

Atlanticus Holdings Corp
Form 10-Q
August 14, 2018
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

For the quarterly period ended June 30, 2018

of
ATLANTICUS HOLDINGS CORPORATION

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

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

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

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

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

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

As of August 8, 2018, 15,600,332 shares of common stock, no par value, of Atlanticus were outstanding, including 1,459,233 loaned shares to be returned.

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PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Atlanticus Holdings Corporation and Subsidiaries

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands)

	June 30, 2018	December 31, 2017
Assets		
Unrestricted cash and cash equivalents	\$49,604	\$ 41,484
Restricted cash and cash equivalents	28,869	29,174
Loans and fees receivable:		
Loans and fees receivable, at fair value	8,286	11,109
Loans and fees receivable, gross	441,413	393,898
Allowances for uncollectible loans and fees receivable	(54,842)	(62,970)
Deferred revenue	(36,839)	(36,956)
Net loans and fees receivable	358,018	305,081
Property at cost, net of depreciation	2,908	3,229
Investment in equity-method investee	3,447	4,244
Deposits	283	252
Prepaid expenses and other assets	15,615	42,149
Total assets	\$458,744	\$ 425,613
Liabilities		
Accounts payable and accrued expenses	\$109,668	\$ 115,737
Notes payable, at face value, net	268,343	226,238
Notes payable to related parties	40,000	40,000
Notes payable associated with structured financings, at fair value	6,797	9,240
Convertible senior notes	61,811	61,393
Income tax liability	4,454	9,132
Total liabilities	491,073	461,740
Commitments and contingencies (Note 9)		
Equity		
Common stock, no par value, 150,000,000 shares authorized: 15,341,425 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at June 30, 2018; and 15,291,884 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at December 31, 2017	—	—
Additional paid-in capital	213,201	212,785
Accumulated other comprehensive income (loss)	348	(2,178)
Retained deficit	(245,680)	(246,640)
Total shareholders' equity	(32,131)	(36,033)
Noncontrolling interests	(198)	(94)
Total equity	(32,329)	(36,127)
Total liabilities and equity	\$458,744	\$ 425,613

See accompanying notes.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Interest income:				
Consumer loans, including past due fees	\$37,743	\$26,613	\$73,424	\$52,472
Other	41	43	86	144
Total interest income	37,784	26,656	73,510	52,616
Interest expense	(8,807)	(6,419)	(16,960)	(12,236)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	28,977	20,237	56,550	40,380
Fees and related income on earning assets	7,094	3,971	13,308	6,772
Net recovery of (losses upon) charge off of loans and fees receivable recorded at fair value	1,352	519	(439)	8,370
Provision for losses on loans and fees receivable recorded at net realizable value	(16,476)	(15,744)	(32,467)	(26,397)
Net interest income, fees and related income on earning assets	20,947	8,983	36,952	29,125
Other operating income:				
Servicing income	632	861	1,264	1,950
Other income	771	240	1,287	349
Equity in income of equity-method investee	531	404	540	738
Total other operating income	1,934	1,505	3,091	3,037
Other operating expense:				
Salaries and benefits	5,602	5,733	11,900	11,513
Card and loan servicing	8,928	7,547	18,092	14,684
Marketing and solicitation	2,093	4,413	4,439	6,614
Depreciation	235	243	464	553
Other	5,446	5,776	9,146	10,677
Total other operating expense	22,304	23,712	44,041	44,041
Income (loss) before income taxes	577	(13,224)	(3,998)	(11,879)
Income tax benefit	4,998	4,443	4,854	3,825
Net income (loss)	5,575	(8,781)	856	(8,054)
Net loss (income) attributable to noncontrolling interests	55	(3)	104	(2)
Net income (loss) attributable to controlling interests	\$5,630	\$(8,784)	\$960	\$(8,056)
Net income (loss) attributable to controlling interests per common share—basic	\$0.41	\$(0.63)	\$0.07	\$(0.58)
Net income (loss) attributable to controlling interests per common share—diluted	\$0.41	\$(0.63)	\$0.07	\$(0.58)

See accompanying notes.

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Atlanticus Holdings Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(Dollars in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	\$5,575	\$(8,781)	\$856	\$(8,054)
Other comprehensive income:				
Foreign currency translation adjustment	4,871	—	2,526	—
Reclassifications of foreign currency translation adjustment to Other operating expense on the consolidated statements of operations	—	—	—	—
Income tax expense related to other comprehensive income	—	—	—	—
Comprehensive income (loss)	10,446	(8,781)	3,382	(8,054)
Comprehensive loss (income) attributable to noncontrolling interests	55	(3)	104	(2)
Comprehensive income (loss) attributable to controlling interests	\$10,501	\$(8,784)	\$3,486	\$(8,056)

See accompanying notes.

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Atlanticus Holdings Corporation and Subsidiaries
Consolidated Statement of Shareholders' Deficit
For the Six Months Ended June 30, 2018 (Unaudited)
(Dollars in thousands)

	Common Stock		Additional		Accumulated	Retained	Noncontrolling	Total
	Shares	Amount	Paid-In	Capital	Other Comprehensive Income (Loss)	Deficit	Interests	Equity
Balance at December 31, 2017	15,291,884	\$	—	\$212,785	\$ (2,178)	\$(246,640)	\$ (94)	\$(36,127)
Compensatory stock issuances, net of forfeitures	69,000	—	—	—	—	—	—	—
Amortization of deferred stock-based compensation costs	—	—	457	—	—	—	—	457
Redemption and retirement of shares	(19,459)	—	(41)	—	—	—	—	(41)
Other comprehensive income (loss)	—	—	—	2,526	960	(104)	3,382	
Balance at June 30, 2018	15,341,425	\$	—	\$213,201	\$ 348	\$(245,680)	\$ (198)	\$(32,329)

See accompanying notes.

