

CompuCredit Holdings Corp  
Form 10-Q  
November 08, 2012

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

For the quarterly period ended September 30, 2012

of

COMPUCREDIT HOLDINGS CORPORATION

a Georgia Corporation

IRS Employer Identification No. 58-2336689

SEC File Number 0-53717

Five Concourse Parkway, Suite 400

Atlanta, Georgia 30328

(770) 828-2000

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

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

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

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

As of October 31, 2012, there were 13,746,523 shares of common stock, no par value, of the registrant outstanding. (This excludes 1,672,656 loaned shares to be returned.)



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

|                                                                                                                                                                                                                                                                                                                      | September<br>30,<br>2012<br>(unaudited) | December<br>31,<br>2011 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------------------|
| <b>Assets</b>                                                                                                                                                                                                                                                                                                        |                                         |                         |
| Unrestricted cash and cash equivalents                                                                                                                                                                                                                                                                               | \$47,925                                | \$144,913               |
| Restricted cash and cash equivalents                                                                                                                                                                                                                                                                                 | 12,930                                  | 23,759                  |
| <b>Loans and fees receivable:</b>                                                                                                                                                                                                                                                                                    |                                         |                         |
| Loans and fees receivable, net (of \$8,502 and \$7,480 in deferred revenue and \$11,276 and \$7,156 in allowances for uncollectible loans and fees receivable at September 30, 2012 and December 31, 2011, respectively)                                                                                             | 56,569                                  | 64,721                  |
| Loans and fees receivable pledged as collateral under structured financings, net (of \$60 and \$511 in deferred revenue and \$3,510 and \$7,537 in allowances for uncollectible loans and fees receivable at September 30, 2012 and December 31, 2011, respectively)                                                 | 12,598                                  | 31,902                  |
| Loans and fees receivable, at fair value                                                                                                                                                                                                                                                                             | 19,285                                  | 28,226                  |
| Loans and fees receivable pledged as collateral under structured financings, at fair value                                                                                                                                                                                                                           | 168,407                                 | 238,763                 |
| Investments in previously charged-off receivables                                                                                                                                                                                                                                                                    | -                                       | 37,110                  |
| Investments in securities                                                                                                                                                                                                                                                                                            | 6,215                                   | 6,203                   |
| Deferred costs, net                                                                                                                                                                                                                                                                                                  | 2,100                                   | 3,033                   |
| Property at cost, net of depreciation                                                                                                                                                                                                                                                                                | 7,363                                   | 8,098                   |
| Investments in equity-method investees                                                                                                                                                                                                                                                                               | 41,914                                  | 49,862                  |
| Note receivable from sale of Investments in Previously Charged-Off Receivables segment                                                                                                                                                                                                                               | 13,033                                  | -                       |
| Prepaid expenses and other assets                                                                                                                                                                                                                                                                                    | 18,273                                  | 11,317                  |
| <b>Total assets</b>                                                                                                                                                                                                                                                                                                  | <b>\$406,612</b>                        | <b>\$647,907</b>        |
| <b>Liabilities</b>                                                                                                                                                                                                                                                                                                   |                                         |                         |
| Accounts payable and accrued expenses                                                                                                                                                                                                                                                                                | \$37,173                                | \$47,140                |
| Notes payable, at face value                                                                                                                                                                                                                                                                                         | 20,184                                  | 23,765                  |
| Notes payable associated with structured financings, at face value                                                                                                                                                                                                                                                   | 7,366                                   | 23,151                  |
| Notes payable associated with structured financings, at fair value                                                                                                                                                                                                                                                   | 167,521                                 | 241,755                 |
| Convertible senior notes (Note 8)                                                                                                                                                                                                                                                                                    | 95,194                                  | 176,400                 |
| Income tax liability                                                                                                                                                                                                                                                                                                 | 61,683                                  | 59,368                  |
| <b>Total liabilities</b>                                                                                                                                                                                                                                                                                             | <b>389,121</b>                          | <b>571,579</b>          |
| <b>Commitments and contingencies (Note 9)</b>                                                                                                                                                                                                                                                                        |                                         |                         |
| <b>Equity</b>                                                                                                                                                                                                                                                                                                        |                                         |                         |
| Common stock, no par value, 150,000,000 shares authorized: 15,419,179 shares issued and outstanding (including 1,672,656 loaned shares to be returned) at September 30, 2012; and 31,997,581 shares issued and 23,559,402 shares outstanding (including 1,672,656 loaned shares to be returned) at December 31, 2011 | -                                       | -                       |
| Additional paid-in capital                                                                                                                                                                                                                                                                                           | 211,037                                 | 294,246                 |
| Treasury stock, at cost, 0 and 8,438,179 shares at September 30, 2012 and December 31, 2011, respectively                                                                                                                                                                                                            | -                                       | (187,615 )              |
| Accumulated other comprehensive loss                                                                                                                                                                                                                                                                                 | (1,095 )                                | (2,257 )                |

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|                              |            |           |
|------------------------------|------------|-----------|
| Retained deficit             | (192,090 ) | (28,257 ) |
| Total shareholders' equity   | 17,852     | 76,117    |
| Noncontrolling interests     | (361 )     | 211       |
| Total equity                 | 17,491     | 76,328    |
| Total liabilities and equity | \$406,612  | \$647,907 |

See accompanying notes.

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

|                                                                                                                            | For the Three Months<br>Ended September 30, |           | For the Nine Months<br>Ended September 30, |            |
|----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-----------|--------------------------------------------|------------|
|                                                                                                                            | 2012                                        | 2011      | 2012                                       | 2011       |
| Interest income:                                                                                                           |                                             |           |                                            |            |
| Consumer loans, including past due fees                                                                                    | \$20,054                                    | \$34,833  | \$68,037                                   | \$114,543  |
| Other                                                                                                                      | 323                                         | 240       | 731                                        | 829        |
| Total interest income                                                                                                      | 20,377                                      | 35,073    | 68,768                                     | 115,372    |
| Interest expense                                                                                                           | (7,406 )                                    | (10,282 ) | (25,582 )                                  | (33,262 )  |
| Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable | 12,971                                      | 24,791    | 43,186                                     | 82,110     |
| Fees and related income on earning assets                                                                                  | 3,703                                       | 14,755    | 68,001                                     | 82,277     |
| Losses upon charge off of loans and fees receivable recorded at fair value                                                 | (8,790 )                                    | (28,019 ) | (81,693 )                                  | (117,209 ) |
| Provision for losses on loans and fees receivable recorded at net realizable value                                         | (5,373 )                                    | (96 )     | (13,828 )                                  | 325        |
| Net interest income, fees and related income on earning assets                                                             | 2,511                                       | 11,431    | 15,666                                     | 47,503     |
| Other operating income:                                                                                                    |                                             |           |                                            |            |
| Servicing income                                                                                                           | 1,002                                       | 767       | 3,234                                      | 2,593      |
| Ancillary and interchange revenues                                                                                         | 570                                         | 1,429     | 2,021                                      | 4,670      |
| Gain on repurchase of convertible senior notes                                                                             | -                                           | 138       | -                                          | 607        |
| Gain on buy-out of equity-method investee members                                                                          | -                                           | -         | -                                          | 619        |
| Equity in income of equity-method investees                                                                                | 356                                         | 6,630     | 9,912                                      | 28,757     |
| Total other operating income                                                                                               | 1,928                                       | 8,964     | 15,167                                     | 37,246     |
| Other operating expense:                                                                                                   |                                             |           |                                            |            |
| Salaries and benefits                                                                                                      | 2,523                                       | 4,520     | 12,990                                     | 16,545     |
| Card and loan servicing                                                                                                    | 10,428                                      | 11,043    | 31,618                                     | 36,018     |
| Marketing and solicitation                                                                                                 | 223                                         | 1,181     | 1,669                                      | 2,386      |
| Depreciation                                                                                                               | 1,518                                       | 504       | 2,294                                      | 4,232      |
| Other                                                                                                                      | 5,557                                       | 7,231     | 18,755                                     | 20,450     |
| Total other operating expense                                                                                              | 20,249                                      | 24,479    | 67,326                                     | 79,631     |
| (Loss on) income from continuing operations before income taxes                                                            | (15,810 )                                   | (4,084 )  | (36,493 )                                  | 5,118      |
| Income tax benefit (expense)                                                                                               | 3,936                                       | (619 )    | 10,391                                     | (1,743 )   |
| (Loss on) income from continuing operations                                                                                | (11,874 )                                   | (4,703 )  | (26,102 )                                  | 3,375      |
| Discontinued operations:                                                                                                   |                                             |           |                                            |            |
| Income from discontinued operations before income taxes                                                                    | 50,151                                      | 6,167     | 61,301                                     | 132,700    |
| Income tax expense                                                                                                         | (5,353 )                                    | (42 )     | (12,737 )                                  | (4,142 )   |
| Income from discontinued operations                                                                                        | 44,798                                      | 6,125     | 48,564                                     | 128,558    |
| Net income                                                                                                                 | 32,924                                      | 1,422     | 22,462                                     | 131,933    |
| Net loss (income) attributable to noncontrolling interests (including \$1,131 of income associated with noncontrolling     | 287                                         | 277       | 572                                        | (1,013 )   |

