Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2019

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 001-37680

ELEVATE CREDIT, INC.

(Exact name of registrant as specified in its charter)

Delaware	**46-4714474**
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification Number
4150 International Plaza, Suite 300 **Fort Worth, Texas 76109**	**76109**
Address of Principal Executive Offices	Zip Code

(817) 928-1500
Registrant’s Telephone Number, Including Area Code

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Non-accelerated filer ☐
Accelerated filer ☒	Smaller reporting company ☐
Emerging growth company ☒	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Securities registered pursuant to Section 12(b) of the Act.

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, $0.0004 par value	ELVT	New York Stock Exchange

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at November 6, 2019
Common Shares, $0.0004 par value	44,158,038

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") that are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained throughout this Quarterly Report on Form 10-Q, including in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors." Forward-looking statements include information concerning our strategy, future operations, future financial position, future revenues, projected expenses, margins, prospects and plans and objectives of management. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipate," "believe," "could," "seek," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "will," "would" or similar expressions and the negatives of those terms. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our future financial performance, including our expectations regarding our revenue, cost of revenue, growth rate of revenue, cost of borrowing, credit losses, marketing costs, net charge-offs, gross profit or gross margin, operating expenses, operating margins, loans outstanding, credit quality, ability to generate cash flow and ability to achieve and maintain future profitability;
- the availability of debt financing, funding sources and disruptions in credit markets;
- our ability to meet anticipated cash operating expenses and capital expenditure requirements;
- anticipated trends, growth rates, seasonal fluctuations and challenges in our business and in the markets in which we operate;
- our ability to anticipate market needs and develop new and enhanced or differentiated products, services and mobile apps to meet those needs, and our ability to successfully monetize them;
- our expectations with respect to trends in our average portfolio effective annual percentage rate;
- our anticipated growth and growth strategies and our ability to effectively manage that growth;
- our anticipated expansion of relationships with strategic partners, including banks;
- customer demand for our product and our ability to rapidly grow our business in response to fluctuations in demand;
- our ability to attract potential customers and retain existing customers and our cost of customer acquisition;
- the ability of customers to repay loans;
- interest rates and origination fees on loans;
- the impact of competition in our industry and innovation by our competitors;
- our ability to attract and retain necessary qualified directors, officers and employees to expand our operations;
- our reliance on third-party service providers;
- our access to the automated clearing house system;
- the efficacy of our marketing efforts and relationships with marketing affiliates;
- our anticipated direct marketing costs and spending;
- the evolution of technology affecting our products, services and markets;
- continued innovation of our analytics platform, including releases of new credit models;
- our ability to prevent security breaches, disruption in service and comparable events that could compromise the personal and confidential information held in our data systems, reduce the attractiveness of the platform or adversely impact our ability to service loans;
- our ability to detect and filter fraudulent or incorrect information provided to us by our customers or by third parties;
- our ability to adequately protect our intellectual property;
- our compliance with applicable local, state, federal and foreign laws;

- our compliance with, and the effects on our business and results of operations from, current or future applicable regulatory developments and regulations, including developments or changes from the Consumer Financial Protection Bureau ("CFPB") and developments or changes in state law;
- regulatory developments or scrutiny by agencies regulating our business or the businesses of our third-party partners;
- public perception of our business and industry;
- the anticipated effect on our business of litigation or regulatory proceedings to which we or our officers are a party;
- the anticipated effect on our business of natural or man-made catastrophes;
- the increased expenses and administrative workload associated with being a public company;
- failure to maintain an effective system of internal controls necessary to accurately report our financial results and prevent fraud;
- our liquidity and working capital requirements;
- the estimates and estimate methodologies used in preparing our consolidated financial statements;
- the utility of non-GAAP financial measures;
- the future trading prices of our common stock and the impact of securities analysts’ reports on these prices;
- our anticipated development and release of certain products and applications and changes to certain products;
- our anticipated investing activity;
- trends anticipated to continue as our portfolio of loans matures; and
- any future repurchases under our share repurchase program, including the timing and amount of repurchases thereunder.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management’s beliefs and assumptions only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except share amounts)	September 30, 2019	December 31, 2018
	(unaudited)	
ASSETS		
Cash and cash equivalents*	$ 77,337	$ 58,313
Restricted cash	2,290	2,591
Loans receivable, net of allowance for loan losses of $89,667 and $91,608, respectively*	555,424	561,694
Prepaid expenses and other assets*	11,702	11,418
Operating lease right of use assets	11,036	—
Receivable from CSO lenders	9,694	16,183
Receivable from payment processors*	21,079	21,716
Deferred tax assets, net	12,304	21,628
Property and equipment, net	48,937	41,579
Goodwill	16,027	16,027
Intangible assets, net	1,432	1,712
Derivative assets at fair value (cost basis of $0 and $109, respectively)*	—	412
Total assets	$ 767,262	$ 753,273
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued liabilities (See Note 14)*	$ 43,177	$ 44,950
Operating lease liabilities	15,306	—
State and other taxes payable	719	681
Deferred revenue*	13,330	28,261
Notes payable, net*	549,028	562,590
Total liabilities	621,560	636,482
COMMITMENTS, CONTINGENCIES AND GUARANTEES (Note 12)		
STOCKHOLDERS' EQUITY		
Preferred stock; $0.0004 par value; 24,500,000 authorized shares; None issued and outstanding at September 30, 2019 and December 31, 2018.	—	—
Common stock; $0.0004 par value; 300,000,000 authorized shares; 44,242,476 and 43,329,262 issued; 44,151,106 and 43,329,262 outstanding, respectively	18	18
Additional paid-in capital	189,783	183,244

Treasury stock; at cost; 91,370 and 0 shares of common stock, respectively	(434)	—
Accumulated deficit	(42,631)	(66,525)
Accumulated other comprehensive income (loss), net of tax benefit of $1,353 and $1,257, respectively*	(1,034)	54
Total stockholders’ equity	145,702	116,791
Total liabilities and stockholders’ equity	$ 767,262	$ 753,273

* These balances include certain assets and liabilities of variable interest entities (“VIEs”) that can only be used to settle the liabilities of that respective VIE. All assets of the Company are pledged as security for the Company’s outstanding debt, including debt held by the VIEs. For further information regarding the assets and liabilities included in our consolidated accounts, see Note 4—Variable Interest Entities.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Elevate Credit, Inc. and Subsidiaries

CONDENSED CONSOLIDATED INCOME STATEMENTS (UNAUDITED)

(Dollars in thousands, except share and per share amounts)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Revenues	$ 192,778	$ 201,480	$ 560,042	$ 579,394
Cost of sales:				
Provision for loan losses	101,047	113,896	266,503	294,636
Direct marketing costs	13,821	21,280	41,169	64,155
Other cost of sales	7,459	7,997	21,081	20,892
Total cost of sales	122,327	143,173	328,753	379,683
Gross profit	70,451	58,307	231,289	199,711
Operating expenses:				
Compensation and benefits	26,953	24,380	78,301	70,187
Professional services	8,715	9,789	27,274	26,475
Selling and marketing	1,794	2,170	5,845	7,525
Occupancy and equipment (See Note 14)	5,054	4,553	15,285	13,302
Depreciation and amortization	4,350	3,490	12,940	9,167
Other	1,252	1,233	4,269	4,018
Total operating expenses	48,118	45,615	143,914	130,674
Operating income	22,333	12,692	87,375	69,037
Other expense:				
Net interest expense (See Note 14)	(14,660)	(19,810)	(51,826)	(58,286)
Foreign currency transaction loss	(870)	(325)	(967)	(800)
Non-operating loss	(695)	—	(695)	(38)
Total other expense	(16,225)	(20,135)	(53,488)	(59,124)
Income (loss) before taxes	6,108	(7,443)	33,887	9,913
Income tax expense (benefit)	1,344	(3,209)	9,993	1,536
Net income (loss)	$ 4,764	$ (4,234)	$ 23,894	$ 8,377
Basic earnings (loss) per share	$ 0.11	$ (0.10)	$ 0.55	$ 0.20
Diluted earnings (loss) per share	$ 0.11	$ (0.10)	$ 0.54	$ 0.19
Basic weighted average shares outstanding	44,169,964	43,182,208	43,736,458	42,653,947

Diluted weighted average shares outstanding	44,743,944	43,182,208	44,320,427	44,354,376

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2019	2018	2019	2018
Net income (loss)	$ 4,764	$ (4,234)	$ 23,894	$ 8,377
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment, net of tax of $(1) and $0 for the three and nine months ended 2019 and 2018, respectively	821	(305)	(880)	(707)
Reclassification of certain deferred tax effects	—	—	—	(920)
Change in derivative valuation, net of tax of $0 and $67 for the three months ended 2019 and 2018, respectively, and $(95) and $96 for the nine months ended 2019 and 2018, respectively	—	(384)	(208)	707
Total other comprehensive income (loss), net of tax	821	(689)	(1,088)	(920)
Total comprehensive income (loss)	$ 5,585	$ (4,923)	$ 22,806	$ 7,457

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

For the periods ended September 30, 2019 and 2018

(Dollars in thousands except share amounts)	Preferred Stock		Common Stock		Additional paid-in capital	Treasury Stock		Accumulated deficit	Accumulated other comprehensive income (loss)	Total
	Shares	Amount	Shares	Amount		Shares	Amount			
Balances at December 31, 2017	—	—	42,165,524	$ 17	$ 174,090	—	$ —	$ (79,954)	$ 2,003	$ 96,156
Share-based compensation	—	—	—	—	6,005	—	—	—	—	6,005
Exercise of stock options	—	—	271,891	—	997	—	—	—	—	997
Vesting of restricted stock units	—	—	692,115	—	(216)	—	—	—	—	(216)
ESPP shares issued	—	—	61,996	—	408	—	—	—	—	408
Tax benefit of equity issuance costs	—	—	—	—	(674)	—	—	—	—	(674)
Comprehensive loss:										
Foreign currency translation adjustment net of tax expense of $0	—	—	—	—	—	—	—	—	(707)	(707)
Change in derivative valuation net of tax expense of $96	—	—	—	—	—	—	—	—	707	707
Reclassification of certain deferred tax effects	—	—	—	—	—	—	—	920	(920)	—
Net income	—	—	—	—	—	—	—	8,377	—	8,377
Balances at September 30, 2018	—	—	43,191,526	$ 17	$ 180,610	—	$ —	$ (70,657)	$ 1,083	$111,053
Balances at December 31, 2018	—	—	43,329,262	18	183,244	—	—	(66,525)	54	116,791
Share-based compensation	—	—	—	—	7,272	—	—	—	—	7,272
Exercise of stock options	—	—	37,500	—	121	—	—	—	—	121
Vesting of restricted stock units	—	—	733,447	—	(1,350)	—	—	—	—	(1,350)
ESPP shares issued	—	—	142,267	—	498	—	—	—	—	498
Tax benefit of equity issuance costs	—	—	—	—	(2)	—	—	—	—	(2)
Comprehensive loss:										
Foreign currency translation adjustment net of tax benefit										

of $1	—	—	—	—	—	—	—	—	(880)	(880)
Change in derivative valuation net of tax benefit of $95	—	—	—	—	—	—	—	—	(208)	(208)
Treasury stock acquired	—	—	(91,370)	—	—	91,370	(434)	—	—	(434)
Net income	—	—	—	—	—	—	—	23,894	—	23,894
Balances at September 30, 2019	—	—	44,151,106	$ 18	$ 189,783	91,370	$ (434)	$ (42,631)	$ (1,034)	$145,702

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands)	Nine Months Ended September 30, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 23,894	$ 8,377
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,940	9,167
Provision for loan losses	266,503	294,636
Share-based compensation	7,272	6,005
Amortization of debt issuance costs	460	280
Amortization of loan premium	4,454	4,583
Amortization of convertible note discount	—	138
Amortization of derivative assets	108	931
Amortization of operating leases	113	—
Deferred income tax expense, net	9,418	1,276
Unrealized loss from foreign currency transactions	967	800
Non-operating loss	695	38
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(437)	(2,473)
Receivables from payment processors	503	(7,688)
Receivables from CSO lenders	6,489	5,176
Interest receivable	(59,248)	(72,818)
State and other taxes payable	62	(162)
Deferred revenue	(10,670)	5,332
Accounts payable and accrued liabilities	5,582	3,552
Net cash provided by operating activities	269,105	257,150
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans receivable originated or participations purchased	(957,971)	(1,000,059)
Principal collections and recoveries on loans receivable	748,963	749,145
Participation premium paid	(4,530)	(4,740)
Purchases of property and equipment	(20,712)	(21,437)
Net cash used in investing activities	(234,250)	(277,091)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

(Dollars in thousands)	Nine Months Ended September 30, 2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	$ 49,000	$ 35,932
Payments of notes payable	(60,000)	—
Cash paid for interest rate caps	—	(1,367)
Settlement of derivative liability	—	(2,010)
Debt issuance costs paid	(2,597)	(25)
Debt prepayment costs paid	(850)	—
ESPP shares issued	498	408
Common stock repurchased	(434)	—
Proceeds from stock option exercises	121	997
Taxes paid related to net share settlement of equity awards	(1,349)	(216)
Net cash (used in) provided by financing activities	(15,611)	33,719
Effect of exchange rates on cash	(521)	(128)
Net increase in cash, cash equivalents and restricted cash	18,723	13,650
Cash and cash equivalents, beginning of period	58,313	41,142
Restricted cash, beginning of period	2,591	1,595
Cash, cash equivalents and restricted cash, beginning of period	60,904	42,737
Cash and cash equivalents, end of period	77,337	54,794
Restricted cash, end of period	2,290	1,593
Cash, cash equivalents and restricted cash, end of period	$ 79,627	$ 56,387
Supplemental cash flow information:		
Interest paid	$ 53,378	$ 56,818
Taxes paid	$ 565	$ 342
Non-cash activities:		
CSO fees charged-off included in Deferred revenues and Loans receivable	$ 4,174	$ 7,716
CSO fees on loans paid-off prior to maturity included in Receivable from CSO lenders and Deferred revenue	$ 159	$ 137
Annual membership fee included in Deferred revenues and Loans receivable	$ 72	$ —

Prepaid expenses accrued but not yet paid	$	—	$	582
Property and equipment accrued but not yet paid	$	—	$	209
Impact on OCI and retained earnings of adoption of ASU 2018-02	$	—	$	920
Changes in fair value of interest rate caps	$	304	$	803
Tax benefit of equity issuance costs included in Additional paid-in capital	$	2	$	674
Impact of deferred tax asset included in Other comprehensive income (loss)	$	96	$	—
Leasehold improvements allowance included in Property and equipment, net	$	439	$	—
Lease incentives allowance included in Accounts payable and accrued liabilities	$	3,720	$	—
Operating lease right of use assets recognized	$	13,399	$	—
Operating lease liabilities recognized	$	17,556	$	—

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING CHANGES

Business Operations

Elevate Credit, Inc. (the “Company”) is a Delaware corporation. The Company provides technology-driven, progressive online credit solutions to non-prime consumers. The Company uses advanced technology and proprietary risk analytics to provide more convenient and more responsible financial options to its customers, who are not well-served by either banks or legacy non-prime lenders. The Company currently offers unsecured online installment loans, lines of credit and credit cards in the United States (the “US”) and the United Kingdom (the “UK”). The Company’s products, Rise, Elastic, Today Card and Sunny, reflect its mission of “Good Today, Better Tomorrow” and provide customers with access to competitively priced credit and services while helping them build a brighter financial future with credit building and financial wellness features. In the UK, the Company directly offers unsecured installment loans via the internet through its wholly owned subsidiary, Elevate Credit International (UK), Limited, (“ECI”) under the brand name of Sunny.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements as of September 30, 2019 and for the three and nine month periods ended September 30, 2019 and 2018 include the accounts of the Company, its wholly owned subsidiaries and variable interest entities ("VIEs") where the Company is the primary beneficiary. All significant intercompany transactions and accounts have been eliminated.

The unaudited condensed consolidated financial information included in this report has been prepared in accordance with accounting principles generally accepted in the US (“US GAAP”) for interim financial information and Article 10 of Regulation S-X and conform, as applicable, to general practices within the finance company industry. The principles for interim financial information do not require the inclusion of all the information and footnotes required by US GAAP for complete financial statements. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2018 in the Company's Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission ("SEC") on March 8, 2019. In the opinion of the Company’s management, the unaudited condensed consolidated financial statements include all adjustments, all of which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods. Our business is seasonal in nature so the results of operations for the three and nine months ended September 30, 2019 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant items subject to such estimates and assumptions include the valuation of the allowance for loan losses, goodwill, long-lived and intangible assets, deferred revenues, contingencies, the fair value of derivatives, the income tax provision, valuation of share-based compensation, operating lease right of use assets, operating lease liabilities and the valuation allowance against deferred tax assets. The Company bases its estimates on historical experience, current data and assumptions that are believed to be reasonable. Actual results in future periods could differ from those estimates.

Property and Equipment, net

Property and equipment are stated at cost, net of accumulated depreciation and amortization. The following table summarizes the components of net property and equipment.

(Dollars in thousands)	September 30, 2019	December 31, 2018
Property and equipment, gross	$ 118,076	$ 98,357
Accumulated depreciation and amortization	(69,139)	(56,778)
Property and equipment, net	$ 48,937	$ 41,579

Interest Rate Caps

The Company applies the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 815, Derivatives and Hedging. On January 11, 2018, the Company and ESPV each entered into one interest rate cap transaction with a counterparty to mitigate the floating rate interest risk on a portion of the debt underlying the Rise and Elastic portfolios, respectively. The interest rate caps matured on February 1, 2019. The interest rate caps were designated as cash flow hedges against expected future cash flows attributable to future interest payments on debt facilities held by each entity. The Company initially reported the gains or losses related to the hedges as a component of Accumulated other comprehensive income (loss) in the Condensed Consolidated Balance Sheets in the period incurred and subsequently reclassified the interest rate caps' gains or losses to interest expense when the hedged expenses were recorded. The Company excluded the change in the time value of the interest rate caps in its assessment of their hedge effectiveness. The Company presented the cash flows from cash flow hedges in the same category in the Condensed Consolidated Statements of Cash Flows as the category for the cash flows from the hedged items. The interest rate caps did not contain any credit risk related contingent features. The Company's hedging program is not designed for trading or speculative purposes.

For additional information related to derivative instruments, see Note 9—Fair Value Measurements.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in Operating lease right of use ("ROU") assets and Operating lease liabilities on our Condensed Consolidated Balance Sheets. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. As most of our leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. The operating lease ROU asset may also include initial direct costs incurred and excludes any lease payments made and lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components. The lease and non-lease components are accounted for as a single lease component.

Treasury Stock

The Company evaluates each stock repurchase transaction in the period in which it is completed. If the repurchase transaction is significantly in excess of the current market price at purchase, the Company will identify whether the price paid included payment for other agreements, rights, and privileges. Repurchase transactions that do not contain these elements, or are not significantly in excess of the current market price at purchase are accounted for using the cost method. The Company anticipates using its treasury stock to fulfill certain employee stock compensation grants and settlements. The Company has elected to use a first in, first out ("FIFO") method for assigning share cost at reissuance. Any gain or loss in the stock value will be credited or charged to paid in capital upon subsequent reissuance of the shares, with losses in excess of previously recognized gains charged to retained earnings. The Company is not obligated to purchase or reissue any shares at any time in accordance with its previously disclosed share repurchase plan.

Recently Adopted Accounting Standards

In July 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-09, *Codification Improvements* ("ASU 2018-09"). The purpose of ASU 2018-09 is to clarify, correct errors in or make minor improvements to the Codification. Among other revisions, the amendments clarify that an entity should recognize excess tax benefits or tax deficiencies for share compensation expense that is taken on an entity's tax return in the period in which the amount of the deduction is determined. The Company has adopted all of the amendments of ASU 2018-09 as of January 1, 2019 on a modified retrospective basis. The adoption of ASU 2018-09 did not have a material impact on the Company's condensed consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ("ASU 2018-02"). The purpose of ASU 2018-02 is to allow an entity to elect to reclassify the stranded tax effects related to the Tax Cuts and Jobs Act from Accumulated other comprehensive income (loss) into Retained earnings. The amendments in ASU 2018-02 are effective for all entities for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. Early adoption is permitted. The Company adopted all amendments of ASU 2018-02 on a prospective basis as of January 1, 2018 and elected to reclassify the stranded tax effects resulting from the Tax Cuts and Jobs Act from Accumulated other comprehensive income (loss) to Accumulated deficit. The amount of the reclassification for the nine months ended September 30, 2018 was $920 thousand.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815)—Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). The purpose of ASU 2017-12 is to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition, ASU 2017-12 makes certain targeted improvements to simplify the application of the hedge accounting guidance. In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments* ("ASU 2019-04"). This amendment clarifies the guidance in ASU 2017-12. ASU 2017-12 is effective for public companies for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. Early adoption is permitted. The Company has adopted all of the amendments of ASU 2017-12 on a prospective basis as of January 1, 2018. Since the Company did not have derivatives accounted for as hedges prior to December 31, 2017, there was no cumulative-effect adjustment needed to Accumulated other comprehensive income (loss) and Accumulated deficit. The adoption of ASU 2017-12 did not have a material impact on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 is intended to improve the reporting of leasing transactions to provide users of financial statements with more decision-useful information. ASU 2016-02 will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* ("ASU 2018-10"), which clarifies certain matters in the codification with the intention to correct unintended application of the guidance. Also in July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements* ("ASU 2018-11"), which provides entities with an additional (and optional) transition method whereby the entity applies the new lease standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Additionally, under the new transition method, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new lease standard will continue to be in accordance with current US GAAP (Topic 840, Leases). ASU 2016-02, as amended, is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company elected to adopt the transition method in ASU 2018-11 by applying the practical expedient prospectively at January 1, 2019. The Company also elected to apply the optional practical expedient package to not reassess existing or expired contracts for lease components, lease classification or initial direct costs. The adoption of ASU 2016-02, as amended, resulted in the recognition of approximately $11.5 million and $15.4 million additional right of use assets and liabilities for operating leases, respectively, but did not have a material impact on the Company's condensed consolidated income statements.

In July 2019, the FASB issued Accounting Standards Update ("ASU") No. 2019-07, *Codification Updates to SEC Sections* ("ASU 2019-07"). The purpose of ASU 2019-07 is to amend various SEC paragraphs pursuant to the issuance of SEC Final Rule Releases No. 33-10532, *Disclosure Update and Simplification*, and Nos. 33-10231 and 33-10442, *Investment Company Reporting Modernization*. Among other revisions, the amendments reduce duplication and clarify the inclusion of comprehensive income. The Company has adopted all of the amendments of ASU 2019-07 as of July 2019 with no impact to the Company's condensed consolidated financial statements.

Accounting Standards to be Adopted in Future Periods

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"). The purpose of ASU 2018-15 is to provide additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. This guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is still assessing the potential impact of ASU 2018-15 on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). The purpose of ASU 2018-13 is to modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*. This guidance is effective for public companies for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years and requires both a prospective and retrospective approach to adoption based on amendment specifications. Early adoption of any removed or modified disclosures is permitted. Additional disclosures may be delayed until their effective date. The Company does not expect ASU 2018-13 to have a material impact on the Company's condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). The purpose of ASU 2017-04 is to simplify the subsequent measurement of goodwill. The amendments modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. This guidance is effective for public companies for goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is still assessing the potential impact of ASU 2017-04 on the Company's condensed consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 is intended to replace the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates to improve the quality of information available to financial statement users about expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments* ("ASU 2019-04"). This amendment clarifies the guidance in ASU 2016-13. In May 2019, the FASB issued ASU No. 2019-05, *Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief* ("ASU 2019-05"). The purpose of this amendment is to provide entities that have certain instruments within the scope of Subtopic 326-20, *Financial Instruments-Credit Losses-Measured at Amortized Cost,* with an option to irrevocably elect the fair value option in Subtopic 825-10, *Financial Instruments-Overall*, on an instrument-by-instrument basis. Election of this option is intended to increase comparability of financial statement information and reduce costs for certain entities to comply with ASU 2016-13. For public entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. In August 2019, the FASB issued a draft proposed ASU for comment that would grant certain classes of companies, including Smaller Reporting Companies ("SRCs"), additional time to implement major FASB standards, including ASU 2016-13. The proposed standard was approved on October 18, 2019 (with the final ASU to be issued in November 2019) and SRCs are permitted to defer adoption of ASU 2016-13, and its related amendments, until the earlier of fiscal periods beginning after December 15, 2022 or the Company no longer qualifies as an SRC. Under the current SEC definitions, the Company expects to meet the definition of an SRC as of the proposed ASU's issuance date and is considering the adoption of the deferral period for ASU 2016-13.

Management has continued its implementation efforts, and would be ready to adopt ASU 2016-13 as of January 1, 2020 if it elects not to defer adoption of the standard. As of September 30, 2019, the Company has built, reviewed, and back-tested the inputs and models used in calculating the reserve under ASU 2016-13. In the fourth quarter, management plans to continue to refine and run the models in parallel with the existing reserve methodology. If the Company adopts ASU 2016-13 on January 1, 2020, the Company would expect an overall increase to its reserves approximately equal to its cumulative loss rates.

NOTE 2 - EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income (loss) by the weighted average number of common shares outstanding ("WASO") during each period. Also, basic EPS includes any fully vested stock and unit awards that have not yet been issued as common stock. There are no unissued fully vested stock and unit awards at September 30, 2019 and 2018.

Diluted EPS is computed by dividing net income (loss) by the WASO during each period plus any unvested stock option awards granted, vested unexercised stock options and unvested restricted stock units ("RSUs") using the treasury stock method but only to the extent that these instruments dilute earnings per share.

The computation of earnings (loss) per share was as follows for three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except share and per share amounts)	**2019**	**2018**	**2019**	**2018**
Numerator (basic):				
Net income (loss)	$ 4,764	$ (4,234)	$ 23,894	$ 8,377
Numerator (diluted):				
Net income (loss)	$ 4,764	$ (4,234)	$ 23,894	$ 8,377
Denominator (basic):				
Basic weighted average number of shares outstanding	44,169,964	43,182,208	43,736,458	42,653,947
Denominator (diluted):				
Basic weighted average number of shares outstanding	44,169,964	43,182,208	43,736,458	42,653,947
Effect of potentially dilutive securities:				
Employee share plans (options, RSUs and ESPP)	573,980	—	583,969	1,700,429
Diluted weighted average number of shares outstanding	44,743,944	43,182,208	44,320,427	44,354,376
Basic and diluted earnings (loss) per share:				
Basic earnings (loss) per share	$ 0.11	$ (0.10)	$ 0.55	$ 0.20
Diluted earnings (loss) per share	$ 0.11	$ (0.10)	$ 0.54	$ 0.19

For the three months ended September 30, 2019 and 2018, the Company excluded the following potential common shares from its diluted earnings per share calculation because including these shares would be anti-dilutive:

- 1,428,046 and 2,323,839 common shares issuable upon exercise of the Company's stock options; and
- 2,268,439 and 3,360,382 common shares issuable upon vesting of the Company's RSUs.

For the nine months ended September 30, 2019 and 2018, the Company excluded the following potential common shares from its diluted earnings per share calculation because including these shares would be anti-dilutive:

- 1,441,952 and 131,859 common shares issuable upon exercise of the Company's stock options; and
- 3,393,374 and 699,318 common shares issuable upon vesting of the Company's RSUs.

ASC Topic 260, “Earnings Per Share” (“ASC Topic 260”) requires companies with participating securities to utilize a two-class method for the computation of net income per share attributable to the Company. The two-class method requires a portion of net income attributable to the Company to be allocated to participating securities. Net losses are not allocated to participating securities unless those securities are obligated to participate in losses. The Company did not have any participating securities for the three and nine month periods ended September 30, 2019 and 2018.

NOTE 3 - LOANS RECEIVABLE AND REVENUE

Revenues generated from the Company's consumer loans for the three and nine months ended September 30, 2019 and 2018 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Finance charges	$ 120,922	$ 119,147	$ 339,092	$ 348,162
CSO fees	8,939	15,593	32,739	44,029
Lines of credit fees	62,173	65,676	186,223	183,877
Other	744	1,064	1,988	3,326
Total revenues	$ 192,778	$ 201,480	$ 560,042	$ 579,394

The Company's portfolio consists of both installment loans and lines of credit, which are considered the portfolio segments for all periods presented. The Rise product is primarily installment loans in the US with lines of credit offered in two states. The Sunny product is an installment loan product offered in the UK. The Elastic product is a line of credit product in the US. In November of 2018, the Company expanded a test launch of the Today Card, a credit card product offered in the US. Balances and activity for the Today Card as of and for the nine months ended September 30, 2019 were not material.

The following reflects the credit quality of the Company's loans receivable as of September 30, 2019 and December 31, 2018 as delinquency status has been identified as the primary credit quality indicator. The Company classifies its loans as either current or past due. A customer in good standing may request up to a 16-day grace period when or before a payment becomes due and, if granted, the loan is considered current during the grace period. Installment loans, lines of credit and credit cards are considered past due if a grace period has not been requested and a scheduled payment is not paid on its due date. All impaired loans that were not accounted for as a troubled debt restructuring ("TDR") as of September 30, 2019 and December 31, 2018 have been charged off.

	September 30, 2019		
(Dollars in thousands)	**Rise and Sunny**	**Elastic(1)**	**Total**
Current loans	$ 320,335	$ 244,460	$ 564,795
Past due loans	54,228	23,595	77,823
Total loans receivable	374,563	268,055	642,618
Net unamortized loan premium	420	2,053	2,473
Less: Allowance for loan losses	(57,662)	(32,005)	(89,667)
Loans receivable, net	$ 317,321	$ 238,103	$ 555,424

	December 31, 2018		
(Dollars in thousands)	**Rise and Sunny**	**Elastic(1)**	**Total**
Current loans	$ 296,339	$ 273,217	$ 569,556
Past due loans	53,491	27,778	81,269
Total loans receivable	349,830	300,995	650,825
Net unamortized loan premium	54	2,423	2,477
Less: Allowance for loan losses	(55,557)	(36,051)	(91,608)

Loans receivable, net	$ 294,327	$ 267,367	$ 561,694

(1) Includes immaterial balances related to the Today Card, which expanded its test launch in November 2018.

Total loans receivable includes approximately $9.9 million and $7.4 million of loans in a non-accrual status at September 30, 2019 and December 31, 2018, respectively. The previously reported non-accrual loan balance as of December 31, 2018 excluded certain non-accrual loans that amounted to $2.7 million. The omission of these amounts only impacted the footnote disclosure and not the reported balances on the balance sheet and statement of operations, the Company does not believe this omission has a material impact on the previously reported balances in the consolidated financial statements as of December 31, 2018.

Additionally, total loans receivable includes approximately $35.7 million and $41.6 million of interest receivable at September 30, 2019 and December 31, 2018, respectively. The carrying value for Loans receivable, net of the allowance for loan losses approximates the fair value due to the short-term nature of the loans receivable.

The changes in the allowance for loan losses for the three and nine months ended September 30, 2019 and 2018 are as follows:

	Three Months Ended September 30, 2019		
(Dollars in thousands)	Rise and Sunny	Elastic(1)	Total
Balance beginning of period	$ 51,400	$ 26,479	$ 77,879
Provision for loan losses	67,635	33,412	101,047
Charge-offs	(64,125)	(30,162)	(94,287)
Recoveries of prior charge-offs	5,016	2,276	7,292
Effect of changes in foreign currency rates	(292)	—	(292)
Total	59,634	32,005	91,639
Accrual for CSO lender owned loans	(1,972)	—	(1,972)
Balance end of period	$ 57,662	$ 32,005	$ 89,667

	Three Months Ended September 30, 2018		
(Dollars in thousands)	Rise and Sunny	Elastic	Total
Balance beginning of period	$ 51,137	$ 29,394	$ 80,531
Provision for loan losses	75,653	38,243	113,896
Charge-offs	(72,987)	(35,832)	(108,819)
Recoveries of prior charge-offs	5,745	2,729	8,474
Effect of changes in foreign currency rates	(150)	—	(150)
Total	59,398	34,534	93,932
Accrual for CSO lender owned loans	(4,510)	—	(4,510)
Balance end of period	$ 54,888	$ 34,534	$ 89,422

	Nine Months Ended September 30, 2019		
(Dollars in thousands)	Rise and Sunny	Elastic(1)	Total
Balance beginning of period	$ 60,002	$ 36,050	$ 96,052
Provision for loan losses	178,261	88,242	266,503

Charge-offs	(194,583)	(100,173)	(294,756)
Recoveries of prior charge-offs	16,281	7,886	24,167
Effect of changes in foreign currency rates	(327)	—	(327)
Total	59,634	32,005	91,639
Accrual for CSO lender owned loans	(1,972)	—	(1,972)
Balance end of period	$ 57,662	$ 32,005	$ 89,667

(1) Includes immaterial balances related to the Today Card, which expanded its test launch in November 2018.

	Nine Months Ended September 30, 2018		
(Dollars in thousands)	**Rise and Sunny**	**Elastic**	**Total**
Balance beginning of period	$ 64,919	$ 28,870	$ 93,789
Provision for loan losses	197,694	96,942	294,636
Charge-offs	(220,181)	(98,877)	(319,058)
Recoveries of prior charge-offs	17,316	7,599	24,915
Effect of changes in foreign currency rates	(350)	—	(350)
Total	59,398	34,534	93,932
Accrual for CSO lender owned loans	(4,510)	—	(4,510)
Balance end of period	$ 54,888	$ 34,534	$ 89,422

As of September 30, 2019 and December 31, 2018, estimated losses of approximately $2.0 million and $4.4 million for the CSO owned loans receivable guaranteed by the Company of approximately $20.9 million and $39.8 million, respectively, are initially recorded at fair value and are included in Accounts payable and accrued liabilities in the Condensed Consolidated Balance Sheets.

Troubled Debt Restructurings

In certain circumstances, the Company modifies the terms of its finance receivables for borrowers experiencing financial difficulties. Modifications may include principal and/or interest forgiveness. A modification of finance receivable terms is considered a TDR if the Company grants a concession to a borrower for economic or legal reasons related to the borrower’s financial difficulties that would not otherwise have been considered. Management considers TDRs to include all installment and line of credit loans that were granted principal and interest forgiveness as a part of a loss mitigation strategy for Rise, Elastic and Sunny. Once a loan has been classified as a TDR, it is assessed for impairment based on the present value of expected future cash flows discounted at the loan's original effective interest rate considering all available evidence.

The following table summarizes the financial effects, excluding impacts related to credit loss allowance and impairment, of TDRs for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Outstanding recorded investment before TDR	$ 12,256	$ 1,752	$ 33,020	$ 6,850
Outstanding recorded investment after TDR	11,809	1,437	31,140	5,229
Total principal and interest forgiveness included in charge-offs within the Allowance for loan losses	$ 447	$ 315	$ 1,880	$ 1,621

A loan that has been classified as a TDR remains classified as a TDR until it is liquidated through payoff or charge-off. The table below presents the Company's average outstanding recorded investment and interest income recognized on TDR loans for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Average outstanding recorded investment(1)	$ 15,703	$ 2,813	$ 15,384	$ 3,930
Interest income recognized	$ 2,643	$ 640	$ 7,438	$ 3,454

1. Simple average as of September 30, 2019 and 2018, respectively.

The table below presents the Company's loans modified as TDRs as of September 30, 2019 and December 31, 2018:

(Dollars in thousands)	**2019**	**2018**
Current outstanding investment	$ 10,529	$ 7,627
Delinquent outstanding investment	7,081	5,531
Outstanding recorded investment	17,610	13,158
Less: Impairment	(4,542)	(969)
Outstanding recorded investment, net of impairment	$ 13,068	$ 12,189

A TDR is considered to have defaulted upon charge-off when it is over 60 days past due or earlier if deemed uncollectible. There were loan restructurings accounted for as TDRs that subsequently defaulted of approximately $5.7 million and $1.3 million for the three months ended September 30, 2019 and 2018, respectively, and $16.4 million and $8.4 million for the nine months ended September 30, 2019 and 2018, respectively. The Company had commitments to lend additional funds of approximately $1.8 million to customers with available and unfunded lines of credit as of September 30, 2019.

NOTE 4—VARIABLE INTEREST ENTITIES

The Company is involved with five entities that are deemed to be a VIE: Elastic SPV, Ltd., EF SPV, Ltd. and three Credit Services Organization ("CSO") lenders. Under ASC 810-10-15, *Variable Interest Entities*, a VIE is an entity that: (1) has an insufficient amount of equity investment at risk to permit the entity to finance its activities without additional subordinated financial support by other parties; (2) the equity investors are unable to make significant decisions about the entity's activities through voting rights or similar rights; or (3) the equity investors do not have the obligation to absorb expected losses or the right to receive residual returns of the entity. The Company is required to consolidate a VIE if it is determined to be the primary beneficiary, that is, the enterprise has both (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the VIE. The Company evaluates its relationships with VIEs to determine whether it is the primary beneficiary of a VIE at the time it becomes involved with the entity and it re-evaluates that conclusion each reporting period.

Elastic SPV, Ltd.

On July 1, 2015, the Company entered into several agreements with a third-party lender and Elastic SPV, Ltd. ("ESPV"), an entity formed by third-party investors for the purpose of purchasing loan participations from the third-party lender. Per the terms of the agreements, the Company provides customer acquisition services to generate loan applications submitted to the third-party lender. In addition, the Company licenses loan underwriting software and provides services to the third-party lender to evaluate the credit quality of those loan applications in accordance with the third-party lender's credit policies. ESPV accounts for the loan participations acquired in accordance with ASC 860-10-40, *Transfers and Services, Derecognition*, as the lines of credit acquired meet the criteria of a participation interest.

Once the third-party lender originates the loan, ESPV has the right, but not the obligation, to purchase a 90% interest in each Elastic line of credit. Victory Park Management, LLC ("VPC") entered into an agreement (the "ESPV Facility") under which it loans ESPV all funds necessary up to a maximum borrowing amount to purchase such participation interests in exchange for a fixed return (see Note 5—Notes Payable—ESPV Facility). The Company entered into a separate credit default protection agreement with ESPV whereby the Company agreed to provide credit protection to the investors in ESPV against Elastic loan losses in return for a credit premium. The Company does not hold a direct ownership interest in ESPV, however, as a result of the credit default protection agreement, ESPV was determined to be a VIE and the Company qualifies as the primary beneficiary.