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

	For the Six Months Ended June 30,	
	2018	2017
Operating activities		
Net income (loss)	\$856	\$(8,054)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	464	553
Losses upon charge off of loans and fees receivable recorded at fair value	439	2,324
Provision for losses on loans and fees receivable	32,467	26,397
Interest expense from accretion of discount on notes	437	383
Income from accretion of discount associated with receivables purchases	(36,681)	(25,725)
Unrealized gain on loans and fees receivable and underlying notes payable held at fair value	(2,938)	(3,092)
Amortization of deferred loan costs	709	346
Income from equity-method investments	(540)	(738)
Changes in assets and liabilities:		
Increase in uncollected fees on earning assets	(2,965)	(1,994)
Decrease in income tax liability	(4,678)	(4,040)
(Increase) decrease in deposits	(32)	200
(Decrease) increase in accounts payable and accrued expenses	(4,369)	21,959
Other	27,484	1,893
Net cash provided by operating activities	10,653	10,412
Investing activities		
Proceeds from equity-method investee	1,337	2,059
Investments in earning assets	(279,391)	(211,523)
Proceeds from earning assets	233,681	185,393
Purchases and development of property, net of disposals	(143)	(79)
Net cash used in investing activities	(44,516)	(24,150)
Financing activities		
Noncontrolling interests contributions, net	—	7
Purchase and retirement of outstanding stock	(41)	(18)
Proceeds from borrowings	243,316	141,221
Repayment of borrowings	(201,939)	(117,100)
Net cash provided by financing activities	41,336	24,110
Effect of exchange rate changes on cash	342	313
Net increase in cash and cash equivalents	7,815	10,685
Cash and cash equivalents at beginning of period	70,658	92,641
Cash and cash equivalents at end of period	\$78,473	\$103,326
Supplemental cash flow information		
Cash paid for interest	\$15,706	\$11,342
Net cash income tax (refunds) payments	\$(176)	\$215
Supplemental non-cash information		
Issuance of stock options and restricted stock	\$175	\$1,142
See accompanying notes.		

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Atlanticus Holdings Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

1. Description of Our Business

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

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

Additionally, we report within our Credit and Other Investments segment: 1) the income earned from an investment in an equity-method investee that holds credit card receivables for which we are the servicer; and 2) gains or losses associated with investments previously made in consumer finance technology platforms. These include investments in companies engaged in mobile technologies, marketplace lending and other financial technologies. These investments are carried at the lower of cost or market valuation. None of these companies are publicly-traded and there are no material pending liquidity events.

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

2. Significant Accounting Policies and Consolidated Financial Statement Components

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

Basis of Presentation and Use of Estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the U.S. (“GAAP”). The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our consolidated financial statements, as well as the reported amounts of revenues and expenses during each reporting period. We base these estimates on information available to us as of the date of the financial statements. Actual results could differ materially from these estimates. Certain estimates, such as credit losses, payment rates, costs of funds, discount rates and the yields earned on credit card receivables, significantly affect the reported amount of credit card receivables that we report at

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fair value and our notes payable associated with structured financings, at fair value; these estimates likewise affect the changes in these amounts reflected within our fees and related income on earning assets line item on our consolidated statements of operations. Additionally, estimates of future credit losses have a significant effect on loans and fees receivable, net, as shown on our consolidated balance sheets, as well as on the provision for losses on loans and fees receivable within our consolidated statements of operations.

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

Loans and Fees Receivable

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

We show both an allowance for uncollectible loans and fees receivable and unearned fees (or “deferred revenue”) for our loans and fees receivable (i.e., as opposed to those carried at fair value). Our loans and fees receivable consist of smaller-balance, homogeneous loans, divided into two portfolio segments: Credit and Other Investments; and Auto Finance. Each of these portfolio segments is further divided into pools based on common characteristics such as contract or acquisition channel. For each pool, we determine the necessary allowance for uncollectible loans and fees receivable by analyzing some or all of the following unique attributes for each type of receivable pool: historical loss rates; current delinquency and roll-rate trends; vintage analyses based on the number of months an account has been in existence; the effects of changes in the economy on our customers; changes in underwriting criteria; and estimated recoveries. These reserves are considered in conjunction with (and potentially reduced by) any unearned fees and discounts that may be applicable for an outstanding loan receivable. A considerable amount of judgment is required to assess the ultimate amount of uncollectible loans and fees receivable, and we continuously evaluate and update our methodologies to determine the most appropriate allowance necessary. We may individually evaluate a receivable or pool of receivables for impairment if circumstances indicate that the receivable or pool of receivables may be at higher risk for non-performance than other receivables (e.g., if a particular retail or auto-finance partner has indications of non-performance (such as a bankruptcy) that could impact the underlying pool of receivables we purchased from the partner).

As of June 30, 2018 and December 31, 2017, the weighted average remaining accretion period for the \$36.8 million and \$37.0 million of deferred revenue reflected in the consolidated balance sheets was 12 months and 11 months, respectively.

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

	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
For the Three Months Ended June 30, 2018				
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	\$(20.8)	\$(1.9)	\$(35.6)	\$(58.3)
Provision for loan losses	(6.1)	0.3	(10.7)	(16.5)
Charge offs	7.0	0.3	14.1	21.4
Recoveries	—	(0.2)	(1.2)	(1.4)
Balance at end of period	\$(19.9)	\$(1.5)	\$(33.4)	\$(54.8)
For the Six Months Ended June 30, 2018				
	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total

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Allowance for uncollectible loans and fees receivable:

Balance at beginning of period	\$ (18.2)	\$ (2.3)	\$ (42.5)	\$ (63.0)
Provision for loan losses	(15.1)	0.3	(17.7)	(32.5)
Charge offs	13.5	1.0	29.2	43.7
Recoveries	(0.1)	(0.5)	(2.4)	(3.0)
Balance at end of period	\$ (19.9)	\$ (1.5)	\$ (33.4)	\$ (54.8)

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As of June 30, 2018	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at end of period individually evaluated for impairment	\$—	\$ (0.2)	\$ (0.2)	\$ (0.4)
Balance at end of period collectively evaluated for impairment	\$(19.9)	\$(1.3)	\$(33.2)	\$(54.4)
Loans and fees receivable:				
Loans and fees receivable, gross	\$119.8	\$83.9	\$237.7	\$441.4
Loans and fees receivable individually evaluated for impairment	\$—	\$0.3	\$0.2	\$0.5
Loans and fees receivable collectively evaluated for impairment	\$119.8	\$83.6	\$237.5	\$440.9

