

Atlanticus Holdings Corp  
Form 10-K  
March 27, 2019

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**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

For the year ended December 31, 2018

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.

## Edgar Filing: Atlanticus Holdings Corp - Form 10-K

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.

Atlanticus believes that its executive officers, directors and 10% beneficial owners subject to Section 16(a) of the Act complied with all applicable filing requirements during 2018, except as set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in Atlanticus' Proxy Statement for the 2019 Annual Meeting of Shareholders.

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

The aggregate market value of Atlanticus' common stock (based upon the closing sales price quoted on the NASDAQ Global Select Market) held by non-affiliates as of June 30, 2018 was \$13.9 million. (For this purpose, directors, officers and 10% shareholders have been assumed to be affiliates, and we also have included 1,459,233 loaned shares at June 30, 2018.)

As of March 13, 2019, 15,956,074 shares of common stock, no par value, of Atlanticus were outstanding, including 1,459,233 loaned shares to be returned.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of Atlanticus' Proxy Statement for its 2019 Annual Meeting of Shareholders are incorporated by reference into Part III.

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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. Atlanticus owns Aspire®, Emerge®, Fortiva®, Imagine®, Salute®, Tribute® and other trademarks and service marks in the United States (“U.S.”) and the United Kingdom (“U.K.”).

### **Cautionary Notice Regarding Forward-Looking Statements**

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. In this Report, both Item 1, “Business,” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contain 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 of financial assets and other growth opportunities; divestitures and discontinuations of businesses; loss exposure and loss provisions; delinquency and charge-off rates; changes in collection programs and practices; changes in the credit quality and fair value of our credit card loans, interest and fees receivable and the fair value of their underlying structured financing facilities; the impact of actions by the Federal Deposit Insurance Corporation (“FDIC”), Federal Reserve Board, Federal Trade Commission (“FTC”), Consumer Financial Protection Bureau (“CFPB”) and other regulators on both us, banks that issue credit cards and other credit products on our behalf, and merchants that participate in our point-of-sale finance operations; 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; the impact of our credit card receivables on our financial performance; the sufficiency of available capital; the prospect for improvements in the capital and finance markets; future interest costs; sources of funding operations and acquisitions; growth and profitability of our point-of-sale finance operations; our ability to raise funds or renew financing facilities; share repurchases or issuances; debt retirement; the results associated with our equity-method investee; our servicing income levels; gains and losses from investments in securities; experimentation with new products and other statements of our plans, beliefs or expectations are forward-looking statements. These and other statements using words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “target,” “can,” “could,” “may,” “should,” “will,” “would” and similar expressions also are forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. The forward-looking statements we make are not guarantees of future performance, and we have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-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 I, Item 1A, and the risk factors and other cautionary statements in other documents we file with the SEC, including the following:

- the availability of adequate financing to support growth;
- the extent to which federal, state, local and foreign governmental regulation of our various business lines and the products we service for others limits or prohibits the operation of our businesses;
- current and future litigation and regulatory proceedings against us;
- the effect of adverse economic conditions on our revenues, loss rates and cash flows;
- competition from various sources providing similar financial products, or other alternative sources of credit, to consumers;
- the adequacy of our allowances for uncollectible loans, interest and fees receivable and estimates of loan losses used within our risk management 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 (i) the merchants that participate in point-of-sale finance operations and (ii) the banks that issue credit cards and provide certain other credit products utilizing our technology platform and related services; and
  - theft and employee errors.

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

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

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**PART I**

**ITEM 1. BUSINESS**

This Report contains information that we obtained from industry and general publications and research, surveys and studies conducted by third parties. This information involves many assumptions and limitations, and you are cautioned not to give undue weight to any of this data. We have obtained this information from sources that we believe are reliable. However, we have not independently verified market or industry data from third party sources.

**General**

A general discussion of our business follows. For additional information about our business, please visit our website at [www.Atlanticus.com](http://www.Atlanticus.com). Information contained on or available through our website is not incorporated by reference in this Report.

We are a Georgia corporation formed in 2009, as successor to an entity that commenced operations in 1996. We provide various credit and related financial services and products primarily to or associated with the financially underserved consumer credit market.

We utilize proprietary analytics and a flexible technology platform to enable financial institutions to provide various credit and related financial services and products to or associated with the financially underserved consumer credit market. According to data published by FICO (NYSE: FICO), 41.7% of consumers had FICO® scores of 700 or less as of April 2018 which represents a population in excess of 90 million consumers. The “Report on Economic Well-Being of U.S. Households in 2017” published by the Board of Governors of the Federal Reserve System further states that 40% of adults do not have ready access to \$400 to cover an unexpected expense or would cover the expense by selling something or borrowing money, with CareerBuilder noting that 75% of Americans live “paycheck to paycheck”. These consumers often have short-term, immediate credit needs that are often not effectively met by traditional financial institutions. By facilitating fairly priced consumer credit alternatives with value added features and benefits specifically curated for the unique needs of this financially underserved consumer, we endeavor to empower consumers on a path to improved financial well-being.

Currently, within our Credit and Other Investments segment, we are applying the experiences gained and infrastructure built from servicing over \$25 billion in consumer loans over our 22-year operating history to support lenders who originate a range of consumer loan products. These products include retail credit and credit cards marketed through multiple channels, including retail point-of-sale, direct mail solicitation, and partnerships with third

parties. In the point-of-sale channel, we partner with retailers and service providers in various industries across the U.S. to allow them to provide credit to their customers for the purchase of a variety of goods and services including consumer electronics, furniture, elective medical procedures, healthcare, educational services and home-improvements. These services of our lending partners are often extended to consumers who may not have access to traditional financing options. We specialize in supporting this “second-look” credit service. Our flexible technology platform allows our lending partners to integrate our paperless process and instant decision-making platform with the technology infrastructure of participating retailers and service providers. Additionally, we support lenders who market general purpose credit cards directly to consumers through additional channels, which enables them to reach consumers through a diverse origination platform that includes retail point-of-sale, direct mail and digital marketing solicitation and partnerships with third parties. Our technology platform and proprietary analytics enable lenders to make instant credit decisions utilizing hundreds of inputs from multiple sources and thereby offer credit to consumers overlooked by traditional providers of financing. By offering a range of products through a multitude of channels, we enable lenders to provide the right type of credit, whenever and wherever the consumer has a need.

In most cases, we invest in the receivables originated by lenders who utilize our technology platform and other related services. From time to time, we also purchase receivables portfolios from third parties. In this Report, "receivables" refer to receivables we have purchased from our lending partners or from third parties.

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

Additionally, we report within our Credit and Other Investments segment: (1) the income earned from an investment in an equity-method investee that holds credit card receivables for which we are the servicer; and (2) gains or losses associated with investments previously made in consumer finance technology platforms.

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

We believe that our point-of-sale and direct-to-consumer receivables are generating, and will continue to generate, attractive returns on assets, thereby facilitating debt financing under terms and conditions (including advance rates and pricing) that will support attractive returns on equity, and we continue to pursue growth in this area. Beyond these activities within our Credit and Other Investments segment, we invest in and service portfolios of credit card receivables. One of our portfolios of credit card receivables is encumbered by non-recourse structured financing, and for this portfolio our principal remaining economic interest is the servicing compensation we receive as an offset against our servicing costs given that the likely future collections on the portfolio are insufficient to allow for full repayment of the financing.





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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 providing certain installment lending products in addition to our traditional loans secured by automobiles.

We closely monitor and manage our expenses based on current product offerings. At this time, we are maintaining our infrastructure and incurring increased overhead and other costs in order to expand point-of-sale and direct-to-consumer finance and credit solutions and new product offerings that we believe have the potential to grow into our existing infrastructure and allow for long-term shareholder returns.

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

***Credit and Other Investments Segment.*** Our Credit and Other Investments segment includes our activities relating to our servicing of and our investments in receivables from point-of-sale and credit card operations, 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 investments in receivables portfolios and services primarily include finance charges, fees and the accretion of discounts associated with the point-of-sale receivables or annual fees on our direct-to-consumer receivables.

As previously discussed, we support lenders who originate a range of consumer loan products over multiple channels. Through our point-of-sale operations, we leverage our flexible technology platform that allows retail partners and service providers to offer loan options to their customers who may have been declined by a primary lender. The same proprietary analytics and infrastructure also allows lenders to offer general purpose loan products directly to consumers with our direct-to-consumer products. We reach these consumers through a diverse origination platform that includes direct mail, digital marketing and partnerships.

We are currently expanding our acquisitions of new receivables associated with credit card accounts. With respect to the credit card accounts underlying our legacy credit card receivables and portfolios, substantially all of the related credit card accounts have been closed to new cardholder purchases since 2009. We continue to service these credit card portfolios as they liquidate and they no longer constitute a meaningful part of our ongoing operations.

Our credit and other operations are heavily regulated, which may cause us to change how we conduct our operations either in response to regulation or in keeping with our goal of leading the industry in adherence to consumer-friendly practices. We have made meaningful changes to our practices over the past several years, and because our account management practices are evolutionary and dynamic, it is possible that we may make further changes to these practices, some of which may produce positive, and others of which may produce adverse, effects on our operating results and financial position. Customers at the lower end of the credit score range intrinsically have higher loss rates than do customers at the higher end of the credit score range. As a result, we price our products to reflect this higher loss rate. As such, our products are subject to greater regulatory scrutiny than the products of prime only lenders who are able to price their credit products at much lower levels than we can. See “Consumer and Debtor Protection Laws and Regulations—Credit and Other Investments Segment” and Item 1A, “Risk Factors.”

***Auto Finance Segment.*** The operations of our Auto Finance segment are conducted through our CAR platform, which we acquired in April 2005. CAR primarily 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 both in the U.S. and U.S. territories.

Through our CAR operations, we generate revenues on purchased loans through interest earned on the face value of the installment agreements combined with the accretion of discounts on loans purchased. We generally earn discount income over the life of the applicable loan. Additionally, we generate revenues from servicing loans on behalf of dealers for a portion of actual collections and by providing back-up servicing for similar quality assets owned by unrelated third parties. We offer a number of other products to our network of buy-here, pay-here dealers (including our floor-plan financing offering), but the majority of our activities are represented by our purchases of auto loans at discounts and our servicing of auto loans for a fee. As of December 31, 2018, our CAR operations served more than 580 dealers in 33 states, the District of Columbia and two U.S. territories. These operations continue to perform well (achieving consistent profitability and generating positive cash flows and growth).

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### **How Do We Manage the Receivables and Mitigate Our Risks?**

***Credit and Other Investments Segment.*** We manage our investments in receivables using credit scoring, credit file data and our proprietary risk evaluation systems developed and refined over our 22-year operating history. These strategies include the management of transaction authorizations, account renewals, credit line modifications and collection programs. We use an adaptive control system to translate our strategies into account management processes. The system enables us to develop and test multiple strategies simultaneously, which allows us to continually refine our account management activities. We have incorporated our proprietary risk scores into the control system, in addition to standard credit behavior scores used widely in the industry, in order to segment, evaluate and manage the receivables. We believe that by combining external credit file data along with historical and current customer activity, we are able to better predict the true risk associated with current and delinquent receivables.