The following table summarizes the assets and liabilities of the VIE that are included within the Company's Condensed Consolidated Balance Sheets at September 30, 2019 and December 31, 2018:

(Dollars in thousands)	September 30, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 21,236	$ 18,723
Loans receivable, net of allowance for loan losses of $30,901 and $36,019, respectively	234,392	266,725
Prepaid expenses and other assets ($0 and $64, respectively, eliminates upon consolidation)	3	251
Derivative asset at fair value (cost basis of $0 and $51, respectively)	—	195
Receivable from payment processors	10,949	12,212
Total assets	$ 266,580	$ 298,106
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities ($7,414 and $9,372, respectively, eliminates upon consolidation)	$ 15,225	$ 17,923
Deferred revenue	4,564	5,293
Reserve deposit liability ($23,150 and $35,850, respectively, eliminates upon consolidation)	23,150	35,850
Notes payable, net	223,641	238,896
Accumulated other comprehensive income	—	144
Total liabilities and shareholder's equity	$ 266,580	$ 298,106

EF SPV, Ltd.

On October 15, 2018, the Company entered into several agreements with a third-party lender and EF SPV, Ltd. ("EF SPV"), an entity formed by third-party investors for the purpose of purchasing loan participations from the third-party lender. Per the terms of the agreements, the Company provides customer acquisition services to generate loan applications submitted to the third-party lender. In addition, the Company licenses loan underwriting software and provides services to the third-party lender to evaluate the credit quality of those loan applications in accordance with the third-party lender's credit policies. EF SPV accounts for the loan participations acquired in accordance with ASC 860-10-40, *Transfers and Services, Derecognition*, as the installment loans acquired meet the criteria of a participation interest.

Once the third-party lender originates the loan, EF SPV has the right, but not the obligation, to purchase an interest in each Rise bank originated installment loan. Prior to August 1, 2019, FinWise Bank retained 5% of the balances and sold a 95% participation to EF SPV. On August 1, 2019, EF SPV purchased an additional 1% participation in the outstanding portfolio with the participation percentage revised going forward to 96%. VPC lends EF SPV all funds necessary up to a maximum borrowing amount to purchase such participation interests in exchange for a fixed return (see Note 5—Notes Payable—EF SPV Facility). The Company entered into a separate credit default protection agreement with EF SPV whereby the Company agreed to provide credit protection to the investors in EF SPV against Rise bank originated loan losses in return for a credit premium. The Company does not hold a direct ownership interest in EF SPV, however, as a result of the credit default protection agreement, EF SPV was determined to be a VIE and the Company qualifies as the primary beneficiary.

The following table summarizes the assets and liabilities of the VIE that are included within the Company's Condensed Consolidated Balance Sheets at September 30, 2019 and December 31, 2018:

(Dollars in thousands)	September 30, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 10,501	$ 8,185
Loans receivable, net of allowance for loan losses of $17,662 and $3,388, respectively	87,235	25,484
Prepaid expenses and other assets ($31 and $0, respectively, eliminates upon consolidation)	31	—
Receivable from payment processors ($0 and $101 eliminates upon consolidation)	1,072	285
Total assets	$ 98,839	$ 33,954
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities ($1,745 and $905, respectively, eliminates upon consolidation)	$ 2,913	$ 1,332
Reserve deposit liability ($8,950 and $4,650, respectively, eliminates upon consolidation)	8,950	4,650
Notes payable, net	86,976	27,972
Total liabilities and shareholder's equity	$ 98,839	$ 33,954

CSO Lenders

The three CSO lenders are considered VIE's of the Company; however, the Company does not have any ownership interest in the CSO lenders, does not exercise control over them, and is not the primary beneficiary, and therefore, does not consolidate the CSO lenders' results with its results.

NOTE 5—NOTES PAYABLE, NET

The Company has three debt facilities with VPC. The Rise SPV, LLC credit facility (the "VPC Facility"), the EF SPV Facility, and the ESPV Facility. The facilities were modified effective February 1, 2019 to the following terms.

VPC Facility

The VPC Facility is primarily used to fund the Rise and Sunny loan portfolio with a subordinated debt component used for general corporate purposes. It provides the following term notes:

- A maximum borrowing amount of $350 million used to fund the Rise loan portfolio ("US Term Note"). Prior to the February 1, 2019 amendment, the interest rate paid on this facility was a base rate (defined as the 3-month LIBOR, with a 1% floor) plus 11%. This resulted in a blended interest rate paid of 12.79% on debt outstanding under this facility as of December 31, 2018. Upon the February 1, 2019 amendment date, the interest rate on the debt outstanding as of the amendment date was fixed through the January 1, 2024 maturity date at 10.23% (base rate of 2.73% plus 7.5%). All future borrowings under this facility will bear an interest rate at a base rate (defined as the greater of 3-month LIBOR, the five-year LIBOR swap rate or 1%) plus 7.5% at the borrowing date. The weighted average base rate on the outstanding balance at September 30, 2019 was 2.73% and the overall interest rate was 10.23%.
- A maximum borrowing amount of $123 million used to fund the UK Sunny loan portfolio ("UK Term Note"). Prior to the February 1, 2019 amendment, the interest rate paid on this facility was a base rate (defined as the 3-month LIBOR) plus 14%. This resulted in a blended interest rate paid of 16.74% on debt outstanding under this facility as of December 31, 2018. Upon the February 1, 2019 amendment date, the interest rate on the debt outstanding as of the amendment date was fixed through the January 1, 2024 maturity date at 10.23% (base rate of 2.73% plus 7.5%). All future borrowings under this facility will bear an interest rate at a base rate (defined as the greater of 3-month LIBOR, the five-year LIBOR swap rate or 1%) plus 7.5% at the borrowing date. The weighted average base rate on the outstanding balance at September 30, 2019 was 2.73% and the overall interest rate was 10.23%.
- A maximum borrowing amount of $18 million used to fund working capital, and prior to February 1, 2019, at a base rate (defined as the 3-month LIBOR, with a 1% floor) plus 13% ("4th Tranche Term Note"). Upon the February 1, 2019 amendment date, the interest rate was fixed through the February 1, 2021 maturity date at a base rate of 2.73% plus 13%. The interest rate at September 30, 2019 and December 31, 2018 was 15.73% and 15.74%, respectively. There was no change in the interest rate spread on this facility upon the February 1, 2019 amendment.
- Revolving feature providing the option to pay down up to 20% of the outstanding balance, excluding the 4th Tranche Term Note, once per year during the first quarter. Amounts paid down may be drawn again at a later date prior to maturity.

The 4th Tranche Term Note matures on February 1, 2021. The US Term Note and the UK Term Note both mature on January 1, 2024. There are no principal payments due or scheduled until the respective maturity dates. All assets of the Company are pledged as collateral to secure the VPC Facility. The VPC Facility contains certain covenants for the Company such as minimum cash requirements and a minimum book value of equity requirement. There are also certain covenants for the product portfolio underlying the facility including, among other things, excess spread requirements, maximum roll rate and charge-off rate levels, and maximum loan-to-value ratios. The Company was in compliance with all covenants related to the VPC Facility as of September 30, 2019 and December 31, 2018.

EF SPV Facility

The EF SPV Facility has a maximum borrowing amount of $150 million used to purchase loan participations from a third-party lender. Prior to execution of the agreement with VPC effective February 1, 2019, EF SPV was a borrower on the US Term Note under the VPC Facility and the interest rate paid on this facility was a base rate (defined as 3-month LIBOR, with a 1% floor) plus 11%. Upon the February 1, 2019 amendment date, $43 million was re-allocated into the EF SPV Facility and the interest rate on the debt outstanding as of the amendment date was fixed through the January 1, 2024 maturity date at 10.23% (base rate of 2.73% plus 7.5%). All future borrowings under this facility will bear an interest rate at a base rate (defined as the greater of 3-month LIBOR, the five-year LIBOR swap rate or 1%) plus 7.5% at the borrowing date. The weighted average base rate on the outstanding balance at September 30, 2019 was 2.59% and the overall interest rate was 10.09%. The EF SPV Term Note has a revolving feature providing the option to pay down up to 20% of the outstanding balance once per year during the first quarter. Amounts paid down may be drawn again at a later date prior to maturity.

The EF SPV Term Note matures on January 1, 2024. There are no principal payments due or scheduled until the maturity date. All assets of the Company and EF SPV are pledged as collateral to secure the EF SPV Facility. The EF SPV Facility contains certain covenants for the Company such as minimum cash requirements and a minimum book value of equity requirement. There are also certain covenants for the product portfolio underlying the facility including, among other things, excess spread requirements, maximum roll rate and charge-off rate levels, and maximum loan-to-value ratios. The Company was in compliance with all covenants related to the EF SPV Facility as of September 30, 2019.

ESPV Facility

The ESPV Facility has a maximum borrowing amount of $350 million used to purchase loan participations from a third-party lender. Prior to the February 1, 2019 amendment, the interest rate paid on this facility was a base rate (defined as the greater of the 3-month LIBOR rate or 1% per annum) plus 13% for the outstanding balance up to $50 million, plus 12% for the outstanding balance greater than $50 million up to $100 million, plus 13.5% for any amounts greater than $100 million up to $150 million, and plus 12.75% for borrowing amounts greater than $150 million. This resulted in a blended interest rate paid of 14.65% on debt outstanding under this facility at December 31, 2018. Upon the February 1, 2019 amendment date, the interest rate on the debt outstanding as of the amendment date was fixed at 15.48% (base rate of 2.73% plus 12.75%). Effective July 1, 2019, the interest rate on the debt outstanding as of the amendment date was set at 10.23% (base rate of 2.73% plus 7.50%). All future borrowings under this facility after July 1, 2019 will bear an interest rate at a base rate (defined as the greater of 3-month LIBOR, the five-year LIBOR swap rate or 1%) plus 7.5% at the borrowing date. The weighted average base rate on the outstanding balance at September 30, 2019 was 2.72% and the overall interest rate was 10.22%. The ESPV Term Note has a revolving feature providing the option to pay down up to 20% of the outstanding balance once per year during the first quarter. Amounts paid down may be drawn again at a later date prior to maturity.

There are no principal payments due or scheduled until the maturity date. All assets of the Company and ESPV are pledged as collateral to secure the ESPV Facility. The ESPV Facility contains certain covenants for the Company such as minimum cash requirements and a minimum book value of equity requirement. There are also certain covenants for the product portfolio underlying the facility including, among other things, excess spread requirements, maximum roll rate and charge-off rate levels, and maximum loan-to-value ratios. The Company was in compliance with all covenants related to the ESPV Facility as of September 30, 2019 and December 31, 2018.

VPC, EF SPV and ESPV Facilities:

The outstanding balances of Notes payable, net of debt issuance costs, are as follows:

(Dollars in thousands)	September 30, 2019	December 31, 2018
US Term Note bearing interest at the base rate + 7.5% (2019) and 11% (2018)	$ 182,000	$ 250,000
UK Term Note bearing interest at the base rate + 7.5% (2019) + 14% (2018)	38,770	39,196
4th Tranche Term Note bearing interest at the base rate + 13%	18,050	35,050
EF SPV Term Note bearing interest at the base rate + 7.5%	87,000	—
ESPV Term Note bearing interest at the base rate + 7.5% (2019) and + 12-13.5% (2018)	226,000	239,000
Debt issuance costs	(2,792)	(656)
Total	$ 549,028	$ 562,590

The change in the facility balances includes the following:

- US Term Note - $43 million re-allocation to new EF SPV facility and pay down of $25 million in the first quarter of 2019 under the revolver component of the facility;
- 4th Tranche Term Note - $17 million early repayment in the second quarter of 2019;
- EF SPV Term note - $43 million re-allocation from US Term Note in the first quarter of 2019 and additional draws of $10 million, $17 million and $17 million in the first, second and third quarters of 2019, respectively; and
- ESPV Term Note - Pay-down of $18 million in the first quarter of 2019 under the revolver component of the facility and an additional draw of $5 million in the third quarter of 2019.

The Company paid a $2.4 million amendment fee on the ESPV Facility during the first quarter of 2019 that is included in deferred debt issuance costs and will be amortized into interest expense over the remaining life of the facility (through January 1, 2024). Additionally, the Company incurred an $850 thousand prepayment penalty during the second quarter of 2019 for the early repayment on the 4th Tranche Term Note that is included in interest expense.

The Company has evaluated the interest rates for its debt and believes they represent market rates based on the Company’s size, industry, operations and recent amendments. As a result, the carrying value for the debt approximates the fair value.

Future debt maturities as of September 30, 2019 are as follows:

Year (dollars in thousands)	September 30, 2019
Remainder of 2019	$ —
2020	—
2021	18,050
2022	—
2023	—
Thereafter	533,770
Total	$ 551,820

NOTE 6—GOODWILL AND INTANGIBLE ASSETS

The carrying value of goodwill at September 30, 2019 and December 31, 2018 was approximately $16 million. There were no changes to goodwill during the three and nine months ended September 30, 2019. Goodwill represents the excess purchase price over the estimated fair market value of the net assets acquired by the predecessor parent company, Think Finance, Inc. ("Think Finance") related to the Elastic and UK reporting units. Of the total goodwill balance, approximately $0.4 million is deductible for tax purposes.

The carrying value of acquired intangible assets as of September 30, 2019 is presented in the table below:

(Dollars in thousands)	Cost	Accumulated Amortization	Net
Assets subject to amortization:			
Acquired technology	$ 946	$ (946)	$ —
Non-compete	3,404	(2,652)	752
Customers	126	(126)	—
Assets not subject to amortization:			
Domain names	680	—	680
Total	$ 5,156	$ (3,724)	$ 1,432

The carrying value of acquired intangible assets as of December 31, 2018 is presented in the table below:

(Dollars in thousands)	Cost	Accumulated Amortization	Net
Assets subject to amortization:			
Acquired technology	$ 946	$ (946)	$ —
Non-compete	3,404	(2,372)	1,032
Customers	126	(126)	—
Assets not subject to amortization:			
Domain names	680	—	680
Total	$ 5,156	$ (3,444)	$ 1,712

In May 2018, a party to a non-compete agreement terminated employment with the Company. The terms of the non-compete agreement expired one year after termination. The Company determined that the useful life of the non-compete agreement should coincide with its expiration and therefore amortized the remaining carrying value on a straight-line basis through May 2019. As of September 30, 2019, that non-compete agreement was fully amortized.

Total amortization expense recognized for the three months ended September 30, 2019 and 2018 was approximately $30 thousand and $144 thousand, respectively. Total amortization expense recognized for the nine months ended September 30, 2019 and 2018 was approximately $280 thousand and $267 thousand, respectively. The weighted average remaining amortization period for the intangible assets was 6.3 years at September 30, 2019.

Estimated amortization expense relating to intangible assets subject to amortization for each of the five succeeding fiscal years is as follows:

Year (dollars in thousands)	Amount
2020	$ 120
2021	120
2022	120

2023	120
2024	120

NOTE 7—LEASES

The Company has non-cancelable operating leases for facility space and equipment with varying terms. All of the leases for facility space qualified for capitalization under FASB ASC 842, *Leases*. These leases have remaining lease terms of less than one year to seven years, and some may include options to extend the leases for up to ten years. The extension terms are not recognized as part of the right-of-use assets. The Company has elected not to capitalize leases with terms equal to or less than one year. As of September 30, 2019, net assets recorded under operating leases were $11.0 million and net lease liabilities were $15.3 million.

The Company analyzes contracts above certain thresholds to identify leases and lease components. Lease and non-lease components are not separated for facility space leases. The Company uses its contractual borrowing rate to determine lease discount rates when an implicit rate is not available.

Total lease cost for the three and nine months ended September 30, 2019, included in Occupancy and equipment in the Condensed Consolidated Income Statements, is detailed in the table below

	Three Months Ended September 30,	Nine Months Ended September 30,
Lease cost (dollars in thousands)	**2019**	**2019**
Operating lease cost	$ 1,228	$ 3,591
Short-term lease cost	5	22
Total lease cost	$ 1,233	$ 3,613

Further information related to leases is as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,
Supplemental cash flows information (dollars in thousands)	**2019**	**2019**
Cash paid for amounts included in the measurement of lease liabilities	$ 1,260	$ 3,478
Right-of-use assets obtained in exchange for lease obligations	$ —	$ 1,110
Weighted average remaining lease term	4.5 years	4.5 years
Weighted average discount rate	10.23%	10.23%

Future minimum lease payments as of September 30, 2019 are as follows:

Year (dollars in thousands)	Operating Leases
2019	$ 1,338
2020	3,760
2021	3,876
2022	3,984
2023	3,486
Thereafter	3,330
Total future minimum lease payments	$ 19,774
Less: Imputed interest	(4,468)
Operating lease liabilities	$ 15,306

NOTE 8—SHARE-BASED COMPENSATION

Share-based compensation expense recognized for both the three months ended September 30, 2019 and 2018 totaled approximately $2.4 million. Share-based compensation expense recognized for the nine months ended September 30, 2019 and 2018 totaled approximately $7.3 million and $6.0 million, respectively.

2016 Omnibus Incentive Plan

The 2016 Omnibus Incentive Plan ("2016 Plan") was adopted by the Company's Board of Directors on January 5, 2016 and approved by the Company's stockholders thereafter. The 2016 Plan became effective on June 23, 2016. The 2016 Plan provides for the grant of incentive stock options to the Company's employees, and for the grant of non-qualified stock options, stock appreciation rights, restricted stock, RSUs, dividend equivalent rights, cash-based awards (including annual cash incentives and long-term cash incentives), and any combination thereof to the Company's employees, directors and consultants. In connection with the 2016 Plan, the Company has reserved but not issued 7,413,760 shares of common stock, which includes shares that would otherwise return to the 2014 Equity Incentive Plan (the "2014 Plan") as a result of forfeiture, termination, or expiration of awards previously granted under the 2014 Plan and outstanding when the 2016 Plan became effective.

The 2016 Plan will automatically terminate 10 years following the date it became effective, unless the Company terminates it sooner. In addition, the Company's Board of Directors has the authority to amend, suspend or terminate the 2016 Plan provided such action does not impair the rights under any outstanding award.

As of September 30, 2019, the total number of shares available for future grants under the 2016 Plan was 1,219,385 shares.

The Company has in the past and may in the future make grants of share-based compensation as inducement awards to new employees who are outside the 2016 Plan. The Company's board may rely on the employment inducement exception under NYSE Rule 303A.08 in order to approve the grants.

2014 Equity Incentive Plan

The Company adopted the 2014 Plan on May 1, 2014. The 2014 Plan permitted the grant of incentive stock options, nonstatutory stock options, and restricted stock. On April 27, 2017, the Company's Board of Directors terminated the 2014 Plan as to future awards and confirmed that underlying shares corresponding to awards under the 2014 Plan that were outstanding at the time the 2016 Plan became effective, that are forfeited, terminated or expired, will become available for issuance under the 2016 Plan.

For the nine months ended September 30, 2019, the Company had the following activity related to outstanding share-based awards:

Stock Options

Stock options are awarded to encourage ownership of the Company's common stock by employees and to provide increased incentive for employees to render services and to exert maximum effort for the success of the Company. The Company's stock options generally permit net-share settlement upon exercise. The option exercise price, vesting schedule and exercise period are determined for each grant by the administrator of the applicable plan. The Company's stock options generally have a 10-year contractual term and vest over a 4-year period.

A summary of stock option activity as of and for the nine months ended September 30, 2019 is presented below:

Stock Options(1)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Outstanding at December 31, 2018	2,328,154	$ 4.63	
Granted	130,441	4.00	
Exercised	(37,500)	3.22	
Forfeited	(145,546)	5.20	
Outstanding at September 30, 2019	2,275,549	4.58	4.14
Options exercisable at September 30, 2019	2,178,992	$ 4.59	3.91

(1) All awards presented in the table are for Elevate stock only.

At September 30, 2019, there was approximately $146 thousand of unrecognized compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 2.4 years. The total intrinsic value of options exercised for the nine months ended September 30, 2019 was $46 thousand.

Restricted Stock Units

RSUs are awarded to serve as a key retention tool for the Company to retain its executives and key employees. RSUs will transfer value to the holder even if the Company's stock price falls below the price on the date of grant, provided that the recipient provides the requisite service during the period required for the award to "vest."

The weighted-average grant-date fair value for RSUs granted under the 2016 Plan during the nine months ended September 30, 2019 was $4.77. These RSUs primarily vest 25% on the first anniversary of the effective date, and 25% each year thereafter, until full vesting on the fourth anniversary of the effective date.

A summary of RSU activity as of and for the nine months ended September 30, 2019 is presented below:

RSUs(1)	Shares	Weighted Average Grant-Date Fair Value	Weighted Average Remaining Contractual Life (in years)
Nonvested at December 31, 2018	3,155,041	$ 7.91	
Granted	2,143,690	4.77	
Vested	(1,032,016)	7.88	
Forfeited	(347,892)	7.09	
Nonvested at September 30, 2019	3,918,823	6.27	8.87
Expected to vest at September 30, 2019	3,024,740	$ 6.38	8.79

(1) All awards presented in the table are for Elevate stock only.

At September 30, 2019, there was approximately $15.8 million of unrecognized compensation cost related to unvested RSUs which is expected to be recognized over a weighted average period of 2.5 years. During the nine months ended September 30, 2019, the total vest-date fair value of RSUs was approximately $4.7 million. As of September 30, 2019, the aggregate intrinsic value of the vested and expected to vest RSUs was approximately $12.7 million.

Employee Stock Purchase Plan

The Company offers an Employee Stock Purchase Plan ("ESPP") to eligible US employees. There are currently 1,379,948 shares authorized and 981,418 reserved for the ESPP. There have been 142,267 shares purchased under the ESPP for the nine months ended September 30, 2019. Within share-based compensation expense for the nine months ended September 30, 2019 and 2018, $531 thousand and $415 thousand, respectively, relates to the ESPP. For the three months ended September 30, 2019 and 2018, $145 thousand and $147 thousand, respectively, within share-based compensation expense relates to the ESPP.

NOTE 9—FAIR VALUE MEASUREMENTS

The accounting guidance on fair value measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The Company groups its assets and liabilities measured at fair value in three levels of the fair value hierarchy, based on the fair value measurement technique, as described below:

Level 1—Valuation is based upon quoted prices (unadjusted) for identical assets and liabilities in active exchange markets that the Company has the ability to access at the measurement date.

Level 2—Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques with significant assumptions and inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3—Valuation is derived from model-based techniques that use inputs and significant assumptions that are supported by little or no observable market data. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of pricing models, discounted cash flow models and similar techniques.

The Company monitors the market conditions and evaluates the fair value hierarchy levels at least quarterly. For any transfers in and out of the levels of the fair value hierarchy, the Company discloses the fair value measurement at the beginning of the reporting period during which the transfer occurred. For the nine month periods ended September 30, 2019 and 2018, there were no significant transfers between levels.

The level of fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is most significant to the fair value measurement in its entirety. In the determination of the classification of assets and liabilities in Level 2 or Level 3 of the fair value hierarchy, the Company considers all available information, including observable market data, indications of market conditions, and its understanding of the valuation techniques and significant inputs used. Based upon the specific facts and circumstances, judgments are made regarding the significance of the Level 3 inputs to the fair value measurements of the respective assets and liabilities in their entirety. If the valuation techniques that are most significant to the fair value measurements are principally derived from assumptions and inputs that are corroborated by little or no observable market data, the asset or liability is classified as Level 3.

Financial Assets and Liabilities Not Measured at Fair Value

The Company has evaluated Loans receivable, net of allowance for loan losses, Receivable from CSO lenders, Receivable from payment processors and Accounts payable and accrued expenses, and believes the carrying value approximates the fair value due to the short-term nature of these balances. The Company has also evaluated the interest rates for Notes payable, net and believes they represent market rates based on the Company’s size, industry, operations and recent amendments. As a result, the carrying value for Notes payable, net approximates the fair value. The Company classifies its fair value measurement techniques for the fair value disclosures associated with Loans receivable, net of allowance for loan losses, Receivable from CSO lenders, Receivable from payment processors, Accounts payable and accrued liabilities and Notes payable, net as Level 3 in accordance with ASC 820-10, *Fair Value Measurements and Disclosures* (“ASC 820-10”).

Fair Value Measurements on a Recurring Basis

On January 11, 2018, the Company and ESPV each entered into one interest rate cap transaction with a counterparty to mitigate the floating rate interest risk on a portion of the debt under the VPC Facility and the ESPV Facility, respectively. On January 16, 2018, the Company paid fixed premiums of $719 thousand and $648 thousand for the interest rate caps on the US Term Note (under the VPC Facility) and the ESPV Facility, respectively. The interest rate caps matured on February 1, 2019. The interest rate caps qualified for hedge accounting as cash flow hedges. Gains and losses on the interest rate caps were recognized in Accumulated other comprehensive income (loss) in the period incurred and subsequently reclassified to Interest expense when the hedged expenses were recorded.

The Company used model-derived valuations that discounted the future expected cash receipts that would occur if variable interest rates rose above the strike price of the caps. The variable interest rates used in the calculation of projected receipts on the caps were based on an expectation of future interest rates derived from observable market interest rate curves and volatilities in active markets (Level 2). The following tables summarize these interest rate caps as of September 30, 2019 and December 31, 2018 and for the three and six months ended September 30, 2019 and 2018 (dollars in thousands):

Contract date	Maturity date	Hedged interest rate payments' related note payable	Strike rate	Notional amount	Fair value at September 30, 2019	Fair value at December 31, 2018
January 11, 2018	February 1, 2019	US Term Note	1.75%	$ 240,000	$ —	$ 216
January 11, 2018	February 1, 2019	ESPV Facility	1.75%	216,000	—	196
				$ 456,000	$ —	$ 412

Unrealized gains recognized in Accumulated other comprehensive income (loss)	As of September 30, 2019	As of December 31, 2018
US Term Note interest rate cap	$ —	$ 159
ESPV Facility interest rate cap	—	144
	$ —	$ 303

Gains recognized in Interest expense	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018
US Term Note interest rate cap	$ —	$ 358
ESPV Facility interest rate cap	—	322
	$ —	$ 680

Gains recognized in Interest expense	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
US Term Note interest rate cap	$ 159	$ 766
ESPV Facility interest rate cap	144	690
	$ 303	$ 1,456

The Company has no derivative amounts subject to enforceable master netting arrangements that are offset on the Condensed Consolidated Balance Sheets. The Derivative liability related to the Convertible Term Notes is measured at fair value on a recurring basis. The changes in the Derivative liability for the three and nine months ended September 30, 2018 are shown in the following table. The Convertible Term Notes converted to the 4th Tranche Term Note upon maturity at January 30, 2018 and the Derivative liability was settled with no value remaining outstanding at December 31, 2018 and September 30, 2019.

(Dollars in thousands)	Embedded Derivative Liability in Convertible Term Notes
Balance, December 31, 2017	$ 1,972
Settlement of derivative due to conversion of the underlying Convertible Term Note to 4th Tranche Term Note	(2,010)
Fair value adjustment (Non-Operating expense in the Condensed Consolidated Income Statements)	38
Balance, March 31, 2018 (1)	$ —

(1) No activity since March 31, 2018.

NOTE 10—DERIVATIVES

The Company and ESPV use hedging programs to manage interest rate risk associated with future interest payments. The Company and ESPV entered into two interest rate cap instruments on January 11, 2018, which matured on February 1, 2019.

Cash Flow Hedges

The Company and ESPV utilize interest rate caps to offset interest rate fluctuations in the Company's and ESPV's future interest payments on certain of their Notes payable. The financial instruments are designated and accounted for as cash flow hedges, and the Company and ESPV measure the effectiveness of the hedges at least quarterly. Effective gains or losses related to these cash flow hedges are reported in Accumulated other comprehensive income (loss) and reclassified into earnings, through interest expense, in the period or periods in which the hedged transactions affect earnings. See Note 9—Fair Value for additional information on these cash flow hedges. The following tables summarize the activity that was recorded in Accumulated other comprehensive income (loss) in addition to reclassifications from Accumulated other comprehensive income (loss) into earnings related to each of the Company's and ESPV's interest rate caps during the three and nine months ended September 30, 2019 and 2018.

	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
(Dollars in thousands)	US Term Note	ESPV Facility	US Term Note	ESPV Facility
Beginning unrealized gains in Accumulated other comprehensive income (loss)	$ —	$ —	$ 661	$ 594
Gross gains recognized in Accumulated other comprehensive income (loss)	—	—	120	108
Gains reclassified to income through Interest expense	—	—	(358)	(322)
Ending unrealized gains in Accumulated other comprehensive income (loss)	$ —	$ —	$ 423	$ 380

	Nine Months Ended September 30, 2019		Nine Months Ended September 30, 2018	
(Dollars in thousands)	US Term Note	ESPV Facility	US Term Note	ESPV Facility
Beginning unrealized gains in Accumulated other comprehensive income (loss)	$ 159	$ 144	$ —	$ —
Gross gains recognized in Accumulated other comprehensive income (loss)	—	—	1,189	1,070
Gains reclassified to income through Interest expense	(159)	(144)	(766)	(690)
Ending unrealized gains in Accumulated other comprehensive income (loss)	$ —	$ —	$ 423	$ 380

Embedded Derivative

During 2016, the Company identified a bifurcated embedded derivative in its Convertible Term Notes related to its conversion feature in addition to the obligation to pay a redemption premium upon cash redemption of the notes. This derivative matured on January 30, 2018 and is no longer on the balance sheet as of September 30, 2019 and December 31, 2018. See Note 9—Fair Value for additional information about the bifurcated embedded derivative.

NOTE 11—INCOME TAXES

Income tax expense for the three and nine months ended September 30, 2019 and 2018 consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Current income tax expense (benefit):				
Federal	$ —	$ —	$ —	$ (5)
State	44	117	576	150
Foreign	(1)	—	(1)	115
Total current income tax expense	43	117	575	260
Deferred income tax expense (benefit):				
Federal	1,152	(2,572)	7,599	1,348
State	149	(754)	1,819	(72)
Total deferred income tax expense	1,301	(3,326)	9,418	1,276
Total income tax expense	$ 1,344	$ (3,209)	$ 9,993	$ 1,536

No material penalties or interest related to taxes were recognized for the three and nine months ended September 30, 2019 and 2018.

The Company's consolidated effective tax rates for the nine months ended September 30, 2019 and 2018, including discrete items, were 29.5% and 15%, respectively, while the US effective tax rates were 31.3% and 10%, respectively. For the nine months ended September 30, 2019 and 2018, the Company's effective tax rate differed from the standard corporate federal income tax rate of 21% for the US primarily due to its permanent non-deductible items, corporate state tax obligations in the states where it has lending activities and the impact of the Global Intangible Low-Taxed Income ("GILTI") provision of the Tax Cuts and Jobs Act of 2017 (the "Act"). The Company's US cash effective tax rate was approximately 1.5%.

On December 22, 2017, the SEC issued SAB 118, which provides guidance on accounting for tax effects of the Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. The Company had completed its accounting of the impact of the reduction in the corporate tax rate and remeasurement of certain deferred tax assets and liabilities based on the rate at which they are expected to reverse in the future, generally 21% in 2018. During the three and nine months ended September 30, 2018 the Company recorded benefits of $0 and $245 thousand, respectively, to its provisional amounts related to the Act, which had a 2% impact for the nine months ended September 30, 2018.

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, the Company updates its estimate of the annual effective tax rate, and if the estimated annual effective tax rate changes, the Company would make a cumulative adjustment in that quarter.

For purposes of evaluating the need for a deferred tax valuation allowance, significant weight is given to evidence that can be objectively verified. The following provides an overview of the assessment that was performed for both the domestic and foreign deferred tax assets, net.

US deferred tax assets, net

At September 30, 2019 and December 31, 2018, the Company did not establish a valuation allowance for its US deferred tax assets ("DTA") based on management's expectation of generating sufficient taxable income in a look forward period over the next three to five years. The unutilized net operating loss ("NOL") carryforward from US operations at September 30, 2019 and December 31, 2018 was approximately $42.0 million. The NOL carryforward expires beginning in 2034. The research and development credit expires beginning in 2036. The ultimate realization of the resulting deferred tax asset is dependent upon generating sufficient taxable income. The Company considered the following positive and negative factors when making their assessment regarding the ultimate realizability of the deferred tax assets.

Significant positive factors included the following:

- In 2018, the Company continued to grow its operating income (from $48 million in 2016 to $71 million in 2017 to $95 million in 2018). The US-only pre-tax earnings improved from a US-only pre-tax loss of $4.5 million in 2017 to US-only pre-tax income of $14.1 million in 2018, a 412% improvement from prior year. The primary driver for the increase in operating income is related to our continued margin expansion provided by direct marketing and operating expense while improving credit quality in the loan portfolio during the past year.
- In 2019, the Company is forecasting US taxable income as it continues to grow its business and generate even greater operating income. The primary driver for the increase in taxable income is related to improved credit quality and slower growth in the loan portfolios resulting in a lower loan loss provision. The Company's operating expenses are within targeted efficiency ratios and are expected to be relatively flat. The Company re-negotiated its debt facilities to lower interest rates, which will drive improved profitability from lower interest expense beginning in 2019. Various forecast scenarios have been performed with the results reflecting usage of the majority of the US NOL in 2019. The Company's operating income for the nine months ended September 30, 2019 was $87.4 million, a 27% improvement over the prior year period.

Significant negative factor included:

- As of December 31, 2018, the Company had a three-year cumulative pre-tax loss position of $0.8 million; which approximates a break-even profitability position. The pre-tax losses in years prior to 2018 were incurred due to the establishment of an infrastructure for the Company separate from Think Finance while the Company was scaling the growth of the relatively new products of Rise and Elastic. The Company began to utilize the NOL in 2018 and expects to be in a three-year cumulative pre-tax income position in 2019 under various forecasting scenarios.

The Company has given due consideration to all the factors and believes the positive evidence outweighs the negative evidence and has concluded that the US deferred tax asset is expected to be realized based on management's expectation of generating sufficient taxable income over the next three to five years. Although realization is not assured, management believes it is more likely than not that all of the recorded deferred tax assets will be realized. The amount of the deferred tax assets considered realizable, however, could be adjusted in the future if estimates of future taxable income change.

UK deferred tax assets, net

At September 30, 2019 and December 31, 2018, the Company recognized a full valuation allowance for its foreign deferred tax assets due to the lack of sufficient objective evidence regarding the realization of these assets in the foreseeable future. The Company assesses the UK deferred tax assets on a quarterly basis, and, as a result, there have been no changes as of September 30, 2019. Regardless of the deferred tax valuation allowance recognized at September 30, 2019 and December 31, 2018, the Company continues to retain NOL carryforwards for foreign income tax purposes of approximately $56.7 million, available to offset future foreign taxable income. To the extent that the Company generates taxable income in the future to utilize the tax benefits of the related deferred tax assets, subject to certain potential limitations, it may be able to reduce its effective tax rate by reducing the valuation allowance. The Company's foreign NOL carryforward can be carried forward indefinitely.

NOTE 12—COMMITMENTS, CONTINGENCIES AND GUARANTEES

Contingencies

Currently and from time to time, the Company may become a defendant in various legal and regulatory actions that arise in the ordinary course of business. The Company generally cannot predict the eventual outcome, the timing of the resolution or the potential losses, fines or penalties of such legal and regulatory actions. Actual outcomes or losses may differ materially from the Company's current assessments and estimates, which could have a material adverse effect on the Company's business, prospects, results of operations, financial condition or cash flows.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation, regulatory matters and other legal proceedings when those matters present material loss contingencies that are both probable and reasonably estimable. Even when an accrual is recorded, the Company may be exposed to loss in excess of any amounts accrued.

UK Claims Accrual:

During the second half of 2018, the Company's UK business began to receive an increased number of customer complaints initiated by claims management companies ("CMCs") related to the affordability assessment of certain loans. If the Company's evidence supports the affordability assessment and the Company rejects the claim, the customer has the right to take the complaint to the Financial Ombudsman Service for further adjudication. The CMCs' campaign against the high cost lending industry increased significantly during the second half of 2018 resulting in a significant increase in affordability claims against all companies in the industry during this period. The Company believes that many of the increased claims against it are without merit and reflect the use of abusive and deceptive tactics by the CMCs. The Financial Conduct Authority, a regulator in the UK financial services industry, began regulating the CMCs in April 2019 in order to ensure that the methods used by the CMCs are in the best interests of the consumer and the industry.

As of September 30, 2019 and December 31, 2018, the Company accrued approximately $2.2 million and $0.9 million, respectively, for the claims that were determined to be probable and reasonably estimable based on the Company's historical loss rates related to these claims. This accrual is recognized as Other cost of sales in the Condensed Consolidated Income Statements and as Accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheets. The Company accrued $0.9 million at September 30, 2018. The outcomes of the adjudication of these claims may differ from the Company's estimates, and as a result, the Company's estimates may change in the near term and the effect of any such change could be material to the financial statements. The Company continues to monitor the matters for further developments that could affect the amount of the loss contingency recognized. The following table presents a rollforward of the amounts accrued for the three and nine months ended September 30, 2019 and 2018.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2019	2018	2019	2018
Beginning balance	$ 1,591	$ —	$ 925	$ —
Accruals	2,422	1,943	6,514	1,943
Payments	(1,930)	(1,005)	(5,424)	(1,005)
Effects of changes in foreign currency rates	113	9	181	9
Ending balance	$ 2,196	$ 947	$ 2,196	$ 947

On October 25, 2019, the Company's UK subsidiary, ECI, entered into an agreement with the Financial Conduct Authority ("FCA") (the "Agreement") to not make any payments greater than £1.0 million outside of the normal course of business without obtaining prior approval from the FCA. The Company believes this Agreement will not have a material impact on ECI's ability to continue to serve its customers and meet its obligations.

Other Matters:

The company is cooperating with the Consumer Financial Protection Bureau (the "CFPB") related to a civil investigative demand ("CID") received by Think Finance requesting information about the operations of Think Finance prior to the spin-off. In November 2017, the CFPB sued Think Finance in the U.S. District Court for the District of Montana. Elevate is not a party to this lawsuit. The CFPB and Think Finance have agreed to settle all claims and executed a settlement agreement that is awaiting final court approval in the United States Bankruptcy Court for the Northern District of Texas.

While no Think Finance related litigation has been filed directly against Elevate, and we can provide no assurances that there will not be any future Think Finance related litigation filed against the Company, in October 2019, Elevate entered into tolling agreements with the Think Finance Creditors' Committee and class claimants in regards to any potential future claims against Elevate. Because no claims have been filed against Elevate, no reasonable estimate of possible loss, if any, can be made at this time. We believe any future claims are without merit, and we intend to defend ourselves vigorously.

Commitments

The Elastic product, which offers lines of credit to consumers, had approximately $258.9 million and $250.1 million in available and unfunded credit lines at September 30, 2019 and December 31, 2018, respectively. In May 2017, the Rise product began offering lines of credit to consumers in certain states and had approximately $8.9 million and $9.3 million in available and unfunded credit lines at September 30, 2019 and December 31, 2018, respectively. The Today Card, which expanded its test launch in November 2018, had approximately $0.7 million and $0.4 million in available and unfunded credit lines as of September 30, 2019 and December 31, 2018, respectively. While these amounts represented the total available unused credit lines, the Company has not experienced and does not anticipate that all line of credit customers will access their entire available credit lines at any given point in time. The Company has not recorded a loan loss reserve for unfunded credit lines as the Company has the ability to cancel commitments within a relatively short timeframe.