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interests in discontinued operations during the nine months ended September 30, 2011)

|                                                                                                            |          |            |            |           |
|------------------------------------------------------------------------------------------------------------|----------|------------|------------|-----------|
| Net income attributable to controlling interests                                                           | \$33,211 | \$1,699    | \$23,034   | \$130,920 |
| (Loss on) income from continuing operations attributable to controlling interests per common share—basic   | \$(0.60) | ) \$(0.19) | ) \$(1.21) | ) \$0.13  |
| (Loss on) income from continuing operations attributable to controlling interests per common share—diluted | \$(0.60) | ) \$(0.19) | ) \$(1.21) | ) \$0.13  |
| Income from discontinued operations attributable to controlling interests per common share—basic           | \$2.32   | \$0.27     | \$2.30     | \$4.72    |
| Income from discontinued operations attributable to controlling interests per common share—diluted         | \$2.32   | \$0.27     | \$2.30     | \$4.70    |
| Net income attributable to controlling interests per common share—basic                                    | \$1.72   | \$0.08     | \$1.09     | \$4.85    |
| Net income attributable to controlling interests per common share—diluted                                  | \$1.72   | \$0.08     | \$1.09     | \$4.83    |

See accompanying notes.

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

|                                                                                                          | For the Three Months<br>Ended September 30, |         | For the Nine Months<br>Ended September 30, |           |
|----------------------------------------------------------------------------------------------------------|---------------------------------------------|---------|--------------------------------------------|-----------|
|                                                                                                          | 2012                                        | 2011    | 2012                                       | 2011      |
| Net income                                                                                               | \$32,924                                    | \$1,422 | \$22,462                                   | \$131,933 |
| Other comprehensive income:                                                                              |                                             |         |                                            |           |
| Foreign currency translation adjustment                                                                  | 867                                         | (314 )  | 1,212                                      | 2,079     |
| Reclassifications of foreign currency translation adjustment<br>to consolidated statements of operations | (19 )                                       | -       | (19 )                                      | 2,301     |
| Income tax (expense) benefit related to other comprehensive<br>income                                    | (48 )                                       | 91      | (31 )                                      | 45        |
| Comprehensive income                                                                                     | 33,724                                      | 1,199   | 23,624                                     | 136,358   |
| Comprehensive loss (income) attributable to noncontrolling<br>interests                                  | 287                                         | 277     | 572                                        | (1,013 )  |
| Comprehensive income attributable to controlling interests                                               | \$34,011                                    | \$1,476 | \$24,196                                   | \$135,345 |

See accompanying notes.

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CompuCredit Holdings Corporation and Subsidiaries  
Consolidated Statement of Shareholders' Equity  
For the Nine Months Ended September 30, 2012 (Unaudited)  
(Dollars in thousands)

|                                                                      | Common Stock     |        |                                  | Accumulated       |                                |                     |                             |                 |
|----------------------------------------------------------------------|------------------|--------|----------------------------------|-------------------|--------------------------------|---------------------|-----------------------------|-----------------|
|                                                                      | Shares<br>Issued | Amount | Additional<br>Paid-In<br>Capital | Treasury<br>Stock | Other<br>Comprehensive<br>Loss | Retained<br>Deficit | Noncontrolling<br>Interests | Total<br>Equity |
| Balance at<br>December 31,<br>2011                                   | 31,997,581       | \$-    | \$ 294,246                       | \$(187,615)       | \$ (2,257 )                    | \$(28,257 )         | \$ 211                      | \$76,328        |
| Use of treasury<br>stock for<br>stock-based<br>compensation<br>plans | (118,277 )       | -      | (944 )                           | 5,169             | -                              | (4,225 )            | -                           | -               |
| Compensatory<br>stock issuances                                      | 109,777          | -      | -                                | -                 | -                              | -                   | -                           | -               |
| Amortization of<br>deferred<br>stock-based<br>compensation<br>costs  | -                | -      | 235                              | -                 | -                              | -                   | -                           | 235             |
| Purchase of<br>treasury stock                                        | -                | -      | -                                | (196 )            | -                              | -                   | -                           | (196 )          |
| Redemption and<br>retirement of<br>shares                            | (16,569,902)     | -      | (82,500 )                        | 182,642           | -                              | (182,642)           | -                           | (82,500)        |
| Net income                                                           | -                | -      | -                                | -                 | -                              | 23,034              | (572 )                      | 22,462          |
| Foreign currency<br>translation<br>adjustment, net of<br>tax         | -                | -      | -                                | -                 | 1,162                          | -                   | -                           | 1,162           |
| Balance at<br>September 30,<br>2012                                  | 15,419,179       | \$-    | \$ 211,037                       | \$-               | \$ (1,095 )                    | \$(192,090)         | \$ (361 )                   | \$17,491        |

See accompanying notes.

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

|                                                                                              | For the Nine Months Ended September 30, |            |
|----------------------------------------------------------------------------------------------|-----------------------------------------|------------|
|                                                                                              | 2012                                    | 2011       |
| Operating activities                                                                         |                                         |            |
| Net income                                                                                   | \$ 22,462                               | \$ 131,933 |
| Adjustments to reconcile net income to net cash provided by operating activities:            |                                         |            |
| Depreciation, amortization and accretion, net                                                | 2,193                                   | 5,698      |
| Losses upon charge off of loans and fees receivable recorded at fair value                   | 81,693                                  | 117,209    |
| Provision for losses on loans and fees receivable                                            | 16,402                                  | 17,550     |
| Accretion of discount on convertible senior notes                                            | 2,287                                   | 5,112      |
| Stock-based compensation expense                                                             | 235                                     | 2,337      |
| Unrealized gain on loans and fees receivable and underlying notes payable held at fair value | (57,754 )                               | (83,657 )  |
| Other-than-temporary declines in investments in non-marketable debt securities               | -                                       | 5,330      |
| Unrealized loss on securities                                                                | 287                                     | 358        |
| Gain on repurchase of convertible senior notes                                               | -                                       | (607 )     |
| Income from equity-method investments                                                        | (9,912 )                                | (28,757 )  |
| Gain on buy-out of equity-method investee members                                            | -                                       | (619 )     |
| Net gain on sale of subsidiary operations                                                    | (49,579 )                               | (101,359 ) |
| Changes in assets and liabilities, exclusive of business acquisitions:                       |                                         |            |
| Decrease (increase) in uncollected fees on earning assets                                    | 15,905                                  | (9,862 )   |
| Decrease in JRAS auto loans receivable                                                       | 3,481                                   | 10,702     |
| Decrease in deferred costs                                                                   | 409                                     | -          |
| Increase in income tax liability                                                             | 2,294                                   | 39         |
| Decrease in prepaid expenses                                                                 | 606                                     | 8,058      |
| (Decrease) increase in accounts payable and accrued expenses                                 | (5,087 )                                | 14,017     |
| Other                                                                                        | 707                                     | (278 )     |
| Net cash provided by operating activities                                                    | 26,629                                  | 93,204     |
| Investing activities                                                                         |                                         |            |
| Decrease in restricted cash                                                                  | 9,602                                   | 12,349     |
| Investment in equity-method investees                                                        | (1,354 )                                | (34,336 )  |
| Proceeds from equity-method investees                                                        | 20,310                                  | 17,553     |
| Investments in earning assets                                                                | (190,141 )                              | (562,253 ) |
| Proceeds from earning assets                                                                 | 230,177                                 | 763,819    |
| Investments in subsidiaries                                                                  | (3,514 )                                | -          |
| Net cash associated with newly acquired consolidated subsidiaries                            | -                                       | 1,025      |
| Proceeds from sale of subsidiary operations                                                  | 99,029                                  | 147,449    |
| Purchases and development of property, net of disposals                                      | (1,909 )                                | (1,390 )   |
| Net cash provided by investing activities                                                    | 162,200                                 | 344,216    |
| Financing activities                                                                         |                                         |            |
| Noncontrolling interests contributions, net                                                  | -                                       | 600        |
| Purchase of outstanding stock subject to tender offer                                        | (82,500 )                               | (105,000 ) |

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|                                                               |            |            |
|---------------------------------------------------------------|------------|------------|
| Purchase of treasury stock                                    | (196 )     | (1,714 )   |
| Purchases of noncontrolling interests                         | -          | (4,067 )   |
| Proceeds from borrowings                                      | 18,578     | 9,697      |
| Repayment of borrowings                                       | (221,914 ) | (306,127 ) |
| Net cash used in financing activities                         | (286,032 ) | (406,611 ) |
| Effect of exchange rate changes on cash                       | 215        | 986        |
| Net (decrease) increase in unrestricted cash                  | (96,988 )  | 31,795     |
| Unrestricted cash and cash equivalents at beginning of period | 144,913    | 85,350     |
| Unrestricted cash and cash equivalents at end of period       | \$ 47,925  | \$ 117,145 |
| Supplemental cash flow information                            |            |            |
| Unrestricted cash included in assets held for sale            | \$ -       | \$ 11,149  |
| Cash paid for interest                                        | \$ 25,596  | \$ 29,894  |
| Net cash income tax payments                                  | \$ 52      | \$ 5,891   |
| Supplemental non-cash information                             |            |            |
| Notes payable associated with capital leases                  | \$ 218     | \$ -       |

See accompanying notes.

