Atlanticus Holdings Corp
Form 10-Q
May 10, 2013

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

For the quarterly period ended March 31, 2013

of

ATLANTICUS HOLDINGS CORPORATION

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

Five Concourse Parkway, Suite 400
Atlanta, Georgia 30328
(770) 828-2000

Atlanticus' common stock, no par value per share, is registered pursuant to Section 12(b) of the Securities Exchange Act of 1934 (the "Act").

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

Atlanticus (1) is required to file reports pursuant to Section 13 or Section 15(d) of the Act, (2) has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months and (3) has been subject to such filing requirements for the past 90 days.

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

Atlanticus is a smaller reporting company and is not a shell company.

As of April 30, 2013,13,930,535 shares of common stock, no par value, of Atlanticus were outstanding. (This excludes 1,672,656 loaned shares to be returned as of that date.)

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Atlanticus Holdings Corporation and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands)

	March 31, 2013 (unaudited)	December 31, 2012
Assets		
Unrestricted cash and cash equivalents	$71,308	$67,915
Restricted cash and cash equivalents	13,969	12,921
Loans and fees receivable:		
Loans and fees receivable, net (of $8,785 and $8,274 in deferred revenue and $10,092 and $11,151 in allowances for uncollectible loans and fees receivable at March 31, 2013 and December 31, 2012, respectively)	70,745	69,625
Loans and fees receivable, at fair value	17,606	20,378
Loans and fees receivable pledged as collateral under structured financings, at fair value	122,976	133,595
Property at cost, net of depreciation	7,054	7,192
Investments in equity-method investees	36,584	37,756
Deposits	16,410	16,397
Prepaid expenses and other assets	12,457	14,647
Total assets	$369,109	$380,426
Liabilities		
Accounts payable and accrued expenses	$31,718	$38,596
Notes payable, at face value	37,168	26,747
Notes payable associated with structured financings, at fair value	129,550	140,127
Convertible senior notes	95,480	95,335
Income tax liability	60,607	60,434
Total liabilities	354,523	361,239
Commitments and contingencies (Note 10)		
Equity		
Common stock, no par value, 150,000,000 shares authorized: 15,496,135 shares issued and outstanding (including 1,672,656 loaned shares to be returned) at March 31, 2013; and 15,509,179 shares issued and outstanding (including 1,672,656 loaned shares to be returned) at December 31, 2012	-	-
Additional paid-in capital	210,768	211,122
Accumulated other comprehensive loss	(2,440)	(1,154)
Retained deficit	(193,681)	(190,673)
Total shareholders’ equity	14,647	19,295
Noncontrolling interests	(61)	(108)
Total equity	14,586	19,187
Total liabilities and equity	$369,109	$380,426

See accompanying notes.

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

	For the Three Months Ended March 31,	
	2013	2012
Interest income:		
Consumer loans, including past due fees	$19,824	$25,130
Other	111	202
Total interest income	19,935	25,332
Interest expense	(5,772)	(10,851)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	14,163	14,481
Fees and related income on earning assets	6,806	49,867
Losses upon charge off of loans and fees receivable recorded at fair value, net of recoveries	(5,798)	(55,628)
Provision for losses on loans and fees receivable recorded at net realizable value	(3,282)	(2,503)
Net interest income, fees and related income on earning assets	11,889	6,217
Other operating income:		
Servicing income	2,601	1,264
Other Income	2,136	812
Equity in income of equity-method investees	4,307	6,017
Total other operating income	9,044	8,093
Other operating expense:		
Salaries and benefits	4,409	5,667
Card and loan servicing	10,679	10,464
Marketing and solicitation	1,935	816
Depreciation	373	428
Other	6,078	6,975
Total other operating expense	23,474	24,350
Loss on continuing operations before income taxes	(2,541)	(10,040)
Income tax (expense) benefit	(446)	1,716
Loss on continuing operations	(2,987)	(8,324)
Discontinued operations:		
Income from discontinued operations before income taxes	-	5,874
Income tax expense	-	(2,056)
Income from discontinued operations	-	3,818
Net loss	(2,987)	(4,506)
Net (income) loss attributable to noncontrolling interests in continuing operations	(21)	74
Net loss attributable to controlling interests	$(3,008)	$(4,432)
Loss on continuing operations attributable to controlling interests per common share—basic	$(0.22)	$(0.37)
Loss on continuing operations attributable to controlling interests per common share—diluted	$(0.22)	$(0.37)
Income from discontinued operations attributable to controlling interests per common share—basic	$-	$0.17
Income from discontinued operations attributable to controlling interests per common share—diluted	$-	$0.17

Net loss attributable to controlling interests per common share—basic	$(0.22)	$(0.20)
Net loss attributable to controlling interests per common share—diluted	$(0.22)	$(0.20)

See accompanying notes.