Effective June 2017, the Company entered into a seven-year lease agreement for office space in California. Upon the commencement of the lease, the Company was required to provide the lessor with an irrevocable and unconditional $500 thousand letter of credit. Provided the Company is not in default of any terms of the lease agreement, the outstanding required balance of the letter of credit will be reduced by $100 thousand per year beginning on the second anniversary of the lease commencement and ending on the fifth anniversary of the lease agreement. The minimum balance of the letter of credit will be at least $100 thousand throughout the duration of the lease. At September 30, 2019 and December 31, 2018, the Company had $400 thousand and $500 thousand, respectively, of cash balances securing the letter of credit which is included in Restricted cash within the Condensed Consolidated Balance Sheets.

Guarantees

In connection with its CSO programs, the Company guarantees consumer loan payment obligations to CSO lenders and is required to purchase any defaulted loans it has guaranteed. The guarantee represents an obligation to purchase specific loans that go into default.

Indemnification

In the ordinary course of business, the Company may indemnify customers, vendors, lessors, investors, and other parties for certain matters subject to various terms and scopes. For example, the Company may indemnify certain parties for losses due to the Company's breach of certain agreements or due to certain services it provides. The Company has not incurred material costs to settle claims related to such indemnification provisions as of September 30, 2019 and December 31, 2018. The fair value of these liabilities is immaterial; accordingly, there are no liabilities recorded for these agreements as of September 30, 2019 and December 31, 2018.

NOTE 13—OPERATING SEGMENT INFORMATION

The Company determines operating segments based on how its chief operating decision-maker manages the business, including making operating decisions, deciding how to allocate resources and evaluating operating performance. The Company's chief operating decision-maker is its Chief Executive Officer, who reviews the Company's operating results monthly on a consolidated basis.

The Company has one reportable segment, which provides online financial services for subprime consumers, which is composed of the Company's operations in the United States and the United Kingdom. The Company has aggregated all components of its business into a single reportable segment based on the similarities of the economic characteristics, the nature of the products and services, the distribution methods, the type of customers, and the nature of the regulatory environments.

Information related to each reportable segment is outlined below. Segment revenue is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industry.

The following tables summarize the allocation of net revenues and long-lived assets based on geography. The geographic presentation of the Company's segment assets was based on the geographic location of the asset and revenue by the Company's country of domicile.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Revenues				
United States	$ 164,295	$ 169,468	$ 474,736	$ 487,683
United Kingdom	28,483	32,012	85,306	91,711
Total	$ 192,778	$ 201,480	$ 560,042	$ 579,394

	September 30, 2019	December 31, 2018
Long-lived assets		
United States	$ 55,357	$ 41,933
United Kingdom	22,075	17,385
Total	$ 77,432	$ 59,318

NOTE 14—RELATED PARTIES

The Company entered into sublease agreements with Think Finance for office space that expired in 2018. Total rent and utility payments made to Think Finance for office space were approximately $0 thousand and $233 thousand for the three months ended September 30, 2019 and 2018, respectively and $0 thousand and $818 thousand for the nine months ended September 30, 2019 and 2018, respectively. Rent and utility expense is included in Occupancy and equipment within the Condensed Consolidated Income Statements.

Expenses related to our board of directors, including board fees, travel reimbursements, share-based compensation and a consulting arrangement with a related party for the three and nine months ended September 30, 2019 and 2018 are included in Professional services within the Condensed Consolidated Income Statements and were as follows:

	Three Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**
Fees and travel expenses	$ 90	$ 126
Stock compensation	727	386
Consulting	50	75
Total board related expenses	$ 867	$ 587

	Nine Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**
Fees and travel expenses	$ 510	$ 410
Stock compensation	1,473	897
Consulting	267	225
Total board related expenses	$ 2,250	$ 1,532

During the year ended December 31, 2017, a member of the board of directors entered into a direct investment of $800 thousand in the VPC Facility. For the three months ended September 30, 2019 and 2018, the interest payments on this loan were $21 thousand and $27 thousand, respectively. The interest payments on this loan were $64 thousand and $82 thousand for the nine months ended September 30, 2019 and 2018, respectively.

At September 30, 2019 and December 31, 2018, the Company had approximately $120 thousand and $119 thousand, respectively, due to board members related to the above expenses, which is included in Accounts payable and accrued liabilities within the Condensed Consolidated Balance Sheets.

NOTE 15—SUBSEQUENT EVENTS

The Company evaluated subsequent events as of the date these financial statements are made available and determined there has been no material subsequent events that required recognition or additional disclosure in these condensed consolidated financial statements, except as follows:

The Company made a $5 million debt paydown against the UK Term Note and a $5 million draw on the EF SPV Facility subsequent to September 30, 2019.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and the related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review the "Note About Forward-Looking Statements" section of this Quarterly Report on Form 10-Q for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. We generally refer to loans, customers and other information and data associated with each of Rise, Elastic, Sunny and Today Card as Elevate’s loans, customers, information and data, irrespective of whether Elevate directly originates the credit to the customer or whether such credit is originated by a third party.

OVERVIEW

We provide online credit solutions to consumers in the US and the UK who are not well-served by traditional bank products and who are looking for better options than payday loans, title loans, pawn and storefront installment loans. Non-prime consumers now represent a larger market than prime consumers but are risky to underwrite and serve with traditional approaches. We’re succeeding at it - and doing it responsibly - with best-in-class advanced technology and proprietary risk analytics honed by serving more than 2.4 million customers with $7.8 billion in credit. Our current online credit products, Rise, Elastic and Sunny, and our recently test launched Today Card reflect our mission to provide customers with access to competitively priced credit and services while helping them build a brighter financial future with credit building and financial wellness features. We call this mission "Good Today, Better Tomorrow."

We earn revenues on the Rise and Sunny installment loans, on the Rise and Elastic lines of credit and on the Today Card credit card product. Our revenue primarily consists of finance charges and line of credit fees. Finance charges are driven by our average loan balances outstanding and by the average annual percentage rate (“APR”) associated with those outstanding loan balances. We calculate our average loan balances by taking a simple daily average of the ending loan balances outstanding for each period. Line of credit fees are recognized when they are assessed and recorded to revenue over the life of the loan. We present certain key metrics and other information on a “combined” basis to reflect information related to loans originated by us and by our bank partners that license our brands, Republic Bank, FinWise Bank and Capital Community Bank, as well as loans originated by third-party lenders pursuant to CSO programs, which loans originated through CSO programs are not recorded on our balance sheet in accordance with US GAAP. See “—Key Financial and Operating Metrics” and “—Non-GAAP Financial Measures.”

We use our working capital, funds provided by third-party lenders pursuant to CSO programs and our credit facility with Victory Park Management, LLC ("VPC” and the "VPC Facility") to fund the loans we make to our Rise and Sunny customers and provide working capital. Since originally entering into the VPC Facility, it has been amended several times to increase the maximum total borrowing amount available from the original amount of $250 million to $491 million at September 30, 2019. See “—Liquidity and Capital Resources—Debt facilities.”

Beginning in the fourth quarter of 2018, the Company also licenses its Rise installment loan brand to a third-party lender, FinWise Bank, which originates Rise installment loans in 19 states. FinWise Bank initially provides all of the funding and retains a percentage of the balances of all of the loans originated and sells the remaining loan participation in those Rise installment loans to a third-party SPV, EF SPV, Ltd. ("EF SPV"). Prior to August 1, 2019, FinWise Bank retained 5% of the balances and sold a 95% participation to EF SPV. On August 1, 2019, EF SPV purchased an additional 1% participation in the outstanding portfolio with the participation percentage revised going forward to 96%. Elevate is required to consolidate EF SPV as a variable interest entity under GAAP and the condensed consolidated financial statements include revenue, losses and loans receivable related to the 96% of the Rise installment loans originated by FinWise Bank and sold to EF SPV. These loan participation purchases are funded through a separate financing facility (the "EF SPV Facility"), effective February 1, 2019, and through cash flows from operations generated by EF SPV. The EF SPV Facility has a maximum total borrowing amount available of $150 million.

The Elastic line of credit product is originated by a third-party lender, Republic Bank, which initially provides all of the funding for that product. Republic Bank retains 10% of the balances of all loans originated and sells a 90% loan participation in the Elastic lines of credit. An SPV structure was implemented such that the loan participations are sold by Republic Bank to Elastic SPV, Ltd. ("Elastic SPV") and Elastic SPV receives its funding from VPC in a separate financing facility (the "ESPV Facility"), which was finalized on July 13, 2015. We do not own Elastic SPV but we have a credit default protection agreement with Elastic SPV whereby we provide credit protection to the investors in Elastic SPV against Elastic loan losses in return for a credit premium. Per the terms of this agreement, under US GAAP, the Company is the primary beneficiary of Elastic SPV and is required to consolidate the financial results of Elastic SPV as a VIE in its consolidated financial results.

The ESPV Facility has also been amended several times and the original commitment amount of $50 million has grown to $350 million as of September 30, 2019. See "—Liquidity and Capital Resources—Debt facilities."

Our management assesses our financial performance and future strategic goals through key metrics based primarily on the following three themes:

- *Revenue Growth*. Key metrics related to revenue performance that we monitor by product include the ending and average combined loan balances outstanding, the effective APR of our product loan portfolios, the total dollar value of loans originated, the number of new customer loans made, the ending number of customer loans outstanding and the related customer acquisition costs ("CAC") associated with each new customer loan made. We include CAC as a key metric when analyzing revenue growth (rather than as a key metric within margin expansion).
- *Stable credit quality*. Since the time they were managing our legacy US products, our management team has maintained stable credit quality across the loan portfolio they were managing. Additionally, in the periods covered in this Management's Discussion and Analysis of Financial Condition and Results of Operations, we have improved our credit quality. The credit quality metrics we monitor include net charge-offs as a percentage of revenues, the combined loan loss reserve as a percentage of outstanding combined loans, total provision for loan losses as a percentage of revenues and the percentage of past due combined loans receivable – principal.
- *Margin expansion*. We expect that our operating margins will continue to expand over the near term as we lower our direct marketing costs and efficiently manage our operating expenses while continuing to improve our credit quality. Over the next several years, as we continue to scale our loan portfolio, we anticipate that our direct marketing costs primarily associated with new customer acquisitions will decline to approximately 10% of revenues and our operating expenses will decline to approximately 20% of revenues. We aim to manage our business to achieve a long-term operating margin of 20%, and do not expect our operating margin to increase beyond that level, as we intend to pass on any improvements over our targeted margins to our customers in the form of lower APRs. We believe this is a critical component of our responsible lending platform and over time will also help us continue to attract new customers and retain existing customers.

KEY FINANCIAL AND OPERATING METRICS

As discussed above, we regularly monitor a number of metrics in order to measure our current performance and project our future performance. These metrics aid us in developing and refining our growth strategies and in making strategic decisions.

Certain of our metrics are non-GAAP financial measures. We believe that such metrics are useful in period-to-period comparisons of our core business. However, non-GAAP financial measures are not an alternative to any measure of financial performance calculated and presented in accordance with US GAAP. See "—Non-GAAP Financial Measures" for a reconciliation of our non-GAAP measures to US GAAP.

Revenue Growth

Revenue metrics (dollars in thousands, except as noted)	As of and for the three months ended September 30, 2019	As of and for the three months ended September 30, 2018	As of and for the nine months ended September 30, 2019	As of and for the nine months ended September 30, 2018
Revenues	$ 192,778	$ 201,480	$ 560,042	$ 579,394
Period-over-period revenue	(4)%	17%	(3)%	21%
Ending combined loans receivable – principal(1)	628,719	633,961	628,719	633,961
Average combined loans receivable – principal(1)(2)	625,985	616,362	605,558	596,574
Total combined loans originated – principal	373,596	414,816	1,039,015	1,104,507
Average customer loan balance (in dollars)(3)	1,609	1,579	1,609	1,579
Number of new customer loans	75,058	94,526	196,184	249,807
Ending number of combined loans outstanding	390,863	401,436	390,863	401,436
Customer acquisition costs (in dollars)	184	225	210	257
Effective APR of combined loan portfolio	122 %	129%	123 %	129%

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(1) Combined loans receivable is defined as loans owned by the Company and consolidated VIEs plus loans originated and owned by third-party lenders pursuant to our CSO programs. See "—Non-GAAP Financial Measures" for more information and for a reconciliation of Combined loans receivable to Loans receivable, net, the most directly comparable financial measure calculated in accordance with US GAAP.
(2) Average combined loans receivable – principal is calculated using an average of daily Combined loans receivable – principal balances.
(3) Average customer loan balance is an average of all four products and is calculated for each product by dividing the ending Combined loans receivable – principal by the number of loans outstanding at period end.

Revenues. Our revenues are composed of Rise finance charges, Rise CSO fees (which are fees we receive from customers who obtain a loan through the CSO program for the credit services, including the loan guaranty, we provide), finance charges on Sunny installment loans and revenues earned on the Rise and Elastic lines of credit. Finance charge and fee revenues from the recently test launched Today Card credit card product were immaterial. See "—Components of our Results of Operations—Revenues."

Ending and average combined loans receivable – principal. We calculate the average combined loans receivable – principal by taking a simple daily average of the ending combined loans receivable – principal for each period. Key metrics that drive the ending and average combined loans receivable – principal include the amount of loans originated in a period and the average customer loan balance. All loan balance metrics include only the 90% participation in the related Elastic line of credit advances (we exclude the 10% held by Republic Bank) and the 96% participation in FinWise Bank originated Rise installment loans, but include the full loan balances on CSO loans, which are not presented on our Condensed Consolidated Balance Sheet.

Total combined loans originated – principal. The amount of loans originated in a period is driven primarily by loans to new customers as well as new loans to prior customers, including refinancings of existing loans to customers in good standing.

Average customer loan balance and effective APR of combined loan portfolio. The average loan amount and its related APR are based on the product and the underlying credit quality of the customer. Generally, better credit quality customers are offered higher loan amounts at lower APRs. Additionally, new customers have more potential risk of loss than prior or existing customers due to lack of payment history and the potential for fraud. As a result, newer customers typically will have lower loan amounts and higher APRs to compensate for that additional risk of loss. The effective APR is calculated based on the actual amount of finance charges generated from a customer loan divided by the average outstanding balance for the loan, and can be lower than the stated APR on the loan due to waived finance charges and other reasons. For example, a Rise customer may receive a $2,000 installment loan with a term of 24 months and a stated rate of 180%. In this example, the customer’s monthly installment loan payment would be $310.86. As the customer can prepay the loan balance at any time with no additional fees or early payment penalty, the customer pays the loan in full in month eight. The customer’s loan earns interest of $2,337.81 over the eight month period and has an average outstanding balance of $1,948.17. The effective APR for this loan is 180% over the eight month period calculated as follows:

$$\frac{(\$2{,}337.81 \text{ interest earned} / \$1{,}948.17 \text{ average balance outstanding})}{8 \text{ months}} \times 12 \text{ months per year} = 180\%$$

In addition, as an example for Elastic, if a customer makes a $2,500 draw on the customer’s line of credit and this draw required bi-weekly minimum payments of 5% (equivalent to 20 bi-weekly payments), and if all minimum payments are made, the draw would earn finance charges of $1,148. The effective APR for the line of credit in this example is 109% over the payment period and is calculated as follows:

$$\frac{(\$1{,}148.00 \text{ fees earned} / \$1{,}369.05 \text{ average balance outstanding})}{20 \text{ payments}} \times 26 \text{ bi-weekly periods per year} = 109\%$$

The actual amount of revenue we realize on a loan portfolio is also impacted by the amount of prepayments and charged-off customer loans in the portfolio. For a single loan, on average, we typically expect to realize approximately 60% of the revenues that we would otherwise realize if the loan were to fully amortize at the stated APR. From the Rise example above, if we waived $400 of interest for this customer, the effective APR for this loan would decrease to 149%.

Number of new customer loans. We define a new customer loan as the first loan made to a customer for each of our products (so a customer receiving a Rise installment loan and then at a later date taking their first cash advance on an Elastic line of credit would be counted twice). The number of new customer loans is subject to seasonal fluctuations. New customer acquisition is typically slowest during the first six months of each calendar year, primarily in the first quarter, compared to the latter half of the year, as our existing and prospective US customers usually receive tax refunds during this period and, thus, have less of a need for loans from us. Further, many US customers will use their tax refunds to prepay all or a portion of their loan balance during this period, so our overall loan portfolio typically decreases during the first quarter of the calendar year. Overall loan portfolio growth and the number of new customer loans tends to accelerate during the summer months (typically June and July), at the beginning of the school year (typically late August to early September) and during the winter holidays (typically late November to early December).

Customer acquisition costs. A key expense metric we monitor related to loan growth is our CAC. This metric is the amount of direct marketing costs incurred during a period divided by the number of new customer loans originated during that same period. New loans to former customers are not included in our calculation of CAC (except to the extent they receive a loan through a different product) as we believe we incur no material direct marketing costs to make additional loans to a prior customer through the same product.

The following tables summarize the changes in customer loans by product for the three and nine months ended September 30, 2019 and 2018.

	Three Months Ended September 30, 2019				
	Rise (US)	Elastic (US)(1)	Total Domestic	Sunny (UK)	Total
Beginning number of combined loans outstanding	135,771	142,561	278,332	92,886	371,218
New customer loans originated	33,108	20,248	53,356	21,702	75,058
Former customer loans originated	19,168	21	19,189	—	19,189
Attrition	(39,796)	(10,183)	(49,979)	(24,623)	(74,602)
Ending number of combined loans outstanding	148,251	152,647	300,898	89,965	390,863
Customer acquisition cost	$ 215	$ 188	$ 205	$ 133	$ 184
Average customer loan balance	$ 2,208	$ 1,695	$ 1,948	$ 473	$ 1,609

	Three Months Ended September 30, 2018				
	Rise (US)	Elastic (US)	Total Domestic	Sunny (UK)	Total
Beginning number of combined loans outstanding	130,897	149,140	280,037	92,555	372,592
New customer loans originated	33,608	34,247	67,855	26,671	94,526
Former customer loans originated	23,434	390	23,824	—	23,824
Attrition	(47,721)	(16,732)	(64,453)	(25,053)	(89,506)
Ending number of combined loans outstanding	140,218	167,045	307,263	94,173	401,436
Customer acquisition cost	$ 261	$ 217	$ 239	$ 190	$ 225
Average customer loan balance	$ 2,135	$ 1,714	$ 1,906	$ 512	$ 1,579

	Nine Months Ended September 30, 2019				
	Rise (US)	Elastic (US)(1)	Total Domestic	Sunny (UK)	Total
Beginning number of combined loans outstanding	142,758	166,397	309,155	89,449	398,604
New customer loans originated	80,650	38,912	119,562	76,622	196,184
Former customer loans originated	55,809	48	55,857	—	55,857
Attrition	(130,966)	(52,710)	(183,676)	(76,106)	(259,782)
Ending number of combined loans outstanding	148,251	152,647	300,898	89,965	390,863
Customer acquisition cost	$ 251	$ 230	$ 244	$ 156	$ 210

	Nine Months Ended September 30, 2018				
	Rise (US)	Elastic (US)	Total Domestic	Sunny (UK)	Total
Beginning number of combined loans outstanding	140,790	140,672	281,462	80,510	361,972
New customer loans originated	83,022	81,432	164,454	85,353	249,807
Former customer loans originated	61,633	606	62,239	—	62,239
Attrition	(145,227)	(55,665)	(200,892)	(71,690)	(272,582)
Ending number of combined loans outstanding	140,218	167,045	307,263	94,173	401,436
Customer acquisition cost	$ 295	$ 237	$ 267	$ 238	$ 257

(1) Includes immaterial balances related to the Today Card, which expanded its test launch in November 2018.

Recent trends. Our revenues for the three months ended September 30, 2019 totaled $192.8 million, a decrease of 4% versus the three months ended September 30, 2018. Additionally, a similar trend occurred for the nine months ended September 30, 2019 as revenues totaled $560.0 million, down 3% versus the prior year. This decrease in revenues was primarily driven by a decrease in our effective APR on the combined loans receivable - principal balance as the APR declined to 122% during the three months ended September 30, 2019 from 129% during the comparable prior year period. This decrease in the average APR resulted primarily from our Rise product as the average APR of a new Rise loan originated by a FinWise Bank customer is 130%; which is lower than our typical state-licensed Rise customer but with a better credit profile. In addition, we have experienced slower new customer loan growth as we funded 75,058 new customer loans in the third quarter of this year, a decrease of 21% versus the third quarter of 2018. As we disclosed in our 2018 Annual Report on Form 10-K, we have chosen to moderate our new customer growth as we deploy and refine our new credit models during the second and third quarters of 2019.

Our CAC was significantly lower in the third quarter of 2019 as compared to the third quarter of 2018 and was below the lower end of our targeted range of $250 to $300. This decrease was attributable to all three products. The Rise and Elastic CAC decreased due to more efficient marketing spend. The Sunny CAC also decreased for the three months ended September 30, 2019 from $190 to $133 due to more efficient marketing spend coupled with diminished competition in the UK market. We believe our CAC in future quarters will remain within or below our target range of $250 to $300 as we continue to optimize the efficiency of our marketing channels and benefit from continued less competition in the UK market.

Credit quality

Credit quality metrics (dollars in thousands)	As of and for the three months ended September 30, 2019	As of and for the three months ended September 30, 2018	As of and for the nine months ended September 30, 2019	As of and for the nine months ended September 30, 2018
Net charge-offs(1)	$ 86,995	$ 100,345	$ 270,589	$ 294,143
Additional provision for loan losses(1)	14,052	13,551	(4,086)	493
Provision for loan losses	$ 101,047	$ 113,896	$ 266,503	$ 294,636
Past due combined loans receivable – principal as a percentage of combined loans receivable – principal(2)	11%	11%	11%	11%
Net charge-offs as a percentage of revenues(1)	45%	50%	48%	51%
Total provision for loan losses as a percentage of revenues	52%	57%	48%	51%
Combined loan loss reserve(3)	$ 91,639	$ 93,932	$ 91,639	$ 93,932
Combined loan loss reserve as a percentage of combined loans receivable(3)(4)	14%	14%	14%	14%

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(1) Net charge-offs and additional provision for loan losses are not financial measures prepared in accordance with US GAAP. Net charge-offs include the amount of principal and accrued interest on loans that are more than 60 days past due, or sooner if we receive notice that the loan will not be collected, such as a bankruptcy notice or identified fraud, offset by any recoveries. Additional provision for loan losses is the amount of provision for loan losses needed for a particular period to adjust the combined loan loss reserve to the appropriate level in accordance with our underlying loan loss reserve methodology. See "—Non-GAAP Financial Measures" for more information and for a reconciliation to Provision for loan losses, the most directly comparable financial measure calculated in accordance with US GAAP.

(2) Combined loans receivable is defined as loans owned by the Company and consolidated VIEs plus loans originated and owned by third-party lenders pursuant to our CSO programs. See "—Non-GAAP Financial Measures" for more information and for a reconciliation of Combined loans receivable to Loans receivable, net, the most directly comparable financial measure calculated in accordance with US GAAP.

(3) Combined loan loss reserve is defined as the loan loss reserve for loans originated and owned by the Company plus the loan loss reserve for loans owned by third-party lenders and guaranteed by the Company. See "—Non-GAAP Financial Measures" for more information and for a reconciliation of Combined loan loss reserve to Allowance for loan losses, the most directly comparable financial measure calculated in accordance with US GAAP.

(4) Combined loan loss reserve as a percentage of combined loans receivable is determined using period-end balances.

Net principal charge-offs as a percentage of average combined loans receivable - principal (1) (2) (3)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2019	13%	11%	11%	N/A
2018	13%	12%	13%	14%
2017	15%	14%	12%	13%

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(1) Net principal charge-offs is comprised of gross principal charge-offs less recoveries.

(2) Average combined loans receivable - principal is calculated using an average of daily Combined loans receivable - principal balances during each quarter.

(3) Combined loans receivable is defined as loans owned by the Company and consolidated VIEs plus loans originated and owned by third-party lenders pursuant to our CSO programs. See "—Non-GAAP Financial Measures" for more information and for a reconciliation of Combined loans receivable to Loans receivable, net, the most directly comparable financial measure calculated in accordance with US GAAP.

In reviewing the credit quality of our loan portfolio, we break out our total provision for loan losses that is presented on our income statement under US GAAP into two separate items—net charge-offs and additional provision for loan losses. Net charge-offs are indicative of the credit quality of our underlying portfolio, while additional provision for loan losses is subject to more fluctuation based on loan portfolio growth, recent credit quality trends and the effect of normal seasonality on our business. The additional provision for loan losses is the amount needed to adjust the combined loan loss reserve to the appropriate amount at the end of each month based on our loan loss reserve methodology.

Net charge-offs. Net charge-offs comprise gross charge-offs offset by recoveries on prior charge-offs. Gross charge-offs include the amount of principal and accrued interest on loans that are more than 60 days past due, or sooner if we receive notice that the loan will not be collected, such as a bankruptcy notice or identified fraud. Any payments received on loans that have been charged off are recorded as recoveries and reduce the amount of gross charge-offs. Recoveries are typically less than 10% of the amount charged off, and thus, we do not view recoveries as a key credit quality metric.

Net charge-offs as a percentage of revenues can vary based on several factors, such as whether or not we experience significant growth or lower the APR of our products. Additionally, although a more seasoned portfolio will typically result in lower net charge-offs as a percentage of revenues, we do not intend to drive down this ratio significantly below our historical ratios and would instead seek to offer our existing products to a broader new customer base to drive additional revenues.

Net charge-offs as a percentage of average combined loans receivable-principal allow us to determine credit quality and evaluate loss experience trends across our loan portfolio.

Additional provision for loan losses. Additional provision for loan losses is the amount of provision for loan losses needed for a particular period to adjust the combined loan loss reserve to the appropriate level in accordance with our underlying loan loss reserve methodology.

Additional provision for loan losses relates to an increase in future inherent losses in the loan portfolio as determined by our loan loss reserve methodology. This increase could be due to a combination of factors such as an increase in the size of the loan portfolio or a worsening of credit quality or increase in past due loans. It is also possible for the additional provision for loan losses for a period to be a negative amount, which would reduce the amount of the combined loan loss reserve needed (due to a decrease in the loan portfolio or improvement in credit quality). The amount of additional provision for loan losses is seasonal in nature, mirroring the seasonality of our new customer acquisition and overall loan portfolio growth, as discussed above. The combined loan loss reserve typically decreases during the first quarter or first half of the calendar year due to a decrease in the loan portfolio from year end. Then, as the rate of growth for the loan portfolio starts to increase during the second half of the year, additional provision for loan losses is typically needed to increase the reserve for future losses associated with the loan growth. Because of this, our provision for loan losses can vary significantly throughout the year without a significant change in the credit quality of our portfolio.

The following provides an example of the application of our loan loss reserve methodology and the break out of the provision for loan losses between the portion associated with replenishing the reserve due to net charge-offs and the amount related to the additional provision for loan losses. If the beginning combined loan loss reserve were $25 million, and we incurred $10 million of net charge-offs during the period and the ending combined loan loss reserve needed to be $30 million according to our loan loss reserve methodology, our total provision for loan losses would be $15 million, comprising $10 million in net charge-offs (provision needed to replenish the combined loan loss reserve) plus $5 million of additional provision related to an increase in future inherent losses in the loan portfolio identified by our loan loss reserve methodology.

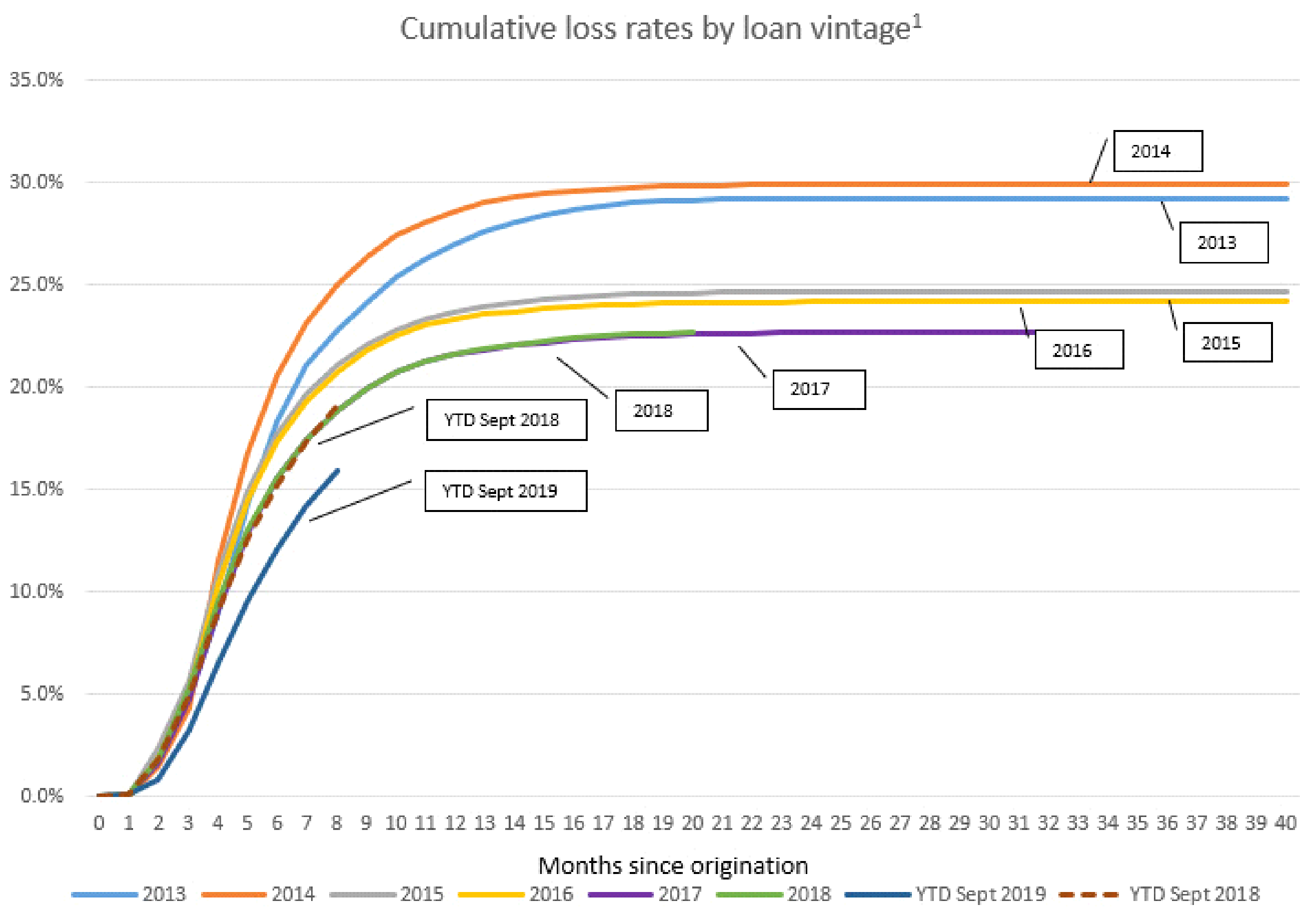
Example (dollars in thousands)			
Beginning combined loan loss reserve		$	25,000
Less: Net charge-offs			(10,000)
Provision for loan losses:			
Provision for net charge-offs	10,000		
Additional provision for loan losses	5,000		
Total provision for loan losses			15,000
Ending combined loan loss reserve balance		$	30,000

Loan loss reserve methodology. Our loan loss reserve methodology is calculated separately for each product and, in the case of Rise loans originated under the state lending model (including CSO program loans), is calculated separately based on the state in which each customer resides to account for varying state license requirements that affect the amount of the loan offered, repayment terms and other factors. For each product, loss factors are calculated based on the delinquency status of customer loan balances: current, 1 to 30 days past due or 31 to 60 days past due. These loss factors for loans in each delinquency status are based on average historical loss rates by product (or state) associated with each of these three delinquency categories. Hence, another key credit quality metric we monitor is the percentage of past due combined loans receivable – principal, as an increase in past due loans will cause an increase in our combined loan loss reserve and related additional provision for loan losses to increase the reserve. For customers that are not past due, we further stratify these loans into loss rates by payment number, as a new customer that is about to make a first loan payment has a significantly higher risk of loss than a customer who has successfully made ten payments on an existing loan with us. Based on this methodology, during the past three years we have seen our combined loan loss reserve as a percentage of combined loans receivable fluctuate between approximately 12% and 17% depending on the overall mix of new, former and past due customer loans.

Recent trends. Total loan loss provision for the three and nine months ended September 30, 2019 was 52% and 48% of revenues, respectively, which was within our targeted range of 45% to 55%, and lower than the 57% and 51% for the three and nine months ended September 30, 2018, respectively. For the three and nine months ended September 30, 2019, net charge-offs as a percentage of revenues totaled 45% and 48%, respectively, compared to 50% and 51% in the respective prior year periods. We expect total loan loss provision as a percentage of revenues to continue to remain within our targeted range due to ongoing maturation of the loan portfolio and continued improvements in our underwriting models and processes.

The combined loan loss reserve as a percentage of combined loans receivable totaled 14% as of both September 30, 2019 and September 30, 2018, respectively, reflecting improvements in our credit quality in each product portfolio with a corresponding shift toward Rise in the composition of the combined loan loss reserve. Past due loan balances at September 30, 2019 were 11% of total combined loans receivable - principal, consistent with 11% from a year ago.

Additionally, we also look at principal loan charge-offs (including both credit and fraud losses) by vintage as a percentage of combined loans originated - principal. As the below table shows, our cumulative principal loan charge-offs through September 30, 2019 for each annual vintage since the 2013 vintage are generally under 30% and continue to generally trend at or slightly below our 25% to 30% targeted range. In the beginning of 2019, we implemented new fraud tools that have helped lower fraud losses. Additionally, we rolled out our next generation of credit models during the second quarter of 2019 and continued refining the models during the third quarter of 2019. The preliminary data on the 2019 vintage is that it is performing better than both 2017 and 2018 vintages.



(1) The 2019 vintages are not yet fully mature from a loss perspective.

Margins

Margin metrics (dollars in thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Revenues	$ 192,778	$ 201,480	$ 560,042	$ 579,394
Net charge-offs(1)	(86,995)	(100,345)	(270,589)	(294,143)
Additional provision for loan losses(1)	(14,052)	(13,551)	4,086	(493)
Direct marketing costs	(13,821)	(21,280)	(41,169)	(64,155)
Other cost of sales	(7,459)	(7,997)	(21,081)	(20,892)
Gross profit	70,451	58,307	231,289	199,711
Operating expenses	(48,118)	(45,615)	(143,914)	(130,674)
Operating income	$ 22,333	$ 12,692	$ 87,375	$ 69,037
As a percentage of revenues:				
Net charge-offs	45%	50%	49 %	51%
Additional provision for loan losses	7	7	(1)	—
Direct marketing costs	7	11	7	11
Other cost of sales	4	4	4	4
Gross margin	37	29	41	34
Operating expenses	25	23	26	23
Operating margin	12%	6%	16 %	12%

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(1) Non-GAAP measure. See "—Non-GAAP Financial Measures—Net charge-offs and additional provision for loan losses."

Gross margin is calculated as revenues minus cost of sales, or gross profit, expressed as a percentage of revenues, and operating margin is calculated as operating income expressed as a percentage of revenues. We expect our margins to continue to increase as we continue to scale our business while maintaining stable credit quality. We allocate all marketing spend only to new customer loans. As our loan portfolio continues to mature with more customer loans that are from repeat customers, we will be generating revenue from those repeat customer loans without incurring any related marketing expense. As a result, we expect marketing expense as a percentage of revenue to continue to decline over time resulting in an increased gross profit margin. Additionally, being an online fintech company, we believe that as we continue to scale our business, we will generate operating efficiencies and our operating expense as a percentage of revenues will decline resulting in an increased operating margin.

Recent operating margin trends. For the three months ended September 30, 2019, our operating margin was 12%, which was an increase from 6% in the prior year period. For the nine months ended September 30, 2019, our operating margin was 16%, which was also an improvement from 12% in the prior year period. These increases were largely due to a higher gross margin driven by lower direct marketing costs and an overall lower loan loss provision due to improved credit quality in the loan portfolio.

Direct marketing costs for the three and nine months ended September 30, 2019 decreased to 7% from 11% in the respective prior year periods. This decrease is due to the measured new customer growth we targeted as we focused on deploying our new credit models during the second quarter of 2019 and refining our credit models during the third quarter of 2019. The lower marketing spend, coupled with improved marketing efficiencies, resulted in a CAC of $184 and $210 for the three and nine months ended September 30, 2019, respectively, which is below the low end of our targeted range of $250 to $300 and lower than the CAC of $225 and $257 for the respective periods in 2018. We expect CAC to continue to be lower than our targeted range of $250 to $300 as we continue to optimize the efficiency of our marketing channels, specifically in the Rise portfolio originated by FinWise Bank, and benefit from decreased competition in the UK, although we may see some quarterly volatility in CAC.

NON-GAAP FINANCIAL MEASURES

We believe that the inclusion of the following non-GAAP financial measures in this Quarterly Report on Form 10-Q can provide a useful measure for period-to-period comparisons of our core business, provide transparency and useful information to investors and others in understanding and evaluating our operating results, and enable investors to better compare our operating performance with the operating performance of our competitors. Management uses these non-GAAP financial measures frequently in its decision-making because they provide supplemental information that facilitates internal comparisons to the historical operating performance of prior periods and give an additional indication of the Company’s core operating performance. However, non-GAAP financial measures are not a measure calculated in accordance with US generally accepted accounting principles, or US GAAP, and should not be considered an alternative to any measures of financial performance calculated and presented in accordance with US GAAP. Other companies may calculate these non-GAAP financial measures differently than we do.

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA represents our net income, adjusted to exclude:

- Net interest expense, primarily associated with notes payable under the VPC Facility, EF SPV Facility and ESPV Facility used to fund the loan portfolios;
- Share-based compensation;
- Foreign currency gains and losses associated with our UK operations;
- Depreciation and amortization expense on fixed assets and intangible assets;
- Gains and losses from fair value adjustments or dispositions included in non-operating losses; and
- Income taxes.

Adjusted EBITDA margin is Adjusted EBITDA divided by revenue.

Management believes that Adjusted EBITDA and Adjusted EBITDA margin are useful supplemental measures to assist management and investors in analyzing the operating performance of the business and provide greater transparency into the results of operations of our core business.

Adjusted EBITDA and Adjusted EBITDA margin should not be considered as alternatives to net income or any other performance measure derived in accordance with US GAAP. Our use of Adjusted EBITDA and Adjusted EBITDA margin has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under US GAAP. Some of these limitations are:

- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect expected cash capital expenditure requirements for such replacements or for new capital assets;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs; and
- Adjusted EBITDA does not reflect interest associated with notes payable used for funding the loan portfolios, for other corporate purposes or tax payments that may represent a reduction in cash available to us.