For our point-of-sale and direct-to-consumer finance activities as well as the accounts that are open to purchases, we generally assist our lending partners with managing credit lines to reward financially underserved customers who are performing well and to mitigate losses from delinquent customer segments. We also assist our lending partners with employing strategies to reduce otherwise open credit lines for customers demonstrating indicators of increased credit or bankruptcy risk. Data relating to account performance are captured and loaded into our proprietary database for ongoing analysis. We adjust account management strategies as necessary, based on the results of such analyses. Additionally, we use industry-standard fraud detection software to manage the portfolio. We route accounts to manual work queues and suspend charging privileges if the transaction-based fraud models indicate a probability of fraudulent use.

***Auto Finance Segment.*** Our CAR operations manage credit quality and loss mitigation at the dealer portfolio level through the implementation of dealer-specific loss reserve accounts. In most instances, the reserve accounts are cross-collateralized across all accounts presented by any single dealer. CAR monitors performance at the dealer portfolio level (by product type) to adjust pricing or the reserve account or to determine whether to terminate future account purchases from such dealer.

CAR provides dealers with specific purchase guidelines based upon each product offering and delegates approval authority to assist in the monitoring of transactions during the loan acquisition process. Dealers are subject to specific approval criteria, and individual accounts typically are verified for accuracy before, during and after the acquisition process. Dealer portfolios across the business segment are monitored and compared against expected collections and peer dealer performance. Monitoring of dealer pool vintages, delinquencies and loss ratios helps determine past performance and expected future results, which are used to adjust pricing and reserve requirements. Our CAR operations also manage risk through diversifying their receivables among multiple dealers.

### **How Do We Collect?**

***Credit and Other Investments Segment.*** The goal of the collections process is to collect as much of the money that is owed to us in the most cost-effective and customer-friendly manner possible. To this end, we employ the traditional cross-section of letters and telephone calls to encourage payment. We also sometimes offer flexibility with respect to the application of payments in order to encourage larger or prompter payments. For instance, in certain cases we may vary from our general payment application priority (i.e., of applying payments first to finance charges, then to fees, and then to principal) by agreeing to apply payments first to principal and then to finance charges and fees or by agreeing to provide payments or credits of finance charges and principal to induce or in exchange for an appropriate payment. Application of payments in this manner also permits our collectors to assess real time the degree to which payments over the life of an account have covered the principal credit extensions on that account. This allows our collectors to readily identify our potential economic loss associated with the charge off of a particular receivable (i.e., the excess of principal loaned over payments received throughout the life of the account). Our selection of collection techniques, including, for example, the order in which we apply payments or the provision of payments or credits to induce or in exchange for a payment, impacts the statistical performance of the portfolios that we present under “Credit and Other Investments Segment” within Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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Our collectors employ various and evolving tools when collecting receivables, and they routinely test and evaluate new tools in their effort toward improving our collections with a greater degree of efficiency and service. These tools include programs under which the contractual interest associated with a receivable may be reduced or eliminated, or a certain amount of accrued fees is waived, provided a minimum number or amount of payments have been made. In some instances, we may agree to match the payment on a receivable, for example, with commensurate payments or reductions of finance charges or waivers of fees. In other situations, we may actually settle and adjust finance charges and fees on a receivable, for example, based on a commitment and follow through on a commitment to pay certain portions of the balances owed. Our collectors may also decrease minimum payments owed under certain collection programs. Additionally, we employ re-aging techniques as discussed below. We also may occasionally use our marketing group to assist in determining various programs to assist in the collection process. Moreover, we voluntarily participate in the Consumer Credit Counseling Service (“CCCS”) program by waiving a certain percentage of a receivable that is considered our “fair share” under the CCCS program. All of our programs are utilized based on the degree of economic success and customer service they achieve.

We regularly monitor and adapt our collection strategies, techniques, technology and training to optimize our efforts to reduce delinquencies and charge offs. We use our operations systems to develop these proprietary collection strategies and techniques, and we analyze the output from these systems to identify the strategies and techniques that we believe are most likely to result in curing a delinquent account in the most cost-effective manner, rather than treating all accounts the same based on the mere passage of time.

As in all aspects of our risk management strategies, we compare the results of each of the above strategies with other collection strategies and devote resources to those strategies that yield the best results. Results are measured based on, among other things, delinquency rates, expected losses and costs to collect. Existing strategies are then adjusted based on these results. We believe that routinely testing, measuring and adjusting collection strategies results in lower bad debt losses and operating expenses.

Interest and fees for most credit products we service are discontinued when loans, interest and fees receivable become contractually 90 or more days past due and we charge off loans, interest and fees receivable when they become contractually more than 180 days past due. For all of our products, we charge off receivables within 30 days of notification and confirmation of bankruptcy or death of the obligor. 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.

Our determination of whether an account is contractually past due is relevant to our delinquency and charge-off data provided under the “Credit and Other Investments Segment” caption within Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Various factors are relevant in analyzing whether an account is contractually past due (e.g., whether an account has not satisfied its minimum payment due requirement), which for us is the trigger for moving receivables through our various delinquency stages and ultimately to charge-off status. For our point-of-sale and direct-to-consumer finance accounts, we consider an account to be delinquent if the customer has not made any required payment as of the payment due date. For credit card accounts, we consider a

cardholder's receivable to be delinquent if the cardholder has failed to pay a minimum amount, computed as the greater of a stated minimum payment or a fixed percentage of the statement balance (for example 3% to 10% of the outstanding balance in some cases or in other cases 1% of the outstanding balance plus any finance charges and late fees billed in the current cycle).

Additionally, we may re-age customer accounts that meet our qualifications for re-aging. Re-aging involves changing the delinquency status of an account. It is our policy to work cooperatively with customers demonstrating a willingness and ability to repay their indebtedness and who satisfy other criteria, but are unable to pay the entire past due amount. Generally, to qualify for re-aging, an account must have been opened for at least nine months and may not be re-aged more than once in a twelve-month period or twice in a five-year period. In addition, an account on a workout program may qualify for one additional re-age in a five-year period. The customer also must have made three consecutive minimum monthly payments or the equivalent cumulative amount in the last three billing cycles. If a re-aged account subsequently experiences payment defaults, it will again become contractually delinquent and will be charged off according to our regular charge-off policy. The practice of re-aging an account may affect delinquencies and charge offs, potentially delaying or reducing such delinquencies and charge offs; however, this impact generally changes such delinquencies and charge offs by less than 10% and 5%, respectively.

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As discussed above, typically, once an account is 90 days or more past due, the account is placed on a non-accrual status. Placement on a non-accrual status results in the use of programs under which the contractual interest associated with a receivable may be reduced or eliminated, or a certain amount of accrued fees is waived, provided a minimum number or amount of payments have been made. Following this adjustment, if a customer demonstrates a willingness and ability to resume making monthly payments and meets the additional criteria discussed above, we will re-age the customer's account. When we re-age an account, we adjust the status of the account to bring a delinquent account current, but generally do not make any further modifications to the payment terms or amount owed. Thus we do not recognize an impairment or write-down solely due to the re-aging process. Once an account is placed on a non-accrual status, it is closed for further purchases. We believe that re-ages help our customers to manage difficult repayment periods, return to good standing and avoid further deterioration to their credit scores. Accounts that are placed on a non-accrual status and thereafter make at least one payment qualify as troubled debt restructurings ("TDRs"). See Note 2, "Significant Accounting Policies and Consolidated Financial Statement Components-Loans, Interest and Fees Receivable-Troubled Debt Restructurings" to our consolidated financial statements included herein for further discussion of TDRs.

***Auto Finance Segment.*** Accounts that CAR purchases from approved dealers initially are collected by the originating branch or service center location using a combination of traditional collection practices. The collection process includes contacting the customer by phone or mail, skip tracing and using starter interrupt devices to minimize delinquencies. Uncollectible accounts in our CAR operation generally are returned to the dealer under an agreement with the dealer to charge the balance on the account against the dealer's reserve account. We generally do not repossess autos in our CAR operation as a result of the agreements that we have with the dealers unless there are insufficient dealer reserves to offset the loss or if a dealer instructs us to do so.

## **Consumer and Debtor Protection Laws and Regulations**

***Credit and Other Investments Segment.*** Our U.S. business is regulated directly and indirectly under various federal and state consumer protection, collection and other laws, rules and regulations, including the federal Credit Card Accountability Responsibility and Disclosure Act of 2009 (the "CARD Act"), the federal Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), the federal Truth In Lending Act ("TILA"), the federal Equal Credit Opportunity Act, the federal Fair Credit Reporting Act, the federal Fair Debt Collection Practices Act, the Federal Trade Commission ("FTC") Act, the federal Gramm-Leach-Bliley Act and the federal Telemarketing and Consumer Fraud and Abuse Prevention Act. These laws, rules and regulations, among other things, impose disclosure requirements when consumer products are advertised, when an account is opened, when monthly billing statements are sent and when consumer obligations are collected. In addition, various statutes limit the liability of consumers for unauthorized use, prohibit discriminatory practices in consumer transactions, impose limitations on the types of charges that may be assessed and restrict the use of consumer credit reports and other account-related information. Many of our lending partners' products are designed for customers at the lower end of the credit score range. These products are priced to reflect the higher credit risk of these customers. Because of the inherently greater credit risks of these customers and the resulting higher interest and fees, we and our finance partners are subject to significant regulatory scrutiny. If regulators, including the FDIC (which regulates bank lenders), the CFPB and the FTC, object to the terms of these products, or to our marketing or collection practices, we could be required to modify or discontinue certain products or practices.

In the U.K., our operations are subject to U.K. regulations that provide similar consumer protections to those provided under the U.S. regulatory framework. We are licensed and regulated by the Financial Conduct Authority (“FCA”), and we are governed by an extensive legislative and regulatory framework that includes the Consumer Credit Act, the Data Protection Act, Privacy and Electronic Communications Regulations, Consumer Protection and Unfair Trading regulations, Financial Services (Distance Marketing) Regulations, the Enterprise Act, Money Laundering Regulations, Financial Ombudsman Service and Advertising Standards Authority adjudications. The aforementioned legislation and regulations impose strict rules on the form and content of consumer contracts, the calculation and presentation of annual percentage rates (“APRs”), advertising in all forms, parties who can be contacted and disclosures to consumers, among others. The regulators, such as the FCA, provide guidance on consumer credit practices including collections. The FCA requires a comprehensive licensing process.

***Auto Finance Segment.*** This segment is regulated directly and indirectly under various federal and state consumer protection and other laws, rules and regulations, including the federal TILA, the federal Equal Credit Opportunity Act, the federal Fair Credit Reporting Act, the federal Fair Debt Collection Practices Act, Dodd-Frank, the federal Gramm-Leach-Bliley Act and the federal Telemarketing and Consumer Fraud and Abuse Prevention Act. In addition, various state statutes limit the interest rates and fees that may be charged, limit the types of interest computations (e.g., interest bearing or pre-computed) and refunding processes, prohibit discriminatory practices in extending credit, impose limitations on fees and other ancillary products and restrict the use of consumer credit reports and other account-related information. Many of the states in which this segment operates have various licensing requirements and impose certain financial or other conditions in connection with these licensing requirements.



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***Privacy and Data Security Laws and Regulations.*** We are required to manage, use, and store large amounts of personally identifiable information, principally the confidential personal and financial data of our lending partners' customers, in the course of our business. We depend on our IT networks and systems, and those of third parties, to process, store, and transmit that information. In the past, financial service companies have been targeted for sophisticated cyber attacks. A security breach involving our files and infrastructure could lead to unauthorized disclosure of confidential information. We take numerous measures to ensure the security of our hardware and software systems as well as customer information.