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

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

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As of December 31, 2017	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at end of period individually evaluated for impairment	\$—	\$ (0.2)	\$ (0.2)	\$ (0.4)
Balance at end of period collectively evaluated for impairment	\$(18.2)	\$(2.1)	\$(42.3)	\$(62.6)
Loans and fees receivable:				
Loans and fees receivable, gross	\$87.2	\$ 77.8	\$ 228.9	\$393.9
Loans and fees receivable individually evaluated for impairment	\$—	\$ 0.4	\$ 0.2	\$0.6
Loans and fees receivable collectively evaluated for impairment	\$87.2	\$ 77.4	\$ 228.7	\$393.3

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

Balance at June 30, 2018	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
30-59 days past due	\$3.4	\$ 6.1	\$ 8.7	\$18.2
60-89 days past due	3.0	1.8	7.1	11.9
90 or more days past due	7.4	1.2	13.4	22.0
Delinquent loans and fees receivable, gross	13.8	9.1	29.2	52.1
Current loans and fees receivable, gross	106.0	74.8	208.5	389.3
Total loans and fees receivable, gross	\$119.8	\$ 83.9	\$ 237.7	\$441.4
Balance of loans 90 or more days past due and still accruing interest and fees	\$—	\$ 1.0	\$ —	\$1.0

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

Troubled Debt Restructurings. As part of ongoing collection efforts, once an account in our Credit and Other Investments segment is 90 days or more past due, the account is placed on a non-accrual status. Placement on a non-accrual status results in the elimination of the annual percentage rate (“APR”) charged to an account and a cessation of fee billing. Following this adjustment, if a customer demonstrates a willingness and ability to resume making monthly payments and meets certain additional criteria, we will re-age the customer’s account. When we re-age an account, we adjust the status of the account to bring a delinquent account current, but generally do not make any further modifications to the payment terms or amount owed. Once an account is placed on a non-accrual status, it is closed for further purchases. Accounts that are placed on a non-accrual status and thereafter make at least one payment qualify as troubled debt restructurings (“TDRs”).

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

	As of June 30, 2018		December 31, 2017	
	Point-of-Sale	Direct-to-consumer	Point-of-Sale	Direct-to-consumer
Number of accounts on non-accrual status	11,377	8,789	11,432	6,681
Number of accounts on non-accrual status above that have been re-aged	1,283	311	915	80
Amount of receivables on non-accrual status (in thousands)	\$16,273	\$ 9,148	\$17,169	\$ 7,067
Amount of receivables on non-accrual status above that have been re-aged (in thousands)	\$2,327	\$ 341	\$1,570	\$ 86
Carrying value of receivables on non-accrual status (in thousands)	\$5,471	\$ 1,589	\$4,247	\$ 1,173
TDRs - Performing (carrying value, in thousands)*	\$3,361	\$ 894	\$2,368	\$ 508
TDRs - Nonperforming (carrying value, in thousands)*	\$2,110	\$ 695	\$1,879	\$ 665

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

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

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

	Twelve Months Ended June 30, 2018		June 30, 2017	
	Point-of-Sale	Direct-to-Consumer	Point-of-Sale	Direct-to-Consumer
Number of accounts	2,161	1,134	1,907	974
Loan balance at time of charge off (in thousands)	\$3,296	\$ 1,749	\$2,409	\$2,788

Prepaid Expenses and Other Assets

Prepaid expenses and other assets include amounts paid to third parties for marketing and other services as well as amounts owed to us by third parties. Prepaid amounts are expensed as the underlying related services are performed. Also included are (1) commissions paid associated with our various office leases which we amortize into expense over the lease terms, (2) amounts due from a third party in respect of a servicing agreement totaling \$5.3 million as of June 30, 2018, (3) ongoing deferred costs associated with service contracts and (4) investments in consumer finance technology platforms carried at the lower of cost or market valuation.

Accounts Payable and Accrued Expenses

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

Income Taxes

We experienced a negative effective income tax expense rate of 866.2% for the three months ended June 30, 2018, and an effective income tax benefit rate of 121.4% for the six months ended June 30, 2018; this compares to effective

income tax benefit rates of 33.6% and 32.2% for the three and six months ended June 30, 2017, respectively. Our negative effective income tax expense rate for the three months ended June 30, 2018, and our effective income tax benefit rate for the six months ended June 30, 2018, significantly differ from the statutory rate. This difference is caused primarily by the favorable effects on results during the three months ended June 30, 2018, of our settlement in such period of the Internal Revenue Service ("IRS") examination of our 2008 tax return and the carryback of its resulting net operating losses to pre-2008 tax years. Our effective

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income tax benefit rates for the three and six months ended June 30, 2017, were below the statutory rate principally due to interest accruals on unpaid federal tax liabilities and valuation allowances established against net federal deferred tax assets that arose during those periods associated with our net losses incurred during those periods.

We report income tax-related interest and penalties (including those associated with both our accrued liabilities for uncertain tax positions and unpaid tax liabilities) within our income tax benefit or expense line item on our consolidated statements of operations. We likewise report the reversal of income tax-related interest and penalties within such line item to the extent that we resolve our liabilities for uncertain tax positions or unpaid tax liabilities in a manner favorable to our accruals therefor. During the three and six months ended June 30, 2018, we accrued \$0.2 million and \$0.4 million of net income tax-related interest and penalties, respectively. Also, during these periods, we reached a favorable settlement with the IRS concerning the level of our 2008 net operating losses eligible to be carried back to pre-2008 tax years for refunds. As a result, for the three and six months ended June 30, 2018, we reduced income tax expense based on the reversal of \$1.5 million of accrued interest and penalties on over-assessed taxes we will not be required to pay under the terms of our settlement with the IRS.

In December 2014, we reached a settlement with the IRS concerning the tax treatment of net operating losses we incurred in 2007 and 2008 and carried back to obtain refunds of federal income taxes paid in earlier years dating back to 2003. At March 31, 2018 (i.e., prior to our June 2018 settlement with the IRS), our net unpaid income tax assessment associated with the December 2014 settlement was \$7.4 million, such amount excluding unpaid interest and penalties on the tax assessment, the accruals for which aggregated \$4.3 million at March 31, 2018. Prior to our filing amended return claims that, if accepted, would have eliminated the \$7.4 million assessment (and corresponding interest and penalties) under a negotiated provision of the December 2014 IRS settlement, the IRS filed a lien (as is customarily the case), associated with the assessment. Subsequently, an IRS examination team denied our amended return claims, and we filed a protest with IRS Appeals. Following correspondence and conferences we held with IRS Appeals, we received and accepted a settlement offer from IRS Appeals in June 2018 that reduced our \$7.4 million net unpaid income tax assessment referenced above to \$3.7 million, and in July 2018 we paid \$5.4 million to the IRS to cover the \$3.7 million unpaid income tax assessment and the interest that had accrued thereon. In due course, we expect the IRS to remove the aforementioned lien associated with the now-paid assessment.

