Atlanticus Holdings Corp
Form 10-Q
August 14, 2014
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

For the quarterly period ended June 30, 2014

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").

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 8, 2014, 13,976,542 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, 2014	December 31, 2013
Assets		
Unrestricted cash and cash equivalents	$32,921	$50,873
Restricted cash and cash equivalents	19,093	18,871
Loans and fees receivable:		
Loans and fees receivable, net (of $13,801 and $13,258 in deferred revenue and $20,386 and $24,214 in allowances for uncollectible loans and fees receivable at June 30, 2014 and December 31, 2013, respectively)	95,445	97,208
Loans and fees receivable, at fair value	9,489	12,080
Loans and fees receivable pledged as collateral under structured financings, at fair value	71,688	88,132
Rental merchandise, net of depreciation	11,082	28,849
Property at cost, net of depreciation	10,636	8,937
Investments in equity-method investees	32,397	35,134
Deposits	2,402	1,908
Prepaid expenses and other assets	14,099	10,243
Total assets	$299,252	$352,235
Liabilities		
Accounts payable and accrued expenses	$36,369	$48,625
Notes payable, at face value	53,345	56,740
Notes payable associated with structured financings, at fair value	75,509	94,523
Convertible senior notes	96,254	95,934
Income tax liability	57,788	55,255
Total liabilities	319,265	351,077
Commitments and contingencies (Note 9)		
Equity		
Common stock, no par value, 150,000,000 shares authorized: 15,446,175 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at June 30, 2014; and 15,594,325 shares issued and outstanding (including 1,672,656 loaned shares to be returned) at December 31, 2013	—	—
Additional paid-in capital	211,020	210,315
Accumulated other comprehensive loss	(267)	(737)
Retained deficit	(230,766)	(208,414)
Total shareholders' equity	(20,013)	1,164
Noncontrolling interests	—	(6)
Total equity	(20,013)	1,158
Total liabilities and equity	$299,252	$352,235

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,	
	2014	2013	2014	2013
Interest income:				
Consumer loans, including past due fees	$17,387	$16,681	$37,344	$36,505
Other	37	84	274	195
Total interest income	17,424	16,765	37,618	36,700
Interest expense	(6,158)	(5,866)	(12,345)	(11,638)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	11,266	10,899	25,273	25,062
Fees and related income on earning assets	22,196	10,219	55,081	17,025
Losses upon charge off of loans and fees receivable recorded at fair value, net of recoveries	50	(4,351)	(1,835)	(10,149)
Provision for losses on loans and fees receivable recorded at net realizable value	(6,731)	(6,670)	(14,606)	(9,952)
Net interest income, fees and related income on earning assets	26,781	10,097	63,913	21,986
Other operating income:				
Servicing income	1,234	2,604	2,474	5,205
Other income	254	316	1,321	2,452
Equity in income of equity-method investees	841	957	3,247	5,264
Total other operating income	2,329	3,877	7,042	12,921
Other operating expense:				
Salaries and benefits	4,664	4,371	9,762	8,780
Card and loan servicing	12,956	10,849	26,734	21,528
Marketing and solicitation	631	2,586	1,393	4,521
Depreciation	16,573	418	42,281	791
Other	4,791	5,078	10,331	11,156
Total other operating expense	39,615	23,302	90,501	46,776
Loss before income taxes	(10,505)	(9,328)	(19,546)	(11,869)
Income tax expense	(673)	(462)	(2,655)	(908)
Net loss	(11,178)	(9,790)	(22,201)	(12,777)
Net income attributable to noncontrolling interests	—	(59)	(151)	(80)
Net loss attributable to controlling interests	$(11,178)	$(9,849)	$(22,352)	$(12,857)
Net loss attributable to controlling interests per common share—basic	$(0.80)	$(0.71)	$(1.59)	$(0.93)
Net loss attributable to controlling interests per common share—diluted	$(0.80)	$(0.71)	$(1.59)	$(0.93)

See accompanying notes.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$(11,178)	$(9,790)	$(22,201)	$(12,777)
Other comprehensive loss:				
Foreign currency translation adjustment	386	(117)	447	(1,511)
Income tax expense related to other comprehensive income	(11)	31	23	139
Comprehensive loss	(10,803)	(9,876)	(21,731)	(14,149)
Comprehensive income attributable to noncontrolling interests	—	(59)	(151)	(80)
Comprehensive loss attributable to controlling interests	$(10,803)	$(9,935)	$(21,882)	$(14,229)

See accompanying notes.

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Atlanticus Holdings Corporation and Subsidiaries
Consolidated Statements of Equity
For the Six Months Ended June 30, 2014 (Unaudited)
(Dollars in thousands)

	Common Stock							
	Shares Issued	Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Deficit	Noncontrolling Interests	Total Equity
Balance at December 31, 2013	15,594,325	$—	$210,315	$—	$(737)	$(208,414)	$(6)	$1,158
Compensatory stock issuances, net of forfeitures	77,600	—	—	—	—	—	—	—
Distributions to owners of noncontrolling interests	—	—	—	—	—	—	(145)	(145)
Amortization of deferred stock-based compensation costs	—	—	736	—	—	—	—	736
Redemption and retirement of shares	(225,750)	—	(31)	—	—	—	—	(31)
Other comprehensive loss	—	—	—	—	470	(22,352)	151	(21,731)
Balance at June 30, 2014	15,446,175	$—	$211,020	$—	$(267)	$(230,766)	$—	$(20,013)

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,	
	2014	2013
Operating activities		
Net loss	$(22,201)	$(12,777)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of rental merchandise	40,746	—
Depreciation, amortization and accretion, net	643	656
Losses upon charge off of loans and fees receivable recorded at fair value	8,719	15,991
Provision for losses on loans and fees receivable	14,606	9,952
Interest expense from accretion of discount on convertible senior notes	321	293
Income from accretion of discount associated with receivables purchases	(16,438)	(13,919)
Unrealized gain on loans and fees receivable and underlying notes payable held at fair value	(4,359)	(9,490)
Income from equity-method investments	(3,247)	(5,264)
Other non-cash adjustments to income	—	159
Changes in assets and liabilities:		
Decrease (increase) in uncollected fees on earning assets	121	(295)
Increase in income tax liability	2,589	740
(Increase) decrease in deposits	(494)	200
Decrease (increase) in prepaid expenses	217	(83)
Decrease in accounts payable and accrued expenses	(11,502)	(3,558)
Additions to rental merchandise	(22,975)	—
Other	(1,313)	3,183
Net cash used in operating activities	(14,567)	(14,212)
Investing activities		
Increase in restricted cash	(207)	(2,127)
Investment in equity-method investees	—	(3,750)
Proceeds from equity-method investees	6,332	7,211
Investments in earning assets	(100,915)	(87,090)
Proceeds from earning assets	122,617	121,761
Purchases and development of property, net of disposals	(3,183)	(1,362)
Net cash provided by investing activities	24,644	34,643
Financing activities		
Noncontrolling interests (distributions) contributions, net	(145)	26
Purchase and retirement of outstanding stock	(31)	(866)
Proceeds from borrowings	28,322	21,198
Repayment of borrowings	(56,445)	(46,880)
Net cash used in financing activities	(28,299)	(26,522)
Effect of exchange rate changes on cash	270	(867)
Net decrease in unrestricted cash	(17,952)	(6,958)
Unrestricted cash and cash equivalents at beginning of period	50,873	67,915
Unrestricted cash and cash equivalents at end of period	$32,921	$60,957
Supplemental cash flow information		
Cash paid for interest	$18,602	$11,287
Net cash income tax payments	$66	$168

Supplemental non-cash information		
Issuance of stock options and restricted stock	$931	$522
Notes payable associated with capital leases	$159	$148

See accompanying notes.

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Atlanticus Holdings Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

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, 2013	Additions	Subtractions	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
	Balance at December 31, 2012	Additions	Subtractions	Balance at June 30, 2013

Loans and fees receivable, gross	$89.1	$109.2	$(98.8)	$99.5
Deferred revenue	(8.3)	(15.1)	13.9	(9.5)
Allowance for uncollectible loans and fees receivable	(11.2)	(10.0)	7.6	(13.6)
Loans and fees receivable, net	$69.6	$84.1	$(77.3)	$76.4

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As of June 30, 2014 and June 30, 2013, the weighted average remaining accretion periods for the $13.8 million and $9.5 million, respectively, of deferred revenue reflected in the above tables were 11 months and 14 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, 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)
Balance at end of period individually evaluated for impairment	$—	$(0.1)	$(0.2)	$(0.3)
Balance at end of period collectively evaluated for impairment	$(8.5)	$(1.3)	$(10.3)	$(20.1)
Loans and fees receivable:				
Loans and fees receivable, gross	$14.5	$64.0	$51.1	$129.6
Loans and fees receivable individually evaluated for impairment	$—	$0.2	$0.3	$0.5
Loans and fees receivable collectively evaluated for impairment	$14.5	$63.8	$50.8	$129.1

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For the Three Months Ended June 30, 2013	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	$(4.0)	$(2.6)	$(3.5)	$(10.1)
Provision for loan losses	(3.7)	0.5	(3.5)	(6.7)
Charge offs	1.5	1.2	1.0	3.7
Recoveries	(0.1)	(0.3)	(0.1)	(0.5)
Balance at end of period	$(6.3)	$(1.2)	$(6.1)	$(13.6)

For the Six Months Ended June 30, 2013	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	$(4.6)	$(3.1)	$(3.5)	$(11.2)
Provision for loan losses	(5.9)	0.7	(4.8)	(10.0)
Charge offs	4.3	2.3	2.3	8.9
Recoveries	(0.1)	(1.1)	(0.1)	(1.3)
Balance at end of period	$(6.3)	$(1.2)	$(6.1)	$(13.6)
Balance at end of period individually evaluated for impairment	$—	$—	$—	$—
Balance at end of period collectively evaluated for impairment	$(6.3)	$(1.2)	$(6.1)	$(13.6)
Loans and fees receivable:				
Loans and fees receivable, gross	$13.2	$60.7	$25.6	$99.5
Loans and fees receivable individually evaluated for impairment	$—	$—	$—	$—
Loans and fees receivable collectively evaluated for impairment	$13.2	$60.7	$25.6	$99.5

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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, 2014	December 31, 2013
Current loans receivable	$101.1	$103.3
Current fees receivable	4.6	6.0
Delinquent loans and fees receivable	23.9	25.4
Loans and fees receivable, gross	$129.6	$134.7

An aging of our delinquent loans and fees receivable, gross (in millions) by class of receivable as of June 30, 2014 and December 31, 2013 is as follows:

Balance at June 30, 2014	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
30-59 days past due	$1.1	$6.1	$2.6	$9.8
60-89 days past due	1.2	2.1	2.0	5.3
90 or more days past due	4.6	1.2	3.0	8.8
Delinquent loans and fees receivable, gross	6.9	9.4	7.6	23.9
Current loans and fees receivable, gross	7.6	54.6	43.5	105.7
Total loans and fees receivable, gross	$14.5	$64.0	$51.1	$129.6
Balance of loans 90 or more days past due and still accruing interest and fees	$—	$1.2	$3.0	$4.2

Balance at December 31, 2013	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
30-59 days past due	$1.6	$5.6	$2.5	$9.7
60-89 days past due	1.9	1.7	2.2	5.8
90 or more days past due	5.6	1.1	3.2	9.9
Delinquent loans and fees receivable, gross	9.1	8.4	7.9	25.4
Current loans and fees receivable, gross	12.8	55.1	41.4	109.3
Total loans and fees receivable, gross	$21.9	$63.5	$49.3	$134.7
Balance of loans 90 or more days past due and still accruing interest and fees	$—	$0.1	$3.2	$3.3

Income taxes

We experienced negative effective income tax benefit rates of 6.4% and 13.6% for the three and six months ended June 30, 2014, respectively versus 5.0% and 7.7% for the three and six months ended June 30, 2013, respectively. Our negative effective income tax benefit rates resulted principally from (1) the effects of legislative changes enacted during 2014 in certain state filing jurisdictions, (2) interest accruals on our liabilities for uncertain tax positions in both the three and six months ended June 30, 2014 and 2013, and (3) changes in valuation allowances against income statement-oriented federal, foreign and state deferred tax assets in both the three and six months ended June 30, 2014 and 2013.

We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized $0.6 million and $1.2 million of potential interest and penalties associated with these uncertain tax positions during the three and six months ended June 30, 2014, respectively, compared to $0.5 million and $0.9

million during the three and six months ended June 30, 2013, respectively. To the extent interest and penalties are not assessed as a result of resolution of an uncertain tax position, amounts accrued are reduced and reflected as a reduction of income tax expense. We recognized no such reductions in either of the three and six months ended June 30, 2014 and 2013.

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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,	
	2014	2013	2014	2013
Fees on credit products	$6,407	$5,385	$11,794	$9,301
Changes in fair value of loans and fees receivable recorded at fair value	1,975	8,342	6,667	25,065
Changes in fair value of notes payable associated with structured financings recorded at fair value	(1,151)	(970)	(2,308)	(15,575)
Rental revenue	14,710	—	36,643	—
Other	255	(2,538)	2,285	(1,766)
Total fees and related income on earning assets	$22,196	$10,219	$55,081	$17,025

The above changes in 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 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 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. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016 and early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. 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, 2014, and based on our evaluation, other than as disclosed below, we did not identify any recognized or nonrecognized subsequent events that would have required further adjustments to our consolidated financial statements.