The following table presents a reconciliation of net income (loss) to Adjusted EBITDA and Adjusted EBITDA margin for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Net income (loss)	$ 4,764	$ (4,234)	$ 23,894	$ 8,377
Adjustments:				
Net interest expense	14,660	19,810	51,826	58,286
Share-based compensation	2,361	2,358	7,272	6,005
Foreign currency transaction loss	870	325	967	800
Depreciation and amortization	4,350	3,490	12,940	9,167
Non-operating loss	695	—	695	38
Income tax expense (benefit)	1,344	(3,209)	9,993	1,536
Adjusted EBITDA	$ 29,044	$ 18,540	$ 107,587	$ 84,209
Adjusted EBITDA margin	15%	9%	19%	15%

Free cash flow

Free cash flow ("FCF") represents our net cash provided by operating activities, adjusted to include:

- Net charge-offs – combined principal loans; and
- Capital expenditures.

The following table presents a reconciliation of net cash provided by operating activities to FCF for each of the periods indicated:

	Nine Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**
Net cash provided by operating activities(1)	$ 269,105	$ 257,150
Adjustments:		
Net charge-offs – combined principal loans	(209,571)	(229,487)
Capital expenditures	(20,712)	(21,437)
FCF	$ 38,822	$ 6,226

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(1) Net cash provided by operating activities includes net charge-offs – combined finance charges.

Net charge-offs and additional provision for loan losses

We break out our total provision for loan losses into two separate items—first, the amount related to net charge-offs, and second, the additional provision for loan losses needed to adjust the combined loan loss reserve to the appropriate amount at the end of each month based on our loan loss provision methodology. We believe this presentation provides more detail related to the components of our total provision for loan losses when analyzing the gross margin of our business.

Net charge-offs. Net charge-offs comprise gross charge-offs offset by recoveries on prior charge-offs. Gross charge-offs include the amount of principal and accrued interest on loans that are more than 60 days past due, or sooner if we receive notice that the loan will not be collected, such as a bankruptcy notice or identified fraud. Any payments received on loans that have been charged off are recorded as recoveries and reduce the amount of gross charge-offs.

Additional provision for loan losses. Additional provision for loan losses is the amount of provision for loan losses needed for a particular period to adjust the combined loan loss reserve to the appropriate level in accordance with our underlying loan loss reserve methodology.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Net charge-offs	$ 86,995	$ 100,345	$ 270,589	$ 294,143
Additional provision for loan losses	14,052	13,551	(4,086)	493
Provision for loan losses	$ 101,047	$ 113,896	$ 266,503	$ 294,636

Combined loan information

The Elastic line of credit product is originated by a third-party lender, Republic Bank, which initially provides all of the funding for that product. Republic Bank retains 10% of the balances of all of the loans originated and sells a 90% loan participation in the Elastic lines of credit to a third-party SPV, Elastic SPV, Ltd. Elevate is required to consolidate Elastic SPV, Ltd. as a VIE under US GAAP and the condensed consolidated financial statements include revenue, losses and loans receivable related to the 90% of Elastic lines of credit originated by Republic Bank and sold to Elastic SPV.

Beginning in the fourth quarter of 2018, the Company also licenses its Rise installment loan brand to a third-party lender, FinWise Bank, which originates Rise installment loans in 19 states. Prior to August 1, 2019, Finwise Bank retained 5% of the balances of all originated loans and sold a 95% loan participation in those Rise installment loans to a third-party SPV, EF SPV. On August 1, 2019, EF SPV purchased an additional 1% participation in the outstanding portfolio with the participation percentage revised going forward to 96%. We do not own EF SPV, but we are required to consolidate EF SPV as a VIE under US GAAP and the condensed consolidated financial statements include revenue, losses and loans receivable related to the 96% of Rise installment loans originated by FinWise Bank and sold to EF SPV.

The information presented in the tables below on a combined basis are non-GAAP measures based on a combined portfolio of loans, which includes the total amount of outstanding loans receivable that we own and that are on our balance sheet plus outstanding loans receivable originated and owned by third parties that we guarantee pursuant to CSO programs in which we participate. See "—Basis of Presentation and Critical Accounting Policies—Allowance and liability for estimated losses on consumer loans" and "—Basis of Presentation and Critical Accounting Policies—Liability for estimated losses on credit service organization loans."

We believe these non-GAAP measures provide investors with important information needed to evaluate the magnitude of potential loan losses and the opportunity for revenue performance of the combined loan portfolio on an aggregate basis. We also believe that the comparison of the combined amounts from period to period is more meaningful than comparing only the amounts reflected on our balance sheet since both revenues and cost of sales as reflected in our financial statements are impacted by the aggregate amount of loans we own and those CSO loans we guarantee.

Our use of total combined loans and fees receivable has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under US GAAP. Some of these limitations are:

- Rise CSO loans are originated and owned by a third-party lender and
- Rise CSO loans are funded by a third-party lender and are not part of the VPC Facility.

As of each of the period ends indicated, the following table presents a reconciliation of:

- Loans receivable, net, Company owned (which reconciles to our Condensed Consolidated Balance Sheets included elsewhere in this Quarterly Report on Form 10-Q);
- Loans receivable, net, guaranteed by the Company (as disclosed in Note 3 of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q);
- Combined loans receivable (which we use as a non-GAAP measure); and
- Combined loan loss reserve (which we use as a non-GAAP measure).

(Dollars in thousands)	2018 September 30	2018 December 31	2019 March 31	2019 June 30	2019 September 30
Company Owned Loans:					
Loans receivable – principal, current, company owned	$ 525,717	$ 543,405	$ 491,208	$ 523,785	$ 543,565
Loans receivable – principal, past due, company owned	69,934	68,251	55,286	55,711	65,824
Loans receivable – principal, total, company owned	595,651	611,656	546,494	579,496	609,389
Loans receivable – finance charges, company owned	36,747	41,646	32,491	31,805	35,702
Loans receivable – company owned	632,398	653,302	578,985	611,301	645,091
Allowance for loan losses on loans receivable, company owned	(89,422)	(91,608)	(76,457)	(75,896)	(89,667)
Loans receivable, net, company owned	$ 542,976	$ 561,694	$ 502,528	$ 535,405	$ 555,424
Third Party Loans Guaranteed by the Company:					
Loans receivable – principal, current, guaranteed by company	$ 36,649	$ 35,529	$ 27,941	$ 21,099	$ 18,633
Loans receivable – principal, past due, guaranteed by company	1,661	1,353	696	596	697
Loans receivable – principal, total, guaranteed by company(1)	38,310	36,882	28,637	21,695	19,330
Loans receivable – finance charges, guaranteed by company(2)	3,103	2,944	2,164	1,676	1,553
Loans receivable – guaranteed by company	41,413	39,826	30,801	23,371	20,883
Liability for losses on loans receivable, guaranteed by company	(4,510)	(4,444)	(3,242)	(1,983)	(1,972)
Loans receivable, net, guaranteed by company(2)	$ 36,903	$ 35,382	$ 27,559	$ 21,388	$ 18,911
Combined Loans Receivable(3):					
Combined loans receivable – principal, current	$ 562,366	$ 578,934	$ 519,149	$ 544,884	$ 562,198
Combined loans receivable – principal, past due	71,595	69,604	55,982	56,307	66,521
Combined loans receivable – principal	633,961	648,538	575,131	601,191	628,719
Combined loans receivable – finance charges	39,850	44,590	34,655	33,481	37,255
Combined loans receivable	$ 673,811	$ 693,128	$ 609,786	$ 634,672	$ 665,974
Combined Loan Loss Reserve(3):					
Allowance for loan losses on loans receivable, company owned	$ (89,422)	$ (91,608)	$ (76,457)	$ (75,896)	$ (89,667)
Liability for losses on loans receivable, guaranteed by company	(4,510)	(4,444)	(3,242)	(1,983)	(1,972)
Combined loan loss reserve	$ (93,932)	$ (96,052)	$ (79,699)	$ (77,879)	$ (91,639)
Combined loans receivable – principal, past due(3)	$ 71,595	$ 69,604	$ 55,982	$ 56,307	$ 66,521
Combined loans receivable – principal(3)	$ 633,961	$ 648,538	$ 575,131	$ 601,191	$ 628,719
Percentage past due(1)	11%	11%	10%	9%	11%
Combined loan loss reserve as a percentage of combined loans receivable(3)(4)	14%	14%	13%	12%	14%
Allowance for loan losses as a percentage of loans receivable – company owned	14%	14%	13%	12%	14%

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(1) Represents loans originated by third-party lenders through the CSO programs, which are not included in our condensed consolidated financial statements.
(2) Represents finance charges earned by third-party lenders through the CSO programs, which are not included in our condensed consolidated financial statements.
(3) Non-GAAP measure.
(4) Combined loan loss reserve as a percentage of combined loans receivable is determined using period-end balances.

COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenues

Our revenues are composed of Rise finance charges and CSO fees (inclusive of finance charges attributable to the participation in Rise installment loans originated by FinWise Bank), finance charges on Sunny installment loans, cash advance fees attributable to the participation in Elastic lines of credit that we consolidate and marketing and licensing fees received from third-party lenders related to the Rise, Rise CSO and Elastic products. See "—Overview" above for further information on the structure of Elastic. Finance charge and fee revenues related to the test launch of the Today Card credit card product were immaterial.

Cost of sales

Provision for loan losses. Provision for loan losses consists of amounts charged against income during the period related to net charge-offs and the additional provision for loan losses needed to adjust the loan loss reserve to the appropriate amount at the end of each month based on our loan loss methodology.

Direct marketing costs. Direct marketing costs consist of online marketing costs such as sponsored search and advertising on social networking sites, and other marketing costs such as purchased television and radio air time and direct mail print advertising. In addition, direct marketing cost includes affiliate costs paid to marketers in exchange for referrals of potential customers. All direct marketing costs are expensed as incurred.

Other cost of sales. Other cost of sales includes data verification costs associated with the underwriting of potential customers, automated clearing house ("ACH") transaction costs associated with customer loan funding and payments, and settlement expense associated with UK affordability claims.

Operating expenses

Operating expenses consist of compensation and benefits, professional services, selling and marketing, occupancy and equipment, depreciation and amortization as well as other miscellaneous expenses.

Compensation and benefits. Salaries and personnel-related costs, including benefits, bonuses and share-based compensation expense, comprise a majority of our operating expenses and these costs are driven by our number of employees.

Professional services. These operating expenses include costs associated with legal, accounting and auditing, recruiting and outsourced customer support and collections.

Selling and marketing. Selling and marketing costs include costs associated with the use of agencies that perform creative services and monitor and measure the performance of the various marketing channels. Selling and marketing costs also include the production costs associated with media advertisements that are expensed as incurred over the licensing or production period. These expenses do not include direct marketing costs incurred to acquire customers, which comprises CAC.

Occupancy and equipment. Occupancy and equipment includes rent expense on our leased facilities, as well as telephony and web hosting expenses.

Depreciation and amortization. We capitalize all acquisitions of property and equipment of $500 or greater as well as certain software development costs. Costs incurred in the preliminary stages of software development are expensed. Costs incurred thereafter, including external direct costs of materials and services as well as payroll and payroll-related costs, are capitalized. Post-development costs are expensed. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets.

Other expense

Net interest expense. Net interest expense primarily includes the interest expense associated with the VPC Facility that funds the Rise and Sunny installment loans, the EF SPV Facility that funds Rise installment loans originated by FinWise Bank and the interest expense associated with the ESPV Facility related to the Elastic lines of credit and related Elastic SPV entity. For the nine months ended September 30, 2019 and 2018, amortization of the costs of and realized gains from the interest rate caps on the VPC and ESPV Facility are included within Net interest expense.

Foreign currency transaction loss. We incur foreign currency transaction gains and losses related to activities associated with our UK entity, Elevate Credit International, Ltd., primarily with regard to the VPC Facility used to fund Sunny installment loans.

Non-operating loss. Non-operating loss primarily includes gains and losses on adjustments to the fair value of derivatives not designated as cash flow hedges.

INCOME STATEMENT

The following table sets forth our condensed consolidated income statements data for each of the periods indicated:

Condensed consolidated income statements data (dollars in thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Revenues	$ 192,778	$ 201,480	$ 560,042	$ 579,394
Cost of sales:				
Provision for loan losses	101,047	113,896	266,503	294,636
Direct marketing costs	13,821	21,280	41,169	64,155
Other cost of sales	7,459	7,997	21,081	20,892
Total cost of sales	122,327	143,173	328,753	379,683
Gross profit	70,451	58,307	231,289	199,711
Operating expenses:				
Compensation and benefits	26,953	24,380	78,301	70,187
Professional services	8,715	9,789	27,274	26,475
Selling and marketing	1,794	2,170	5,845	7,525
Occupancy and equipment	5,054	4,553	15,285	13,302
Depreciation and amortization	4,350	3,490	12,940	9,167
Other	1,252	1,233	4,269	4,018
Total operating expenses	48,118	45,615	143,914	130,674
Operating income	22,333	12,692	87,375	69,037
Other expense:				
Net interest expense	(14,660)	(19,810)	(51,826)	(58,286)
Foreign currency transaction loss	(870)	(325)	(967)	(800)
Non-operating loss	(695)	—	(695)	(38)
Total other expense	(16,225)	(20,135)	(53,488)	(59,124)
Income (loss) before taxes	6,108	(7,443)	33,887	9,913
Income tax expense (benefit)	1,344	(3,209)	9,993	1,536
Net income (loss)	$ 4,764	$ (4,234)	$ 23,894	$ 8,377

As a percentage of revenues	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Cost of sales:				
Provision for loan losses	52 %	57 %	48 %	51 %
Direct marketing costs	7	11	7	11
Other cost of sales	4	4	4	4
Total cost of sales	63	71	59	66
Gross profit	37	29	41	34
Operating expenses:				
Compensation and benefits	14	12	14	12
Professional services	5	5	5	5
Selling and marketing	1	1	1	1
Occupancy and equipment	3	2	3	2
Depreciation and amortization	2	2	2	2
Other	1	1	1	1
Total operating expenses	25	23	26	23
Operating income	12	6	16	12
Other expense:				
Net interest expense	(8)	(10)	(9)	(10)
Foreign currency transaction loss	—	—	—	—
Non-operating loss	—	—	—	—
Total other expense	(8)	(10)	(10)	(10)
Income (loss) before taxes	3	(4)	6	2
Income tax expense (benefit)	1	(2)	2	1
Net income (loss)	2 %	(2)%	4 %	1 %

Comparison of the three months ended September 30, 2019 and 2018

Revenues

	Three Months Ended September 30,					
	2019		2018		Period-to-period change	
(Dollars in thousands)	Amount	Percentage of revenues	Amount	Percentage of revenues	Amount	Percentage
Finance charges	$ 192,034	100%	$ 200,416	99%	$ (8,382)	(4)%
Other	744	—	1,064	1	(320)	(30)
Revenues	$ 192,778	100%	$ 201,480	100%	$ (8,702)	(4)%

Revenues decreased by $8.7 million, or 4%, from $201.5 million for the three months ended September 30, 2018 to $192.8 million for the three months ended September 30, 2019. This decrease in revenues was primarily due to a decline in the effective APR of the combined loans receivable, partially offset by an increase in our average combined loans receivable - principal balance, as illustrated in the tables below. The decrease in Other revenues is due to a decrease in marketing and licensing fees related to the Rise CSO programs as our CSO partners stopped originating Rise CSO loans in Ohio in April 2019 due to a state law change.

The tables below break out this change in revenue (including CSO fees and cash advance fees) by product:

	Three Months Ended September 30, 2019				
(Dollars in thousands)	Rise (US)(1)	Elastic (US)(2)	Total Domestic	Sunny (UK)	Total
Average combined loans receivable – principal(3)	$ 320,104	$ 256,470	$ 576,574	$ 49,411	$ 625,985
Effective APR	126%	96%	113%	228%	122%
Finance charges	$ 101,402	$ 62,174	$ 163,576	$ 28,458	$ 192,034
Other	295	424	719	25	744
Total revenue	$ 101,697	$ 62,598	$ 164,295	$ 28,483	$ 192,778

	Three Months Ended September 30, 2018				
(Dollars in thousands)	Rise (US)(1)	Elastic (US)	Total Domestic	Sunny (UK)	Total
Average combined loans receivable – principal(3)	$ 293,312	$ 270,701	$ 564,013	$ 52,349	$ 616,362
Effective APR	139%	96%	119%	242%	129%
Finance charges	$ 102,787	$ 65,676	$ 168,463	$ 31,953	$ 200,416
Other	405	600	1,005	59	1,064
Total revenue	$ 103,192	$ 66,276	$ 169,468	$ 32,012	$ 201,480

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(1) Includes loans originated by third-party lenders through the CSO programs, which are not included in the Company's condensed consolidated financial statements.
(2) Includes immaterial balances related to the Today Card, which expanded its test launch in November 2018.
(3) Average combined loans receivable - principal is calculated using daily Combined loans receivable – principal balances. Not a financial measure prepared in accordance with US GAAP. See reconciliation table accompanying this release for a reconciliation of non-GAAP financial measures to the most directly comparable financial measure calculated in accordance with US GAAP.

Our average APR dropped from 129% in the third quarter of 2018 to 122% for the third quarter of 2019. The reduction in APR for the three months ended September 30, 2019 as compared to the prior year period resulted in a $10.9 million reduction in finance charges primarily from our Rise product as the average APR of a new Rise loan originated by a FinWise Bank customer is 130%; which is lower than our typical state-licensed Rise customer but with a better credit profile. This decrease was partially offset by a $3.0 million increase in finance charges that resulted from a $9.6 million increase in the average combined loans receivable - principal during the three months ended September 30, 2019 compared to the same prior year period.

Cost of sales

	Three Months Ended September 30,				Period-to-period change	
	2019		2018			
(Dollars in thousands)	Amount	Percentage of revenues	Amount	Percentage of revenues	Amount	Percentage
Cost of sales:						
Provision for loan losses	$ 101,047	52%	$ 113,896	57%	$ (12,849)	(11)%
Direct marketing costs	13,821	7	21,280	11	(7,459)	(35)
Other cost of sales	7,459	4	7,997	4	(538)	(7)
Total cost of sales	$ 122,327	63%	$ 143,173	71%	$ (20,846)	(15)%

Provision for loan losses. Provision for loan losses decreased by $12.8 million, or 11%, from $113.9 million for the three months ended September 30, 2018 to $101.0 million for the three months ended September 30, 2019 primarily due to a $13.4 million decrease in net charge-offs resulting from the improved credit quality partially offset by a minimal increase of $0.5 million in the additional provision for loan losses.

The tables below break out these changes by loan product:

	Three Months Ended September 30, 2019				
(Dollars in thousands)	Rise (US)	Elastic (US)(1)	Total Domestic	Sunny (UK)	Total
Combined loan loss reserve(2):					
Beginning balance	$ 41,393	$ 26,479	$ 67,872	$ 10,007	$ 77,879
Net charge-offs	(49,179)	(27,886)	(77,065)	(9,930)	(86,995)
Provision for loan losses	58,290	33,412	91,702	9,345	101,047
Effect of foreign currency	—	—	—	(292)	(292)
Ending balance	$ 50,504	$ 32,005	$ 82,509	$ 9,130	$ 91,639
Combined loans receivable(2)(3)	$ 349,264	$ 270,108	$ 619,372	$ 46,602	$ 665,974
Combined loan loss reserve as a percentage of ending combined loans receivable	14%	12%	13%	20%	14%
Net charge-offs as a percentage of revenues	48%	45%	47%	35%	45%
Provision for loan losses as a percentage of revenues	57%	53%	56%	33%	52%

(Dollars in thousands)	Three Months Ended September 30, 2018 Rise (US)	Elastic (US)	Total Domestic	Sunny (UK)	Total
Combined loan loss reserve(2):					
Beginning balance	$ 40,796	$ 29,394	$ 70,190	$ 10,341	$ 80,531
Net charge-offs	(53,990)	(33,103)	(87,093)	(13,252)	(100,345)
Provision for loan losses	61,716	38,243	99,959	13,937	113,896
Effect of foreign currency	—	—	—	(150)	(150)
Ending balance	$ 48,522	$ 34,534	$ 83,056	$ 10,876	$ 93,932
Combined loans receivable(2)(3)	$ 322,266	$ 298,564	$ 620,830	$ 52,981	$ 673,811
Combined loan loss reserve as a percentage of ending combined loans receivable	15%	12%	13%	21%	14%
Net charge-offs as a percentage of revenues	52%	50%	51%	41%	50%
Provision for loan losses as a percentage of revenues	60%	58%	59%	44%	57%

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(1) Includes immaterial balances related to the Today Card, which expanded its test launch in November 2018.
(2) Not a financial measure prepared in accordance with US GAAP. See "—Non-GAAP Financial Measures" for more information and for a reconciliation to the most directly comparable financial measure calculated in accordance with US GAAP.
(3) Includes loans originated by third-party lenders through the CSO programs, which are not included in our condensed consolidated financial statements.

Net charge-offs decreased $13.4 million for the three months ended September 30, 2019 compared to the three months ended September 30, 2018, due to the improved credit quality in all three products. Net charge-offs as a percentage of revenues for the three months ended September 30, 2019 was 45%, a decrease from 50% for the comparable period in 2018. Loan loss provision for the three months ended September 30, 2019 totaled 52% of revenues, lower than 57% for the three months ended September 30, 2018.

Direct marketing costs. Direct marketing costs decreased by $7.5 million, or 35%, from $21.3 million for the three months ended September 30, 2018 to $13.8 million for the three months ended September 30, 2019. The decrease is due to the measured growth we targeted as we focused on refining our new credit models during the third quarter of 2019. For the three months ended September 30, 2019, the number of new customers acquired decreased to 75,058 compared to 94,526 during the three months ended September 30, 2018. For the three months ended September 30, 2019 and 2018, our CAC was $184 and $225, respectively. We expect CAC to continue to be lower than our targeted range of $250 to $300 as we continue to optimize the efficiency of our marketing channels, specifically in the Rise portfolio originated by FinWise Bank, and benefit from decreased competition in the UK, although we may see some quarterly volatility in CAC.

Other cost of sales. Other cost of sales decreased by $0.5 million, or 7%, from $8.0 million for the three months ended September 30, 2018 to $7.5 million for the three months ended September 30, 2019 due to decreased data verification costs, partially offset by increased affordability claim settlement expenses related to the Sunny product.

Operating expenses

(Dollars in thousands)	Three Months Ended September 30, 2019 Amount		2019 Percentage of revenues	2018 Amount		2018 Percentage of revenues	Period-to-period change Amount		Period-to-period change Percentage
Operating expenses:									
Compensation and benefits	$	26,953	14%	$	24,380	12%	$	2,573	11 %
Professional services		8,715	5		9,789	5		(1,074)	(11)
Selling and marketing		1,794	1		2,170	1		(376)	(17)
Occupancy and equipment		5,054	3		4,553	2		501	11
Depreciation and amortization		4,350	2		3,490	2		860	25
Other		1,252	1		1,233	1		19	2
Total operating expenses	$	48,118	25%	$	45,615	23%	$	2,503	5 %

Compensation and benefits. Compensation and benefits increased by $2.6 million, or 11%, from $24.4 million for the three months ended September 30, 2018 to $27.0 million for the three months ended September 30, 2019 primarily due to an increase in the number of employees and amounts recognized under the CEO resignation agreement.

Professional services. Professional services decreased by $1.1 million, or 11%, from $9.8 million for the three months ended September 30, 2018 to $8.7 million for the three months ended September 30, 2019 primarily due to decreased contractor expenses and decreased legal expenses related to various regulatory matters offset by an increase in outsourced servicing expense.

Selling and marketing. Selling and marketing decreased by $0.4 million, or 17%, from $2.2 million for the three months ended September 30, 2018 to $1.8 million for the three months ended September 30, 2019 primarily due to decreased marketing agency fees.

Occupancy and equipment. Occupancy and equipment increased by $0.5 million, or 11%, from $4.6 million for the three months ended September 30, 2018 to $5.1 million for the three months ended September 30, 2019 primarily due to increased web hosting and data center costs as well as increased rent expense needed to support an increased number of employees.

Depreciation and amortization. Depreciation and amortization increased by $0.9 million, or 25%, from $3.5 million for the three months ended September 30, 2018 to $4.4 million for the three months ended September 30, 2019 primarily due to increased purchases of property and equipment, including depreciation on internally developed software.

Net interest expense

(Dollars in thousands)	Three Months Ended September 30, 2019 Amount		2019 Percentage of revenues	2018 Amount		2018 Percentage of revenues	Period-to-period change Amount		Period-to-period change Percentage
Net interest expense	$	14,660	8%	$	19,810	10%	$	(5,150)	(26)%

Net interest expense decreased 26% during the three months ended September 30, 2019 as compared to the prior year period. We had an average balance of $538.1 million in notes payable outstanding under our debt facilities in the third quarter of 2018, which increased to $543.5 million for the third quarter of 2019, resulting in additional interest expense of approximately $0.2 million. Our average effective interest rate on our notes payable outstanding has decreased from 14.6% for the three months ended September 30, 2018 to 10.7% for the three months ended September 30, 2019, resulting in a decrease in interest expense of approximately $5.3 million.

The following table shows the effective cost of funds of each debt facility for the period:

	Three Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**
VPC Facility		
Average facility balance during the period	$ 238,847	$ 313,610
Net interest expense	6,581	11,235
Effective cost of funds	10.9%	14.2%
EF SPV Facility		
Average facility balance during the period	$ 81,717	N/A
Net interest expense	2,113	N/A
Effective cost of funds	10.3%	N/A
ESPV Facility		
Average facility balance during the period	$ 222,957	$ 224,456
Net interest expense	5,966	8,575
Effective cost of funds	10.6%	15.2%

In January 2018, the Company entered into interest rate caps, which capped 3-month LIBOR at 1.75%, to mitigate the floating interest rate risk on $240 million of the US Term Notes included in the VPC Facility and on $216 million of the ESPV Facility. The interest rate caps matured on February 1, 2019. Additionally, effective February 1, 2019, the VPC Facility and ESPV Facility were amended and a new facility, the EF SPV Facility, was created. The amended facilities included reductions to the interest rates paid on our debt in addition to other changes. The reduction in interest rates was effective February 1, 2019 for the VPC Facility and the EF SPV Facility. The reduction in interest rates for the ESPV Facility was effective July 1, 2019. All existing debt outstanding under these facilities (excluding the 4th Tranche Term Note of $18.1 million under the VPC Facility) will have an effective cost of funds of approximately 10.3%. As a result, we expect interest expense in the fourth quarter of 2019 to continue to be lower than the prior year comparable periods. See "—Liquidity and Capital Resources—Debt facilities" for more information.

Foreign currency transaction loss

During the three months ended September 30, 2019, we realized a $0.9 million loss in foreign currency remeasurement primarily related to a portion of the debt facility that our UK entity, Elevate Credit International, Ltd., has with a third-party lender, VPC, which is denominated in US dollars. The foreign currency remeasurement loss for the three months ended September 30, 2018 was $0.3 million.

Non-operating loss

During the three months ended September 30, 2019, we recognized $0.7 million in non-operating losses related to the write-off of an internally developed software project.

Income tax expense (benefit)

	Three Months Ended September 30,								Period-to-period change	
	2019			2018						
(Dollars in thousands)		Amount	Percentage of revenues		Amount	Percentage of revenues		Amount	Percentage
Income tax expense (benefit)	$	1,344	1%	$	(3,209)	(2)%	$	4,553	(142)%

Our income tax expense increased $4.6 million, from a benefit of $(3.2) million for the three months ended September 30, 2018 to $1.3 million in expense for the three months ended September 30, 2019. Our consolidated effective tax rates for the three months ended September 30, 2019 and 2018 were 22% and 43%, respectively. Our effective tax rates are different from the standard corporate federal income tax rate of 21% in the US primarily due to permanent non-deductible items, corporate state tax obligations in the states where we have lending activities and the impact of the Global Intangible Low-Taxed Income ("GILTI") provision of the Tax Cuts and Jobs Act of 2017 (the "Act"). In 2018, we recognized additional tax benefits related to research and development tax credits for tax years prior to 2018. The Company's US cash effective tax rate was approximately 1.5% for the third quarter of 2019. Our UK operations have generated net operating losses which have a full valuation allowance provided due to the lack of sufficient objective evidence regarding the realizability of this asset. Therefore, no UK deferred tax benefit has been recognized in the condensed consolidated financial statements for the three months ended September 30, 2019 and 2018.

Net income (loss)

	Three Months Ended September 30,						Period-to-period change		
	2019			2018					
(Dollars in thousands)		Amount	Percentage of revenues		Amount	Percentage of revenues		Amount	Percentage
Net income (loss)	$	4,764	2%	$	(4,234)	(2)%	$	8,998	(213)%

Our net income increased $9.0 million, or 213%, from a net loss of $(4.2) million for the three months ended September 30, 2018 to $4.8 million in net income for the three months ended September 30, 2019 due to improved gross profit and lower interest expense offset by higher income tax expense.

Comparison of the nine months ended September 30, 2019 and 2018

Revenues

	Nine Months Ended September 30,					
	2019		2018		Period-to-period change	
(Dollars in thousands)	Amount	Percentage of revenues	Amount	Percentage of revenues	Amount	Percentage
Finance charges	$ 558,054	100%	$ 576,068	99%	$ (18,014)	(3)%
Other	1,988	—	3,326	1	(1,338)	(40)
Revenues	$ 560,042	100%	$ 579,394	100%	$ (19,352)	(3)%

Revenues decreased by $19.4 million, or 3%, from $579.4 million for the nine months ended September 30, 2018 to $560.0 million for the nine months ended September 30, 2019. This decrease in revenues was primarily due to a decline in the effective APR of the combined loans receivable, partially offset by an increase in our average combined loans receivable - principal balance, as illustrated in the tables below. The decrease in Other revenues is due to a decrease in marketing and licensing fees related to the Rise CSO programs as our CSO partners stopped originating Rise CSO loans in Ohio in April 2019 due to a state law change.

The tables below break out this change in revenue (including CSO fees and cash advance fees) by product:

	Nine Months Ended September 30, 2019				
(Dollars in thousands)	Rise (US)(1)	Elastic (US)(2)	Total Domestic	Sunny (UK)	Total
Average combined loans receivable – principal(3)	$ 299,443	$ 255,482	$ 554,925	$ 50,633	$ 605,558
Effective APR	128%	97%	114%	225%	123%
Finance charges	$ 286,671	$ 186,224	$ 472,895	$ 85,159	$ 558,054
Other	1,033	808	1,841	147	1,988
Total revenue	$ 287,704	$ 187,032	$ 474,736	$ 85,306	$ 560,042

	Nine Months Ended September 30, 2018				
(Dollars in thousands)	Rise (US)(1)	Elastic (US)	Total Domestic	Sunny (UK)	Total
Average combined loans receivable – principal(3)	$ 290,828	$ 253,648	$ 544,476	$ 52,098	$ 596,574
Effective APR	138%	97%	119%	235%	129%
Finance charges	$ 300,711	$ 183,877	$ 484,588	$ 91,480	$ 576,068
Other	1,670	1,425	3,095	231	3,326
Total revenue	$ 302,381	$ 185,302	$ 487,683	$ 91,711	$ 579,394

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(1) Includes loans originated by third-party lenders through the CSO programs, which are not included in the Company's condensed consolidated financial statements.
(2) Includes immaterial balances related to the Today Card, which expanded its test launch in November 2018.
(3) Average combined loans receivable - principal is calculated using daily Combined loans receivable – principal balances. Not a financial measure prepared in accordance with US GAAP. See reconciliation table accompanying this release for a reconciliation of non-GAAP financial measures to the most directly comparable financial measure calculated in accordance with US GAAP.

Our average APR dropped from 129% in the first nine months of 2018 to 123% for the first nine months of 2019. The reduction in APR for the nine months ended September 30, 2019 as compared to the prior year period resulted in a $26.8 million reduction in finance charges primarily from our Rise product as the average APR of a new Rise loan originated by a FinWise Bank customer is 130%; which is lower than our typical state-licensed Rise customer but with a better credit profile. This decrease was partially offset by a $8.3 million increase in finance charges that resulted from a $9.0 million increase in the average combined loans receivable - principal during the nine months ended September 30, 2019 compared to the same prior year period.

Cost of sales

	Nine Months Ended September 30,				Period-to-period change	
	2019		2018			
(Dollars in thousands)	**Amount**	**Percentage of revenues**	**Amount**	**Percentage of revenues**	**Amount**	**Percentage**
Cost of sales:						
Provision for loan losses	$ 266,503	48%	$ 294,636	51%	$ (28,133)	(10)%
Direct marketing costs	41,169	7	64,155	11	(22,986)	(36)
Other cost of sales	21,081	4	20,892	4	189	1
Total cost of sales	$ 328,753	59%	$ 379,683	66%	$ (50,930)	(13)%

Provision for loan losses. Provision for loan losses decreased by $28.1 million, or 10%, from $294.6 million for the nine months ended September 30, 2018 to $266.5 million for the nine months ended September 30, 2019 due to a $23.6 million decrease in net charge-offs and a decrease of $4.6 million in the additional provision for loan losses resulting from improved credit quality.

The tables below break out these changes by loan product:

	Nine Months Ended September 30, 2019				
(Dollars in thousands)	**Rise (US)**	**Elastic (US)(1)**	**Total Domestic**	**Sunny (UK)**	**Total**
Combined loan loss reserve(2):					
Beginning balance	$ 50,597	$ 36,050	$ 86,647	$ 9,405	$ 96,052
Net charge-offs	(147,189)	(92,287)	(239,476)	(31,113)	(270,589)
Provision for loan losses	147,096	88,242	235,338	31,165	266,503
Effect of foreign currency	—	—	—	(327)	(327)
Ending balance	$ 50,504	$ 32,005	$ 82,509	$ 9,130	$ 91,639
Combined loans receivable(2)(3)	$ 349,264	$ 270,108	$ 619,372	$ 46,602	$ 665,974
Combined loan loss reserve as a percentage of ending combined loans receivable	14%	12%	13%	20%	14%
Net charge-offs as a percentage of revenues	51%	49%	50%	36%	48%
Provision for loan losses as a percentage of revenues	51%	47%	50%	37%	48%

	Nine Months Ended September 30, 2018				
(Dollars in thousands)	**Rise (US)**	**Elastic (US)**	**Total Domestic**	**Sunny (UK)**	**Total**
Combined loan loss reserve(2):					
Beginning balance	$ 55,867	$ 28,870	$ 84,737	$ 9,052	$ 93,789
Net charge-offs	(166,931)	(91,278)	(258,209)	(35,934)	(294,143)
Provision for loan losses	159,586	96,942	256,528	38,108	294,636
Effect of foreign currency	—	—	—	(350)	(350)
Ending balance	$ 48,522	$ 34,534	$ 83,056	$ 10,876	$ 93,932
Combined loans receivable(2)(3)	$ 322,266	$ 298,564	$ 620,830	$ 52,981	$ 673,811
Combined loan loss reserve as a percentage of ending combined loans receivable	15%	12%	13%	21%	14%
Net charge-offs as a percentage of revenues	55%	49%	53%	39%	51%
Provision for loan losses as a percentage of revenues	53%	52%	53%	42%	51%

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(1) Includes immaterial balances related to the Today Card, which expanded its test launch in November 2018.
(2) Not a financial measure prepared in accordance with US GAAP. See "—Non-GAAP Financial Measures" for more information and for a reconciliation to the most directly comparable financial measure calculated in accordance with US GAAP.
(3) Includes loans originated by third-party lenders through the CSO programs, which are not included in our condensed consolidated financial statements.

Net charge-offs decreased $23.6 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, due to the improved credit quality, with the primary decrease attributed to the Rise product. Net charge-offs as a percentage of revenues for the nine months ended September 30, 2019 was 48%, a decrease from 51% for the comparable period in 2018. Loan loss provision for the nine months ended September 30, 2019 totaled 48% of revenues, lower than 51% for the nine months ended September 30, 2018.

Direct marketing costs. Direct marketing costs decreased by $23.0 million, or 36%, from $64.2 million for the nine months ended September 30, 2018 to $41.2 million for the nine months ended September 30, 2019. The decrease is due to the measured growth we targeted in the first nine months of 2019 as we focused on deploying our new credit models. For the nine months ended September 30, 2019, the number of new customers acquired decreased to 196,184 compared to 249,807 during the nine months ended September 30, 2018. For the nine months ended September 30, 2019 and 2018, our CAC was $210 and $257, respectively. We expect CAC to continue to be lower than our targeted range of $250 to $300 as we continue to optimize the efficiency of our marketing channels, specifically in the Rise portfolio originated by FinWise Bank, and benefit from decreased competition in the UK, although we may see some quarterly volatility in CAC.

Other cost of sales. Other cost of sales increased by $0.2 million, or 1%, from $20.9 million for the nine months ended September 30, 2018 to $21.1 million for the nine months ended September 30, 2019 due to increased affordability claim settlement expenses primarily related to the Sunny product partially offset by decreased data verification costs incurred from the lower new customer loan volume across all products.

Operating expenses

	Nine Months Ended September 30,				Period-to-period change	
	2019		2018			
(Dollars in thousands)	Amount	Percentage of revenues	Amount	Percentage of revenues	Amount	Percentage
Operating expenses:						
Compensation and benefits	$ 78,301	14%	$ 70,187	12%	$ 8,114	12 %
Professional services	27,274	5	26,475	5	799	3
Selling and marketing	5,845	1	7,525	1	(1,680)	(22)
Occupancy and equipment	15,285	3	13,302	2	1,983	15
Depreciation and amortization	12,940	2	9,167	2	3,773	41
Other	4,269	1	4,018	1	251	6
Total operating expenses	$ 143,914	26%	$ 130,674	23%	$ 13,240	10 %

Compensation and benefits. Compensation and benefits increased by $8.1 million, or 12%, from $70.2 million for the nine months ended September 30, 2018 to $78.3 million for the nine months ended September 30, 2019 primarily due to an increase in the number of employees and amounts recognized under the CEO resignation agreement.

Professional services. Professional services increased by $0.8 million, or 3%, from $26.5 million for the nine months ended September 30, 2018 to $27.3 million for the nine months ended September 30, 2019 primarily due to increased legal expenses related to various regulatory matters and outsourced servicing expense, partially offset by decreased consulting expenses.

Selling and marketing. Selling and marketing decreased by $1.7 million, or 22%, from $7.5 million for the nine months ended September 30, 2018 to $5.8 million for the nine months ended September 30, 2019 primarily due to decreased marketing agency fees.

