6,723	\$17,443
Other	32	—	32
Total interest income	10,752	6,723	17,475
Interest expense	(4,251)	(306)	(4,557)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	\$ 6,501	\$6,417	\$12,918
Fees and related income on earning assets	\$ 13,073	\$146	\$13,219
Servicing income	\$ 1,359	\$201	\$1,560
Depreciation of rental merchandise	\$ (12,253)	\$—	\$ (12,253)
Equity in income of equity-method investee	\$ 1,075	\$—	\$1,075
(Loss) income before income taxes	\$ (579)	\$1,927	\$1,348
Income tax benefit (expense)	\$ 1,248	\$(630)	\$618
Total assets	\$ 183,219	\$66,550	\$249,769

## 4. Shareholders' Equity

## Retired Shares

During the three months ended March 31, 2016 and 2015, we repurchased and contemporaneously retired 122,981 and 21,807 shares of our common stock at an aggregate cost of \$371,000 and \$54,000, 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 March 31, 2016 and December 31, 2015, 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.

## 5. Investment in Equity-Method Investee

Our equity-method investment outstanding at March 31, 2016 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) combined balance sheet and results of operations data for our equity-method investee:

	As of	
	March 31, 2016	December 31, 2015
Loans and fees receivable pledged as collateral under structured financings, at fair value	\$13,603	\$ 14,470
Total assets	\$14,334	\$ 15,237
Total liabilities	\$48	\$ 54
Members' capital	\$14,286	\$ 15,183





Table of Contents

	Three months ended March 31,	
	2016	2015
Net interest income, fees and related income on earning assets	\$1,512	\$1,617
Net income	\$1,360	\$1,407
Net income attributable to our equity investment in investee	\$1,002	\$1,075

## 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 March 31, 2016 and December 31, 2015 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 March 31, 2016 (1)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Assets
Loans and fees receivable, net for which it is practicable to estimate fair value	\$	—\$	—\$ 170,430	\$151,661
Loans and fees receivable, at fair value	\$	—\$	—\$ 6,275	\$6,275
Loans and fees receivable pledged as collateral, at fair value	\$	—\$	—\$ 17,461	\$17,461

Assets – As of December 31, 2015 (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	\$	—\$	—\$ 161,199	\$141,949
Loans and fees receivable, at fair value	\$	—\$	—\$ 6,353	\$6,353
Loans and fees receivable pledged as collateral, at fair value	\$	—\$	—\$ 20,353	\$20,353

(1) For cash, deposits and other short-term investments (including our investments in rental merchandise), 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 three months ended March 31, 2016 and March 31, 2015:

	Loans and Fees Receivable, at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings, at Fair Value	Total
Balance at January 1, 2016	\$ 6,353	\$ 20,353	\$ 26,706
Total gains—realized/unrealized:			
Net revaluations of loans and fees receivable pledged as collateral under structured financings, at fair value	—	316	316
Net revaluations of loans and fees receivable, at fair value	1,582	—	1,582
Settlements, net	(1,595 )	(3,208 )	(4,803 )
Impact of foreign currency translation	(65 )	—	(65 )
Balance at March 31, 2016	\$ 6,275	\$ 17,461	\$ 23,736
Balance at January 1, 2015	\$ 18,255	\$ 34,905	\$ 53,160
Total gains—realized/unrealized:			
Net revaluations of loans and fees receivable pledged as collateral under structured financings, at fair value	—	1,215	1,215
Net revaluations of loans and fees receivable, at fair value	16	—	16
Settlements, net	(4,675 )	(5,377 )	(10,052 )
Impact of foreign currency translation	(449 )	—	(449 )
Balance at March 31, 2015	\$ 13,147	\$ 30,743	\$ 43,890

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

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

For Level 3 assets carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents (in thousands) quantitative information about the valuation techniques and the inputs used in the fair value measurement as of March 31, 2016 and December 31, 2015:

# Table of Contents

## Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at March 31, 2016	Valuation Technique	Unobservable Input	Range (Weighted Average)(1)
Loans and fees receivable, at fair value	\$6,275	Discounted cash flows	Gross yield	24.4% to 27.7% (25.6%)
			Principal payment rate	2.6% to 3.0% (2.8%)
			Expected credit loss rate	11.0% to 24.0% (15.7%)
			Servicing rate	7.2% to 7.8% (7.6%)
			Discount rate	16.1% to 16.2% (16.1%)
Loans and fees receivable pledged as collateral under structured financings, at fair value	\$17,461	Discounted cash flows	Gross yield	25.3 %
			Principal payment rate	2.7 %
			Expected credit loss rate	11.6 %
			Servicing rate	7.2 %
			Discount rate	16.1 %

## Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at December 31, 2015	Valuation Technique	Unobservable Input	Range (Weighted Average)(1)
Loans and fees receivable, at fair value	\$ 6,353	Discounted cash flows	Gross yield	15.8% to 22.7% (20.0%)
			Principal payment rate	2.1% to 3.0% (2.7%)
			Expected credit loss rate	12.9% to 22.7% (16.7%)
			Servicing rate	8.4% to 12.5% (10.9%)
			Discount rate	16.0% to 16.2% (16.1%)
Loans and fees receivable pledged as collateral under structured financings, at fair value	\$ 20,353	Discounted cash flows	Gross yield	28.5 %
			Principal payment rate	2.9 %
			Expected credit loss rate	12.5 %
			Servicing rate	12.9 %
			Discount rate	16.0 %

(1) Our loans and fees receivable, pledged as collateral under structured financings, at fair value consist of a single portfolio with one set of assumptions. As such, no range is given.

Table of Contents

## Valuations and Techniques for Liabilities

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the liability. The table below summarizes (in thousands) by fair value hierarchy the March 31, 2016 and December 31, 2015 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 March 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Inputs (Level 3)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Liabilities
Liabilities not carried at fair value					
CAR revolving credit facility	\$	—\$ —		\$ 29,900	\$ 29,900
Amortizing debt facilities	\$	—\$ —		\$ 50,934	\$ 50,934
Senior secured term loan	\$	—\$ —		\$ 20,000	\$ 20,000
5.875% convertible senior notes	\$	—\$ 42,093		\$ —	\$ 64,910
Liabilities carried at fair value					
Economic sharing arrangement liability	\$	—\$ —		\$ 34	\$ 34
Notes payable associated with structured financings, at fair value	\$	—\$ —		\$ 18,069	\$ 18,069

Liabilities - As of December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Inputs (Level 3)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Liabilities
Liabilities not carried at fair value					
CAR revolving credit facility	\$	—\$ —		\$ 28,900	\$ 28,900
Amortizing debt facilities	\$	—\$ —		\$ 61,100	\$ 61,100
Senior secured term loan	\$	—\$ —		\$ 20,000	\$ 20,000
5.875% convertible senior notes	\$	—\$ 42,734		\$ —	\$ 64,783
Liabilities carried at fair value					
Economic sharing arrangement liability	\$	—\$ —		\$ 42	\$ 42
Notes payable associated with structured financings, at fair value	\$	—\$ —		\$ 20,970	\$ 20,970

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 three months ended March 31, 2016 and 2015.

Edgar Filing: Atlanticus Holdings Corp - Form 10-Q

	Notes Payable Associated with Structured Financings, at Fair Value	
	2016	2015
Beginning balance, January 1	\$ 20,970	\$ 36,511
Total (gains) losses—realized/unrealized:		
Net revaluations of notes payable associated with structured financings, at fair value	(1,165 )	362
Repayments on outstanding notes payable, net	(1,736 )	(4,579 )
Ending balance, March 31	\$ 18,069	\$ 32,294

Table of Contents

The unrealized gains and losses for liabilities within the Level 3 category presented in the tables 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.

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 March 31, 2016 and December 31, 2015:

## Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at March 31, 2016 (in Thousands)	Valuation Technique	Unobservable Input	Weighted Average
Notes payable associated with structured financings, at fair value	\$ 18,069	Discounted cash flows	Gross yield	25.3 %
			Principal payment rate	2.7 %
			Expected credit loss rate	11.6 %
			Discount rate	16.1 %

## Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at December 31, 2015 (in Thousands)	Valuation Technique	Unobservable Input	Weighted Average
Notes payable associated with structured financings, at fair value	\$ 20,970	Discounted cash flows	Gross yield	28.5 %
			Principal payment rate	2.9 %
			Expected credit loss rate	12.5 %
			Discount rate	16.0 %



Table of Contents

## Other Relevant Data

Other relevant data (in thousands) as of March 31, 2016 and December 31, 2015 concerning certain assets and liabilities we carry at fair value are as follows:

	Loans and Fees Receivable at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings at Fair Value
As of March 31, 2016		
Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value	\$ 6,989	\$ 22,947
Aggregate fair value of loans and fees receivable that are reported at fair value	\$ 6,275	\$ 17,461
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)	\$ 9	\$ 21
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	\$ 290	\$ 756

	Loans and Fees Receivable at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings at Fair Value
As of December 31, 2015		
Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value	\$ 8,560	\$ 25,837
Aggregate fair value of loans and fees receivable that are reported at fair value	\$ 6,353	\$ 20,353
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)	\$ 12	\$ 31
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	\$ 374	\$ 889

## Notes Payable

Notes Payable	Notes Payable
Associated with	Associated with
Structured	Structured

	Financings, at Fair Value as of March 31, 2016	Financings, at Fair Value as of December 31, 2015
Aggregate unpaid principal balance of notes payable	\$ 105,220	\$ 106,956
Aggregate fair value of notes payable	\$ 18,069	\$ 20,970

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 amounts of structured financing notes secured by certain credit card receivables and reported at fair value as of March 31, 2016 and December 31, 2015, (2) the outstanding face amounts of structured financing notes secured by certain credit card receivables and reported at fair value as of March 31, 2016, and (3) the carrying amounts of the credit card receivables and restricted cash that provide the exclusive means of repayment for the notes (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 March 31, 2016 and December 31, 2015.