On June 23, 2014 we announced a tender offer to purchase up to $100 million aggregate principal amount of our outstanding 5.875% convertible senior notes. Following the expiration of the offer on July 28, 2014, we repurchased $80,000 aggregate principal amount of outstanding 5.875% convertible senior notes for $25,200.

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. We renamed our Credit Cards and Other Investments segment as the Credit and Other Investments segment to encompass ancillary investments and product offerings that are largely start-up in nature and do not qualify for separate segment reporting. All prior period data have been reclassified to this new current period presentation.

As of both June 30, 2014 and December 31, 2013, we did not have a material amount of long-lived assets located outside of the U.S., and only a negligible portion of our 2014 and 2013 revenues were generated outside of the U.S.

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

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

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Three months ended June 30, 2013	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	$10,866	$5,815	$16,681
Other	37	47	84
Total interest income	10,903	5,862	16,765
Interest expense	(5,603)	(263)	(5,866)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	$5,300	$5,599	$10,899
Fees and related income on earning assets	$12,581	$(2,362)	$10,219
Servicing income	$2,404	$200	$2,604
Depreciation of rental merchandise	—	—	—
Equity in income of equity-method investees	$957	$—	$957
(Loss) income before income taxes	$(8,794)	$(534)	$(9,328)
Income tax expense	$(101)	$(361)	$(462)

Six months ended June 30, 2013	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	$24,910	$11,595	$36,505
Other	78	117	195
Total interest income	24,988	11,712	36,700
Interest expense	(10,942)	(696)	(11,638)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	$14,046	$11,016	$25,062
Fees and related income on earning assets	$19,321	$(2,296)	$17,025
Servicing income	$4,804	$401	$5,205
Depreciation of rental merchandise	—	—	—
Equity in income of equity-method investees	$5,264	$—	$5,264
(Loss) income before income taxes	$(12,765)	$896	$(11,869)
Income tax expense	$(179)	$(729)	$(908)
Total assets	$292,342	$59,088	$351,430

4. Shareholders' Equity

Retired Shares

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, respectively, pursuant to the return of stock by holders of equity incentive awards to pay tax withholding obligations. During the three and six months ended June 30, 2013, we repurchased and contemporaneously retired 109,027 and 237,563 shares of our common stock at an aggregate cost of $0.4 million and $0.9 million, respectively, pursuant to open market purchases and the return of stock by holders of equity incentive awards.

We had 1,459,233 loaned shares outstanding at June 30, 2014 (1,672,656 shares as of December 31, 2013), which were originally lent in connection with our November 2005 issuance of convertible senior notes. Lent shares are retired as they are returned to us.

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5. Investments in Equity-Method Investees

Our equity-method investments outstanding at June 30, 2014 consist of our 66.7% interest in a joint venture formed to purchase a credit card receivable portfolio and our 50.0% interest in a joint venture that was formed to purchase the outstanding notes issued out of the structured financing trust underlying our non-U.S. acquired credit card receivables (the “Non-U.S. Acquired Portfolio”).

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, 2014	December 31, 2013
Loans and fees receivable pledged as collateral under structured financings, at fair value	$28,762	$35,241
Investments in non-marketable debt securities, at fair value	$30,120	$36,158
Total assets	$60,831	$74,145
Notes payable associated with structured financings, at fair value	$4,576	$12,125
Total liabilities	$4,676	$12,251
Members’ capital	$56,155	$61,894

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net interest income, fees and related income on earning assets	$1,193	$1,937	$5,309	$10,574
Total other operating income	$44	$176	$93	$514
Net income	$896	$1,631	$4,676	$10,045
Net income attributable to our equity investment in investee	$841	$957	$3,247	$5,264

In June 2013, we increased, from 50.0% to 66.7% our overall ownership in the above mentioned joint venture formed in 2004 to purchase a credit card receivables portfolio. We continue to account for this investment using the equity method of accounting due to specific voting and veto rights held by each investor, which do not allow us to control this investee. The additional June 2013 investment in this investee was made at a discount to the fair value of the investee's assets, thereby resulting in a gain of approximately $0.9 million for us in the three months ended June 30, 2013 based on the investee's reporting of substantially all of its assets at their fair values under its fair value option election.

The above tables include 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. Separate financial data for this entity are as follows:

	As of June 30, 2014	December 31, 2013
Investments in non-marketable debt securities, at fair value	$30,120	$36,158
Total assets	$30,241	$36,770
Total liabilities	$—	$—
Members’ capital	$30,241	$36,770

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	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net interest income, fees and related income on earning assets	$(287)	$(964)	$1,698	$6,266
Net (loss) income	$(300)	$(976)	$1,674	$6,243
Net (loss) income attributable to our equity investment in investee	$(150)	$(487)	$837	$3,122

As noted in Note 7, "Notes Payable," notes payable with a fair value of $30.1 million correspond with the $30.1 million investment in non-marketable debt securities, at fair value held by our equity method investee as noted in the above table.

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, 2014 and December 31, 2013 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, 2014 (1)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Assets
Loans and fees receivable, net for which it is practicable to estimate fair value	$—	$ —	$104,188	$88,990
Loans and fees receivable, net for which it is not practicable to estimate fair value (2)	$—	$ —	$—	$6,455
Loans and fees receivable, at fair value	$—	$ —	$9,489	$9,489
Loans and fees receivable pledged as collateral, at fair value	$—	$ —	$71,688	$71,688

Assets – As of December 31, 2013 (1)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Assets
Loans and fees receivable, net for which it is practicable to estimate fair value	$—	$ —	$94,579	$92,924
Loans and fees receivable, net for which it is not practicable to estimate fair value (2)	$—	$ —	$—	$4,284
Loans and fees receivable, at fair value	$—	$ —	$12,080	$12,080
Loans and fees receivable pledged as collateral, at fair value	$—	$ —	$88,132	$88,132

(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 disclose 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.

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For those asset classes above that are required to be carried at fair value in our consolidated financial statements, gains and losses associated with fair value changes are detailed on our fees and related income on earning assets table within Note 2, “Significant Accounting Policies and Consolidated Financial Statement Components.” For our loans and fees receivable included in the above table, we assess the fair value of these assets based on our estimate of future cash flows net of servicing costs, and to the extent that such cash flow estimates change from period to period, any such changes are considered to be attributable to changes in instrument-specific credit risk.

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, 2014 and June 30, 2013:

	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, 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
Net transfers in and/or out of Level 3	—	—	—
Balance at June 30, 2014	$9,489	$71,688	$81,177
Balance at January 1, 2013	$20,378	$133,595	$153,973
Total gains—realized/unrealized:			
Net revaluations of loans and fees receivable pledged as collateral under structured financings, at fair value	—	19,789	19,789
Net revaluations of loans and fees receivable, at fair value	5,276	—	5,276
Settlements, net	(9,992)	(43,553)	(53,545)
Impact of foreign currency translation	—	(2,573)	(2,573)
Net transfers in and/or out of Level 3	—	—	—
Balance at June 30, 2013	$15,662	$107,258	$122,920

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, 2014 and December 31, 2013:

Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at June 30, 2014	Valuation Technique	Unobservable Input	Range (Weighted Average)(1)	
Loans and fees receivable, at fair value	$9,489	Discounted cash flows	Gross yield	25.1	%
			Principal payment rate	3.5	%
			Expected credit loss rate	13.9	%
			Servicing rate	12.2	%
			Discount rate	15.9	%
Loans and fees receivable pledged as collateral under structured financings, at fair value	$71,688	Discounted cash flows	Gross yield	11.9% to 27.7% (20.8%)	
			Principal payment rate	1.7% to 3.2% (2.5%)	
			Expected credit loss rate	6.9% to 17.0% (12.6%)	
			Servicing rate	8.5% to 12.4% (10.2%)	
			Discount rate	15.9% to 16.2% (16.0%)	

Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at December 31, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average)(1)	
Loans and fees receivable, at fair value	$12,080	Discounted cash flows	Gross yield	23.7	%
			Principal payment rate	3.5	%
			Expected credit loss rate	14.6	%
			Servicing rate	14.0	%
			Discount rate	15.9	%
Loans and fees receivable pledged as collateral under structured financings, at fair value	$88,132	Discounted cash flows	Gross yield	17.0% to 27.5% (23.4%)	
			Principal payment rate	1.7% to 3.2% (2.6%)	
			Expected credit loss rate	9.9% to 18.0% (14.9%)	
			Servicing rate	9.4% to 11.8% (10.3%)	
			Discount rate	15.9% to 16.2% (16.0%)	

(1) Our loans and fees receivable, 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, 2014 and December 31, 2013 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, 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	$—	$—	$25,500	$25,500
ACC amortizing debt facility	$—	$—	$415	$415
Amortizing debt facilities	$—	$—	$16,044	$16,044
Revolving credit facility	$—	$—	$4,000	$4,000
U.K. credit card accounts revolving credit facility	$—	$—	$7,226	$7,226
5.875% convertible senior notes	$—	$54,392	$—	$95,804
Liabilities carried at fair value				
Interest rate swap underlying CAR facility	$—	$40	$—	$40
Economic sharing arrangement liability	$—	$—	$199	$199
Notes payable associated with structured financings, at fair value	$—	$—	$75,509	$75,509

Liabilities - As of December 31, 2013	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	$—	$—	$22,000	$22,000
ACC amortizing debt facility	$—	$—	$928	$928
Amortizing debt facilities	$—	$—	$21,411	$21,411
Revolving credit facility	$—	$—	$4,000	$4,000
U.K. credit card accounts revolving credit facility	$—	$—	$8,245	$8,245
5.875% convertible senior notes	$—	$57,007	$—	$95,484
Liabilities carried at fair value				
Interest rate swap underlying CAR facility	$—	$97	$—	$97
Economic sharing arrangement liability	$—	$—	$354	$354
Notes payable associated with structured financings, at fair value	$—	$—	$94,523	$94,523

Gains and losses associated with fair value changes for our notes payable associated with structured financing liabilities that are carried at fair value are detailed on our fees and related income on earning assets table within Note

2, “Significant Accounting Policies and Consolidated Financial Statement Components.” See Note 7, “Notes Payable,” for further discussion on our notes payable.

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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, 2014 and 2013.

	Notes Payable Associated with Structured Financings, at Fair Value	
	2014	2013
Beginning balance, January 1	$94,523	$140,127
Transfers in due to consolidation of equity-method investees	—	—
Total (gains) losses—realized/unrealized:		
Net revaluations of notes payable associated with structured financings, at fair value	2,308	15,575
Repayments on outstanding notes payable, net	(22,425)	(39,388)
Impact of foreign currency translation	1,103	(2,701)
Net transfers in and/or out of Level 3	—	—
Ending balance, June 30	$75,509	$113,613

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 period ended June 30, 2014 and December 31, 2013:

Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at June 30, 2014 (in Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Notes payable associated with structured financings, at fair value	$75,509	Discounted cash flows	Gross yield	11.9% to 27.7% (20.8%)
			Principal payment rate	1.7% to 3.2% (2.5%)
			Expected credit loss rate	6.9% to 17.0% (12.6%)
			Discount rate	15.9% to 21.2% (18.2%)

Quantitative Information about Level 3 Fair Value Measurements

Fair Value Measurements	Fair Value at December 31, 2013 (in Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Notes payable associated with structured financings, at fair value	$94,523	Discounted cash flows	Gross yield	17.0% to 27.5% (23.4%)
			Principal payment rate	1.7% to 3.2% (2.6%)
			Expected credit loss rate	9.9% to 18.0% (14.9%)
			Discount rate	

15.9% to 20.6%
(17.7%)

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Other Relevant Data

Other relevant data (in thousands) as of June 30, 2014 and December 31, 2013 concerning certain assets and liabilities we carry at fair value are as follows:

As of June 30, 2014	Loans and Fees Receivable at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings at Fair Value
Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value	$12,332	$91,154
Aggregate fair value of loans and fees receivable that are reported at fair value	$9,489	$71,688
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)	$21	$256
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	$386	$2,807

As of December 31, 2013	Loans and Fees Receivable at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings at Fair Value
Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value	$16,620	$109,945
Aggregate fair value of loans and fees receivable that are reported at fair value	$12,080	$88,132
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)	$31	$299
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	$728	$4,555

Notes Payable	Notes Payable Associated with Structured Financings, at Fair Value as of June 30, 2014	Notes Payable Associated with Structured Financings, at Fair Value as of December 31, 2013
Aggregate unpaid principal balance of notes payable	$197,404	$219,619
Aggregate fair value of notes payable	$75,509	$94,523

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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 amounts of structured financing notes secured by certain credit card receivables and reported at fair value as of both June 30, 2014 and December 31, 2013, (2) the outstanding face amounts of structured financing notes secured by certain credit card receivables and reported at fair value as of June 30, 2014, and (3) the carrying amounts of the credit card receivables and restricted cash that provide the exclusive means of repayment for the notes (i.e., lenders have recourse only to the specific credit card receivables and restricted cash underlying each respective facility and cannot look to our general credit for repayment) as of June 30, 2014 and December 31, 2013.