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CompuCredit Holdings Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
September 30, 2012

1. Basis of Presentation

We have prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission ("SEC") Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. They do include, however, all normal recurring adjustments we consider necessary to fairly state our results for the interim periods.

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Certain estimates, such as credit losses, payment rates, costs of funds, discount rates and yields earned on credit card receivables significantly affect the reported amount of two categories of credit card receivables that we report at fair value and our notes payable associated with structured financings, at fair value, as reported on our consolidated balance sheets; these estimates likewise affect our changes in fair value of loans and fees receivable recorded at fair value and changes in fair value of notes payable associated with structured financings recorded at fair value categories within our fees and related income on earning assets line item on our consolidated statements of operations. Additionally, estimates of future credit losses on our loans and fees receivable that we report at net realizable value, rather than fair value, significantly affect two categories of such loans and fees receivable, net, that we show on our consolidated balance sheets, as well as the provision for losses on loans and fees receivable within our consolidated statements of operations. Operating results for the three and nine months ended September 30, 2012 are not indicative of what our results will be for the year ending December 31, 2012.

In August 2012, we completed a transaction to sell to Flexpoint Fund II, L.P. for \$130.5 million our Investments in Previously Charged-Off Receivables segment, including its balance transfer card operations, the credit card receivables (and underlying activities) of which were historically reflected within our Credit Cards and Other Investments segment. As necessitated by this sale transaction, we have reclassified certain amounts in our prior period consolidated financial statements to conform to our current period discontinued operations presentation.

We also have eliminated all significant intercompany balances and transactions for financial reporting purposes.

2. Significant Accounting Policies and Consolidated Financial Statement Components

The following is a summary of significant accounting policies we use to prepare our consolidated financial statements, as well as a description of significant components of our consolidated financial statements.

**Loans and Fees Receivable, Net.** Our two categories of loans and fees receivable, net, currently consist of receivables carried at net realizable value (1) associated with (a) U.K. credit card and U.S. private label merchant and other credit products currently being marketed within our Credit Cards and Other Investments segment and (b) our Auto Finance segment's CAR and JRAS operations (all the aforementioned being labeled in loans and fees receivable, net), and (2) associated with our former ACC auto finance business, which is separately labeled as pledged as collateral for a non-recourse asset-backed structured financing facility. Our loans and fees receivable generally are unsecured; however, our auto finance loans are secured by the underlying automobiles in which we hold the vehicle title.



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

|                                                       | Balance at<br>December<br>31, 2011 | Additions | Subtractions | Assets Sold | Balance at<br>September<br>30, 2012 |
|-------------------------------------------------------|------------------------------------|-----------|--------------|-------------|-------------------------------------|
| Loans and fees receivable, gross                      | \$119.3                            | \$137.9   | \$ (146.0 )  | \$ (18.6 )  | \$92.6                              |
| Deferred revenue                                      | (8.0 )                             | (20.0 )   | 19.4         | \$-         | (8.6 )                              |
| Allowance for uncollectible loans and fees receivable | (14.7 )                            | (16.4 )   | 12.7         | \$3.6       | (14.8 )                             |
| Loans and fees receivable, net                        | \$96.6                             | \$101.5   | \$ (113.9 )  | \$ (15.0 )  | \$69.2                              |

|                                                       | Balance at<br>December<br>31, 2010 | Additions | Subtractions | Transfer to<br>Assets<br>Held for<br>Sale | Balance at<br>September<br>30, 2011 |
|-------------------------------------------------------|------------------------------------|-----------|--------------|-------------------------------------------|-------------------------------------|
| Loans and fees receivable, gross                      | \$227.7                            | \$317.5   | \$ (376.2 )  | \$ (42.3 )                                | \$126.7                             |
| Deferred revenue                                      | (20.5 )                            | (33.3 )   | 38.2         | 5.8                                       | (9.8 )                              |
| Allowance for uncollectible loans and fees receivable | (37.6 )                            | (7.1 )    | 24.5         | 4.0                                       | (16.2 )                             |
| Loans and fees receivable, net                        | \$169.6                            | \$277.1   | \$ (313.5 )  | \$ (32.5 )                                | \$100.7                             |

As of September 30, 2012 and 2011, the weighted average remaining accretion periods for the \$8.6 million and \$9.8 million, respectively, of deferred revenue reflected in the above tables were 12.6 and 15.5 months, respectively.

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

| For the Three Months Ended September 30, 2012                                                                     | Credit<br>Cards | Micro-Loans | Auto<br>Finance | Other     | Total      |
|-------------------------------------------------------------------------------------------------------------------|-----------------|-------------|-----------------|-----------|------------|
| Allowance for uncollectible loans and fees receivable:                                                            |                 |             |                 |           |            |
| Balance at beginning of period                                                                                    | \$ (10.5 )      | \$ (0.2 )   | \$ (4.5 )       | \$ (1.8 ) | \$ (17.0 ) |
| Provision for loan losses (includes \$0.7 million of provision netted within income from discontinued operations) | (4.1 )          | (0.5 )      | (0.3 )          | (1.2 )    | (6.1 )     |
| Charge offs                                                                                                       | 3.4             | 0.3         | 1.4             | 0.4       | 5.5        |
| Recoveries                                                                                                        | (0.1 )          | -           | (0.7 )          | -         | (0.8 )     |
| Sale of Assets                                                                                                    | 3.6             | -           | -               | -         | 3.6        |
| Balance at end of period                                                                                          | \$ (7.7 )       | \$ (0.4 )   | \$ (4.1 )       | \$ (2.6 ) | \$ (14.8 ) |

| For the Nine Months Ended September 30, 2012                                        | Credit<br>Cards | Micro-Loans | Auto<br>Finance | Other     | Total      |
|-------------------------------------------------------------------------------------|-----------------|-------------|-----------------|-----------|------------|
| Allowance for uncollectible loans and fees receivable:                              |                 |             |                 |           |            |
| Balance at beginning of period                                                      | \$ (4.0 )       | \$ (1.1 )   | \$ (8.4 )       | \$ (1.2 ) | \$ (14.7 ) |
| Provision for loan losses (includes \$2.6 million of provision netted within income | (13.0 )         | (2.3 )      | 1.0             | (2.1 )    | (16.4 )    |

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from discontinued operations)

|                                                                 |          |          |          |          |           |
|-----------------------------------------------------------------|----------|----------|----------|----------|-----------|
| Charge offs                                                     | 6.4      | 3.0      | 6.1      | 0.7      | 16.2      |
| Recoveries                                                      | (0.7 )   | -        | (2.8 )   | -        | (3.5 )    |
| Sale of Assets                                                  | 3.6      | -        | -        | -        | 3.6       |
| Balance at end of period                                        | \$(7.7 ) | \$(0.4 ) | \$(4.1 ) | \$(2.6 ) | \$(14.8 ) |
| Balance at end of period individually evaluated for impairment  | \$-      | \$ -     | \$-      | \$-      | \$-       |
| Balance at end of period collectively evaluated for impairment  | \$(7.7 ) | \$(0.4 ) | \$(4.1 ) | \$(2.6 ) | \$(14.8 ) |
| Loans and fees receivable:                                      |          |          |          |          |           |
| Loans and fees receivable, gross                                | \$9.9    | \$ 1.2   | \$68.4   | \$13.1   | \$92.6    |
| Loans and fees receivable individually evaluated for impairment | \$-      | \$ -     | \$0.1    | \$-      | \$0.1     |
| Loans and fees receivable collectively evaluated for impairment | \$9.9    | \$ 1.2   | \$68.3   | \$13.1   | \$92.5    |