	Carrying Amounts at Fair Value as of March 31, 2016    December 31, 2015	
Amortizing securitization facility issued out of our upper-tier originated portfolio master trust (stated maturity of December 2021), outstanding face amount of \$105.2 million (\$107.0 million as of December 31, 2015) bearing interest at a weighted average 5.7% interest rate (5.6% as of December 31, 2015), which is secured by credit card receivables and restricted cash aggregating \$18.1 million (\$21.0 million as of December 31, 2015) in carrying amount	\$ 18.1	\$ 21.0

Contractual payment allocations within these credit cards receivable structured financings provide for a priority distribution of cash flows to us to service the credit card receivables, a distribution of cash flows to pay interest and principal due on the notes, and a distribution of all excess cash flows (if any) to us. The structured financing facility in the above table is amortizing down along with collections of the underlying receivables and there are no provisions within the debt agreement that allow for acceleration or bullet repayment of the facility prior to its scheduled expiration date. The aggregate carrying amount of the credit card receivables and restricted cash that provide security for the \$18.1 million in fair value of the structured financing note in the above table is \$18.1 million, which means that we have no aggregate exposure to pre-tax equity loss associated with the above structured financing arrangement at March 31, 2016.

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

## Table of Contents

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

Other notes payable outstanding as of March 31, 2016 and December 31, 2015 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	
	March 31, 2016	December 31, 2015
Revolving credit facilities at a weighted average rate equal to 3.9% (3.7% at December 31, 2015) secured by the financial and operating assets of CAR with a combined aggregate carrying amount of \$69.1 million (\$69.4 million at December 31, 2015)		
Revolving credit facility (expiring October 4, 2017) (1)	\$29.9	\$ 28.9
Amortizing facilities at a weighted average rate equal to 5.4% (5.3% at December 31, 2015) secured by certain receivables, rental streams and restricted cash with a combined aggregate carrying amount of \$61.9 million (\$69.6 million as of December 31, 2015)		
Amortizing debt facility (expiring July 14, 2017) (2) (3)	14.1	23.0
Amortizing debt facility (expiring August 21, 2016) (2) (3)	10.1	9.2
Amortizing debt facility (expiring August 1, 2016) (2) (3)	2.5	4.0
Amortizing debt facility (expiring October 29, 2017) (2) (3)	24.2	24.9
Other facilities		
Senior secured term loan to related parties (expiring November 22, 2016) that is secured by certain assets of the Company with an annual rate equal to 9.0% (4)	20.0	20.0
Total notes payable outstanding	\$100.8	\$ 110.0

- Loan is subject to certain affirmative covenants, including a coverage ratio, a leverage ratio and a collateral
- (1) 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) See below for additional information regarding this note.

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, consisting of (i) an initial term loan of \$20.0 million, and (ii) additional term loans available in the sole discretion of Dove and upon our request, provided that the aggregate amount of all outstanding term loans does not exceed \$40.0 million. On November 26, 2014, Dove funded the initial term loan of \$20.0 million. In November 2015, the agreement was amended to extend the maturity date of the term loan to November 22, 2016. All other terms remained unchanged.

Our obligations under the agreement are guaranteed by certain subsidiary guarantors and secured by a pledge of certain assets of ours and the subsidiary guarantors. The loans bear interest at the rate of 9.0% per annum, payable monthly in arrears. The principal amount of these loans is payable in a single installment on November 22, 2016 (as amended). Future loans under the agreement can be used for additional repurchases of our outstanding notes and other purposes approved by Dove. 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

## Table of Contents

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.

### 8.Convertible Senior Notes

In May 2005, we issued \$250.0 million aggregate principal amount of 3.625% convertible senior notes due 2025 ("3.625% convertible senior notes"), and in November 2005, we issued \$300.0 million aggregate principal amount of 5.875% convertible senior notes due 2035 ("5.875% convertible senior notes"). The 5.875% convertible senior notes are (and, prior to redemption, the 3.625% convertible senior notes were) unsecured, subordinate to existing and future secured obligations and structurally subordinate to existing and future claims of our subsidiaries' creditors. These notes (net of repurchases since the issuance dates) are reflected within convertible senior notes on our consolidated balance sheets. No put rights exist under our 5.875% convertible senior notes.

In May 2015 we redeemed the remainder of the outstanding 3.625% convertible senior notes. Subsequent to this redemption, only our 5.875% convertible senior notes remain outstanding.

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

	As of	
	March 31, 2016	December 31, 2015
Face amount of 5.875% convertible senior notes	93,280	93,280
Discount	(28,370 )	(28,497 )
Net carrying value	\$64,910	\$ 64,783
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	\$—	\$ —

### 9.Commitments and Contingencies

#### General

Under our point-of-sale and direct-to-consumer finance products, we give consumers the ability to borrow up to the maximum credit limit assigned to each individual's account. Our unfunded commitments under these products aggregated \$115.2 million at March 31, 2016. We have never experienced a situation in which all of our customers have exercised their entire available line 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 March 31, 2016, CAR had unfunded outstanding floor-plan financing commitments totaling \$9.9 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 \$7.5 million remains pledged to

support various ongoing contractual obligations. Those obligations include, among other things, compliance with one of the European payment system's operating regulations and by-laws.

Under agreements with third-party originating and other financial institutions, we have agreed to indemnify the financial institutions for certain liabilities associated with the financial institutions' activities on our behalf—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 March 31, 2016, we have assessed the likelihood of any potential

Table of Contents

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.

Total System Services, Inc. provides certain services to Atlanticus Services Corporation in both the U.S. and the U.K. as a system of record provider under agreements that extend through October 2022 and April 2017, respectively. If Atlanticus Services Corporation were to terminate its U.S. or U.K. relationship with Total System Services, Inc. prior to the contractual termination period, it would incur significant penalties (\$1.5 million and \$1.7 million as of March 31, 2016, respectively).

At December 31, 2015, we had an accrued liability of £3.4 million (\$5.0 million) within our consolidated financial statements associated with a then-ongoing review by U.K. taxing authorities (HM Revenue and Customs or "HMRC") of value-added tax ("VAT") filings made by one of our U.K. subsidiaries. In February of 2016, we received correspondence from HMRC stating that it (1) had chosen to discontinue its review of our U.K. subsidiary's VAT filings with no changes to the returns as filed by our U.K. subsidiary, and (2) would be refunding VAT refund claims made by our U.K. subsidiary that had been suspended during the HMRC review. We subsequently received substantially all of such refunds, and as such we reversed the £3.4 million (\$5.0 million) of VAT review-related liabilities in the first quarter of 2016.

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, 2015.

### Litigation

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

### 10. Net Income Attributable to Controlling Interests Per Common Share

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

	For the Three Months Ended March 31, 2016    2015	
Numerator:		
Net income attributable to controlling interests	\$4,553	\$1,967
Denominator:		
Basic (including unvested share-based payment awards) (1)	13,898	13,923
Effect of dilutive stock compensation arrangements (2)	75	2
Diluted (including unvested share-based payment awards) (1)	13,973	13,925
Net income attributable to controlling interests per common share—basic	\$0.33	\$0.14
Net income attributable to controlling interests per common share—diluted	\$0.33	\$0.14

(1) Shares related to unvested share-based payment awards included in our basic and diluted share counts are 222,550 for the three months ended March 31, 2016, compared to 427,474 for the three months ended March 31, 2015.

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



For the three months ended March 31, 2016 and 2015, there were no shares potentially issuable and thus includible in the diluted net income attributable to controlling interests per common share calculations pursuant to our 5.875% convertible senior notes. However, in future reporting periods during which our closing stock price is above the \$24.61 conversion price for the 5.875% convertible senior notes, and depending on the closing stock price at conversion, the maximum potential dilution under the conversion provisions of such notes is 3.8 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.