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

	For the Three Months Ended March 31,	
	2013	2012
Net loss	$(2,987)	$(4,506)
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(1,394)	1,010
Income tax benefit (expense) related to other comprehensive income	108	(68)
Comprehensive loss	(4,273)	(3,564)
Comprehensive (income) loss attributable to noncontrolling interests	(21)	74
Comprehensive loss attributable to controlling interests	$(4,294)	$(3,490)

See accompanying notes.

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Atlanticus Holdings Corporation and Subsidiaries
Consolidated Statements of Equity
For the Three Months Ended March 31, 2013 and 2012 (Unaudited)
(Dollars in thousands)

	Common Stock							
	Shares Issued	Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Deficit	Noncontrolling Interests	Total Equity
Balance at December 31, 2012	15,509,179	$-	$211,122	$-	$(1,154)	$(190,673)	$(108)	$19,187
Compensatory stock issuances	107,056	-	-	-	-	-	-	-
Contributions by owners of noncontrolling interests	-	-	-	-	-	-	26	26
Amortization of deferred stock-based compensation costs	-	-	90	-	-	-	-	90
Redemption and retirement of shares	(120,100)	-	(444)	-	-	-	-	(444)
Net loss	-	-	-	-	-	(3,008)	21	(2,987)
Foreign currency translation adjustment, net of tax	-	-	-	-	(1,286)	-	-	(1,286)
Balance at March 31, 2013	15,496,135	$-	$210,768	$-	$(2,440)	$(193,681)	$(61)	$14,586

See accompanying notes.

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

	For the Three Months Ended March 31,	
	2013	2012
Operating activities		
Net loss	$(2,987)	$(4,506)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	305	404
Losses upon charge off of loans and fees receivable recorded at fair value	8,479	55,628
Provision for losses on loans and fees receivable	3,282	2,881
Interest expense from accretion of discount on convertible senior notes	145	1,253
Income from accretion of discount associated with receivables purchases	(6,812)	(8,889)
Unrealized gain on loans and fees receivable and underlying notes payable held at fair value	(2,118)	(46,612)
Income from equity-method investments	(4,307)	(6,017)
Other non cash adjustments to income	-	291
Changes in assets and liabilities, exclusive of business acquisitions:		
Decrease in uncollected fees on earning assets	282	16,997
Increase in income tax liability	281	251
(Increase) decrease in prepaid expenses	(118)	109
Decrease in accounts payable and accrued expenses	(6,643)	(1,478)
Other	3,554	451
Net cash (used in) provided by operating activities	(6,657)	10,763
Investing activities		
(Increase) decrease in restricted cash	(1,048)	2,003
Investment in equity-method investees	-	(1,354)
Proceeds from equity-method investees	4,545	11,124
Investments in earning assets	(43,157)	(49,367)
Proceeds from earning assets	63,867	89,638
Investments in subsidiaries	-	(3,514)
Purchases and development of property, net of disposals	(266)	(714)
Net cash provided by investing activities	23,941	47,816
Financing activities		
Noncontrolling interests contributions, net	26	-
Purchase and retirement of outstanding stock	(444)	(196)
Proceeds from borrowings	12,282	365
Repayment of borrowings	(25,002)	(58,583)
Net cash used in financing activities	(13,138)	(58,414)
Effect of exchange rate changes on cash	(753)	227
Net increase in unrestricted cash	3,393	392
Unrestricted cash and cash equivalents at beginning of period	67,915	144,913
Unrestricted cash and cash equivalents at end of period	$71,308	$145,305
Supplemental cash flow information		
Cash paid for interest	$7,653	$10,392
Net cash income tax payments	$165	$89
Supplemental non-cash information		
Issuance of stock options and restricted stock	$305	$227

Notes payable associated with capital leases	$144	$305

See accompanying notes.