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| For the Three Months Ended September 30, 2011                                                                     | Credit Cards | Micro-Loans | Auto Finance | Other    | Total     |
|-------------------------------------------------------------------------------------------------------------------|--------------|-------------|--------------|----------|-----------|
| Allowance for uncollectible loans and fees receivable:                                                            |              |             |              |          |           |
| Balance at beginning of period                                                                                    | \$(2.8 )     | \$ (0.8 )   | \$(15.0 )    | \$(0.4 ) | \$(19.0 ) |
| Provision for loan losses (includes \$1.1 million of provision netted within income from discontinued operations) | (1.3 )       | (0.9 )      | 1.2          | (0.2 )   | (1.2 )    |
| Charge offs                                                                                                       | 0.8          | 0.9         | 4.1          | -        | 5.8       |
| Recoveries                                                                                                        | (0.2 )       | -           | (1.6 )       | -        | (1.8 )    |
| Transfer to assets held for sale                                                                                  | -            | -           | -            | -        | -         |
| Sale of assets                                                                                                    | -            | -           | -            | -        | -         |
| Balance at end of period                                                                                          | \$(3.5 )     | \$ (0.8 )   | \$(11.3 )    | \$(0.6 ) | \$(16.2 ) |
| For the Nine Months Ended September 30, 2011                                                                      | Credit Cards | Micro-Loans | Auto Finance | Other    | Total     |
| Allowance for uncollectible loans and fees receivable:                                                            |              |             |              |          |           |
| Balance at beginning of period                                                                                    | \$(4.0 )     | \$ (5.2 )   | \$(28.3 )    | \$(0.1 ) | \$(37.6 ) |
| Provision for loan losses (includes \$7.4 million of provision netted within income from discontinued operations) | (2.5 )       | (7.1 )      | 3.0          | (0.5 )   | (7.1 )    |
| Charge offs                                                                                                       | 3.8          | 7.9         | 18.6         | -        | 30.3      |
| Recoveries                                                                                                        | (0.8 )       | (0.4 )      | (5.3 )       | -        | (6.5 )    |
| Transfer to assets held for sale                                                                                  | -            | 4.0         | -            | -        | 4.0       |
| Sale of assets                                                                                                    | -            | -           | 0.7          | -        | 0.7       |
| Balance at end of period                                                                                          | \$(3.5 )     | \$ (0.8 )   | \$(11.3 )    | \$(0.6 ) | \$(16.2 ) |
| Balance at end of period individually evaluated for impairment                                                    | \$-          | \$ -        | \$(0.3 )     | \$-      | \$(0.3 )  |
| Balance at end of period collectively evaluated for impairment                                                    | \$(3.5 )     | \$ (0.8 )   | \$(11.0 )    | \$(0.6 ) | \$(15.9 ) |
| Loans and fees receivable:                                                                                        |              |             |              |          |           |
| Loans and fees receivable, gross                                                                                  | \$18.6       | \$ 2.2      | \$103.5      | \$2.4    | \$126.7   |
| Loans and fees receivable individually evaluated for impairment                                                   | \$-          | \$ -        | \$0.6        | \$-      | \$0.6     |
| Loans and fees receivable collectively evaluated for impairment                                                   | \$18.6       | \$ 2.2      | \$102.9      | \$2.4    | \$126.1   |

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

|                                      | September 30, 2012 | As of December 31, 2011 |
|--------------------------------------|--------------------|-------------------------|
| Current loans receivable             | \$74.3             | \$100.9                 |
| Current fees receivable              | 1.4                | 1.9                     |
| Delinquent loans and fees receivable | 16.9               | 16.5                    |

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|                                  |        |         |
|----------------------------------|--------|---------|
| Loans and fees receivable, gross | \$92.6 | \$119.3 |
|----------------------------------|--------|---------|

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

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An aging of our delinquent loans and fees receivable, gross (in millions) as of September 30, 2012 and December 31, 2011 is as follows:

| As of September 30, 2012                                                             | Credit<br>Cards | Micro-Loans | Auto<br>Finance | Other  | Total  |
|--------------------------------------------------------------------------------------|-----------------|-------------|-----------------|--------|--------|
| 30-59 days past due                                                                  | \$0.7           | \$ 0.1      | \$5.4           | \$0.5  | \$6.7  |
| 60-89 days past due                                                                  | 1.0             | 0.2         | 2.0             | 0.3    | 3.5    |
| Greater than 90 days past due                                                        | 4.2             | 0.2         | 1.6             | 0.7    | 6.7    |
| Delinquent loans and fees receivable, gross                                          | 5.9             | 0.5         | 9.0             | 1.5    | 16.9   |
| Current loans and fees receivable, gross                                             | 4.0             | 0.7         | 59.4            | 11.6   | 75.7   |
| Total loans and fees receivable, gross                                               | \$9.9           | \$ 1.2      | \$68.4          | \$13.1 | \$92.6 |
| Balance of loans greater than 90-days<br>delinquent still accruing interest and fees | \$-             | \$ -        | \$0.5           | \$-    | \$0.5  |

| As of December 31, 2011                                                              | Credit<br>Cards | Micro-Loans | Auto<br>Finance | Other | Total   |
|--------------------------------------------------------------------------------------|-----------------|-------------|-----------------|-------|---------|
| 30-59 days past due                                                                  | \$0.8           | \$ 0.7      | \$6.9           | \$-   | \$8.4   |
| 60-89 days past due                                                                  | 0.7             | 0.6         | 2.5             | -     | 3.8     |
| Greater than 90 days past due                                                        | 1.5             | 0.9         | 1.9             | -     | 4.3     |
| Delinquent loans and fees receivable, gross                                          | 3.0             | 2.2         | 11.3            | -     | 16.5    |
| Current loans and fees receivable, gross                                             | 17.5            | 0.9         | 80.2            | 4.2   | 102.8   |
| Total loans and fees receivable, gross                                               | \$20.5          | \$ 3.1      | \$91.5          | \$4.2 | \$119.3 |
| Balance of loans greater than 90-days<br>delinquent still accruing interest and fees | \$-             | \$ -        | \$1.3           | \$-   | \$1.3   |

## Investments in Previously Charged-Off Receivables

The following table shows (in thousands) a roll-forward of our investments in previously charged-off receivables activities:

|                                                                                                                                                                      | For the Three Months<br>Ended September 30, |           | For the Nine Months<br>Ended September 30, |           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-----------|--------------------------------------------|-----------|
|                                                                                                                                                                      | 2012                                        | 2011      | 2012                                       | 2011      |
| Unrecovered balance at beginning of period                                                                                                                           | \$59,489                                    | \$31,280  | \$37,110                                   | \$29,889  |
| Acquisitions of defaulted accounts                                                                                                                                   | 1,258                                       | 19,191    | 47,958                                     | 38,675    |
| Cash collections                                                                                                                                                     | (9,976 )                                    | (20,948 ) | (62,614 )                                  | (60,804 ) |
| Cost-recovery method income recognized on defaulted<br>accounts (included as a component of discontinued<br>operations on our consolidated statements of operations) | 4,833                                       | 10,295    | 33,150                                     | 32,058    |
| Sale of unrecovered balance                                                                                                                                          | (55,604 )                                   | -         | (55,604 )                                  | -         |
| Unrecovered balance at end of period                                                                                                                                 | \$-                                         | \$39,818  | \$-                                        | \$39,818  |

In August 2012, we completed a transaction to sell to Flexpoint Fund II, L.P. for \$130.5 million our Investments in Previously Charged-Off Receivables segment, including its balance transfer card operations, the credit card receivables (and underlying activities) of which were historically reflected within our Credit Cards and Other Investments segment. The sales price included (1) \$119.7 million (cash of \$106.7 million and a note receivable of \$13.0 million) at closing, of which \$5.4 million in cash and up to an additional \$4.6 million in potential repayments of the note receivable or proceeds from any potential sale of the note receivable will be held in escrow for 12 months following the closing date of the transaction to satisfy certain indemnification provisions, and (2) an additional \$10.8

million in cash that we may receive if certain performance targets are met by December 31, 2014. The \$10.8 million of additional contingent consideration will be recognized into income upon the achievement of the performance targets. Our basis in the net assets that were included in the sale was \$67.0 million resulting in a gain on sale (after related expenses) of \$49.6 million, which is reported within our income from discontinued operations category on our consolidated statements of operations.

