

Atlanticus Holdings Corp  
Form 10-Q  
August 14, 2015  
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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

For the quarterly period ended June 30, 2015

of  
ATLANTICUS HOLDINGS CORPORATION

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

Five Concourse Parkway, Suite 400  
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 August 7, 2015, 13,911,011 shares of common stock, no par value, of Atlanticus were outstanding. This excludes 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, 2015	December 31, 2014
Assets		
Unrestricted cash and cash equivalents	\$46,328	\$39,925
Restricted cash and cash equivalents	16,859	22,741
Loans and fees receivable:		
Loans and fees receivable, net (of \$18,198 and \$15,730 in deferred revenue and \$16,295 and \$19,957 in allowances for uncollectible loans and fees receivable at June 30, 2015 and December 31, 2014, respectively)	120,085	105,897
Loans and fees receivable, at fair value	11,512	18,255
Loans and fees receivable pledged as collateral under structured financings, at fair value	27,464	34,905
Rental merchandise, net of depreciation	12,006	14,177
Property at cost, net of depreciation	6,472	7,036
Investments in equity-method investees	12,901	15,833
Deposits	981	1,589
Prepaid expenses and other assets	17,324	7,997
Total assets	\$271,932	\$268,355
Liabilities		
Accounts payable and accrued expenses	\$40,401	\$39,968
Notes payable, at face value	84,514	78,749
Notes payable to related parties	20,000	20,000
Notes payable associated with structured financings, at fair value	28,685	36,511
Convertible senior notes	64,537	64,752
Income tax liability	21,594	20,933
Total liabilities	259,731	260,913
Commitments and contingencies (Note 9)		
Equity		
Common stock, no par value, 150,000,000 shares authorized: 15,370,667 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at June 30, 2015; and 15,308,971 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at December 31, 2014	—	—
Additional paid-in capital	210,762	210,519
Accumulated other comprehensive loss	(685	) (1,841
Retained deficit	(197,873	) (201,237
Total shareholders' equity	12,204	7,441
Noncontrolling interests	(3	) 1
Total equity	12,201	7,442
Total liabilities and equity	\$271,932	\$268,355

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,	
	2015	2014	2015	2014
Interest income:				
Consumer loans, including past due fees	\$ 16,869	\$ 17,387	\$ 34,312	\$ 37,344
Other	10	37	42	274
Total interest income	16,879	17,424	34,354	37,618
Interest expense	(4,529)	(6,158)	(9,086)	(12,345)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	12,350	11,266	25,268	25,273
Fees and related income on earning assets	12,751	22,196	25,970	55,081
Net recovery of (losses upon) charge off of loans and fees receivable recorded at fair value, net of recoveries	9,991	50	20,363	(1,835)
Provision for losses on loans and fees receivable recorded at net realizable value	(5,961)	(6,731)	(9,129)	(14,606)
Net interest income, fees and related income on earning assets	29,131	26,781	62,472	63,913
Other operating income:				
Servicing income	1,390	1,234	2,950	2,474
Other income	92	254	359	1,321
Equity in income of equity-method investees	707	841	1,782	3,247
Total other operating income	2,189	2,329	5,091	7,042
Other operating expense:				
Salaries and benefits	4,322	4,664	8,442	9,762
Card and loan servicing	9,608	12,956	19,879	26,734
Marketing and solicitation	332	631	818	1,393
Depreciation, primarily related to rental merchandise	9,961	16,573	22,807	42,281
Other	4,261	4,791	11,433	10,331
Total other operating expense	28,484	39,615	63,379	90,501
Income (loss) before income taxes	2,836	(10,505)	4,184	(19,546)
Income tax expense	(1,440)	(673)	(822)	(2,655)
Net income (loss)	1,396	(11,178)	3,362	(22,201)
Net loss (income) attributable to noncontrolling interests	1	—	2	(151)
Net income (loss) attributable to controlling interests	\$ 1,397	\$(11,178)	\$ 3,364	\$(22,352)
Net income (loss) attributable to controlling interests per common share—basic	\$ 0.10	\$(0.80)	\$ 0.24	\$(1.59)
Net income (loss) attributable to controlling interests per common share—diluted	\$ 0.10	\$(0.80)	\$ 0.24	\$(1.59)