Revenue Recognition and Revenue from Contracts with Customers

Consumer Loans, Including Past Due Fees

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

Fees and Related Income on Earning Assets

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

We assess fees on credit card accounts underlying our credit card receivables according to the terms of the related cardholder agreements and, except for annual membership fees, we recognize these fees as income when they are

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

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

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Fees on credit products	\$5,498	\$2,007	\$10,403	\$3,103
Changes in fair value of loans and fees receivable recorded at fair value	513	1,002	495	1,565
Changes in fair value of notes payable associated with structured financings recorded at fair value	1,112	821	2,443	1,527
Rental revenue	—	—	—	148
Other	(29)	141	(33)	429
Total fees and related income on earning assets	\$7,094	\$3,971	\$13,308	\$6,772

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

Revenue from Contracts with Customers

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

	Credit and Other Investments	Auto Finance	Total
Three months ended June 30, 2018			
Interchange revenues, net ⁽¹⁾	\$ 695	\$ —	\$695
Servicing income	338	294	632
Service charges and other customer related fees	89	(13)	76
Total Other income	1,122	281	1,403
Six months ended June 30, 2018			
Interchange revenues, net ⁽¹⁾	\$ 1,139	\$ —	\$1,139
Servicing income	740	524	1,264
Service charges and other customer related fees	114	34	148
Total Other income	1,993	558	2,551

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

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The guidance requires an assessment of credit losses based on expected rather than incurred losses (known as the current expected credit loss model). This generally will result in the recognition of allowances for losses earlier than under current

accounting guidance for trade and other receivables, held to maturity debt securities and other instruments. The standard will be adopted on a prospective basis with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. We are currently in the process of reviewing accounting interpretations, expected data requirements and necessary changes to our loss estimation methods, processes and systems. This standard is expected to result

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in an increase to our allowance for loan losses given the change to expected losses for the estimated life of the financial asset. The extent of the increase will depend on the asset quality of the portfolio, and economic conditions and forecasts at adoption.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires lessees to recognize assets and liabilities for most leases and changes certain aspects of current lessor accounting, among other things. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The adoption of ASU 2016-02 will result in the Company recognizing a right-of-use asset and lease liability on the consolidated balance sheet based on the present value of remaining operating lease payments. Net future minimum lease payments totaled \$12.2 million as of December 31, 2017. We do not expect the adoption of ASU 2016-02 to have a material impact on our consolidated financial statements due to the limited lease activity we are involved in.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 establishes a principles-based model under which revenue from a contract is allocated to the distinct performance obligations within the contract and recognized in income as each performance obligation is satisfied. Additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract is also required. In August 2015, the FASB delayed the effective date by one year and the guidance was effective for annual and interim periods beginning January 1, 2018. Most revenue associated with financial instruments, including interest income, loan origination fees and credit card fees, is outside the scope of the guidance. We adopted this standard as of January 1, 2018 using the modified retrospective method of adoption. Our adoption of this standard did not have a material impact on our consolidated financial statements.

Subsequent Events

We evaluate subsequent events that occur after our consolidated balance sheet date but before our consolidated financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements; and (2) nonrecognized, or those that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date. We have evaluated subsequent events occurring after June 30, 2018, and based on our evaluation we did not identify any recognized or nonrecognized subsequent events that would have required further adjustments to our consolidated financial statements.

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 June 30, 2018 and December 31, 2017, we did not have a material amount of long-lived assets located outside of the U.S., and only a negligible portion of our revenues for the six months ended June 30, 2018 and 2017 were generated outside of the U.S.

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

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

Three months ended June 30, 2018	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	\$ 30,302	\$7,441	\$37,743
Other	41	—	41
Total interest income	30,343	7,441	37,784
Interest expense	(8,462	) (345	) (8,807)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	\$ 21,881	\$7,096	\$28,977
Fees and related income on earning assets	\$ 7,075	\$19	\$7,094
Servicing income	\$ 338	\$294	\$632
Equity in income of equity-method investee	\$ 531	\$—	\$531
(Loss) income before income taxes	\$ (2,336	) \$2,913	\$577
Income tax benefit (expense)	\$ 5,240	\$(242	) \$4,998
Six months ended June 30, 2018	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	\$ 58,864	\$14,560	\$73,424
Other	86	—	86
Total interest income	58,950	14,560	73,510
Interest expense	(16,354	) (606	) (16,960)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	\$ 42,596	\$13,954	\$56,550
Fees and related income on earning assets	\$ 13,272	\$36	\$13,308
Servicing income	\$ 740	\$524	\$1,264
Equity in income of equity-method investee	\$ 540	\$—	\$540
(Loss) income before income taxes	\$ (9,250	) \$5,252	\$(3,998)
Income tax benefit (expense)	\$ 5,639	\$(785) \$4,854
Total assets	\$ 387,342	\$71,402	\$458,744

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

4.Shareholders' Equity

During the three and six months ended June 30, 2018, we repurchased and contemporaneously retired 12,453 and 19,459 shares of our common stock at an aggregate cost of \$27,000 and \$41,000, respectively, pursuant to both open market and private purchases and the return of stock by holders of equity incentive awards to pay tax withholding obligations. During the six months ended June 30, 2017, we repurchased and contemporaneously retired 6,702 shares of our common stock at an aggregate cost of \$18,000, pursuant to both open market and private purchases and the return of stock by holders of equity incentive awards to pay tax withholding obligations. No shares were repurchased during the three months ended June 30, 2017.

We had 1,459,233 loaned shares outstanding at June 30, 2018 and December 31, 2017, which were originally lent in connection with our November 2005 issuance of convertible senior notes. We retire lent shares as they are returned to us.

