Atlanticus Holdings Corp
Form 10-Q
August 11, 2017
Table of Contents

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

For the quarterly period ended June 30, 2017

of
ATLANTICUS HOLDINGS CORPORATION

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

Five Concourse Parkway, Suite 300
Atlanta, Georgia 30328
(770) 828-2000

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

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

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

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

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

As of August 7, 2017, 13,984,151 shares of common stock, no par value, of Atlanticus were outstanding. This excludes 1,459,233 loaned shares to be returned.

Table of Contents

Table of Contents

Table of Contents

PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Atlanticus Holdings Corporation and Subsidiaries
Consolidated Balance Sheets (Unaudited)
(Dollars in thousands)

	June 30, 2017	December 31, 2016
Assets		
Unrestricted cash and cash equivalents	$74,475	$ 76,052
Restricted cash and cash equivalents	28,851	16,589
Loans and fees receivable:		
Loans and fees receivable, at fair value	12,770	15,648
Loans and fees receivable, gross	323,922	290,697
Allowances for uncollectible loans and fees receivable	(41,175)	(43,275)
Deferred revenue	(31,352)	(23,639)
Net loans and fees receivable	264,165	239,431
Rental merchandise, net of depreciation	—	27
Property at cost, net of depreciation	3,382	3,829
Investment in equity-method investee	5,404	6,725
Deposits	305	505
Prepaid expenses and other assets	23,065	19,389
Total assets	$399,647	$ 362,547
Liabilities		
Accounts payable and accrued expenses	$112,400	$ 86,768
Notes payable, at face value, net	165,746	141,166
Notes payable to related parties	40,000	40,000
Notes payable associated with structured financings, at fair value	10,031	12,276
Convertible senior notes	61,085	60,791
Income tax liability	11,729	15,769
Total liabilities	400,991	356,770
Commitments and contingencies (Note 9)		
Equity		
Common stock, no par value, 150,000,000 shares authorized: 15,443,384 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at June 30, 2017; and 15,348,086 shares issued and outstanding (including 1,459,233 loaned shares to be returned) at December 31, 2016	—	—
Additional paid-in capital	212,572	211,646
Accumulated other comprehensive loss	—	—
Retained deficit	(213,915)	(205,859)
Total shareholders' equity	(1,343)	5,787
Noncontrolling interests	(1)	(10)
Total equity	(1,344)	5,777
Total liabilities and equity	$399,647	$ 362,547

See accompanying notes.

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income:				
Consumer loans, including past due fees	$26,613	$21,462	$52,472	$39,610
Other	43	60	144	152
Total interest income	26,656	21,522	52,616	39,762
Interest expense	(6,419)	(4,792)	(12,236)	(9,436)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	20,237	16,730	40,380	30,326
Fees and related income on earning assets	3,971	5,878	6,772	13,765
Net recovery of charge off of loans and fees receivable recorded at fair value	519	6,140	8,370	11,051
Provision for losses on loans and fees receivable recorded at net realizable value	(15,744)	(10,811)	(26,397)	(15,542)
Net interest income, fees and related income on earning assets	8,983	17,937	29,125	39,600
Other operating income:				
Servicing income	861	981	1,950	2,428
Other income	240	75	349	145
Gain on repurchase of convertible senior notes	—	1,037	—	1,037
Equity in income of equity-method investee	404	325	738	1,327
Total other operating income	1,505	2,418	3,037	4,937
Other operating expense:				
Salaries and benefits	5,486	6,181	11,018	11,913
Card and loan servicing	7,794	7,285	15,179	16,273
Marketing and solicitation	3,127	932	4,659	1,787
Depreciation	243	2,099	553	6,255
Other	7,062	2,928	12,632	2,629
Total other operating expense	23,712	19,425	44,041	38,857
(Loss) Income before income taxes	(13,224)	930	(11,879)	5,680
Income tax benefit (expense)	4,443	(657)	3,825	(855)
Net (loss) income	(8,781)	273	(8,054)	4,825
Net (income) loss attributable to noncontrolling interests	(3)	4	(2)	5
Net (loss) income attributable to controlling interests	$(8,784)	$277	$(8,056)	$4,830
Net (loss) income attributable to controlling interests per common share—basic	$(0.63)	$0.02	$(0.58)	$0.35
Net (loss) income attributable to controlling interests per common share—diluted	$(0.63)	$0.02	$(0.58)	$0.35

See accompanying notes.