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,	
	2015	2014	2015	2014
Net income (loss)	\$1,396	\$(11,178 )	\$3,362	\$(22,201 )
Other comprehensive income (loss):				
Foreign currency translation adjustment	583	386	140	447
Reclassifications of foreign currency translation adjustment to consolidated statements of operations	—	—	1,535	—
Income tax (expense) benefit related to other comprehensive income (loss)	(200 )	(11 )	(519 )	23
Comprehensive income (loss)	1,779	(10,803 )	4,518	(21,731 )
Comprehensive loss (income) attributable to noncontrolling interests	1	—	2	(151 )
Comprehensive income (loss) attributable to controlling interests	\$1,780	\$(10,803 )	\$4,520	\$(21,882 )

See accompanying notes.

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Atlanticus Holdings Corporation and Subsidiaries  
 Consolidated Statements of Equity  
 For the Six Months Ended June 30, 2015 (Unaudited)  
 (Dollars in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Deficit	Noncontrolling Interests	Total Equity
	Shares Issued	Amount					
Balance at December 31, 2014	15,308,971	\$—	\$210,519	\$ (1,841 )	\$(201,237)	\$1	\$7,442
Stock options exercises and proceeds related thereto	1,667	—	4	—	—	—	4
Compensatory stock issuances, net of forfeitures	106,334	—	—	—	—	—	—
Distributions to owners of noncontrolling interests	—	—	—	—	—	(2 )	(2 )
Amortization of deferred stock-based compensation costs	—	—	437	—	—	—	437
Redemption and retirement of shares	(46,305 )	—	(123 )	—	—	—	(123 )
Tax effects of stock-based compensation plans	—	—	(75 )	—	—	—	(75 )
Other comprehensive income	—	—	—	1,156	3,364	(2 )	4,518
Balance at June 30, 2015	15,370,667	\$—	\$210,762	\$ (685 )	\$(197,873)	\$(3 )	\$12,201

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,	
	2015	2014
Operating activities		
Net income (loss)	\$3,362	\$(22,201 )
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation of rental merchandise	21,623	40,746
Depreciation, amortization and accretion, net	1,056	643
Losses upon charge off of loans and fees receivable recorded at fair value	3,050	8,719
Provision for losses on loans and fees receivable	9,129	14,606
Interest expense from accretion of discount on convertible senior notes	235	321
Income from accretion of discount associated with receivables purchases	(18,914 )	(16,438 )
Unrealized gain on loans and fees receivable and underlying notes payable held at fair value	(2,430 )	(4,359 )
Income from equity-method investments	(1,782 )	(3,247 )
Changes in assets and liabilities:		
(Increase) decrease in uncollected fees on earning assets	(394 )	121
Increase in income tax liability	90	2,589
Decrease (increase) in deposits	608	(494 )
Increase (decrease) in accounts payable and accrued expenses	515	(11,502 )
Additions to rental merchandise	(19,451 )	(22,975 )
Other	(6,904 )	(1,096 )
Net cash used in operating activities	(10,207 )	(14,567 )
Investing activities		
Decrease (increase) in restricted cash	5,889	(207 )
Proceeds from equity-method investees	4,714	6,332
Investments in earning assets	(127,418 )	(100,915 )
Proceeds from earning assets	137,397	122,617
Purchases and development of property, net of disposals	(616 )	(3,183 )
Net cash provided by investing activities	19,966	24,644
Financing activities		
Noncontrolling interests distributions, net	(2 )	(145 )
Proceeds from exercise of stock options	4	—
Purchase and retirement of outstanding stock	(123 )	(31 )
Proceeds from borrowings	88,802	28,322
Repayment of borrowings	(91,960 )	(56,445 )
Net cash used in financing activities	(3,279 )	(28,299 )
Effect of exchange rate changes on cash	(77 )	270
Net decrease (increase) in unrestricted cash	6,403	(17,952 )
Unrestricted cash and cash equivalents at beginning of period	39,925	50,873
Unrestricted cash and cash equivalents at end of period	\$46,328	\$32,921
Supplemental cash flow information		
Cash paid for interest	\$8,941	\$18,602
Net cash income tax payments	\$737	\$66
Supplemental non-cash information		
Issuance of stock options and restricted stock	\$281	\$931

Notes payable associated with capital leases	\$—	\$159
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See accompanying notes.