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Atlanticus Holdings Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2013 and 2012

1. Description of Our Business

Our accompanying consolidated financial statements include the accounts of Atlanticus Holdings Corporation (the "Company") and those entities we control, principally our majority-owned subsidiaries. We are primarily focused on providing financial services. Through our subsidiaries, we offer an array of financial products and services to a market largely represented by credit risks that regulators classify as "sub-prime." As discussed further below, we reflect our continuing business lines within two reportable segments: Credit Cards and Other Investments; and Auto Finance. See also Note 4, "Segment Reporting," for further details.

2. Significant Accounting Policies and Consolidated Financial Statement Components

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

Basis of Presentation and Use of Estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"), under which we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our consolidated financial statements, as well as the reported amounts of revenues and expenses during each reporting period. We base these estimates on information available to us as of the date of the financial statements. Actual results could differ materially from these estimates. Certain estimates, such as credit losses, payment rates, costs of funds, discount rates and the yields earned on credit card receivables, significantly affect the reported amount of two categories of credit card receivables that we report at fair value and our notes payable associated with structured financings, at fair value, as reported on our consolidated balance sheet at March 31, 2013 and December 31, 2012; these estimates likewise affect our changes in fair value of loans and fees receivable recorded at fair value and changes in fair value of notes payable associated with structured financings recorded at fair value categories within our fees and related income on earning assets line item on our consolidated statement of operations for the three months ended March 31, 2013 and 2012. Additionally, estimates of future credit losses on our loans and fees receivable that we report at net realizable value, rather than fair value, have a significant effect on two categories of such loans and fees receivable, net, that we show on our consolidated balance sheets, as well as on the provision for losses on loans and fees receivable within our consolidated statements of operations.

We have reclassified certain amounts in our prior period consolidated financial statements related to discontinued operations to conform to current period presentation, and we have eliminated all significant intercompany balances and transactions for financial reporting purposes.

Loans and Fees Receivable

Our loans and fees receivable include: (1) loans and fees receivable, net; (2) loans and fees receivable pledged as collateral under structured financings, net; (3) loans and fees receivable, at fair value; and (4) loans and fees receivable pledged as collateral under structured financings, at fair value.

The components of our aggregated categories of loans and fees receivable, net (in millions) for reporting periods relevant to this Report are as follows:

	Balance at December 31, 2012	Additions	Subtractions	Balance at March 31, 2013
Loans and fees receivable, gross	$ 89.1	$ 52.0	$ (51.5)	$ 89.6
Deferred revenue	(8.3)	(7.3)	6.8	(8.8)
Allowance for uncollectible loans and fees receivable	(11.2)	(3.3)	4.4	(10.1)
Loans and fees receivable, net	$ 69.6	$ 41.4	$ (40.3)	$ 70.7

	Balance at December 31, 2011	Additions	Subtractions	Balance at March 31, 2012
Loans and fees receivable, gross	$ 119.3	$ 46.6	$ (54.7)	$ 111.2
Deferred revenue	(8.0)	(6.5)	6.4	(8.1)
Allowance for uncollectible loans and fees receivable	(14.7)	(2.9)	5.1	(12.5)
Loans and fees receivable, net	$ 96.6	$ 37.2	$ (43.2)	$ 90.6

As of March 31, 2013 and March 31, 2012, the weighted average remaining accretion periods for the $8.8 million and $8.1 million, respectively, of deferred revenue reflected in the above tables were 13.0 and 13.6 months, respectively.

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

For the Three Months Ended March 31, 2013	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	$(4.6)	$(3.1)	$(3.5)	$(11.2)
Provision for loan losses	(2.2)	0.2	(1.3)	(3.3)
Charge offs	2.8	1.1	1.3	5.2
Recoveries	-	(0.8)	-	(0.8)
Balance at end of period	$(4.0)	$(2.6)	$(3.5)	$(10.1)
Balance at end of period individually evaluated for impairment	$-	$-	$-	$-
Balance at end of period collectively evaluated for impairment	$(4.0)	$(2.6)	$(3.5)	$(10.1)
Loans and fees receivable:				
Loans and fees receivable, gross	$8.9	$60.4	$20.3	$89.6
Loans and fees receivable individually evaluated for impairment	$-	$-	$-	$-
Loans and fees receivable collectively evaluated for impairment	$8.9	$60.4	$20.3	$89.6