Table of Contents

## 11. Stock-Based Compensation

We currently have two stock-based compensation plans, the Employee Stock Purchase Plan (the “ESPP”) and the Amended and Restated 2014 Equity Incentive Plan (the “2014 Plan”). As of March 31, 2016, 34,781 shares remained available for issuance under the ESPP and 698,933 shares remained available for issuance under the 2014 Plan.

Exercises and vestings under our stock-based compensation plans resulted in \$37,000 in income tax-related charges to additional paid-in capital during the three months ended March 31, 2016 with \$75,000 in such charges for the three months ended March 31, 2015.

## Restricted Stock and Restricted Stock Unit Awards

During the three months ended March 31, 2016 and 2015, we granted 122,667 and 88,934 shares of restricted stock (net of any forfeitures), respectively, with aggregate grant date fair values of \$0.4 million and \$0.2 million, respectively. 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 is amortized to salaries and benefits expense ratably over applicable vesting periods. As of March 31, 2016, our unamortized deferred compensation costs associated with non-vested restricted stock awards were \$0.4 million with a weighted-average remaining amortization period of 1.1 years.

## Stock Options

We had expense of \$117 thousand and \$70 thousand related to stock option-related compensation costs during the three months ended March 31, 2016 and 2015, respectively. When applicable, we recognize stock option-related compensation expense for any awards with graded vesting on a straight-line basis over the vesting period for the entire award. Information related to options outstanding is as follows:

	March 31, 2016			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average of Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2015	551,666	\$ 2.80		
Issued	686,000	\$ 3.04		
Exercised	—	\$ —		
Cancelled/Forfeited	—	\$ —		
Outstanding at March 31, 2016	1,237,666	\$ 2.94	4.2	\$209,591
Exercisable at March 31, 2016	396,661	\$ 2.55	2.9	\$178,563

We had \$1.3 million and \$0.2 million of unamortized deferred compensation costs associated with non-vested stock options as of March 31, 2016 and 2015, 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, 2015, where certain terms (including trust, subsidiary and other entity names and financial, operating and statistical measures) have been defined.

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

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

OVERVIEW

We utilize proprietary analytics and a flexible technology platform to 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 funding over \$25 billion in consumer loans over our 20-year operating history to originate a range of consumer loan products through our primary consumer brand, Fortiva. As part of this brand, we market Fortiva Retail Credit, Fortiva Personal Loans and Fortiva Credit Cards through multiple channels, including retail point-of-sale, direct mail solicitation, Internet-based marketing and partnerships with third parties who have relationships with our core customers. In our point-of-sale channel, we partner with retailers and service providers in various industries across the U.S. to offer Fortiva Retail Credit to their customers for the purchase of a variety of goods and services including consumer electronics, furniture, elective medical procedures, educational services and home-improvements. Our flexible technology platform allows us to integrate our paperless process and instant decision-making capabilities with our partners' technology infrastructure. These products are often extended to customers who may have been declined under traditional financing options. We specialize in providing this "second-look" credit service. Additionally, we are able to market our general purpose Fortiva Personal Loans and Fortiva Credit Cards directly to consumers through additional channels, which enables us to reach consumers through a diverse origination platform that includes direct mail, Internet-based marketing and through partnerships. Our technology platform and proprietary analytics enable us 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 seek to provide the right type of credit, whenever and wherever the consumer has a need.

Using our infrastructure and technology platform, we also provide loan servicing, including underwriting, marketing, customer service and collections operations 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 continue to collect on portfolios of credit card receivables. These receivables include both receivables we originated through third-party financial institutions and portfolios of receivables we purchased from third-party financial institutions. One of our portfolios of credit card receivables is encumbered by non-recourse structured financing, and for this portfolio our principal remaining economic interest is the servicing compensation we receive as an offset against our servicing costs given that the likely future collections on the portfolio are insufficient to allow for full repayment of the financing.

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

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

Table of Contents

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

We historically financed most of our credit card receivables through the asset-backed securitization markets. These markets deteriorated significantly in 2008, and the level of “advance rates,” or leverage against credit card receivable assets, in the current asset-backed securitization markets is below pre-2008 levels. We do believe, however, that our point-of-sale and direct-to-consumer finance activities are generating and will continue to generate attractive returns on assets, thereby allowing us to secure debt financing under terms and conditions (including advance rates and pricing) that will allow us to achieve our desired 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.

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) the expansion of our point-of-sale and direct-to-consumer finance products; (2) the acquisition of additional financial assets associated with our point-of-sale finance activities as well as the acquisition of receivables portfolios; (3) investments in other assets or businesses that are not necessarily financial services assets or businesses; (4) the repurchase of our convertible senior notes and other debt or our outstanding common stock; and (5) the servicing of receivables and related financial assets for third parties (and in which we have limited or no equity interests) to allow us to leverage our expertise and infrastructure.

Table of Contents

## CONSOLIDATED RESULTS OF OPERATIONS

	For the Three Months Ended March 31,		Income Increases (Decreases) from 2015 to 2016
(In Thousands)	2016	2015	
Total interest income	\$18,240	\$17,475	\$ 765
Interest expense	(4,644 )	(4,557 )	(87 )
Fees and related income on earning assets:			
Fees on credit products	799	2,174	(1,375 )
Changes in fair value of loans and fees receivable recorded at fair value	1,898	1,231	667
Changes in fair value of notes payable associated with structured financings recorded at fair value	1,165	(362 )	1,527
Rental revenue	4,214	10,109	(5,895 )
Other	(189 )	67	(256 )
Other operating income:			
Servicing income	1,447	1,560	(113 )
Other income	70	267	(197 )
Equity in income equity-method investee	1,002	1,075	(73 )
Total	\$24,002	\$29,039	\$ (5,037 )
Net recovery of losses upon charge off of loans and fees receivable recorded at fair value	(4,911 )	(10,372 )	(5,461 )
Provision for losses on loans and fees receivable recorded at net realizable value	4,731	3,168	(1,563 )
Other operating expenses:			
Salaries and benefits	5,732	4,120	(1,612 )
Card and loan servicing	8,988	10,271	1,283
Marketing and solicitation	855	486	(369 )
Depreciation, primarily related to rental merchandise	4,156	12,846	8,690
Other	(299 )	7,172	7,471
Net income	4,552	1,966	2,586
Net loss attributable to noncontrolling interests	1	1	—
Net income attributable to controlling interests	4,553	1,967	2,586

## Three Months Ended March 31, 2016, Compared to Three Months Ended March 31, 2015

Total interest income. Total interest income consists primarily of finance charges and late fees earned on our point-of-sale and direct-to-consumer finance products, credit card and auto finance receivables. Period-over-period results reflect continued growth in our auto finance receivables and our point-of-sale finance and direct-to-consumer products, offset, however, by continued net liquidations of our historical credit card receivable portfolios over the past year. We are currently experiencing continued growth in our point-of-sale and direct-to-consumer finance products and our CAR receivables—growth which we expect to result in net period over period growth in our total interest income for these operations over the next few quarters. Future periods' growth is also dependent on the addition of new retail partners for our point-of-sale operations as well as continued growth within existing partnerships and continued growth within our direct-to-consumer finance product. Despite anticipated increases in our point-of-sale and direct-to-consumer finance products, continued net liquidations of our historic



## Table of Contents

credit card receivables will continue to offset expected increases and could continue 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 our point-of-sale and direct-to-consumer finance products and CAR operations as evidenced within Note 7, "Notes Payable," to our consolidated financial statements. We anticipate additional debt financing over the next few quarters as we continue to grow, and as such, we expect our quarterly interest expense to be above that experienced in the prior periods for these operations.

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

- declines in rental revenue as we significantly reduced rent-to-own originations in the fourth quarter of 2015 and for which we have substantially discontinued new originations in 2016. We expect continued reductions in revenues associated with this product offering as existing rent-to-own contracts culminate with no new originations expected beyond the second quarter of 2016;
- reductions in fees on credit products, associated with general net declines in credit card receivables;
- 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; and
- losses in our "Other" category associated with reserves related to investments in mobile technologies, marketplace lending and other financial technologies.

We expect a diminishing level of fee income for 2016 given expected future net liquidations of our credit card receivables. Additionally, for credit card accounts for which we use fair value accounting, we expect our change in fair value of credit card receivables recorded at fair value and our change in fair value of notes payable associated with structured financings recorded at fair value amounts to gradually diminish (absent significant changes in the assumptions used to determine these fair values) in the future. These amounts, however, are subject to potentially high levels of volatility if we experience changes in the quality of our credit card receivables or if there are significant changes in market valuation factors (e.g., interest rates and spreads) in the future. Such volatility will be muted somewhat, however, by the offsetting nature of the receivables and underlying debt being recorded at fair value and with the expected reductions in the face amounts of such outstanding receivables and debt as we experience further credit card receivables liquidations and associated debt amortizing repayments. Further, as discussed above, significant declines are expected in our rental revenue as existing rent-to-own contracts culminate with no new originations expected beyond the second quarter of 2016. Offsetting these declines is the aforementioned growth we are currently experiencing associated with our point-of-sale, direct-to-consumer finance and credit card products with which we expect continued expansion in 2016.