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Atlanticus Holdings Corporation and Subsidiaries  
 Notes to Consolidated Financial Statements  
 June 30, 2015 and 2014

## 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 a market largely represented by credit risks that regulators classify as “sub-prime.” 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.

## 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 United States (“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 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, 2014	Additions	Subtractions	Balance at June 30, 2015
Loans and fees receivable, gross	\$141.6	\$159.2	\$(146.2)	\$154.6
Deferred revenue	(15.7)	(21.4)	18.9	(18.2)
Allowance for uncollectible loans and fees receivable	(20.0)	(9.1)	12.8	(16.3)
Loans and fees receivable, net	\$105.9	\$128.7	\$(114.5)	\$120.1
		Additions	Subtractions	

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	Balance at December 31, 2013			Balance at June 30, 2014	
Loans and fees receivable, gross	\$134.7	\$134.9	\$(140.0	)	\$129.6
Deferred revenue	(13.3	) (17.0	)	16.5	(13.8 )
Allowance for uncollectible loans and fees receivable	(24.2	) (14.6	)	18.4	(20.4 )
Loans and fees receivable, net	\$97.2	\$103.3	\$(105.1	)	\$95.4

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As of June 30, 2015 and June 30, 2014, the weighted average remaining accretion periods for the \$18.2 million and \$13.8 million, respectively, of deferred revenue reflected in the above tables were 10 months and 11 months, respectively.

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

For the Three Months Ended June 30, 2015	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	\$(1.9 )	\$(1.2 )	\$(12.5 )	\$(15.6 )
Provision for loan losses	(0.4 )	(0.4 )	(5.2 )	(6.0 )
Charge offs	0.9	0.4	4.4	5.7
Recoveries	(0.1 )	(0.1 )	(0.2 )	(0.4 )
Balance at end of period	\$(1.5 )	\$(1.3 )	\$(13.5 )	\$(16.3 )
For the Six Months Ended June 30, 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	(0.9 )	(0.6 )	(7.6 )	(9.1 )
Charge offs	2.3	0.9	10.9	14.1
Recoveries	(0.2 )	(0.4 )	(0.7 )	(1.3 )
Balance at end of period	\$(1.5 )	\$(1.3 )	\$(13.5 )	\$(16.3 )
As of June 30, 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 )	\$(1.1 )	\$(1.2 )
Balance at end of period collectively evaluated for impairment	\$(1.5 )	\$(1.2 )	\$(12.4 )	\$(15.1 )
Loans and fees receivable:				
Loans and fees receivable, gross	\$4.1	\$78.3	\$72.2	\$154.6
Loans and fees receivable individually evaluated for impairment	\$—	\$0.1	\$2.9	\$3.0
Loans and fees receivable collectively evaluated for impairment	\$4.1	\$78.2	\$69.3	\$151.6

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For the Three Months Ended June 30, 2014	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	\$(10.9	) \$(1.4	) \$(10.8	) \$(23.1 )
Provision for loan losses	(2.8	) (0.1	) (3.8	) (6.7 )
Charge offs	5.3	0.4	4.2	9.9
Recoveries	(0.1	) (0.3	) (0.1	) (0.5 )
Balance at end of period	\$(8.5	) \$(1.4	) \$(10.5	) \$(20.4 )
For the Six Months Ended June 30, 2014	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	\$(11.6	) \$(1.4	) \$(11.2	) \$(24.2 )
Provision for loan losses	(7.0	) 0.1	) (7.7	) (14.6 )
Charge offs	10.3	0.5	8.7	19.5
Recoveries	(0.2	) (0.6	) (0.3	) (1.1 )
Balance at end of period	\$(8.5	) \$(1.4	) \$(10.5	) \$(20.4 )
As of December 31, 2014	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	) \$(3.0	) \$(3.1 )
Balance at end of period collectively evaluated for impairment	\$(2.7	) \$(1.1	) \$(13.1	) \$(16.9 )
Loans and fees receivable:				
Loans and fees receivable, gross	\$6.7	\$70.7	\$64.2	\$141.6
Loans and fees receivable individually evaluated for impairment	\$—	\$0.2	\$5.0	\$5.2
Loans and fees receivable collectively evaluated for impairment	\$6.7	\$70.5	\$59.2	\$136.4