For the Three Months Ended March 31, 2012	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
Allowance for uncollectible loans and fees receivable:				
Balance at beginning of period	$(4.0)	$(8.4)	$(2.3)	$(14.7)
Provision for loan losses (includes $0.4 million of provision netted within income from discontinued operations)	(1.8)	0.6	(1.7)	(2.9)
Charge offs	1.6	2.9	2.1	6.6
Recoveries	(0.3)	(1.2)	-	(1.5)
Balance at end of period	$(4.5)	$(6.1)	$(1.9)	$(12.5)
Balance at end of period individually evaluated for impairment	$-	$(0.1)	$-	$(0.1)
Balance at end of period collectively evaluated for impairment	$(4.5)	$(6.0)	$(1.9)	$(12.4)
Loans and fees receivable:				
Loans and fees receivable, gross	$24.0	$78.6	$8.6	$111.2
Loans and fees receivable individually evaluated for impairment	$-	$0.2	$-	$0.2
Loans and fees receivable collectively evaluated for impairment	$24.0	$78.4	$8.6	$111.0

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

	As of March 31, 2013	As of December 31, 2012
Current loans receivable	$77.1	$71.4
Current fees receivable	2.1	0.8
Delinquent loans and fees receivable	10.4	16.9
Loans and fees receivable, gross	$89.6	$89.1

Delinquent loans and fees receivable reflect the principal, fee and interest components of loans that we did not collect on the contractual due date. Amounts we believe we will not ultimately collect are included as a component in our overall allowance for uncollectible loans and fees receivable and typically are charged off 180 days from the point they become delinquent for our credit card, auto finance and other unsecured lending product receivables, or sooner if facts and circumstances earlier indicate non-collectability. Recoveries on accounts previously charged off are credited to the allowance for uncollectible loans and fees receivable and effectively offset our provision for loan losses in our accompanying consolidated statements of operations.

We consider loan delinquencies a key indicator of credit quality as it provides the best ongoing estimate of how a particular class of receivables is performing. An aging of our delinquent loans and fees receivable, gross (in millions) by class of receivable as of March 31, 2013 and December 31, 2012 is as follows:

As of March 31, 2013	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
30-59 days past due	$0.4	$3.8	$0.6	$4.8
60-89 days past due	0.4	1.2	0.5	2.1
90 or more days past due	1.3	0.9	1.3	3.5
Delinquent loans and fees receivable, gross	2.1	5.9	2.4	10.4
Current loans and fees receivable, gross	6.8	54.5	17.9	79.2
Total loans and fees receivable, gross	$8.9	$60.4	$20.3	$89.6
Balance of loans greater than 90-days delinquent still accruing interest and fees	$-	$0.5	$-	$0.5

As of December 31, 2012	Credit Cards	Auto Finance	Other Unsecured Lending Products	Total
30-59 days past due	$0.7	$5.4	$0.6	$6.7
60-89 days past due	1.0	2.0	0.5	3.5
90 or more days past due	4.2	1.6	0.9	6.7
Delinquent loans and fees receivable, gross	5.9	9.0	2.0	16.9
Current loans and fees receivable, gross	1.3	55.2	15.7	72.2
Total loans and fees receivable, gross	$7.2	$64.2	$17.7	$89.1
Balance of loans greater than 90-days delinquent still accruing interest and fees	$-	$0.5	$-	$0.5

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Investments in Equity-Method Investees

We account for investments using the equity method of accounting if we have the ability to exercise significant influence, but not control, over the investees. Significant influence is generally deemed to exist if we have an ownership interest in the voting stock of an incorporated investee of between 20% and 50%, although other factors, such as representation on an investee's board of managers, specific voting and veto rights held by each investor and the effects of commercial arrangements, are considered in determining whether equity method accounting is appropriate. We use the equity method for our investments in a limited liability company formed in 2004 to acquire a portfolio of credit card receivables. We also use the equity method to account for our March 2011 investment to acquire a 50.0% interest in a joint venture with an unrelated third party that purchased the outstanding notes issued out of the structured financing trust underlying our United Kingdom ("U.K.") portfolio of credit card receivables (the "U.K. Portfolio"). We record our respective interests in the income of our equity-method investees within the equity in income of equity-method investees category on our consolidated statements of operations.