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net (loss) income	$(8,781)	$273	$(8,054)	$4,825
Other comprehensive income:				
Foreign currency translation adjustment	—	—	—	—
Reclassifications of foreign currency translation adjustment to consolidated statements of operations	—	300	—	600
Income tax expense related to other comprehensive income	—	—	—	—
Comprehensive (loss) income	(8,781)	573	(8,054)	5,425
Comprehensive (income) loss attributable to noncontrolling interests	(3)	4	(2)	5
Comprehensive (loss) income attributable to controlling interests	$(8,784)	$577	$(8,056)	$5,430

See accompanying notes.

Table of Contents

Atlanticus Holdings Corporation and Subsidiaries
Consolidated Statements of Equity
For the Six Months Ended June 30, 2017 (Unaudited)
(Dollars in thousands)

	Common Stock						
	Shares Issued	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Deficit	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	15,348,086	$ —	$211,646	$ —	$(205,859)	$ (10)	$5,777
Compensatory stock issuances, net of forfeitures	102,000	—	—	—	—	—	—
Contributions from owners of noncontrolling interests	—	—	—	—	—	7	7
Amortization of deferred stock-based compensation costs	—	—	944	—	—	—	944
Redemption and retirement of shares	(6,702)	—	(18)	—	—	—	(18)
Other comprehensive (loss) income	—	—	—	—	(8,056)	2	(8,054)
Balance at June 30, 2017	15,443,384	$ —	$212,572	$ —	$(213,915)	$ (1)	$(1,344)

See accompanying notes.

Table of Contents

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

	For the Six Months Ended June 30, 2017	2016
Operating activities		
Net (loss) income	$ (8,054)	$ 4,825
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation of rental merchandise	27	4,714
Depreciation, amortization and accretion, net	526	1,541
Losses upon charge off of loans and fees receivable recorded at fair value	2,324	3,361
Provision for losses on loans and fees receivable	26,397	15,542
Interest expense from accretion of discount on convertible senior notes	267	258
Income from accretion of discount associated with receivables purchases	(25,725)	(19,867)
Unrealized gain on loans and fees receivable and underlying notes payable held at fair value	(3,092)	(4,529)
Income from equity-method investments	(738)	(1,327)
Gain on repurchase of convertible senior notes	—	(1,037)
Changes in assets and liabilities:		
Increase in uncollected fees on earning assets	(1,994)	(1,877)
(Decrease) increase in income tax liability	(4,040)	149
Decrease in deposits	200	287
Increase in accounts payable and accrued expenses	22,075	11,622
	—	(636)

Additions to rental merchandise		
Other	2,239	(299)
Net cash provided by operating activities	10,412	12,727
Investing activities		
(Increase) decrease in restricted cash	(12,244)	3,613
Proceeds from equity-method investee	2,059	3,099
Investments in earning assets	(211,523)	(191,023)
Proceeds from earning assets	185,393	144,461
Purchases and development of property, net of disposals	(79)	(177)
Net cash used in investing activities	(36,394)	(40,027)
Financing activities		
Noncontrolling interests contributions, net	7	4
Purchase and retirement of outstanding stock	(18)	(745)
Proceeds from borrowings	141,221	84,659
Repayment of borrowings	(117,100)	(76,332)
Net cash provided by financing activities	24,110	7,586
Effect of exchange rate changes on cash	295	(873)
Net decrease in unrestricted cash	(1,577)	(20,587)
Unrestricted cash and cash equivalents at beginning of period	76,052	51,033
Unrestricted cash and cash equivalents at end of period	$ 74,475	$ 30,446
Supplemental cash flow information		
Cash paid for interest	$ 11,342	$ 9,209
Net cash income tax payments	$ 215	$ 705
Supplemental non-cash information		
Issuance of stock options and restricted stock	$ 1,142	$ 1,710

See accompanying notes.