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

	June 30, 2015	December 31, 2014
Current loans receivable	\$130.0	\$116.1
Current fees receivable	3.3	3.4
Delinquent loans and fees receivable	21.3	22.1
Loans and fees receivable, gross	\$154.6	\$141.6

An aging of our delinquent loans and fees receivable, gross (in millions) by class of receivable as of June 30, 2015 and December 31, 2014 is as follows:

Balance at June 30, 2015	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
30-59 days past due	\$0.2	\$6.5	\$3.0	\$9.7
60-89 days past due	0.2	2.2	2.3	4.7
90 or more days past due	0.8	1.8	4.3	6.9
Delinquent loans and fees receivable, gross	1.2	10.5	9.6	21.3
Current loans and fees receivable, gross	2.9	67.8	62.6	133.3
Total loans and fees receivable, gross	\$4.1	\$78.3	\$72.2	\$154.6
Balance of loans 90 or more days past due and still accruing interest and fees	\$—	\$1.8	\$—	\$1.8

Balance at December 31, 2014	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
30-59 days past due	\$0.4	\$6.3	\$2.8	\$9.5
60-89 days past due	0.4	2.1	2.2	4.7
90 or more days past due	1.6	1.7	4.6	7.9
Delinquent loans and fees receivable, gross	2.4	10.1	9.6	22.1
Current loans and fees receivable, gross	4.3	60.6	54.6	119.5
Total loans and fees receivable, gross	\$6.7	\$70.7	\$64.2	\$141.6
Balance of loans 90 or more days past due and still accruing interest and fees	\$—	\$1.6	\$—	\$1.6

## Income Taxes

We experienced effective income tax expense rates of 50.8% and 19.6% for the three and six months ended June 30, 2015, respectively compared to negative effective income tax benefit rates of 6.4% and 13.6% for the three and six months ended June 30, 2014, respectively. Our accruals of interest and penalties associated with assessed and unpaid prior year tax liabilities account for the excess of our effective income tax expense rate for the three months ended June 30, 2015 over statutory rates. Although these interest and penalties were also present in the first quarter of this year, our effective income tax expense rate for the six months ended June 30, 2015 is significantly below statutory rates principally due to a favorable effective settlement we reached with the Internal Revenue Service (“IRS”) in February, 2015 relative to prior year accruals for uncertain tax positions and interest accruals thereon. The negative effective income tax benefit rate for both the three and six months ended June 30, 2014 resulted principally from the (1) effects of legislative changes enacted during that period in certain state filing jurisdictions, (2) interest accruals on our liabilities for uncertain tax positions and (3) changes in valuation allowances against income statement-oriented

federal, foreign and state deferred tax assets.

We report potential accrued interest and penalties related to our accrued liabilities for uncertain tax positions within our income tax benefit or expense line item on our consolidated statements of operations. We likewise report the reversal of

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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 in a manner favorable to our accruals therefor. During the three and six months ended June 30, 2015, we accrued no material amounts of interest and penalties associated with uncertain tax positions. In contrast, however, net interest and penalty accruals of \$0.6 million and \$1.2 million increased our respective negative effective income tax benefit rates in the three and six months ended June 30, 2014.

## Fees and Related Income on Earning Assets

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Fees on credit products	\$1,891	\$6,407	\$4,065	\$11,794
Changes in fair value of loans and fees receivable recorded at fair value	1,981	1,975	3,212	6,667
Changes in fair value of notes payable associated with structured financings recorded at fair value	(420	) (1,151	) (782	) (2,308
Rental revenue	9,278	14,710	19,387	36,643
Other	21	255	88	2,285
Total fees and related income on earning assets	\$12,751	\$22,196	\$25,970	\$55,081

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 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 is effective for us beginning January 1, 2016. The impact of adoption of this authoritative guidance is not expected to result in a material impact on our consolidated financial statements.