We evaluate our investments in the equity-method investees for impairment each quarter by comparing the carrying amount of each investment to its fair value. Because no active market exists for the investees' limited liability company membership interests, we evaluate our investments for impairment based on our evaluation of the fair value of the equity-method investees' net assets relative to their carrying values. If we ever were to determine that the carrying values of our investments in equity-method investees were greater than their fair values, we would write the investments down to their fair values.

Income Taxes

Computed considering results for only our continuing operations before income taxes, we experienced a negative effective income tax benefit rate of 17.6% for the three months ended March 31, 2013, versus our effective income tax benefit rate of 17.1% for the three months ended March 31, 2012. Our negative effective income tax benefit rate for the three months ended March 31, 2013 results principally from interest accruals on our liabilities for uncertain tax positions. Variations in our effective tax rates between the periods principally bear the effects of (1) changes in valuation allowances against income statement-oriented federal, foreign and state deferred tax assets and (2) intra-period tax allocations associated with our discontinued operations in 2012 as required under GAAP.

We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized $0.4 million and $0.5 million in potential interest and penalties associated with uncertain tax positions during the three months ended March 31, 2013 and 2012, respectively. To the extent such interest and penalties are not assessed as a result of a resolution of the underlying tax position, amounts accrued are reduced and reflected as a reduction of income tax expense. We recognized no such reductions in each of the three months ended March 31, 2013 and 2012.

Fees and Related Income on Earning Assets

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

	For the Three Months Ended March 31,	
	2013	2012
Fees on credit products	$3,916	$2,963
Changes in fair value of loans and fees receivable recorded at fair value	16,723	55,929
Changes in fair value of notes payable associated with structured financings recorded at fair value	(14,605)	(9,317)
Other	772	292

Total fees and related income on earning assets	$6,806	$49,867

The above changes in fair value of loans and fees receivable recorded at fair value category excludes the impact of charge offs associated with these receivables which are separately stated on our consolidated statements of operations. See Note 7, “Fair Values of Assets and Liabilities,” for further discussion of these receivables and their effects on our consolidated statements of operations.

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Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued guidance that requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on respective line items in consolidated statements of income if an amount being reclassified is required to be reclassified in its entirety to net income. For amounts not required to be reclassified to net income in their entirety in the same reporting period, an entity is required to cross-reference other disclosures that provide additional detail about those amounts. The new reporting requirements do not change the way in which net income or comprehensive income is derived. The new standard applies to both interim and annual financial statements and is effective for us beginning with this filing. Our adoption of the guidance on January 1, 2013 had no effect on our financial condition, results of operations or liquidity since it impacts disclosures only.

In December 2011, the FASB issued guidance requiring entities to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on an entity's financial position. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with current literature or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with current literature. The guidance is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Our adoption of the guidance on January 1, 2013 had no effect on our financial condition, results of operations or liquidity since it impacts disclosures only.

Subsequent Events

We evaluate subsequent events that occur after our consolidated balance sheet date but before our consolidated financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements; and (2) nonrecognized, or those that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date. We have evaluated subsequent events occurring after March 31, 2013, and based on our evaluation, we did not identify any recognized or nonrecognized subsequent events that would have required further adjustments to our consolidated financial statements.

3. Discontinued Operations

In August 2012 we sold our Investments in Previously Charged-Off receivables segment along with our balance transfer card operations. Accordingly, their results of operations are shown as discontinued operations within our consolidated statements of operations for all periods presented. Key components of discontinued operations on our consolidated statements of operations are as follows for the three months ended March 31, 2012:

Net interest income, fees and related income on earning assets	$15,019
Other operating income	1,132
Other operating expense	10,277
Income before income taxes	5,874
Income tax expense	(2,056)
Net income	$3,818
Net income attributable to noncontrolling interests	$-

4. Segment Reporting

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

As of both March 31, 2013 and December 31, 2012, we did not have a material amount of long-lived assets located outside of the U.S., and only a negligible portion of our 2013 and 2012 revenues associated with our continuing operations were generated outside of the U.S.