Servicing income. We earn servicing income by servicing loan portfolios for third parties (including our equity-method investee). Unless and/or until we grow the number of contractual servicing relationships we have with third parties or our current relationships grow their loan portfolios, we will not experience significant growth and income within this category, and we currently expect to experience limited to no growth in this category of revenue relative to revenue earned in prior periods.

Other income. Historically included within our other income category are ancillary and interchange revenues, which are now relatively insignificant for us due to our historical credit card account closures and net credit card receivables portfolio liquidations. Absent portfolio acquisitions or continued growth with our new credit card offering, we do not expect significant ancillary and interchange revenues in the future. Also included within our other income category are certain reimbursements we receive in respect of one of our portfolios.



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

Net recovery of losses upon charge off of loans and fees receivable recorded at fair value. This account reflects charge offs (net of recoveries) of the face amount of credit card receivables we record at fair value on our consolidated balance sheet. We have experienced a general trending decline in, and we expect future trending declines in, these charge offs as we continue to liquidate our historical credit card receivables. Additionally, net losses in both periods reflect the effects of

## Table of Contents

reimbursements received in respect of one of our portfolios. In the three months ended March 31, 2016 and 2015, these reimbursements exceeded the charge-offs experienced within the portfolio as the reimbursements are not directly associated with the timing of actual charge offs. The timing of these reimbursements cannot be reliably determined and as such we may not continue to experience similar positive impacts on future quarters.

Provision for losses on loans and fees receivable recorded at net realizable value. Our provision for losses on loans and fees receivable recorded at net realizable value covers, with respect to such receivables, changes in estimates regarding our aggregate loss exposures on (1) principal receivable balances, (2) finance charges and late fees receivable underlying income amounts included within our total interest income category, and (3) other fees receivable. We have experienced a period-over-period increase in this category between the three months ended March 31, 2016 and 2015 due to the previously mentioned growth associated with our receivables recorded at net realizable value. This increase reflects the effects of volume associated with our point-of-sale, direct-to-consumer and credit card finance product offerings (i.e., growth of new product receivables), rather than credit quality changes or deterioration. 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 months ended March 31, 2016, relative to the three months ended March 31, 2015, reflect the following:

reductions in card and loan servicing expenses in three months ended March 31, 2016 when compared to the three months ended March 31, 2015 based on lower originations for our rent-to-own products as well as continued net liquidations in our credit card portfolios which declined from \$79.6 million outstanding to \$47.1 million outstanding at March 31, 2015 and March 31, 2016, respectively. These declines have been offset by expenses related to growth in our point-of-sale and direct-to-consumer products which grew from \$64.2 million outstanding to \$112.3 million outstanding at March 31, 2015 and March 31, 2016, respectively;

decreases in depreciation primarily associated with declines in originations under our rent-to-own program, totaling \$3.4 million and \$12.3 million for the three months ended March 31, 2016 and 2015, respectively; and

decreases in other expenses (resulting in a net credit for the three months ended March 31, 2016) due to the reversal of a £3.4 million (\$5.0 million) reserve in the three months ended March 31, 2016. This reserve related to a review in the U.K. by HM Revenue and Customs ("HMRC") associated with filings by one of our U.K. subsidiaries to reclaim VAT that it paid on its inputs and that it believed were and are eligible to be reclaimed. In February of 2016, we received correspondence from HMRC stating that it (1) had chosen to discontinue its review of our U.K. subsidiary's VAT filings with no changes to the returns as filed by our U.K. subsidiary, and (2) would be refunding VAT refund claims made by our U.K. subsidiary that had been suspended during the HMRC review. We subsequently received substantially all of such refunds, and as such we reversed the £3.4 million (\$5.0 million) of VAT review-related liabilities in the first quarter of 2016.

Offsetting these declines are:

increases in salaries and benefit costs for the three months ended March 31, 2016 when compared to the three months ended March 31, 2015 resulting from growth in our new credit product offerings and expanded sales activities;

increases in marketing costs for the three months ended March 31, 2016 as we expanded our brand marketing in late 2015 and in the first quarter of 2016. Offsetting some of this increase are decreases in marketing costs as our new product offerings require less direct-to-consumer marketing expenses than under our historical credit card operations. We expect that increased origination and brand marketing efforts will result in increases in period over period costs for the remainder of 2016; and

general increases in other expenses including customer acquisition, underwriting costs and third party costs associated with ongoing information technology upgrades.

A portion of our operating costs are variable based on the levels of accounts we market and receivables we service (both for our own account and for others) and the pace and breadth of our search for, acquisition of and introduction of new business lines, products and services. 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 credit card and auto finance loans and fees receivable levels. This trend is gradually reversing, however, as we continue to grow our earning assets (including loans and fees receivable) based principally on growth of our point-of-sale finance product offerings and to a lesser extent, growth within our CAR operations. 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.

## Table of Contents

Notwithstanding our cost-control efforts and focus, we expect increased levels of expenditures associated with growth in our point-of-sale, direct-to-consumer and credit card product operations. 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.

**Income Taxes.** We experienced an effective income tax expense rate of 4.2% for the three months ended March 31, 2016 compared to a negative effective income tax expense rate of 45.8% for the three months ended March 31, 2015. Our effective income tax expense rate for the three months ended March 31, 2016 differs from the statutory rate principally based on income of our U.K. subsidiary that is not subject to tax in the U.S. and the U.K. tax on which was fully offset by the release of U.K. valuation allowances. Our negative effective income tax expense rate for the three months ended March 31, 2015 resulted principally from a favorable effective settlement we reached with the Internal Revenue Service ("IRS") in February 2015 relative to accruals for uncertain tax positions and interest accruals thereon associated with our 2012 income tax return.

We report potential accrued interest and penalties related to 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 such accrued interest and penalties within the income tax benefit or expense line item to the extent that we resolve our liabilities for uncertain tax positions or our unpaid tax liabilities in a manner favorable to our accruals therefor. During the three months ended March 31, 2016, our income tax expense includes \$0.2 million accrued for income tax-related interest and penalties. During the three months ended March 31, 2015, there was no effect of income tax-related interest and penalties on our income tax expense.

In December 2014, we reached a settlement with the IRS concerning the tax treatment of net operating losses that we incurred in 2007 and 2008 and carried back to obtain refunds of federal income taxes paid in earlier years dating back to 2003. Our net unpaid income tax assessment associated with that settlement was \$7.3 million at March 31, 2016; this amount excludes unpaid interest and penalties on the tax assessment, the accruals for which aggregated \$2.9 million at March 31, 2016. The IRS is currently examining amended return claims we have made, which, if ultimately approved by the IRS, would eliminate the \$7.3 million assessment and cause the reversal of the \$2.9 million accrual we have made for interest and penalties thereon.

## **Credit and Other Investments Segment**

Our Credit and Other Investments segment includes our activities relating to investments in and servicing of our Fortiva Retail Credit ("point-of-sale" operations), Fortiva Personal Loans and Fortiva Credit Cards (collectively our "direct-to-consumer" operations) and 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 products and services primarily include finance charges, fees and the accretion of discounts associated with our point-of-sale product offerings. Also, while insignificant currently, revenues also have included credit card fees associated with (1) our sale of ancillary products such as memberships, subscription services and debt waiver, and (2) interchange fees representing a portion of the merchant fee assessed by card associations based on cardholder purchase volumes underlying credit card receivables.

## Table of Contents

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

Depreciation expense associated with rental merchandise (totaling \$3.4 million and \$12.3 million for the three months ended March 31, 2016 and 2015, respectively) for which we receive rental revenue is included as a component of our overall depreciation in our consolidated statements of operations. We expect continued reductions in our depreciation of rental merchandise as existing rent-to-own contracts culminate with no new originations expected beyond the second quarter of 2016.

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

### Managed Receivables

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

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

Reconciliation of the managed receivables data to our GAAP financial statements requires: (1) an understanding that our managed receivables data are based on billings and actual charge offs as they occur, without regard to any changes in our allowance for uncollectible loans and fees receivable or any changes in the fair value of loans and fees receivable and their associated structured financing notes; (2) inclusion of our economic share of (or equity interest in) the receivables we manage for our equity-method investee; (3) removal of any noncontrolling interest holders' shares of the managed receivables underlying our GAAP consolidated results; (4) treatment of the transaction in which our 50%-owned equity-method investee acquired our structured financing trust notes (a) as a deemed sale of the trust receivables at their face amount, (b) followed by the 50%-owned equity-method investee's deemed repurchase of such

receivables for consideration equal to the discounted purchase price that it paid for the notes, and (c) as though the difference between the deemed face amount and the deemed discounted repurchase price of the receivables is to be treated as credit quality discount to be accreted into managed earnings as a reduction of net charge offs over the remaining life of the receivables; and (5) the exclusion from our managed receivables data of certain reimbursements received in respect of one of our portfolios which resulted in pre-tax income benefits within our total interest income, fees and related income on earning assets, losses upon charge off of loans and fees receivable recorded at fair value, net of recoveries, other income, servicing income, and equity in income of equity-method investee line items on our consolidated statements of operations totaling approximately \$5.9 million for the three months ended March 31, 2016, \$10.7 million for the three months ended December 31, 2015, \$11.4 million for the three months ended September 30, 2015, \$10.7 million for the three months ended June 30, 2015, \$12.2 million for the three months ended March 31, 2015, \$8.0 million for the three months ended December 31, 2014, \$2.7 million for the three months ended September 30, 2014, and \$3.7 million for the three months ended June 30, 2014. 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 underwriting, servicing and collection activities and our

Table of Contents

valuing of purchased receivables; moreover, it is difficult to determine the future effects of any such reimbursements that may be received.