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 July 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. The Company has not yet determined the potential effects of the adoption of ASU 2014-09 on its 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, 2015, and based on our evaluation we did not identify any recognized or nonrecognized subsequent events that would have required further adjustments to our consolidated financial statements, other than as discussed below.

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In August 2015 we resolved an outstanding dispute that resulted in the recovery of approximately \$2.0 million associated with a receivable which was fully reserved in a prior period. The income associated with this recovery will be reflected in the Fees and related income on earning assets category of our consolidated statements of operations in the third quarter of 2015.

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, 2015 and December 31, 2014, we did not have a material amount of long-lived assets located outside of the U.S., and only a negligible portion of our 2015 and 2014 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.

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

Three months ended June 30, 2015	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	\$9,898	\$6,971	\$16,869
Other	10	—	10
Total interest income	9,908	6,971	16,879
Interest expense	(4,228	) (301	) (4,529 )
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	\$5,680	\$6,670	\$12,350
Fees and related income on earning assets	\$12,683	\$68	\$12,751
Servicing income	\$1,179	\$211	\$1,390
Depreciation of rental merchandise	(9,370	) —	(9,370 )
Equity in income of equity-method investees	\$707	\$—	\$707
Income before income taxes	\$1,186	\$1,650	\$2,836
Income tax expense	\$(896	) \$(544	) \$(1,440 )
Six months ended June 30, 2015	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	\$20,618	\$13,694	\$34,312
Other	42	—	42
Total interest income	20,660	13,694	34,354
Interest expense	(8,479	) (607	) (9,086 )
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	\$12,181	\$13,087	\$25,268
Fees and related income on earning assets	\$25,756	\$214	\$25,970
Servicing income	\$2,538	\$412	\$2,950
Depreciation of rental merchandise	\$(21,623	) \$—	\$(21,623 )
Equity in income of equity-method investees	\$1,782	\$—	\$1,782
Income before income taxes	\$607	\$3,577	\$4,184
Income tax benefit (expense)	\$352	\$(1,174	) \$(822 )
Total assets	\$202,510	\$69,422	\$271,932

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Three months ended June 30, 2014	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	\$11,492	\$5,895	\$17,387
Other	37	—	37
Total interest income	11,529	5,895	17,424
Interest expense	(5,812	) (346	) (6,158 )
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	\$5,717	\$5,549	\$11,266
Fees and related income on earning assets	\$22,155	\$41	\$22,196
Servicing income	\$1,075	\$159	\$1,234
Depreciation of rental merchandise	(15,735	) —	(15,735 )
Equity in income of equity-method investees	\$841	\$—	\$841
(Loss) income before income taxes	\$(11,661	) \$1,156	\$(10,505 )
Income tax expense	\$(316	) \$(357	) \$(673 )
Six months ended June 30, 2014	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	\$25,888	\$11,456	\$37,344
Other	274	—	274
Total interest income	26,162	11,456	37,618
Interest expense	(11,644	) (701	) (12,345 )
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	\$14,518	\$10,755	\$25,273
Fees and related income on earning assets	\$54,957	\$124	\$55,081
Servicing income	\$2,130	\$344	\$2,474
Depreciation of rental merchandise	\$(40,746	) \$—	\$(40,746 )
Equity in income of equity-method investees	\$3,247	\$—	\$3,247
(Loss) income before income taxes	\$(21,724	) \$2,178	\$(19,546 )
Income tax expense	\$(1,971	) \$(684	) \$(2,655 )
Total assets	\$237,163	\$62,089	\$299,252

## 4. Shareholders' Equity

## Retired Shares

During the three and six months ended June 30, 2015, we repurchased and contemporaneously retired 24,498 and 46,305 shares of our common stock at an aggregate cost of \$68,299 and \$122,552, respectively, pursuant to open market purchases and the return of stock by holders of equity incentive awards to pay tax withholding obligations. During the three and six months ended June 30, 2014, we repurchased and contemporaneously retired 1,546 and 12,327 shares of our common stock at an aggregate cost of \$4,252 and \$30,881, pursuant to the return of stock by holders of equity incentive awards to pay tax withholding obligations.