We are subject to various U.S. federal and state laws and regulations designed to protect confidential personal and financial data. For example, we must comply with guidelines under the Gramm-Leach-Bliley Act that require each financial institution to 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. Additionally, various federal banking regulatory agencies, and all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands, have enacted data security regulations and laws requiring customer notification in the event of a security breach.

## **Competition**

***Credit and Other Investments Segment.*** We face substantial competition from financial service companies, the intensity of which varies depending upon economic and liquidity cycles. Our point-of-sale and direct-to-consumer finance activities compete with national, regional and local bankcard and consumer credit issuers, other general-purpose credit card issuers and retail credit card and merchant credit issuers. Many of these competitors are substantially larger than we are, have significantly greater financial resources than we do and have significantly lower costs of funds than we have.

***Auto Finance Segment.*** Competition within the auto finance sector is widespread and fragmented. Our auto finance operations target automobile dealers that oftentimes are not capable of accessing indirect lending from major financial institutions or captive finance companies. We compete mainly with a handful of national and regional companies focused on this credit segment (e.g., Credit Acceptance Corporation, Westlake Financial, Mid-Atlantic Finance, Santander Consumer USA, Western Funding Inc., U.S. Auto Credit, and United Acceptance) and a large number of smaller, regional private companies with a narrow geographic focus. Individual dealers with access to capital may also compete in this segment through the purchase of receivables from peer dealers in their markets.

## **Employees**

As of December 31, 2018, we had 310 employees, including 6 part-time employees, most of whom are principally employed within the U.S. We consider our relations with our employees to be good. None of our employees are covered by a collective-bargaining agreement, and we have never experienced any organized work stoppage, strike or labor dispute.

### **Trademarks, Trade Names and Service Marks**

We have registered and continue to register, when appropriate, various trademarks, trade names and service marks used in connection with our businesses and for private-label marketing of certain of our products. We consider these trademarks, trade names and service marks to be readily identifiable with, and valuable to, our business. This Annual Report on Form 10-K also contains trade names and trademarks of other companies that are the property of their respective owners.

### **Additional Information**

We are headquartered in Atlanta, Georgia, and our principal executive offices are located at Five Concourse Parkway, Suite 300, Atlanta, Georgia 30328. Our headquarters telephone number is (770) 828-2000, and our website is [www.Atlanticus.com](http://www.Atlanticus.com). We make available free of charge on our website certain of our recent SEC filings, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those filings as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. These reports are also available on the SEC's website at <http://www.sec.gov>.

Certain corporate governance materials, including our Board of Directors committee charters and our Code of Business Conduct and Ethics, are posted on our website under the heading "For Investors." From time to time, the corporate governance materials on our website may be updated as necessary to comply with rules issued by the SEC or NASDAQ, or as desirable to further the continued effective and efficient governance of our company.

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**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 uncertainties as to the profitability of our business model going forward and our inability to achieve consistent earnings from our operations in recent years.

**Our Cash Flows and Net Income Are Dependent Upon Payments from Our Investments in Receivables**

The collectibility of our investments in receivables 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 consumers repay their accounts or become delinquent, and the rate at which consumers borrow funds. Deterioration in these factors would adversely impact 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 primarily originates from consumers whose creditworthiness is considered sub-prime.* Historically, we have invested in receivables in one of two ways—we have either (i) invested in receivables originated by lenders who utilize our services or (ii) invested in 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.

*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. We also have exposure to fluctuations in the relative values of the U.S. dollar and the British pound. Because the British pound has experienced a net decline in value relative to the U.S. dollar since we commenced our most significant operations in the U.K., we have experienced significant transaction and translation losses within our financial statements.

***Because a significant portion of our reported income is based on management's estimates of the future performance of receivables, 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 receivables, 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, levels of loss and delinquency can result in our being required to repay lenders earlier than expected, thereby reducing funds available to us for future growth. Because all of the 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 consumers, we may not be able to evaluate their creditworthiness.*** We have less historical experience with respect to the credit risk and performance of receivables owed by consumers acquired over the Internet and other digital channels. As a result, we may not be able to target and evaluate successfully the creditworthiness of these potential consumers. Therefore, we may encounter difficulties managing the expected delinquencies and losses and appropriately pricing products.

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**We Are Substantially Dependent Upon Borrowed Funds to Fund Receivables We Purchase**

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

If additional financing facilities are not available in the future on terms we consider acceptable—an issue that has been made even more acute in the U.S. given regulatory changes that reduced asset-level returns on credit card lending—we will not be able to purchase additional receivables and those receivables may 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 credit card issuers and other sources of consumer financing, access to funding, and the timing and extent of our receivable purchases.

*Despite our recent purchases of credit card receivables, our aggregate credit card receivable balances may fluctuate.* The amount of our credit card receivables is a product of a combination of factors, many of which are not in our control. Factors include:

- the availability of funding on favorable terms;
- our relationships with the banks that issue credit cards;
- the degree to which we lose business to competitors;
- the level of usage of our credit card products by consumers;
- the availability of portfolios for purchase on attractive terms;
- levels of delinquencies and charge offs;
- the level of costs of acquiring new receivables;
- our ability to employ and train new personnel;
- our ability to maintain adequate management systems, collection procedures, internal controls and automated systems; and
- general economic and other factors beyond our control.

***Reliance upon relationships with a few large retailers in the point-of-sale finance operations may adversely affect our revenues and operating results from these operations.*** Our five largest retail partners accounted for over 50% of our outstanding point-of-sale receivables as of December 31, 2018. 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' receivables base and corresponding 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 receivables, or otherwise adversely affect our operations. Similarly, regulatory changes could adversely affect the ability or willingness of lenders who utilize our technology platform and related services to market credit products and services to consumers. While the Presidential Administration supports reducing regulatory burdens, the prospects for significant modifications are uncertain. Also, the accounting rules that apply to 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.

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***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 receivables 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 the credit products we service are originated 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 and licensing authorities, state regulators having jurisdiction over financial institutions and debt origination and collection and state attorneys general. Our business practices and the practices of issuing banks, including the terms of products, 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. If as part of these reviews the regulatory authorities conclude that we or issuing banks 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 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 consumers. They also could require us or issuing banks to stop offering some credit products or obtain licenses to do so, either nationally or in selected states. To the extent that these remedies are imposed on the issuing banks that originate credit products using our platform, under certain circumstances we are responsible for the remedies as a result of our indemnification obligations with those banks. We or our issuing banks also may elect to change practices 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 generate new receivables 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 or issuing banks to change any practices, the correction of such deficiencies or violations, or the making of such changes, could have a material adverse effect on our financial condition, results of operations or business. In addition, whether or not these practices are modified when a regulatory or enforcement authority requests or requires, 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 banks that originate credit products utilizing our platform 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.

***We are dependent upon banks to issue credit cards and provide certain other credit products utilizing our technology platform and related services.*** We acquire receivables generated by banks from credit cards that they have issued and other products, and their regulators could at any time limit their ability to issue some or all of these products that we service, or to modify those products significantly. Any significant interruption of those relationships would result in our being unable to acquire new receivables or help develop other credit products. It is possible that a regulatory position or action taken with respect to any of the issuing banks might result in the bank's inability or unwillingness to originate future credit products in collaboration with us. In the current state, such a disruption of our issuing bank relationships principally would adversely affect our ability to grow our investments in point-of-sale and direct-to-consumer 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 adopted significant changes to a number of practices through its issuance of 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 credit products 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 investments in receivables;
- certain collection methods could be prohibited, forcing us to revise our practices or adopt more costly or less effective practices;
  - limitations on our ability to recover on charged-off receivables regardless of any act or omission on our part;
- some credit 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 consumers 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 invest in receivables arising under loans to certain consumers, such as military personnel.

Material regulatory developments may adversely impact our business and results from operations.



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**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 Auto Finance segment operation acquires loans on a wholesale basis from used car dealers, for which we rely upon the legal compliance and credit determinations by those dealers.

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

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

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

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

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

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

Portfolio purchases may cause fluctuations in our reported Credit and Other Investments segment's managed receivables data, which may reduce the usefulness of this data in evaluating our business. Our reported Credit and Other Investments segment managed receivables data may fluctuate substantially from quarter to quarter as a result of recent and future credit card portfolio acquisitions.

Receivables included in purchased portfolios are likely to have been originated using credit criteria different from the criteria of issuing bank partners that have originated accounts utilizing our technology platform. 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.

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**Other Risks of Our Business**

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

***Unless we obtain a bank charter, we cannot issue credit cards.*** Because we do not have a bank charter, we currently cannot issue credit cards ourselves. Unless we obtain a bank or credit card bank charter, we will continue to provide servicing for banking relationships that provide for the issuance of credit cards to consumers, and acquire interests in receivables originated through such banking relationships. Even if we obtain a bank charter, there may be restrictions on the types of credit that the bank may extend. Our various issuing bank agreements have scheduled expiration dates. If we are unable to extend or execute new agreements with our issuing banks at the expirations of our current agreements with them, or if our existing or new agreements with our issuing banks were terminated or otherwise disrupted, there is a risk that we would not be able to enter into agreements with an alternate issuer on terms that we consider favorable or in a timely manner without disruption of our business.

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

***We face heightened levels of economic risk associated with new investment activities.*** We have made a number of investments in businesses that are not directly related to our traditional servicing and receivables financing 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. We make only those investments we believe have the potential to provide a favorable return. However, because some of the investments are outside of our core areas of expertise, they entail risks beyond those described elsewhere in this Report.

***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. If these outsourcing relationships 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 outsourcing arrangement with an alternate provider on terms that we consider favorable or in a timely manner without disruption of our business.

***If we are unable to protect our information systems against service interruption, our operations could be disrupted and our reputation may be damaged.*** We rely heavily on networks and information systems and other technology, that are largely hosted by third-parties to support our business processes and activities, including processes integral to the origination and collection of loans and other financial products, and information systems to process financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting and legal and tax requirements. Because information systems are critical to many of our operating activities, our business may be impacted by hosted system shutdowns, service disruptions or security breaches. These incidents may be caused by failures during routine operations such as system upgrades or user errors, as well as network or hardware failures, malicious or disruptive software, computer hackers, rogue employees or contractors, cyber-attacks by criminal groups, geopolitical events, natural disasters, failures or impairments of telecommunications networks, or other catastrophic events. If our information systems suffer severe damage, disruption or shutdown and our business continuity plans do not effectively resolve the issues in a timely manner, we could experience delays in reporting our financial results, and we may lose revenue and profits as a result of our inability to collect payments in a timely manner. We also could be required to spend significant financial and other resources to repair or replace networks and information systems.

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***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 consumers 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, banks and other financial service providers 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. 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 also could harm our reputation, 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 our bank partners from originating loans over the Internet, cause us to lose consumers 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 enabled lenders to originate loans over the Internet. The secure transmission of confidential information over the Internet is essential to maintaining customer confidence in such products and services offered online.

Advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology used by us to protect our client or consumer 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 consumers to become unwilling to do business with our clients or 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 service our clients' needs 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 consumer and employee data could result in higher compliance and technology costs for us, as well as potentially significant fines and penalties for non-compliance. Further, there are various other statutes and regulations relevant to the direct email marketing, debt collection and text-messaging industries including the Telephone Consumer Protection Act. The interpretation of many of these statutes and regulations is evolving in the courts and administrative agencies and an inability to comply with them may have an adverse impact on our business.