	Carrying Amounts at Fair Value as of	
	June 30, 2014	December 31, 2013
Amortizing securitization facility issued out of our upper-tier originated portfolio master trust (stated maturity of December 2014), outstanding face amount of $132.6 million bearing interest at a weighted average 4.6% interest rate (4.2% as of December 31, 2013), which is secured by credit card receivables and restricted cash aggregating $45.4 million ($58.4 million as of December 31, 2013) in carrying amount	$45.4	$58.3
Amortizing term securitization facility (denominated and referenced in U.K. sterling and a stated maturity of October 2014) issued out of our Non-U.S. Acquired Portfolio securitization trust, outstanding face amount of $64.9 million bearing interest at a weighted average 5.9% interest rate (5.6% as of December 31, 2013), which is secured by credit card receivables and restricted cash aggregating $30.2 million ($36.8 million as of December 31, 2013) in carrying amount	30.1	36.2
Total structured financing notes reported at fair value that are secured by credit card receivables and to which we are subordinated	$75.5	$94.5

Contractual payment allocations within these credit cards receivable structured financings provide for a priority distribution of cash flows to us to service the credit card receivables, a distribution of cash flows to pay interest and principal due on the notes, and a distribution of all excess cash flows (if any) to us. Each of the structured financing facilities in the above table is amortizing down along with collections of the underlying receivables and there are no provisions within the debt agreements that allow for acceleration or bullet repayment of the facilities prior to their scheduled expiration dates. The aggregate carrying amount of the credit card receivables and restricted cash that provide security for the $75.5 million in fair value of structured financing notes in the above table is $75.6 million, which means that our maximum aggregate exposure to pre-tax equity loss associated with the above structured financing arrangements is $0.1 million at June 30, 2014.

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

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Notes Payable, at Face Value

Other notes payable outstanding as of June 30, 2014 and December 31, 2013 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, 2014	December 31, 2013
Revolving credit facilities at a weighted average rate equal to 4.7% (4.7% at December 31, 2013) secured by the financial and operating assets of CAR and another of our borrowing subsidiaries with a combined aggregate carrying amount of $89.8 million ($83.5 million at December 31, 2013)		
Revolving credit facility (expiring October 4, 2017) (1) (2)	$25.5	$22.0
Revolving credit facility (expiring May 17, 2015) (2)	4.0	4.0
Amortizing facilities at a weighted average rate equal to 6.6% (8.8% at December 31, 2013) secured by certain receivables, rental streams and restricted cash with a combined aggregate carrying amount of $18.7 million ($16.5 million as of December 31, 2013)		
Amortizing debt facility (expiring December 15, 2014) (3) (4)	0.9	3.3
Amortizing debt facility (expiring April 20, 2015) (3) (4)	1.6	5.8
Amortizing debt facility (expiring July 15, 2015) (3) (4)	3.7	8.3
Amortizing debt facility (expiring February 19, 2015) (3)	2.7	3.5
Amortizing debt facility (expiring March 31, 2015) (3)	7.1	—
Amortizing debt facility (expiring April 1, 2016) (3)	—	0.5
Other facilities		
Amortizing debt facility (expiring November 6, 2016) that is secured by our ACC Auto Finance segment receivables and restricted cash with an aggregate carrying amount of $1.2 million ($2.5 million as of December 31, 2013) (5)	0.4	0.9
Revolving credit facility associated with our credit card accounts in the U.K. that can be drawn to the extent of outstanding eligible principal receivables up to £5.0 million, expiring December 1, 2016 with an annual rate equal to the lender’s cost of funds plus 7.0% (8.9% as of June 30, 2014 and 9.1% as of December 31, 2013) secured by certain receivables and restricted cash with a combined aggregate carrying amount of $5.9 million ($9.6 million as of December 31, 2013)	7.2	8.2
Vendor-financed software and equipment purchases (expiring September 2014) at an implied rate of 15.0%, that are secured by certain equipment	0.2	0.2
Total notes payable outstanding	$53.3	$56.7

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

(2) Loans are from the same lender and are cross-collateralized; thus, combined security interests are subject to claims upon the default of either lending arrangement. The assets of Atlanticus Holdings Corporation are not subject to creditor claims arising due to asset performance-related covenants under this loan.

(3) 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.

(4) Loans are from the same lender and are cross-collateralized; thus, combined security interests are subject to claims upon the default of either lending arrangement.

(5) The terms of this lending agreement provide for the application of all excess cash flows from the underlying auto finance receivables portfolio (above and beyond interest costs and contractual servicing compensation to our outsourced third-party servicer) to reduce the outstanding principal balance of the debt, and the outstanding principal balance was repaid in the fourth quarter of 2012. Now that we have repaid the principal portion of the

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note, the lending agreement requires that we remit 37.5% of future cash flows (net of contractual servicing compensation) generated on the auto finance receivables portfolio to the note holders as additional compensation for the use of their capital. Based on current estimates of this additional compensation, we currently are accruing interest expense on this liability based on current expectations of future collections, and the amount disclosed in the above table represents our accrued interest expense liability under this lending agreement. The assets of Atlanticus Holdings Corporation are not subject to creditor claims arising under this loan.

In July, 2014, we increased the loaned amount and extended the maturity date of certain of our amortizing debt facilities associated with our point-of-sale finance operations. The increases resulted in an aggregate $14.0 million additional in outstanding amortizing facilities.

8. Convertible Senior Notes

In May 2005, we issued $250.0 million aggregate principal amount of 3.625% convertible senior notes due 2025 (“3.625% convertible senior notes”), and in November 2005, we issued $300.0 million aggregate principal amount of 5.875% convertible senior notes due 2035 (“5.875% convertible senior notes”). These notes (net of repurchases since the issuance dates) are reflected within convertible senior notes on our consolidated balance sheets. The following summarizes (in thousands) components of our consolidated balance sheets associated with our convertible senior notes:

	As of	
	June 30, 2014	December 31, 2013
Face amount of 3.625% convertible senior notes	$450	$450
Face amount of 5.875% convertible senior notes	139,467	139,467
Discount	(43,663)	(43,983)
Net carrying value	$96,254	$95,934
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	$—	$—

On June 23, 2014 we announced a tender offer to purchase up to $100 million aggregate principal amount of our outstanding 5.875% convertible senior notes. Following the expiration of the offer on July 28, 2014, we repurchased $80,000 aggregate principal amount of outstanding 5.875% convertible senior notes for $25,200.

9. Commitments and Contingencies

General

In the normal course of business through the origination of unsecured credit card receivables, we incur off-balance-sheet risks. These risks include commitments of £1.3 million ($2.2 million) at June 30, 2014 to purchase receivables associated with cardholders who have the right to borrow in excess of their current balances up to the maximum credit limit on their credit card accounts. We have never experienced a situation in which all of our customers have exercised their entire available line of credit at any given point in time, nor do we anticipate this will ever occur in the future. Moreover, there would be a concurrent increase in assets should there be any exercise of these lines of credit. We also have the effective right to reduce or cancel these available lines of credit at any time. At June 30, 2014, the available lines of credit mentioned above are related to cards issued under programs in the U.K.

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 in excess of their current balances 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, 2014, CAR had unfunded outstanding floor-plan financing commitments totaling $9.7 million. Each draw against unused commitments is reviewed for conformity to pre-established guidelines.

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Under our point-of-sale finance products, we give consumers the ability to borrow up to the maximum credit limit assigned to each individual's account. Our unfunded commitments under these products aggregated $87.8 million at June 30, 2014. We have never experienced a situation in which all of our customers have exercised their entire available line of credit at any given point in time, nor do we anticipate this will ever occur in the future. Moreover, there would be a concurrent increase in assets should there be any exercise of these lines of credit. We also have the effective right to reduce or cancel these available lines of credit at any time.

Under agreements with third-party originating and other financial institutions, we have agreed to indemnify the financial institutions for certain liabilities associated with the financial institutions' activities on our behalf—such indemnification obligations generally being limited to instances in which we either (a) have been afforded the opportunity to defend against any potentially indemnifiable claims or (b) have reached agreement with the financial institutions regarding settlement of potentially indemnifiable claims. As of June 30, 2014, 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. In October 2013, we were released from certain contingent liabilities which resulted in the release of $4.4 million of cash previously held in escrow and previously included on our consolidated balance sheet as a deposit within our prepaid expenses and other assets category.

Total System Services, Inc. provides certain services to Atlanticus Services Corporation as a system of record provider under an agreement that extends through May 2015. If Atlanticus Services Corporation were to terminate its U.S. relationship with Total System Services, Inc. prior to the contractual termination period, it would incur significant penalties ($5.2 million as of June 30, 2014).

We also are subject to certain minimum payments under cancelable and non-cancelable lease arrangements. For further information regarding these commitments, see Note 9, "Leases," in our Annual Report on Form 10-K for the year ended December 31, 2013.

Litigation

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

10. Net Loss Attributable to Controlling Interests Per Common Share

We compute net loss attributable to controlling interests per common share by dividing loss attributable to controlling interests by the weighted-average common shares (including participating securities) outstanding during the period, as discussed below. Diluted computations applicable in financial reporting periods in which we report income reflect the potential dilution to the basic income per common share computations that could occur if securities or other contracts to issue common stock were exercised, were converted into common stock or were to result in the issuance of common stock that would share in our results of operations. In performing our net loss attributable to controlling interests per common share computations, we apply accounting rules that require us to include all unvested stock awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, in the number of shares outstanding in our basic and diluted calculations. Common stock and certain unvested share-based payment awards earn dividends equally, and we have included all outstanding restricted stock awards in our basic and diluted calculations for current and prior periods.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator:				
Net loss attributable to controlling interests	$(11,178)	$(9,849)	$(22,352)	$(12,857)
Denominator:				
Basic (including unvested share-based payment awards) (1)	13,989	13,784	14,035	13,813
Effect of dilutive stock compensation arrangements (2)	—	—	—	—
Diluted (including unvested share-based payment awards) (1)	13,989	13,784	14,035	13,813
Net loss attributable to controlling interests per common share—basic	$(0.80)	$(0.71)	$(1.59)	$(0.93)
Net loss attributable to controlling interests per common share—diluted	$(0.80)	$(0.71)	$(1.59)	$(0.93)

(1) Shares related to unvested share-based payment awards we included in our basic and diluted share counts are 556,190 and 561,900 for the three and six months ended June 30, 2014, compared to 224,662 and 251,525 shares for the three and six months ended June 30, 2013.

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

As their effects were anti-dilutive, we excluded all of our stock options from our net loss per share computations for the three and six months ended June 30, 2014 and 2013.

For the three and six months ended June 30, 2014 and 2013, there were no shares potentially issuable and thus includible in the diluted net loss attributable to controlling interests per common share calculations under our 3.625% convertible senior notes and 5.875% convertible senior notes. However, in future reporting periods during which our closing stock price is above the respective $20.22 and $24.61 conversion prices for the 3.625% convertible senior notes and 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 22,246 and 5.7 million shares, respectively, which could be included in diluted share counts in net income per common share calculations. See Note 8, “Convertible Senior Notes,” for a further discussion of these convertible securities.

11. Stock-Based Compensation

We currently have two stock-based compensation plans, the Employee Stock Purchase Plan (the “ESPP”) and the 2014 Equity Incentive Plan (the “2014 Plan”). As of June 30, 2014, 727,500 shares remained available for issuance under the 2014 Plan.

Exercises and vestings under our stock-based compensation plans resulted in no income tax-related benefits or charges to additional paid-in capital during the three and six months ended June 30, 2014 and 2013.

Restricted Stock and Restricted Stock Unit Awards

During the six months ended June 30, 2014 and 2013, we granted 77,600 and 150,472 shares of restricted stock (net of any forfeitures), respectively, with aggregate grant date fair values of $0.3 million and $0.5 million, respectively. When we grant restricted stock, we defer the grant date value of the restricted stock and amortize that value (net of the value of anticipated forfeitures) as compensation expense with an offsetting entry to the additional paid-in capital component of our consolidated shareholders’ equity. Our restricted stock generally vests over a range of 12 to 60 months and is amortized to salaries and benefits expense ratably over applicable vesting periods. As of June 30, 2014, our unamortized deferred compensation costs associated with non-vested restricted stock awards were $1.0 million with a weighted-average remaining amortization period of 1.4 years.

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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 may be less than, equal to, or greater than the market price on the date the option is granted. The option period may not exceed 5 years from the date of grant. The vesting requirements for options could range from 0 to 5 years. We had expense of $182,850 and $0 related to stock option-related compensation costs during the six months ended June 30, 2014 and 2013, respectively. When applicable, we recognize stock option-related compensation expense for any awards with graded vesting on a straight-line basis over the vesting period for the entire award. Information related to options outstanding is as follows:

	June 30, 2014			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average of Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2013	—	$—		
Issued	450,000	$2.52		
Outstanding at June 30, 2014	450,000	$2.52	4.7	$127,500
Exercisable at June 30, 2014	—	$—	0	$—

As of June 30, 2014, we had $0.5 million of unamortized deferred compensation costs associated with non-vested stock options.

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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 and our Annual Report on Form 10-K for the year ended December 31, 2013, where certain terms (including trust, subsidiary and other entity names and financial, operating and statistical measures) have been defined.

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements. We base these forward-looking statements on our current plans, expectations and beliefs about future events. There are risks, including the factors discussed in "Risk Factors" in Part II, Item 1A and elsewhere in this Report, that our actual experience will differ materially from these expectations. For more information, see "Forward Looking Information" below.
In this Report, except as the context suggests otherwise, the words "Company," "Atlanticus Holdings Corporation," "Atlanticus," "we," "our," "ours" and "us" refer to Atlanticus Holdings Corporation and its subsidiaries and predecessors.