We had 1,459,233 loaned shares outstanding at June 30, 2015 and December 31, 2014, 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.

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## 5. Investments in Equity-Method Investees

Our equity-method investment outstanding at June 30, 2015 consists of our 66.7% interest in a joint venture formed to purchase a credit card receivable portfolio. Our 50.0% interest in a joint venture, which was formed to purchase the outstanding notes issued out of the structured financing trust underlying our Non-U.S. Acquired Portfolio, was consolidated as of December 31, 2014. This was a result of our distribution of certain assets to an unrelated third-party partner in that entity for their interest. Accordingly, as of June 30, 2015 and December 31, 2014 only one equity-method investee was included in our financial statements. The results of operations associated with the joint venture prior to consolidation are included in the tables below.

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

	As of June 30, 2015	December 31, 2014
Loans and fees receivable pledged as collateral under structured financings, at fair value	\$18,425	\$22,571
Total assets	\$19,410	\$23,831
Total liabilities	\$61	\$82
Members' capital	\$19,349	\$23,749

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net interest income, fees and related income on earning assets	\$1,067	\$1,193	\$2,684	\$5,309
Total other operating income	\$—	\$44	\$—	\$93
Net income	\$874	\$896	\$2,281	\$4,676
Net income attributable to our equity investment in investee	\$707	\$841	\$1,782	\$3,247

The above tables include the economics associated with our aforementioned 50.0% interest in the joint venture that purchased in March 2011 the outstanding notes issued out of our Non-U.S. Acquired Portfolio structured financing trust prior to its consolidation in December 2014. Separate financial data for this entity prior to its consolidation are as follows:

	As of December 31, 2014	
Investments in non-marketable debt securities, at fair value	\$—	
Total assets	\$—	
Total liabilities	\$—	
Members' capital	\$—	
	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Net interest (cost) income, fees and related income on earning assets	\$(287)	) \$1,698
Net (loss) income	\$(300)	) \$1,674
Net (loss) income attributable to our equity investment in investee	\$(150)	) \$837



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## 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, 2015 and December 31, 2014 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 June 30, 2015 (1)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	Carrying Amount of Assets
Loans and fees receivable, net for which it is practicable to estimate fair value	\$—	\$ —	\$ 122,581	\$ 117,390
Loans and fees receivable, net for which it is not practicable to estimate fair value (2)	\$—	\$ —	\$—	\$2,695
Loans and fees receivable, at fair value	\$—	\$ —	\$ 11,512	\$ 11,512
Loans and fees receivable pledged as collateral, at fair value	\$—	\$ —	\$27,464	\$27,464

Assets – As of December 31, 2014 (1)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)	Carrying Amount of Assets
Loans and fees receivable, net for which it is practicable to estimate fair value	\$—	\$ —	\$ 111,010	\$ 101,753
Loans and fees receivable, net for which it is not practicable to estimate fair value (2)	\$—	\$ —	\$—	\$4,144
Loans and fees receivable, at fair value	\$—	\$ —	\$ 18,255	\$ 18,255
Loans and fees receivable pledged as collateral, at fair value	\$—	\$ —	\$34,905	\$34,905

(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.

(2) We do not provide fair value for this portion of our loans and fees receivable, net because it is not practicable to do so. These loans and fees receivable consist of a variety of receivables that are largely start-up in nature and for which we have neither sufficient history nor a comparable peer group from which we can calculate 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, 2015 and June 30, 2014:

	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, 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	—	2,462	2,462
Net revaluations of loans and fees receivable, at fair value	750	—	750
Settlements, net	(7,449)	(9,903)	(17,352)
Impact of foreign currency translation	(44)	—	(44)
Balance at June 30, 2015	\$11,512	\$27,464	\$38,976
Balance at January 1, 2014	\$12,080	\$88,132	\$100,212
Total gains—realized/unrealized:			
Net revaluations of loans and fees receivable pledged as collateral under structured financings, at fair value	—	4,867	4,867
Net revaluations of loans and fees receivable, at fair value	1,800	—	1,800
Settlements, net	(4,391)	(22,315)	(26,706)
Impact of foreign currency translation	—	1,004	1,004
Balance at June 30, 2014	\$9,489	\$71,688	\$81,177

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.