5.Investment in Equity-Method Investee

Our equity-method investment outstanding at June 30, 2018 consists of our 66.7% interest in a joint venture formed to purchase a credit card receivable portfolio.

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

	As of		Three months ended June 30,		Six months ended June 30,	
	June 30, 2018	December 31, 2017	2018	2017	2018	2017
Loans and fees receivable, at fair value	\$4,991	\$ 6,123				
Total assets	\$5,192	\$ 6,392				
Total liabilities	\$22	\$ 26				
Members' capital	\$5,170	\$ 6,366				
Net interest income, fees and related income on earning assets	\$798	\$607	\$812	\$1,111		
Net income	\$730	\$511	\$669	\$908		
Net income attributable to our equity investment in investee	\$531	\$404	\$540	\$738		

6. Fair Values of Assets and Liabilities

Valuations and Techniques for Assets

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The table below summarizes (in thousands) by fair value hierarchy the June 30, 2018 and December 31, 2017 fair values and carrying amounts of (1) our assets that are required to be carried at fair value in our consolidated financial statements and (2) our assets not carried at fair value, but for which fair value disclosures are required:

	Quoted Prices in Active Markets for Identical Assets (Level 1)				Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Carrying Amount of Assets
Assets – As of June 30, 2018 (1)									
Loans and fees receivable, net for which it is practicable to estimate fair value	\$	—	\$	—	\$ 376,681				\$349,732
Loans and fees receivable, at fair value	\$	—	\$	—	\$ 8,286				\$8,286
Assets – As of December 31, 2017 (1)									
	Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Assets					

	Assets (Level 1)			
Loans and fees receivable, net for which it is practicable to estimate fair value	\$	—\$	—\$ 324,945	\$293,972
Loans and fees receivable, at fair value	\$	—\$	—\$ 11,109	\$11,109

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

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

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For Level 3 assets carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents (in thousands) a reconciliation of the beginning and ending balances for the six months ended June 30, 2018 and 2017:

	Loans and Fees Receivable, at Fair Value	
	2018	2017
Balance at January 1,	\$11,109	\$15,648
Total gains—realized/unrealized:		
Net revaluations of loans and fees receivable, at fair value	495	1,565
Settlements	(3,309)	(4,475)
Impact of foreign currency translation	(9)	32
Balance at June 30,	\$8,286	\$12,770

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

Net Revaluation of Loans and Fees Receivable. We record the net revaluation of loans and fees receivable (including those pledged as collateral) in the fees and related income on earning assets category in our consolidated statements of operations, specifically as changes in fair value of loans and fees receivable recorded at fair value. The net revaluation of loans and fees receivable is based on the present value of future cash flows using a valuation model of expected cash flows and the estimated cost to service and collect those cash flows. We estimate the present value of these future cash flows using a valuation model consisting of internally developed estimates of assumptions third-party market participants would use in determining fair value, including estimates of net collected yield, principal payment rates, expected principal credit loss rates, costs of funds, discount rates and servicing costs. Accrued interest income on receivables underlying our asset classes that are carried at fair value in our consolidated financial statements is recorded in Interest income - Consumer loans, including past due fees in our Consolidated Statements of Operations.

For Level 3 assets carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents (in thousands) quantitative information about the valuation techniques and the inputs used in the fair value measurement as of June 30, 2018 and December 31, 2017:

Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at June 30, 2018	Valuation Technique	Unobservable Input	Range (Weighted Average)
Loans and fees receivable, at fair value	\$8,286	Discounted cash flows	Gross yield	15.6% to 29.1% (25.4%)
			Principal payment rate	1.3% to 3.5% (2.4%)
			Expected credit loss rate	10.1% to 12.0% (11.6%)
			Servicing rate	12.0% to 15.1% (12.3%)
			Discount rate	6.0% to 14.6% (13.2%)

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Quantitative Information about Level 3 Fair Value Measurements

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

Valuations and Techniques for Liabilities

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the liability. The table below summarizes (in thousands) by fair value hierarchy the June 30, 2018 and December 31, 2017 fair values and carrying amounts of (1) our liabilities that are required to be carried at fair value in our consolidated financial statements and (2) our liabilities not carried at fair value, but for which fair value disclosures are required:

Liabilities – As of June 30, 2018	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					
Revolving credit facilities	\$	—\$ —		\$ 205,970	\$ 205,970
Amortizing debt facilities	\$	—\$ —		\$ 62,373	\$ 62,373
Senior secured term loan	\$	—\$ —		\$ 40,000	\$ 40,000
5.875% convertible senior notes	\$	—\$ 44,114		\$ —	\$ 61,811
Liabilities carried at fair value					
Notes payable associated with structured financings, at fair value	\$	—\$ —		\$ 6,797	\$ 6,797
Liabilities - As of December 31, 2017	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

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Liabilities not carried at fair value

Revolving credit facilities	\$	—\$ —	\$ 160,854	\$ 160,854
Amortizing debt facilities	\$	—\$ —	\$ 65,384	\$ 65,384
Senior secured term loan	\$	—\$ —	\$ 40,000	\$ 40,000
5.875% convertible senior notes	\$	—\$ 43,588	\$ —	\$ 61,393

Liabilities carried at fair value

Notes payable associated with structured financings, at fair value	\$	—\$ —	\$ 9,240	\$ 9,240
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For our material Level 3 liabilities carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents (in thousands) a reconciliation of the beginning and ending balances for the six months ended June 30, 2018 and 2017.

	Notes Payable Associated with Structured Financings, at Fair Value	
	2018	2017
Beginning balance, January 1,	\$ 9,240	\$ 12,276
Total (gains) losses—realized/unrealized:		
Net revaluations of notes payable associated with structured financings, at fair value	(2,443)	(1,527)
Repayments on outstanding notes payable, net	—	(718)
Ending balance, June 30,	\$ 6,797	\$ 10,031

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

Net Revaluation of Notes Payable Associated with Structured Financings, at Fair Value. We record the net revaluations of notes payable associated with structured financings, at fair value, in the changes in fair value of notes payable associated with structured financings line item within the fees and related income on earning assets category of our consolidated statements of operations. The net revaluation of these notes is based on the present value of future cash flows utilized in repayment of the outstanding principal and interest under the facilities using a valuation model of expected cash flows net of the contractual service expenses within the facilities. We estimate the present value of these future cash flows using a valuation model consisting of internally developed estimates of assumptions third-party market participants would use in determining fair value, including: estimates of net collected yield, principal payment rates and expected principal credit loss rates on the credit card receivables that secure the non-recourse notes payable; costs of funds; discount rates; and contractual servicing fees. Accrued interest expense on notes payable underlying our notes payable associated with structured financings, at fair value is recorded in Interest expense in our Consolidated Statements of Operations.