Occupancy and equipment. Occupancy and equipment increased by $2.0 million, or 15%, from $13.3 million for the nine months ended September 30, 2018 to $15.3 million for the nine months ended September 30, 2019 primarily due to increased web hosting expense, increased licenses, and increased rent expense needed to support a greater number of employees.

Depreciation and amortization. Depreciation and amortization increased by $3.8 million, or 41%, from $9.2 million for the three months ended September 30, 2018 to $12.9 million for the three months ended September 30, 2019 primarily due to increased purchases of property and equipment, including depreciation on internally developed software.

Net interest expense

	Nine Months Ended September 30,				Period-to-period change	
	2019		2018			
(Dollars in thousands)	Amount	Percentage of revenues	Amount	Percentage of revenues	Amount	Percentage
Net interest expense	$ 51,826	9%	$ 58,286	10%	$ (6,460)	(11)%

Net interest expense decreased $6.5 million, or 11%, during the nine months ended September 30, 2019 as compared to the prior year period. For the first nine months of 2018, we had an average balance of $527.8 million in notes payable outstanding under our debt facilities, which increased to $548.2 million for the first nine months of 2019, resulting in additional interest expense of approximately $1.9 million. Our average effective interest rate on our notes payable outstanding has decreased from 14.8% for the nine months ended September 30, 2018 to 12.6% for the nine months ended September 30, 2019, resulting in a decrease in interest expense of approximately $8.4 million. In addition, we incurred an $850 thousand prepayment penalty during the second quarter of 2019 for the early repayment on the 4th Tranche Term Note that is included in interest expense within the VPC Facility.

The following table shows the effective cost of funds of each debt facility for the period:

	Nine Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**
VPC Facility		
Average facility balance during the period	$ 258,391	$ 309,199
Net interest expense	22,979	33,553
Less: prepayment penalty associated with the early repayment on the 4th Tranche Term Note	(850)	—
Net interest expense, as adjusted	$ 22,129	$ 33,553
Effective cost of funds	11.9%	14.5%
Effective cost of funds, as adjusted	11.5%	14.5%
EF SPV Facility		
Average facility balance during the period	$ 62,436	N/A
Net interest expense	4,926	N/A
Effective cost of funds	10.6%	N/A
ESPV Facility		
Average facility balance during the period	$ 227,395	$ 218,557
Net interest expense	23,920	24,733
Effective cost of funds	14.1%	15.1%

In January 2018, the Company entered into interest rate caps, which capped 3-month LIBOR at 1.75%, to mitigate the floating interest rate risk on $240 million of the US Term Notes included in the VPC Facility and on $216 million of the ESPV Facility. The interest rate caps matured on February 1, 2019. Additionally, effective February 1, 2019, the VPC Facility and ESPV Facility were amended and a new facility, the EF SPV Facility, was created. The amended facilities included reductions to the interest rates paid on our debt in addition to other changes. The reduction in interest rates was effective February 1, 2019 for the VPC Facility and the EF SPV Facility. The reduction in interest rates for the ESPV Facility was effective July 1, 2019. All existing debt outstanding under these facilities (excluding the 4th Tranche Term Note of $18.1 million under the VPC Facility) will have an effective cost of funds of approximately 10.3%. As a result, we expect interest expense in the fourth quarter of 2019 to continue to be lower than the prior year comparable periods. See "—Liquidity and Capital Resources-Debt facilities" for more information.

Foreign currency transaction loss

During the nine months ended September 30, 2019, we realized a $1.0 million loss in foreign currency remeasurement primarily related to a portion of the debt facility that our UK entity, Elevate Credit International, Ltd., has with a third-party lender, VPC, which is denominated in US dollars. The foreign currency remeasurement loss for the nine months ended September 30, 2018 was $0.8 million.

Non-operating loss

During the nine months ended September 30, 2018, we recognized a minimal non-operating loss related to the change in fair value on the embedded derivative in the Convertible Term Notes. During the nine months ended September 30, 2019, we recognized $0.7 million in non-operating losses related to the write-off of an internally developed software project.

Income tax expense

	Nine Months Ended September 30,				Period-to-period change	
	2019		2018			
(Dollars in thousands)	Amount	Percentage of revenues	Amount	Percentage of revenues	Amount	Percentage
Income tax expense	$ 9,993	2%	$ 1,536	1%	$ 8,457	551%

Our income tax expense increased $8.5 million, or 551%, from $1.5 million in expense for the nine months ended September 30, 2018 to $10.0 million in expense for the nine months ended September 30, 2019. Our consolidated effective tax rates for the nine months ended September 30, 2019 and 2018 were 29.5% and 15.5%, respectively. Our effective tax rates are different from the standard corporate federal income tax rate of 21% in the US primarily due to our permanent non-deductible items, corporate state tax obligations in the states where we have lending activities and the impact of the GILTI provision of the Act. For the nine months ended September 30, 2018, we recognized additional tax benefits associated with research and development tax credits for tax years prior to 2018. The Company's US cash effective tax rate was approximately 1.5% for the first nine months of 2019. Our UK operations have generated net operating losses which have a full valuation allowance provided due to the lack of sufficient objective evidence regarding the realizability of this asset. Therefore, no UK deferred tax benefit has been recognized in the condensed consolidated financial statements for the nine months ended September 30, 2019 and 2018.

Net income

	Nine Months Ended September 30,				Period-to-period change	
	2019		2018			
(Dollars in thousands)	Amount	Percentage of revenues	Amount	Percentage of revenues	Amount	Percentage
Net income (loss)	$ 23,894	4%	$ 8,377	1%	$ 15,517	185%

Our net income increased $15.5 million, or 185%, from $8.4 million for the nine months ended September 30, 2018 to $23.9 million for the nine months ended September 30, 2019 due to improved gross profit and lower interest expense offset by increased operating expense and income tax expense.

LIQUIDITY AND CAPITAL RESOURCES

We principally rely on our working capital, funds from third-party lenders under the CSO programs, and our credit facility with VPC to fund the loans we make to our customers.

On July 25, 2019, the Company's Board of Directors authorized a share repurchase program providing for the repurchase of up to $10 million of our common stock through July 31, 2024. The share repurchase program provides that up to a maximum aggregate amount of $5 million shares may be repurchased in any given fiscal year. Repurchases will be made in accordance with applicable securities laws from time-to-time in the open market and/or in privately negotiated transactions at our discretion, subject to market conditions and other factors. The share repurchase program does not require the purchase of any minimum number of shares and may be implemented, modified, suspended or discontinued in whole or in part at any time without further notice. Any repurchased shares will be available for use in connection with equity plans and for other corporate purposes. During the nine months ended September 30, 2019, 91,370 shares were repurchased at a total cost of $434 thousand, inclusive of any transactional fees or commissions.

Debt Facilities

VPC Facility

VPC Facility Term Notes

On January 30, 2014, we entered into the VPC Facility in order to fund our Rise and Sunny products and provide working capital. The VPC Facility has been amended several times, with the most recent amendment effective February 1, 2019, to increase the maximum total borrowing amount available and other terms of the VPC Facility.

The VPC Facility provided the following term notes as of September 30, 2019:

- A maximum borrowing amount of $350 million used to fund the Rise loan portfolio ("US Term Note"). Prior to the February 1, 2019 amendment, the interest rate paid on this facility was a base rate (defined as the 3-month LIBOR, with a 1% floor) plus 11%. This resulted in a blended interest rate paid of 12.79% on debt outstanding under this facility as of December 31, 2018. Upon the February 1, 2019 amendment date, the interest rate on the debt outstanding as of the amendment date was fixed through the January 1, 2024 maturity date at 10.23% (base rate of 2.73% plus 7.5%). All future borrowings under this facility will bear an interest rate at a base rate (defined as the greater of 3-month LIBOR, the five-year LIBOR swap rate or 1%) plus 7.5% at the borrowing date. The weighted average base rate on the outstanding balance at September 30, 2019 was 2.73% and the overall interest rate was 10.23%.
- A maximum borrowing amount of $123 million used to fund the UK Sunny loan portfolio ("UK Term Note"). Prior to the February 1, 2019 amendment, the interest rate paid on this facility was a base rate (defined as the 3-month LIBOR) plus 14%. This resulted in a blended interest rate paid of 16.74% on debt outstanding under this facility as of December 31, 2018. Upon the February 1, 2019 amendment date, the interest rate on the debt outstanding as of the amendment date was fixed through the January 1, 2024 maturity date at 10.23% (base rate of 2.73% plus 7.5%). All future borrowings under this facility will bear an interest rate at a base rate (defined as the greater of 3-month LIBOR, the five-year LIBOR swap rate or 1%) plus 7.5% at the borrowing date. The weighted average base rate on the outstanding balance at September 30, 2019 was 2.73% and the overall interest rate was 10.23%.
- A maximum borrowing amount of $18 million used to fund working capital, and prior to February 1, 2019, at a base rate (defined as the 3-month LIBOR, with a 1% floor) plus 13% ("4th Tranche Term Note"). Upon the February 1, 2019 amendment date, the interest rate was fixed through the February 1, 2021 maturity date at a base rate of 2.73% plus 13%. The interest rate at September 30, 2019 and December 31, 2018 was 15.73% and 15.74%, respectively. There was no change in the interest rate spread on this facility upon the February 1, 2019 amendment.
- A revolving feature which provides the option to pay down up to 20% of the outstanding balance, excluding the 4th Tranche Term Note, once per year during the first quarter. Amounts paid down may be drawn again at a later date prior to maturity.

There are no principal payments due or scheduled under the VPC Facility until the respective maturity dates of the US Term Note, the UK Term Note and the 4th Tranche Term Note. The 4th Tranche Term Note matures on February 1, 2021. The US Term Note and the UK Term Note mature on January 1, 2024.

All of our assets are pledged as collateral to secure the VPC Facility. The agreement contains customary financial covenants, including minimum cash and excess spread requirements, maximum roll rate and charge-off rate levels, maximum loan-to-value ratios and a minimum book value of equity requirement. We were in compliance with all covenants as of September 30, 2019.

EF SPV Facility

EF SPV Term Note

EF SPV receives its funding from VPC in the EF SPV Facility which was finalized on February 1, 2019. Prior to the execution of the agreement with VPC, EF SPV was a borrower on the US Term Note under the VPC Facility. The EF SPV Term Note has a $150 million commitment amount. The interest rate on the debt outstanding as of the amendment date was fixed through the January 1, 2024 maturity date at 10.23% (base rate of 2.73% plus 7.5%). All future borrowings under this facility will bear an interest rate at a base rate (defined as the greater of 3-month LIBOR, the five-year LIBOR swap rate or 1%) plus 7.5% at the borrowing date. The weighted average base rate on the $87 million outstanding balance at September 30, 2019 was 2.59% and the overall interest rate was 10.09%. The EF SPV Term Note has a revolving feature which provides the option to pay down up to 20% of the outstanding balance once per year during the first quarter. Amounts paid down may be drawn again at a later date prior to maturity. There are no principal payments due or scheduled prior to the maturity date of January 1, 2024.

All of our assets are pledged as collateral to secure the EF SPV Term Note. The agreement contains customary financial covenants, including minimum cash and excess spread requirements, maximum roll rate and charge-off rate levels, maximum loan-to-value ratios and a minimum book value of equity requirement. We were in compliance with all covenants as of September 30, 2019.

ESPV Facility

ESPV Term Note

Elastic SPV receives its funding from VPC in the ESPV Facility, which was finalized on July 13, 2015 and amended effective February 1, 2019. The ESPV Facility has a maximum borrowing amount of $350 million used to purchase loan participations from a third-party lender. Prior to the February 1, 2019 amendment, the interest rate paid on this facility was a base rate (defined as the greater of the 3-month LIBOR rate or 1% per annum) plus 13% for the outstanding balance up to $50 million, plus 12% for the outstanding balance greater than $50 million up to $100 million, plus 13.5% for any amounts greater than $100 million up to $150 million, and plus 12.75% for borrowing amounts greater than $150 million. This resulted in a blended interest rate paid of 14.65% on debt outstanding under this facility at December 31, 2018. Upon the February 1, 2019 amendment date, the interest rate on the debt outstanding as of the amendment date was fixed at 10.22% (base rate of 2.73% plus 12.75%). Effective July 1, 2019, the interest rate on the debt outstanding as of the amendment date is 10.23% (base rate of 2.73% plus 7.50%). All future borrowings under this facility after July 1, 2019 will bear an interest rate at a base rate (defined as the greater of 3-month LIBOR, the five-year LIBOR swap rate or 1%) plus 7.5% at the borrowing date. The weighted average base rate on the outstanding balance at September 30, 2019 was 2.72% and the overall interest rate was 10.22%. The Company entered into an interest rate cap on January 11, 2018 to mitigate the floating rate interest risk on the $216 million then outstanding. The interest rate cap matured on February 1, 2019. There are no principal payments due or scheduled until the credit facility maturity date of January 1, 2024. The ESPV Term Note has a revolving feature which provides the option to pay down up to 20% of the outstanding balance once per year during the first quarter. Amounts paid down may be drawn again at a later date prior to maturity.

All of our assets are pledged as collateral to secure the ESPV Facility. The agreement contains customary financial covenants, including minimum cash and excess spread requirements, maximum roll rate and charge-off rate levels, maximum loan-to-value ratios and a minimum book value of equity requirement. We were in compliance with all covenants as of September 30, 2019.

Outstanding Notes Payable

The outstanding balances of notes payable as of September 30, 2019 and December 31, 2018 are as follows:

(Dollars in thousands)	September 30, 2019	December 31, 2018
US Term Note bearing interest at the base rate + 7.5% (2019) and 11% (2018)	$ 182,000	$ 250,000
UK Term Note bearing interest at the base rate + 7.5% (2019) + 14% (2018)	38,770	39,196
4th Tranche Term Note bearing interest at the base rate + 13%	18,050	35,050
EF SPV Term Note bearing interest at the base rate + 7.5%	87,000	—
ESPV Term Note bearing interest at the base rate + 7.5% (2019) and + 12-13.5% (2018)	226,000	239,000
Total	$ 551,820	$ 563,246

The change in the facility balances includes the following:

- US Term Note - $43 million re-allocation to new EF SPV facility and pay down of $25 million in the first quarter of 2019 under the revolver component of the facility;
- 4th Tranche Term Note - $17 million early repayment in the second quarter of 2019;
- EF SPV Term note - $43 million re-allocation from US Term Note in the first quarter of 2019 and additional draws of $10 million, $17 million and $17 million in the first, second and third quarters of 2019, respectively; and
- ESPV Term Note - Pay-down of $18 million in the first quarter of 2019 under the revolver component of the facility and an additional draw of $5 million in the third quarter of 2019.

The following table presents the future debt maturities as of September 30, 2019:

Year (dollars in thousands)	September 30, 2019
Remainder of 2019	$ —
2020	—
2021	18,050
2022	—
2023	—
Thereafter	533,770
Total	$ 551,820

Cash and cash equivalents, restricted cash, loans (net of allowance for loan losses), and cash flows

The following table summarizes our cash and cash equivalents, restricted cash, loans receivable, net and cash flows for the periods indicated:

(Dollars in thousands)	As of and for the nine months ended September 30, 2019	2018
Cash and cash equivalents	$ 77,337	$ 54,794
Restricted cash	2,290	1,593
Loans receivable, net	555,424	542,976
Cash provided by (used in):		
Operating activities	269,105	257,150
Investing activities	(234,250)	(277,091)
Financing activities	(15,611)	33,719

Our cash and cash equivalents at September 30, 2019 were held primarily for working capital purposes. We may, from time to time, use excess cash and cash equivalents to fund our lending activities, paydown debt or repurchase stock. We do not enter into investments for trading or speculative purposes. Our policy is to invest any cash in excess of our immediate working capital requirements in investments designed to preserve the principal balance and provide liquidity. Accordingly, our excess cash is invested primarily in demand deposit accounts that are currently providing only a minimal return.

Net cash provided by operating activities

We generated $269.1 million in cash from our operating activities for the nine months ended September 30, 2019, primarily from revenues derived from our loan portfolio. This was up $12.0 million from the $257.2 million of cash provided by operating activities during the nine months ended September 30, 2018. This increase was the result of the expansion of our gross profit, which contributed to the $15.5 million increase in our net income for the nine months ended September 30, 2019 compared to the same prior year period.

Net cash used in investing activities

For the nine months ended September 30, 2019 and 2018, cash used in investing activities was $234.3 million and $277.1 million, respectively. The decrease was primarily due to a decrease in net loans issued to customers. The following table summarizes cash used in investing activities for the periods indicated:

(Dollars in thousands)	Nine Months Ended September 30, 2019	2018
Cash used in investing activities		
Net loans issued to consumers, less repayments	$ (209,008)	$ (250,914)
Participation premium paid	(4,530)	(4,740)
Purchases of property and equipment	(20,712)	(21,437)
	$ (234,250)	$ (277,091)

Net cash provided by (used in) financing activities

Cash flows from financing activities primarily include cash received from issuing notes payable, payments on notes payable, and activity related to stock awards. For the nine months ended September 30, 2019 and 2018, cash provided by (used in) financing activities was $(15.6) million and $33.7 million, respectively. The following table summarizes cash provided by (used in) financing activities for the periods indicated:

	Nine Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**
Cash provided by (used in) financing activities		
Proceeds from issuance of Notes payable, net	$ 49,000	$ 35,932
Payments on Notes payable	(60,000)	—
Debt issuance costs paid	(2,597)	(25)
Debt prepayment costs paid	(850)	—
Cash paid for interest rate caps	—	(1,367)
Settlement of derivative liability	—	(2,010)
Common stock repurchased	(434)	—
Proceeds from issuance of stock, net	619	1,405
Taxes paid related to net share settlement	(1,349)	(216)
	$ (15,611)	$ 33,719

The decrease in cash provided by financing activities for the nine months ended September 30, 2019 versus the comparable period of 2018 was primarily due to payments made on notes payable made during 2019.

Free Cash Flow

In addition to the above, we also review FCF when analyzing our cash flows from operations. We calculate free cash flow as cash flows from operating activities, adjusted for the principal loan net charge-offs and capital expenditures incurred during the period. While this is a non-GAAP measure, we believe it provides a useful presentation of cash flows derived from our core operating activities.

	Nine Months Ended September 30,	
(Dollars in thousands)	**2019**	**2018**
Net cash provided by operating activities	$ 269,105	$ 257,150
Adjustments:		
Net charge-offs – combined principal loans	(209,571)	(229,487)
Capital expenditures	(20,712)	(21,437)
FCF	$ 38,822	$ 6,226

Our FCF was $38.8 million for the first nine months of 2019 compared to $6.2 million for the comparable prior year period. The increase in our FCF was the result of the increase in cash provided by operations and a decrease in net charge-offs - combined principal loans during the first nine months of 2019.

Operating and capital expenditure requirements

We believe that our existing cash balances, together with the available borrowing capacity under our VPC Facility, EF SPV Facility and ESPV Facility, will be sufficient to meet our anticipated cash operating expense and capital expenditure requirements through at least the next 12 months. If our loan growth exceeds our expectations, our available cash balances may be insufficient to satisfy our liquidity requirements, and we may seek additional equity or debt financing. This additional capital may not be available on reasonable terms, or at all.

CONTRACTUAL OBLIGATIONS

Our principal commitments consist of obligations under our debt facilities and operating lease obligations. There have been no material changes to our contractual obligations since December 31, 2018, with the exception of the amendments of our debt facilities discussed previously. See "—Liquidity and Capital Resources."

OFF-BALANCE SHEET ARRANGEMENTS

We provide services in connection with installment loans originated by independent third-party lenders ("CSO lenders") whereby we act as a credit service organization/credit access business on behalf of consumers in accordance with applicable state laws through our "CSO program." The CSO program includes arranging loans with CSO lenders, assisting in the loan application, documentation and servicing processes. Under the CSO program, we guarantee the repayment of a customer's loan to the CSO lenders as part of the credit services we provide to the customer. A customer who obtains a loan through the CSO program pays us a fee for the credit services, including the guaranty, and enters into a contract with the CSO lenders governing the credit services arrangement. We estimate a liability for losses associated with the guaranty provided to the CSO lenders using assumptions and methodologies similar to the allowance for loan losses, which we recognize for our consumer loans.

RECENT REGULATORY DEVELOPMENTS

During the year ended December 31, 2018, our UK business began to receive an increased number of customer complaints initiated by claims management companies ("CMCs") related to the affordability assessment of certain loans. If our evidence supports the affordability assessment and we reject the claim, the customer has the right to take the complaint to the Financial Ombudsman Service for further adjudication. The CMCs' campaign against the high cost lending industry increased significantly during the third and fourth quarters of 2018 and continued during the first half of 2019 resulting in a significant increase in affordability claims against all companies in the industry during this period. We believe that many of the increased claims are without merit and reflect the use of abusive and deceptive tactics by the CMCs. The Financial Conduct Authority ("FCA"), a regulator in the UK financial services industry, began regulating the CMCs in April 2019 in order to ensure that the methods used by the CMCs are in the best interests of the consumer and the industry. As of September 30, 2019, we accrued approximately $2.2 million for the claims received that were determined to be probable and reasonably estimable based on the Company's historical loss rates related to these claims. The outcomes of the adjudication of these claims may differ from the Company's estimates, and as a result, our estimates may change in the near term and the effect of any such change could be material to the financial statements. We continue to monitor the matters for further developments that could affect the amount of the accrued liability recognized.

Separately, the FCA asked all industry participants to review their lending practices to ensure that such companies are using an appropriate affordability and creditworthiness analysis. Our UK business provided the requested information to the FCA. The FCA recently reported back to us and asked our UK business to tighten certain aspects of its income verification and expenditure processes. We are working with the FCA to ensure the changes we make address all matters raised by the FCA.

On October 25, 2019, the Company's UK subsidiary, ECI, entered into an agreement with the Financial Conduct Authority ("FCA") (the "Agreement") to not make any payments greater than £1.0 million outside of the normal course of business without obtaining prior approval from the FCA. The Company believes this Agreement will not have a material impact on ECI's ability to continue to serve its customers and meet its obligations.

On May 7, 2019, the Consumer Financial Protection Bureau (the "CFPB") proposed amendments to Regulation F, which implements the FDCPA. The Bureau's proposal would, among other things, address communications in connection with debt collection; interpret and apply prohibitions on harassment or abuse, false or misleading representations, and unfair practices in debt collection; and clarify requirements for certain consumer-facing debt collection disclosures. The public comment period on the proposed amendments closed on September 18, 2019. Once a final rule is promulgated, we will take the necessary steps to ensure that the third-party debt collectors we work with are compliant with the final rule.On October 10, 2019, AB 539 was signed by the Governor and chaptered by the California Secretary of State. The new law imposes an interest rate cap on all consumer loans made by Consumer Finance Lenders licensees between $2,500 and $10,000 of 36% plus the Federal Funds Rate. Effective January 1, 2020, RISE will no longer make state licensed loans under the California Consumer Finance Lenders Law.

California Attorney General Xavier Becerra has issued draft regulations to guide covered businesses' implementation of the California Consumer Privacy Act ("CCPA") which becomes operative on January 1, 2020. The CCPA imposes obligations on the handling of consumers' personal information by businesses, including required disclosures to consumers; consumer access, deletion, and opt-out rights; and an individual private right of action relating to a failure to maintain reasonable security procedures and practices leading to a security breach, as defined by the CCPA. The CCPA applies to Elevate with respect to information that is not collected for GLBA purposes (i.e., not in the context of the provision of financial services primarily used for personal, family, or household purposes) and is not related to personal information subject to California's Financial Information Privacy Act and personal consumer report information under the Fair Credit Reporting Act. While it is too early to know its full impact, implementation of the CCPA and its related requirements could increase costs or otherwise adversely affect our business in the California market.

Another California bill, AB 1202, was signed into law on October 11, 2019 with an effective date of January 1, 2020. This new law requires data brokers that collect and sell personal consumer information of persons with whom they do not have a direct relationship and who are not exempted under the Fair Credit Reporting Act and the Gramm-Leach-Bliley Act to register with the California Attorney General's office. We are evaluating our third-party vendor contracts to ensure those vendors we work with in California are compliant with this new law.

BASIS OF PRESENTATION AND CRITICAL ACCOUNTING POLICIES

Revenue recognition

We recognize consumer loan fees as revenues for each of the loan products we offer. Revenues on the Condensed Consolidated Statements of Operations include: finance charges, lines of credit fees, fees for services provided through CSO programs (“CSO fees”), and interest, as well as any other fees or charges permitted by applicable laws and pursuant to the agreement with the borrower. We also record revenues related to the sale of customer applications to unrelated third parties. These applications are sold with the customer’s consent in the event that we or our CSO lenders are unable to offer the customer a loan. Revenue is recognized at the time of the sale. Other revenues also include marketing and licensing fees received from the originating lender related to the Elastic product and Rise bank-originated loans and from CSO fees related to the Rise product. Revenues related to these fees are recognized when the service is performed.

We accrue finance charges on installment loans on a constant yield basis over their terms. We accrue and defer fixed charges such as CSO fees and lines of credit fees when they are assessed and recognize them to earnings as they are earned over the life of the loan. We accrue interest on credit cards based on the amount of the loan outstanding and their contractual interest rate. Credit card membership fees are amortized to revenue over the card membership period. Other credit card fees, such as late payment fees and returned payment fees, are accrued when assessed. We do not accrue finance charges and other fees on installment loans or lines of credit for which payment is greater than 60 days past due. Credit card interest charges are recognized based on the contractual provisions of the underlying arrangements and are not accrued for which payment is greater than 90 days past due. Installment loans and lines of credit are considered past due if a grace period has not been requested and a scheduled payment is not paid on its due date. Credit cards have a grace period of 25 days. Payments received on past due loans are applied against the loan and accrued interest balance to bring the loan current. Payments are generally first applied to accrued fees and interest, and then to the principal loan balance.

Our business is affected by seasonality, which can cause significant changes in portfolio size and profit margins from quarter to quarter. Although this seasonality does not impact our policies for revenue recognition, it does generally impact our results of operations by potentially causing an increase in its profit margins in the first quarter of the year and decreased margins in the second through fourth quarters.

Allowance and liability for estimated losses on consumer loans

We have adopted Financial Accounting Standards Board ("FASB") guidance for disclosures about the credit quality of financing receivables and the allowance for loan losses ("allowance"). We maintain an allowance for loan losses for loans and interest receivable for loans not classified as TDRs at a level estimated to be adequate to absorb credit losses inherent in the outstanding loans receivable. We primarily utilize historical loss rates by product, stratified by delinquency ranges, to determine the allowance, but we also consider recent collection and delinquency trends, as well as macro-economic conditions that may affect portfolio losses. Additionally, due to the uncertainty of economic conditions and cash flow resources of our customers, the estimate of the allowance for loan losses is subject to change in the near-term and could significantly impact the consolidated financial statements. If a loan is deemed to be uncollectible before it is fully reserved, it is charged-off at that time. For loans classified as TDRs, impairment is typically measured based on the present value of the expected future cash flows discounted at the original effective interest rate.

We classify loans as either current or past due. An installment loan or line of credit customer in good standing may request a 16-day grace period when or before a payment becomes due and, if granted, the loan is considered current during the grace period. Credit card customers have a 25-day grace period for each payment. Installment loans and lines of credit are considered past due if a grace period has not been requested and a scheduled payment is not paid on its due date. Credit cards are considered past due if the grace period has passed and the scheduled payment has not been made. Increases in the allowance are created by recording a Provision for loan losses in the Condensed Consolidated Statements of Operations. Installment loans and lines of credit are charged off, which reduces the allowance, when they are over 60 days past due or earlier if deemed uncollectible. Credit cards are charged off, which reduces the allowance, when they are over 120 days past due or earlier if deemed uncollectible. Recoveries on losses previously charged to the allowance are credited to the allowance when collected.

Liability for estimated losses on credit service organization loans

Under the CSO program, we guarantee the repayment of a customer's loan to the CSO lenders as part of the credit services we provide to the customer. A customer who obtains a loan through the CSO program pays us a fee for the credit services, including the guaranty, and enters into a contract with the CSO lenders governing the credit services arrangement. We estimate a liability for losses associated with the guaranty provided to the CSO lenders using assumptions and methodologies similar to the allowance for loan losses, which we recognize for our consumer loans.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. We perform an impairment review of goodwill and intangible assets with an indefinite life annually at October 1 and between annual tests if we determine that an event has occurred or circumstances changed in a way that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Such a determination may be based on our consideration of macro-economic and other factors and trends, such as current and projected financial performance, interest rates and access to capital.

Our impairment evaluation of goodwill is based on comparing the fair value of the respective reporting unit to its carrying value. The fair value of the reporting unit is determined based on a weighted average of the income and market approaches. The income approach establishes fair value based on estimated future cash flows of the reporting unit, discounted by an estimated weighted-average cost of capital developed using the capital asset pricing model, which reflects the overall level of inherent risk of the reporting unit. The income approach uses our projections of financial performance for a six- to nine-year period and includes assumptions about future revenue growth rates, operating margins and terminal values. The market approach establishes fair value by applying cash flow multiples to the respective reporting unit's operating performance. The multiples are derived from other publicly traded companies that are similar but not identical from an operational and economic standpoint.

We completed our 2018 annual test and determined that there was no evidence of impairment of goodwill for the two reporting units that have goodwill. Although no goodwill impairment was noted, there can be no assurances that future goodwill impairments will not occur.

Internal-use software development costs

We capitalize certain costs related to software developed for internal-use, primarily associated with the ongoing development and enhancement of our technology platform. Costs incurred in the preliminary development and post-development stages are expensed. These costs are amortized on a straight-line basis over the estimated useful life of the related asset, generally three years.

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences and benefits attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not to be realized.

Relative to uncertain tax positions, we accrue for losses we believe are probable and can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. If the amounts recorded are not realized or if penalties and interest are incurred, we have elected to record all amounts within income tax expense.

We have no recorded liabilities for US uncertain tax positions at September 30, 2019 and December 31, 2018. Tax periods from fiscal years 2014 to 2018 remain open and subject to examination for US federal and state tax purposes. As we had no operations nor had filed US federal tax returns prior to May 1, 2014, there are no other US federal or state tax years subject to examination.

For UK taxes, tax periods from fiscal years 2010 to 2018 remain open and subject to examination. We had an uncertain tax position at December 31, 2017 that was resolved and released during the year ended December 31, 2018. There are no additional UK uncertain tax positions at September 30, 2019.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act", or "Tax Reform") was enacted into law. The Act contains several changes to the US federal tax law including a reduction to the US federal corporate tax rate from 35% to 21%, an acceleration of the expensing of certain business assets, a reduction to the amount of executive pay that could qualify as a tax deduction, and the addition of a repatriation tax on any accumulated offshore earnings and profit.

The Tax Reform also included a new “Mandatory Repatriation” that required a one-time tax on shareholders of Specific Foreign Corporations (“SFCs”). The one-time tax was imposed using the Subpart F rules to require US shareholders to include in income the pro rata share of their SFC’s previously untaxed accumulated post 1986 deferred foreign income. Our SFC, ECI, had an accumulated earnings and profit ("E&P") deficit at December 31, 2017, and therefore, we had no US impact from the new mandatory repatriation law.

Additionally, tax reform included a new anti-deferral provision, similar to the subpart F provision, requiring a US shareholder of Controlled Foreign Corporation’s (“CFC”) to include in income annually its pro rata share of a CFC’s “global intangible low-taxed income” (“GILTI”). Our SFC, ECI, qualifies as a CFC, and as such, requires a GILTI inclusion in the applicable tax year. ECI has a US tax year end of November 30. We have elected to treat GILTI as a period cost, and therefore, will recognize those taxes as expenses in the period incurred.

Share-Based Compensation

In accordance with applicable accounting standards, all share-based compensation, consisting of stock options and restricted stock units (“RSUs") issued to employees is measured based on the grant-date fair value of the awards and recognized as compensation expense on a straight-line basis over the period during which the recipient is required to perform services in exchange for the award (the requisite service period). Starting July 2017, we also have an employee stock purchase plan (“ESPP”). The determination of fair value of share-based payment awards and ESPP purchase rights on the date of grant using option-pricing models is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, actual and projected employee stock option exercise activity, risk-free interest rate, expected dividends and expected term. We use the Black-Scholes-Merton Option Pricing Model to estimate the grant-date fair value of stock options. We also use an equity valuation model to estimate the grant-date fair value of RSUs. Additionally, the recognition of share-based compensation expense requires an estimation of the number of awards that will ultimately vest and the number of awards that will ultimately be forfeited.

Derivative Financial Instruments

On January 11, 2018, we and ESPV each entered into one interest rate cap transaction with a counterparty to mitigate the floating rate interest risk on a portion of the debt underlying the Rise and Elastic portfolios, respectively, which matured on February 1, 2019. The interest rate caps were designated as cash flow hedges against expected future cash flows attributable to future interest payments on debt facilities held by each entity. We initially reported the gains or losses related to the hedges as a component of Accumulated other comprehensive income (loss) in the Consolidated Balance Sheets in the period incurred and subsequently reclassified the interest rate caps’ gains or losses to interest expense when the hedged expenses were recorded. We excluded the change in the time value of the interest rate caps in its assessment of their hedge effectiveness. We present the cash flows from cash flow hedges in the same category in the Consolidated Statements of Cash Flows as the category for the cash flows from the hedged items. The interest rate caps do not contain any credit risk related contingent features. Our hedging program is not designed for trading or speculative purposes.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AND JOBS ACT ELECTION

Under the Jumpstart Our Business Startups Act (the “JOBS Act”), we meet the definition of an emerging growth company. We have irrevocably elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act.

Recently Adopted Accounting Standards

In July 2018, the FASB issued ASU No. 2018-09, *Codification Improvements* ("ASU 2018-09"). The purpose of ASU 2018-09 is to clarify, correct errors in, or make minor improvements to the Codification. Among other revisions, the amendments clarify that an entity should recognize excess tax benefits or tax deficiencies for share compensation expense that is taken on an entity’s tax return in the period in which the amount of the deduction is determined. The Company has adopted all of the amendments of ASU 2018-09 as of January 1, 2019 on a modified retrospective basis. The adoption of ASU 2018-09 did not have a material impact on the Company's condensed consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ("ASU 2018-02"). The purpose of ASU 2018-02 is to allow an entity to elect to reclassify the stranded tax effects related to the Tax Cuts and Jobs Act from Accumulated other comprehensive income (loss) into Retained earnings. The amendments in ASU 2018-02 are effective for all entities for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. Early adoption is permitted. The Company adopted all amendments of ASU 2018-02 on a prospective basis as of January 1, 2018 and elected to reclassify the stranded tax effects resulting from the Tax Cuts and Jobs Act from Accumulated other comprehensive income (loss) to Accumulated deficit. The amount of the reclassification for the nine months ended September 30, 2018 was $920.0 thousand.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815)—Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). The purpose of ASU 2017-12 is to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition, ASU 2017-12 makes certain targeted improvements to simplify the application of the hedge accounting guidance. In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments* ("ASU 2019-04"). This amendment clarifies the guidance in ASU 2017-12. ASU 2017-12 is effective for public companies for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. Early adoption is permitted. The Company has adopted all of the amendments of ASU 2017-12 on a prospective basis as of January 1, 2018. Since the Company did not have derivatives accounted for as hedges prior to December 31, 2017, there was no cumulative-effect adjustment needed to Accumulated other comprehensive income (loss) and Accumulated deficit. The adoption of ASU 2017-12 did not have a material impact on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 is intended to improve the reporting of leasing transactions to provide users of financial statements with more decision-useful information. ASU 2016-02 will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* ("ASU 2018-10"), which clarifies certain matters in the codification with the intention to correct unintended application of the guidance. Also in July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements* ("ASU 2018-11"), which provides entities with an additional (and optional) transition method whereby the entity applies the new lease standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Additionally, under the new transition method, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new lease standard will continue to be in accordance with current US GAAP (Topic 840, Leases). ASU 2016-02, as amended, is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company elected to adopt the transition method in ASU 2018-11 by applying the practical expedient prospectively at January 1, 2019. The Company also elected to apply the optional practical expedient package to not reassess existing or expired contracts for lease components, lease classification, or initial direct costs. The adoption of ASU 2016-02, as amended, resulted in the recognition of approximately $11.5 million and $15.4 million additional right of use assets and liabilities for operating leases, respectively, but did not have a material impact on the Company's condensed consolidated income statements.

In July 2019, the FASB issued Accounting Standards Update ("ASU") No. 2019-07, *Codification Updates to SEC Sections* ("ASU 2019-07"). The purpose of ASU 2019-07 is to amend various SEC paragraphs pursuant to the issuance of SEC Final Rule Releases No. 33-10532, *Disclosure Update and Simplification*, and Nos. 33-10231 and 33-10442, *Investment Company Reporting Modernization*. Among other revisions, the amendments reduce duplication and clarify the inclusion of comprehensive income. The Company has adopted all of the amendments of ASU 2019-07 as of July 2019 with no impact to the Company's condensed consolidated financial statements.

Accounting Standards to be Adopted in Future Periods

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"). The purpose of ASU 2018-15 is to provide additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. This guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is still assessing the potential impact of ASU 2018-15 on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). The purpose of ASU 2018-13 is to modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*. This guidance is effective for public companies for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years and requires both a prospective and retrospective approach to adoption based on amendment specifications. Early adoption of any removed or modified disclosures is permitted. Additional disclosures may be delayed until their effective date. The Company does not expect ASU 2018-13 to have a material impact on the Company's condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). The purpose of ASU 2017-04 is to simplify the subsequent measurement of goodwill. The amendments modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. This guidance is effective for public companies for goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is still assessing the potential impact of ASU 2017-04 on the Company's condensed consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 is intended to replace the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates to improve the quality of information available to financial statement users about expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments* ("ASU 2019-04"). This amendment clarifies the guidance in ASU 2016-13. In May 2019, the FASB issued ASU No. 2019-05, *Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief* ("ASU 2019-05"). The purpose of this amendment is to provide entities that have certain instruments within the scope of Subtopic 326-20, *Financial Instruments-Credit Losses-Measured at Amortized Cost*, with an option to irrevocably elect the fair value option in Subtopic 825-10, *Financial Instruments-Overall*, on an instrument-by-instrument basis. Election of this option is intended to increase comparability of financial statement information and reduce costs for certain entities to comply with ASU 2016-13. For public entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. In August 2019, the FASB issued a draft proposed ASU for comment that would grant certain classes of companies, including Smaller Reporting Companies ("SRCs"), additional time to implement major FASB standards, including ASU 2016-13. The proposed standard was approved on October 18, 2019 (with the final ASU to be issued in November 2019) and SRCs are permitted to defer adoption of ASU 2016-13, and its related amendments, until the earlier of fiscal periods beginning after December 15, 2022 or the Company no longer qualifies as an SRC. Under the current SEC definitions, the Company expects to meet the definition of an SRC as of the proposed ASU's issuance date and is considering the adoption of the deferral period for ASU 2016-13.