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In addition to the foregoing enhanced data security requirements, various federal banking regulatory agencies, and all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands, have enacted data security regulations and laws requiring varying levels of consumer 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 consumer 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 consumers to believe that our systems are unreliable, leading them to switch to our competitors or to avoid our websites or services, and could permanently harm our reputation.

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

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

## **Risks Relating to an Investment in Our Securities**

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

- actual or anticipated fluctuations in our operating results;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- the overall financing environment, which is critical to our value;
- the operating and stock performance of our competitors;
- announcements by us or our competitors of new products or services or significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in interest rates;
- the announcement of enforcement actions or investigations against us or our competitors or other negative publicity relating to us or our industry;
- changes in GAAP, laws, regulations or the interpretations thereof that affect our various business activities and segments;
- general domestic or international economic, market and political conditions;
- changes in ownership by executive officers, directors and parties related to them who control a majority of our common stock;
- additions or departures of key personnel; and
- future sales of our common stock and the transfer or cancellation of shares of common stock pursuant to a share lending agreement.

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



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



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As of December 31, 2018, Atlanticus Holdings Corporation had outstanding: \$406.7 million of secured indebtedness, which would rank senior in right of payment to the convertible senior notes; \$93.3 million of senior unsecured indebtedness in addition to the convertible senior notes that would rank equal in right of payment to the convertible senior notes; and no subordinated indebtedness. Included in senior secured indebtedness are certain guarantees we have executed in favor of our subsidiaries. For more information on our outstanding indebtedness, See Note 9, “Notes Payable,” to our consolidated financial statements included herein.

***Our convertible senior notes are junior to the indebtedness of our subsidiaries.*** Our convertible senior notes are structurally subordinated to the existing and future claims of our subsidiaries’ creditors. Holders of the convertible senior notes are not creditors of our subsidiaries. Any claims of holders of the convertible senior notes to the assets of our subsidiaries derive from our own equity interests in those subsidiaries. Claims of our subsidiaries’ creditors will generally have priority as to the assets of our subsidiaries over our own equity interest claims and will therefore have priority over the holders of the convertible senior notes. Consequently, the convertible senior notes are effectively subordinate to all liabilities, whether or not secured, of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish. Our subsidiaries’ creditors also may include general creditors and taxing authorities. As of December 31, 2018, our subsidiaries had total liabilities of approximately \$487.3 million (including the \$406.7 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, also may adversely affect us. There may be risks that a particular investor views differently from us, and our analysis might be wrong. If any of the risks that we face actually occurs, our business, financial condition and operating results could be materially adversely affected and could differ materially from any possible results suggested by any forward-looking statements that we have made or might make. In such case, the trading price of our common stock or other securities could decline, and you could lose part or all of your investment. **We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.**

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

We lease 335,372 square feet of office space in Atlanta, Georgia for our executive offices and the primary operations of our Credit and Other Investments segment. We have sub-leased 254,710 square feet of this office space. Our Auto Finance segment principally operates from 12,807 square feet of leased office space in Lake Mary, Florida, with additional offices and branch locations in various states and territories. We believe that our facilities are suitable to our business and that we will be able to lease or purchase additional facilities as our needs, if any, require.

### **ITEM 3. LEGAL PROCEEDINGS**

On April 4, 2007, we purchased a portfolio of credit card accounts from Barclays Bank PLC (“Barclays”) pursuant to a Sale and Purchase Agreement (the “SPA”). On May 4, 2017, we sued Barclays in the High Court of Justice Business and Property Courts of England and Wales, Claim No. FL-2017-000003. The claims related to Barclays’ obligation to reimburse us for certain consumer claims and other damages incurred as a result of the SPA and Barclays’ actions and inactions. In conjunction with the lawsuit, Barclays asserted a counterclaim alleging that past reimbursement claims paid to us were not in accordance with its policies. On December 19, 2018, the Company received £34 million (approximately \$42.9 million) from Barclays Bank UK PLC in full and final settlement of this matter.

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

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**ITEM 4. MINE SAFETY DISCLOSURES**

None.

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Table of Contents**PART II****ITEM MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS  
5. AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the NASDAQ Global Select Market under the symbol “ATLC.” As of February 22, 2019, there were 46 record holders of our common stock, which does not include persons whose stock is held in nominee or “street name” accounts through brokers, banks and intermediaries.

**ISSUER PURCHASES OF EQUITY SECURITIES**

The following table sets forth information with respect to our repurchases of common stock during the three months ended December 31, 2018.

	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs (1)</b>
October 1 - October 31	2,268	\$ 2.97	2,268	4,737,540
November 1 - November 30	—	\$ —	—	4,737,540
December 1 - December 31	—	\$ —	—	4,737,540
<b>Total</b>	<b>2,268</b>	<b>\$ 2.97</b>	<b>2,268</b>	<b>4,737,540</b>

(1) Pursuant to a share repurchase plan authorized by our Board of Directors on May 10, 2018, we are authorized to repurchase 5,000,000 shares of our common stock through June 30, 2020.

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 6. SELECTED FINANCIAL DATA**

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

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**ITEM MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS  
7. OF OPERATIONS**

*The following discussion should be read in conjunction with our consolidated financial statements and the related notes included therein, where certain terms have been defined.*

This Management’s Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements. We base these forward-looking statements on our current plans, expectations and beliefs about future events. There are risks, including the factors discussed in “Risk Factors” in Item 1A and elsewhere in this Report, that our actual experience will differ materially from these expectations. For more information, see “Cautionary Notice Regarding Forward-Looking Statements” at the beginning of this Report.

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

**OVERVIEW**

We utilize proprietary analytics and a flexible technology platform to enable financial institutions to provide various credit and related financial services and products to or associated with the financially underserved consumer credit market. According to data published by FICO (NYSE: FICO), 41.7% of consumers had FICO® scores of 700 or less as of April 2018 which represents a population in excess of 90 million consumers. The “Report on Economic Well-Being of U.S. Households in 2017” published by the Board of Governors of the Federal Reserve System further states that 40% of adults do not have ready access to \$400 to cover an unexpected expense or would cover the expense by selling something or borrowing money, with CareerBuilder noting that 75% of Americans live “paycheck to paycheck”. These consumers often have short-term, immediate credit needs that are often not effectively met by traditional financial institutions. By facilitating fairly priced consumer credit alternatives with value added features and benefits specifically curated for the unique needs of this financially underserved consumer, we endeavor to empower consumers on a path to improved financial well-being.

Currently, within our Credit and Other Investments segment, we are applying the experiences gained and infrastructure built from servicing over \$25 billion in consumer loans over our 22-year operating history to support lenders who originate a range of consumer loan products. These products include retail credit and credit cards marketed through multiple channels, including retail point-of-sale, direct mail solicitation, and partnerships with third parties. In the point-of-sale channel, we partner with retailers and service providers in various industries across the U.S. to allow them to provide credit to their customers for the purchase of a variety of goods and services including consumer electronics, furniture, elective medical procedures, healthcare, educational services and home-improvements. These services of our lending partners are often extended to consumers who may not have



access to traditional financing options. We specialize in supporting this “second-look” credit service. Our flexible technology platform allows our lending partners to integrate our paperless process and instant decision-making platform with the technology infrastructure of participating retailers and service providers. Additionally, we support lenders who market general purpose credit cards directly to consumers through additional channels, which enables them to reach consumers through a diverse origination platform that includes retail point-of-sale, direct mail and digital marketing solicitation and partnerships with third parties. Our technology platform and proprietary analytics enable lenders to make instant credit decisions utilizing hundreds of inputs from multiple sources and thereby offer credit to consumers overlooked by traditional providers of financing. By offering a range of products through a multitude of channels, we enable lenders to provide the right type of credit, whenever and wherever the consumer has a need.

In most cases, we invest in the receivables originated by lenders who utilize our technology platform and other related services. From time to time, we also purchase receivables portfolios from third parties. In this Report, "receivables" refer to receivables we have purchased from our lending partners or from third parties.

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

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

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

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

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

We closely monitor and manage our expenses based on current product offerings. At this time, we are maintaining our infrastructure and incurring increased overhead and other costs in order to expand point-of-sale and direct-to-consumer finance and credit solutions and new product offerings that we believe have the potential to grow into our existing infrastructure and allow for long-term shareholder returns.

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

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

Table of Contents**CONSOLIDATED RESULTS OF OPERATIONS**

<b>(In Thousands)</b>	<b>For the Year Ended December 31,</b>		<b>Income Increases (Decreases) from 2017 to 2018</b>
	<b>2018</b>	<b>2017</b>	
Total interest income	\$161,168	\$114,707	\$ 46,461
Interest expense	(36,896 )	(27,700 )	(9,196 )
Fees and related income on earning assets:			
Fees on credit products	25,694	10,427	15,267
Changes in fair value of loans, interest and fees receivable recorded at fair value	606	3,456	(2,850 )
Changes in fair value of notes payable associated with structured financings recorded at fair value	3,589	2,315	1,274
Rental revenue	—	148	(148 )
Other	103	(2,057 )	2,160
Other operating income:			
Servicing income	1,969	3,854	(1,885 )
Other income	39,820	1,419	38,401
Equity in income of equity-method investee	581	1,158	(577 )
Total	\$196,634	\$107,727	\$ 88,907
Net losses upon (recovery of) charge off of loans, interest and fees receivable recorded at fair value	549	(9,460 )	(10,009 )
Provision for losses on loans, interest and fees receivable recorded at net realizable value	100,338	77,612	(22,726 )
Other operating expenses:			
Salaries and benefits	23,430	22,751	(679 )
Card and loan servicing	37,145	31,534	(5,611 )
Marketing and solicitation	12,124	13,070	946
Depreciation	987	1,021	34
Other	18,579	18,449	(130 )
Net income (loss)	7,612	(40,872 )	48,484
Net loss attributable to noncontrolling interests	244	91	153
Net income (loss) attributable to controlling interests	7,856	(40,781 )	48,637

**Year Ended December 31, 2018, Compared to Year Ended December 31, 2017**

**Total interest income.** Total interest income consists primarily of finance charges and late fees earned on point-of-sale and direct-to-consumer receivables, credit card and auto finance receivables. Period-over-period results primarily relate to growth in point-of-sale finance and direct-to-consumer products, the receivables of which increased from \$316.7 million as of December 31, 2017 to \$453.3 million as of December 31, 2018. We are currently experiencing continued period-over-period growth in point-of-sale and direct-to-consumer receivables and to a lesser extent in our CAR receivables—growth which we expect to result in net period-over-period growth in our total interest income for

these operations in 2019. Future periods' growth is also dependent on the addition of new retail partners to expand the reach of point-of-sale operations as well as growth within existing partnerships and continued growth and marketing within the direct-to-consumer receivables.

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**Interest expense.** Variations in interest expense are due to new borrowings associated with growth in point-of-sale and direct-to-consumer receivables and CAR operations as evidenced within Note 9, “Notes Payable,” to our consolidated financial statements offset by 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. Outstanding notes payable associated with our point-of-sale and direct-to-consumer operations increased from \$204.0 million as of December 31, 2017 to \$366.7 million as of December 31, 2018. We anticipate additional debt financing over the next few quarters as we continue to grow, and as such, we expect our quarterly interest expense to be above that experienced in the prior periods for these operations.