For material Level 3 liabilities carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents (in thousands) quantitative information about the valuation techniques and the inputs used in the fair value measurement as of June 30, 2018 and December 31, 2017:

Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at June 30, 2018	Valuation Technique	Unobservable Input	Weighted Average
Notes payable associated with structured financings, at fair value	\$6,797	Discounted cash flows	Gross yield	26.9 %
			Principal payment rate	2.4 %
			Expected credit loss rate	12.0 %
			Discount rate	14.6 %

Quantitative Information about Level 3 Fair Value Measurements

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

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Other Relevant Data

Other relevant data (in thousands) as of June 30, 2018 and December 31, 2017 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 June 30, 2018		
Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value	\$ 3,344	\$ 9,240
Aggregate fair value of loans and fees receivable that are reported at fair value	\$ 1,489	\$ 6,797
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)	\$ 3	\$ 8
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	\$ 50	\$ 217

	Loans and Fees Receivable at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings at Fair Value
As of December 31, 2017		
Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value	\$ 4,416	\$ 11,349
Aggregate fair value of loans and fees receivable that are reported at fair value	\$ 1,869	\$ 9,240
Aggregate fair value of receivables carried at fair value that are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies)	\$ 5	\$ 17
Aggregate excess of balance of unpaid principal receivables within loans and fees receivable that are reported at fair value and are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies) over the fair value of such loans and fees receivable	\$ 107	\$ 369

Notes Payable

Notes Payable	Notes Payable
Associated with	Associated with
Structured	Structured

	Financings, at Fair Value as of June 30, 2018	Financings, at Fair Value as of December 31, 2017
Aggregate unpaid principal balance of notes payable	\$ 101,314	\$ 101,314
Aggregate fair value of notes payable	\$ 6,797	\$ 9,240

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7. Notes Payable

Notes Payable Associated with Structured Financings, at Fair Value

Scheduled (in millions) in the table below are (1) the carrying amount of our structured financing note secured by certain credit card receivables and reported at fair value as of June 30, 2018 and December 31, 2017, (2) the outstanding face amount of our structured financing note secured by certain credit card receivables and reported at fair value as of June 30, 2018 and December 31, 2017, and (3) the carrying amount of the credit card receivables and restricted cash that provide the exclusive means of repayment for the note (i.e., lenders have recourse only to the specific credit card receivables and restricted cash underlying each respective facility and cannot look to our general credit for repayment) as of June 30, 2018 and December 31, 2017.

	Carrying Amounts at Fair Value as of	
	June 30, 2018	December 31, 2017
Amortizing securitization facility (stated maturity of December 2021), outstanding face amount of \$101.3 million as of June 30, 2018 (\$101.3 million as of December 31, 2017) bearing interest at a weighted average 7.2% interest rate at June 30, 2018 (6.7% at December 31, 2017), which is secured by credit card receivables and restricted cash aggregating \$6.8 million as of June 30, 2018 (\$9.2 million as of December 31, 2017) in carrying amount	\$6.8	\$ 9.2

Contractual payment allocations within this credit card receivables structured financing provide for a priority distribution of cash flows to us to service the credit card receivables, a distribution of cash flows to pay interest and principal due on the notes, and a distribution of all excess cash flows (if any) to us. The structured financing facility included in the above table is amortizing down along with collections of the underlying receivables and there are no provisions within the debt agreement that allow for acceleration or bullet repayment of the facility prior to its scheduled expiration date. The aggregate carrying amount of the credit card receivables and restricted cash that provide security for the \$6.8 million in fair value of the structured financing facility included in the above table is \$6.8 million, which means that we have no aggregate exposure to pre-tax equity loss associated with the above structured financing arrangement at June 30, 2018.

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

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

Other notes payable outstanding as of June 30, 2018 and December 31, 2017 that are secured by the financial and operating assets of either the borrower, another of our subsidiaries or both, include the following, scheduled (in millions); except as otherwise noted, the assets of our holding company (Atlanticus Holdings Corporation) are subject to creditor claims under these scheduled facilities:

	As of June 30, December 31, 2018 2017	
Revolving credit facilities at a weighted average interest rate equal to 7.6% at June 30, 2018 (7.8% at December 31, 2017) secured by the financial and operating assets of CAR and/or certain receivables and restricted cash with a combined aggregate carrying amount of \$285.6 million as of June 30, 2018 (\$216.0 million at December 31, 2017)		
Revolving credit facility, not to exceed \$40.0 million (expiring November 1, 2019) (1)	30.8	24.8
Revolving credit facility, not to exceed \$50.0 million (expiring October 30, 2019) (2) (3)	49.3	49.4
Revolving credit facility, not to exceed \$12.0 million (expiring December 21, 2019) (2) (3)	10.5	3.8
Revolving credit facility, not to exceed \$20.0 million (expiring December 31, 2019) (2) (3)	19.7	19.8
Revolving credit facility, not to exceed \$90.0 million (expiring February 8, 2022) (2) (4)	40.0	65.0
Revolving credit facility, not to exceed \$100.0 million (expiring June 11, 2020) (2)	58.1	—
Revolving credit facility, not to exceed \$15.0 million (expiring June 25, 2020) (2) (3)	13.2	7.5
Amortizing facilities at a weighted average interest rate equal to 7.2% at June 30, 2018 (6.0% at December 31, 2017) secured by certain receivables and restricted cash with a combined aggregate carrying amount of \$62.8 million as of June 30, 2018 (\$77.9 million as of December 31, 2017)		
Amortizing debt facility (repaid in March 2018) (2) (3) (5)	—	3.7
Amortizing debt facility (repaid in June 2018) (2) (3) (5)	—	18.3
Amortizing debt facility (expiring December 12, 2018) (2) (3)	1.9	6.0
Amortizing debt facility (expiring November 30, 2018) (2) (3) (5)	9.3	20.5
Amortizing debt facility (expiring April 22, 2019) (2) (3) (5)	21.8	10.0
Amortizing debt facility (expiring September 29, 2019) (2) (3) (5)	16.9	—
Other facilities		
Senior secured term loan from related parties (expiring November 21, 2018) that is secured by certain assets of the Company with an annual interest rate equal to 9.0% (4)	40.0	40.0
Total notes payable before unamortized debt issuance costs and discounts	311.5	268.8
Unamortized debt issuance costs and discounts	(3.2)	(2.6)
Total notes payable outstanding, net	\$308.3	\$ 266.2

- 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.