We typically have purchased credit card receivables portfolios at substantial discounts. In our managed basis statistical data, we apply a portion of these discounts against receivables acquired for which charge off is considered likely, including accounts in late stages of delinquency at the date of acquisition; this portion is measured based on our acquisition date estimate of the shortfall of cash flows expected to be collected on the acquired portfolios relative to the face amount of receivables represented within the acquired portfolios. We refer to the balance of the discount for each purchase not needed for credit quality as accretable yield, which we accrete into total yield in our managed basis statistical data using the interest method over the estimated life of each acquired portfolio. As of the close of each financial reporting period, we evaluate the appropriateness of the credit quality discount component and the accretable yield component of our acquisition discount based on actual and projected future cash flows.

Asset quality. Our delinquency and charge-off data at any point in time reflect the credit performance of our managed receivables. The average age of the accounts underlying our receivables, the timing of portfolio purchases, the success of our collection and recovery efforts and general economic conditions all affect our delinquency and charge-off rates. The average age of the accounts underlying our receivables portfolio also affects the stability of our delinquency and loss rates. We consider this delinquency and charge-off data in our determination of the fair value of our credit card receivables underlying formerly off-balance-sheet securitization structures, as well as our allowance for uncollectible loans and fees receivable in the case of our other credit product receivables that we report at net realizable value. Our strategy for managing delinquency and receivables losses consists of account management throughout the customer relationship. 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 from Our Customers?” in Item 1, “Business” of our Annual Report on Form 10-K for the year ended December 31, 2015.

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								
	2016 Mar. 31	2015 Dec. 31	Sept. 30	Jun. 30	Mar. 31	2014 Dec. 31	Sept. 30	Jun. 30	
Period-end managed receivables	\$155,425	\$152,528	\$151,055	\$142,338	\$140,660	\$157,145	\$186,564	\$200,147	
Percent 30 or more days past due	9.7 %	11.5 %	10.5 %	11.8 %	10.1 %	13.6 %	11.2 %	11.2 %	
Percent 60 or more days past due	7.1 %	7.9 %	7.2 %	8.8 %	7.5 %	9.8 %	8.3 %	8.1 %	
Percent 90 or more days past due	5.1 %	5.4 %	5.0 %	4.9 %	5.4 %	6.9 %	5.8 %	5.7 %	
Average managed receivables	\$152,839	\$152,988	\$143,946	\$139,401	\$146,792	\$173,558	\$194,272	\$206,657	
Total yield ratio	35.4 %	35.2 %	41.3 %	38.1 %	38.3 %	63.3 %	42.6 %	38.4 %	
Combined gross charge-off ratio	18.2 %	16.8 %	21.5 %	17.4 %	23.8 %	21.4 %	21.4 %	25.5 %	
Adjusted charge-off ratio	14.1 %	12.9 %	16.5 %	13.2 %	19.2 %	16.4 %	17.7 %	21.3 %	

Managed receivables levels. The 2014 quarterly declines in our period-end and average managed receivables (when compared to the same quarters in prior period) reflect the net liquidating state of our historical credit card receivables portfolios given our closure of substantially all credit card accounts underlying the portfolios. Nevertheless, because of the receivables growth we have experienced and expect to continue to experience over the coming quarters associated with our Fortiva finance offerings, we experienced overall quarterly growth throughout 2015 and into 2016. Managed receivables declines in the fourth quarter of 2014 were exaggerated by our distribution of certain assets to an unrelated third-party partner in a joint venture for its interest. Growth in future periods largely is dependent on the addition of new retail partners for our point-of-sale operations as well as the timing of solicitations within our



direct-to-consumer Fortiva operations. Based on this, we expect managed receivables levels to continue to grow modestly from current levels throughout 2016 in conjunction with planned solicitation mailings and the expected addition of U.S. credit card originations which we are currently testing.

## Table of Contents

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 account management strategies we use on our portfolios to manage and, to the extent possible, reduce the higher delinquency rates that can be expected in a more mature managed portfolio such as ours. These account management strategies include conservative credit line management, purging of inactive accounts and collection strategies intended to optimize the effective account-to-collector ratio across delinquency categories. We measure the success of these efforts by measuring delinquency rates. These rates exclude accounts that have been charged off.

Given that the vast majority of credit card accounts related to our historical credit card receivables have been closed and there has been no significant new activity for these accounts in the past several quarters, we have noted declines in our delinquency statistics of our managed credit card receivables (when compared to the same quarters in prior period). The initial trend of increasing delinquency rates noted above is primarily due to growth in our point-of-sale finance operations, which experience higher delinquency rates than those of our liquidating credit card portfolios. Additionally, our historical credit card originations in the U.K. have experienced higher than average delinquency rates. As these U.K. credit card receivables continue to liquidate, the associated higher delinquencies will impact our overall delinquency rates to a lesser degree as evidenced by the slight declines after the second quarter of 2015.

We expect our point-of-sale and direct-to-consumer finance and other new product offerings to become a larger component of our managed receivables base, given the acceleration of growth in these products. Further, we expect our delinquency rates to increase slightly (when compared to periods during which credit cards made up a larger portion of our managed receivables) as the risk profiles (and thus expected returns) for these receivables are higher than that experienced under our current mix of largely mature credit card receivables underlying closed credit card accounts. Additionally, seasonal payment patterns on these receivables are similar to those experienced with our historical credit card originations and we expect those patterns to continue. For example, delinquency rates historically are lower in the first quarter of each year as seen above due to the benefits of seasonally strong payment patterns associated with year-end tax refunds for most of our customers.

Total yield ratio. As noted previously, the mix of our managed receivables has shifted away from certain higher-yielding credit card receivables. Those particular originated receivables have higher delinquency rates and late and over-limit fee assessments than do our other portfolios, and thus have higher total yield ratios as well. Additionally, our total yield ratio has been adversely affected over the past several quarters by our Non-U.S. Acquired Portfolio acquisition. Its total yields are below average compared to our other portfolios although the impacts of this portfolio are declining as its receivables continue to liquidate.

Offsetting the historical impacts noted above is growth in our newer, higher yielding products, including our point-of-sale finance product. While this growth has contributed to increases in our total yield ratio, we expect this growth will slow or even modestly reverse the trend of our declining charge-off rates as discussed above because we expect these accounts to season, mature, and charge off at higher rates than we currently experience on our liquidating pool of credit card receivables associated with closed credit card accounts. We anticipate continued growth in our higher yielding point-of-sale products over the next few quarters which should continue to stabilize our yield consistent with what we experienced in the fourth quarter of 2015 and first quarter of 2016.

Although we have seen generally improving total yield ratio trend-lines, our third and fourth quarter 2014 total yield ratios were also positively impacted by the decline in the managed receivables base discussed above as well as recoveries on investments in securities in excess of their carrying value and our repurchase of convertible senior notes in the fourth quarter of 2014. Similarly, our third quarter 2015 total yield ratio was positively impacted by the recovery of approximately \$2.0 million associated with a receivable that was fully reserved in a prior period. Absent these items, our total yield ratio would have been 35.8%, 38.0% and 35.6% in the third quarter of 2015 and the third and fourth quarters of 2014, respectively.

Combined gross charge-off ratio and Adjusted charge-off ratio. We charge off our Credit and Other Investments segment receivables when they become contractually more than 180 days past due or 120 days past due for the point-of-sale and direct-to-consumer finance products. For our rent-to-own products, we charge off receivables and impair associated rental merchandise if the customer has not made a payment within the previous 90 days. However, if a customer makes a payment 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. For all of our products, we charge off receivables within 30 days of notification and confirmation of a customer'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.