5

Table of Contents

Atlanticus Holdings Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

1. Description of Our Business

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

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

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

Lastly, we report within our Credit and Other Investments segment gains associated with investments previously made in consumer finance technology platforms. These include investments in companies engaged in mobile technologies, marketplace lending and other financial technologies. These investments are carried at the lower of cost or market valuation as of June 30, 2017. Some of these investees have in the past raised capital at valuations substantially in excess of our associated book value. However, none of these companies are publicly-traded, there are no material pending liquidity events, and ascribing value to these investments at this time would be speculative.

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

2. Significant Accounting Policies and Consolidated Financial Statement Components

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

Basis of Presentation and Use of Estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the U.S. (“GAAP”). The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our consolidated financial statements, as well as the reported amounts of revenues and expenses during each reporting

Table of Contents

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

As of June 30, 2017 and December 31, 2016, the weighted average remaining accretion period for the $31.4 million and $23.6 million of deferred revenue reflected in the consolidated balance sheets was 12 months and 11 months, respectively.
A roll-forward (in millions) of our allowance for uncollectible loans and fees receivable by class of receivable is as follows:

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

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

As of June 30, 2017	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at end of period individually evaluated for impairment	$—	$ (0.1)	$ (0.2)	$(0.3)
Balance at end of period collectively evaluated for impairment	$(3.2)	$ (1.9)	$ (35.8)	$(40.9)
Loans and fees receivable:				
Loans and fees receivable, gross	$28.1	$ 76.9	$ 218.9	$323.9
Loans and fees receivable individually evaluated for impairment	$—	$ 0.2	$ 0.2	$0.4
Loans and fees receivable collectively evaluated for impairment	$28.1	$ 76.7	$ 218.7	$323.5

For the Three Months Ended June 30, 2016	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	$(1.3)	$ (1.8)	$ (16.8)	$(19.9)
Provision for loan losses	0.4	(0.8)	(10.4)	(10.8)
Charge offs	0.6	0.9	6.6	8.1
Recoveries	(0.8)	(0.3)	(0.5)	(1.6)
Balance at end of period	$(1.1)	$ (2.0)	$ (21.1)	$(24.2)

For the Six Months Ended June 30, 2016	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	$(1.2)	$ (1.7)	$ (18.6)	$(21.5)
Provision for loan losses	0.6	(1.4)	(14.7)	(15.5)
Charge offs	1.0	1.7	13.2	15.9
Recoveries	(1.5)	(0.6)	(1.0)	(3.1)
Balance at end of period	$(1.1)	$ (2.0)	$ (21.1)	$(24.2)

As of December 31, 2016	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at end of period individually evaluated for impairment	$—	$ (0.3)	$ (0.3)	$(0.6)
Balance at end of period collectively evaluated for impairment	$(1.4)	$ (1.8)	$ (39.5)	$(42.7)
Loans and fees receivable:				
Loans and fees receivable, gross	$11.0	$ 77.1	$ 202.6	$290.7
Loans and fees receivable individually evaluated for impairment	$—	$ 0.7	$ 0.3	$1.0
Loans and fees receivable collectively evaluated for impairment	$11.0	$ 76.4	$ 202.3	$289.7

An aging of our delinquent loans and fees receivable, gross (in millions) by class of receivable as of June 30, 2017 and December 31, 2016 is as follows:

Balance at June 30, 2017	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
30-59 days past due	$0.5	$ 6.1	$ 8.6	$15.2
60-89 days past due	0.4	2.1	6.5	9.0
90 or more days past due	0.8	1.1	11.6	13.5
Delinquent loans and fees receivable, gross	1.7	9.3	26.7	37.7
Current loans and fees receivable, gross	26.4	67.6	192.2	286.2
Total loans and fees receivable, gross	$28.1	$ 76.9	$ 218.9	$323.9
Balance of loans 90 or more days past due and still accruing interest and fees	$—	$ 0.8	$ —	$0.8

Balance at December 31, 2016	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
30-59 days past due	$0.2	$ 7.0	$ 8.2	$15.4
60-89 days past due	0.2	2.4	6.7	9.3
90 or more days past due	0.4	1.9	11.4	13.7
Delinquent loans and fees receivable, gross	0.8	11.3	26.3	38.4
Current loans and fees receivable, gross	10.2	65.8	176.3	252.3
Total loans and fees receivable, gross	$11.0	$ 77.1	$ 202.6	$290.7
Balance of loans 90 or more days past due and still accruing interest and fees	$—	$ 1.5	$ —	$1.5

Accounts Payable and Accrued Expenses

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

Table of Contents

Income Taxes

We experienced effective income tax benefit rates of 33.6% and 32.2% for the three and six months ended June 30, 2017, respectively, compared to effective income tax expense rates of 70.6% and 15.1% for the three and six months ended June 30, 2016, respectively. Our effective income tax benefit rates for the three and six months ended June 30, 2017 are below the statutory rate principally due to interest that we accrued on unpaid federal tax liabilities and our establishment of a valuation allowance in the three months ended June 30, 2017 against the net federal deferred tax asset that arose during that period associated with our net loss incurred during that period. Our effective income tax expense rate for the three months ended June 30, 2016 was significantly in excess of the statutory rate principally due to the significance of our accruals of interest and penalties on unpaid tax liabilities relative to our $0.9 million of pre-tax income during that period. Our effective income tax expense rate for the six months ended June 30, 2016 was below the statutory rate principally due to income during that period of our U.K. subsidiary that was not subject to tax in the U.S. and the U.K. tax on which was fully offset by the release of U.K. valuation allowances in that period. Both of these factors also served to mute somewhat the reduction of our effective income tax benefit rate in the three months ended June 30, 2017 versus the statutory rate in that period.

We report potential accrued interest and penalties related to both our accrued liabilities for uncertain tax positions and unpaid tax liabilities, as well as any net payments of income tax-related interest and penalties, within our income tax benefit or expense line item on our consolidated statements of operations. We likewise report the reversal of such accrued interest and penalties within the income tax benefit or expense line item to the extent that we resolve our liabilities for uncertain tax positions or unpaid tax liabilities in a manner favorable to our accruals therefor. During the three and six months ended June 30, 2017, our income tax benefits were offset by $0.2 million and $0.4 million of net income tax-related interest and penalties charges. During the three and six months ended June 30, 2016 we included $0.2 million and $0.4 million of net income tax-related interest and penalties within those periods' respective income tax expense line items.

In December 2014, we reached a settlement with the IRS concerning the tax treatment of net operating losses that we incurred in 2007 and 2008 and carried back to obtain refunds of federal income taxes paid in earlier years dating back to 2003. Our net unpaid income tax assessment associated with that settlement was $7.3 million at June 30, 2017; this amount excludes unpaid interest and penalties on the tax assessment, the accruals for which aggregated $3.8 million at June 30, 2017. Prior to our filing amended return claims that would have eliminated the $7.3 million assessment (and corresponding interest and penalties) under a negotiated provision of the IRS settlement, the IRS filed a lien (as is customarily the case) associated with the assessment. Subsequently, an IRS examination team has denied our amended return claims, and we have filed a protest with IRS Appeals. During the three months ended June 30, 2017, we were notified that the claims have been assigned to an IRS Appeals officer and an IRS Appeals conference has been scheduled for October 2017. To the extent we are unsuccessful in resolving this matter with IRS Appeals to our satisfaction, we plan to litigate this matter.