OVERVIEW

We are a provider of various credit and related financial services and products to or associated with the financially underserved consumer credit market—a market largely represented by credit risks that regulators classify as sub-prime.

Currently, within our Credit and Other Investments segment, we are applying the experiences and infrastructure associated with our historic credit card offerings to provide point-of-sale financing, whereby we partner with retailers and service providers in various industries across the U.S. to provide credit to their customers for the purchase of goods and services or the rental of merchandise to their customers under rent-to-own arrangements. These products are often extended to customers who may have been declined under traditional financing options. We specialize in providing this "second-look" credit service. Using our infrastructure and technology platform, we also provide loan servicing, including underwriting, marketing, customer service and collections operations for third parties. Also through our Credit and Other Investments segment, we engage in testing and limited investment in ancillary finance, technology and other products as we seek to capitalize on our expertise and infrastructure.

Beyond these activities within our Credit and Other Investments segment, we continue to collect on portfolios of credit card receivables underlying now-closed credit card accounts. These receivables include both receivables we originated through third-party financial institutions and portfolios of receivables we purchased from third-party financial institutions. The only open credit card accounts underlying our credit card receivables are those we originate through our credit card products in the U.K. Some of our portfolios of credit card receivables underlying now-closed accounts are encumbered by non-recourse structured financings, and for these portfolios 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 portfolios are insufficient to allow for full repayment of the financings.

Lastly, we report within our Credit and Other Investments segment the income earned from investments in two equity-method investees—one that holds credit card receivables for which we are the servicer and another that holds structured financing notes underlying credit card receivables for which we are the servicer.

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

We historically financed most of our credit card receivables through the asset-backed securitization markets. These markets deteriorated significantly in 2008, and the level of "advance rates," or leverage against credit card receivable assets, in the current asset-backed securitization markets is below pre-2008 levels. Considering this reality coupled with constraints on credit card asset returns in the U.S., we no longer market or maintain open credit card accounts in the U.S. We do believe, however, that our point-of-sale finance activities are generating and will continue to generate attractive returns on assets, thereby allowing us to secure debt financing under terms and conditions (including advance rates and pricing) that will allow us to achieve our desired returns on equity, and we continue to pursue aggressive growth in this area.

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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 collecting on portfolios of auto finance receivables that we previously originated through franchised and independent auto dealers in connection with prior business activities, as well as providing certain lending products in addition to our traditional loans secured by automobiles.

Subject to the availability of capital at attractive terms and pricing, we plan to continue to evaluate and pursue a variety of activities, including: (1) the expansion of our point-of-sale finance products; (2) the acquisition of additional financial assets associated with our point-of-sale finance activities as well as the acquisition of receivables portfolios; (3) investments in other assets or businesses that are not necessarily financial services assets or businesses; (4) the repurchase of our convertible senior notes and other debt or our outstanding common stock; and (5) the servicing of receivables and related financial assets for third parties (and in which we have limited or no equity interests) to allow us to leverage our expertise and infrastructure.

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CONSOLIDATED RESULTS OF OPERATIONS

(In Thousands)	For the Three Months Ended June 30, 2014	2013	Income Increases (Decreases) from 2013 to 2014
Total interest income	$17,424	$16,765	$659
Interest expense	(6,158)	(5,866)	(292)
Fees and related income on earning assets:			
Fees on credit products	6,407	5,385	1,022
Changes in fair value of loans and fees receivable recorded at fair value	1,975	8,342	(6,367)
Changes in fair value of notes payable associated with structured financings recorded at fair value	(1,151)	(970)	(181)
Rental revenue	14,710	—	14,710
Other	255	(2,538)	2,793
Other operating income:			
Servicing income	1,234	2,604	(1,370)
Other income	254	316	(62)
Equity in income equity-method investees	841	957	(116)
Total	$35,791	$24,995	$10,796
Losses upon charge off of loans and fees receivable recorded at fair value	(50)	4,351	4,401
Provision for losses on loans and fees receivable recorded at net realizable value	6,731	6,670	(61)
Other operating expenses:			
Salaries and benefits	4,664	4,371	(293)
Card and loan servicing	12,956	10,849	(2,107)
Marketing and solicitation	631	2,586	1,955
Depreciation	16,573	418	(16,155)
Other	4,791	5,078	287
Net loss	(11,178)	(9,790)	(1,388)
Net income attributable to noncontrolling interests	—	(59)	59
Net loss attributable to controlling interests	(11,178)	(9,849)	(1,329)

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(In Thousands)	For the Six Months Ended June 30, 2014	2013	Income Increases (Decreases) from 2013 to 2014
Total interest income	$37,618	$36,700	$918
Interest expense	(12,345)	(11,638)	(707)
Fees and related income on earning assets:			
Fees on credit products	11,794	9,301	2,493
Changes in fair value of loans and fees receivable recorded at fair value	6,667	25,065	(18,398)
Changes in fair value of notes payable associated with structured financings recorded at fair value	(2,308)	(15,575)	13,267
Rental revenue	36,643	—	36,643
Other	2,285	(1,766)	4,051
Other operating income:			
Servicing income	2,474	5,205	(2,731)
Other income	1,321	2,452	(1,131)
Equity in income equity-method investees	3,247	5,264	(2,017)
Total	$87,396	$55,008	$32,388
Losses upon charge off of loans and fees receivable recorded at fair value	1,835	10,149	8,314
Provision for losses on loans and fees receivable recorded at net realizable value	14,606	9,952	(4,654)
Other operating expenses:			
Salaries and benefits	9,762	8,780	(982)
Card and loan servicing	26,734	21,528	(5,206)
Marketing and solicitation	1,393	4,521	3,128
Depreciation	42,281	791	(41,490)
Other	10,331	11,156	825
Net loss	(22,201)	(12,777)	(9,424)
Net income attributable to noncontrolling interests	(151)	(80)	(71)
Net loss attributable to controlling interests	(22,352)	(12,857)	(9,495)

Three and Six Months Ended June 30, 2014, Compared to Three and Six Months Ended June 30, 2013

Total interest income. Total interest income consists primarily of finance charges and late fees earned on our point-of-sale finance, credit card and auto finance receivables. Period-over-period results reflect continued growth in our point-of-sale finance products, offset, however, by continued net liquidations of our credit card and auto finance receivables over the past year. We are currently experiencing growth in our point-of-sale finance products and to a lesser extent we are experiencing growth in our CAR receivables—growth which should cause us to experience net period over period growth in our total interest income within the next few quarters. Future periods' growth is also largely dependent on the addition of new retail partners for our point-of-sale operations as well as continued growth within existing partnerships. This growth was delayed late in the first quarter of 2014 as a significant retail partner in our point-of-sale operations underwent a product shift that resulted in the suspension of new account originations with us for both our installment lending product as well as our rent-to-own product. This disruption lasted into the second quarter and continues to impact growth through lower originations.

Interest expense. Variations in interest expense are due to our debt facilities being repaid commensurate with net liquidations of the underlying credit card, auto finance and installment loan receivables that serve as collateral for the facilities offset by new borrowings associated with growth in our point-of-sale finance operations as evidenced within Note 7, “Notes Payable,” to our consolidated financial statements. We anticipate additional debt financing over the next few quarters, including the $14.0 million which was received in July 2014 associated with our point-of-sale finance operations as previously discussed, and as such, we expect our 2014 quarterly interest expense to be slightly above those experienced in the prior periods.

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

- The growth in rental revenue we experienced with the addition of our rent-to-own program, which accelerated in the third quarter of 2013;
- Increases in fees on credit products, principally associated with billings on credit card accounts in the U.K.;
- Recoveries on investments in securities in excess of their carrying value in our "Other" category;
- Our $2.4 million charge off of a note we had received from buyers of our buy-here-pay-here dealer operations in the second quarter of 2013, such charge off causing the loss in our prior year "Other" category; and
- The effects of changes in the fair values of credit card receivables recorded at fair value and notes payable associated with structured financings recorded at fair value as addressed below.

As we continue to expand the rent-to-own product offerings, we expect to see continued increases in billings within the Rental revenue category. However, this growth in rental revenues slowed during the second quarter of 2014 (when compared to the first quarter of 2014) due to a product shift by one of our large retail partners. Following the completion of this product shift, we have continued to experience consistent monthly growth. As for our fees on credit products category, which is primarily influenced by the level of our originated U.K. credit card receivables, we expect a diminishing level of fee income in 2014 due to currently planned marketing levels for that product offering. Further, given expected future net liquidations of our credit card receivables for which we use fair value accounting, we expect our change in fair value of credit card receivables recorded at fair value and our change in fair value of notes payable associated with structured financings recorded at fair value amounts to gradually diminish (absent significant changes in the assumptions used to determine these fair values) in the future. These amounts, however, are subject to potentially high levels of volatility if we experience changes in the quality of our credit card receivables or if there are significant changes in market valuation factors (e.g., interest rates and spreads) in the future. Such volatility will be muted somewhat, however, by the offsetting nature of the receivables and underlying debt being recorded at fair value and with the expected reductions in the face amounts of such outstanding receivables and debt as we experience further credit card receivables liquidations and associated debt amortizing repayments.

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

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

Equity in income of equity-method investees. Because our equity-method investees use the fair value option to account for their financial assets and liabilities, changes in fair value estimates can cause some volatility in the earnings of these investees as occurred in the first three quarters of 2013. Although we increased our equity interest in one of our two equity-method investees in the second quarter of 2013, because of continued liquidations in their financial assets (a credit card receivables portfolio held by one equity-method investee and structured financing notes held by the other), absent additional investments in our existing or in new equity-method investees in the future, we expect gradually declining effects from our equity-method investments on our operating results.

Losses upon charge off of loans and fees receivable recorded at fair value. This account reflects charge offs (net of recoveries) of the face amount of credit card receivables we record at fair value on our consolidated balance sheet. We have experienced a general trending decline in, and we expect future trending declines in, these charge offs as we continue to liquidate our credit card receivables. Additionally, net losses in both periods reflect the effects of reimbursements received in respect of one of our portfolios. In the second quarter of 2014, these reimbursements exceeded the charge-offs experienced within the portfolio as the reimbursements are not directly associated with the timing of actual charge offs.

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Provision for losses on loans and fees receivable recorded at net realizable value. Our provision for losses on loans and fees receivable recorded at net realizable value covers, with respect to such receivables, the aggregate loss exposures on (1) principal receivable balances, (2) finance charges and late fees receivable underlying income amounts included within our total interest income category, and (3) other fees receivable. We have experienced period-over-period increases in this category between 2013 and 2014 due to the effects of initial elevated losses incurred on new credit product testing and more recently growth in our new installment lending product lines. We expect growth in new product receivables recorded at net realizable value to exceed any further liquidations of our auto finance receivables recorded at net realizable value. Accordingly, we expect increases in our provisions for losses on loans and fees receivable recorded at net realizable value in future quarters—such increases predominantly expected to reflect the effects of volume associated with our point-of-sale finance product offering (i.e., growth of new product receivables), rather than credit quality changes or deterioration. However, testing associated with our credit card product in the U.K. resulted in slightly higher provisions through the first quarter of 2014, testing which we currently do not expect to continue in future quarters. See Note 2, "Significant Accounting Policies and Consolidated Financial Statement Components," to our consolidated financial statements and the discussions of our Credit and Other Investments and Auto Finance segments for further credit quality statistics and analysis.

Total other operating expense. Total other operating expense variances for the three and six months ended June 30, 2014, relative to the three and six months ended June 30, 2013 reflect the following:

- modestly higher 2014 salaries and benefits costs resulting from increases required to grow our new credit product offerings;
- card and loan servicing expenses that are higher in 2014 based on new product efforts, the cost of such efforts overshadowing the cost effects of continuing credit card and auto finance receivables portfolio liquidations;
- increased depreciation primarily associated with our rent-to-own program, totaling $15.7 million and $40.7 million for the three and six months ended June 30, 2014, respectively, with no amounts in prior periods; and
- increases in customer acquisition and underwriting costs consistent with our aforementioned new product efforts.

A portion of our operating costs are variable based on the levels of accounts we market and receivables we service (both for our own account and for others) and the pace and breadth of our search for, acquisition of and introduction of new business lines, products and services. However, a number of our operating costs are fixed and until recently have comprised a larger percentage of our total costs based on the ongoing contraction of our credit card and auto finance loans and fees receivable levels. This trend is gradually reversing, however, as we continue to grow our earning assets (including loans and fees receivable and rental merchandise) based principally on growth of our point-of-sale finance product offerings and to a lesser extent, growth within our CAR operations. We continue to perform extensive reviews of all areas of our businesses for cost savings opportunities to better align our costs with our portfolio of managed receivables.

Notwithstanding our cost-control efforts and focus, we expect increased levels of expenditures associated with growth in our point-of-sale finance operations. While we have greater control over our variable expenses, it is difficult (as explained above) for us to appreciably reduce our fixed and other costs associated with an infrastructure (particularly within our Credit and Other Investments segment) that was built to support levels of managed receivables that are significantly higher than both our current levels and the levels that we expect to see in the near future. At this point, our Credit and Other Investments segment cash inflows are sufficient to cover its direct variable costs and a portion, but not all, of its share of overhead costs (including, for example, corporate-level executive and administrative costs and our convertible senior notes interest costs). As such, if we are unable to contain overhead costs or expand revenue-earning activities to levels commensurate with such costs, then, depending upon the earnings generated from our Auto Finance segment and our liquidating credit card portfolios, we may experience continuing pressure on our ability to achieve profitability.