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

On November 26, 2014, we and certain of our subsidiaries entered into a Loan and Security Agreement with Dove Ventures, LLC, a Nevada limited liability company (“Dove”). The agreement provides for a senior secured term loan facility in an amount of up to \$40.0 million at any time outstanding. The Loan and Security Agreement was fully drawn with \$40.0 million outstanding as of June 30, 2018. In November 2017, the agreement was amended to extend the maturity date of the term loan to November 21, 2018. All other terms remain unchanged.

Our obligations under the agreement are guaranteed by certain subsidiary guarantors and secured by a pledge of certain assets of ours and the subsidiary guarantors. The loans bear interest at the rate of 9.0% per annum, payable monthly in arrears. The principal amount of these loans is payable in a single installment on November 21, 2018 (as amended). The agreement includes customary affirmative and negative covenants, as well as customary representations, warranties and events of default. Subject to certain conditions, we can prepay the principal amounts of these loans without premium or penalty.

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

In February 2017, we (through a wholly owned subsidiary) established a program under which we sell certain receivables to a consolidated trust in exchange for notes issued by the trust. The notes are secured by the receivables and other assets of the trust. Simultaneously with the establishment of the program, the trust issued a series of variable funding notes and sold an aggregate amount of up to \$90.0 million (of which \$40.0 million was outstanding as of June 30, 2018) to an unaffiliated third party pursuant to a facility that can be drawn upon to the extent of outstanding eligible receivables. Interest rates on the notes range from 8.0% to 14.0%.

In June 2018, we (through a wholly owned subsidiary) expanded the above mentioned program to sell up to an additional \$100.0 million of notes which are secured by the receivables and other assets of the trust (of which \$58.1 million was outstanding as of June 30, 2018) to a separate unaffiliated third party pursuant to a facility that can be drawn upon to the extent of outstanding eligible receivables. Interest rates on the notes are based on commercial paper rates plus 4.25%.

The facilities mature on February 8, 2022 and June 11, 2020, respectively, and are subject to certain affirmative covenants and collateral performance tests, the failure of which could result in required early repayment of all or a portion of the outstanding balance of notes. The facilities also may be prepaid subject to payment of a prepayment or other fee.

8. Convertible Senior Notes

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

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

	As of	
	June 30, 2018	December 31, 2017
Face amount of 5.875% convertible senior notes	\$88,280	\$ 88,280
Discount	(26,469)	(26,887)
Net carrying value	\$61,811	\$ 61,393
Carrying amount of equity component included in additional paid-in capital	\$108,714	\$ 108,714
Excess of instruments' if-converted values over face principal amounts	—	\$ —

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9. Commitments and Contingencies

General

Under finance products available in the point-of-sale and direct-to-consumer channels, consumers have the ability to borrow up to the maximum credit limit assigned to each individual's account. Unfunded commitments under these products aggregated \$492.7 million at June 30, 2018. We have never experienced a situation in which all borrowers have exercised their entire available lines of credit at any given point in time, nor do we anticipate this will ever occur in the future. Moreover, there would be a concurrent increase in assets should there be any exercise of these lines of credit. We also have the effective right to reduce or cancel these available lines of credit at any time.

Additionally our CAR operations provide floor-plan financing for a pre-qualified network of independent automotive dealers and automotive finance companies in the buy-here, pay-here used car business. The financings allow dealers and finance companies to borrow up to the maximum pre-approved credit limit allowed in order to finance ongoing inventory needs. These loans are secured by the underlying auto inventory and, in certain cases where we have other lending products outstanding with the dealer, are secured by the collateral under those lending arrangements as well, including any outstanding dealer reserves. As of June 30, 2018, CAR had unfunded outstanding floor-plan financing commitments totaling \$8.7 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 \$10.1 million remains pledged as of June 30, 2018 to support various ongoing contractual obligations.

Under agreements with third-party originating and other financial institutions, we have agreed to indemnify the financial institutions for certain liabilities associated with the services we provide on behalf of the financial institutions—such indemnification obligations generally being limited to instances in which we either (a) have been afforded the opportunity to defend against any potentially indemnifiable claims or (b) have reached agreement with the financial institutions regarding settlement of potentially indemnifiable claims. As of June 30, 2018, we have assessed the likelihood of any potential payments related to the aforementioned contingencies as remote. We will accrue liabilities related to these contingencies in any future period if and in which we assess the likelihood of an estimable payment as probable.

We also are subject to certain minimum payments under cancelable and non-cancelable lease arrangements. For further information regarding these commitments, see Note 8, "Leases" to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Litigation

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

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

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

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

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	For the Three Months Ended June 30, 2018		For the Six Months Ended June 30, 2017	
Numerator:				
Net income (loss) attributable to controlling interests	\$5,630	\$(8,784)	\$960	\$(8,056)
Denominator:				
Basic (including unvested share-based payment awards) (1)	13,888	13,984	13,893	13,964
Effect of dilutive stock compensation arrangements (2)	—	13	—	23
Diluted (including unvested share-based payment awards) (1)	13,888	13,997	13,893	13,987
Net income (loss) attributable to controlling interests per common share—basic	\$0.41	\$(0.63)	\$0.07	\$(0.58)
Net income (loss) attributable to controlling interests per common share—diluted	\$0.41	\$(0.63)	\$0.07	\$(0.58)

Shares related to unvested share-based payment awards included in our basic and diluted share counts were (1) 150,388 and 167,198, respectively, for the three and six months ended June 30, 2018, compared to 371,576 and 358,553, respectively, for the three and six months ended June 30, 2017.