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## Investments in Securities

The carrying values (in thousands) of our investments in debt and equity securities (excluding those investments for which we use equity-method accounting) are as follows:

|                                                 | September 30,<br>2012 | As of<br>December 31,<br>2011 |
|-------------------------------------------------|-----------------------|-------------------------------|
| Held to maturity:                               |                       |                               |
| Investments in non-marketable debt securities   | \$ 70                 | \$ 93                         |
| Available for sale:                             |                       |                               |
| Investments in non-marketable equity securities | 1,941                 | 2,075                         |
| Investments in non-marketable debt securities   | 4,204                 | 3,884                         |
| Trading:                                        |                       |                               |
| Investments in marketable equity securities     | -                     | 151                           |
| Total investments in securities                 | \$ 6,215              | \$ 6,203                      |

## Investments in Equity-Method Investees

We account for investments using the equity method of accounting if we have the ability to exercise significant influence, but not control, over the investees. Significant influence is generally deemed to exist if we have an ownership interest in the voting stock of an incorporated investee of between 20% and 50%, although other factors, such as representation on an investee's board of managers, specific voting and veto rights held by each investor and the effects of commercial arrangements, are considered in determining whether equity method accounting is appropriate. We use the equity method for our investments in a limited liability company formed in 2004 to acquire a portfolio of credit card receivables. We also use the equity method to account for our March 2011 investment to acquire a 50.0% interest in a joint venture with an unrelated third party that purchased all (\$164.0 million in face amount) of the outstanding notes issued out of the structured financing trust underlying our U.K. portfolio of credit card receivables (the "U.K. Portfolio") for a discounted purchase price of \$64.5 million in cash, a price that the joint venture partners determined to be attractive based on a discounted cash flow analysis of the remaining expected payments on the notes (all of which were allocable to the class "A" portion of the outstanding notes given that no payments were expected associated with the class "B" portion of the outstanding notes thereby rendering them worthless). At the time of their acquisition by the joint venture, we carried the notes as a liability on our consolidated balance sheet at their fair value of \$98.7 million. The 50.0%-owned joint venture elected to account for its investment in the U.K. Portfolio structured financing notes at their fair value, and it recognized a \$34.2 million gain (of which our 50% share represented \$17.1 million) in the three months ended March 31, 2011 equal to the excess of the fair value of the notes at that date over the joint venture's discounted purchase price of the notes. We record our respective interests in the income of our equity-method investees within the equity in income of equity-method investees category on our consolidated statements of operations.

## Income Taxes

Computed considering results for only our continuing operations before income taxes, our effective income tax benefit rate was 25.5% and 28.8% for the three and nine months ended September 30, 2012, respectively, versus our negative effective income tax benefit rate of 15.2% for the three months ended September 30, 2011 and our positive effective income tax expense rate of 34.1% for the nine months ended September 30, 2011. We have experienced no material changes in effective tax rates associated with differences in filing jurisdictions, and the variations in our effective tax rates between the periods principally bear the effects of (1) changes in valuation allowances against income

statement-oriented federal, foreign and state deferred tax assets, (2) variations in the level of our pre-tax income among the different reporting periods relative to the level of our permanent differences within such periods, and (3) the effects on our interim financial reporting results of intra-period tax allocations associated with our discontinued operations as required under GAAP. Computed without regard to the effects of the valuation allowance changes, our effective tax rates would have been a positive 24.8% and a positive 28.5% benefit rate in the three and nine months ended September 30, 2012, respectively, compared to a positive 9.5% benefit rate and a positive 99.1% expense rate, in the three and nine months ended September 30, 2011, respectively.

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We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized \$0.6 million and \$1.5 million in potential interest and penalties associated with uncertain tax positions during the three and nine months ended September 30, 2012, respectively, compared to \$0.6 million and \$1.7 million during the three and nine months ended September 30, 2011, respectively. To the extent such interest and penalties are not assessed as a result of a resolution of the underlying tax position, amounts accrued are reduced and reflected as a reduction of income tax expense. We recognized no such reductions in the three and nine months ended September 30, 2012 and 2011, respectively.

## Fees and Related Income on Earning Assets

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

|                                                                                                     | For the Three Months<br>September 30, |           | For the Nine Months<br>September 30, |           |
|-----------------------------------------------------------------------------------------------------|---------------------------------------|-----------|--------------------------------------|-----------|
|                                                                                                     | 2012                                  | 2011      | 2012                                 | 2011      |
| Fees on credit products                                                                             | \$5,316                               | \$2,566   | \$12,310                             | \$7,332   |
| Changes in fair value of loans and fees receivable recorded at fair value (1)                       | 10,742                                | 46,646    | 93,613                               | 166,164   |
| Changes in fair value of notes payable associated with structured financings recorded at fair value | (10,469 )                             | (29,538 ) | (35,859 )                            | (82,507 ) |
| Gains on investments in securities                                                                  | 285                                   | (5,418 )  | 49                                   | (5,277 )  |
| Loss on sale of JRAS assets                                                                         | -                                     | -         | -                                    | (4,648 )  |
| Other                                                                                               | (2,171 )                              | 499       | (2,112 )                             | 1,213     |
| Total fees and related income on earning assets                                                     | \$3,703                               | \$14,755  | \$68,001                             | \$82,277  |

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

## Recent Accounting Pronouncements

In August 2012, the Financial Accounting Standards Board ("FASB") issued proposed guidance that requires enhanced disclosures for reclassification adjustments out of accumulated other comprehensive income ("AOCI"). The proposed disclosures would require an entity to break the current period changes in the accumulated balances for each component of other comprehensive income into two categories—amounts reclassified out of AOCI, and everything else. Additional disclosures would be required displaying significant items reclassified out of each component of AOCI, including (1) the line items impacted for those items being reclassified into earnings and (2) a cross-reference to the financial statement notes where further discussion is contained for those items not reclassified into earnings. A final rule is expected prior to year end.

In December 2011, the FASB issued guidance requiring entities to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on an entity's financial position. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with current literature or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with current literature. The guidance is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. This standard will become effective for us beginning March 2013, and the disclosures are to

be applied retrospectively for all comparative periods presented. We currently are evaluating the impact of this new guidance.

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In May 2011, the FASB issued amended guidance on fair value that is intended to provide a converged fair value framework for U.S. GAAP and IFRS. The amended guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. While the amended guidance continues to define fair value as an exit price, it changes some fair value measurement principles and expands the existing disclosure requirements for fair value measurements. The amended guidance is effective for public entities for interim and annual periods beginning on or after December 15, 2011, with early adoption prohibited. The new guidance requires prospective application and disclosure in the period of adoption of the change, if any, in valuation techniques and related inputs resulting from application of the amendments and quantification of the total effect, if practicable. We adopted the amended guidance in the first quarter of 2012 which had no material impacts on our consolidated statements of operations.

## Subsequent Events

We evaluate subsequent events that occur after our consolidated balance sheet date but before our consolidated financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements; and (2) nonrecognized, or those that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date. We have evaluated subsequent events occurring after September 30, 2012, and based on our evaluation, we did not identify any recognized or nonrecognized subsequent events that would have required further adjustments to our consolidated financial statements.

## 3. Discontinued Operations

In April, 2011 and October, 2011, respectively, we sold our U.K. Internet micro-loan subsidiaries and our retail micro-loans subsidiaries; additionally, in August 2012 we sold our Investments in Previously Charged-Off receivables segment along with our balance transfer card operations. Accordingly, their results of operations are shown as discontinued operations within our consolidated statements of operations for all periods presented. Key components of discontinued operations on our consolidated statements of operations are as follows:

|                                                                | For the Three Months<br>September 30, |          | For the Nine Months<br>September 30, |           |
|----------------------------------------------------------------|---------------------------------------|----------|--------------------------------------|-----------|
|                                                                | 2012                                  | 2011     | 2012                                 | 2011      |
| Net interest income, fees and related income on earning assets | \$5,772                               | \$27,363 | \$37,137                             | \$103,559 |
| Gain on sale of assets                                         | \$49,579                              | -        | \$49,579                             | 103,706   |
| Other operating expense                                        | 5,200                                 | 21,196   | 25,415                               | 74,565    |
| Income before income taxes                                     | 50,151                                | 6,167    | 61,301                               | 132,700   |
| Income tax expense                                             | (5,353 )                              | (42 )    | (12,737 )                            | (4,142 )  |
| Net income                                                     | \$44,798                              | \$6,125  | \$48,564                             | \$128,558 |
| Net income attributable to noncontrolling interests            | \$-                                   | \$-      | \$-                                  | \$1,131   |

There were no assets held for sale on either our September 30, 2012 or December 31, 2011 consolidated balance sheets.

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## 4. Segment Reporting

We operate primarily within one industry consisting of two reportable segments by which we manage our business. Our two reportable segments are: Credit Cards and Other Investments and Auto Finance. Due to the 2011 sales of our Retail and U.K.-based Internet micro-loans operations and our August 2012 sale of our Investments in Previously Charged-Off Receivables segment, we have eliminated segment reporting for our former Retail Micro-Loans, Internet Micro-Loans and Investments in Previously Charged-Off Receivables segments. Additionally, we have renamed our Credit Card segment as the Credit Cards and Other Investments segment to encompass ancillary investments and product offerings that are largely start-up in nature and do not qualify for separate segment reporting. All prior period data have been reclassified to this new current period presentation.