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,	
	2017	2016	2017	2016
Fees on credit products	$2,007	$856	$3,103	$1,655
Changes in fair value of loans and fees receivable recorded at fair value	1,002	527	1,565	2,425
Changes in fair value of notes payable associated with structured financings recorded at fair value	821	939	1,527	2,104
Rental revenue	—	3,119	148	7,333

Other	141	437	429	248
Total fees and related income on earning assets	$3,971	$5,878	$6,772	$13,765

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

Table of Contents

Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, Measurement of Credit Losses on Financial Instruments. The guidance requires an assessment of credit losses based on expected rather than incurred losses. This generally will result in the recognition of allowances for losses earlier than under current accounting guidance for trade and other receivables, held to maturity debt securities and other instruments. The standard will be adopted on a prospective basis with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. While we are continuing to evaluate the effect that ASU 2016-13 will have on our consolidated financial statements and related disclosures, this standard is expected to result in an increase to our allowance for loan losses given the change to expected losses for the estimated life of the financial asset. The extent of the increase will depend on the asset quality of the portfolio, and economic conditions and forecasts at adoption.

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

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

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 establishes a principles-based model under which revenue from a contract is allocated to the distinct performance obligations within the contract and recognized in income as each performance obligation is satisfied. Additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract is also required. In August 2015, the FASB delayed the effective date by one year and the guidance will now be effective for annual and interim periods beginning January 1, 2018 and early adoption is permitted. We do not plan to early adopt the guidance. The scope of ASU 2014-09 excludes interest and fee income on loans and as a result, the majority of our revenue will not be affected; however, our review is ongoing. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

Subsequent Events

We evaluate subsequent events that occur after our consolidated balance sheet date but before our consolidated financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements; and (2) nonrecognized, or those that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date. We have evaluated subsequent events occurring after June 30, 2017, and based on our evaluation we did not identify any recognized or nonrecognized subsequent events that would have required further adjustments to our consolidated financial statements.

3. Segment Reporting

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

Table of Contents

As of both June 30, 2017 and December 31, 2016, we did not have a material amount of long-lived assets located outside of the U.S., and only a negligible portion of our revenues for the six months ended June 30, 2017 and 2016 were generated outside of the U.S.

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

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

Three months ended June 30, 2017	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	$ 19,589	$ 7,024	$ 26,613
Other	43	—	43
Total interest income	19,632	7,024	26,656
Interest expense	(6,166)	(253)	(6,419)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	$ 13,466	$ 6,771	$ 20,237
Fees and related income on earning assets	$ 3,943	$ 28	$ 3,971
Servicing income	$ 644	$ 217	$ 861
Depreciation of rental merchandise	$ —	$ —	$ —
Equity in income of equity-method investee	$ 404	$ —	$ 404
(Loss) income before income taxes	$ (15,137)	$ 1,913	$ (13,224)
Income tax benefit (expense)	$ 5,055	$ (612)	$ 4,443

Six months ended June 30, 2017	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	$ 38,419	$ 14,053	$ 52,472
Other	144	—	144
Total interest income	38,563	14,053	52,616
Interest expense	(11,760)	(476)	(12,236)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	$ 26,803	$ 13,577	$ 40,380
Fees and related income on earning assets	$ 6,722	$ 50	$ 6,772
Servicing income	$ 1,501	$ 449	$ 1,950
Depreciation of rental merchandise	$ (27)	$ —	$ (27)
Equity in income of equity-method investee	$ 738	$ —	$ 738
(Loss) income before income taxes	$ (15,524)	$ 3,645	$ (11,879)
Income tax benefit (expense)	$ 5,022	$ (1,197)	$ 3,825
Total assets	$ 332,001	$ 67,646	$ 399,647

Table of Contents

Three months ended June 30, 2016	Credit and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	$ 14,132	$ 7,330	$ 21,462
Other	60	—	60
Total interest income	14,192	7,330	21,522