Management has continued its implementation efforts, and would be ready to adopt ASU 2016-13 as of January 1, 2020 if it elects not to defer adoption of the standard. As of September 30, 2019, the Company has built, reviewed, and back-tested the inputs and models used in calculating the reserve under ASU 2016-13. In the fourth quarter, management plans to continue to refine and run the models in parallel with the existing reserve methodology. If the Company adopts ASU 2016-13 on January 1, 2020, the Company would expect an overall increase to its reserves approximately equal to its cumulative loss rates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss to future earnings, values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, exchange rates, commodity prices, equity prices and other market changes. We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative or trading purposes, although in the future we may continue to enter into interest rate hedging arrangements or enter into exchange rate hedging arrangements to manage the risks described below.

Interest rate sensitivity

Our cash and cash equivalents as of September 30, 2019 consisted of demand deposit accounts. Our primary exposure to market risk for our cash and cash equivalents is interest income sensitivity, which is affected by changes in the general level of US interest rates. Given the currently low US interest rates, we generate only a *de minimis* amount of interest income from these deposits.

All of our customer loan portfolios are fixed APR loans and not variable in nature. Additionally, given the high APRs associated with these loans, we do not believe there is any interest rate sensitivity associated with our customer loan portfolio.

Prior to February 1, 2019, our VPC Facility and ESPV Facility were variable rate in nature and tied to the 3-month LIBOR rate. In January 2018, the Company and ESPV each entered into interest rate caps, which cap 3-month LIBOR at 1.75%, to mitigate the floating interest rate risk on $240 million of the US Term Notes included in the VPC Facility and on $216 million of the ESPV Facility, respectively. These interest rate caps matured on February 1, 2019. On February 1, 2019, the VPC and ESPV Facilities were amended and a new EF SPV Facility was added. As part of these amendments, the base interest rate on existing debt outstanding on February 1, 2019 was locked to the 3-month LIBOR as of February 1, 2019 of 2.73% until note maturity. Any additional borrowings on the facilities (excluding the 4th Tranche Term Note) after February 1, 2019 bear a base interest rate (defined as the greater of 3-month LIBOR, the five-year LIBOR swap rate or 1%) plus the applicable spread at the borrowing date.

Any increase in the base interest rate on future borrowings will result in an increase in our net interest expense. The outstanding balance of our VPC Facility at September 30, 2019 was $238.8 million and the balance at December 31, 2018 was $324.2 million. The outstanding balance of our EF SPV Facility was $87.0 million at September 30, 2019 and there was no balance at December 31, 2018. The outstanding balance of our ESPV Facility was $226 million and $239.0 million at September 30, 2019 and December 31, 2018, respectively. Based on the average outstanding indebtedness through the nine months ended September 30, 2019, a 1% (100 basis points) increase in interest rates would have increased our interest expense by approximately $0.8 million for the period as almost all of our existing debt outstanding has a fixed interest rate through maturity.

Foreign currency exchange risk

We provide installment loans to customers in the UK. Interest income from our Sunny UK installment loans is earned in GBP. Fluctuations in exchange rate of the USD against the GBP and cash held in such foreign currency can result, and have resulted, in fluctuations in our operating income and foreign currency transaction gains and losses. We had foreign currency transaction losses of approximately $1.0 million and $0.8 million during the nine months ended September 30, 2019 and 2018, respectively. We currently do not engage in any foreign exchange hedging activity but may do so in the future.

At September 30, 2019, our GBP-denominated net assets were approximately $63.5 million (which excludes the $26.8 million then drawn under the USD-denominated UK term note under the VPC Facility). A hypothetical 10% strengthening or weakening in the value of the USD compared to the GBP at this date would have resulted in a decrease/increase in net assets of approximately $6.4 million. During the nine months ended September 30, 2019, the GBP-denominated pre-tax income was approximately $1.9 million. A hypothetical 10% strengthening or weakening in the value of the USD compared to the GBP during this period would have resulted in a decrease/increase in the pre-tax income of approximately $110 thousand.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Interim Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a- 15(e) and 15d- 15(e) under the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Interim Chief Executive Officer and Chief Financial Officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15 (d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In addition to the matters discussed below, in the ordinary course of business, from time to time, we have been and may be named as a defendant in various legal proceedings arising in connection with our business activities, including affordability claims related to the Sunny product. We may also be involved, from time to time, in reviews, investigations and proceedings (both formal and informal) by governmental agencies regarding our business (collectively, “regulatory matters”). We contest liability and/or the amount of damages as appropriate in each such pending matter. We do not anticipate that the ultimate liability, if any, arising out of any such pending matter will have a material effect on our financial condition, results of operations or cash flows.

Civil Investigative Demand

In June 2012, prior to the spin-off from Think Finance, Inc. ("TFI"), and in February 2016, after the spin-off, TFI received Civil Investigative Demands from the CFPB. The purpose of the Civil Investigative Demands was to determine whether small-dollar online lenders or other unnamed persons engaged in unlawful acts or practices relating to the advertising, marketing, provision, or collection of small-dollar loan products, in violation of Section 1036 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Electronic Funds Transfer Act, the Gramm-Leach-Bliley Act, or any other federal consumer financial law and to determine whether CFPB action to obtain legal or equitable relief would be in the public interest. Further, on November 15, 2017 the CFPB sued TFI alleging it deceived consumers into paying debts that were not valid and that it collected loan payments that consumers did not owe. The CFPB and TFI have agreed to settle all claims and executed a settlement agreement that is awaiting final court approval in the United States Bankruptcy Court for the Northern District of Texas. While TFI’s business is distinct from our business, we cannot predict the final outcome of the Civil Investigative Demands or to what extent any obligations arising out of such final outcome will be applicable to our company or business, if at all.

Item 1A. Risk Factors

There have been no material changes from the Risk Factors described in Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, except as set forth in our Quarterly Report on Form 10-Q for the period ended June 30, 2019 and as set forth below.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

We have a limited operating history in an evolving industry, which makes it difficult to accurately assess our future growth prospects.

We were incorporated as a wholly owned subsidiary of TFI in January 2014 and became a stand-alone company in May 2014 following the spin-off and, as such, have a limited history as a stand-alone company. Although our management team has many years of experience in the non-prime lending industry, we operate in an evolving industry that may not develop as expected. Assessing the future prospects of our business is challenging in light of both known and unknown risks and difficulties we may encounter. Growth prospects in non-prime lending can be affected by a wide variety of factors including:

- Competition from other online and traditional lenders and credit card providers;
- Regulatory limitations that impact the non-prime lending products we can offer and the markets we can serve;
- An evolving regulatory and legislative landscape;
- Access to important marketing channels such as:
    - Direct mail and electronic offers;
    - TV and mass media;
    - Direct marketing, including search engine marketing; and
    - Strategic partnerships with affiliates;
- Changes in consumer behavior;
- Access to adequate financing;
- Increasingly sophisticated fraudulent borrowing and online theft;
- Challenges with new products and new markets;
- Dependence on our proprietary technology infrastructure and security systems;
- Dependence on our personnel and certain third parties with whom we do business;
- Risk to our business if our systems are hacked or otherwise compromised;
- Evolving industry standards;
- Recruiting and retention of qualified personnel necessary to operate our business; and
- Fluctuations in the credit markets and demand for credit.

We may not be able to successfully address these factors, which could negatively impact our growth, harm our business and cause our operating results to be worse than expected.

Our recent revenue growth rate may not be indicative of our ability to continue to grow, if at all, in the future.

Our revenues grew to $786.7 million for the year ended December 31, 2018 from $673.1 million for the year ended December 31, 2017. However, our revenue growth rate has fluctuated over the past few years and it is possible that, in the future, even if our revenues continue to increase, our rate of revenue growth could decline, either because of external factors affecting the growth of our business or because we are not able to scale effectively as we grow. If we cannot manage our growth effectively, it could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

We have a history of losses and may not maintain or achieve consistent profitability in the future.

We incurred net income (losses) of $12.5 million, $(6.9) million and $(22.4) million for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, we had an accumulated deficit of $66.5 million. We will need to generate and sustain increased revenues in future periods in order to become and remain profitable, and, even if we do, we may not be able to maintain or increase our level of profitability.

As we grow, we expect to continue to expend substantial financial and other resources on:

- personnel, including significant increases to the total compensation we pay our employees as we grow our employee headcount;
- marketing, including expenses relating to increased direct marketing efforts;
- product development, including the continued development of our proprietary scoring methodology;
- diversification of our funding sources;
- office space, as we increase the space we need for our growing employee base; and
- general administration, including legal, accounting and other compliance expenses related to being a public company.

These expenditures are expected to increase and may adversely affect our ability to achieve and sustain profitability as we grow. In addition, we record our provision for loan losses as an expense to account for the possibility that some loans may not be repaid in full. We expect the aggregate amount of loan loss provision to grow as we increase the number and total amount of loans we make to new customers.

Our efforts to grow our business may be more costly than we expect, and we may not be able to increase our revenues enough to offset our higher operating expenses. We may incur losses in the future for a number of reasons, including the other risks described in this "Risk Factors" section, unforeseen expenses, difficulties, complications and delays and other unknown events. If we are unable to achieve and sustain profitability, the market price of our common stock may significantly decrease.

Our historical information does not necessarily represent the results we would have achieved as a stand-alone company and may not be a reliable indicator of our future results.

We have a limited operating history as a stand-alone company. See “—We have a limited operating history in an evolving industry, which makes it difficult to accurately assess our future growth prospects” above. As a result of the spin-off, TFI contributed the assets and liabilities associated with its direct lending and branded products business to us. The historical financial information prior to the spin-off may not reflect what our results of operations, financial position and cash flows would have been had we been a stand-alone company during such prior periods. This is primarily because:

- our historical financial information reflects allocations for services historically provided to us by TFI, which allocations may not reflect the costs we will incur for similar services in the future as a stand-alone company; and
- our historical financial information does not reflect reduced economies of scale, including changes in the cost structure, personnel needs, financing and operations of our business.

We are also responsible for the additional costs associated with being a public company, including costs related to corporate governance and having listed and registered securities. Therefore, our historical financial information may not be indicative of our future performance as a stand-alone public company.

The consumer lending industry continues to be subject to new laws and regulations in many jurisdictions that could restrict the consumer lending products and services we offer, impose additional compliance costs on us, render our current operations unprofitable or even prohibit our current operations.

Both state and federal governments in the US and regulatory bodies in the UK may seek to impose new laws, direct contractual arrangements, regulatory restrictions or licensing requirements that affect the products or services we offer, the terms on which we may offer them, and the disclosure, compliance and reporting obligations we must fulfill in connection with our lending business. They may also interpret or enforce existing requirements in new ways that could restrict our ability to continue our current methods of operation or to expand operations, impose significant additional compliance costs and may have a negative effect on our business, prospects, results of operations, financial condition or cash flows. In some cases, these measures could even directly prohibit some or all of our current business activities in certain jurisdictions, or render them unprofitable or impractical to continue. For example, on October 25, 2019, the Company's UK subsidiary, ECI, entered into an agreement with the Financial Conduct Authority ("FCA") (the "Agreement") to not make any payments greater than £1.0 million outside of the normal course of business without obtaining prior approval from the FCA. The Company believes this Agreement will not have a material impact on ECI's ability to continue to serve its customers and meet its obligations.

In recent years, consumer loans, and in particular the category commonly referred to as “payday loans,” have come under increased regulatory scrutiny that has resulted in increasingly restrictive regulations and legislation that makes offering consumer loans in certain states in the US or the UK less profitable or unattractive. On October 5, 2017 the Consumer Financial Protection Bureau (the "CFPB") issued a final rule covering loans that require consumers to repay all or most of the debt at once, including payday loans, auto title loans, deposit advance products, longer-term loans with balloon payments and any loan with an annual percentage rate over 36% that includes authorization for the lender to access the borrower’s checking or prepaid account (the "2017 Rule"). Since that time, the 2017 Rule has been amended. See "—The CFPB issued proposed revisions to the 2017 Rule affecting the consumer lending industry, and these or subsequent new rules and regulations, if they are finalized, may impact our US consumer lending business" for more information.

We also expect that further new laws and regulations will be promulgated in the UK that could impact our business operations. See “—The UK has imposed, and continues to impose, increased regulation of the high-cost short-term credit industry with the stated expectation that some firms will exit the market” for additional information.

In order to serve our non-prime customers profitably we need to sufficiently price the risk of the transaction into the annual percentage rate (“APR”) of our loans. If individual states or the US federal government or regulators in the UK impose rate caps lower than those at which we can operate our current business profitably or otherwise impose stricter limits on non-prime lending, we would need to exit such states or dramatically reduce our rate of growth by limiting our products to customers with higher creditworthiness. On April 30, 2019, Senator Dick Durbin reintroduced a bill that would create a national interest rate cap of 36% on consumer loans. The "Protecting Consumers from Unreasonable Credit Rates Act of 2019" is co-sponsored by Senators Jeff Merkley, Sheldon Whitehouse, and Richard Blumenthal. Previous versions have been proposed in 2009, 2013, 2015 and 2017, but the bill has never made it to the House or Senate floor.

Furthermore, legislative or regulatory actions may be influenced by negative perceptions of us and our industry, even if such negative perceptions are inaccurate, attributable to conduct by third parties not affiliated with us (such as other industry members) or attributable to matters not specific to our industry.

Any of these or other legislative or regulatory actions that affect our consumer loan business at the national, state, international and local level could, if enacted or interpreted differently, have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows and prohibit or directly or indirectly impair our ability to continue current operations.

Regulators and payment processors are scrutinizing certain online lenders' access to the Automated Clearing House system to disburse and collect loan proceeds and repayments, and any interruption or limitation on our ability to access this critical system would materially adversely affect our business.

When making loans in the US, we typically use the Automated Clearing House ("ACH") system to deposit loan proceeds into our customers' bank accounts. This includes loans that we originate as well as Elastic loans originated by Republic Bank & Trust Company ("Republic Bank"), Rise loans made through the credit services organization ("CSO") programs and Rise loans originated by FinWise Bank ("FinWise"). These products also depend on the ACH system to collect amounts due by withdrawing funds from customers' bank accounts when the customer has provided authorization to do so. ACH transactions are processed by banks, and if these banks cease to provide ACH processing services or are not allowed to do so, we would have to materially alter, or possibly discontinue, some or all of our business if alternative ACH processors or other payment mechanisms are not available.

It has been reported that actions, referred to as Operation Choke Point, by the US Department of Justice (the "Justice Department") the Federal Deposit Insurance Corporation (the "FDIC") and certain state regulators appear to be intended to discourage banks and ACH payment processors from providing access to the ACH system for certain lenders that they believe are operating illegally, cutting off their access to the ACH system to either debit or credit customer accounts (or both).

In the past, this heightened regulatory scrutiny by the Justice Department, the FDIC and other regulators has caused some banks and ACH payment processors to cease doing business with consumer lenders who are operating legally, without regard to whether those lenders are complying with applicable laws, simply to avoid the risk of heightened scrutiny or even litigation. These actions have reduced the number of banks and payment processors who provide ACH payment processing services and could conceivably make it increasingly difficult to find banking partners and payment processors in the future and/or lead to significantly increased costs for these services. If we are unable to maintain access to needed services on favorable terms, we would have to materially alter, or possibly discontinue, some or all of our business if alternative processors are not available. In response to Operation Choke Point, H.R. 2706 was introduced in the House to halt future similar actions. The bill passed out of the House on December 11, 2017 but did not progress. H.R. 189 was introduced in the House on January 3, 2019 to address Operation Choke Point. It is unknown if this newly reintroduced legislation will progress further. On May 22, 2019, the FDIC issued a letter in connection with litigation acknowledging that certain of its "employees acted in a manner inconsistent with FDIC policies with respect to payday lenders in what has been generically described as "Operation Choke Point," and that this conduct created misperceptions about the FDIC's policies. Regulatory threats, undue pressure, coercion, and intimidation designed to restrict access to financial services for lawful businesses have no place at the FDIC."

If we lost access to the ACH system because our payment processor was unable or unwilling to access the ACH system on our behalf, we would experience a significant reduction in customer loan payments. Although we would notify consumers that they would need to make their loan payments via physical check, debit card or other method of payment a large number of customers would likely go into default because they are expecting automated payment processing. Similarly, if regulatory changes limited our access to the ACH system or reduced the number of times ACH transactions could be re-presented, we would experience higher losses.

If the information provided by customers or other third parties to us is incomplete, incorrect or fraudulent, we may misjudge a customer's qualification to receive a loan, and any inability to effectively identify, manage, monitor and mitigate fraud risk on a large scale could cause us to incur substantial losses, and our operating results, brand and reputation could be harmed.

For the loans we originate through Rise and Sunny, our growth is largely predicated on effective loan underwriting resulting in acceptable customer profitability. This is equally important for the Rise loans in Texas and the Rise loans and Elastic lines of credit originated by unaffiliated third parties. See "Management's discussion and analysis of financial condition and results of operations—Components of Our Results of Operations—Revenues." Lending decisions by such originating lenders are made using our proprietary credit and fraud scoring models, which we license to them. Lending decisions are based partly on information provided by loan applicants and partly on information provided by consumer reporting agencies, such as TransUnion, Experian or Equifax and other third-party data providers. Data provided by third-party sources is a significant component of the decision methodology, and this data may contain inaccuracies. To the extent that applicants provide inaccurate or unverifiable information or data from third-party providers is incomplete or inaccurate, the credit score delivered by our proprietary scoring methodology may not accurately reflect the associated risk. Additionally, a credit score assigned to a borrower may not reflect that borrower's actual creditworthiness because the credit score may be based on outdated, incomplete or inaccurate consumer reporting data, and we do not verify the information obtained from the borrower's credit report. Additionally, there is a risk that, following the date of the credit report that we obtain and review, a borrower may have:

- become past due in the payment of an outstanding obligation;
- defaulted on a pre-existing debt obligation;
- taken on additional debt; or
- sustained other adverse financial events.

Our resources, technologies and fraud prevention tools, which are used to originate loans or lines of credit, as applicable, under Rise, Sunny, Elastic and Today Card, may be insufficient to accurately detect and prevent fraud. Inaccurate analysis of credit data that could result from false loan application information could harm our reputation, business and operating results.

In addition, our proprietary credit and fraud scoring models use identity and fraud checks analyzing data provided by external databases to authenticate each customer's identity. The level of our fraud charge-offs and results of operations could be materially adversely affected if fraudulent activity were to significantly increase. Online lenders are particularly subject to fraud because of the lack of face-to-face interactions and document review. If applicants assume false identities to defraud the Company or consumers simply have no intent to repay the money they have borrowed, the related portfolio of loans will exhibit higher loan losses. We have in the past and may in the future incur substantial losses and our business operations could be disrupted if we or the originating lenders are unable to effectively identify, manage, monitor and mitigate fraud risk using our proprietary credit and fraud scoring models.

Since fraud is often perpetrated by increasingly sophisticated individuals and "rings" of criminals, it is important for us to continue to update and improve the fraud detection and prevention capabilities of our proprietary credit and fraud scoring models. If these efforts are unsuccessful then credit quality and customer profitability will erode. If credit and/or fraud losses increased significantly due to inadequacies in underwriting or new fraud trends, new customer originations may need to be reduced until credit and fraud losses returned to target levels, and business could contract.

It may be difficult or impossible to recoup funds underlying loans made in connection with inaccurate statements, omissions of fact or fraud. Loan losses are currently the largest cost as a percentage of revenues across each of Rise, Sunny and Elastic. If credit or fraud losses were to rise, this would significantly reduce our profitability. High profile fraudulent activity could also lead to regulatory intervention, negatively impact our operating results, brand and reputation and require us, and the originating lenders, to take steps to reduce fraud risk, which could increase our costs.

Any of the above risks could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Because of the non-prime nature of our customers, we have historically experienced a high rate of net charge-offs as a percentage of revenues, and our ability to price appropriately in response to this and other factors is essential. We rely on our proprietary credit and fraud scoring models in the forecasting of loss rates. If we are unable to effectively forecast loss rates, it may negatively impact our operating results.

Our net charge-offs as a percentage of revenues for the years ended December 31, 2018 and 2017 were 52% for both periods. Because of the non-prime nature of our customers, it is essential that our products are appropriately priced, taking this and all other relevant factors into account. In making a decision whether to extend credit to prospective customers, and the terms on which we or the originating lenders are willing to provide credit, including the price, we and the originating lenders rely heavily on our proprietary credit and fraud scoring models, which comprise an empirically derived suite of statistical models built using third-party data, data from customers and our credit experience gained through monitoring the performance of customers over time. Our proprietary credit and fraud scoring models are based on previous historical experience. Typically, however, our models will become less effective over time and need to be rebuilt regularly to perform optimally. This is particularly true in the context of our preapproved direct mail campaigns. If we are unable to rebuild our proprietary credit and fraud scoring models, or if they do not perform up to target standards the products will experience increasing defaults or higher customer acquisition costs. In addition, any upgrades or planned improvements to our technology and credit models may not be implemented on the timeline that we expect or may not drive improvements in credit quality for our US products as anticipated, which may have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

If our proprietary credit and fraud scoring models fail to adequately predict the creditworthiness of customers, or if they fail to assess prospective customers' financial ability to repay their loans, or any or all of the other components of the credit decision process described herein fails, higher than forecasted losses may result. Furthermore, if we are unable to access the third-party data used in our proprietary credit and fraud scoring models, or access to such data is limited, the ability to accurately evaluate potential customers using our proprietary credit and fraud scoring models will be compromised. As a result, we may be unable to effectively predict probable credit losses inherent in the resulting loan portfolio, and we, and the originating lender, may consequently experience higher defaults or customer acquisition costs, which could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Additionally, if we make errors in the development and validation of any of the models or tools used to underwrite loans, such loans may result in higher delinquencies and losses. Moreover, if future performance of customer loans differs from past experience, which experience has informed the development of our proprietary credit and fraud scoring models, delinquency rates and losses could increase.

If our proprietary credit and fraud scoring models were unable to effectively price credit to the risk of the customer, lower margins would result. Either our losses would be higher than anticipated due to "underpricing" products or customers may refuse to accept the loan if products are perceived as "overpriced." Additionally, an inability to effectively forecast loss rates could also inhibit our ability to borrow from our debt facilities, which could further hinder our growth and have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

We depend in part on debt financing to finance most of the loans we originate. Our business could be adversely affected by a lack of sufficient debt financing at acceptable prices or disruptions in the credit markets, which could reduce our access to credit.

We depend in part on debt financing to support the growth of our originated portfolios, Rise and Sunny. However, we cannot guarantee that financing will continue to be available beyond the current maturity date of our debt facilities, on reasonable terms or at all. Presently our debt financing for Rise and Sunny primarily comes from a single source, Victory Park Management, LLC ("VPC"), an affiliate of Victory Park Capital. If VPC became unwilling or unable to provide debt financing to us at prices acceptable to us we would need to secure additional debt financing or potentially reduce loan originations. The availability of these financing sources depends on many factors, some of which are outside of our control.

We may also experience the occurrence of events of default or breaches of financial or performance covenants under our debt agreements, which are currently secured by all our assets. Any such occurrence or breach could result in the reduction or termination of our access to institutional funding or increase our cost of funding. Certain of these covenants are tied to our customer default rates, which may be significantly affected by factors, such as economic downturns or general economic conditions beyond our control and beyond the control of individual customers. In particular, loss rates on customer loans may increase due to factors such as prevailing interest rates, the rate of unemployment, the level of consumer and business confidence, commercial real estate values, the value of the US dollar, energy prices, changes in consumer and business spending, the number of personal bankruptcies, disruptions in the credit markets and other factors. Increases in the cost of capital would reduce our net profit margins.

The loan portfolio for Elastic, which is originated by a third-party lender, gets funding as a result of the purchase of a participation interest in the loans it originates from Elastic SPV, Ltd. (“Elastic SPV”), a Cayman Islands entity that purchases such participations. Elastic SPV has a loan facility with VPC for its funding, for which we provide credit support, and we have entered into a credit default protection agreement with Elastic SPV that provides protection for loan losses. Similarly, the loan portfolio for the Rise loans originated by FinWise gets funding as a result of the purchase of a participation interest in the loans it originates from EF SPV, Ltd. (“EF SPV”), a Cayman Islands entity that purchases such participations. EF SPV has a loan facility with VPC for its funding, for which we provide credit support, and we have entered into a credit default protection agreement with EF SPV that provides protection for loan losses. Any voluntary or involuntary halt to this existing program could result in the originating lender halting further loan originations until an additional financing partner could be identified.

In the event of a sudden or unexpected shortage of funds in the banking system, we cannot be sure that we will be able to maintain necessary levels of funding without incurring high funding costs, a reduction in the term of funding instruments or the liquidation of certain assets. If our cost of borrowing goes up, our net interest expense could increase, and if we were to be unable to arrange new or alternative methods of financing on favorable terms, we may have to curtail our origination of loans or recommend that the originating lenders curtail their origination of credit, all of which could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

The interest rates we charge to our customers and pay to our lenders could each be affected by a variety of factors, including access to capital based on our business performance and the volume of loans we make to our customers. These interest rates may also be affected by a change over time in the mix of the types of products we sell to our customers and a shift among our channels of customer acquisition. Our VPC funding facilities are variable rate in nature and tied to a base rate of the greater of the 3-month LIBOR rate, the five-year LIBOR swap rate or 1% at the borrowing date. Thus, any increase in the 3-month LIBOR rate could result in an increase in our net interest expense. The Company entered into interest rate cap transactions on January 11, 2018 to mitigate the floating rate interest risk on a portion of the currently outstanding debt. These caps matured in February 2019. Additionally, effective February 1, 2019, certain of the funding facilities were amended. The amended facilities included reductions to the interest rates paid on our debt in addition to other changes. Interest rate changes may also adversely affect our business forecasts and expectations and are highly sensitive to many macroeconomic factors beyond our control, such as inflation, recession, the state of the credit markets, changes in market interest rates, global economic disruptions, unemployment and the fiscal and monetary policies of the federal government and its agencies. Regulatory or legislative changes may reduce our ability to charge our current rates in all states and products. Also, competitive threats may cause us to reduce our rates. This would reduce profit margins unless there was a commensurate reduction in losses. Any material reduction in our interest rate spread could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows. In the event that the spread between the rate at which we lend to our customers and the rate at which we borrow from our lenders decreases, our financial results and operating performance will be harmed.

In the future, we may seek to access the debt capital markets to obtain capital to finance growth. However, our future access to the debt capital markets could be restricted due to a variety of factors, including a deterioration of our earnings, cash flows, balance sheet quality, or overall business or industry prospects, adverse regulatory changes, a disruption to or deterioration in the state of the capital markets or a negative bias toward our industry by market participants. Disruptions and volatility in the capital markets could also cause banks and other credit providers to restrict availability of new credit. Due to the negative bias toward our industry, commercial banks and other lenders have restricted access to available credit to participants in our industry, and we may have more limited access to commercial bank lending than other businesses. Our ability to obtain additional financing in the future will depend in part upon prevailing capital market conditions, and a potential disruption in the capital markets may adversely affect our efforts to arrange additional financing on terms that are satisfactory to us, if at all. If adequate funds are not available, or are not available on acceptable terms, we may not have sufficient liquidity to fund our operations, make future investments, take advantage of acquisitions or other opportunities, or respond to competitive challenges and this, in turn, could adversely affect our ability to advance our strategic plans. Additionally, if the capital and credit markets experience volatility, and the availability of funds is limited, third parties with whom we do business may incur increased costs or business disruption and this could adversely affect our business relationships with such third parties, which could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Any decrease in our access to preapproved marketing lists from credit bureaus or other developments impacting our use of direct mail marketing could adversely affect our ability to grow our business.

We market Rise, Sunny and the Today Card and provide marketing services to the originating lender in connection with Elastic and the Rise bank originated loans. Direct mailings and electronic offers of preapproved loans and Today Cards to potential loan customers comprise significant marketing channels for both the loans we originate and credit card product we offer, as well as those loans originated by third-party lenders. We estimate that approximately 47% and 80% of new Rise and Elastic loan customers, respectively, in the year ended December 31, 2018 obtained loans as a result of receiving such preapproved offers. The Today Card, which expanded its test launch in November 2018, is expected to expand its direct mailing activities in the future. Our marketing techniques identify candidates for preapproved loan or credit card mailings in part through the use of preapproved marketing lists purchased from credit bureaus. If access to such preapproved marketing lists were lost or limited due to regulatory changes prohibiting credit bureaus from sharing such information or for other reasons, our growth could be significantly adversely affected. If the cost of obtaining such lists increases significantly, it could substantially increase customer acquisition costs and decrease profitability.

Similarly, federal or state regulators or legislators could limit access to these preapproved marketing lists with the same effect.

In addition, preapproved direct mailings may become a less effective marketing tool due to over-penetration of direct mailing-lists. Any of these developments could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

We rely in part on relationships with marketing affiliates to identify potential customers for our loans. These relationships are generally non-exclusive and subject to termination, and the growth of our customer base could be adversely affected if any of our marketing affiliate relationships are terminated or the number of referrals we receive from marketing affiliates is reduced.

We rely on strategic marketing affiliate relationships with certain companies for referrals of some of the customers to whom we issue loans, and our growth depends in part on the growth of these referrals. In the year ended December 31, 2018, loans issued to Rise, Elastic and Sunny customers referred to us by our strategic partners constituted 29%, 10% and 54% of total respective new customer loans. Many of our marketing affiliate relationships do not contain exclusivity provisions that would prevent such marketing affiliates from providing customer referrals to competing companies. In addition, the agreements governing these partnerships, generally, contain termination provisions, including provisions that in certain circumstances would allow our partners to terminate if convenient, that, if exercised, would terminate our relationship with these partners. These agreements also contain no requirement that a marketing affiliate refer us any minimum number of customers. There can be no assurance that these marketing affiliates will not terminate our relationship with them or continue referring business to us in the future, and a termination of any of these relationships or reduction in customer referrals to us could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Our success and future growth depend significantly on our successful marketing efforts, and if such efforts are not successful, our business and financial results may be harmed.

We intend to continue to dedicate significant resources to marketing efforts. Our ability to attract qualified borrowers depends in large part on the success of these marketing efforts and the success of the marketing channels we use to promote our products. Our marketing channels include social media and the press, online affiliations, search engine optimization, search engine marketing, offline partnerships, preapproved direct mailings and television advertising. If any of our current marketing channels become less effective, if we are unable to continue to use any of these channels, if the cost of using these channels were to significantly increase or if we are not successful in generating new channels, we may not be able to attract new borrowers in a cost-effective manner or convert potential borrowers into active borrowers. If we are unable to recover our marketing costs through increases in website traffic and in the number of loans made by visitors to product websites, or if we discontinue our broad marketing campaigns, it could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

We are dependent on third parties to support several key aspects of our business, and the failure of such parties to continue to provide services to us in the current manner and at the current rates would adversely affect our revenues and results of operations.

The Elastic line of credit product, which is originated by a third-party lender and contributed approximately 33% of our revenues for the year ended December 31, 2018, and the portions of the Rise installment loan product that we offer through CSO programs, which contributed approximately 8% of our revenues for the year ended December 31, 2018, and the Rise loans originated by a third-party lender, which contributed approximately 1% of our revenues for the year ended December 31, 2018, depend in part on the willingness and ability of unaffiliated third-party lenders to make loans to customers. Additionally, as described above, our business, including our Elastic loans and Rise loans made through the CSO programs and Rise loans originated by a third-party lender, depends on the ACH system, and ACH transactions are processed by third-party banks. See "—Regulators and payment processors are scrutinizing certain online lenders' access to the Automated Clearing House system to disburse and collect loan proceeds and repayments, and any interruption or limitation on our ability to access this critical system would materially adversely affect our business." We also utilize many other third parties to provide services to facilitate lending, loan underwriting, payment processing, customer service, collections and recoveries, as well as to support and maintain certain of our communication systems and information systems, and we may need to expand our relationships with third parties, or develop relationships with new third parties, to support any new product offerings that we may pursue.

The loss of the relationship with any of these third-party lenders and service providers, an inability to replace them or develop new relationships, or the failure of any of these third parties to provide its products or services, to maintain its quality and consistency or to have the ability to provide its products and services, could disrupt our operations, cause us to terminate product offerings or delay or discontinue new product offerings, result in lost customers and substantially decrease the revenues and earnings of our business. Our revenues and earnings could also be adversely affected if any of those third-party providers make material changes to the products or services that we rely on or increase the price of their products or services.

Elevate uses third parties for the majority of its collections and recovery activities. If those parties were unable or unwilling to provide those services for Elevate products we would experience higher defaults until those functions could be outsourced to an alternative service provider or until we could bring those functions in-house and adequately staff and train internally.

Any of these events could result in a loss of revenues and could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

The profitability of our bank-originated products could be adversely affected by policy or pricing decisions made by the originating lenders.

We do not originate and do not ultimately control the pricing or functionality of Elastic originated by Republic Bank, Rise loans originated by FinWise Bank ("FinWise") and the Today Card originated by Capital Community Bank (collectively the "Bank-Originated Products" and the "Bank Partners" or the "Banks"). Generally, a "Bank" is an entity that is chartered under federal or state law to accept deposits and/or make loans. Each Bank Partner has licensed our technology and underwriting services and makes all key decisions regarding the marketing, underwriting, product features and pricing. We generate revenues from these products through marketing and technology licensing fees paid by the Bank Partners, and through credit default protection agreements with certain Bank Partners. If the Bank Partners were to change their pricing, underwriting or marketing of the Bank-Originated Products in a way that decreases revenues or increases losses, then the profitability of each loan, line of credit or credit card issued could be reduced. Although this would not reduce the revenues that we receive for marketing and technology licensing services, it would reduce the revenues that we receive from our credit default protection agreements with the certain Bank Partners.

Any of the above changes could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Our ability to continue to provide Bank-Originated Products could be adversely affected by a degradation in our relationships with our Bank Partners.

The structure of the Bank-Originated Products exposes us to risks associated with being reliant on the Bank Partners as the originating lenders and credit card issuers. If our relationships with the Banks were to degrade, or if any of the Banks were to terminate the various agreements associated with the Bank Products, we may not be able to find another suitable originating lender or credit card issuer and new arrangements, if any, may result in significantly increased costs to us. Any inability to find another originating lender or credit card issuer would adversely affect our ability to continue to provide the Bank-Originated Products which in turn could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Decreased demand for non-prime loans as a result of increased savings or income could result in a loss of revenues or decline in profitability if we are unable to successfully adapt to such changes.

The demand for non-prime loan products in the markets we serve could decline due to a variety of factors, such as regulatory restrictions that reduce customer access to particular products, the availability of competing or alternative products or changes in customers’ financial conditions, particularly increases in income or savings. For instance, an increase in state or federal minimum wage requirements, or a decrease in individual income tax rates, could decrease demand for non-prime loans. Additionally, a change in focus from borrowing to saving (such as has happened in some countries) would reduce demand. Should we fail to adapt to a significant change in our customers’ demand for, or access to, our products, our revenues could decrease significantly. Even if we make adaptations or introduce new products to fulfill customer demand, customers may resist or may reject products whose adaptations make them less attractive or less available. Such decreased demand could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

A decline in economic conditions could result in decreased demand for our loans or cause our customers’ default rates to increase, harming our operating results.

Uncertainty and negative trends in general economic conditions in the US and abroad, including significant tightening of credit markets and a general decline in the value of real property, historically have created a difficult environment for companies in the lending industry. Many factors, including factors that are beyond our control, may impact our consolidated results of operations or financial condition or affect our borrowers’ willingness or capacity to make payments on their loans. These factors include: unemployment levels, housing markets, rising living expenses, energy costs and interest rates, as well as major medical expenses, divorce or death that affect our borrowers. If the US or UK economies experience a downturn, or if we become affected by other events beyond our control, we may experience a significant reduction in revenues, earnings and cash flows, difficulties accessing capital and a deterioration in the value of our investments.

We are also monitoring developments related to the decision by the UK government to leave the European Union (often referred to as "Brexit"), which could have significant implications for our UK business. In March 2017, the UK began the official process to leave the European Union by April 2019. The instability surrounding Brexit and Brexit itself could lead to economic and legal uncertainty, including significant volatility in global stock markets and currency exchange rates, as well as new and uncertain laws, regulations and licensing requirements for the Company as the UK determines which EU laws to replace or replicate. For example, see "—The use of personal data in credit underwriting is highly regulated" below. Any of these effects of Brexit, among others, could adversely affect our operating results.

Credit quality is driven by the ability and willingness of customers to make their loan payments. If customers face rising unemployment or reduced wages, defaults may increase. Similarly, if customers experience rising living expenses (for instance due to rising gas, energy, or food costs) they may be unable to make loan payments. An economic slowdown could also result in a decreased number of loans being made to customers due to higher unemployment or an increase in loan defaults in our loan products. The underwriting standards used for our products may need to be tightened in response to such conditions, which could reduce loan balances, and collecting defaulted loans could become more difficult, which could lead to an increase in loan losses. If a customer defaults on a loan, the loan enters a collections process where, including as a result of contractual agreements with the originating lenders, our systems and collections teams initiate contact with the customer for payments owed. If a loan is subsequently charged off, the loan is generally sold to a third-party collection agency and the resulting proceeds from such sales comprise only a small fraction of the remaining amount payable on the loan.

There can be no assurance that economic conditions will remain favorable for our business or that demand for loans or default rates by customers will remain at current levels. Reduced demand for loans would negatively impact our growth and revenues, while increased default rates by customers may inhibit our access to capital, hinder the growth of the loan portfolio attributable to our products and negatively impact our profitability. Either such result could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

We are operating in a highly competitive environment and face increasing competition from a variety of traditional and new lending institutions, including other online lending companies. This competition could adversely affect our business, prospects, results of operations, financial condition or cash flows.

We have many competitors. Our principal competitors are consumer loan companies, CSOs, online lenders, credit card companies, consumer finance companies, pawnshops and other financial institutions that offer similar financial services. Other financial institutions or other businesses that do not now offer products or services directed toward our traditional customer base could begin doing so. Significant increases in the number and size of competitors for our business could result in a decrease in the number of loans that we fund, resulting in lower levels of revenues and earnings in these categories. Many of these competitors are larger than us, have significantly more resources and greater brand recognition than we do, and may be able to attract customers more effectively than we do.

Competitors of our business may operate, or begin to operate, under business models less focused on legal and regulatory compliance, which could put us at a competitive disadvantage. Additionally, negative perceptions about these models could cause legislators or regulators to pursue additional industry restrictions that could affect the business model under which we operate. To the extent that these models gain acceptance among consumers, small businesses and investors or face less onerous regulatory restrictions than we do, we may be unable to replicate their business practices or otherwise compete with them effectively, which could cause demand for the products we currently offer to decline substantially.