**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.

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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) quantitative information about the valuation techniques and the inputs used in the fair value measurement as of June 30, 2015 and December 31, 2014:

## Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at June 30, 2015	Valuation Technique	Unobservable Input	Range (Weighted Average)(1)
Loans and fees receivable, at fair value	\$11,512	Discounted cash flows	Gross yield	17.4% to 25.9% (21.0%)
			Principal payment rate	1.0% to 3.8% (2.2%)
			Expected credit loss rate	5.1% to 15.8% (9.7%)
			Servicing rate	5.5% to 15.6% (9.8%)
			Discount rate	15.9% to 16.2% (16.1%)
Loans and fees receivable pledged as collateral under structured financings, at fair value	\$27,464	Discounted cash flows	Gross yield	29.2 %
			Principal payment rate	2.7 %
			Expected credit loss rate	12.7 %
			Servicing rate	11.2 %
			Discount rate	15.9 %

## Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at December 31, 2014	Valuation Technique	Unobservable Input	Range (Weighted Average)(1)
Loans and fees receivable, at fair value	\$18,255	Discounted cash flows	Gross yield	17.9% to 25.6% (21.0%)
			Principal payment rate	1.5% to 3.6% (2.3%)
			Expected credit loss rate	7.4% to 13.7% (9.9%)
			Servicing rate	7.4% to 15.1% (10.5%)
			Discount rate	15.9% to 16.2% (16.1%)
Loans and fees receivable pledged as collateral under structured financings, at fair value	\$34,905	Discounted cash flows	Gross yield	27.2 %
			Principal payment rate	2.7 %
			Expected credit loss rate	13.5 %
			Servicing rate	11.0 %
			Discount rate	15.9 %

(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.

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## 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, 2015 and December 31, 2014 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, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Liabilities
Liabilities not carried at fair value				
CAR revolving credit facility	\$—	\$ —	\$31,700	\$31,700
ACC amortizing debt facility	\$—	\$ —	\$—	\$—
Amortizing debt facilities	\$—	\$ —	\$51,290	\$51,290
Revolving credit facility	\$—	\$ —	\$—	\$—
U.K. credit card accounts revolving credit facility	\$—	\$ —	\$1,524	\$1,524
Senior secured term loan	\$—	\$ —	\$20,000	\$20,000
5.875% convertible senior notes	\$—	\$ 38,828	\$—	\$64,537
Liabilities carried at fair value				
Economic sharing arrangement liability	\$—	\$ —	\$82	\$82
Notes payable associated with structured financings, at fair value	\$—	\$ —	\$28,685	\$28,685

Liabilities - As of December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Liabilities
Liabilities not carried at fair value				
CAR revolving credit facility	\$—	\$ —	\$28,500	\$28,500
ACC amortizing debt facility	\$—	\$ —	\$125	\$125
Amortizing debt facilities	\$—	\$ —	\$42,200	\$42,200
Revolving credit facility	\$—	\$ —	\$4,000	\$4,000
U.K. credit card accounts revolving credit facility	\$—	\$ —	\$3,924	\$3,924
Senior secured term loan	\$—	\$ —	\$20,000	\$20,000
5.875% convertible senior notes	\$—	\$ 37,662	\$—	\$64,302
Liabilities carried at fair value				
Economic sharing arrangement liability	\$—	\$ —	\$119	\$119
Notes payable associated with structured financings, at fair value	\$—	\$ —	\$36,511	\$36,511

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, 2015 and 2014.



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	Notes Payable Associated with Structured Financings, at Fair Value	
	2015	2014
Beginning balance, January 1	\$36,511	\$94,523
Total (gains) losses—realized/unrealized:		
Net revaluations of notes payable associated with structured financings, at fair value	782	2,308
Repayments on outstanding notes payable, net	(8,608	) (22,425
Impact of foreign currency translation	—	1,103
Ending balance, June 30	\$28,685	\$75,509

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 for the periods ended June 30, 2015 and December 31, 2014:

## Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at June 30, 2015 (in Thousands)	Valuation Technique	Unobservable Input	Weighted Average
Notes payable associated with structured financings, at fair value				