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

Three Months Ended March 31, 2013	Credit Cards and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	$ 14,044	$ 5,780	$ 19,824
Other	41	70	111
Total interest income	14,085	5,850	19,935
Interest expense	(5,339)	(433)	(5,772)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	8,746	5,417	14,163
Fees and related income on earning assets	6,740	66	6,806
Servicing income	2,400	201	2,601
Equity in income of equity-method investees	4,307	-	4,307
Income tax (expense) benefit	(78)	(368)	(446)
(Loss on) income from continuing operations before income taxes	$ (3,971)	$ 1,430	$ (2,541)
Total assets	$ 307,056	$ 62,053	$ 369,109

Three Months Ended March 31, 2012	Credit Cards and Other Investments	Auto Finance	Total
Interest income:			
Consumer loans, including past due fees	$ 18,694	$ 6,436	$ 25,130
Other	136	66	202
Total interest income	18,830	6,502	25,332
Interest expense	(7,675)	(3,176)	(10,851)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	11,155	3,326	14,481
Fees and related income on earning assets	49,540	327	49,867
Servicing income	1,123	141	1,264
Equity in income of equity-method investees	6,017	-	6,017
Income tax benefit (expense)	2,212	(496)	1,716
Loss on continuing operations before income taxes	$ (8,438)	$ (1,602)	$ (10,040)
Total assets	$ 301,278	$ 79,148	$ 380,426

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5. Shareholders' Equity

Retired Shares

During the three months ended March 31, 2013, we repurchased and contemporaneously retired 120,100 shares of our common stock at an aggregate cost of $0.4 million.

6. Investments in Equity-Method Investees

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

	As of	
	March 31, 2013	December 31, 2012
Loans and fees receivable pledged as collateral under structured financings, at fair value	$47,662	$53,375
Investments in non-marketable debt securities, at fair value	$43,493	$46,564
Total assets	$106,354	$114,375
Notes payable associated with structured financings, at fair value	$23,720	$29,279
Total liabilities	$23,979	$29,558
Members' capital	$82,375	$84,817

	For the Three Months Ended March 31,	
	2013	2012
Net interest income, fees and related income on earning assets	$8,637	$14,287
Total other operating income	$338	$83
Net income	$8,414	$13,490
Net income attributable to investee	$4,307	$6,017

As noted above, the above tables include our aforementioned 50.0% interest in the joint venture that purchased in March 2011 the outstanding notes issued out of our U.K. Portfolio structured financing trust. Separate financial data for this entity are as follows:

	As of	
	March 31, 2013	December 31, 2012
Investments in non-marketable debt securities, at fair value	$43,493	$46,564
Total assets	$45,042	$47,125
Total liabilities	$-	$-
Members' capital	$45,042	$47,125

	For the Three Months Ended March 31,	
	2013	2012
Net interest income, fees and related income on earning assets	$7,230	$547
Net income	$7,219	$526
Net income attributable to investee	$3,609	$520

As noted in Note 8, “Notes Payable,” notes payable with a fair value of $43.5 million correspond with the $43.5 million investment in non-marketable debt securities, at fair value held by our equity method investee as noted in the above table.

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7. Fair Values of Assets and Liabilities

Valuations and Techniques for Assets

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The table below summarizes (in thousands) by fair value hierarchy the March 31, 2013 and December 31, 2012 fair values and carrying amounts (1) of our assets that are required to be carried at fair value in our consolidated financial statements and (2) for our assets not carried at fair value, but for which fair value disclosures are required:

Assets – As of March 31, 2013 (1)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Assets
Loans and fees receivable, net for which it is practicable to estimate fair value	$-	$ -	$ 76,773	$51,466
Loans and fees receivable, net for which it is not practicable to estimate fair value (2)	$-	$ -	$ -	$19,279
Loans and fees receivable, at fair value	$-	$ -	$ 17,606	$17,606
Loans and fees receivable pledged as collateral under structured financings, at fair value	$-	$ -	$ 122,976	$122,976

Assets – As of December 31, 2012 (1)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Assets
Loans and fees receivable, net for which it is practicable to estimate fair value	$-	$ -	$ 76,384	$65,198
Loans and fees receivable, net for which it is not practicable to estimate fair value (2)	$-	$ -	$ -	$4,427
Loans and fees receivable, at fair value	$-	$ -	$ 20,378	$20,378
Loans and fees receivable pledged as collateral under structured financings, at fair value	$-	$ -	$ 133,595	$133,595