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

Income Taxes. We experienced negative effective income tax benefit rates of 6.4% and 13.6% for the three and six months ended June 30, 2014, respectively versus 5.0% and 7.7% for the three and six months ended June 30, 2013, respectively. Our negative effective income tax benefit rates resulted principally from (1) the effects of legislative changes enacted during 2014 in certain state filing jurisdictions, (2) interest accruals on our liabilities for uncertain tax positions in both the three and six months ended June 30, 2014 and 2013, and (3) changes in valuation allowances against income statement-oriented federal, foreign and state deferred tax assets in both the three and six months ended June 30, 2014 and 2013.

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We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized $0.6 million and $1.2 million of potential interest and penalties associated with these uncertain tax positions during the three and six months ended June 30, 2014, respectively, compared to $0.5 million and $0.9 million during the three and six months ended June 30, 2013, respectively. To the extent interest and penalties are not assessed as a result of resolution of an uncertain tax position, amounts accrued are reduced and reflected as a reduction of income tax expense. We recognized no such reductions in either of the three and six months ended June 30, 2014 and 2013.

Credit and Other Investments Segment

Our Credit and Other Investments segment includes our activities relating to investments in and servicing of our point-of-sale finance products and our various credit card receivables portfolios, as well as other product testing and investments that generally utilize much of the same infrastructure.

The types of revenues we earn from our products and services primarily include finance charges, the accretion of discounts associated with our point-of-sale finance installment loans or revolving credit offers, late fees, rental revenue, over-limit fees, annual fees, activation fees, monthly maintenance fees, returned-check fees and cash advance fees. Also, while insignificant currently, revenues also have included credit card fees associated with (1) our sale of ancillary products such as memberships, subscription services and debt waiver, as well as (2) interchange fees representing a portion of the merchant fee assessed by card associations based on cardholder purchase volumes underlying credit card receivables.

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

Depreciation associated with rental merchandise (totaling $15.7 million and $40.7 million for the three and six months ended June 30, 2014) for which we receive rental revenue is included as a component of our overall depreciation in our consolidated statements of operations.

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

Managed Receivables

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

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

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Reconciliation of the managed receivables data to our GAAP financial statements requires: (1) an understanding that our managed receivables data are based on billings and actual charge offs as they occur, without regard to any changes in our allowance for uncollectible loans and fees receivable or any changes in the fair value of loans and fees receivable and their associated structured financing notes; (2) inclusion of our economic share of (or equity interest in) the receivables we manage for our equity-method investees; (3) removal of any noncontrolling interest holders' shares of the managed receivables underlying our GAAP consolidated results; (4) treatment of the transaction in which our 50%-owned equity-method investee acquired our structured financing trust notes (a) as a deemed sale of the trust receivables at their face amount, (b) followed by the 50%-owned equity-method investee's deemed repurchase of such receivables for consideration equal to the discounted purchase price that it paid for the notes, and (c) as though the difference between the deemed face amount and the deemed discounted repurchase price of the receivables is to be treated as credit quality discount to be accreted into managed earnings as a reduction of net charge offs over the remaining life of the receivables; and (5) the exclusion from our managed receivables data of certain reimbursements received in respect of one of our portfolios which resulted in pre-tax income benefits within our total interest income, fees and related income on earning assets, losses upon charge off of loans and fees receivable recorded at fair value, net of recoveries, other income, servicing income, and equity in income of equity-method investees line items on our consolidated statements of operations totaling approximately $3.7 million for the three months ended June 30, 2014, $3.2 million for the three months ended March 31, 2014, $1.2 million for the three months ended December 31, 2013, $3.9 million for the three months ended September 30, 2013, $1.7 million for the three months ended June 30, 2013, and $5.6 million for the three months ended March 31, 2013. This last category of reconciling items above is excluded because it does not bear on our performance in managing our credit card portfolios, including our underwriting, servicing and collection activities and our valuing of purchased receivables; moreover, it is difficult to determine the future effects of any such reimbursements that may be received.

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

Asset quality. Our delinquency and charge-off data at any point in time reflect the credit performance of our managed receivables. The average age of the accounts underlying our receivables, the timing of portfolio purchases, the success of our collection and recovery efforts and general economic conditions all affect our delinquency and charge-off rates. The average age of the accounts underlying our receivables portfolio also affects the stability of our delinquency and loss rates. We consider this delinquency and charge-off data in our determination of the fair value of our credit card receivables underlying formerly off-balance-sheet securitization structures, as well as our allowance for uncollectible loans and fees receivable in the case of our other credit product receivables that we report at net realizable value. Our strategy for managing delinquency and receivables losses consists of account management throughout the customer relationship. This strategy includes credit line management and pricing based on the risks. See also our discussion of collection strategies under the "How Do We Collect from Our Customers?" in Item 1, "Business," of our Annual Report on Form 10-K for the year ended December 31, 2013.

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

	At or for the Three Months Ended							
	2014		2013				2012	
	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30
Period-end managed receivables	$200,147	$215,182	$236,740	$248,584	$252,036	$263,265	$294,167	$326,557
Percent 30 or more days past due	11.2 %	12.0 %	12.5 %	10.9 %	9.2 %	9.4 %	10.0 %	11.0 %
Percent 60 or more days past due	8.1 %	9.2 %	9.2 %	7.8 %	6.3 %	7.0 %	7.2 %	8.1 %
Percent 90 or more days past due	5.7 %	6.7 %	6.4 %	5.2 %	4.3 %	4.9 %	5.1 %	5.8 %
Average managed receivables	$206,657	$227,109	$242,272	$246,147	$255,669	$277,457	$309,025	$340,628
Total yield ratio	38.4 %	45.4 %	33.3 %	36.3 %	31.8 %	29.4 %	15.7 %	23.5 %
Combined gross charge-off ratio	25.5 %	23.8 %	19.1 %	14.6 %	16.9 %	18.5 %	16.5 %	15.3 %
Adjusted charge-off ratio	21.3 %	19.8 %	15.2 %	10.7 %	12.2 %	14.1 %	12.7 %	11.4 %

Managed receivables levels. The consistent quarterly declines in our period-end and average managed receivables over the last eight quarters reflect the net liquidating state of our credit card receivables portfolios given our closure largely in 2008 and 2009 of substantially all credit card accounts underlying the portfolios. Moreover, we have effectively curtailed our credit card marketing efforts with the exception of small amounts of credit card originations in the U.K. associated with ongoing testing. Nevertheless, because of the rapid receivables growth we are experiencing and expect to continue to experience over the coming quarters associated with our point-of-sale finance offerings, the rate of decline in our managed receivables levels fell significantly during 2013, and we now expect growth in our managed receivables levels over coming quarters. Future periods' growth is also largely dependent on the addition of new retail partners for our point-of-sale operations as well as continued growth within existing partnerships. This growth was delayed late in the first quarter of 2014 as a significant retail partner in our point-of-sale operations underwent a product shift that resulted in the suspension of new account originations with us for our installment lending product. This disruption lasted into the second quarter and continues to impact growth through lower originations. We anticipate that new originations with this retail partner will continue to lag behind what we experienced historically, although we are seeing consistent monthly growth.

Delinquencies. Delinquencies have the potential to impact net income in the form of net credit losses. Delinquencies also are costly in terms of the personnel and resources dedicated to resolving them. We intend for the account management strategies we use on our portfolios to manage and, to the extent possible, reduce the higher delinquency rates that can be expected in a more mature managed portfolio such as ours. These account management strategies include conservative credit line management, purging of inactive accounts and collection strategies intended to optimize the effective account-to-collector ratio across delinquency categories. We further describe these collection strategies under the heading “How Do We Collect from Our Customers?” in Item 1, “Business” of our Annual Report on Form 10-K for the year ended December 31, 2013. We measure the success of these efforts by measuring delinquency rates. These rates exclude accounts that have been charged off.

Given that the vast majority of our credit card accounts have been closed and there has been no significant new activity for these accounts in the past several quarters, there have been year-over-year declines in our delinquency statistics of our managed accounts relative to corresponding dates in prior years. This trend reversed in the fourth quarter of 2013 primarily due to growth in our point of sale finance operations which generally experience higher delinquency rates than those of our liquidating credit card portfolios. Additionally, our credit card originations in the U.K. have experienced higher than average delinquency rates.

We expect our point-of-sale finance and other new product offerings to become a larger component of our managed receivables base, given the acceleration of growth in these products. Further, we expect our delinquency rates to increase

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slightly as the risk profiles (and thus expected returns) for these receivables are higher than that experienced under our current mix of largely mature credit card receivables underlying closed credit card accounts.

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

Certain of our prior originated credit card offerings have higher charge offs relative to their average managed receivables balances, than do our other portfolios. Due to the recent higher rate of decline in these particular originated receivables relative to all of our other outstanding credit card receivables, as well as the longer weighted average age and maturity of our remaining managed receivables portfolio, all things being equal, one would expect reduced charge-off ratios for these receivables. However, this trend was muted to some degree simply due to a change in the mix of our receivable balances due to growth within our point-of-sale finance operations that have slightly higher charge-off rates than the liquidating credit card portfolios as well as increased charge-offs associated with credit card origination efforts in the U.K.

The continued growth in our point-of-sale finance operations continues to result in higher charge-off ratios than those experienced historically. In the next few quarters, we expect increasing charge off rates on a period-over-period comparison basis. This expectation is based on (1) the age, maturity and stability of our portfolio of generally liquidating receivables associated with closed credit card accounts, (2) higher expected charge off rates on our rapidly growing new product offerings such as was experienced during the fourth quarter of 2013, offset by lower charge offs associated with ongoing credit card origination efforts in the U.K. due to reduced marketing levels associated with this product and (3) an overall decline in the managed receivables base as discussed above, coupled with prior period originations reaching peak chargeoff during the same period.

Total yield ratio. As noted previously, the mix of our managed receivables generally has shifted away from certain higher-yielding credit card receivables that we originated prior to 2008. Those particular originated receivables have higher delinquency rates and late and over-limit fee assessments than do our other portfolios, and thus have higher total yield ratios as well. Additionally, our total yield ratio has been adversely affected over the past several quarters by our Non-U.S. Acquired Portfolio acquisition. Its total yields are below average compared to our other portfolios, and the rate of decline in receivables in this portfolio has lagged behind the rate of decline in receivables in our other portfolios, thus continuing to suppress our total yield ratio.

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

Although we have seen generally improving total yield ratio trend-lines, our first quarter 2014 total yield ratio was also positively impacted by the decline in the managed receivables base discussed above as well as recoveries on investments in securities in excess of their carrying value. Absent these recoveries, our total yield ratio would have been 41.6% in the first quarter of 2014. Additionally, our fourth quarter 2012 total yield ratio was depressed by a $5.5 million write-down of our investments in non-marketable debt and equity securities. Absent this write-down, our total yield ratio would have been 22.9% in the fourth quarter of 2012.

Rental Merchandise

The following table presents certain trends associated with our merchandise leasing activities within our Credit and Other Investments segment (in thousands; percentages of total):

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	At or for the three months ended			
	2014		2013	
	Jun. 30	Mar. 31	Dec. 31	Sept. 30
Period-end rental merchandise, net of accumulated amortization	$11,082	$22,052	$28,849	$16,976
Period-end rental merchandise accounts	96	99	83	42
Average rental merchandise, net of accumulated amortization	$15,485	$29,047	$22,804	$8,493
Other income ratio	(21.4)%	(45.1)%	46.7%	38.1%

Average rental merchandise. Rental merchandise offerings comprise a significant part of our point-of-sale finance suite of products. Our merchandise leasing activities accelerated during the third quarter of 2013, and prior to this quarter, we had no significant experience or trends with this particular type of product. Subject to the availability of capital on desirable terms, we expect significant ongoing quarterly growth in our rental merchandise activities in future quarters. As is noted in the table above, our rental merchandise has declined from levels experienced at year end. Key drivers of this decline include: 1) depreciation of existing rental merchandise coupled with a decline in new originations due to the disruption of new account originations discussed above; 2) accelerated depreciation of certain rental merchandise due to early payoffs of outstanding rental contracts related to early payment incentives and seasonally strong payment patterns associated with year-end tax-refunds for most of our customers and 3) accelerated depreciation of certain rental merchandise due to impairments associated with accounts where the customer has not made a payment within the previous 90 days.

Other income ratio. The numerator of our other income ratio equals gross revenues associated with our leasing activities less depreciation of our rental merchandise. The denominator of our other income ratio equals average rental merchandise as disclosed in the table above. The timing of new account originations could significantly impact our quarterly ratios either through rapid growth or a period of slow growth, as occurred during the second quarter of 2014 for the reasons discussed above. The disruption in new account originations and the impact of early payoffs mentioned above resulted in a negative other income ratio for the first and second quarters of 2014, as our rental merchandise balance and related payments declined. As a customer's previous rental payments (which are treated as rental revenues and included as a component of our other income ratio, sometimes in prior quarters) are applied when determining an early payoff amount, these early payoff amounts are often for less than the remaining book value of the associated depreciable asset, negatively impacting our other income ratio.

Because of our limited history with our merchandise leasing activities as well as the disruptions in new account originations during the first and second quarters of 2014 discussed above, we expect short-term variations in our other income ratio.