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

increases in fees on credit products, primarily associated with growth in direct-to-consumer products and to a lesser degree by growth in point-of-sale finance products, offset somewhat by general net declines in legacy credit card receivables;

the effects of changes in the fair values of credit card receivables recorded at fair value and notes payable associated with structured financings recorded at fair value as described below; and

a \$2.1 million write-down in 2017 of the carrying value associated with investments previously made in consumer finance technology platforms carried at the lower of cost or market valuation.

We expect increasing levels of direct-to-consumer fee income in 2019 as we continue to invest in new credit card receivables as part of our direct-to-consumer operations. Additionally, for credit card accounts for which we use fair value accounting, we expect our change in fair value of credit card receivables recorded at fair value and our change in fair value of notes payable associated with structured financings recorded at fair value amounts to gradually diminish (absent significant changes in the assumptions used to determine these fair values) in the future. These amounts, however, are subject to potentially high levels of volatility if we experience changes in the quality of our credit card receivables or if there are significant changes in market valuation factors (e.g., interest rates and spreads) in the future. Such volatility will be muted somewhat, however, by the offsetting nature of the receivables and underlying debt being recorded at fair value and with the expected reductions in the face amounts of such outstanding receivables and debt as we experience further legacy credit card receivables liquidations and associated debt repayments.

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

**Other income.** Historically included within our other income category are ancillary and interchange revenues, which are now relatively insignificant for us due to previous credit card account closures and net credit card receivables portfolio liquidations. Given recent growth associated with new credit card offerings and related receivables, we expect ancillary and interchange revenues to grow modestly throughout the year. Also included within our other income category for the year ended December 31, 2018, is the receipt of £34 million (approximately \$42.9 million) in settlement of previously-disclosed litigation, resulting in income recognition of approximately \$36.2 million after adjusting for amounts previously recorded.

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

**Net losses upon (recovery of) charge off of loans, interest 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 legacy credit card receivables. Additionally, net recovery in the year ended December 31, 2017 reflects the effects of reimbursements received in respect of one of our portfolios. For the year ended December 31, 2017, these reimbursements exceeded the charge-offs experienced within the portfolio during the period as the reimbursements are not directly associated with the timing of actual charge-offs. A reduction in the amount of these reimbursements during 2018 resulted in net losses for that period. We currently do not expect further reimbursements will result in a net recovery of losses upon impairment, and do not expect such reimbursements to have a material impact on charge-offs in 2019.

**Provision for losses on loans, interest and fees receivable recorded at net realizable value.** Our provision for losses on loans, interest and fees receivable recorded at net realizable value covers, with respect to such receivables, changes in estimates regarding our aggregate loss exposures on (1) principal receivable balances, (2) finance charges and late fees receivable underlying income amounts included within our total interest income category, and (3) other fees receivable. We have experienced a period-over-period increase in this category between the years ended December 31, 2018 and 2017 primarily reflecting the effects of volume associated with point-of-sale and direct-to-consumer finance receivables (i.e., growth of new product receivables and their subsequent maturation), rather than specific credit quality changes or deterioration, which also impacted our provision for losses on loans, interest and fees receivable recorded at net realizable value to a lesser degree. Partially offsetting this increase was a reduction in our provision for loan losses for unearned fees and discounts that may be applicable for outstanding loan receivables and which would serve to reduce the financial impact of an eventual charge-off. The offsetting of unearned fees and discounts against our provision for losses resulted in an initial \$3.3 million reduction in the provision recognized for the twelve months ended December 31, 2018. 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 year ended December 31, 2018, relative to the year ended December 31, 2017, reflect the following:

increases in salaries reflecting marginal growth in both the number of employees and increases in related benefit costs. We expect some marginal increase in this cost for 2019 when compared to 2018 as we expect our receivables to continue to grow;

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increases in card and loan servicing expenses in the year ended December 31, 2018 when compared to the year ended December 31, 2017 due to growth in receivables associated with our investments in point-of-sale and direct-to-consumer receivables which grew from \$316.7 million outstanding to \$453.3 million outstanding at December 31, 2017 and December 31, 2018, respectively, offset by the continued net liquidations in our legacy credit card portfolios, the receivables of which declined from \$16.6 million outstanding to \$9.6 million outstanding at December 31, 2017 and December 31, 2018, respectively;

- decreases in marketing and solicitation costs for the year ended December 31, 2018 primarily due to volume-related decreases in new accounts and the timing of solicitations during 2018. We expect increased origination and brand marketing support will result in overall increases in year-over-year expenditures during 2019.

Certain operating costs are variable based on the levels of accounts and receivables we service (both for our own account and for others) and the pace and breadth of our growth in receivables. 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 legacy credit card receivables. This trend is gradually reversing as we continue to grow our earning assets (including loans, interest and fees receivable) based principally on growth of point-of-sale and direct-to-consumer receivables and to a lesser extent, growth within our CAR operations. This is evidenced by the growth we experienced in our managed receivables levels with minimal growth in the fixed portion of our card and loan servicing expenses as well as our salaries and benefits costs as we were able to better utilize our fixed costs to grow our asset base. We continue to manage our costs effectively.



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

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

***Income Taxes.*** We experienced a negative effective income tax expense rate of 118.6% for the year ended December 31, 2018, compared to an effective income tax benefit rate of 13.5% for the year ended December 31, 2017. Our negative effective income tax expense rate for the year ended December 31, 2018 is significantly below the statutory rate principally as a result of our settlement during 2018 of an IRS examination of our 2008 tax return and the carryback of its resulting net operating losses to pre-2008 tax years. The settlement resulted in a decrease in our federal tax valuation allowance and net reductions in our accruals of interest on liabilities for uncertain tax positions and unpaid taxes. Our effective income tax benefit rate for the year ended December 31, 2017 was below the statutory rate principally due to (1) interest and penalties that we accrued on unpaid federal tax liabilities and (2) our establishment of valuation allowances against our net federal deferred tax assets associated with our net loss incurred in that year.

We report income tax-related interest and penalties (including those associated with both our accrued liabilities for uncertain tax positions and unpaid tax liabilities) within our income tax line item on our consolidated statements of operations. We likewise report the reversal of income tax-related interest and penalties within such line item to the extent that we resolve our liabilities for uncertain tax positions or unpaid tax liabilities in a manner favorable to our accruals therefor. For 2018, we reported a net reversal of income tax-related interest and penalties of \$1.2 million within our income tax line item, and, for 2017, we reported net income tax-related interest and penalties of \$0.5 million within our income tax line item.

In December 2014, we reached a settlement with the IRS concerning the tax treatment of net operating losses we incurred in 2007 and 2008 and carried back to obtain refunds of federal income taxes paid in earlier years dating back to 2003. In 2015, we filed an amended return claim that, if accepted, would have eliminated the \$7.4 million assessment (and corresponding interest and penalties) under a negotiated provision of the December 2014 IRS settlement. The IRS filed a lien (as is customarily the case) associated with the assessment. Subsequently, an IRS examination team denied our amended return claims, and we filed a protest with IRS Appeals. Following correspondence and conferences held with IRS Appeals, we received and accepted a settlement offer from IRS Appeals in June 2018 that reduced our \$7.4 million net unpaid income tax assessment referenced above to \$3.7 million. In July 2018, we paid \$5.4 million to the IRS to cover the \$3.7 million unpaid income tax assessment and most of the interest that had accrued thereon; subsequently, during the three months ended September 30, 2018, the IRS refunded \$0.5 million of our \$5.4 million payment. Although we have paid all assessed income taxes related to this matter, we still have an outstanding accrued liability for some of the interest and for failure-to-pay penalties related to this matter. We are pursuing complete abatement of the failure-to-pay penalties, and once this matter is resolved and we pay any remaining interest liability, we expect the IRS to remove the aforementioned lien in due course.

### **Credit and Other Investments Segment**

Our Credit and Other Investments segment includes our activities relating to our servicing of and our investments in the point-of-sale, direct-to-consumer personal finance and credit card operations, 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 investments in receivables portfolios and services primarily include finance charges, fees and the accretion of discounts associated with the point-of-sale receivables or annual fees on our direct-to-consumer receivables.

We record (i) the finance charges, discount accretion and late fees assessed on our Credit and Other Investments segment receivables in the interest income - consumer loans, including past due fees category on our consolidated statements of operations, (ii) the rental revenue, 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, interest 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 net losses upon (recovery of) charge off of loans, interest 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.

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



Table of Contents***Managed Receivables***

We make various references within our discussion of the Credit and Other Investments segment to our managed receivables. Our managed receivables data includes only the performance of those receivables underlying consolidated subsidiaries and excludes from managed receivables data the performance of receivables held by our equity method investee. As the receivables underlying our equity method investee reflect a diminishing portion of our overall receivables base, we do not believe their inclusion or exclusion in the overall results is material. Additionally, we calculate average managed receivables based on the quarter ending balances.

Financial, operating and statistical data based on aggregate managed receivables are important to any evaluation of the performance of our credit portfolios, including our risk management, 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 our managed receivables because it provides information concerning the quality of loan originations and the related credit risks inherent within the portfolios.

Reconciliation of the managed receivables data to our GAAP financial statements requires an understanding that: (1) 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, interest and fees receivable; (2) our managed receivables data exclude non-consolidated receivables (3) the period-end and average managed receivables data include the face value of receivables which are accounted for under the fair value option; and (4) when applicable, we exclude from our managed receivables data certain reimbursements received in respect of one of our portfolios which resulted in pre-tax income benefits within our net recovery of impairment of loans, interest and fees receivable recorded at fair value line item on our consolidated statements of operations totaling approximately \$0.4 million for the three months ended September 30, 2018, \$1.7 million for the the three months ended June 30, 2018, \$2.9 million for the three months ended September 30, 2017, \$1.1 million for the three months ended June 30, 2017, and \$8.6 million for the three months ended March 31, 2017. 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 risk management, servicing and collection activities and our valuing of purchased receivables; moreover, we do not expect to receive any further material reimbursements with respect to this portfolio.

A reconciliation of our Loans, interest and fees receivable, at fair value to the assets underlying those receivables which are included in our managed receivables are as follows (in thousands):

<b>At or for the Three Months Ended</b>	
<b>2018</b>	<b>2017</b>

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	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>Jun. 30</b>	<b>Mar. 31</b>	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>Jun. 30</b>	<b>Mar. 31</b>
Loans, interest and fees receivable, gross	9,575	10,504	13,790	15,557	16,601	18,180	20,102	21,922
Fair value adjustment	(3,269 )	(3,379 )	(5,504 )	(6,144 )	(5,492 )	(6,161 )	(7,332 )	(8,331 )
Loans, interest and fees receivable, at fair value	6,306	7,125	8,286	9,413	11,109	12,019	12,770	13,591

**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 allowance for uncollectible loans, interest and fees receivable for 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 life of the receivable. 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?” in Item 1, “Business”.