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

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

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

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For Level 3 assets carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents (in thousands) a reconciliation of the beginning and ending balances for the three months ended March 31, 2013 and March 31, 2012:

	Loans and Fees Receivable, at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings, at Fair Value	Total
Balance at January 1, 2013	$ 20,378	$ 133,595	$ 153,973
Total gains—realized/unrealized:	-	13,924	13,924
Net revaluations of loans and fees receivable pledged as collateral under structured financings, at fair value	2,799	-	2,799
Net revaluations of loans and fees receivable, at fair value	(5,571)	(21,894)	(27,465)
Settlements, net	-	(2,649)	(2,649)
Impact of foreign currency translation	-	-	-
Net transfers in and/or out of Level 3	-	-	-
Balance at March 31, 2013	$ 17,606	$ 122,976	$ 140,582
Balance at January 1, 2012	$ 28,226	$ 238,763	$ 266,989
Total gains—realized/unrealized:			
Net revaluations of loans and fees receivable pledged as collateral under structured financings, at fair value	-	52,192	52,192
Net revaluations of loans and fees receivable, at fair value	3,737	-	3,737
Settlements, net	(8,453)	(91,742)	(100,195)
Impact of foreign currency translation	-	2,712	2,712
Net transfers in and/or out of Level 3	-	-	-
Balance at March 31, 2012	$ 23,510	$ 201,925	$ 225,435

The unrealized gains and losses for assets within the Level 3 category presented in the tables above include changes in fair value that are attributable to both observable and unobservable inputs.

Net Revaluation of Loans and Fees Receivable. We record the net revaluation of loans and fees receivable (including those pledged as collateral) in the fees and related income on earning assets category in our consolidated statements of operations, specifically as changes in fair value of loans and fees receivable recorded at fair value.

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For Level 3 assets carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents (in thousands) quantitative information about the valuation techniques and the inputs used in the fair value measurement as of March 31, 2013:

Quantitative Information about Level 3 Fair Value Measurements

Fair value measurements	Fair Value at March 31, 2013 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)(1)
Loans and fees receivable, at fair value	$ 17,606	Discounted cash flows	Gross yield	22.0 %
			Principal payment rate	3.6 %
			Expected credit loss rate	17.0 %
			Servicing rate	11.5 %
			Discount rate	16.0 %
Loans and fees receivable pledged as collateral under structured financings, at fair value	$ 122,976	Discounted cash flows	Gross yield	10.5% to 24.8 (19.4%)
			Principal payment rate	1.5% to 3.2% (2.5%)
			Expected credit loss rate	10.1% to 22.4% (17.8%)
			Servicing rate	6.9% to 8.4% (7.8%)
			Discount rate	16.0% to 16.2% (16.0%)

(1) Our loans and fees receivable, at fair value consist of a single portfolio with one set of assumptions. As such, no range is given.

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Valuations and Techniques for Liabilities

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the liability. The table below summarizes (in thousands) by fair value hierarchy the March 31, 2013 and December 31, 2012 fair values and carrying amounts (1) of our liabilities that are required to be carried at fair value in our consolidated financial statements and (2) for our liabilities not carried at fair value, but for which fair value disclosures are required:

Liabilitiess – As of March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Liabilities
Liabilities not carried at fair value				
CAR revolving credit facility	$ -	$ -	$ 20,000	$20,000
ACC amortizing debt facility	$ -	$ -	$ 2,785	$2,785
Amortizing debt facility	$ -	$ -	$ 9,000	$9,000
Revolving credit facility	$ -	$ -	$ 1,895	$1,895
U.K. Credit card accounts revolving credit facility	$ -	$ -	$ 3,445	$3,445
5.875% Convertible Senior Notes	$ -	$ 48,813	$ -	$94,886
Liabilities carried at fair value				
Interest rate swap underlying CAR facility	$ -	$ 150	$ -	$150
Economic sharing arrangement liability	$ -	$ -	$ 707	$707
Notes payable associated with structured financings, at fair value	$ -	$ -	$ 129,550	$129,550