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

|                                                                | Credit<br>Cards<br>and Other<br>Investments | Auto<br>Finance | Total       |
|----------------------------------------------------------------|---------------------------------------------|-----------------|-------------|
| Three Months Ended September 30, 2012                          |                                             |                 |             |
| Net interest income, fees and related income on earning assets | \$(1,490 )                                  | \$4,001         | \$2,511     |
| Total other operating income                                   | \$1,784                                     | \$144           | \$1,928     |
| (Loss) income from continuing operations before income taxes   | \$(15,660 )                                 | \$(150 )        | \$(15,810 ) |
| Loans and fees receivable, gross                               | \$24,143                                    | \$68,372        | \$92,515    |
| Loans and fees receivable, net                                 | \$11,645                                    | \$57,522        | \$69,167    |
| Loans and fees receivable held at fair value                   | \$187,692                                   | \$-             | \$187,692   |
| Total assets                                                   | \$340,106                                   | \$66,506        | \$406,612   |

|                                                                | Credit<br>Cards<br>and Other<br>Investments | Auto<br>Finance | Total      |
|----------------------------------------------------------------|---------------------------------------------|-----------------|------------|
| Three Months Ended September 30, 2011                          |                                             |                 |            |
| Net interest income, fees and related income on earning assets | \$3,131                                     | \$8,300         | \$11,431   |
| Total other operating income                                   | \$8,834                                     | \$130           | \$8,964    |
| (Loss) income from continuing operations before income taxes   | \$(7,293 )                                  | \$3,209         | \$(4,084 ) |
| Loans and fees receivable, gross                               | \$23,172                                    | \$103,548       | \$126,720  |
| Loans and fees receivable, net                                 | \$18,079                                    | \$82,629        | \$100,708  |
| Loans and fees receivable held at fair value                   | \$310,815                                   | \$-             | \$310,815  |
| Total assets                                                   | \$618,566                                   | \$92,272        | \$710,838  |

|                                                                | Credit<br>Cards<br>and Other<br>Investments | Auto<br>Finance | Total       |
|----------------------------------------------------------------|---------------------------------------------|-----------------|-------------|
| Nine Months Ended September 30, 2012                           |                                             |                 |             |
| Net interest income, fees and related income on earning assets | \$449                                       | \$15,217        | \$15,666    |
| Total other operating income                                   | \$14,717                                    | \$450           | \$15,167    |
| (Loss) income from continuing operations before income taxes   | \$(37,292 )                                 | \$799           | \$(36,493 ) |

|                                      | Credit<br>Cards<br>and Other<br>Investments | Auto<br>Finance | Total |
|--------------------------------------|---------------------------------------------|-----------------|-------|
| Nine Months Ended September 30, 2011 |                                             |                 |       |

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|                                                                |          |          |          |
|----------------------------------------------------------------|----------|----------|----------|
| Net interest income, fees and related income on earning assets | \$27,631 | \$19,872 | \$47,503 |
| Total other operating income                                   | \$36,860 | \$386    | \$37,246 |
| (Loss) income from continuing operations before income taxes   | \$2,377  | \$2,741  | \$5,118  |

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## 5. Shareholders' Equity

Pursuant to the closing of a tender offer in September 2012, we repurchased 8,250,000 shares of our common stock at a purchase price of \$10.00 per share for an aggregate cost of \$82.5 million. These shares were retired contemporaneously with the repurchase transaction. Additionally, during the three months ended March 31, 2012, we retired all of our common shares held in treasury, thereby resulting in a \$182.6 million charge to retained deficit in that period. Lastly, pursuant to the closing of a tender offer in April 2011, we repurchased 13,125,000 shares of our common stock at a purchase price of \$8.00 per share for an aggregate cost of \$105.0 million, and those shares were retired. We exclude all retired shares from our outstanding share counts.

Prior to the retirement of common shares held in treasury during the three months ended March 31, 2012, we periodically reissued such shares to satisfy exercised options and vested restricted stock. We reissued 154,815 of such shares at gross costs of \$5.2 million during the three months ended March 31, 2012, and we reissued 10,000 and 732,567 of such shares for the three and nine months ended September 30, 2011, respectively, at gross costs of \$0.3 million and \$24.5 million, respectively. Also prior to the retirement of common shares held in treasury during the three months ended March 31, 2012, we effectively repurchased treasury shares by having employees who were exercising options or vesting in their restricted stock grants exchange a portion of their stock for payment of required minimum tax withholdings. Such repurchases totaled 36,538 shares during the three months ended March 31, 2012 at gross costs of \$0.2 million, and this compares to such repurchases of 3,245 and 206,504 shares for the three and nine months ended September 30, 2011, respectively, at gross costs of \$0.008 million and \$1.1 million, respectively.

We had 1,672,656 loaned shares outstanding at September 30, 2012, which were originally lent in connection with our December 2005 issuance of convertible senior notes.

## 6. Investments in Equity-Method Investees

Our equity-method investments outstanding at September 30, 2012 consist of our interests (aggregating 50%) in a joint venture that was formed in 2004 to purchase a credit card receivables portfolio and our 50.0% interest in a joint venture that purchased in March 2011 the outstanding notes issued out of our U.K. Portfolio structured financing trust. The latter 50%-owned joint venture elected to account for its investment in the U.K. Portfolio structured financing notes at their fair value, and it recognized a \$34.2 million gain (of which our 50% share represented \$17.1 million) in the three months ended March 31, 2011 equal to the excess of the fair value of the notes at that date over the joint venture's discounted purchase price of the notes.

In January 2011, we acquired an additional 47.5% interest in a then 47.5%-owned equity-method investee which we had historically accounted for under the equity method of accounting, thereby bringing our aggregate interest in this entity to a 95.0% ownership threshold and leading us to conclude that we should consolidate the assets and liabilities of this entity within our consolidated balance sheets. Additionally, we acquired the remaining 5.0% noncontrolling interest in this entity in April 2011 to bring our total ownership to 100%.

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

|                                                                                            | As of                 |                      |
|--------------------------------------------------------------------------------------------|-----------------------|----------------------|
|                                                                                            | September<br>30, 2012 | December<br>31, 2011 |
| Loans and fees receivable pledged as collateral under structured financings, at fair value | \$58,406              | \$78,413             |
| Investments in non-marketable debt securities, at fair value                               | \$55,967              | \$81,639             |
| Total assets                                                                               | \$128,598             | \$167,898            |

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|                                                                    |          |           |
|--------------------------------------------------------------------|----------|-----------|
| Notes payable associated with structured financings, at fair value | \$35,513 | \$59,515  |
| Total liabilities                                                  | \$35,811 | \$59,909  |
| Members' capital                                                   | \$92,787 | \$107,989 |

|                                                                | For the Three Months Ended<br>September 30, |           | For the Nine Months Ended<br>September 30, |           |
|----------------------------------------------------------------|---------------------------------------------|-----------|--------------------------------------------|-----------|
|                                                                | 2012                                        | 2011      | 2012                                       | 2011      |
| Net interest income, fees and related income on earning assets | \$ 695                                      | \$ 15,331 | \$ 22,066                                  | \$ 59,532 |
| Total other operating income                                   | \$ (618 )                                   | \$ 119    | \$ 311                                     | \$ 266    |
| Net (loss) income                                              | \$ (569 )                                   | \$ 14,517 | \$ 20,135                                  | \$ 56,142 |

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

|                                                              | September<br>30, 2012 | As of<br>December<br>31, 2011 |
|--------------------------------------------------------------|-----------------------|-------------------------------|
| Investments in non-marketable debt securities, at fair value | \$55,967              | \$81,639                      |
| Total assets                                                 | \$56,490              | \$83,210                      |
| Total liabilities                                            | \$-                   | \$-                           |
| Members' capital                                             | \$56,490              | \$83,210                      |

|                                                                | For the Three Months<br>Ended September 30,<br>2012 | For the Three Months<br>Ended September 30,<br>2011 | For the Nine Months<br>Ended September 30,<br>2012 | For the Nine Months<br>Ended September 30,<br>2011 |
|----------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|----------------------------------------------------|
| Net interest income, fees and related income on earning assets | \$2,081                                             | \$8,761                                             | \$6,638                                            | \$53,203                                           |
| Net income                                                     | \$2,069                                             | \$8,787                                             | \$6,593                                            | \$53,115                                           |

As noted in Note 8, "Convertible Senior Notes and Notes Payable," notes payable with a fair value of \$56.0 million correspond with the \$56.0 million investment in non-marketable debt securities, at fair value held by our equity-method investee as noted in the above table.