Certain of our prior originated credit card offerings have higher charge offs relative to their average managed receivables balances, than do our other portfolios. Due to the recent higher rate of decline in these particular originated

## Table of Contents

receivables relative to all of our other outstanding credit card receivables, as well as the longer weighted average age and maturity of our remaining managed receivables portfolio, all things being equal, one would expect reduced charge-off ratios for these receivables. However, this trend has been muted to some degree simply due to a change in the mix of our receivable balances due to growth within our point-of-sale finance operations that have higher charge-off rates than the liquidating credit card portfolios as well as increased charge-offs associated with credit card origination efforts in the U.K. The decline we experienced in the second quarter of 2015 in both our combined and adjusted gross charge-off ratios was largely due to the seasonal beneficial impacts associated with customer payments experienced in the first quarter of 2015. Additionally, negatively impacting the charge-off ratios in the first quarter of 2015 (and thus magnifying the decline in charge-off ratios noted in the second quarter) were higher than anticipated charge-offs associated with one of our retail channels.

The continued growth in our point-of-sale and direct-to-consumer finance operations continues to result in higher charge-off ratios than those experienced historically. In the next few quarters, we expect increasing charge off rates on a period-over-period comparison basis. This expectation is based on (1) the age, maturity and stability of our portfolio of generally liquidating receivables associated with closed credit card accounts, (2) higher expected charge off rates on our new product offerings, offset by lower charge offs associated with historical credit card originations in the U.K. due to the cessation of marketing efforts for this product, (3) the low charge-off ratios experienced in the second quarter of 2015 as discussed above and (4) an overall decline in the managed receivables base as discussed above. Offsetting these increases will be growth in the underlying receivables base which will serve to mute some of the aforementioned impacts.

### Auto Finance Segment

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

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

Collectively, as of March 31, 2016, we served more than 570 dealers through our Auto Finance segment in 34 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.

Table of Contents

## 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

	2016 Mar. 31	2015 Dec. 31	Sept. 30	Jun. 30	Mar. 31	2014 Dec. 31	Sept. 30	Jun. 30	
Period-end managed receivables	\$78,415	\$77,833	\$75,428	\$78,342	\$73,371	\$69,832	\$68,102	\$64,000	
Percent 30 or more days past due	10.2	% 14.0	% 13.3	% 13.5	% 10.7	% 14.5	% 14.3	% 14.6	%
Percent 60 or more days past due	4.5	% 5.5	% 5.3	% 5.6	% 4.4	% 5.5	% 5.7	% 5.1	%
Percent 90 or more days past due	2.3	% 2.5	% 2.6	% 2.5	% 2.1	% 2.5	% 2.7	% 1.8	%
Average managed receivables	\$78,122	\$76,413	\$75,987	\$77,182	\$72,258	\$68,418	\$66,428	\$62,475	
Total yield ratio	37.3	% 38.3	% 38.2	% 37.6	% 39.2	% 39.1	% 39.2	% 39.1	%
Combined gross charge-off ratio	2.7	% 3.3	% 3.0	% 1.9	% 0.5	% 4.7	% 2.2	% 0.5	%
Recovery ratio	1.3	% 1.6	% 1.3	% 0.6	% 1.5	% 3.3	% 1.5	% 2.1	%

Managed receivables. We are beginning to see and expect stability in the level of our managed receivables, with growth through receivable purchase/origination opportunities in the U.S. and U.S. territories. Although we are expanding our CAR operations, the Auto Finance segment faces strong competition from other specialty finance lenders, as well as the indirect effects on us of our buy-here, pay-here dealership customers' competition with more traditional franchise dealerships for consumers interested in purchasing automobiles. We expect managed receivable levels to continue to grow slightly from current levels during 2016 as we continue to expand our operations in the U.S. and U.S. territories.

Delinquencies. Current delinquency levels we are experiencing represent what we would expect going forward with some marginal increases noted within the overall buy-here pay-here market. Delinquency rates historically are lower in the first quarter of each year as seen above due to the benefits of seasonally strong payment patterns associated with year-end tax refunds for most of our customers. We are not concerned with modest fluctuations in delinquency rates and do not believe they will have a significantly positive or adverse impact on our results of operations; even at slightly elevated rates, we earn significant yields on CAR's receivables and have significant dealer reserves (i.e., retainages or holdbacks on the amount of funding CAR provides to its dealer customers) to protect against meaningful credit losses.

Total yield ratio. We have experienced modest fluctuations in our total yield ratio largely impacted by the relative mix of receivables in our various products offered by CAR as some shorter term product offerings tend to have higher yields. Slightly depressing the overall total yield ratio is the growth we continue to experience in the average managed receivables levels which negatively impacts the ratio ahead of the positive impacts of associated billed yield on this growth. 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. Excluded from our total yield ratio in the third quarter of 2015 is the resolution of an outstanding dispute that resulted in the recovery of approximately \$2.0 million associated with a receivable that was fully reserved in a prior period.

Combined gross charge-off ratio and recovery ratio. We charge off auto finance receivables when they are between 120 and 180 days past due, unless the collateral is repossessed and sold before that point, in which case we will record a charge off when the proceeds are received. The combined gross charge-off ratio represents an annualized fraction the numerator of which is the aggregate amounts of finance charge, fee and principal losses from customers unwilling or unable to pay their receivables balances, as well as from bankrupt and deceased customers, less current-period recoveries (including recoveries from dealer reserve offsets), and the denominator of which is average managed receivables. Benefiting the second quarter of 2014 were larger than expected recoveries that further reduced our combined gross charge-off ratio. The rise in our combined gross charge-off ratio in the fourth quarter of 2014 was due to specific dealer related losses that accounted for substantially all of the increase for the quarter, offset slightly by better than anticipated recoveries. 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 as was seen in the fourth quarter of 2014. We continually re-assess our dealers

Table of Contents

and will take appropriate action if we believe a particular dealer's risk characteristics adversely change. Significantly all charge offs we experienced in the first and second quarters of 2015 were offset by available dealer reserves resulting in lower charge-off ratios for those periods. While we have appropriate dealer reserves to mitigate losses across the majority of our pool of receivables, the timing of recognition of these reserves as an offset to charge offs is largely dependent on various factors specific to each of our dealer partners including ongoing purchase volumes, outstanding balances of receivables and current performance of outstanding loans. As such, the timing of charge off offsets is difficult to predict, however we believe that these reserves are adequate to offset any loss exposure we may incur. Additionally, the products we issue in the U.S. territories do not have dealer reserves with which we can offset losses. As our investments in these loans grow, we expect that gross charge-off rates will climb slightly over existing rates. We also expect our recovery rate to fluctuate modestly from quarter to quarter due to the timing of the sale of repossessed autos.

**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 lending operations. Our infrastructure costs are still somewhat elevated, and while we had in the past been focused on cost reduction, our primary focus now is on growing our point-of-sale, direct-to-consumer and credit card finance offerings so that our revenues from these product offerings can cover our infrastructure costs and return us to consistent profitability. Increases in new and existing retail channels has resulted in quarterly growth of total managed receivables levels subsequent to the end of 2014, 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 and channels to continue growth of our point-of-sale finance offerings (iii) continuing growth in our direct-to-consumer and credit card operations and (iv) obtaining the funding necessary to meet capital needs required by the growth of our new product offerings and to cover our infrastructure costs until our new product offerings generate enough revenues and cash flows to cover such costs.

All of our Credit and Other Investments segment's structured financing facilities are expected to amortize down with collections on the receivables within their underlying trusts and should not represent significant refunding or refinancing risks to our consolidated balance sheet. Additionally, we do not expect any imminent refunding or financing needs associated with our 5.875% convertible senior notes given their maturity in 2035. In May 2015 we redeemed the remainder of the outstanding 3.625% convertible senior notes. As such, the only facilities that could represent significant refunding or refinancing needs as of March 31, 2016 are those associated with the following notes payable in the amounts indicated (in millions):

Revolving credit facility (expiring October 4, 2017) that is secured by the financial and operating assets of our CAR operations	\$29.9
Senior secured term loan from related parties (expiring November 22, 2016) that is secured by certain assets of the Company with an annual rate equal to 9.0%	20.0
Total	\$49.9

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

In December 2014, we reached a settlement with the IRS concerning the tax treatment of net operating losses that we incurred in 2007 and 2008 and carried back to obtain refunds of federal income taxes paid in earlier years dating back to 2003. Our net unpaid income tax assessment associated with that settlement was \$7.3 million at March 31, 2016; this amount excludes unpaid interest and penalties on the tax assessment, the accruals for which aggregated \$2.9 million at March 31, 2016. The IRS is currently examining amended return claims we have made, which, if ultimately approved by the IRS, would eliminate the \$7.3 million assessment and cause the reversal of the \$2.9 million accrual we have made for interest and penalties thereon.

At March 31, 2016, we had \$48.9 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



## Table of Contents

operations, asset-backed structured financings and the issuance of debt and equity. Details concerning our cash flows for the three months ended March 31, 2016 are as follows:

During the three months ended March 31, 2016, we generated \$8.8 million of cash flows from operations compared to the use of \$9.2 million of cash flows from operations during the three months ended March 31, 2015. The increase in cash provided by operating activities was principally related to 1) reductions in purchases of rental merchandise associated with our point-of-sale finance operations, 2) cost reductions associated with card and loan servicing, 3) collections associated with reimbursements received in respect of one of our portfolios, and 4) the timing of payment associated with accrued liabilities. These increases in cash provided by operating activities were offset by decreases in collections associated with our credit card finance charge receivables in the three months ended March 31, 2016 relative to the same period in 2015, given diminished receivables levels.