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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):

	<b>At or for the Three Months Ended</b>													
	<b>2018</b>				<b>2017</b>									
	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>Jun. 30</b>	<b>Mar. 31</b>	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>Jun. 30</b>	<b>Mar. 31</b>						
Period-end managed receivables	\$462,862	\$406,057	\$371,331	\$337,848	\$333,286	\$303,080	\$267,637	\$247,569						
Percent 30 or more days past due	13.2	% 12.7	% 11.8	% 12.1	% 13.7	% 12.1	% 11.5	% 11.5	%	%	%	%	%	%
Percent 60 or more days past due	9.5	% 9.3	% 8.5	% 9.1	% 9.8	% 8.3	% 7.8	% 8.3	%	%	%	%	%	%
Percent 90 or more days past due	6.7	% 6.4	% 5.7	% 6.5	% 6.5	% 5.5	% 4.9	% 5.5	%	%	%	%	%	%
Averaged managed receivables	\$434,460	\$388,694	\$354,590	\$335,567	\$318,183	\$285,359	\$257,603	\$243,031						
Total yield ratio	44.3	% 43.2	% 41.6	% 41.0	% 39.5	% 36.5	% 35.1	% 34.8	%	%	%	%	%	%
Combined gross charge-off ratio	21.6	% 19.7	% 22.4	% 24.2	% 20.1	% 18.2	% 21.1	% 22.4	%	%	%	%	%	%

The following table presents additional trends and data with respect to our current point-of-sale (“Retail”) and direct-to-consumer operations (“Direct”) (dollars in thousands). Results of our legacy credit card receivables portfolios are excluded:

	<b>Retail - At or for the Three Months Ended</b>													
	<b>2018</b>				<b>2017</b>									
	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>Jun. 30</b>	<b>Mar. 31</b>	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>Jun. 30</b>	<b>Mar. 31</b>						
Period-end managed receivables	\$257,772	\$238,851	\$223,873	\$207,231	\$206,877	\$193,403	\$180,830	\$161,876						
Percent 30 or more days past due	13.6	% 13.4	% 12.4	% 12.6	% 14.0	% 14.0	% 12.3	% 11.8	%	%	%	%	%	%
	9.9	% 9.8	% 8.8	% 9.4	% 10.1	% 9.9	% 8.4	% 8.6	%	%	%	%	%	%

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Percent 60 or more days past due	7.1	%	6.9	%	5.8	%	6.8	%	7.2	%	6.9	%	5.6	%	6.1	%
Percent 90 or more days past due	25.0	%	24.7	%	24.8	%	24.2	%	24.2	%	26.7	%	26.7	%	26.5	%
Average APR Receivables purchased during period	\$80,096		\$70,860		\$74,391		\$60,932		\$64,036		\$59,293		\$65,786		\$64,617	

	<b>Direct - At or for the Three Months Ended 2018</b>				<b>2017</b>											
	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>Jun. 30</b>	<b>Mar. 31</b>	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>Jun. 30</b>	<b>Mar. 31</b>								
Period-end managed receivables	\$195,515	\$156,702	\$133,668	\$115,060	\$109,808	\$91,497	\$66,705	\$63,771								
Percent 30 or more days past due	13.0	%	12.1	%	11.5	%	12.2	%	12.9	%	8.3	%	9.3	%	10.8	%
Percent 60 or more days past due	9.3	%	8.9	%	8.5	%	9.2	%	9.1	%	5.0	%	6.2	%	7.4	%
Percent 90 or more days past due	6.4	%	6.0	%	5.9	%	6.4	%	5.3	%	2.7	%	3.4	%	3.8	%
Average APR Receivables purchased during period	28.1	%	27.6	%	27.2	%	26.9	%	27.5	%	28.5	%	28.0	%	27.8	%
	\$69,585		\$48,729		\$48,966		\$33,747		\$38,338		\$38,005		\$15,051		\$5,782	

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The following discussion relates to the tables above.

**Managed receivables levels.** We experienced overall quarterly growth throughout 2018 and 2017 related to our current product offerings with over \$136.6 million in net receivables growth associated with our point-of-sale and direct-to-consumer products during 2018. The addition of large point-of-sale retail partners and ongoing purchases of receivables from existing retail partners helped grow our point-of-sale receivables by \$50.9 million and \$65.6 million in the years ended December 31, 2018 and 2017, respectively. Our direct-to-consumer acquisitions grew by over \$85.7 million and \$36.8 million, net during the years ended December 31, 2018 and 2017, respectively. While we expect continued quarterly growth in our managed receivables balances for all of our products during 2019, this growth in future periods largely is dependent on the addition of new retail partners to the point-of-sale operations as well as the timing of solicitations within the direct-to-consumer operations. Further, the loss of existing retail partner relationships could adversely affect new loan acquisition levels. In 2018, our top five retail partnerships accounted for over 50% of the above referenced Retail period-end managed receivables outstanding as of December 31, 2018.

**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 receivables management strategies we use on our portfolios to manage and, to the extent possible, reduce the higher delinquency rates that can be expected with the younger average age of the newer originations in our managed portfolio. These account management strategies include conservative credit line management, purging of inactive accounts and collection strategies intended to optimize the effective account-to-collector ratio across delinquency categories. We measure the success of these efforts by reviewing delinquency rates. These rates exclude receivables that have been charged off.

As we continue to invest in our newer point-of-sale and direct-to-consumer receivables, our delinquency rates have increased when compared to the same periods in prior years. This is largely a result of the risk profiles (and corresponding expected returns) for these receivables. Our delinquency rates have continued to be somewhat lower than what we ultimately expect for our new point-of-sale and direct-to-consumer receivables given the continued growth and age of the related accounts. This trend can be seen in periods of large growth in the charts above which result in lower delinquency rates. If and when growth for these product lines moderates, we expect increased overall delinquency rates as the existing receivables mature through their peak charge-off periods. Additionally, we expect to continue to see seasonal payment patterns on these receivables which impact our delinquencies. For example, delinquency rates historically are lower in the first quarter of each year due to the benefits of seasonally strong payment patterns associated with year-end tax refunds for most consumers. However, we are uncertain whether this historical trend will continue, given recent reported decreases in the amount of income tax refunds.

**Total yield ratio.** Currently, we are experiencing growth in our newer, higher yielding receivables, including point-of-sale receivables and direct-to-consumer loans. While this growth has contributed to increases in our total yield ratio, we expect this growth also will continue to result in higher charge-off and delinquency rates than those experienced historically. Our fourth quarter 2018 total yield ratio excludes the impact of \$36.2 million associated with our aforementioned litigation settlement. Additionally, our fourth quarter 2017 total yield ratio excludes the impact of



our \$2.1 million write-down of the carrying value associated with a previous investment in a consumer finance technology platform.

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We expect total yield ratios to continue to fluctuate somewhat based on the relative mix of growth in point-of-sale receivables and our higher yielding direct-to-consumer credit card receivables.

**Combined gross charge-off ratio.** We charge off our Credit and Other Investments segment receivables when they become contractually more than 180 days past due. For all of our products, we charge off receivables within 30 days of notification and confirmation of a customer's bankruptcy or death. However, in some cases of death, we do not charge off receivables if there is a surviving, contractually liable individual or an estate large enough to pay the debt in full.

Growth within point-of-sale finance and direct-to-consumer receivables has resulted in increases in our charge-off rates over time. Our fourth quarter 2017 and first quarter 2018 combined gross charge-off ratios reflect further significant investments during the second and third quarters in 2017 in direct-to-consumer receivables, which reached their peak charge off periods during the fourth quarter of 2017 and first quarter of 2018. Second and third quarter 2018 declines in the gross charge-off ratio are reflective of this as well and are also indicative of some of the seasonal delinquency benefits discussed above.

The growth in the point-of-sale and direct-to-consumer receivables continues to result in higher charge-offs than those experienced historically. In the next few quarters, we expect continued elevated charge off rates when compared to historical results, given the following: (1) higher expected charge off rates on the point-of-sale and direct-to-consumer receivables corresponding with higher yields on these product offerings, (2) continued testing of receivables with higher risk profiles, which could lead to periodic increases in combined gross charge-offs, and (3) recent vintages reaching peak charge-off periods. Offsetting these increases will be growth in the underlying receivables base which will serve to mute to a varying degree some of the aforementioned impacts as has been seen in recent quarters. Further impacting our charge-off rates are the timing of solicitations which serve to minimize charge off rates in periods of high receivable acquisitions but also exacerbate charge-off rates in periods of lower receivable acquisitions.

**Average APR.** Our average annual percentage rate ("APR") charged to customers varies by receivable type, credit history and other factors. The average APR for receivables in our point-of-sale operations range from 9.99% to 36.0%. For our direct-to-consumer receivables, average APR ranges from 19.99% to 36.0%. We have experienced minor fluctuations in our average APR based on the relative product mix of receivables purchased during a period. We currently expect our average APRs in 2019 to remain consistent with the average APRs we have experienced over the past several quarters; however, the timing and relative mix of receivables acquired could cause some minor fluctuations.

**Receivables purchased during period.** Receivables purchased during the period reflect the gross amount of investments we have made in a given period, net of any credits issued to consumers during that same period. For most periods presented, our point-of-sale receivable purchases experienced overall growth throughout the periods presented largely based on the addition of new point-of-sale retail partners, as previously discussed. We may experience periodic

declines in these acquisitions due to: the loss of one or more retail partners; seasonal purchase activity by consumers; or the timing of new customer originations by our lending partners. We currently expect to see increases in receivable acquisitions when compared to the same period in prior years. Our direct-to-consumer receivable acquisitions tend to have more volatility based on the issuance of new credit card accounts by our banking partner and the availability of capital to fund new purchases. Nonetheless, we expect continued growth in the acquisition of these receivables throughout 2019.

### **Auto Finance Segment**

CAR, our auto finance platform 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 both in the U.S. and U.S. territories.

Collectively, as of December 31, 2018, we served more than 580 dealers through our Auto Finance segment in 33 states, the District of Columbia and two U.S. territories.

Table of Contents***Managed Receivables Background***

For reasons set forth above within our Credit and Other Investments segment discussion, we also provide managed receivables-based financial, operating and statistical data for our Auto Finance segment. Reconciliation of the auto finance managed receivables data to our GAAP financial statements requires an understanding that our managed receivables data are based on billings and actual charge offs as they occur, without regard to any changes in our allowance for uncollectible loans, interest and fees receivable. Similar to the managed calculation above, the average managed receivables used in the ratios below is calculated based on the quarter ending balances of consolidated receivables.

***Analysis of Statistical Data***

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

	<b>At or for the Three Months Ended</b>							
	<b>2018</b>				<b>2017</b>			
	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>Jun. 30</b>	<b>Mar. 31</b>	<b>Dec. 31</b>	<b>Sept. 30</b>	<b>Jun. 30</b>	<b>Mar. 31</b>
Period-end managed receivables	\$88,057	\$85,338	\$83,872	\$78,436	\$77,213	\$74,923	\$76,387	\$72,121
Percent 30 or more days past due	14.7 %	13.3 %	10.8 %	8.8 %	12.8 %	13.0 %	11.7 %	10.0 %
Percent 60 or more days past due	5.7 %	4.3 %	3.6 %	3.3 %	5.0 %	5.0 %	4.0 %	4.2 %
Percent 90 or more days past due	2.5 %	1.7 %	1.4 %	1.6 %	2.4 %	2.2 %	1.4 %	2.1 %
Average managed receivables	\$86,698	\$84,605	\$81,154	\$77,825	\$76,068	\$75,655	\$74,254	\$74,278
Total yield ratio	36.1 %	37.9 %	38.2 %	37.9 %	37.9 %	38.8 %	39.2 %	39.3 %
Combined gross charge-off ratio	2.8 %	0.9 %	0.5 %	2.1 %	3.0 %	1.1 %	2.5 %	2.5 %
Recovery ratio	0.9 %	0.9 %	1.0 %	1.5 %	1.5 %	1.7 %	2.0 %	1.6 %

***Managed receivables.*** We expect modest growth in the level of our managed receivables for 2019 when compared to the same periods in prior years in both the U.S. and U.S. territories as CAR expands within its existing locations and continues plans for service area expansion. Although we are expanding our CAR operations, the Auto Finance segment faces strong competition from other specialty finance lenders, as well as the indirect effects on us of our buy-here, pay-here dealership partners' competition with more traditional franchise dealerships for consumers interested in purchasing automobiles. Managed receivable levels are higher in each period of 2018 when compared to

the same period in 2017 primarily due to the acquisition of new dealer relationships which has resulted in the ability to purchase higher levels of auto receivables.