## 7. Fair Values of Assets and Liabilities

### Valuations and Techniques for Assets Measured at Fair Value on a Recurring Basis

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. For our assets measured on a recurring basis at fair value, the table below summarizes (in thousands) fair values and carrying amounts as of September 30, 2012 and December 31, 2011 by fair value hierarchy:

|                                                                                            | Quoted Prices in<br>Active<br>Markets for<br>Identical<br>Assets (Level 1) | Significant<br>Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) | Carrying Amount<br>of Assets<br>Measured at Fair<br>Value |
|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------|-----------------------------------------------------------|
| Assets – As of September 30, 2012                                                          |                                                                            |                                                        |                                                 |                                                           |
| Investment securities—trading                                                              | \$ -                                                                       | \$ -                                                   | \$ -                                            | \$ -                                                      |
| Loans and fees receivable, at fair value                                                   | \$ -                                                                       | \$ -                                                   | \$ 19,285                                       | \$ 19,285                                                 |
| Loans and fees receivable pledged as collateral under structured financings, at fair value | \$ -                                                                       | \$ -                                                   | \$ 168,407                                      | \$ 168,407                                                |

|  | Quoted Prices in<br>Active<br>Markets for<br>Identical<br>Assets (Level 1) | Significant<br>Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) | Carrying Amount<br>of Assets<br>Measured at Fair<br>Value |
|--|----------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------|-----------------------------------------------------------|
|--|----------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------|-----------------------------------------------------------|

|                                                                                            | Markets for<br>Identical |           |                  |            |
|--------------------------------------------------------------------------------------------|--------------------------|-----------|------------------|------------|
| Assets – As of December 31, 2011                                                           | Assets (Level 1)         | (Level 2) | Inputs (Level 3) | Value      |
| Investment securities—trading                                                              | \$ 151                   | \$ -      | \$ -             | \$ 151     |
| Loans and fees receivable, at fair value                                                   | \$ -                     | \$ -      | \$ 28,226        | \$ 28,226  |
| Loans and fees receivable pledged as collateral under structured financings, at fair value | \$ -                     | \$ -      | \$ 238,763       | \$ 238,763 |

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Gains and losses associated with fair value changes for the above asset classes are detailed on our fees and related income on earning assets table within Note 2, "Significant Accounting Policies and Consolidated Financial Statement Components." Total realized net losses on our investment securities—trading were \$0.6 million for both three and nine months ended September 30, 2012, compared to \$0.0 million and \$0.5 million for the three and nine months ended September 30, 2011, respectively, all of which are included as a component of fees and related income on earning assets on our consolidated statements of operations. For our loans and fees receivable included in the above table, which represent liquidating portfolios closed to any possible re-pricing, we assess the fair value of these assets based on our estimate of future cash flows net of servicing costs, and to the extent that such cash flow estimates change from period to period, any such changes are considered to be attributable to changes in instrument-specific credit risk.

For our Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs, the following table presents (in thousands) a reconciliation of the beginning and ending balances for the nine-month periods ended September 30, 2012 and 2011:

|                                                                                                                | Loans and Fees<br>Receivable, at<br>Fair Value | Receivable<br>Pledged as<br>Collateral under<br>Structured<br>Financings, at Fair<br>Value | Total      |
|----------------------------------------------------------------------------------------------------------------|------------------------------------------------|--------------------------------------------------------------------------------------------|------------|
| Balance at January 1, 2011                                                                                     | \$ 12,437                                      | \$ 373,155                                                                                 | \$ 385,592 |
| Transfers in due to consolidation of equity-method investees                                                   | -                                              | 14,587                                                                                     | 14,587     |
| Total gains—realized/unrealized:                                                                               |                                                |                                                                                            |            |
| Net revaluations of loans and fees receivable pledged as collateral under structured financings, at fair value | -                                              | 154,811                                                                                    | 154,811    |
| Net revaluations of loans and fees receivable, at fair value                                                   | 11,353                                         | -                                                                                          | 11,353     |
| Settlements, net                                                                                               | (18,095 )                                      | (238,378 )                                                                                 | (256,473 ) |
| Impact of foreign currency translation                                                                         | -                                              | 945                                                                                        | 945        |
| Net transfers between categories                                                                               | 29,305                                         | (29,305 )                                                                                  | -          |
| Net transfers in and/or out of Level 3                                                                         | -                                              | -                                                                                          | -          |
| Balance at September 30, 2011                                                                                  | \$ 35,000                                      | \$ 275,815                                                                                 | \$ 310,815 |
| Balance at January 1, 2012                                                                                     | \$ 28,226                                      | \$ 238,763                                                                                 | \$ 266,989 |
| Transfers in due to consolidation of equity-method investees                                                   | -                                              | -                                                                                          | -          |
| Total gains—realized/unrealized:                                                                               |                                                |                                                                                            |            |
| Net revaluations of loans and fees receivable pledged as collateral under structured financings, at fair value | -                                              | 83,041                                                                                     | 83,041     |
| Net revaluations of loans and fees receivable, at fair value                                                   | 10,572                                         | -                                                                                          | 10,572     |
| Settlements, net                                                                                               | (19,513 )                                      | (156,730 )                                                                                 | (176,243 ) |
| Impact of foreign currency translation                                                                         | -                                              | 3,333                                                                                      | 3,333      |
| Net transfers in and/or out of Level 3                                                                         | -                                              | -                                                                                          | -          |
| Balance at September 30, 2012                                                                                  | \$ 19,285                                      | \$ 168,407                                                                                 | \$ 187,692 |

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

valuation techniques used for Level 3 assets.

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Net Revaluation of Loans and Fees Receivable. We record the net revaluation of loans and fees receivable (including those pledged as collateral) in the fees and related income on earning assets category in our consolidated statements of operations, specifically as changes in fair value of loans and fees receivable recorded at fair value. The net revaluation of loans and fees receivable is based on the present value of future cash flows using a valuation model of expected cash flows and the estimated cost to service and collect those cash flows. We estimate the present value of these future cash flows using a valuation model consisting of internally developed estimates of assumptions third-party market participants would use in determining fair value, including estimates of net collected yield, principal payment rates, expected principal credit loss rates, costs of funds, discount rates and servicing costs.

For Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs, the following table presents (in thousands) quantitative information about the valuation techniques and the inputs used in the fair value measurement for the period ended September 30, 2012:

Quantitative Information about Level 3 Fair Value  
Measurements

| Fair value measurements                                                                             | Fair Value at<br>September 30, 2012<br><br>(in thousands) | Valuation<br>Technique   | Unobservable<br>Input        | Range<br>(Weighted<br>Average)(1) |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------------|--------------------------|------------------------------|-----------------------------------|
| Loans and fees receivable, at<br>fair value                                                         | \$ 19,285                                                 | Discounted<br>cash flows | Gross yield                  | 21.5 %                            |
|                                                                                                     |                                                           |                          | Principal<br>payment rate    | 3.0 %                             |
|                                                                                                     |                                                           |                          | Expected credit<br>loss rate | 12.5 %                            |
|                                                                                                     |                                                           |                          | Servicing rate               | 7.5 %                             |
|                                                                                                     |                                                           |                          | Discount rate                | 16.0 %                            |
| Loans and fees receivable<br>pledged as collateral under<br>structured financings, at fair<br>value | \$ 168,407                                                | Discounted<br>cash flows | Gross yield                  | 11.2% to 24.8%<br>(17.9%)         |
|                                                                                                     |                                                           |                          | Principal<br>payment rate    | 1.6% to 5.2%<br>(2.3%)            |
|                                                                                                     |                                                           |                          | Expected credit<br>loss rate | 11.0% to 23.4%<br>(18.9%)         |
|                                                                                                     |                                                           |                          | Servicing rate               | 5.1% to 10.7%<br>(5.9%)           |
|                                                                                                     |                                                           |                          | Discount rate                | 16.0% to 16.2%<br>(16.0%)         |

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

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## Valuations and Techniques for Liabilities

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the liability. For our liabilities measured at fair value, the table below summarizes (in thousands) fair values and carrying amounts as of September 30, 2012 and December 31, 2011 by fair value hierarchy:

|                                                                                             | Quoted Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) |  |  | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Carrying<br>Amount<br>of Liabilities<br>Measured at Fair<br>Value |
|---------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|--|--|-----------------------------------------------------|----------------------------------------------------|-------------------------------------------------------------------|
| Liabilities                                                                                 |                                                                               |  |  |                                                     |                                                    |                                                                   |
| Liabilities not measured at fair value on a recurring basis                                 |                                                                               |  |  |                                                     |                                                    |                                                                   |
| 5.875% Convertible Senior Notes as of September 30, 2012                                    | \$ -                                                                          |  |  | \$ 55,089                                           | \$ -                                               | \$ 94,744                                                         |
| Liabilities measured at fair value on a recurring basis                                     |                                                                               |  |  |                                                     |                                                    |                                                                   |
| Interest rate swap underlying CAR facility as of September 30, 2012                         | \$ -                                                                          |  |  | \$ 198                                              | \$ -                                               | \$ 198                                                            |
| Economic sharing arrangement liability as of September 30, 2012                             | \$ -                                                                          |  |  | \$ -                                                | \$ 996                                             | \$ 996                                                            |
| Notes payable associated with structured financings, at fair value as of September 30, 2012 | \$ -                                                                          |  |  | \$ -                                                | \$ 167,521                                         | \$ 167,521                                                        |
| Notes payable associated with structured financings, at fair value as of December 31, 2011  | \$ -                                                                          |  |  | \$ -                                                | \$ 241,755                                         | \$ 241,755                                                        |