When new competitors seek to enter one of our markets, or when existing market participants seek to increase their market share, they sometimes undercut the pricing and/or credit terms prevalent in that market, which could adversely affect our market share or ability to exploit new market opportunities. Elevate products compete at least partly based on rate comparison with other credit products used by non-prime consumers. However, non-prime consumers by definition have a higher propensity for default and as a result need to be charged higher rates of interest to generate adequate profit margins. If existing competitors significantly reduced their rates or lower-priced competitors enter the market and offer credit to customers at lower rates, the pricing and credit terms we or the originating lenders offer could deteriorate if we or the originating lenders act to meet these competitive challenges. Any such action may result in lower customer acquisition volumes and higher costs per new customer.

We may be unable to compete successfully against any or all of our current or future competitors. As a result, our products could lose market share and our revenues could decline, thereby affecting our ability to generate sufficient cash flow to service our indebtedness and fund our operations. Any such changes in our competition could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Customer complaints or negative public perception of our business could result in a decline in our customer growth and our business could suffer.

Our reputation is very important to attracting new customers to our platform as well as securing repeat lending to existing customers. While we believe that we have a good reputation and that we provide customers with a superior experience, there can be no assurance that we will be able to continue to maintain a good relationship with customers or avoid negative publicity.

In recent years, consumer advocacy groups and some media reports have advocated governmental action to prohibit or place severe restrictions on non-bank consumer loans and bank originated loans for the nonprime consumer. Such consumer advocacy groups and media reports generally focus on the annual percentage rate for this type of consumer loan, which is compared unfavorably to the interest typically charged by banks to consumers with top-tier credit histories. The finance charges assessed by us, the originating lenders and others in the industry can attract media publicity about the industry and be perceived as controversial. If the negative characterization of the types of loans we offer, including those originated through third-party lenders, becomes increasingly accepted by consumers, demand for any or all of our consumer loan products could significantly decrease, which could materially affect our business, prospects, results of operations, financial condition or cash flows. Additionally, if the negative characterization of these types of loans is accepted by legislators and regulators, we could become subject to more restrictive laws and regulations applicable to consumer loan products that could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Third parties may also seek to take advantage of unique regulations applicable to consumer loan products to drive up complaints and the cost of doing business in our industry. Over the last 15 months, the Company's UK business began to receive an increased number of customer complaints initiated by claims management companies ("CMCs") and others related to the affordability assessment of certain loans. If the Company's evidence supports the affordability assessment and the Company rejects the claim, the customer has the right to take the complaint to the Financial Ombudsman Service (“FOS”) for further adjudication. We have incurred significant costs in the form of FOS administrative fees associated with each individual complaint submitted to FOS, operational costs necessary to manage the large volume of complaints, and payments we are required to make to customers to resolve these complaints. We believe that many of the increased claims against us are without merit and reflect the use of abusive and deceptive tactics by the CMCs. On April 1, 2019, the Financial Conduct Authority (the "FCA") took over responsibility for supervision and authorization of a high percentage of CMCs (those regulated by the Solicitor's Regulation Authority, which account for the minority of CMCs, will not be automatically impacted). In addition
to the CMCs issuing claims, some law firms are also issuing claims on behalf of claimants. If we experience an increased volume of complaints due to the activities of the CMCs and law firms representing claimants and continue incurring significant costs to resolve such complaints, such costs could have a material adverse effect on our business, results of operations, financial condition and cash flows. A significant number of consumer complaints could also trigger enhanced regulatory scrutiny by the FCA.

Separately, the FCA asked all industry participants to review their lending practices to ensure that such companies are using an appropriate affordability and creditworthiness analysis. Our UK business provided the requested information to the FCA. The FCA recently reported back to us and asked our UK business to tighten certain aspects of its income verification and expenditure processes. We are working with the FCA to ensure the changes we make address all matters raised by the FCA.

Our business depends on the uninterrupted operation of our systems and business functions, including our information technology and other business systems, as well as the ability of such systems to support compliance with applicable legal and regulatory requirements.

Our business is highly dependent upon customers' ability to access our website and the ability of our employees and those of the originating lenders, as well as third-party service providers, to perform, in an efficient and uninterrupted fashion, necessary business functions, such as internet support, call center activities and processing and servicing of loans. Problems with the technology platform running our systems, or a shut-down of or inability to access the facilities in which our internet operations and other technology infrastructure are based, such as a power outage, a failure of one or more of our information technology, telecommunications or other systems, cyber-attacks on, or sustained or repeated disruptions of, such systems could significantly impair our ability to perform such functions on a timely basis and could result in a deterioration of our ability to underwrite, approve and process loans (or support such functions with regard to Elastic lines of credit), provide customer service, perform collections activities, or perform other necessary business functions. Any such interruption could reduce new customer acquisition and negatively impact growth, which would have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

In addition, our systems and those of third parties on whom we rely must consistently be capable of compliance with applicable legal and regulatory requirements and timely modification to comply with new or amended requirements. Any systems problems going forward could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

We are subject to cybersecurity risks and security breaches and may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents, and we may experience harm to our reputation and liability exposure from security breaches.

Our business involves the storage and transmission of consumers' proprietary information, and security breaches could expose us to a risk of loss or misuse of this information, litigation and potential liability. We are entirely dependent on the secure operation of our websites and systems as well as the operation of the internet generally. While we have incurred no material cyber-attacks or security breaches to date, a number of other companies have disclosed cyber-attacks and security breaches, some of which have involved intentional attacks. Attacks may be targeted at us, our customers, or both. Although we devote significant resources to maintain and regularly upgrade our systems and processes that are designed to protect the security of our computer systems, software, networks and other technology assets and the confidentiality, integrity and availability of information belonging to us and our customers, our security measures may not provide absolute security. Despite our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because cyber-attacks can originate from a wide variety of sources, including third parties outside the Company such as persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments. These risks may increase in the future as we continue to increase our mobile and other internet-based product offerings and expand our internal usage of web-based products and applications or expand into new countries. If an actual or perceived breach of security occurs, customer and/or supplier perception of the effectiveness of our security measures could be harmed and could result in the loss of customers, suppliers or both. Actual or anticipated attacks and risks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants.

A successful penetration or circumvention of the security of our systems could cause serious negative consequences, including significant disruption of our operations, misappropriation of our confidential information or that of our customers, or damage to our computers or systems or those of our customers and counterparties, and could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, significant litigation exposure, and harm to our reputation, all of which could have a material adverse effect on us. In addition, our applicants provide personal information, including bank account information when applying for loans. We rely on encryption and authentication technology licensed from third parties to provide the security and authentication to effectively secure transmission of confidential information, including customer bank account and other personal 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 transaction data being breached or compromised. Data breaches can also occur as a result of non-technical issues.

Our servers are also vulnerable to computer viruses, physical or electronic break-ins, and similar disruptions, including "denial-of-service" type attacks. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches. Security breaches, including any breach of our systems or by persons with whom we have commercial relationships that result in the unauthorized release of consumers' personal information, could damage our reputation and expose us to a risk of loss or litigation and possible liability. In addition, many of the third parties who provide products, services or support to us could also experience any of the above cyber risks or security breaches, which could impact our customers and our business and could result in a loss of customers, suppliers or revenues.

In addition, federal and some state regulators are considering promulgating rules and standards to address cybersecurity risks and many US states and the UK have already enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach are costly to implement and may lead to widespread negative publicity, which may cause customers to lose confidence in the effectiveness of our data security measures.

Any of these events could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Our ability to collect payment on loans and maintain accurate accounts may be adversely affected by computer viruses, physical or electronic break-ins, technical errors and similar disruptions.

The automated nature of our platform may make it an attractive target for hacking and potentially vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. Despite efforts to ensure the integrity of our platform, it is possible that we may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, in which case there would be an increased risk of fraud or identity theft, and we may experience losses on, or delays in the collection of amounts owed on, a fraudulently induced loan. In addition, the software that we have developed to use in our daily operations is highly complex and may contain undetected technical errors that could cause our computer systems to fail. Because each loan made involves our proprietary credit and fraud scoring models, and over 95% of loan applications are fully automated with no manual review required, any failure of our computer systems involving our proprietary credit and fraud scoring models and any technical or other errors contained in the software pertaining to our proprietary credit and fraud scoring models could compromise the ability to accurately evaluate potential customers, which would negatively impact our results of operations. Furthermore, any failure of our computer systems could cause an interruption in operations and result in disruptions in, or reductions in the amount of, collections from the loans we made to customers. If any of these risks were to materialize, it could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Our platform and internal systems rely on software that is highly technical, and if it contains undetected errors, our business could be adversely affected.

Our platform and internal systems rely on software that is highly technical and complex. In addition, our platform and internal systems depend on the ability of such software to store, retrieve, process and manage immense amounts of data. The software on which we rely has contained, and may now or in the future contain, undetected errors or bugs. Some errors may only be discovered after the code has been released for external or internal use. Errors or other design defects within the software on which we rely may result in a negative experience for borrowers, delay introductions of new features or enhancements, result in errors or compromise our ability to protect borrower data or our intellectual property. Any errors, bugs or defects discovered in the software on which we rely could result in harm to our reputation, loss of borrowers, loss of revenues or liability for damages, any of which could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

To date, we have derived our revenues from a limited number of products and markets. Our efforts to expand our market reach and product portfolio may not succeed or may put pressure on our margins.

We frequently explore paths to expand our market reach and product portfolio. For example, we have launched or are in the process of launching other non-prime products like bank-originated installment loans through FinWise and the Today Card, a bank-originated credit card. In the future, we may elect to pursue new products, channels, or markets. However, there is always risk that these new products, channels, or markets will be unprofitable, will increase costs, decrease margins, or take longer to generate target margins than anticipated. Additional costs could include those related to the need to hire more staff, invest in technology, develop and support new third-party partnerships or other costs which would increase operating expenses. In particular, growth may require additional technology staff, analysts in risk management, compliance personnel and customer support and collections staff. Although the Company outsources most of its customer support and collections staff, additional volumes would lead to increased costs in these areas.

When new customers are acquired, from an accounting point of view, we must recognize marketing costs and loan origination and data costs, and we incur a provision for loan losses. We use the same accounting treatment for new customers acquired through the Bank-Originated Products, such as loan participations that are purchased from the originating lender by a third party, which we protect from loan losses pursuant to a credit default protection arrangement. Due to these marketing costs, loan origination and data costs, and provision for loan losses, new customer acquisition does not typically yield positive margins for at least six months. As a result, rapid growth tends to compress margins in the near-term until growth rates slow down.

In the states in which we originate Rise under a state-license, the rates and terms vary based on specific state laws. In states with lower maximum rates, we have more stringent credit criteria and generally lower initial customer profitability due to higher customer acquisition costs and higher losses as a percentage of revenues. While these states can have significant growth potential, they typically deliver lower profit margins. In states in which FinWise originates Rise installment loans, loan participations are purchased from FinWise by a third party, which we protect from loan losses pursuant to a credit default protection arrangement. As a result, Rise loans originated through our third-party partnerships have the same pattern of variable profit margins depending on state laws and which states are offering the most growth potential.

We may elect to pursue aggressive growth over margin expansion in order to increase market share and long-term revenue opportunities.

There also can be no guarantee that we will be successful with respect to any new product initiatives or any further expansion beyond the US and the UK, if we decide to attempt such expansion, which may inhibit the growth of our business and have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Our allowance for loan losses is determined based upon both objective and subjective factors and may not be adequate to absorb loan losses. If we experience rising credit or fraud losses, our results of operations would be adversely affected.

We face the risk that customers will fail to repay their loans in full. We reserve for such losses by establishing an allowance for loan losses, the increase of which results in a charge to our earnings as a provision for loan losses. We have established a methodology designed to determine the adequacy of our allowance for loan losses. While this evaluation process uses historical and other objective information, the classification of loans and the forecasts and establishment of loan losses are also dependent on our subjective assessment based upon our experience and judgment. Actual losses are difficult to forecast, especially if such losses stem from factors beyond our historical experience. As a result, there can be no assurance that our allowance for loan losses will be sufficient to absorb losses or prevent a material adverse effect on our business, financial condition and results of operations. Losses are the largest cost as a percentage of revenues across all of our products. Fraud and customers not being able to repay their loans are both significant drivers of loss rates. If we experienced rising credit or fraud losses this would significantly reduce our earnings and profit margins and could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

In June 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 is intended to replace the incurred loss impairment methodology in current US GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates to improve the quality of information available to financial statement users about expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. For public entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. In August 2019, the FASB issued a draft proposed ASU for comment that would grant certain classes of companies, including Smaller Reporting Companies ("SRCs"), additional time to implement major FASB standards, including ASU 2016-13. The proposed standard was approved on October 18, 2019 (with the final ASU to be issued in November 2019) and SRCs are permitted to defer adoption of ASU 2016-13, and its related amendments, until the earlier of fiscal periods beginning after December 15, 2022 or the Company no longer qualifies as an SRC. Under the current SEC definitions, the Company expects to meet the definition of an SRC as of the proposed ASU's issuance date and is considering the adoption of the deferral period for ASU 2016-13.

The new methodology for determining the allowance for loan losses, once adopted by the Company, will extend the time frame covered by the estimate of credit losses by including forward-looking information, such as "reasonable and supportable" forecasts in the assessment of the collectability of loans. As a result, rather than just looking at historical performances of loans to determine allowance for loan losses, we will have to consider future losses as well. Further, the new standard will drive a change in the accounting treatment in that the new expected lifetime losses of loans will be recognized at the time a loan is made rather than over the lifetime of the loans. We anticipate that adoption of this new methodology may have a material impact on our financial statements due to the timing differences caused by the change. We also expect that the internal financial controls processes in place for the Company's loan loss reserve process will be impacted. In addition, if we fail to accurately forecast the collectability of our loans under this new methodology and we reserve inadequate allowance amounts, we could be required to absorb such additional losses, which could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Increased customer acquisition costs and/or data costs would reduce our margins.

Although losses are our largest cost, if customer acquisition costs or other servicing costs increased this would reduce our profit margins. Marketing costs would be negatively affected by increased competition or stricter credit standards that would reduce customer fund rates. We could also experience increased marketing costs due to higher fees from credit bureaus for preapproved direct mail lists, search engines for search engine marketing, or fees for affiliates, and these increased costs would reduce our profit margins. Other costs, such as legal costs, may increase as we pursue various company strategic initiatives, which could further reduce our profit margins.

We purchase significant amounts of data to facilitate our proprietary credit and fraud scoring models. If there was an increase in the cost of data or if the Company elected to purchase from new data providers there would be a reduction in our profit margins.

Any such reduction in our profit margins could result in a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Our success is dependent, in part, upon our officers and key employees, and if we are not able to attract and retain qualified officers and key employees, or if one of our officers or key employees is temporarily unable to fully contribute to our operations, our business could be materially adversely affected.

Our success depends, in part, on our officers, which comprise a relatively small group of individuals. Many members of the senior management team have significant industry experience, and we believe that our senior management would be difficult to replace, if necessary. Because the market for qualified individuals is highly competitive, we may not be able to attract and retain qualified officers or candidates. In addition, increasing regulations on, and negative publicity about, the consumer financial services industry could affect our ability to attract and retain qualified officers.

Our future success also depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and we may incur significant costs to attract and retain them. The loss of any of our senior management or key employees could materially adversely affect our ability to execute our business plan and strategy, and we may not be able to find adequate replacements on a timely basis, or at all. We cannot ensure that we will be able retain the services of any members of our senior management or other key employees. Our officers and key employees may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. While all key employees have signed non-disclosure, non-solicitation and non-compete agreements, they may still elect to leave the Company or even retire any time. Loss of key employees could result in delays to critical initiatives and the loss of certain capabilities and poorly documented intellectual property.

If we do not succeed in attracting and retaining our officers and key employees, our business could be materially and adversely affected.

Our US loan business is seasonal in nature, which causes our revenues and earnings to fluctuate.

Our US loan business is affected by fluctuating demand for the products and services we offer and fluctuating collection rates throughout the year. Demand for our consumer loan products in the US has historically been highest in the third and fourth quarters of each year, corresponding to the holiday season, and lowest in the first quarter of each year, corresponding to our customers' receipt of income tax refunds. This results in significant increases and decreases in portfolio size and profit margins from quarter to quarter. In particular, we typically experience a reduction in our credit portfolios and an increase in profit margins in the first quarter of the year. When we experience higher growth in the second quarter through fourth quarters, portfolio balances tend to grow and profit margins are compressed. Our cost of sales for the non-prime loan products we offer in the US, which represents our provision for loan losses, is lowest as a percentage of revenues in the first quarter of each year, corresponding to our customers' receipt of income tax refunds, and increases as a percentage of revenues for the remainder of each year. This seasonality requires us to manage our cash flows over the course of the year. If our revenues or collections were to fall substantially below what we would normally expect during certain periods, our ability to service debt and meet our other liquidity requirements may be adversely affected, which could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows. Any unexpected change to the growth in the second half of the year or delay of our customers' receipt of income tax refunds could change our typical seasonal product demand pattern and impact our profit margins and our annual cash flow management plans, which could have a material adverse effect on our financial condition and results of operations.

If internet search engine providers change their methodologies for organic rankings or paid search results, or our organic rankings or paid search results decline for other reasons, our new customer growth or volume from returning customers could decline.

Our new customer acquisition marketing and our returning customer relationship management is partly dependent on search engines such as Google, Bing and Yahoo! to direct a significant amount of traffic to our desktop and mobile websites via organic ranking and paid search advertising. We bid on certain keywords from search engines as well as use their algorithms to place our listings ahead of other lenders.

Our paid search activities may not continue to produce the desired results. Internet search engines often revise their methodologies. The volume of customers we receive through organic ranking and paid search could be adversely affected by any such changes in methodologies or policies by search engine providers, by:

- decreasing our organic rankings or paid search results;
- creating difficulty for our customers in using our web and mobile sites;
- producing more successful organic rankings, paid search results or tactical execution efforts for our competitors than for us; and
- resulting in higher costs for acquiring new or returning customers.

In addition, search engines could implement policies that restrict the ability of companies such as us to advertise their services and products, which could prevent us from appearing in a favorable location or any location in the organic rankings or paid search results when certain search terms are used by the consumer. Our online marketing efforts are also susceptible to actions by third parties that negatively impact our search results such as spam link attacks, which are often referred to as “black hat” tactics. Our sites have experienced meaningful fluctuations in organic rankings and paid search results in the past, and we anticipate similar fluctuations in the future. Any reduction in the number of consumers directed to our web and mobile sites could harm our business and operating results.

Finally, our competitors’ paid search, pay per click or search engine marketing activities may result in their sites receiving higher paid search results than ours and significantly increasing the cost of such advertising for us. We have little to no control over these potential changes in policy and methodologies relating to search engine results, and any of the changes described above could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Failure to keep up with the rapid technological changes in financial services and e-commerce, or changes in the uses and regulation of the internet could harm our business.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial and lending institutions to better serve customers and reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. We may not be able to effectively implement new technology-driven products and services as quickly as some of our competitors or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could harm our ability to compete with our competitors.

Additionally, the business of providing products and services such as ours over the internet is dynamic and relatively new. We must keep pace with rapid technological change, consumer use habits, internet security risks, risks of system failure or inadequacy, and governmental regulation and taxation, and each of these factors could adversely impact our business. In addition, concerns about fraud, computer security and privacy and/or other problems may discourage additional consumers from adopting or continuing to use the internet as a medium of commerce. Also, to expand our customer base, we may elect to appeal to and acquire consumers who prove to be less profitable than our previous customers, and as a result we may be unable to gain efficiencies in our operating costs, including our cost of acquiring new customers, and our business could be adversely impacted.

Any such failure to adapt to changes could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Our ability to conduct our business and demand for our loans could be disrupted by natural or man-made catastrophes.

Catastrophes, such as fires, hurricanes and tornadoes, floods, earthquakes, or other natural disasters, terrorist attacks, computer viruses and telecommunications failures, could adversely affect our ability to market, originate or service loans. Natural disasters and acts of terrorism, war, civil unrest, violence or human error could also cause disruptions to our business or the economy as a whole, which could negatively affect customers’ demand for our loans. Despite any precautions we may take, system interruptions and delays could occur if there is a natural disaster that affects our offices or one of the data center facilities we lease. As we rely heavily on our servers, computer and communications systems and the internet to conduct our business and provide high-quality customer service, such disruptions could harm our ability to market our products, accept and underwrite applications, provide customer service and undertake collections activities and cause lengthy delays which could harm our business, results of operations and financial condition. We have implemented a disaster recovery program that allows us to move production to a backup data center in the event of a catastrophe. Although this program is functional, we do not currently serve network traffic equally from each backup data center and are not able to switch instantly to our backup center in the event of failure of the main server site. If our primary data center shuts down, there will be a period of time that our loan products or services, or certain of such loan products or services, will remain inaccessible to our users or our users may experience severe issues accessing such loan products and 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.

Any of these events could also cause consumer confidence to decrease in one or more of the markets we serve, which could result in a decreased number of loans being made to customers. As a result of these issues, any of these occurrences could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

We may be unable to protect our proprietary technology and analytics or keep up with that of our competitors.

The success of our business depends to a significant degree upon the protection of our proprietary technology, including our proprietary credit and fraud scoring models, which we use for pricing loans. We seek to protect our intellectual property with non-disclosure agreements and through standard measures to protect trade secrets. However, we may be unable to deter misappropriation of our proprietary information, detect unauthorized use or take appropriate steps to enforce our intellectual property rights. If competitors learn our trade secrets (especially with regard to marketing and risk management capabilities) it could be difficult to successfully prosecute to recover damages. A third party may attempt to reverse engineer or otherwise obtain and use our proprietary technology without our consent. The pursuit of a claim against a third party for infringement of our intellectual property could be costly, and there can be no guarantee that any such efforts would be successful. Our failure to protect our software and other proprietary intellectual property rights or to develop technologies that are as good as our competitors could put us at a disadvantage relative to our competitors. Any such failures could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

We are subject to intellectual property disputes from time to time, and such disputes may be costly to defend and could harm our business and operating results.

We have faced and may continue to face allegations that we have infringed the trademarks, copyrights, patents or other intellectual property rights of third parties, including from our competitors or non-practicing entities. Patent and other intellectual property litigation may be protracted and expensive, and the results are difficult to predict and may require us to stop offering certain products or product features, acquire licenses, which may not be available at a commercially reasonable price or at all, or modify such products, product features, processes or websites while we develop non-infringing substitutes.

In addition, we use open source software in our technology platform and plan to use open source software in the future. From time to time, we may face claims from parties claiming ownership of, or demanding release of, the source code, potentially including our valuable proprietary code, or derivative works that were developed using such software, or otherwise seeking to enforce the terms of the applicable open source license. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our platform, any of which could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

Current and future litigation or regulatory proceedings could cause management distraction, harm our reputation and have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

We, our officers and certain of our subsidiaries have been and may become subject to lawsuits that could cause us to incur substantial expenditures, generate adverse publicity and could significantly impair our business, force us to cease doing business in one or more jurisdictions or cause us to cease offering or alter one or more products.

We may also be subject to litigation in the future and an adverse ruling in or a settlement of any such future litigation against us, our executive officers or another lender, could result in significant legal fees that could become material, could harm our reputation, cause us to have to refund fees and/or interest collected, forego collection of the principal amount of loans, pay treble or other multiple damages, pay monetary penalties and/or modify or terminate our operations in particular jurisdictions.

While no TFI related litigation has been filed directly against Elevate, and we can provide no assurances that there will not be any future TFI related litigation filed against the Company, in October 2019, Elevate entered into tolling agreements with the TFI Creditors' Committee and class claimants in regards to any potential future claims against Elevate. Because no claims have been filed against Elevate, no reasonable estimate of possible loss, if any, can be made at this time. We believe any future claims are without merit, and we intend to defend ourselves vigorously.

Defense of any lawsuit, even if successful, could require substantial time and attention of our management and could require the expenditure of significant amounts for legal fees and other related costs. We and others are also subject to regulatory proceedings, and we could suffer losses as a result of interpretations of applicable laws, rules and regulations in those regulatory proceedings, even if we are not a party to those proceedings. Any of these events could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

We may be unable to use some or all of our net operating loss carryforwards, which could materially and adversely affect our reported financial condition and results of operations.

At December 31, 2018, we had US and UK net operating loss carryforwards ("NOLs") of $42.0 million and $56.7 million, respectively, available to offset future taxable income, due to prior period losses. If not utilized, the US NOLs will begin to expire in 2034. The UK NOLs can be carried forward indefinitely. Realization of these NOLs depends on future income, and there is a risk that our existing US NOLs could expire unused and be unavailable to offset future income tax liabilities, which could materially and adversely affect our results of operations.

Under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), our ability to utilize NOLs or other tax attributes, such as research tax credits, in any taxable year may be limited if we experience an "ownership change." A Section 382 "ownership change" generally occurs if one or more stockholders or groups of stockholders, who own at least 5% of our stock, increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws. We have not completed a Section 382 analysis through December 31, 2018. If we have previously had, or have in the future, one or more Section 382 "ownership changes," including in connection with our IPO, or if we do not generate sufficient taxable income, we may not be able to utilize a material portion of our NOLs, even if we achieve profitability. If we are limited in our ability to use our NOLs in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs. This could materially and adversely affect our results of operations.

RISKS RELATED TO OUR ASSOCIATION WITH TFI

Third parties may seek to hold us responsible for liabilities of TFI that we did not assume in our agreements.

In connection with our separation from TFI, TFI has generally agreed to retain all liabilities that did not historically arise from our business. Third parties may seek to hold us responsible for TFI's retained liabilities, including third-party claims arising from TFI's business and retained assets. Under the separation and distribution agreement, we are responsible for the debts, liabilities and other obligations related to the business or businesses that we own and operate. Under our agreements with TFI, TFI has agreed to indemnify us for claims and losses relating to its retained liabilities. However, if any of those liabilities are significant and we are ultimately held liable for such liabilities, we cannot assure you that we will be able to recover the full amount of our losses from TFI. As an example, Elevate is a potential defendant in litigation that may be brought on behalf of the debtors' estates in the TFI bankruptcy. Although no such claims have been brought directly against Elevate to date, in October 2019, Elevate entered into tolling agreements with TFI Creditors' Committee and class claimants in regards to any potential future claims against Elevate. Because no claims have been filed against Elevate, no reasonable estimate of possible loss, if any, can be made at this time. We believe any future claims are without merit, and we intend to defend ourselves vigorously.

Although we do not anticipate liability for any obligations not expressly assumed by us pursuant to the separation and distribution agreement, it is possible that we could be required to assume responsibility for certain obligations retained by TFI should TFI fail to pay or perform its retained obligations. For instance, the spin-off could be challenged under various state and federal fraudulent conveyance laws. An unpaid creditor or an entity vested with the power of such creditor (such as a trustee or debtor-in-possession in a bankruptcy) could claim that the distribution left TFI insolvent or with unreasonably small capital or that TFI intended or believed it would incur debts beyond its ability to pay such debts as they mature and that TFI did not receive fair consideration or reasonably equivalent value in the spin-off. The measure of insolvency for purposes of such fraudulent conveyance laws will vary depending on which jurisdiction’s law is applied. Generally, however, an entity would be considered insolvent if either the fair saleable value of its assets is less than the amount of its liabilities (including the probable amount of contingent liabilities), or it is unlikely to be able to pay its liabilities as they become due. We do not know what standard a court would apply to determine insolvency; however, if a court were to conclude that the spin-off constituted a fraudulent conveyance, then such court could void the distribution as a fraudulent transfer and could impose a number of different remedies, including without limitation, returning our assets or your shares in our Company to TFI, voiding our liens and claims (if any) against TFI, or providing TFI with a claim for money damages against us in an amount equal to the difference between the consideration received by TFI and the fair market value of our Company at the time of the distribution.

The CFPB has authority to investigate and issue Civil Investigative Demands to consumer lending businesses and may issue fines or corrective orders.

The CFPB has authority to investigate and issue Civil Investigative Demands (“CIDs”) to consumer lending businesses, including us. In June 2012, prior to the spin-off, and after the spin-off, TFI received CIDs from the CFPB. The purpose of the CIDs purportedly was to determine whether TFI engaged in unlawful acts or practices relating to the advertising, marketing, provision, or collection of small-dollar loan products, in violation of parts of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the Truth in Lending Act, the Electronic Funds Transfer Act, the Gramm-Leach-Bliley Act, or any other federal consumer financial law and to determine whether CFPB action to obtain legal or equitable relief would be in the public interest. On November 15, 2017, the CFPB sued TFI alleging it engaged in unfair, deceptive, or abusive acts or practices. The CFPB and TFI have agreed to settle all claims and executed a settlement agreement that is awaiting final court approval in the United States Bankruptcy Court for the Northern District of Texas. While TFI’s business is distinct from our business, we cannot predict the final outcome of this litigation or to what extent any obligations arising out of such final outcome will be applicable to our Company, business or officers, if at all.

OTHER RISKS RELATED TO COMPLIANCE AND REGULATION

We, our marketing affiliates, our third-party service providers and our Bank Partners are subject to complex federal, state and local lending and consumer protection laws, and if we fail to comply with applicable laws, regulations, rules and guidance, our business could be adversely affected.

We, our marketing affiliates, our third-party service providers and our Bank Partners must comply with US federal, state and local regulatory regimes, including those applicable to consumer credit transactions. Certain US federal and state laws generally regulate interest rates and other charges and require certain disclosures. In particular, we may be subject to laws such as:

- local regulations and ordinances that impose requirements or restrictions related to certain loan product offerings and collection practices;
- state laws and regulations that impose requirements related to loan or credit service disclosures and terms, credit discrimination, credit reporting, debt servicing and collection;
- the Truth in Lending Act and Regulation Z promulgated thereunder, and similar state laws, which require certain disclosures to borrowers regarding the terms and conditions of their loans and credit transactions and other substantive consumer protections with respect to credit cards, such as an assessment of a borrower's ability to repay obligations and penalty fee limitations;

- Section 5 of the Federal Trade Commission Act, which prohibits unfair and deceptive acts or practices in or affecting commerce, Section 1031 of the Dodd-Frank Act, which prohibits unfair, deceptive or abusive acts or practices in connection with any consumer financial product or service, and similar state laws that prohibit unfair and deceptive acts or practices;

- the Equal Credit Opportunity Act and Regulation B promulgated thereunder and state non-discrimination laws, which generally prohibit creditors from discriminating against credit applicants on the basis of race, color, sex, age, religion, national origin, marital status, the fact that all or part of the applicant's income derives from any public assistance program or the fact that the applicant has in good faith exercised any right under the federal Consumer Credit Protection Act;

- the Fair Credit Reporting Act (the "FCRA") as amended by the Fair and Accurate Credit Transactions Act, and similar state laws, which promote the accuracy, fairness and privacy of information in the files of consumer reporting agencies;

- the Fair Debt Collection Practices Act (the "FDCPA") and similar state and local debt collection laws, which provide guidelines and limitations on the conduct of third-party debt collectors and creditors in connection with the collection of consumer debts;

- the Gramm-Leach-Bliley Act and Regulation P promulgated thereunder and similar state privacy laws, which include limitations on financial institutions' disclosure of nonpublic personal information about a consumer to nonaffiliated third parties, in certain circumstances require financial institutions to limit the use and further disclosure of nonpublic personal information by nonaffiliated third parties to whom they disclose such information and require financial institutions to disclose certain privacy policies and practices with respect to information sharing with affiliated and nonaffiliated entities as well as to safeguard personal customer information, and other privacy laws and regulations;

- the Bankruptcy Code and similar state insolvency laws, which limit the extent to which creditors may seek to enforce debts against parties who have filed for bankruptcy protection;

- the Servicemembers Civil Relief Act and similar state laws, which allow military members and certain dependents to suspend or postpone certain civil obligations, as well as limit applicable rates, so that the military member can devote his or her full attention to military duties;

- the Military Lending Act and Department of Defense rules, which limit the interest rate and fees that may be charged to military members and their dependents, requires certain disclosures and prohibits certain mandatory clauses among other restrictions;

- the Electronic Fund Transfer Act and Regulation E promulgated thereunder, which provide disclosure requirements, guidelines and restrictions on the electronic transfer of funds from consumers' asset accounts;

- the Electronic Signatures in Global and National Commerce Act and similar state laws, particularly the Uniform Electronic Transactions Act, which authorize the creation of legally binding and enforceable agreements utilizing electronic records and signatures and, with consumer consent, permits required disclosures to be provided electronically;

- the Bank Secrecy Act, which relates to compliance with anti-money laundering, customer due diligence and record-keeping policies and procedures; and

- the Telephone Consumer Protection Act (the "TCPA") and the regulations of the Federal Communications Commission (the "FCC"), which regulations include limitations on telemarketing calls, auto-dialed calls, prerecorded calls, text messages and unsolicited faxes.

While it is our intention to always be in compliance with these laws, it is possible that we may currently be, or at some time have been, inadvertently out of compliance with some or any such laws. Further, all applicable laws are subject to evolving regulatory and judicial interpretations, which further complicate real-time compliance. Lastly, compliance with these laws is costly, time-consuming and limits our operational flexibility.

Failure to comply with these laws and regulatory requirements applicable to our business may, among other things, limit our or a collection agency's ability to collect all or part of the principal of or interest on loans. As a result, we may not be able to collect on unpaid principal or interest. In addition, non-compliance could subject us to damages, revocation of required licenses, class action lawsuits, administrative enforcement actions, rescission rights held by investors in securities offerings and civil and criminal liability, which may harm our business and may result in borrowers rescinding their loans.

Where applicable, we seek to comply with state installment, CSO, servicing and similar statutes. In all US jurisdictions with licensing or other requirements that we believe may be applicable to us, we comply with the relevant requirements by acquiring the necessary licenses or authorization and submitting appropriate registrations in connection therewith. Nevertheless, if we are found to not have complied with applicable laws, we could lose one or more of our licenses or authorizations or face other sanctions or penalties or be required to obtain other licenses or authorizations in such jurisdiction, which may have an adverse effect on our ability to perform our servicing obligations or make products or services available to borrowers in particular states, which may harm our business.

Our products currently have usage caps and limitations on lending based on internally developed "responsible lending guidelines." If those policies become more restrictive due to legislative or regulatory changes at either the local, state, US federal, or UK regulatory level these products would experience declining revenues per customer. In some cases, legislative or regulatory changes at the local, state, US federal or UK regulatory level, like the new law in Ohio targeting small-dollar lending practices, may require us to discontinue offering certain of our products in certain jurisdictions.

The CFPB may have examination authority over our US consumer lending business that could have a significant impact on our US business.

In July 2010, the US Congress passed the Dodd-Frank Act. Title X of the Dodd-Frank Act created the CFPB, which regulates US consumer financial products and services, and gave it regulatory, supervisory and enforcement powers over certain providers of consumer financial products and services, including authority to examine such providers.

The CFPB is currently considering rules to define larger participants in markets for consumer installment loans for purposes of supervision. Once this rule and corresponding examination rules are established, we anticipate the CFPB will examine us. The CFPB's examination authority permits CFPB examiners to inspect the books and records of providers and ask questions about their business practices. The examination procedures include specific modules for examining marketing activities, loan application and origination activities, payment processing activities and sustained use by consumers, collections, accounts in default, consumer reporting activities and third-party relationships. As a result of these examinations, we could be required to change our products, our services or our practices, whether as a result of another party being examined or as a result of an examination of us, or we could be subject to monetary penalties, which could reduce profit margins for the company or otherwise materially adversely affect us.

Furthermore, the CFPB's practices and procedures regarding civil investigations, examination, enforcement and other matters relevant to us and other CFPB-regulated entities are subject to further development and change. Where the CFPB holds powers previously assigned to other regulators or may interpret laws previously interpreted by other regulators, the CFPB may not continue to apply such powers or interpret relevant concepts consistent with previous regulators' practice. This may adversely affect our ability to anticipate the CFPB's expectations or interpretations in our interaction with the CFPB.

The CFPB also has broad authority to prohibit unfair, deceptive and abusive acts and practices and to investigate and penalize financial institutions that violate this prohibition. In addition to having the authority to obtain monetary penalties for violations of applicable federal consumer financial laws (including the CFPB's own rules), the CFPB can require remediation of practices, pursue administrative proceedings or litigation and obtain cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief). Also, where a company is believed to have violated Title X of the Dodd-Frank Act or CFPB regulations implemented thereunder, the Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions to remedy such violations after consulting with the CFPB. If the CFPB or one or more state attorneys general or state regulators believe that we have violated any of the applicable laws or regulations, they could exercise their enforcement powers in ways that could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

The CFPB issued proposed revisions to the 2017 Rule affecting the consumer lending industry, and these or subsequent new rules and regulations, if they are finalized, may impact our US consumer lending business.

The CFPB released its final "Payday, Vehicle Title, and Certain High-Cost Lending Rule" (the "2017 Rule") on October 5, 2017, covering certain short-term and longer-term loans with an APR of 36% or higher and have a "leveraged payment mechanism" such as an ACH payment plan. On February 6, 2019, the CFPB issued proposed revisions to the 2017 Rule (the "2019 Proposed Revisions"). The 2019 Proposed Revisions leave in place requirements and limitations on attempts to withdraw payments from consumers' checking, savings or prepaid accounts. Among other requirements, the payment provisions prohibit lenders that have had two consecutive attempts to collect money from a consumers' account returned for insufficient funds from making any further attempts to collect from the account unless the consumers have provided new authorizations for additional payment transfers. Additionally, the payment provisions require us to give consumers at least three business days' advance notice before attempting payment withdrawals. The mandatory compliance deadline for the payment provisions of the 2017 Rule still stands at August 19, 2019. Language in the 2019 Proposed Revisions suggest that the CFPB may be receptive to informal requests to revisit such payment provisions requirements. There are also recordkeeping requirements and compliance plan requirements in the 2019 Proposed Rule that will apply to us. On June 7, 2019, the CFPB announced a 15-month delay in the rule's August 19, 2019 compliance date to November 19, 2020 that applies only to the proposed rescinded ability-to-pay provisions. Relatedly, the Community Financial Services Association of America ("CFSA") sued the CFPB in April 2018 over the Payday, Vehicle Title, and Certain High-Cost Lending Rule. As a result, the court suspended the Bureau's August 19, 2019 implementation of the 2019 Proposed Revisions pending further order of the court. On August 6, 2019 the court issued an order that leaves the compliance date stay in effect. To the extent that the 2019 Proposed Revisions, or subsequent new rules and regulations proposed by the CFPB, are finalized, the results of operations of our US consumer lending business could be adversely affected.

The FDIC has issued examination guidance affecting our Bank Partners and these or subsequent new rules and regulations could have a significant impact on our Bank-Originated Products.

The Bank-Originated Products are offered by Elevate's Bank Partners using technology, underwriting and marketing services provided by Elevate. Our Bank Partners are supervised and examined by both the states that charter them and the FDIC. If the FDIC or a state supervisory body considers any aspect of the Bank Products to be inconsistent with its guidance, the Bank Partners may be required to alter the product.