Liabilities - As of December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Amount of Liabilities
Liabilities not carried at fair value				
CAR revolving credit facility	$ -	$ -	$ 20,000	$20,000
ACC amortizing debt facility	$ -	$ -	$ 3,896	$3,896
Revolving credit facility	$ -	$ -	$ 1,456	$1,456
U.K. Credit card accounts revolving credit facility	$ -	$ -	$ 1,213	$1,213
5.875% Convertible Senior Notes	$ -	$ 55,787	$ -	$94,886
Liabilities carried at fair value				
Interest rate swap underlying CAR facility	$ -	$ 175	$ -	$175
Economic sharing arrangement liability	$ -	$ -	$ 815	$815
Notes payable associated with structured financings, at fair value	$ -	$ -	$ 140,127	$140,127

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

2, “Significant Accounting Policies and Consolidated Financial Statement Components.” See Note 8, “Notes Payable,” for further discussion on our notes payable.

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For our material Level 3 liabilities carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents (in thousands) a reconciliation of the beginning and ending balances for the three months ended March 31, 2013 and 2012.

	Notes Payable Associated with Structured Financings, at Fair Value	
	2013	2012
Beginning balance, January 1	$140,127	$241,755
Transfers in due to consolidation of equity-method investees	-	-
Total (gains) losses—realized/unrealized:		
Net revaluations of notes payable associated with structured financings, at fair value	14,605	9,317
Repayments on outstanding notes payable, net	(22,410)	(51,136)
Impact of foreign currency translation	(2,772)	2,534
Net transfers in and/or out of Level 3	-	-
Ending balance, March 31	$129,550	$202,470

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

Net Revaluation of Notes Payable Associated with Structured Financings, at Fair Value. We record the net revaluations of notes payable associated with structured financings, at fair value, in the changes in fair value of notes payable associated with structured financings line item within the fees and related income on earning assets category of our consolidated statements of operations.

For material Level 3 liabilities carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents (in thousands) quantitative information about the valuation techniques and the inputs used in the fair value measurement for the period ended March 31, 2013:

Quantitative information about Level 3 Fair Value Measurements

Fair value measurements	Fair Value at March 31, 2013 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Notes payable associated with structured financings, at fair value	$129,550	Discounted cash flows	Gross yield	10.5% to 24.8% (19.4%)
			Principal payment rate	1.5% to 3.2% (2.5%)
			Expected credit loss rate	10.1% to 22.4% (17.8%)
			Discount rate	16.0% to 19.8% (17.4%)

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Other Relevant Data

Other relevant data (in thousands) as of March 31, 2013 and December 31, 2012 concerning certain assets and liabilities we carry at fair value are as follows:

As of March 31, 2013	Loans and Fees Receivable at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings at Fair Value
Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value	$24,173	$165,197
Aggregate fair value of loans and fees receivable that are reported at fair value	$17,606	$122,976
Aggregate fair value of receivables carried at fair value that are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies)	$42	$610
Aggregate excess of balance of unpaid principal receivables within loans and fees receivable that are reported at fair value and are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies) over the fair value of such loans and fees receivable	$1,154	$7,652

As of December 31, 2012	Loans and Fees Receivable at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings at Fair Value
Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value	$26,154	$192,433
Aggregate fair value of loans and fees receivable that are reported at fair value	$20,378	$133,595
Aggregate fair value of receivables carried at fair value that are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies)	$36	$957
Aggregate excess of balance of unpaid principal receivables within loans and fees receivable that are reported at fair value and are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies) over the fair value of such loans and fees receivable	$1,643	$7,591

Notes Payable	Notes Payable Associated with	Notes Payable Associated with Structured

	Structured Financings, at Fair Value as of March 31, 2013	Financings, at Fair Value as of December 31, 2012
Aggregate unpaid principal balance of notes payable	$ 259,457	$ 287,711
Aggregate fair value of notes payable	$ 129,550	$ 140,127

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8. Notes Payable

Notes Payable Associated with Structured Financings, at Fair Value

Scheduled (in millions) in the table below are (1) the carrying amounts of structured financing notes secured by certain credit card receivables and reported at fair value as of both March 31, 2013 and December 31, 2012, (2) the outstanding face amounts of structured financing notes secured by certain credit card receivables and reported at fair value as of March 31, 2013, and (3) the carrying amounts of the credit card receivables and restricted cash that provide the exclusive means of repayment for the notes (i.e., lenders have recourse only to the specific credit card receivables and restricted cash underlying each respective facility and cannot look to our general credit for repayment) as of March 31, 2013.