During the three months ended March 31, 2016, we generated \$0.6 million of cash from our investing activities, compared to generating \$19.3 million of cash from investing activities during the three months ended March 31, 2015. This decrease is primarily due to increasing levels of investments in our point-of-sale and direct-to-consumer assets relative to the same period in 2015 and the shrinking size of our liquidating credit card portfolios and corresponding payments from customers. Offsetting these declines are the subsequent cash returns on our increasing investments in point-of-sale and direct to consumer receivables as well as reductions in our restricted cash levels, both of which contributed positively to our cash generated from investing activities.

During the three months ended March 31, 2016, we used \$11.3 million of cash in financing activities, compared to our use of \$17.9 million of cash in financing activities during the three months ended March 31, 2015. In both periods, the data reflect net repayments of debt facilities corresponding with net declines in our loans and fees receivable that serve as the underlying collateral for the facilities (principally credit card and auto loans and fees receivable). Offsetting our use of cash in financing activities for both periods are borrowings associated with our new credit products, net of repayments on those facilities.

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 our point-of-sale, direct-to-consumer finance and credit card origination activities as well as the acquisition of credit card receivables portfolios, (2) further repurchases of our 5.875% convertible senior notes and common stock, and (3) investments in certain financial and non-financial assets or businesses. Pursuant to a share repurchase plan authorized by our Board of Directors on May 12, 2016, we are authorized as of such date to repurchase an additional 5,000,000 shares of our common stock through June 30, 2018.

## CONTRACTUAL OBLIGATIONS, COMMITMENTS AND OFF-BALANCE-SHEET ARRANGEMENTS

See Item 7, "Managements Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the year ended December 31, 2015.

### 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

## Table of Contents

judgment or estimates in our application. Nevertheless, we describe below the areas for which we believe that the estimations, judgments or interpretations that we have made, if different, would have yielded the most significant differences in our consolidated financial statements.

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

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

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

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

### Allowance for Uncollectible Loans and Fees

Through our analysis of loan performance, delinquency data, charge-off data, economic trends and the potential effects of those economic trends on our customers, 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. 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.

### Revenue Recognition for Rental Merchandise

Our rent-to-own terms with our customers typically provide for 26, non-refundable, bi-weekly rental payments over a contract period of 12 months. The customer can take ownership of the merchandise by exercising a purchase option or making all required rental payments. 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. Additionally, we do not recognize a receivable for future periods' rental obligations due to us from our customers as our customers can terminate their rental agreements at any time with no further obligation to us, other than the return of rental merchandise.

## RELATED PARTY TRANSACTIONS

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

## Table of Contents

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 \$25,588 and \$25,082 for 2015 and 2014, respectively. The aggregate amount of payments required under the sublease from January 1, 2016 to the expiration of the sublease in May 2022 is \$176,820.

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 three months ended March 31, 2016 and 2015, we received \$66,540 and \$51,456, 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, consisting of (i) an initial term loan of \$20.0 million, and (ii) additional term loans available in the sole discretion of Dove and upon our request, provided that the aggregate amount of all outstanding term loans does not exceed \$40.0 million. On November 26, 2014, Dove funded the initial term loan of \$20.0 million. In November 2015, the agreement was amended to extend the maturity date of the term loan to November 22, 2016. All other terms remained unchanged.

Our obligations under the agreement are guaranteed by certain subsidiary guarantors and secured by a pledge of certain assets of ours and the subsidiary guarantors. The loans bear interest at the rate of 9.0% per annum, payable monthly in arrears. The principal amount of these loans is payable in a single installment on November 22, 2016 (as amended). Future loans under the agreement can be used for additional repurchases of our outstanding notes and other purposes approved by Dove. The agreement includes customary affirmative and negative covenants, as well as customary representations, warranties and events of default. Subject to certain conditions, we can prepay the principal amounts of these loans without premium or penalty.

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

## FORWARD-LOOKING INFORMATION

We make forward-looking statements in this Report and in other materials we file with the Securities and Exchange Commission ("SEC") or otherwise make public. This Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements. In addition, our senior management might make forward-looking statements to analysts, investors, the media and others. Statements with respect to expected revenue; income; receivables; income ratios; net interest margins; long-term shareholder returns; acquisitions and other growth opportunities; divestitures and discontinuations of businesses; loss exposure and loss provisions; delinquency and charge-off rates; the effects of account actions we may take or have taken; changes in collection programs and practices; changes in the credit quality and fair value of our credit card loans and fees receivable and the fair value of their underlying structured financing facilities; the impact of actions by the Federal Deposit Insurance Corporation ("FDIC"), Federal Reserve Board, Federal Trade Commission ("FTC"), Consumer Financial Protection Bureau ("CFPB") and other regulators on both us, banks that issue credit cards and other credit products on our behalf, and merchants that participate in our point-of-sale finance operations; actions by the IRS and the related impact to our interest and penalty accruals; account growth; the performance of investments that we have made; operating expenses; marketing plans and expenses; the performance of our Auto Finance segment; our plans in the U.K.; the impact of our credit card receivables on our financial performance; the sufficiency of available capital;

the prospect for improvements in the capital and finance markets; future interest costs; sources of funding operations and acquisitions; growth and profitability of our point-of-sale finance operations; our entry into international markets; our ability to raise funds or renew financing facilities; share repurchases or issuances; debt retirement; the results associated with our equity-method investee; our servicing income levels; gains and losses from investments in securities; experimentation with new products and other statements of our plans, beliefs or expectations are forward-looking statements. These and other statements using words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “target,” “can,” “could,” “may,” “should,” “will,” “would” and similar expressions also are forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. The forward-looking statements we make are not guarantees of future performance, and we have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-

Table of Contents

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 products 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 underwriting 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 the merchants that participate in our point-of-sale finance operations and the banks that provide certain services that are needed to operate our business lines; and
- theft and employee errors.

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

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

Table of Contents

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

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

**Changes in Internal Control Over Financial Reporting**

During the quarter ended March 31, 2016, 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.

**PART II—OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**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 the net contraction of our receivables levels over the last few years, 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 Loans and Fees Receivable and Other Credit Products**

The collectibility of our loans and fees receivable 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 customers repay their accounts or become delinquent, and the rate at which customers borrow funds from us. Deterioration in these factors, which we have experienced over the past few years, adversely impacts 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 originates from customers whose creditworthiness is considered sub-prime. Historically, we have obtained receivables in one of two ways—we have either solicited for the origination of the receivables 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.

We may not successfully evaluate the creditworthiness of our customers and may not price our credit products in a profitable manner. The creditworthiness of our target market generally is considered “sub-prime” based on guidance issued by

Table of Contents

the agencies that regulate the banking industry. Thus, our customers generally have a higher frequency of delinquencies, higher risks of nonpayment and, ultimately, higher credit losses than consumers who are served by more traditional providers of consumer credit. Some of the consumers included in our target market are consumers who are dependent upon finance companies, consumers with only retail store credit cards and/or lacking general purpose credit cards, consumers who are establishing or expanding their credit, and consumers who may have had a delinquency, a default or, in some instances, a bankruptcy in their credit histories, but who, in our view, have demonstrated creditworthiness. We price our credit products taking into account the perceived risk level of our customers. If our estimates are incorrect, customer default rates will be higher, we will receive less cash from the receivables and the value of our loans and fees receivable will decline, all of which will have a negative impact on performance. It also is unclear whether our current payment rates can be sustained given uncertainty in the employment outlook and economic environment at large.

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, and such fluctuations recently have been negative. 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 our loans and fees receivable, 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 our loans and fees receivable, 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, as we have experienced for our credit card receivables portfolios with respect to financing agreements secured by our loans and fees receivable, levels of loss and delinquency can result in our being required to repay our lenders earlier than expected, thereby reducing funds available to us for future growth. Because all of our 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.

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

We Are Substantially Dependent Upon Borrowed Funds to Fund the Receivables We Originate or Purchase

We finance our receivables 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 recent regulatory changes that have reduced asset-level returns on credit card lending—we will not be able to grow our credit card operations and it will continue to contract in size.

## Table of Contents

### 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, extent and success of our marketing efforts.

Despite our recent origination efforts, our credit card operation currently is contracting. 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;
- the level and success of our marketing efforts;
- the degree to which we lose business to competitors;
- the level of usage of our credit products by our customers;
- the availability of portfolios for purchase on attractive terms;
- levels of delinquencies and charge offs;
- the level of costs of soliciting new customers;
- 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 our point-of-sale finance operations may adversely affect our revenues and operating results from these operations. Our three largest retail partners accounted for over 45.0% of our point-of-sale finance revenue in 2015. 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' 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 our loans and fees receivable, or otherwise adversely affect our operations. Similarly, regulatory changes could adversely affect our ability or willingness to market credit products and services to our customers. Also, the accounting rules that govern 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.