***Delinquencies.*** Delinquency levels experienced for the first three quarters of 2018 generally were lower than those experienced during the same periods in 2017 largely due to the absence of any significant dealer-related losses (as opposed to individual consumer defaults) that are typical during any given year and which tend to produce larger portfolio level defaults on receivables. These low delinquencies also contributed to lower combined gross charge-off rates during 2018 as discussed further below. Delinquency rates also tend to fluctuate based on seasonal trends and historically are lower in the first quarter of each year as seen above due to the benefits of strong payment patterns associated with year-end tax refunds for most consumers. However, we are uncertain whether this historical trend will continue, given recent reported decreases in the amount of income tax refunds. While we expect some increase in our delinquency rates in 2019 (as was seen in the fourth quarter of 2018) when compared to the same periods in 2018, we are not concerned with modest fluctuations in delinquency rates and do not believe they will have a significantly positive or adverse impact on our results of operations; even at slightly elevated rates, we earn significant yields on CAR's receivables and have significant dealer reserves (i.e., retainages or holdbacks on the amount of funding CAR provides to its dealer customers) to protect against meaningful credit losses.

***Total yield ratio.*** We have experienced modest fluctuations in our total yield ratio largely impacted by the relative mix of receivables in various products offered by CAR as some shorter term product offerings tend to have higher yields. Yields on our CAR products over the last few quarters are consistent with our expectations. Further, we expect our total yield ratio to remain in line with current experience, with moderate fluctuations based on relative growth or declines in average managed receivables for a given quarter. These variations would be based on the relative mix of receivables in our various product offerings. Additionally, our product offerings in the U.S. territories tend to have slightly lower yields than those offered in the U.S. As such, continued growth in that region also will serve to slightly depress our overall total yield ratio, yet we expect growth in that region to continue to generate attractive returns on assets.

***Combined gross charge-off ratio and recovery ratio.*** We charge off auto finance receivables when they are between 120 and 180 days past due, unless the collateral is repossessed and sold before that point, in which case we will record a charge off when the proceeds are received. Combined gross charge-off ratios in the above table reflect the lower delinquency rates we have recently experienced. While we anticipate our charge-offs to be incurred ratably across our portfolio of dealers, specific dealer-related losses are difficult to predict and can negatively influence our combined gross charge-off ratio. We continually re-assess our dealers and will take appropriate action if we believe a particular dealer's risk characteristics adversely change. While we have appropriate dealer reserves to mitigate losses across the majority of our pool of receivables, the timing of recognition of these reserves as an offset to charge offs is largely dependent on various factors specific to each of our dealer partners including ongoing purchase volumes, outstanding balances of receivables and current performance of outstanding loans. As such, the timing of charge off offsets is difficult to predict; however, we believe that these reserves are adequate to offset any loss exposure we may incur. Additionally, the products we issue in the U.S. territories do not have dealer reserves with which we can offset losses. Further, given our expectation of some gradual increase in our delinquency rates as discussed above, we expect gross charge-off rates will climb slightly over existing rates although as indicated above, the timing of individual dealer-related losses is difficult to predict. We also expect our recovery rate to fluctuate modestly from quarter to quarter due to the timing of the sale of repossessed autos.

## Definitions of Financial, Operating and Statistical Measures

**Total yield ratio.** Represents an annualized fraction, the numerator of which includes (as appropriate for each applicable disclosed segment) the: 1) finance charge and late fee income billed on all consolidated outstanding receivables and the amortization of the accretable yield component of our acquisition discounts for portfolio purchases, collectively included in the consumer loans, including past due fees category on our consolidated statements of income; plus 2) credit card fees (including cash advance fees, returned check fees and interchange income), earned, amortized amounts of annual membership fees and activation fees with respect to certain credit card receivables, collectively included in our fees and related income on earning assets category on our consolidated statements of income; plus 3) servicing, other income and other activities collectively included in our other operating income category on our consolidated statements of income. The denominator used represents our average managed receivables.

**Combined gross charge-off ratio.** Represents an annualized fraction, the numerator of which is the aggregate consolidated amounts of finance charge, fee and principal losses from consumers unwilling or unable to pay their receivables balances, as well as from bankrupt and deceased consumers, less current-period recoveries (including recoveries from dealer reserve offsets for our CAR operations) and the related portion of unamortized discounts, as reflected in Note 2 “Significant Accounting Policies and Consolidated Financial Statement Components-Loans, Interest and Fees Receivable”, and the denominator of which is average managed receivables. Recoveries on managed receivables represent all amounts received related to managed receivables that previously have been charged off, including payments received directly from consumers and proceeds received from the sale of those charged-off receivables. Recoveries typically have represented less than 2% of average managed receivables.

Table of Contents**LIQUIDITY, FUNDING AND CAPITAL RESOURCES**

As discussed elsewhere in this Report, we incur a significant level of costs associated with a fixed infrastructure that had been designed to support our significant legacy credit card operations. Our infrastructure costs are still somewhat elevated, and while we had in the past focused on cost reduction, our primary focus now is growing the point-of-sale and direct-to-consumer credit card receivables so that our revenues from these investments can cover our infrastructure costs and return us to consistent profitability. Increases in new and existing retail partnerships and the expansion of our investments in direct-to-consumer finance products have resulted in quarterly growth of total managed receivables levels, and we expect this growth to continue in the coming quarters.

Accordingly, we will continue to focus in the coming quarters on (i) containing costs (as opposed to our previous focus on reducing expenses) (ii) obtaining new retail partners to continue growth of the point-of-sale receivables (iii) continuing growth in direct-to-consumer credit card receivables and (iv) obtaining the funding necessary to meet capital needs required by the growth of our receivables and to cover our infrastructure costs until our receivables investments 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 their maturity in 2035. As such, facilities that could represent near-term significant refunding or refinancing needs as of December 31, 2018 are those associated with the following notes payable in the amounts indicated (in millions):

Revolving credit facility (expiring October 30, 2019) that is secured by certain receivables and restricted cash	\$49.9
Revolving credit facility (expiring November 1, 2020) that is secured by the financial and operating assets of our CAR operations	30.0
Revolving credit facility (expiring June 11, 2020) that is secured by certain receivables and restricted cash	80.5
Revolving credit facility (expiring November 16, 2020) that is secured by certain receivables and restricted cash	8.0
Senior secured term loan from related parties (expiring November 21, 2019) that is secured by certain assets of the Company	40.0
Total	\$208.4

Further details concerning the above debt facilities and our convertible senior notes are provided in Note 9, "Notes Payable," and Note 10, "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 receivables should allow us to raise more capital through increasing the size of our facilities with our existing lenders and attracting new lending relationships.

In *February 2017*, we (through a wholly owned subsidiary) established a program under which we sell certain receivables to a consolidated trust in exchange for notes issued by the trust. The notes are secured by the receivables and other assets of the trust. Simultaneously with the establishment of the program, the trust issued a series of variable funding notes and sold an aggregate amount of up to \$90.0 million (of which \$61.0 million was outstanding as of *December 31, 2018*) to an unaffiliated *third party* pursuant to a facility that can be drawn upon to the extent of outstanding eligible receivables. Interest rates on the notes range from 10.0% to 14.0%. The facility matures on *February 8, 2022* and is subject to certain affirmative covenants and collateral performance tests, the failure of which could result in required early repayment of all or a portion of the outstanding balance of notes. The facility also *may* be prepaid subject to payment of a prepayment or other fee.

In *June 2018 and again in November 2018*, we (through a wholly owned subsidiary) expanded the above mentioned program to sell up to an additional \$100.0 million of notes (\$200.0 million in total notes through the June and November 2018 expansions) which are secured by the receivables and other assets of the trust (of which \$88.5 million was outstanding as of *December 31, 2018*) to separate unaffiliated *third parties* pursuant to facilities that can be drawn upon to the extent of outstanding eligible receivables. Interest rates on the notes are based on commercial paper rates plus 4.25% and LIBOR plus 4.5%, respectively.

The facilities mature on *June 11, 2020 and November 16, 2020*, respectively, and are subject to certain affirmative covenants and collateral performance tests, the failure of which could result in required early repayment of all or a portion of the outstanding balance of notes. The facilities also *may* be prepaid subject to payment of a prepayment or other fee.

In November 2018, we sold \$167.3 million of asset backed securities (“ABS”) secured by certain retail point-of-sale receivables. A portion of the proceeds from the sale were used to pay-down our existing term and revolving facilities associated with our point-of-sale receivables. The weighted average interest rate on the securities is 5.76%.

In February 2019, we extended the maturity date of the revolving credit facility secured by the financial and operating assets of CAR to November 1, 2020. There were no other material changes to the existing terms or conditions and the new maturity date is reflected in the table above.



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At December 31, 2018, we had \$61.0 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 years ended December 31, 2018 and 2017 are as follows:

During the year ended December 31, 2018, we generated \$42.9 million of cash flows from operations compared to the use of \$26.5 million of cash flows from operations during the year ended December 31, 2017. The increase in cash provided by operating activities was principally related to the settlement of aforementioned litigation.

During the year ended December 31, 2018, we used \$134.5 million of cash from our investing activities, compared to use of \$80.3 million of cash from investing activities during the year ended December 31, 2017. This increase is primarily due to increasing levels of investments for 2018 in the point-of-sale and direct-to-consumer receivables relative to the same period in 2017 and which we expect to continue to make throughout 2019. Offsetting this increase in cash used by investing activities are returns on our aforementioned investments in point-of-sale and direct-to-consumer receivables which contributed positively to our cash generated from investing activities.

During the year ended December 31, 2018, we generated \$161.7 million of cash in financing activities, compared to our generating \$84.6 million of cash in financing activities during the year ended December 31, 2017. In both periods, the data reflect borrowings associated with point-of-sale and direct-to-consumer receivables offset by net repayments of amortizing debt facilities as payments are made on the underlying receivables that serve as collateral.

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 the point-of-sale and direct-to-consumer finance operations 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 10, 2018, we are authorized to repurchase up to 5,000,000 million shares of our common stock through June 30, 2020.

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

### **Commitments and Contingencies**

We do not currently have any off-balance-sheet arrangements; however, we do have certain contractual arrangements that would require us to make payments or provide funding if certain circumstances occur, which we refer to as contingent commitments. We do not currently expect that these contingent commitments will result in any material amounts being paid by us. See Note 11, "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.