Auto Finance Segment

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

Our original platform, CAR, acquired in April 2005, principally purchases and/or services loans secured by automobiles from or for, and also provides floor-plan financing for, a pre-qualified network of independent automotive dealers and automotive finance companies in the buy-here, pay-here used car business. We have expanded these operations to also include certain installment lending products in addition to our traditional loans secured by automobiles. While not currently material, these loans could represent a meaningful investment in the future.

We also historically owned substantially all of JRAS, a buy-here, pay-here dealer we acquired in 2007 and operated from that time until our disposition of certain JRAS operating assets in the first quarter of 2011.

Additionally, our ACC platform acquired during 2007 historically purchased retail installment contracts from franchised car dealers. We ceased origination efforts within the ACC platform during 2009 and outsourced the collection of its portfolio of auto finance receivables.

Collectively, as of June 30, 2014, we served more than 601 dealers through our Auto Finance segment in 37 states.

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Managed Receivables Background

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

Analysis of Statistical Data

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

	At or for the Three Months Ended							
	2014		2013				2012	
	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30
Period-end managed receivables	$64,000	$59,440	$63,491	$59,249	$60,706	$60,449	$64,158	$67,858
Percent 30 or more days past due	14.6 %	11.0 %	13.1 %	12.3 %	12.1 %	10.0 %	14.0 %	13.3 %
Percent 60 or more days past due	5.1 %	4.4 %	4.3 %	4.2 %	3.6 %	3.6 %	5.0 %	5.4 %
Percent 90 or more days past due	1.8 %	1.9 %	1.7 %	1.6 %	1.1 %	1.5 %	2.1 %	2.4 %
Average managed receivables	$62,475	$60,949	$61,263	$59,126	$60,359	$61,803	$65,065	$69,538
Total yield ratio	39.1 %	38.5 %	40.2 %	41.0 %	25.5 %	40.9 %	40.6 %	38.1 %
Combined gross charge-off ratio	0.5 %	1.0 %	4.0 %	4.4 %	4.1 %	2.2 %	6.4 %	4.5 %
Recovery ratio	2.1 %	2.1 %	1.6 %	1.8 %	2.2 %	5.1 %	3.5 %	3.9 %

Managed receivables. Average managed receivables have gradually declined as we curtailed purchasing and origination activities within our ACC and JRAS operations prior to 2011 and those receivables have declined over time. For all of the periods set forth above, only CAR continues to purchase/originate loans, but until the second quarter of 2013, it had not done so at growth levels significant enough to offset the gradual liquidation of our ACC and JRAS portfolios' managed receivables. ACC and JRAS managed receivables are substantially liquidated at this point, and we are beginning to see and expect stability in the level of our managed receivables with growth as receivable purchase opportunities arise, as occurred during the second quarter of 2014. Although we seek to expand our CAR operations, the Auto Finance segment faces strong competition from other specialty finance lenders, as well as the indirect effects on us of our buy-here, pay-here dealership customers' competition with more traditional franchise dealerships for consumers interested in purchasing automobiles.

Delinquencies. Our ACC and JRAS receivables are substantially liquidated and are at relatively insignificant levels relative to our better performing CAR receivables, which have significantly lower late stage (60 or more days past due) delinquency and charge-off rates; this fact and a recovering economy accounted for our generally improving delinquency statistics at the end of the second quarter of 2012. Because the JRAS and ACC receivables are relatively insignificant, we do not expect any material further improvements in our delinquency statistics associated with further liquidations of these receivables. Delinquencies rose somewhat within our CAR receivables portfolio in the third and fourth quarters of 2012, primarily due to seasonal patterns and a slightly weakened market. These delinquency rates abated in 2013 and the current levels we are experiencing more closely represent what we would expect going forward with some marginal increases noted within the overall buy-here pay-here market. Delinquency rates generally benefit in the first quarter of each year as seen above due to the benefits of seasonally strong payment patterns associated with year-end tax refunds for most of our customers. We are not generally concerned with modest fluctuations in delinquency rates and do not believe they will have a significantly positive or adverse impact on our results of operations; even at slightly elevated rates, we earn significant yields on CAR’s receivables and have significant dealer reserves (i.e., retainages or holdbacks on the amount of funding CAR provides to its dealer customers) to protect against credit losses.

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Total yield ratio. With the exception of the second quarter of 2013, we experienced a general trend-line of improving total yield ratios compared to prior year periods throughout 2013 due in part to liquidation of the JRAS and ACC receivables, thereby causing the higher yielding CAR receivables to comprise a larger percentage of our average managed auto finance receivables. This increasing trend is generally expected to cease as the impact of the JRAS and ACC receivables are no longer a significant component of the overall pool of receivables and as such we expect this ratio to remain relatively stable throughout the remainder of 2014. The slight decrease in total yield experienced during the first quarter of 2014 was caused by disruptions due to new systems implementations during the quarter. The significant decrease in the second quarter of 2013 was caused by the adverse effects of a $2.4 million reserve associated with a note we had received from buyers of our JRAS buy-here, pay-here dealer operations that we sold in February 2011; excluding the impact of this reserve, our second quarter 2013 total yield ratio would have been 41.1% (and we would have had GAAP Auto Finance segment income during that quarter).

Combined gross charge-off ratio and recovery ratio. We generally charge off auto finance receivables when they are between 120 and 180 days past due, unless the collateral is repossessed and sold before that point, in which case we will record a charge off when the proceeds are received. The combined gross charge-off ratio represents an annualized fraction the numerator of which is the aggregate amounts of finance charge, fee and principal losses from customers unwilling or unable to pay their receivables balances, as well as from bankrupt and deceased customers, less current-period recoveries, and the denominator of which is average managed receivables. Because our ACC receivables and the receivables of our JRAS operations that we retained in connection with the sale of our JRAS operations have declined and are now largely insignificant relative to our total portfolio of auto finance receivables and because of significantly improved performance of the ACC and JRAS receivables due both to the aging of the portfolios and some economic recovery and better than expected tax refund seasonal effects, our combined gross charge-off ratio declined significantly in the first quarter of 2014. Additionally benefiting the second quarter of 2014 were larger than expected recoveries associated with our ACC receivables which further reduced our combined gross charge-off ratio. Our CAR receivables, which experience significantly lower charge offs, now comprise a more significant proportion of our average managed auto finance receivables—a factor that has contributed most significantly to our general trend-line of lower combined gross charge-off ratios. In the first quarter of 2013, we experienced recovery sales associated with our former JRAS operations, which helped to improve our recovery ratio and combined gross charge-off ratio in that quarter. We expect our recovery rate to fluctuate modestly from quarter to quarter due to the timing of the sale of repossessed autos, but more importantly, we expect our recovery rate to fall gradually with the declining effects of ACC and JRAS on our operations; CAR experiences significantly lower charge offs and recoveries than we experienced with respect to ACC and JRAS.

Future Expectations

Our CAR operations continue to perform well in the current environment (achieving consistent profitability) and are expected to continue at current levels for the foreseeable future. Because ACC's and JRAS's receivables are now substantially liquidated, the history of negative effects of these operations on our Auto Finance segment results should be abated in future periods. We continue to focus on growing our profitable CAR operations primarily from the addition of new branch operations in 2013, which we expect to add to this segment's profitability throughout 2014.

Liquidity, Funding and Capital Resources

As noted elsewhere in this Report, a reduction in capital available to fund sub-prime credit card receivables at acceptable advance rates and terms (coupled to some degree with constraints on credit card asset returns in the U.S.) caused us to cease credit card marketing operations in the U.S. beginning in late 2007 and to close substantially all of our credit card accounts (other than those associated with our originated U.K. accounts). Until the third quarter of 2013, we experienced net liquidations of our managed receivables at faster rates than we were able to reduce our costs. This resulted from the significant level of fixed infrastructure costs that had built up to support our significant legacy credit card lending operations. Our infrastructure costs are still high now, and while we had in the past been focused on cost reduction, our primary focus now is on growing our point-of-sale finance offerings so that our revenues from these product offerings can cover our infrastructure costs and return us to profitability. In this regard, we experienced, for the first time in several years, growth in our earning assets (consisting of our managed receivables and rental merchandise) during the last two quarters of 2013, and we expect to continue to experience growth in future quarters. This growth was delayed late in the first quarter of 2014 as a significant retail partner in our point-of-sale operations underwent a product shift that resulted in the suspension of new account originations with us for our installment lending product. This disruption lasted into the second quarter and continues to impact growth through lower originations. We anticipate that new originations with this retail partner will continue to lag behind what we experienced historically, although we are seeing consistent monthly growth. Further, this disruption resulted in net contraction in our earning assets in both the first and second quarters of 2014.

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Accordingly, we expect our key challenges in the coming quarters to be (i) containing costs (as opposed to our recent focus on reducing expenses) (ii) obtaining new retail partners and channels to continue growth of our point-of-sale finance offerings and (iii) obtaining the funding necessary to meet capital needs required by the growth of our new product offerings and to cover our infrastructure costs until our new product offerings generate enough revenues and cash flows to cover such costs.

All of our Credit and Other Investments segment's structured financing facilities are expected to amortize down with collections on the receivables within their underlying trusts and should not represent significant refunding or refinancing risks to our consolidated balance sheet. Additionally, we do not expect any imminent refunding or financing needs associated with our convertible senior notes given that the next redemption date for the remaining $0.5 million outstanding balance on our 3.625% convertible senior notes is May 30, 2015 and the remaining $139.5 million outstanding balance on our 5.875% convertible senior notes is not due for repayment until 2035. As such, the only facilities that could represent near-term refunding or refinancing needs as of June 30, 2014 are those associated with the following notes payable in the amounts indicated (in millions):

Revolving credit facility (expiring May 17, 2015) that is secured by the financial and operating assets of the entity	$4.0
Revolving credit facility (expiring December 3, 2016) that is secured by originated U.K. credit card receivables portfolio	7.2
Revolving credit facility (expiring October 4, 2017) that is secured by the financial and operating assets of our CAR operations	25.5
Total	$36.7

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

While not representing a debt facility, we also note that there may be liquidity risks associated with our uncertain tax positions. Although we believe we are several years away from ultimate resolution, and possible settlement and payment, with respect to our uncertain tax positions, including those taken in the 2007 and 2008 years under audit by the Internal Revenue Service, it is possible that we may ultimately resolve one or more uncertain tax positions in a manner that results in a significant payment. Substantially all of our $57.8 million income tax liability at June 30, 2014 represents our liability accrued for uncertain tax positions.

At June 30, 2014, we had $32.9 million in unrestricted cash held by our various business subsidiaries. Because the characteristics of our assets and liabilities change, liquidity management has been a dynamic process for us, driven by the pricing and maturity of our assets and liabilities. We historically have financed our business through cash flows from operations, asset-backed structured financings and the issuance of debt and equity. Details concerning our cash flows for the six months ended June 30, 2014 are as follows:

- During the six months ended June 30, 2014, we used $14.6 million of cash flows from operations compared to the use of $14.2 million of cash flows from operations during the six months ended June 30, 2013. The increase was principally related to (1) lower collections of credit card finance charge receivables in the six months ended June 30, 2014 relative to the same period in 2013, given diminished receivables levels, and (2) purchases of rental merchandise associated with our point-of-sale finance operations during the six months ended June 30, 2014.
- During the six months ended June 30, 2014, we generated $24.6 million of cash from our investing activities, compared to generating $34.6 million of cash from investing activities during the six months ended June 30,

2013. This decrease is primarily due to the reduced levels of our outstanding investments and the cash returns thereof in 2014 based on the shrinking size of our liquidating credit card and auto finance receivable portfolios as well as increased levels of fixed asset spending associated with our point-of-sale finance operations, offset by growth in our point-of-sale finance product as well as our U.K. originated credit card receivables.

- During the six months ended June 30, 2014, we used $28.3 million of cash in financing activities, compared to our use of $26.5 million of cash in financing activities during the six months ended June 30, 2013. In both periods, the data reflect net repayments of debt facilities corresponding with net declines in our loans and fees receivable that serve as the underlying collateral for the facilities (principally credit card and auto loans and fees receivable).

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Offsetting our use of cash in financing activities for both years are borrowings associated with our new credit products.

Beyond our immediate financing efforts discussed throughout this Report, we will continue to evaluate debt and equity issuances as a means to fund our investment opportunities. We expect to take advantage of any opportunities to raise additional capital if terms and pricing are attractive to us. Any proceeds raised under these efforts or additional liquidity available to us could be used to fund (1) the acquisition of additional financial assets associated with our point-of-sale finance activities as well as the acquisition of credit card receivables portfolios, (2) further repurchases of our convertible senior notes and common stock, and (3) investments in certain financial and non-financial assets or businesses. Pursuant to a share repurchase plan authorized by our Board of Directors on May 9, 2014, we are authorized as of May 9, 2014 to repurchase up to 5,000,000 shares of our common stock through June 30, 2016.

In July, 2014, we increased the loaned amount and extended the maturity date of certain of our amortizing debt facilities associated with our point-of-sale finance operations. The increases resulted in an aggregate $14.0 million additional in outstanding amortizing facilities. The proceeds from these new lending arrangements are expected to be used in furtherance of the objectives expressed above.

Contractual Obligations, Commitments and Off-Balance-Sheet Arrangements

See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Annual Report on Form 10-K for the year ended December 31, 2013.