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

For the three and six months ended June 30, 2018 and 2017, there were no shares potentially issuable and thus includible in the diluted net income attributable to controlling interests per common share calculations pursuant to our 5.875% convertible senior notes. However, in future reporting periods during which our closing stock price is above the \$24.61 conversion price for the 5.875% convertible senior notes, and depending on the closing stock price at conversion, the maximum potential dilution under the conversion provisions of such notes is 3.6 million shares, which could be included in diluted share counts in net income per common share calculations. See Note 8, “Convertible Senior Notes,” for a further discussion of these convertible securities.

11. Stock-Based Compensation

We currently have two stock-based compensation plans, the Second Amended and Restated Employee Stock Purchase Plan (the “ESPP”) and the Second Amended and Restated 2014 Equity Incentive Plan (the “2014 Plan”). As of June 30, 2018, 97,400 shares remained available for issuance under the ESPP and 1,025,471 shares remained available for issuance under the 2014 Plan.

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

Restricted Stock

During the six months ended June 30, 2018 and 2017, we granted 69,000 and 102,000 shares of restricted stock (net of any forfeitures), respectively, with aggregate grant date fair values of \$0.2 million and \$0.3 million, respectively. We incurred expenses of \$0.1 million and \$0.4 million during the six months ended June 30, 2018 and 2017, respectively, related to restricted stock awards. When we grant restricted stock, we defer the grant date value of the restricted stock and amortize that value (net of the value of anticipated forfeitures) as compensation expense with an offsetting entry to the additional paid-in capital component of our consolidated shareholders’ equity. Our restricted stock awards typically vest over a range of 12 to 60 months (or other term as specified in the grant) and are amortized to salaries and benefits expense ratably over applicable vesting periods. As of June 30, 2018, our unamortized deferred compensation costs associated with non-vested restricted stock awards were \$0.2 million with a weighted-average

remaining amortization period of 0.3 years.

Stock Options

Our 2014 Plan provides that we may grant options on or shares of our common stock (and other types of equity awards) to members of our Board of Directors, employees, consultants and advisors. The exercise price per share of the options must be equal to or greater than the market price on the date the option is granted. The option period may not exceed 10

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years from the date of grant. The vesting requirements for options are determined by the Compensation Committee of the Board of Directors. We had expense of \$0.1 million, \$0.3 million, \$0.2 million and \$0.5 million related to stock option-related compensation costs during the three and six months ended June 30, 2018 and 2017, respectively. When applicable, we recognize stock option-related compensation expense for any awards with graded vesting on a straight-line basis over the vesting period for the entire award. The table below includes additional information about outstanding options:

	June 30, 2018			
	Number of	Weighted-	Weighted-	Aggregate
	Shares	Average	Average of Remaining	Intrinsic
		Exercise	Contractual Life (in years)	Value
		Price		
Outstanding at December 31, 2017	2,619,334	\$ 3.04		
Issued	5,000	\$ 2.11		
Exercised	—	\$ —		
Cancelled/Forfeited	(6,668)	\$ 3.04		
Outstanding at June 30, 2018	2,617,666	\$ 3.04	2.8	\$ —
Exercisable at June 30, 2018	1,082,482	\$ 3.01	1.9	\$ —

We had \$0.6 million and \$0.9 million of unamortized deferred compensation costs associated with non-vested stock options as of June 30, 2018 and December 31, 2017, respectively.

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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, where certain terms have been defined.

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

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

OVERVIEW

We utilize proprietary analytics and a flexible technology platform to enable financial institutions to provide various credit and related financial services and products to or associated with the financially underserved consumer credit market. Currently, within our Credit and Other Investments segment, we are applying the experiences gained and infrastructure built from servicing over \$25 billion in consumer loans over our 22-year operating history to support lenders who originate a range of consumer loan products. These products include retail credit, personal loans, and credit cards marketed through multiple channels, including retail point-of-sale, direct mail solicitation, Internet-based marketing, and partnerships with third parties. In the point-of-sale channel, we partner with retailers and service providers in various industries across the U.S. to allow them to provide credit to their customers for the purchase of a variety of goods and services including consumer electronics, furniture, elective medical procedures, healthcare, educational services and home-improvements. Our flexible technology platform allows our lending partners to integrate our paperless process and instant decision-making platform with the technology infrastructure of participating retailers and service providers. These services of our lending partners are often extended to consumers who may have been declined under traditional financing options. We specialize in supporting this "second-look" credit service. Additionally, we support lenders who market general purpose personal loans and credit cards directly to consumers through additional channels, which enables them to reach consumers through a diverse origination platform that includes direct mail, Internet-based marketing and our retail partnerships. Our technology platform and proprietary analytics enable lenders to make instant credit decisions utilizing hundreds of inputs from multiple sources and thereby offer credit to consumers overlooked by traditional providers of credit. By offering a range of products through a multitude of channels, we enable lenders to provide the right type of credit, whenever and wherever the consumer has a need. In most cases, we invest in the receivables originated by lenders who utilize our technology platform and other related services.

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

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

Additionally, we report within our Credit and Other Investments segment: (1) the income earned from an investment in an equity-method investee that holds credit card receivables for which we are the servicer; and (2) gains or losses associated with investments previously made in consumer finance technology platforms. These include investments in companies engaged in mobile technologies, marketplace lending and other financial technologies. These investments are carried at the lower of cost or market valuation. None of these companies are publicly-traded and there are no material pending liquidity events.

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

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We believe that our point-of-sale and direct-to-consumer receivables are generating, and will continue to generate, attractive returns on assets, thereby facilitating debt financing under terms and conditions (including advance rates and pricing) that will support attractive returns on equity, and we continue to pursue growth in this area.

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

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

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

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CONSOLIDATED RESULTS OF OPERATIONS

(In Thousands)	For the Three Months Ended June 30,		Income Increases (Decreases) from 2017 to 2018
	2018	2017	
Total interest income	\$37,784	\$26,656	\$ 11,128
Interest expense	(8,807)	(6,419)	(2,388)
Fees and related income on earning assets:			
Fees on credit products	5,498	2,007	3,491
Changes in fair value of loans and fees receivable recorded at fair value	513	1,002	(489)
Changes in fair value of notes payable associated with structured financings recorded at fair value	1,112		