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 account balances 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 we originate some of our credit products 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 authorities, state regulators having jurisdiction over financial institutions and debt origination and collection and state attorneys general. Our business practices, including the terms of our products and our marketing, 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 into our practices generally. If as part of these reviews the regulatory authorities conclude that we 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 our 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 customers. They also could require us to stop offering some of our products, either nationally or in selected states. To the extent that these remedies are imposed on the issuing banks through which we originate credit products, 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 or products 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 attract new accounts 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 to change any of our practices, the correction of such deficiencies or

Table of Contents

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 we modify our practices when a regulatory or enforcement authority requests or requires that we do so, 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 issuing banks through which we originate credit products 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.

Our rent-to-own operations are regulated by and subject to the requirements of various federal and state laws and regulations. These laws and regulations, which may be amended or supplemented or interpreted by the courts from time to time, could expose us to significant compliance costs or burdens or force us to change our business practices in a manner that may be materially adverse to our operations, prospects or financial condition. Currently, 47 states and the District of Columbia specifically regulate rent-to-own transactions such as those conducted in our rent-to-own programs. At the present time, no federal law specifically regulates the rent-to-own industry, although federal legislation to regulate the industry has been proposed from time to time. Any adverse changes in existing laws, or the passage of new adverse legislation by states or the federal government could materially increase both our costs of complying with laws and the risk that we could be sued or be subject to government sanctions if we are not in compliance. In addition, new burdensome legislation might force us to change our business model and might reduce the economic potential of our rent-to-own product offerings.

Most of the states that regulate rent-to-own transactions have enacted disclosure laws that require rent-to-own companies to disclose to their customers the total number of payments, total amount and timing of all payments to acquire ownership of any item, any other charges that may be imposed by them and miscellaneous other items. The more restrictive state lease purchase laws limit the total amount that a customer may be charged for an item, or regulate the amount of deemed “interest” that rent-to-own companies may charge on rent-to-own transactions, generally defining “interest” as lease fees paid in excess of the “retail” price of the goods.

There has been increased attention in the U.S. at both the state and federal levels, on consumer debt transactions in general, which may result in an increase in legislative and regulatory efforts directed at the rent-to-own industry. The federal government or states may enact additional or different legislation or regulation that would be disadvantageous or otherwise materially adverse to us.

In addition to the risk of lawsuits related to the laws that regulate rent-to-own and consumer lease transactions, we or our rent-to-own partners could be subject to lawsuits alleging violations of federal and state laws and regulations and consumer tort law, including fraud, consumer protection, information security and privacy laws, because of the consumer-oriented nature of the rent-to-own industry. A large judgment against us could adversely affect our financial condition and results of operations. Moreover, an adverse outcome from a lawsuit, even one against one of our competitors, could result in changes in the way we and others in the industry do business, possibly leading to significant costs or decreased revenues or profitability.

We are dependent upon banks to issue credit cards and provide certain other credit products. Our credit card and some of our other credit product programs are dependent on our issuing bank relationships, and their regulators could at any time limit their ability to issue some or all products on our behalf, or that we service on their behalf, or to modify those products significantly. Any significant interruption of those relationships would result in our being unable to originate new receivables and other credit products. It is possible that a regulatory position or action taken with respect to any of the issuing banks through which we have originated credit products or for whom we service receivables might result in the bank’s inability or unwillingness to originate future credit products on our behalf or in

partnership with us. In the current state, such a disruption of our issuing bank relationships principally would adversely affect our ability to grow our point-of-sale and direct-to-consumer finance products and other consumer credit offerings and underlying receivables.

Changes to consumer protection laws or changes in their interpretation may impede collection efforts or otherwise adversely impact our business practices. Federal and state consumer protection laws regulate the creation and enforcement of consumer credit card receivables and other loans. Many of these laws (and the related regulations) are focused on sub-prime lenders and are intended to prohibit or curtail industry-standard practices as well as non-standard practices. For instance, Congress enacted legislation that regulates loans to military personnel through imposing interest rate and other limitations and requiring new disclosures, all as regulated by the Department of Defense. Similarly, in 2009 Congress enacted legislation that required changes to a variety of marketing, billing and collection practices, and the Federal Reserve recently adopted significant changes to a number of practices through its issuance of regulations. Additionally, the CFPB is expected to be an active issuer of credit-related regulations in the near-term, and the scope and nature of those potential regulations are unknown. 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

## Table of Contents

significantly affected the viability of certain of our prior product offerings 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 accounts;
- certain of our collection methods could be prohibited, forcing us to revise our practices or adopt more costly or less effective practices;
- limitations on the content of marketing materials could be imposed that would result in reduced success for our marketing efforts;
- limitations on our ability to recover on charged-off receivables regardless of any act or omission on our part;
- some of our 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 customers 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 lend to certain individuals, such as military personnel.

Material regulatory developments are likely to 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 most significant active 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 liquidity constraints and diminution in reported asset values as lenders retain significant cash flows within underlying structured financings or otherwise under security arrangements for repayment of their loans. If we cannot renew or replace future facilities or otherwise are unduly constrained from a liquidity perspective, we may choose to sell part or all of our auto loan portfolios, possibly at less than favorable prices.

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

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



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

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

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

## Table of Contents

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 on our behalf. 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.

Although our Fortiva finance offerings are an important part of our strategic plan, we have limited operating history with these offerings. In late 2013, we expanded into our point-of-sale and direct-to-consumer finance offerings, including our rent-to-own offerings. As with many early stage endeavors, these product offerings may experience under-capitalization, delays, lack of funding, and many other problems, delays, and expenses, many of which are beyond our control. These include, but are not limited to:

- inability to establish profitable strategic relationships with merchants;
- inability to raise sufficient capital to fund our anticipated growth in this area; and
- competition from larger and more established competitors, such as banks and finance companies.

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 other than through agreements with banks. 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 our customers. 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 provider on terms that we consider favorable or in a timely manner without disruption of our business.

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

We face heightened levels of economic risk associated with new investment activities. We recently have made a number of investments in businesses that are not directly related to our traditional lending 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

## Table of Contents

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 2015, we paid Total System Services, Inc. \$7.1 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 our customers 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, consumer finance companies 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. We do not maintain cyber-security insurance liability coverage and as such we are exposed to the financial risk and losses associated with such incidents. 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 could also harm our reputation with our customers, 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 us from originating loans over the Internet, cause us to lose customers 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 originated loans over the Internet. The secure transmission of confidential information over the Internet is essential to maintaining customer confidence in our products and services offered online.

## Table of Contents

Advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology used by us to protect customer 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 customers to become unwilling to do business with 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 solicit new loans 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 customer 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 as many as 48 states, the District of Columbia, Puerto Rico and the Virgin Islands, have enacted data security regulations and laws requiring varying levels of customer 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 customer 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 customers 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.

## Table of Contents

### Risks Relating to an Investment in Our Securities

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

- actual or anticipated fluctuations in our operating results;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- the overall financing environment, which is critical to our value;
- the operating and stock performance of our competitors;
- announcements by us or our competitors of new products or services or significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in interest rates;
- the announcement of enforcement actions or investigations against us or our competitors or other negative publicity relating to us or our industry;
- changes in GAAP, laws, regulations or the interpretations thereof that affect our various business activities and segments;
- general domestic or international economic, market and political conditions;
- 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 issued preferred stock, these additional securities may have dividend or liquidation preferences senior to the common stock. If we issue convertible preferred stock, a subsequent conversion may dilute the current common shareholders' interest. We have similar abilities to issue convertible debt, warrants and other equity securities.



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

## Table of Contents

The right to receive payments on our convertible senior notes is subordinated 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 March 31, 2016, Atlanticus Holdings Corporation had outstanding: \$50.9 million of secured indebtedness, which would rank senior in right of payment to the convertible senior notes; \$37.9 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 March 31, 2016, our subsidiaries had total liabilities of approximately \$133.0 million (including the \$50.9 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, may also 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 March 31, 2016:

	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)
January 1 - January 31	—	\$ —	—	4,892,760
February 1 - February 29	—	\$ —	—	4,892,760
March 1 - March 31	100,000	\$ 3.00	100,000	4,792,760
Total	100,000	\$ 3.00	100,000	4,792,760

(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 22,981 such shares returned to us during the three months ended March 31, 2016.

Pursuant to a share repurchase plan authorized by our Board of Directors on May 12, 2016, we are authorized to repurchase 5,000,000 shares of our common stock through June 30, 2018, of which 5,000,000 shares remained authorized for repurchase as of May 12, 2016. 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.

## ITEM 5. OTHER INFORMATION

None.

Table of Contents

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

May 12, 2016 ~~By~~/ WILLIAM R. McCAMEY  
William R. McCamey  
Chief Financial Officer  
(duly authorized officer and principal financial officer)