Commitments and Contingencies

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

Recent Accounting Pronouncements

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

Critical Accounting Estimates

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

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

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

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

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service expenses within the facilities. We estimate the present value of these future cash flows using a valuation model consisting of internally developed estimates of assumptions third-party market participants would use in determining fair value, including: estimates of net collected yield, principal payment rates and expected principal credit loss rates on the credit card receivables that secure the non-recourse notes payable; costs of funds; discount rates; and contractual servicing fees.

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

Allowance for Uncollectible Loans and Fees

Through our analysis of loan performance, delinquency data, charge-off data, economic trends and the potential effects of those economic trends on our customers, we establish an allowance for uncollectible loans and fees receivable as an estimate of the probable losses inherent within those loans and fees receivable that we do not report at fair value. To the extent that actual results differ from our estimates of uncollectible loans and fees receivable, our results of operations and liquidity could be materially affected.

Recognition and Measurements with Respect to Uncertain Tax Positions

Our businesses and the tax accounting for our businesses are very complex, thereby giving rise to a number of uncertain tax positions, several of which are matters that are under consideration, and in some cases under dispute, in audits of our operations by various taxing authorities (including the Internal Revenue Service at the federal level with respect to net operating losses that we incurred in 2007 and 2008 and that we carried back to obtain tentative refunds of federal taxes paid in earlier years dating back to 2003).

In determining whether we are entitled to recognize, and in measuring the level of benefits that we are entitled to recognize associated with, uncertain tax positions, we (and experts we have hired to advise us) make an evaluation of the technical merits of a tax position derived from sources of authorities in the tax law (legislation and statutes, legislative intent, regulations, rulings, and case law) and their applicability to the facts and circumstances underlying our tax position. Although we believe we are several years away from ultimate resolution, and possible settlement and payment, with respect to our uncertain tax positions, including those taken in the 2007 and 2008 years under audit by the Internal Revenue Service, it is possible that we may ultimately resolve one or more uncertain tax positions in a manner that differs from the liabilities we have recorded associated with such positions under our recognition and measurement determinations.

To the extent that our ultimate resolutions result in less liability than we have recorded associated with our uncertain tax positions, we could experience a material release of liability, increase in income, and greater liquidity than our investors might otherwise expect. Alternatively, to the extent that our ultimate resolutions result in more liability than we have recorded, our results of operations and liquidity could be materially adversely affected.

Valuation Allowances Against Net Deferred Tax Assets

Certain of our deferred tax assets relate to federal, foreign and state net operating losses, and the realization of our net deferred tax assets is primarily dependent upon generating sufficient taxable income prior to the expiration of these net operating loss carry-forwards. Our recorded tax benefits (or deferred tax assets) associated with net operating loss carry-forwards exceed our net deferred tax assets, and we provide valuation allowances against all of our net deferred tax assets because it is more likely than not that we will not be able to use our net operating losses to reduce future tax liabilities in applicable federal, foreign and state tax jurisdictions. To the extent we are able to realize recorded tax benefits associated with some or all of our net operating losses, our financial position could improve materially relative to that reported on our June 30, 2014 consolidated balance sheet.

Rental Merchandise

Our rental merchandise includes consumer electronics, furniture, jewelry and other consumer goods that we initially record on our consolidated balance sheets at our cost. After our initial recording of the rental merchandise at cost, we reduce its carrying value for depreciation thereof. We typically depreciate our rental merchandise over contract rental periods, generally 12 months (monthly agreements) or 26 periods (bi-weekly agreements) under a $-0- salvage value assumption. These

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assumptions are periodically adjusted based on actual results and impairments as they occur. We follow this method to match, as closely as practicable, the recognition of depreciation expense with revenues associated with our customers' use of the rental merchandise. Currently, we do not maintain any levels of rental merchandise beyond what actually has been rented to our customers under our contracts with them.

Revenue Recognition for Rental Merchandise

Our rent-to-own terms with our customers typically provide for 26, non-refundable, bi-weekly rental payments over a contract period of 12 months. Generally, the customer can take ownership of the merchandise by exercising a purchase option or making all required rental payments. We accrue periodic billed rental amounts (net of allowances for uncollectible billings) into revenues over the rental period to which the billed amounts relate, and we defer recognition in revenues of any advanced customer rental payments until the rental period in which they are properly recognizable under the terms of the contract. Additionally, we do not recognize a receivable for future periods' rental obligations due to us from our customers as our customers can terminate their rental agreements at any time with no further obligation to us, other than the return of rental merchandise.

Related Party Transactions

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

In June 2007 we entered into a sublease for 1,000 square feet of excess office space at our Atlanta headquarters with HBR Capital, Ltd. ("HBR"), a company co-owned by David G. Hanna and Frank J. Hanna, III. The sublease rate of $25.29 per square foot is the same as the rate that we pay on the prime lease. This sublease expires in May 2022.

In January 2013, HBR began leasing four employees from us. HBR reimburses us for the full cost of the employees, based on the amount of time devoted to HBR. In the six months ended June 30, 2014, we received $100,738 of reimbursed costs from HBR associated with these leased employees.

On June 23, 2014 we entered into a Loan and Security Agreement (the “Agreement”) with Bravo Ventures, LLC, a Nevada limited liability company (“Bravo”). The Agreement provided for a senior secured term loan of up to $42.0 million for the purpose of financing the Company’s offer to purchase up to $100.0 million aggregate principal amount of its outstanding 5.875% Convertible Senior Notes due 2035 (the “Tender Offer”). The Tender Offer was made pursuant to the Schedule TO and related documents, originally filed on June 23, 2014 with the Securities and Exchange Commission. At the completion of the Tender Offer, the Company used its available cash, rather than funding the loan under the Loan Agreement, to purchase the convertible notes tendered pursuant to the Tender Offer. The loan was to be secured by all of the Company’s available collateral and was guaranteed by certain of the Company’s subsidiaries. If funded, the loan would have born interest at the rate of 9% per annum and would have been payable in a single installment on June 22, 2015. The Agreement required the Company to comply with customary affirmative and negative covenants.

Bravo is 50% owned by a trust under the beneficial ownership or control of David G. Hanna, the Chairman of the Board and Chief Executive Officer of the Company and one of the Company’s two largest shareholders, and 50%

owned by a trust under the beneficial ownership or control of Frank J. Hanna, III, the other of the Company's two largest shareholders and David G. Hanna's brother.

Forward-Looking Information

We make forward-looking statements in this Report and in other materials we file with the Securities and Exchange Commission ("SEC") or otherwise make public. This Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements. In addition, our senior management might make forward-looking statements to analysts, investors, the media and others. Statements with respect to expected revenue, income, receivables, income ratios, net interest margins, long-term shareholder returns, acquisitions and other growth opportunities, divestitures and discontinuations of businesses, loss exposure and loss provisions, delinquency and charge-off rates, the effects

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of account actions we may take or have taken, changes in collection programs and practices, changes in the credit quality and fair value of our credit card loans and fees receivable and the fair value of their underlying structured financing facilities, the impact of actions by the Federal Deposit Insurance Corporation ("FDIC"), Federal Trade Commission ("FTC"), Consumer Financial Protection Bureau ("CFPB") and other regulators on both us, banks that issue credit cards and other credit products on our behalf, and merchants that participate in our point-of-sale finance operations, account growth, the performance of investments that we have made, operating expenses, the impact of bankruptcy law changes, marketing plans and expenses, the performance of our Auto Finance segment, our plans in the United Kingdom ("U.K."), the impact of our U.K. Portfolio of originated credit card receivables on our financial performance, the sufficiency of available capital, the prospect for improvements in the capital and finance markets, future interest costs, sources of funding operations and acquisitions, growth and profitability of our point-of-sale finance operations, our entry into international markets, our ability to raise funds or renew financing facilities, share repurchases, debt retirement, the results associated with our equity-method investees, our servicing income levels, gains and losses from investments in securities, experimentation with new products and other statements of our plans, beliefs or expectations are forward-looking statements. These and other statements using words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "can," "could," "may," "should," "will," "would" and sin also are forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. The forward-looking statements we make are not guarantees of future performance, and we have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or historical earnings levels.

Although it is not possible to identify all factors, we continue to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially from our expectations are the risks and uncertainties described under "Risk Factors" set forth in Part II, Item 1A, and the risk factors and other cautionary statements in other documents we file with the SEC, including the following:

- the availability of adequate financing;
- the extent to which federal, state, local and foreign governmental regulation of our various business lines and products limits or prohibits the operation of our businesses;
- current and future litigation and regulatory proceedings against us;
- the effect of adverse economic conditions on our revenues, loss rates and cash flows;
- the fragmentation of our industry and competition from various other sources providing similar financial products, or other alternative sources of credit, to consumers;
- the adequacy of our allowances for uncollectible loans and fees receivable and estimates of loan losses used within our underwriting and analyses;
- the possible impairment of assets;
- our ability to manage costs in line with the expansion or contraction of our various business lines;
- our relationship with the merchants that participate in our point-of-sale finance operations and the banks that provide certain services that are needed to operate our business lines; and
- theft and employee errors.

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

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures.

As of the end of the period covered by this Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this Report, our disclosure controls and procedures were effective at meeting their objectives.

(b) Internal control over financial reporting.

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this Report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

Our Cash Flows and Net Income Are Dependent Upon Payments from Our Loans and Fees Receivable and Other Credit Products

The collectibility of our loans and fees receivable is a function of many factors including the criteria used to select who is issued credit, the pricing of the credit products, the lengths of the relationships, general economic conditions, the rate at which customers repay their accounts or become delinquent, and the rate at which customers borrow funds from us. Deterioration in these factors, which we have experienced over the past few years, adversely impacts our business. In addition, to the extent we have over-estimated collectibility, in all likelihood we have over-estimated our financial performance. Some of these concerns are discussed more fully below.

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

We may not successfully evaluate the creditworthiness of our customers and may not price our credit products in a profitable manner. The creditworthiness of our target market generally is considered “sub-prime” based on guidance issued by the agencies that regulate the banking industry. Thus, our customers generally have a higher frequency of delinquencies, higher risks of nonpayment and, ultimately, higher credit losses than consumers who are served by more traditional providers of consumer credit. Some of the consumers included in our target market are consumers who are dependent upon finance companies, consumers with only retail store credit cards and/or lacking general purpose credit cards, consumers who are establishing or expanding their credit, and consumers who may have had a delinquency, a default or, in some instances, a bankruptcy in their credit histories, but who, in our view, have demonstrated recovery. We price our credit products taking into account the perceived risk level of our customers. If our estimates are incorrect, customer default rates will be higher, we will receive less cash from the receivables and the value of our loans and fees receivable will decline, all of which will have a negative impact on performance. It also is unclear whether our current payment rates can be sustained given weakness in the employment outlook and economic environment at large.

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

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

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

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

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

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

Beginning in 2007, largely as a result of difficulties in the sub-prime mortgage market, new financing generally has been sparse for sub-prime lenders, and the financing that has been available has been on significantly less favorable terms than prior to 2008. As a result, beginning in the third quarter of 2007, we significantly curtailed our marketing for new credit cards and currently are not issuing a significant number of new cards. Moreover, commencing in October 2008 we reduced credit lines and closed a significant number of accounts in response to the unavailability of financing and to reduce our risk exposure. These activities continued into 2009, and as a result, substantially all of our credit cards are now closed to cardholder purchases. If additional financing facilities are not available in the future on terms we consider acceptable—an issue that has been made even more acute in the U.S. given recent regulatory changes that have reduced asset-level returns on credit card lending—we will not be able to grow our credit card operations and it will continue to contract in size.

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

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

Our credit card operation currently is contracting. Growth is a product of a combination of factors, many of which are not in our control. Factors include:

- the availability of funding on favorable terms;
- the level and success of our marketing efforts;
- the degree to which we lose business to competitors;
- the level of usage of our credit products by our customers;
- the availability of portfolios for purchase on attractive terms;
- levels of delinquencies and charge offs;
- the level of costs of soliciting new customers;

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- our ability to employ and train new personnel;
- our ability to maintain adequate management systems, collection procedures, internal controls and automated systems; and
- general economic and other factors beyond our control.

We have curtailed our U.S. credit card marketing efforts and have aggressively reduced credit lines and closed credit card accounts. In addition, the general economic downturn experienced in 2008 and 2009 significantly impacted not just the level of usage of our credit products by our customers but also levels of payments and delinquencies and other performance metrics. As a result, our credit card operation currently is contracting.

Reliance upon relationships with a few large retailers in our point-of-sale finance operations may adversely affect our revenues and operating results from these operations. Our three largest retail partners accounted for over 82.0% of our point-of-sale finance and rental revenues in 2013. Although we are adding new retail partners on a regular basis, it is likely that we will continue to derive a significant portion of this operations' revenue from a relatively small number of partners in the future. If a significant partner reduces or terminates its relationship with us, these operations' revenue could decline significantly and our operating results and financial condition could be harmed.

We Operate in a Heavily Regulated Industry

Changes in bankruptcy, privacy or other consumer protection laws, or to the prevailing interpretation thereof, may expose us to litigation, adversely affect our ability to collect our loans and fees receivable, or otherwise adversely affect our operations. Similarly, regulatory changes could adversely affect our ability or willingness to market credit cards and other products and services to our customers. The accounting rules that govern our business are exceedingly complex, difficult to apply and in a state of flux. As a result, how we value our receivables and otherwise account for our business is subject to change depending upon the changes in, and, interpretation of, those rules. Some of these issues are discussed more fully below.