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***Revenue Recognition***

***Consumer Loans, Including Past Due Fees***

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

***Fees and Related Income on Earning Assets***

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

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

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

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

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

The estimates for credit losses, payment rates, servicing costs, contractual servicing fees, costs of funds, discount rates and yields earned on credit card receivables significantly affect the reported amount of our loans, interest 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, interest 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 statements of operations.

#### ***Allowance for Uncollectible Loans, Interest and Fees***

Through our analysis of loan performance, delinquency data, charge-off data, economic trends and the potential effects of those economic trends on consumers, we establish an allowance for uncollectible loans, interest and fees receivable as an estimate of the probable losses inherent within those loans, interest and fees receivable that we do not report at fair value. Our loans, interest and fees receivable consist of smaller-balance, homogeneous loans, divided into two portfolio segments: Credit and Other Investments; and Auto Finance. Each of these portfolio segments is further divided into pools based on common characteristics such as contract or acquisition channel. For each pool, we determine the necessary allowance for uncollectible loans, interest and fees receivable by analyzing some or all of the following unique to each type of receivable pool: historical loss rates; current delinquency and roll-rate trends; vintage analyses based on the number of months an account has been in existence; the effects of changes in the economy on our customers; changes in underwriting criteria; and estimated recoveries. These inputs are considered in conjunction with (and potentially reduced by) any unearned fees and discounts that may be applicable for an outstanding loan receivable. To the extent that actual results differ from our estimates of uncollectible loans, interest and fees receivable, our results of operations and liquidity could be materially affected.

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**ITEM 7A. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See the Index to Financial Statements in Item 15, “Exhibits and Financial Statement Schedules.”

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

As of December 31, 2018, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Act) was carried out on behalf of Atlanticus Holdings Corporation and our subsidiaries by our management and with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer). Based upon the evaluation, our principal executive officer and principal financial officer concluded that these disclosure controls and procedures were effective as of December 31, 2018.

*Management’s Report on Internal Control over Financial Reporting*

Management of Atlanticus Holdings Corporation is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Act) for Atlanticus Holdings Corporation and our subsidiaries. Our management conducted an evaluation of the effectiveness of internal control over financial reporting as of December 31, 2018, based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) *Internal Control-Integrated Framework (2013 framework)*.

Based on our evaluation under the COSO 2013 framework, management has concluded that internal control over financial reporting was effective as of December 31, 2018.

This Annual Report does not include an attestation report of our independent public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by our independent public accounting firm pursuant to SEC rules that permit us to provide only management's report in this Annual Report.

### *Changes in Internal Control Over Financial Reporting*

During the quarter ended December 31, 2018, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) occurred that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### *Limitations on Controls*

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## **ITEM 9B. OTHER INFORMATION**

None.

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**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item will be set forth in our Proxy Statement for the 2019 Annual Meeting of Shareholders in the sections entitled “Proposal One: Election of Directors,” “Executive Officers of Atlanticus,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance” and is incorporated by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item will be set forth in our Proxy Statement for the 2019 Annual Meeting of Shareholders in the section entitled “Executive and Director Compensation” and is incorporated by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item will be set forth in our Proxy Statement for the 2019 Annual Meeting of Shareholders in the sections entitled “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” and is incorporated by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item will be set forth in our Proxy Statement for the 2019 Annual Meeting of Shareholders in the sections entitled “Related Party Transactions” and “Corporate Governance” and is incorporated by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item will be set forth in our Proxy Statement for the 2019 Annual Meeting of Shareholders in the section entitled “Auditor Fees” and is incorporated by reference.





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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

The following documents are filed as part of this Report:

**1. Financial Statements**

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Independent Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2018 and 2017</u>	F-2
<u>Consolidated Statements of Operations for the Years Ended December 31, 2018 and 2017</u>	F-3
<u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2018 and 2017</u>	F-4
<u>Consolidated Statements of Shareholders' Deficit for the Years Ended December 31, 2018 and 2017</u>	F-5
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2018 and 2017</u>	F-6
<u>Notes to Consolidated Financial Statements as of December 31, 2018 and 2017</u>	F-7

**2. Financial Statement Schedules**

None.

Table of Contents**3. Exhibits**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>	<b>Incorporated by Reference from Atlanticus' SEC Filings</b>
		<b>Unless Otherwise Indicated(1)</b>
3.1	<u>Articles of Incorporation, as amended</u>	May 16, 2017, Form 8-K, exhibit 3.1
3.2	<u>Amended and Restated Bylaws (as amended through May 12, 2017)</u>	May 16, 2017, Form 8-K, exhibit 3.2
4.1	<u>Form of common stock certificate</u>	March 30, 2016, Form 10-K, exhibit 4.1
4.2	<u>Indenture dated November 23, 2005 with U.S. Bank National Association, as successor to Wachovia Bank, National Association</u>	November 28, 2005, Form 8-K, exhibit 4.1
4.3	<u>Supplemental Indenture dated June 30, 2009 with U.S. Bank National Association, as successor to Wachovia Bank, National Association</u>	July 7, 2009, Form 8-K, exhibit 4.2
10.1	<u>Stockholders Agreement dated as of April 28, 1999</u>	January 18, 2000, Form S-1, exhibit 10.1
10.2†	<u>Second Amended and Restated 2014 Equity Incentive Plan</u>	April 10, 2017, Definitive Proxy Statement on Schedule 14A, Appendix A
10.2(a)†	<u>Form of Restricted Stock Agreement–Directors</u>	May 18, 2016, Form 8-K, exhibit 10.2
10.2(b)†	<u>Form of Restricted Stock Agreement–Employees</u>	Filed herewith
10.2(c)†	<u>Form of Stock Option Agreement–Directors</u>	May 18, 2016, Form 8-K, exhibit 10.4
10.2(d)†	<u>Form of Stock Option Agreement–Employees</u>	Filed herewith
10.2(e)†	<u>Form of Restricted Stock Unit Agreement–Directors</u>	May 18, 2016, Form 8-K, exhibit 10.6
10.2(f)†	<u>Form of Restricted Stock Unit Agreement–Employees</u>	May 18, 2016, Form 8-K, exhibit 10.7
10.3†	<u>Second Amended and Restated Employee Stock Purchase Plan</u>	April 10, 2018, Definitive Proxy Statement on Schedule 14A, Appendix A
10.4†	<u>Amended and Restated Employment Agreement for David G. Hanna</u>	December 29, 2008, Form 8-K, exhibit 10.1
10.5†	<u>Employment Agreement for Jeffrey A. Howard</u>	March 28, 2014, Form 10-K, exhibit 10.7
10.6†	<u>Employment Agreement for William R. McCamey</u>	March 28, 2014, Form 10-K, exhibit 10.8
10.7†	<u>Outside Director Compensation Package</u>	August 14, 2018, Form 10-Q, exhibit 10.1

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|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| 10.8    | <u>Amended and Restated Note Purchase Agreement, dated March 1, 2010, among Merrill Lynch Mortgage Capital Inc., CCFC Corp. (formerly CompuCredit Funding Corp.), Atlanticus Services Corporation (formerly CompuCredit Corporation), and CompuCredit Credit Card Master Note Business Trust</u> | June 25, 2010, Form 8-K/A, exhibit 10.1    |
| 10.9    | <u>Share Lending Agreement</u>                                                                                                                                                                                                                                                                   | November 22, 2005, Form 8-K, exhibit 10.1  |
| 10.9(a) | <u>Amendment to Share Lending Agreement</u>                                                                                                                                                                                                                                                      | March 6, 2012, Form 10-K, exhibit 10.12(a) |

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Exhibit Number	Description of Exhibit	Incorporated by Reference from Atlanticus' SEC Filings  Unless Otherwise Indicated(1)
10.10	<u>Assumption Agreement dated June 30, 2009 between Atlanticus Holdings Corporation (formerly CompuCredit Holdings Corporation) and Atlanticus Services Corporation (formerly CompuCredit Corporation)</u>	July 7, 2009, Form 8-K, exhibit 10.1
10.11	<u>Master Indenture for Perimeter Master Note Business Trust, dated February 8, 2017, among Perimeter Master Note Business Trust, U.S. Bank National Association and Atlanticus Services Corporation</u>	May 15, 2017, Form 10-Q, exhibit 10.1
10.11(a)*	<u>Series 2017-One Indenture Supplement for Perimeter Master Note Business Trust, dated February 8, 2017</u>	May 15, 2017, Form 10-Q, exhibit 10.1(a)
10.11(b)*	<u>Purchase Agreement, dated February 8, 2017, among TSO-Fortiva Notes Holdco LP, TSO-Fortiva Certificate Holdco LP, Perimeter Funding Corporation, Atlanticus Services Corporation and Perimeter Master Note Business Trust</u>	May 15, 2017, Form 10-Q, exhibit 10.1(b)
10.11(c)	<u>Trust Agreement, dated February 8, 2017, between Perimeter Funding Corporation and Wilmington Trust, National Association</u>	May 15, 2017, Form 10-Q, exhibit 10.1(c)
10.12	<u>Master Indenture for Fortiva Retail Credit Master Note Business Trust, dated November 9, 2018, among Fortiva Retail Credit Master Note Business Trust, U.S. Bank National Association and Access Financing, LLC</u>	Filed herewith
10.12(a)**	<u>Series 2018-One Indenture Supplement for Fortiva Retail Credit Master Note Business Trust, dated November 9, 2018</u>	Filed herewith
10.12(b)	<u>Amended and Restated Trust Agreement, dated November 9, 2018, between FRC Funding Corporation and Wilmington Trust, National Association</u>	Filed herewith
10.13	<u>Loan and Security Agreement, dated November 26, 2014, by and among Atlanticus Holdings Corporation, Certain Subsidiaries Named Therein, and Dove Ventures, LLC</u>	March 6, 2015, Form 10-K, exhibit 10.15
10.13(a)	<u>First Amendment to Loan and Security Agreement, dated November 23, 2015</u>	March 30, 2016, Form 10-K, exhibit 10.14(a)
10.13(b)	<u>Second Amendment to Loan and Security Agreement, dated November 22, 2016</u>	March 31, 2017, Form 10-K, exhibit 10.14(b)
10.13(c)	<u>Third Amendment to Loan and Security Agreement, dated November 22, 2017</u>	April 2, 2018, Form 10-K, exhibit 10.14(c)
10.13(d)	<u>Fourth Amendment to Loan and Security Agreement, dated June 5, 2018</u>	August 14, 2018, Form 10-Q, exhibit 10.2
10.13(e)	<u>Fifth Amendment to Loan and Security Agreement, dated October 22, 2018</u>	Filed herewith
10.13(f)	<u>Sixth Amendment to Loan and Security Agreement, dated November 21, 2018</u>	Filed herewith
21.1	<u>Subsidiaries of the Registrant</u>	Filed herewith
23.1	<u>Consent of BDO USA, LLP</u>	Filed herewith
31.1	<u>Certification of Principal Executive Officer pursuant to Rule 13a-14(a)</u>	Filed herewith
31.2	<u>Certification of Principal Financial Officer pursuant to Rule 13a-14(a)</u>	Filed herewith



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<b>Exhibit Number</b>	<b>Description of Exhibit</b>	<b>Incorporated by Reference from Atlanticus' SEC Filings Unless Otherwise Indicated(1)</b>
32.1	<u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350</u>	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