On July 29, 2016, the board of directors of the FDIC released examination guidance relating to third-party lending as part of a package of materials designed to "improve the transparency and clarity of the FDIC's supervisory policies and practices" and consumer compliance measures that FDIC-supervised institutions should follow when lending through a business relationship with a third party. The proposed guidance, if finalized, would apply to all FDIC-supervised institutions that engage in third-party lending programs, including certain Bank Products.

The proposed guidance elaborates on previously issued agency guidance on managing third-party risks and specifically addresses third-party lending arrangements where an FDIC-supervised institution relies on a third party to perform a significant aspect of the lending process. The types of relationships that would be covered by the guidance include (but are not limited to) relationships for originating loans on behalf of, through or jointly with third parties, or using platforms developed by third parties. If adopted as proposed, the guidance would result in increased supervisory attention of institutions that engage in significant lending activities through third parties, including at least one examination every 12 months, as well as supervisory expectations for a third-party lending risk management program and third-party lending policies that contain certain minimum requirements, such as self-imposed limits as a percentage of total capital for each third-party lending relationship and for the overall loan program, relative to origination volumes, credit exposures (including pipeline risk), growth, loan types, and acceptable credit quality. Comments on the guidance were due October 27, 2016. While the guidance has never formally been adopted, it is our understanding that the FDIC has relied upon it in its examination of third-party lending arrangements.

On June 5, 2018, Jelena McWilliams was sworn in as the Chair of the FDIC. At this time, it is unclear what impact the incoming Chair will have on the FDIC's third-party lending policies governing the Bank Products.

The UK has imposed, and continues to impose, increased regulation of the high-cost short-term credit industry with the stated expectation that some firms will exit the market.

During the years ended December 31, 2018 and 2017, our UK operations represented 16% and 15%, respectively, of our consolidated total revenues. In the UK, we are subject to regulation by the FCA pursuant to the Financial Services and Markets Act 2000 (the “FSMA”), the Consumer Credit Act 1974, as amended (the “CCA”), and secondary legislation passed under such statutes, among other rules and regulations including the FCA Handbook, which collectively serve to transpose the obligations under the European Consumer Credit Directive into UK law.

The FSMA gives the FCA the power to authorize, supervise, examine, bring enforcement actions and impose fines and disciplinary sanctions against providers of consumer credit, as well as to make rules for the regulation of consumer credit. The Consumer Credit Sourcebook (the "CONC") incorporates prescriptive regulations for consumer loans such as those that we offer, including mandatory affordability checks on borrowers, limiting the number of refinances, or “rollovers,” to two, restricting how lenders can advertise, banning advertisements that the FCA deems misleading, and introducing a limit of two unsuccessful attempts on the use of continuous payment authority ("CPA") (which provides a creditor the ability to directly debit a customer’s account for payment using their bank card details when authorized by the customer to do so) to pay off a loan. The UK also has strict regulations regarding advertising (including websites) and the presentation, form and content of loan agreements, including statutory warnings, the layout of prescribed financial information, as well as in relation to defaulted loans and collections activities. The changes that we have implemented or any changes we may be required to implement in the future as a result of such legislative and regulatory activities could have a material adverse effect on our UK business.

In the period since the FCA acquired responsibility for the regulation of consumer credit in the UK in place of the Office of Fair Trading (the "OFT") in April 2014, there have been a large number of new regulations affecting our UK product offerings. These include the introduction of a rate cap, a prohibition on certain types of line of credit products, the establishment of a price comparison website, and restrictions on payment processing activities, among other changes. The rate cap imposes a maximum interest rate of 0.8% per day and maximum late payment fee of £15; the total amount charged for the loan, including all default charges, must not exceed 100% of the capital sum originally borrowed. This rule translates to a maximum rate of £24 for every £100 borrowed for a 30-day period, or 0.8% per day. The maximum fees that can be earned on the loan (through interest, default fees, and late interest) ensure that a consumer cannot pay back more than twice the amount of principal borrowed.

In July 2017, the FCA announced that it had reviewed the impact of the 0.8% per day price cap and concluded that the current price cap will be left in place. The FCA will review the price cap again in 2020. Further, the FCA found that regulation of high-cost short-term credit, including the price cap, has led to substantial benefits to consumers. The FCA validated concerns about specific products and segments of the high-cost credit market, including unarranged overdrafts and long-term use of high-cost credit and the rent-to-own, home-collected credit and catalog credit markets. In May 2018, the FCA published the outcome of its high-cost credit review and proposed changes to its regulations of overdrafts, the rent-to-own market, home-collected credit, catalogue credit and store cards. No recommendations were made concerning the high-cost short-term credit loan market. Separately, the FCA has asked companies to review their lending practices regarding repeat borrowing to ensure such lending practices reflect decisions made by the Financial Ombudsman Service. Our UK business has undertaken this exercise and has invited the FCA to discuss its findings. While we believe that our UK business has implemented lending practices for repeat borrowing that are compliant with regulatory requirements, if the FCA were to impose a cap on a number of times a consumer of our Sunny product can borrow from us, this could have a material adverse effect on our business, prospects, results of operations, financial condition and cash flows.

During the year ended December 31, 2018, our UK business began to receive an increased number of customer complaints initiated by claims management companies ("CMCs") related to the affordability assessment of certain loans. If our evidence supports the affordability assessment and we reject the claim, the customer has the right to take the complaint to the Financial Ombudsman Service for further adjudication. The CMCs' campaign against the high cost lending industry increased significantly during the third and fourth quarters of 2018 and continued during the first half of 2019 resulting in a significant increase in affordability claims against all companies in the industry during this period. We believe that many of the increased claims are without merit and reflect the use of abusive and deceptive tactics by the CMCs. The FCA began regulating the CMCs in April 2019 in order to ensure that the methods used by the CMCs are in the best interests of the consumer and the industry. As of September 30, 2019, we accrued approximately $2.2 million for the claims received that were determined to be probable and reasonably estimable based on the Company's historical loss rates related to these claims. The outcomes of the adjudication of these claims may differ from the Company's estimates, and as a result, our estimates may change in the near term and the effect of any such change could be material to the financial statements. We continue to monitor the matters for further developments that could affect the amount of the accrued liability recognized.

Separately, the FCA asked all industry participants to review their lending practices to ensure that such companies are using an appropriate affordability and creditworthiness analysis. Our UK business provided the requested information to the FCA. The FCA recently reported back to us and asked our UK business to tighten certain aspects of its income verification and expenditure processes. We are working with the FCA to ensure the changes we make address all matters raised by the FCA.

Additionally, in June 2013, the OFT referred the payday lending industry in the UK to the Competition Commission, which is now the Competition & Markets Authority (the “CMA”) for a market investigation. The CMA gathered data from industry participants, including us, in connection with its review of the UK payday lending industry to determine whether certain features of the payday lending industry prevent, restrict or distort competition (which is also referred to as having an adverse effect on competition) and, if so, what remedial action should be taken. The CMA published its final report in February 2015; its recommendations were implemented under the Payday Lending Market Investigation Order 2015, under which:

- online lenders must provide details of their products on at least one FCA authorized price comparison website ("PCW”) and include a hyperlink from their website to the relevant PCW; and
- payday lenders must provide existing customers with a summary of their cost of borrowing.

These changes, which are reflected in FCA rules, came into effect on December 1, 2016.

On July 31, 2017, the FCA issued a Consultation Paper on proposed changes to its rules and guidance on assessing creditworthiness in consumer credit. The FCA requested responses to the consultation by October 31, 2017 and expects to publish its findings in the second quarter of 2018. We do not currently know whether or how the FCA may amend its rules and guidance on assessing creditworthiness in consumer credit or how it will affect our business operations. If the FCA adopts rules that significantly restrict the conduct of our business, any such rules could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows or could make the continuance of all or part of our UK business impractical or unprofitable. Any new rules adopted by the FCA could also result in significant compliance costs.

In February 2016, the FCA issued full authorization to Elevate for our UK business. Similar to US federal and state regulatory regimes, the FCA has the power to revoke, suspend or impose conditions upon our authorization to conduct a consumer credit business if it determines we are out of compliance with applicable UK laws, high-cost short-term rules or other legal requirements ensuring fair treatment of consumers.

On October 25, 2019, the Company's UK subsidiary, ECI, entered into an agreement with the Financial Conduct Authority ("FCA") (the "Agreement") to not make any payments greater than £1.0 million outside of the normal course of business without obtaining prior approval from the FCA. The Company believes this Agreement will not have a material impact on ECI's ability to continue to serve its customers and meet its obligations.

Our advertising and marketing materials and disclosures have been and continue to be subject to regulatory scrutiny, particularly in the UK.

In the jurisdictions where we operate, our advertising and marketing activities and disclosures are subject to regulation under various industry standards, consumer protection laws, and other applicable laws and regulations. Consistent with the consumer lending industry as a whole (see "—The consumer lending industry continues to be subjected to new laws and regulations in many jurisdictions that could restrict the consumer lending products and services we offer, impose additional compliance costs on us, render our current operations unprofitable or even prohibit our current operations" above), our advertising and marketing materials have come under increased scrutiny. In the UK, for example, consumer credit firms are subject to the financial promotions regime set out in the FSMA (Financial Promotions) Order 2005 and specific rules in the CONC, part 3, such as the inclusion of a risk warning on all advertising materials. The FCA has also decided to adopt certain elements of industry codes as FCA rules on a case by case basis. Our advertising and marketing materials in the UK are subject to review and regulation both by the FCA and the Advertising Standards Authority. We have in some cases been required to withdraw, amend or add disclosures to such materials, or have done so voluntarily in response to inquiries or complaints. Going forward, there can be no guarantee that we will be able to advertise and market our business in the UK or elsewhere in a manner we consider effective. Any inability to do so could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

The regulatory landscape in which we operate is continually changing due to new CFPB rules, regulations and interpretations, as well as various legal actions that have been brought against others in marketplace lending, including several lawsuits that have sought to re-characterize certain loans made by federally insured banks as loans made by third parties. If litigation on similar theories were brought against us when we work with a federally insured bank that makes loans, rather than making loans ourselves and were such an action to be successful, we could be subject to state usury limits and/or state licensing requirements, in addition to the state consumer protection laws to which we are already subject, in a greater number of states, loans in such states could be deemed void and unenforceable, and we could be subject to substantial penalties in connection with such loans.

The case law involving whether an originating lender, on the one hand, or third-parties, on the other hand, are the "true lenders" of a loan is still developing and courts have come to different conclusions and applied different analyses. The determination of whether a third-party service provider is the "true lender" is significant because third-parties risk having the loans they service becoming subject to a consumer's state usury limits. A number of federal courts that have opined on the "true lender" issue have looked to who is the lender identified on the borrower's loan documents. A number of state courts and at least one federal district court have considered a number of other factors when analyzing whether the originating lender or a third party is the "true lender," including looking at the economics of the transaction to determine, among other things, who has the predominant economic interest in the loan being made. If we were re-characterized as a "true lender" with respect to Elastic, or Rise of Texas or FinWise states, loans could be deemed to be void and unenforceable in some states, the right to collect finance charges could be affected, and we could be subject to fines and penalties from state and federal regulatory agencies as well as claims by borrowers, including class actions by private plaintiffs. Even if we were not required to change our business practices to comply with applicable state laws and regulations or cease doing business in some states, we could be required to register or obtain lending licenses or other regulatory approvals that could impose a substantial cost on us. If Republic Bank, FinWise Bank or the CSO lenders in Texas were subject to such a lawsuit, they may elect to terminate their relationship with us voluntarily or at the direction of their regulators, and if they lost the lawsuit, they could be forced to modify or terminate the programs.

On August 13, 2018, the California Supreme Court in *Eduardo De La Torre, et al. v. CashCall, Inc.*, held that interest rates on consumer loans of $2,500 or more could be found unconscionable under section 22302 of the California Financial Code ("CFC"), despite not being subject to certain statutory interest rate caps and that such a finding requires a full unconsionability analysis, which is fact-intensive. The Supreme Court did not hold that any particular loan or loans were unconscionable. In its opinion, the Supreme Court noted that the unconscionability determination is not an easy one, that high interest rates may indeed be justified for higher risk borrowers. As a result of the California Supreme Court’s ruling, the case was remanded to the Northern District of California. The Judge for the Northern District of California dismissed the case, on the basis that the unconsionability analysis and class action determination are matters of state law for evaluation by a state court.

On August 31, 2016, the United States District Court for the Central District of California ruled in *CFPB v. CashCall, Inc. et. al.* that CashCall was the “true lender” and consequently was engaged in deceptive practices by servicing and collecting on payday loans in certain states where the interest rate on the loans exceeded the state usury limit and/or where CashCall was not a licensed lender. The CashCall case is related to a tribally related lending program. In reaching its decision, the court adopted a “totality of the circumstances” test to determine which party to the transaction had the “predominant economic interest” in the transaction. Given the fact-intensive nature of a “totality of the circumstances” assessment, the particular and varied details of marketplace lending and other bank partner programs may lead to different outcomes to those reached in CashCall, even in those jurisdictions where courts adopt the “totality of the circumstances” approach. Notably, CashCall did not address the federal preemption of state law under the National Bank Act or any other federal statute. Although CashCall is appealing the decision in the Ninth Circuit, on January 26, 2018, the District Court ordered CashCall to pay approximately $10.2 million in civil money penalties, but no consumer restitution. In issuing the judgment, which was significantly less than the $280 million the CFPB sought in penalties and consumer restitution, the Court found that CashCall had not knowingly or recklessly violated consumer protection laws, and that the CFPB had not demonstrated that consumer restitution was an appropriate remedy.

On September 20, 2016, in *Beechum v. Navient Solutions, Inc.*, the United States District Court for the Central District of California dismissed a class action suit alleging usurious interest rates on private student loans in violation of California law. In doing so, the court rejected the plaintiff’s arguments that the defendants were the de facto “true lenders” of loans made by a national bank under a bank partnership arrangement with a non-bank partner. Consistent with the controlling judicial authority for challenges to the applicability of statutory or constitutional exemptions to California’s usury prohibition, the court determined that “it must look solely to the face of the transaction” in determining whether an exemption applies and did not apply the “totality of the circumstances” test.

In addition to true lender challenges, a question regarding the applicability of state usury rates may arise when a loan is sold from a bank to a non-bank entity. In *Madden v. Midland Funding, LLC*, the Court of Appeals for the Second Circuit held that the federal preemption of state usury laws did not extend to the purchaser of a loan issued by a national bank. In its brief urging the US Supreme Court to deny certiorari, the US Solicitor General, joined by the Office of the Comptroller of the Currency (“OCC”), noted that the Second Circuit (Connecticut, New York and Vermont) analysis was incorrect. On remand, the United States District Court for the Southern District of New York concluded on February 27, 2017 that New York’s state usury law, not Delaware's state usury law, was applicable and that the plaintiff’s claims under the FDCPA and state unfair and deceptive acts and practices could proceed. To that end, the court granted Madden’s motion for class certification. At this time, it is unknown whether Madden will be applied outside of the defaulted debt context in which it arose. However, given the uncertainty that *Madden* created, H.R. 3299 was introduced to restore the “valid-when-made” doctrine to allow purchasers of bank loans on the secondary market to continue to charge and collect interest at the rate that the national was permitted to charge. H.R. 3299 passed the House in February 2018 and is pending before the Senate.

The facts in CashCall, Navient and Madden are not directly applicable to our business, as we do not engage in practices similar to those at issue in CashCall, Navient or Madden, and we do not purchase whole loans or engage in business in states within the Second Circuit. However, to the extent that either the holdings in CashCall or Madden were broadened to cover circumstances applicable to our business, or if other litigation on related theories were brought against us and were successful, or we were otherwise found to be the "true lender," we could become subject to state usury limits and state licensing laws, in addition to the state consumer protection laws to which we are already subject, in a greater number of states, loans in such states could be deemed void and unenforceable, and we could be subject to substantial penalties in connection with such loans.

Recently, the Colorado Attorney General recently filed complaints in state court against marketplace lenders Marlette Funding LLC and Avant of Colorado LLC on behalf of the administrator of Colorado's Uniform Consumer Credit Code (UCCC), alleging violations of the UCCC based on "true lender" and loan assignment cases with respect to lending programs sponsored by WebBank and Cross River Bank, respectively. The complaints allege that the non-bank service providers, Marlette Funding LLC and Avant of Colorado LLC - rather than WebBank and Cross River Bank, are the "true lenders," and therefore subject to Colorado usury limits. Efforts by Avant and Marlette Funding to remove the cases to federal court and efforts by Cross River Bank and WebBank seeking declaratory judgments against the administrator of Colorado's UCCC failed (although both Cross River Bank and WebBank filed appeals with the Tenth Circuit). At this time, it is unknown what the outcome of these cases will be and whether any conclusions of law would be applied outside Colorado. However, recently in November 2018, the administrator of Colorado's UCCC amended its complaints against Avant and Marlette Funding to add additional parties (the securitization trusts that acquired the loans originated under the bank partnerships Avant and Marlette Funding have with Cross River Bank and WebBank) alleging violations of Colorado's UCCC related to the finance charges and fees received by the securitization trusts. Another marketplace lender, Kabbage, Inc. and its bank, Celtic Bank, have been sued in Massachusetts federal court with the defendant alleging that Kabbage, not Celtic Bank, is the "true lender."

On September 10, the FDIC and the OCC jointly submitted an amicus brief to the U.S. District Court for the District of Colorado in support of the appellee debt buyer, urging the district court to uphold the bank's rights to enforce that debt to the debt buyer, including the bank's right to charge interest as authorized under the laws of its home state. The brief includes related discussions of (i) the rights of federally regulated banks to "export" their home states' interest rates by charging those rates to borrowers nationwide, first with respect to national banks under section 85 of the National Bank Act and then with respect to state banks under section 27 of the Federal Deposit Insurance Act and (ii) federal preemption of state usury laws. The portion of the brief that discusses rate exportation strongly reaffirms the OCC and the FDIC's complete accord that section 27 and section 85 should be mirror images of each other. At the conclusion of their brief, the agencies ask the district court to affirm the bankruptcy court's decision on the basis that affirmation would "preserve the banks' longstanding ability to engage in loan sales, would reaffirm the traditional protections that such loan sales have received under the law, would ensure the proper functioning of the credit markets, and would promote safety and soundness in the banking sector by supporting loan sales and securitizations, which are used to manage capital and liquidity positions."

We use third-party collection agencies to assist us with debt collection. Their failure to comply with applicable debt collection regulations could subject us to fines and other liabilities, which could harm our reputation and business.

The FDCPA regulates persons who regularly collect or attempt to collect, directly or indirectly, consumer debts owed or asserted to be owed to another person. Many states impose additional requirements on debt collection communications, and some of those requirements may be more stringent than the federal requirements. Moreover, regulations governing debt collection are subject to changing interpretations that differ from jurisdiction to jurisdiction. We use third-party collections agencies to collect on debts incurred by consumers of our credit products. Regulatory changes could make it more difficult for collections agencies to effectively collect on the loans we originate.

Non-US jurisdictions also regulate debt collection. For example, in the UK, due to new rules under the CONC we have made adjustments to some of our business practices, including our collections processes, which could possibly result in lower collections on loans made by us and has resulted in a decrease in the number of new customers that we are able to approve. In addition, the concerns expressed to us by the OFT and the FCA relate in part to debt collection. We could be subject to fines, written orders or other penalties if we, or parties working on our behalf, are determined to have violated the FDCPA, the CONC or analogous state or international laws, which could have a material adverse effect on our reputation, business, prospects, results of operations, financial condition or cash flows.

Our business is subject to complex and evolving US and international laws and regulations regarding privacy, data protection, and other matters. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in user growth or engagement, or otherwise harm our business.

We receive, transmit and store a large volume of personally identifiable information and other sensitive data from customers and potential customers. Our business is subject to a variety of laws and regulations in the US and the UK that involve user privacy issues, data protection, advertising, marketing, disclosures, distribution, electronic contracts and other communications, consumer protection and online payment services. The introduction of new products or expansion of our activities in certain jurisdictions may subject us to additional laws and regulations. In addition, international data protection, privacy, and other laws and regulations can be more restrictive than those in the US. US federal and state and international laws and regulations, which can be enforced by private parties or government entities, are constantly evolving and can be subject to significant change.

A number of proposals have recently been implemented or are pending before federal, state, and international legislative and regulatory bodies that could impose new obligations in areas such as privacy. For example, the European Union's new General Data Protection Regulation (the “GDPR”) was implemented in the UK in May 28, 2018, and the California Consumer Privacy Act (the “CCPA”) comes into effect in January 2020. The GDPR is more prescriptive than the prior regime and includes new obligations on businesses, including the requirement to appoint a data protection officer, self-report breaches, obtain express consent to data processing and provide more rights to individuals whose data they process, including the "right to be forgotten," by having their records erased. Penalties for non-compliance with the GDPR are significant, with a maximum fine calculated as the higher of €20 million or 4% of global turnover for the preceding year. The CCPA broadly defines personal information and provides California consumers increased privacy rights and protections. California Attorney General ("AG") Xavier Becerra issued draft regulations on October 11, 2019 to guide covered businesses' implementation of the CCPA. The regulations address several CCPA provisions that explicitly call for the AG's input, as well as others that have been the subject of confusion, criticism, or discussion.

In addition, the 4th European Union's anti-money laundering directive (2015/849/EC) came into effect in June 2017 and requires changes to customer due diligence assessments and greater focus on a risk-based approach.

Some countries are also considering or have enacted legislation requiring local storage and processing of data that, if applicable to the markets in which we operate, would increase the cost and complexity of delivering our services. These existing and proposed laws and regulations can be costly to comply with and can delay or impede the development of new products, the expansion into new markets, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to inquiries or investigations, claims or other liabilities, including demands that we modify or cease existing business practices or pay fines, penalties or other damages.

It is difficult to assess the likelihood of the enactment of any future legislation or the impact that such rules and regulations could have on our business. We are operating on the basis, confirmed by the UK government and the FCA, that the decision of the UK to leave the European Union will not affect the implementation of the new European Union directives on data protection and anti-money laundering as outlined above.

The use of personal data in credit underwriting is highly regulated.

In the US the FCRA regulates the collection, dissemination and use of consumer information, including consumer credit information. Compliance with the FCRA and related laws and regulations concerning consumer reports has recently been under regulatory scrutiny. The FCRA requires us to provide a Notice of Adverse Action to a loan applicant when we deny an application for credit, which, among other things, informs the applicant of the action taken regarding the credit application and the specific reasons for the denial of credit. The FCRA also requires us to promptly update any credit information reported to a consumer reporting agency about a consumer and to allow a process by which consumers may inquire about credit information furnished by us to a consumer reporting agency. Historically, the FTC has played a key role in the implementation, oversight, enforcement and interpretation of the FCRA. Pursuant to the Dodd-Frank Act, the CFPB has primary supervisory, regulatory and enforcement authority of FCRA issues. Although the FTC also retains its enforcement role regarding the FCRA, it shares that role in many respects with the CFPB. The CFPB has taken a more active approach than the FTC, including with respect to regulation, enforcement and supervision of the FCRA. Changes in the regulation, enforcement or supervision of the FCRA may materially affect our business if new regulations or interpretations by the CFPB or the FTC require us to materially alter the manner in which we use personal data in our credit underwriting.

On May 28, 2018, our UK business became subject to the GDPR, and in January 2020, our California business will become subject to the CCPA. As described above in "-Our business is subject to complex and evolving US and international laws and regulations regarding privacy, data protection, and other matters. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in user growth or engagement or otherwise harm our business," the CCPA broadly defines personal information and provides California consumers increased privacy rights and protections, and the GDPR is more prescriptive than the prior regime and includes new obligations on businesses, including the requirement to appoint a data protection officer, self-report breaches, obtain express consent to data processing and provide more rights to individuals whose data they process, including the “right to be forgotten,” by having their records erased. Penalties for non-compliance with the GDPR are significant with a maximum fine calculated as the higher of €20 million or 4% of global turnover for the preceding year. There are also strict rules on the use of credit reference data under the CCA regulations and the CONC. We are also subject to laws limiting the transfer of personal data from the European Economic Area to non-European Economic Area countries or territories. There are also strict rules on the instigation of electronic communications such as email, text message and telephone calls under the Privacy and Electronic Communications (EC Directive) Regulations 2003, which prohibit unsolicited direct marketing by electronic means without express consent, as well as the monitoring of devices. When the UK leaves the European Union, it is expected that the UK will establish a new framework for data flow between the UK and the US or will agree to continue the protections of the GDPR for the transfer of personal data into and out of the UK. We expect to comply with any framework established by the UK for the transfer of personal data into and out of the UK but can provide no assurances as to whether such regulation will be more or less burdensome than the GDPR and other European Union regulations, and we may incur significant costs in transitioning to any new regulatory model. Furthermore, compliance with any new or developing privacy laws in the US, including the CCPA or other state or federal laws that may be enacted in the future, may require significant resources and could have a material adverse impact on our business and results of operations.

The oversight of the FCRA by both the CFPB and the FTC and any related investigation or enforcement activities or our failure to comply with the DPA and GDPR may have a material adverse impact on our business, including our operations, our mode and manner of conducting business and our financial results.

Judicial decisions or amendments to the Federal Arbitration Act could render the arbitration agreements we use illegal or unenforceable.

We include arbitration provisions in our consumer loan agreements. These provisions are designed to allow us to resolve any customer disputes through individual arbitration rather than in court and explicitly provide that all arbitrations will be conducted on an individual and not on a class basis. Thus, our arbitration agreements, if enforced, have the effect of shielding us from class action liability. Our arbitration agreements do not generally have any impact on regulatory enforcement proceedings. We take the position that the arbitration provisions in our consumer loan agreements, including class action waivers, are valid and enforceable; however, the enforceability of arbitration provisions is often challenged in court. If those challenges are successful, our arbitration and class action waiver provisions could be unenforceable, which could subject us to additional litigation, including additional class action litigation.

Any judicial decisions, legislation or other rules or regulations that impair our ability to enter into and enforce consumer arbitration agreements and class action waivers could significantly increase our exposure to class action litigation as well as litigation in plaintiff-friendly jurisdictions, which would be costly and could have a material adverse effect on our business, prospects, results of operations, financial condition or cash flows.

We use marketing affiliates to assist us and the originating lender in obtaining new customers, and if such marketing affiliates do not comply with an increasing number of applicable laws and regulations, or if our ability to use such marketing affiliates is otherwise impaired, it could adversely affect our business.

We depend in part on marketing affiliates as a source of new customers for us and, with respect to the Bank Products, for the originating lender and credit card issuer. Our marketing affiliates place our advertisements on their websites that direct potential customers to our websites. As a result, the success of our business depends in part on the willingness and ability of marketing affiliates to provide us customer referrals at acceptable prices.

If regulatory oversight of marketing affiliates relationships is increased, through the implementation of new laws or regulations or the interpretation of existing laws or regulations, our ability to use marketing affiliates could be restricted or eliminated.

Marketing affiliates' failure to comply with applicable laws or regulations, or any changes in laws or regulations applicable to marketing affiliates relationships or changes in the interpretation or implementation of such laws or regulations, could have an adverse effect on our business and could increase negative perceptions of our business and industry. Additionally, the use of marketing affiliates could subject us to additional regulatory cost and expense. If our ability to use marketing affiliates were to be impaired, our business, prospects, results of operations, financial condition or cash flows could be materially adversely affected.

RISKS RELATED TO THE SECURITIES MARKETS AND OWNERSHIP OF OUR COMMON STOCK

The price of our common stock may be volatile, and the value of your investment could decline.

Technology stocks have historically experienced high levels of volatility. The trading price of our common stock may fluctuate substantially depending on many factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

- announcements of new products, services or technologies, relationships with strategic partners or acquisitions or changes in the timing of such anticipated events; of the termination of, or material changes to, material agreements; or of other events by us or our competitors;
- changes in economic conditions;
- changes in prevailing interest rates;
- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of technology companies in general and of companies in the financial services industry;
- fluctuations in the trading volume of our shares or the size of our public float;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- quarterly fluctuations in demand for our loans;
- whether our operating results meet the expectations of securities analysts or investors;
- actual or anticipated changes in the expectations of investors or securities analysts;
- regulatory developments in the US, foreign countries or both and our ability to comply with applicable regulations;
- material litigation, including class action law suits;
- major catastrophic events;
- sales of large blocks of our stock;
- entry into, modification of or termination of a material agreement; or
- departures of key personnel or directors.

In addition, if the market for technology and financial services stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. If our stock price is volatile, we may become the target of securities litigation. Securities litigation could result in substantial costs and divert our management's attention and resources from our business. This could have a material adverse effect on our business, operating results and financial condition.

Sales of substantial amounts of our common stock in the public markets, or the perception that they might occur, could reduce the price that our common stock might otherwise attain and may dilute your voting power and your ownership interest in us.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales could occur, could adversely affect the market price of our common stock and may make it more difficult for you to sell your common stock at a time and price that you deem appropriate.

In addition, the holders of an aggregate of 14,098,519 shares of our common stock associated with the conversion of preferred shares, or their permitted transferees, have rights, subject to some conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. We have also registered the offer and sale of all shares of common stock that we may issue under our equity compensation plans.

We may issue our shares of common stock or securities convertible into our common stock from time to time in connection with a financing, acquisition, investments or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the trading price of our common stock to decline.

The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the NYSE listing standards and other applicable securities rules and regulations. Compliance with these rules and regulations increases our legal and financial compliance costs, makes some activities more difficult, time-consuming or costly, and increases demand on our systems and resources, particularly after we are no longer an "emerging growth company" as defined in the Jumpstart Our Business Startups Act (the "JOBS Act."). Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and operating results and maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expense and a diversion of management's time and attention from revenues-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

However, for so long as we remain an "emerging growth company" as defined in the JOBS Act, we may take advantage of certain exemptions from various requirements that are applicable to public companies that are not "emerging growth companies," including not being required to comply with the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We may take advantage of these exemptions until we are no longer an "emerging growth company."

We will cease to be an "emerging growth company" upon the earliest of: (i) the first fiscal year following the fifth anniversary of the completion of our IPO, (ii) the first fiscal year after our annual gross revenues are $1.07 billion or more, (iii) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt securities, and (iv) as of the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded $700 million as of the end of the second quarter of that fiscal year.

If securities or industry analysts do not publish research or reports about our business or publish inaccurate or unfavorable research reports about our business, our share price and trading volume could decline.

The trading market for our common stock, to some extent, depends on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us should downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts should cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any dividends on our common stock. We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any cash dividends in the future. In addition, pursuant to our financing agreement, we are prohibited from paying cash dividends without the prior consent of VPC, and we may be further restricted in the future by debt or other agreements we enter into. As a result, you may only receive a return on your investment in our common stock if the market price of our common stock increases.

Anti-takeover provisions in our charter documents and Delaware law may delay or prevent an acquisition of our company.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may have the effect of delaying or preventing a change in control of us or changes in our management. The provisions, among other things:

- establish a classified Board of Directors so that not all members of our Board of Directors are elected at one time;
- permit only our Board of Directors to establish the number of directors and fill vacancies on the Board;
- provide that directors may only be removed "for cause" and only with the approval of two-thirds of our stockholders;
- require two-thirds approval to amend some provisions in our restated certificate of incorporation and restated bylaws;
- authorize the issuance of "blank check" preferred stock that our Board of Directors could use to implement a stockholder rights plan, or a "poison pill;"
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which will require that all stockholder actions must be taken at a stockholder meeting;
- do not provide for cumulative voting; and
- establish advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law (the “DGCL”) which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us in certain circumstances.

Any provision of our amended and restated certificate of incorporation or amended and restated bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed to us or our stockholders by any of our directors, officers, employees or agents, (iii) any action asserting a claim against us arising under the DGCL or (iv) any action asserting a claim against us that is governed by the internal affairs doctrine. The choice of forum provision in our amended and restated certificate of incorporation may limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us.

If we fail to maintain an effective system of disclosure controls and procedures and internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud.

Ensuring that we have adequate disclosure controls and procedures, including internal controls over financial reporting, in place so that we can produce accurate financial statements on a timely basis is costly and time-consuming and needs to be reevaluated frequently. We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) and related rules and regulations. Pursuant to Section 404, our management is required to report on, and, if we cease to be an emerging growth company, our independent registered public accounting firm will have to attest to the effectiveness of, our internal control over financial reporting. Our management may conclude that our internal controls over financial reporting are not effective if we fail to cure any identified material weakness or otherwise. Moreover, even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may conclude that our internal controls over financial reporting are not effective. In the future, our independent registered public accounting firm may not be satisfied with our internal controls over financial reporting or the level at which our controls are documented, designed, operated or reviewed, or it may interpret the relevant requirements differently from us. In addition, during the course of the evaluation, documentation and testing of our internal controls over financial reporting, we may identify deficiencies that we may not be able to remediate in time to meet the deadline imposed by the SEC for compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. Any such deficiencies may also subject us to adverse regulatory consequences. If we fail to achieve and maintain the adequacy of our internal controls over financial reporting, as these standards may be modified, supplemented or amended from time to time, we may be unable to report our financial information on a timely basis, may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act, and may suffer adverse regulatory consequences or violations of listing standards. Any of the above could also result in a negative reaction in the financial markets due to a loss of investor confidence in the reliability of our financial statements.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Repurchases of Equity Securities

On July 25, 2019, the Company's Board of Directors authorized a share repurchase program providing for the repurchase of up to $10 million of our common stock through July 31, 2024. The share repurchase program provides that up to a maximum aggregate amount of $5 million shares may be repurchased in any given fiscal year. Repurchases will be made in accordance with applicable securities laws from time-to-time in the open market and/or in privately negotiated transactions at our discretion, subject to market conditions and other factors. The share repurchase plan does not require the purchase of any minimum number of shares and may be implemented, modified, suspended or discontinued in whole or in part at any time without further notice. All repurchased shares may potentially be withheld for the vesting of RSUs.

The following table provides information about our common stock repurchases during the quarter ended September 30, 2019.

Period	Total number of shares purchased	Average price paid per share (1)	Total number of shares purchased as part of the publicly announced program	Approximate dollar value of shares that may yet be purchased under the program (1)
July 25, 2019 to July 31, 2019	—	$ —	—	$ 10,000,000
August 1, 2019 to August 31, 2019	91,370	$ 4.75	91,370	$ 9,565,938
September 1, 2019 to September 30, 2019	—	$ —	—	$ 9,565,938
Total	91,370	$ 4.75	91,370	

(1) Includes fees and commissions associated with the shares repurchased.

Item 6. Exhibits

Exhibit number	Description
10.1#	First Amendment to Financing Agreement, dated August 1, 2019 by and among EF SPV, Ltd. as borrower, the guarantors party thereto, the lenders party thereto and Victory Park Management, LLC as administrative agent and collateral agent. (2)
10.2#∞	Amendment to Amended and Restated Special Limited Agency Agreement, dated April 1, 2019, between First Financial Loan Company, LLC as lender and Rise Credit Service of Texas, LLC as CSO. (1)
10.3#	First Amendment to Credit Default Protection Agreement, dated April 24, 2019, by and between Elastic SPV, Ltd. and Elastic Louisville, LLC. (1)
10.4#+	Resignation and Release of Claims Agreement, dated July 25, 2019, between Elevate Credit Service, LLC and Kenneth E. Rees (2)
10.5#+	Fourth Amendment to Employment, Confidentiality and Non-Compete Agreement, dated August 1, 2019, by and between Jason Harvison and Elevate Credit Service, LLC. (2)
10.6#+	Fourth Amendment to Employment, Confidentiality and Non-Compete Agreement, dated August 1, 2019, by and between Christopher Lutes and Elevate Credit Service, LLC. (2)
10.7#+	Form of Elevate 2016 Omnibus Incentive Plan, Notice of Restricted Stock Unit Award. (2)
10.8#+	Form of Elevate 2016 Omnibus Incentive Plan, Notice of Restricted Stock Bonus Award. (2)
10.9#+	Form of Elevate 2016 Omnibus Incentive Plan, Notice Stock Option Award. (2)
10.10#+	Form of Elevate 2016 Omnibus Incentive Plan, Notice of Restricted Stock Unit Award (Section 16 Grantees). (2)
10.11#+	Form of Elevate 2016 Omnibus Incentive Plan, Notice of Restricted Stock Bonus Award (Section 16 Grantees). (2)
10.12#+	Form of Elevate 2016 Omnibus Incentive Plan, Notice Stock Option Award (Section 16 Grantees). (2)
31.1	Certification pursuant to Rule 13a-14a and Rule 15d-14(a) of the Securities and Exchange Act, as amended
31.2	Certification pursuant to Rule 13a-14a and Rule 15d-14(a) of the Securities and Exchange Act, as amended
32.1&	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2&	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

#	Previously filed.
∞	Confidential portions of this Exhibit were redacted pursuant to Item 601(b)(10) of Regulation S-K and the Company agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omissions upon request.
+	Indicates a management contract or compensatory plan.
&	This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.
*	Pursuant to applicable securities laws and regulations, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, are deemed not filed for purposes of section 18 of the Exchange Act and otherwise are not subject to liability under these sections.

(1) Filed as an exhibit to our Quarterly Report on Form 10-Q filed on May 10, 2019.
(2) Filed as an exhibit to our Quarterly Report on Form 10-Q filed on August 10, 2019.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

			Elevate Credit, Inc.
Date:	November 8, 2019	By:	/s/ Jason Harvison
			Jason Harvison Interim Chief Executive Officer (Principal Executive Officer)
Date:	November 8, 2019	By:	/s/ Christopher Lutes
			Christopher Lutes Chief Financial Officer (Principal Financial Officer)

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION

I, Jason Harvison, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Elevate Credit, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	November 8, 2019	By:	/s/ Jason Harvison
			Jason Harvison
			Interim Chief Executive Officer (Principal Executive Officer)

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION

I, Christopher Lutes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Elevate Credit, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date:	November 8, 2019	By:	/s/ Christopher Lutes
			Christopher Lutes
			Chief Financial Officer (Principal Financial Officer)

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Jason Harvison, Interim Chief Executive Officer of Elevate Credit, Inc. (the "Company"), hereby certify, that, to my knowledge:

i. The Company’s Quarterly Report on Form 10-Q for the period ending September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”) fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

ii. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	November 8, 2019	By:	/s/ Jason Harvison
			Jason Harvison
			Interim Chief Executive Officer (Principal Executive Officer)

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Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Christopher Lutes, Chief Financial Officer of Elevate Credit, Inc. (the "Company"), hereby certify, that, to my knowledge:

i. The Company's Quarterly Report on Form 10-Q for the period ending September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

ii. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	November 8, 2019	By:	/s/ Christopher Lutes
			Christopher Lutes
			Chief Financial Officer (Principal Financial Officer)

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