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

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

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

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

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

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

We are dependent upon banks to issue credit cards and provide certain other credit products. Our credit card and some of our other credit product programs are dependent on our issuing bank relationships, and their regulators could at any time limit their ability to issue some or all products on our behalf, or that we service on their behalf, or to modify those products significantly. Any significant interruption of those relationships would result in our being unable to originate new receivables and other credit products. It is possible that a regulatory position or action taken with respect to any of the issuing banks through which we have originated credit products or for whom we service receivables might result in the bank’s inability or unwillingness to originate future credit products on our behalf or in partnership with us. In the current state, such a disruption of our issuing bank relationships principally would adversely affect our ability to conduct credit card issuances in the U.K., and to grow our point-of-sale finance product offerings and underlying receivables.

Changes to consumer protection laws or changes in their interpretation may impede collection efforts or otherwise adversely impact our business practices. Federal and state consumer protection laws regulate the creation and enforcement of consumer credit card receivables and other loans. Many of these laws (and the related regulations) are focused on sub-prime lenders and are intended to prohibit or curtail industry-standard practices as well as non-standard practices. For instance, Congress enacted legislation that regulates loans to military personnel through imposing interest rate and other limitations and requiring new disclosures, all as regulated by the Department of

Defense. Similarly, in 2009 Congress enacted legislation that required changes to a variety of marketing, billing and collection practices, and the Federal Reserve recently adopted significant changes to a number of practices through its issuance of regulations. Additionally, the CFPB is expected to be an active issuer of credit-related regulations in the near-term, and it is impossible to predict the scope or nature of those potential regulations. While our practices are in compliance with these changes, some of the changes (e.g., limitations on the ability to assess up-front fees) have significantly affected the viability of certain of our prior product offerings within the U.S. Changes in the consumer protection laws could result in the following:

- receivables not originated in compliance with law (or revised interpretations) could become unenforceable and uncollectible under their terms against the obligors;
- we may be required to credit or refund previously collected amounts;
- certain fees and finance charges could be limited, prohibited or restricted, which would reduce the profitability of certain accounts;

- certain of our collection methods could be prohibited, forcing us to revise our practices or adopt more costly or less effective practices;
- limitations on the content of marketing materials could be imposed that would result in reduced success for our marketing efforts;
- limitations on our ability to recover on charged-off receivables regardless of any act or omission on our part;
- some of our products and services could be banned in certain states or at the federal level;
- federal or state bankruptcy or debtor relief laws could offer additional protections to customers seeking bankruptcy protection, providing a court greater leeway to reduce or discharge amounts owed to us; and
- a reduction in our ability or willingness to lend to certain individuals, such as military personnel.

Material regulatory developments are likely to adversely impact our business and results from operations.

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

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

Declines in automobile sales as we saw in recent years can cause declines in the overall demand for automobile loans. While currently recovering fairly significantly, sales of both new and used cars declined precipitously in recent years. While the unavailability of funding may have had a greater impact on our business, the decline in demand in recent years was consequential as well because it adversely affected the volume of our lending transactions and our recoveries of repossessed vehicles at auction. Any such future declines in demand will adversely impact our business.

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

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

The financial performance of our automobile loan portfolio is in part dependent upon the liquidation of repossessed automobiles. In the event of certain defaults, we may repossess automobiles and sell repossessed automobiles at wholesale auction markets located throughout the U.S. Auction proceeds from these types of sales and other recoveries rarely are sufficient to cover the outstanding balances of the contracts; where we experience these shortfalls, we will experience credit losses. Decreased auction proceeds resulting from depressed prices at which used automobiles may be sold would result in higher credit losses for us. Additionally, higher gasoline prices (like those experienced during 2008) tend to decrease the auction value of certain types of vehicles, such as SUVs.

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

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

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

Portfolio purchases may cause fluctuations in our reported Credit and Other Investments segment's managed receivables data, which may reduce the usefulness of this data in evaluating our business. Our reported Credit and Other Investments segment managed receivables data may fluctuate substantially from quarter to quarter as a result of recent and future credit card portfolio acquisitions. As of December 31, 2013, credit card portfolio acquisitions accounted for 34.8% of our total Credit and Other Investments segment managed receivables portfolio based on our ownership percentages.

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

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

Other Risks of Our Business

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

The resolution of uncertain tax positions may be unfavorable. Our businesses and the tax accounting for our businesses are very complex, thereby giving rise to a number of tax positions that are under consideration, and in some cases under dispute, in audits of our operations by various taxing authorities, including the Internal Revenue Service at the federal level with respect to net operating losses that we incurred in 2007 and 2008 and that we carried back to obtain tentative refunds of federal taxes paid in earlier years dating back to 2003. It is possible that a court of ultimate jurisdiction may resolve tax positions in favor of the Internal Revenue Service or that we may ultimately settle with the Internal Revenue Service on one or more uncertain tax positions in a manner that differs from the liabilities that we have recorded associated with such positions under our recognition and measurement determinations. The amounts involved in these audits, particularly the amounts of net operating losses that we carried back, are material. To the extent that our ultimate resolution results in more liability than we have recorded, we could experience a material adverse effect on our results of operations and liquidity.

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

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

Unless we obtain a bank charter, we cannot issue credit cards other than through agreements with banks. Because we do not have a bank charter, we currently cannot issue credit cards other than through agreements with banks. Unless we obtain a bank or credit card bank charter, we will continue to rely upon banking relationships to provide for the issuance of credit cards to our customers. Even if we obtain a bank charter, there may be restrictions on the types of credit that the bank may extend. Our various issuing bank agreements have scheduled expiration dates. If we are unable to extend or execute new agreements with our issuing banks at the expirations of our current agreements with them, or if our existing or new agreements with our issuing banks were terminated or otherwise disrupted, there is a risk that we would not be able to enter into

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agreements with an alternate provider on terms that we consider favorable or in a timely manner without disruption of our business.

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

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

Because we outsource account-processing functions that are integral to our business, any disruption or termination of that outsourcing relationship could harm our business. We generally outsource account and payment processing, and in 2013, we paid Total System Services, Inc. $5.3 million for these services. If these agreements were not renewed or were terminated or the services provided to us were otherwise disrupted, we would have to obtain these services from an alternative provider. There is a risk that we would not be able to enter into a similar agreement with an alternate provider on terms that we consider favorable or in a timely manner without disruption of our business.

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

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

If any person, including our employees or those of third-party vendors, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to costly litigation, monetary damages, fines, and/or criminal prosecution. We do not maintain cyber-security insurance liability coverage and as such we are exposed to the financial risk and losses associated with such incidents. Any unauthorized disclosure of personally identifiable information could subject us to liability under data privacy laws. Further, under credit card rules and our contracts with our card processors, if there is a breach of credit card information that we store, we could be liable to the credit card issuing banks for their cost of issuing new cards and related expenses. In addition, if we fail to follow credit card industry security standards, even if there is no compromise of customer information, we could incur significant fines. Security breaches could also harm our reputation with our customers, which could potentially cause decreased revenues, the loss of existing merchant credit partners, or difficulty in adding new merchant credit partners.

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

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

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

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

In addition to the foregoing enhanced data security requirements, various federal banking regulatory agencies, and as many as 46 states, the District of Columbia, Puerto Rico and the Virgin Islands, have enacted data security regulations and laws requiring varying levels of customer notification in the event of a security breach.

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

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

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

Because of our loan to a small surface coal mining operation (which, due to loan agreement modifications, we were required to consolidate into our financial statements in 2011, but which has since ceased mining operations), we could be subject to (i) significant administrative, civil, and criminal financial and other penalties if this operation does not comply with environmental, health and safety regulations and (ii) liability to third parties for environmental contamination. The coal mining industry is subject to strict regulation by federal, state and local authorities with respect to matters such as employee health and safety, permitting and licensing requirements, the protection of the environment, the protection of historic and natural resources, plants and wildlife, reclamation and restoration of mining properties after mining is completed, and the effects that mining has on groundwater quality and availability. Federal and state authorities inspect coal mines, and in the aftermath of the April 5, 2010 accident at an underground mine in Central Appalachia, mining operations have experienced, and may in the future continue to experience, a significant increase in the frequency and scope of these inspections. Numerous governmental permits and approvals are required for mining operations. Mining operations are required to prepare and present to federal, state and/or local authorities data pertaining to the effect or impact that any proposed exploration for or production of coal may have upon the environment.

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The costs, liabilities and requirements associated with the laws and regulations related to these and other environmental matters may be costly and time-consuming. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal financial and other penalties, the imposition of cleanup and site restoration costs and liens and other enforcement measures.

We also could be subject to claims by third parties under federal and state statutes and/or common law doctrines resulting from damage to the environment or historic or natural resources or exposure to hazardous substances on the mine property or elsewhere. Liability for environmental contamination may be without regard to fault and may be strict, joint and several, so that we may be held responsible for the entire amount of the contamination or related damages. These and other similar unforeseen impacts that the former mining operation may have on the environment, as well as exposures to hazardous substances or wastes associated with the former mining operation, could result in costs and liabilities that could adversely affect us.

Even though this former coal mining operation ceased mining operations as of December 31, 2012 and has always been owned and primarily operated by third parties, our financial relationship with this former coal mining operation could subject us to these types of claims and penalties, particularly if these matters were not properly addressed by the owners and operators of the operation. If we are held responsible for sanctions, costs and liabilities in respect of these matters, our profitability could be materially and adversely affected.

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

Risks Relating to an Investment in Our Securities

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

- actual or anticipated fluctuations in our operating results;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- the overall financing environment, which is critical to our value;
- the operating and stock performance of our competitors and other sub-prime lenders;
- announcements by us or our competitors of new products or services or significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in interest rates;
- the announcement of enforcement actions or investigations against us or our competitors or other negative publicity relating to us or our industry;
- changes in GAAP, laws, regulations or the interpretations thereof that affect our various business activities and segments;
- general domestic or international economic, market and political conditions;
- additions or departures of key personnel; and

- future sales of our common stock and the transfer or cancellation of shares of common stock pursuant to a share lending agreement.

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

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

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

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

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

As of June 30, 2014, Atlanticus Holding Corporation, excluding its subsidiaries, had outstanding $27.3 million of secured indebtedness, which would rank senior in right of payment to the notes; $160.0 million of senior unsecured indebtedness, which includes the convertible senior notes (at face value) and the interest accrued thereon and would rank equal in right of payment to the convertible senior notes, and no subordinated indebtedness. Included in senior secured indebtedness are certain guarantees we have executed in favor of our subsidiaries.

Our convertible senior notes are junior to the indebtedness of our subsidiaries. Our convertible senior notes are structurally subordinated to the existing and future claims of our subsidiaries' creditors. Holders of the convertible senior notes are not creditors of our subsidiaries. Any claims of holders of the convertible senior notes to the assets of our subsidiaries derive from our own equity interests in those subsidiaries. Claims of our subsidiaries' creditors will generally have priority as to the assets of our subsidiaries over our own equity interest claims and will therefore have priority over the holders of the convertible senior notes. Consequently, the convertible senior notes are effectively subordinate to all liabilities, whether or not secured, of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish. Our subsidiaries' creditors also may include general creditors and taxing authorities. As of

June 30, 2014, our subsidiaries had total liabilities of approximately $194.3 million (including the $27.3 million of senior secured indebtedness mentioned above), excluding intercompany indebtedness. In addition, in the future, we may decide to increase the portion of our activities that we conduct through subsidiaries.

Note Regarding Risk Factors

The risk factors presented above are all of the ones that we currently consider material. However, they are not the only ones facing our company. Additional risks not presently known to us, or which we currently consider immaterial, may also adversely affect us. There may be risks that a particular investor views differently from us, and our analysis might be wrong. If any of the

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risks that we face actually occur, our business, financial condition and operating results could be materially adversely affected and could differ materially from any possible results suggested by any forward-looking statements that we have made or might make. In such case, the trading price of our common stock or other securities could decline, and you could lose part or all of your investment. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Other than 1,546 shares of our common stock returned to us by holders of equity incentive awards to pay tax withholding obligations, there were no repurchases of equity securities during the three months ended June 30, 2014.

Pursuant to a share repurchase plan authorized by our Board of Directors on May 9, 2014, we are authorized to repurchase 5,000,000 shares of our common stock through June 30, 2016, of which 5,000,000 shares remained authorized for repurchase as of June 30, 2014. We will continue to evaluate our stock price relative to other investment opportunities and, to the extent we believe that the repurchase of our stock represents an appropriate return of capital, we will repurchase shares of our stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit	Incorporated by Reference from Atlanticus Holdings Corporation's SEC Filings Unless Otherwise Indicated:
10.1	Fifth Amendment to Loan and Security Agreement	Filed herewith
10.2	Loan and Security Agreement by and among Atlanticus Holdings Corporation as borrower, certain subsidiaries of Atlanticus Holdings Corporation named therein, as guarantors, and Bravo Ventures, LLC as lender, dated as of June 23, 2014	June 23, 2014, Form SC TO-I, exhibit 99(b)
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a).	Filed herewith
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a).	Filed herewith
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350.	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Presentation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith

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SIGNATURES

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

		ATLANTICUS HOLDINGS CORPORATION
August 14, 2014	By	/s/ WILLIAM R. McCAMEY William R. McCamey Chief Financial Officer and Treasurer (duly authorized officer and principal financial officer)