Gains and losses associated with fair value changes for the above liabilities are detailed on our fees and related income on earning assets table within Note 2, "Significant Accounting Policies and Consolidated Financial Statement Components." For our 5.875% Convertible Senior Notes, we assess fair value based upon the most recent trade data available from a third-party provider. For our interest rate swap, into which we entered in March 2012, we assess fair value based on quotes for an identically termed swap arrangement at the end of each measurement period from a third-party provider. The interest rate swap effectively fixes our interest rate to 4.75% from LIBOR plus 4.0% for \$20.0 million of the underlying CAR facility. Additionally, through an agreement with our now-divested Investments in Previously Charged-Off Receivables segment, we are obligated to remit net cash flows associated with certain balance transfer card receivables that we retained subsequent to sale of the entity. We assess fair value of this obligation based on the present value of future cash flows using a valuation model of expected cash flows related to these specific receivables. For our notes payable associated with our structured financings of liquidating portfolios of credit card receivables, we assess the fair value of these liabilities based on our estimate of future cash flows generated from their underlying credit card receivables collateral, net of servicing compensation required under the note facilities, and to the extent that such cash flow estimates change from period to period, any such changes are considered to be attributable to changes in instrument-specific credit risk. We do not include the fair value of our Auto Finance segment debt as it is not practicable to do so. We are limited in our ability to estimate the fair value for these financial instruments due to the unique nature of their underlying collateral receivables and the lack of a comparable peer group.

For Level 3 liabilities measured at fair value on a recurring basis using significant unobservable inputs, the following table presents (in thousands) a reconciliation of the beginning and ending balances for the three-month periods ended September 30, 2012 and 2011:

|                                                                                        | Notes Payable Associated<br>with<br>Structured Financings, at<br>Fair Value |            |
|----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|------------|
|                                                                                        | 2012                                                                        | 2011       |
| Beginning balance, January 1                                                           | \$241,755                                                                   | \$370,544  |
| Transfers in due to consolidation of equity-method investees                           | -                                                                           | 15,537     |
| Total (gains) losses—realized/unrealized:                                              |                                                                             |            |
| Net revaluations of notes payable associated with structured financings, at fair value | 35,859                                                                      | 82,507     |
| Repayments on outstanding notes payable, net                                           | (113,144 )                                                                  | (192,049 ) |
| Impact of foreign currency translation                                                 | 3,051                                                                       | 1,254      |
| Net transfers in and/or out of Level 3                                                 | -                                                                           | -          |
| Ending balance, September 30                                                           | \$167,521                                                                   | \$277,793  |

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

Net Revaluation of Notes Payable Associated with Structured Financings, at Fair Value. We record the net revaluations of notes payable associated with structured financings, at fair value, in the changes in fair value of notes payable associated with structured financings line item within the fees and related income on earning assets category of our consolidated statements of operations. The net revaluation of these notes is based on the present value of future cash flows utilized in repayment of the outstanding principal and interest under the facilities using a valuation model of expected cash flows net of the contractual service expenses within the facilities. We estimate the present value of these future cash flows using a valuation model consisting of internally developed estimates of assumptions third-party market participants would use in determining fair value, including: estimates of net collected yield, principal payment rates and expected principal credit loss rates on the credit card receivables that secure the non-recourse notes payable; costs of funds; discount rates; and contractual servicing fees.

For Level 3 liabilities measured at fair value on a recurring basis using significant unobservable inputs, the following table presents (in thousands) quantitative information about the valuation techniques and the inputs used in the fair value measurement for the period ended September 30, 2012:

| Quantitative information about Level 3 Fair Value Measurements     |                                      |                       |                           |                          |
|--------------------------------------------------------------------|--------------------------------------|-----------------------|---------------------------|--------------------------|
| Fair value measurements                                            | Fair Value                           |                       | Valuation Technique       | Range (Weighted Average) |
|                                                                    | at September 30, 2012 (in thousands) |                       |                           |                          |
| Notes payable associated with structured financings, at fair value | \$167,521                            | Discounted cash flows | Unobservable Input        | 11.2% to 24.8%           |
|                                                                    |                                      |                       | Gross yield               | (17.9%)                  |
|                                                                    |                                      |                       | Principal payment rate    | 1.6% to 5.2% (2.3%)      |
|                                                                    |                                      |                       | Expected credit loss rate | 11.0% to 23.4% (18.9%)   |
|                                                                    |                                      |                       | Discount rate             | 6.2% to 16.4% (15.8%)    |

## Other Relevant Data

Other relevant data (in thousands) as of September 30, 2012 and December 31, 2011 concerning our assets and liabilities measured at fair value are as follows:

| As of September 30, 2012                                                                            | Loans and Fees           |        | Loans and Fees           |         |
|-----------------------------------------------------------------------------------------------------|--------------------------|--------|--------------------------|---------|
|                                                                                                     | Receivable at Fair Value |        | Receivable at Fair Value |         |
| Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value | \$                       | 23,884 | \$                       | 221,954 |
|                                                                                                     | \$                       | 19,285 | \$                       | 168,407 |

Aggregate fair value of loans and fees receivable that are reported at fair value

Aggregate fair value of receivables carried at fair value that are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies)

|    |    |    |       |
|----|----|----|-------|
| \$ | 44 | \$ | 1,489 |
|----|----|----|-------|

Aggregate excess of balance of unpaid principal receivables within loans and fees receivable that are reported at fair value and are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies) over the fair value of such loans and fees receivable

|    |       |    |       |
|----|-------|----|-------|
| \$ | 1,263 | \$ | 9,603 |
|----|-------|----|-------|

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|                                                                                                                                                                                                                                                                                             | Loans and Fees<br>Receivable at<br>Fair Value                                                              | Loans and Fees<br>Receivable Pledged<br>as<br>Collateral under<br>Structured<br>Financings<br>at Fair Value |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| As of December 31, 2011                                                                                                                                                                                                                                                                     |                                                                                                            |                                                                                                             |
| Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value                                                                                                                                                                                         | \$ 37,272                                                                                                  | \$ 367,227                                                                                                  |
| Aggregate fair value of loans and fees receivable that are reported at fair value                                                                                                                                                                                                           | \$ 28,226                                                                                                  | \$ 238,763                                                                                                  |
| Aggregate fair value of receivables carried at fair value that are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies)                                                                                                                         | \$ 66                                                                                                      | \$ 1,041                                                                                                    |
| Aggregate excess of balance of unpaid principal receivables within loans and fees receivable that are reported at fair value and are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies) over the fair value of such loans and fees receivable | \$ 3,004                                                                                                   | \$ 28,359                                                                                                   |
|                                                                                                                                                                                                                                                                                             | Notes Payable<br>Associated with<br>Structured<br>Financings,<br>at Fair Value as of<br>September 30, 2012 | Notes Payable<br>Associated with<br>Structured<br>Financings,<br>at Fair Value as of<br>December 31, 2011   |
| Notes Payable                                                                                                                                                                                                                                                                               |                                                                                                            |                                                                                                             |
| Aggregate unpaid principal balance of notes payable                                                                                                                                                                                                                                         | \$ 310,205                                                                                                 | \$ 420,936                                                                                                  |
| Aggregate fair value of notes payable                                                                                                                                                                                                                                                       | \$ 167,521                                                                                                 | \$ 241,755                                                                                                  |

## 8. Convertible Senior Notes and Notes Payable

## Convertible Senior Notes

In May 2005, we issued \$250.0 million aggregate principal amount of 3.625% convertible senior notes due 2025 ("3.625% convertible senior notes"), and in November 2005, we issued \$300.0 million aggregate principal amount of 5.875% convertible senior notes due 2035 ("5.875% convertible senior notes"). These notes (net of repurchases since the issuance dates) are reflected within convertible senior notes on our consolidated balance sheets. In May of 2012, substantially all of the investors in our 3.625% convertible senior notes exercised then-existing put rights, under which we repaid \$83.5 million in face amount of such notes outstanding at par. The following summarizes (in thousands) components of our consolidated balance sheets associated with our convertible senior notes:

|                                                         | As of<br>September 30, 2012 | December 31, 2011 |
|---------------------------------------------------------|-----------------------------|-------------------|
| Face amount of 3.625% convertible senior notes due 2025 | \$ 450                      | \$ 83,943         |
| Face amount of 5.875% convertible senior notes due 2035 | 139,467                     | 139,467           |
| Discount                                                | (44,723 )                   | (47,010 )         |

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|                                                                            |    |         |    |         |
|----------------------------------------------------------------------------|----|---------|----|---------|
| Net carrying value                                                         | \$ | 95,194  | \$ | 176,400 |
| Carrying amount of equity component included in additional paid-in capital | \$ | 108,714 | \$ | 108,714 |
| Excess of instruments' if-converted values over face principal amounts     | \$ | -       | \$ | -       |

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We are amortizing the discount to the face amount of the notes into interest expense over the expected life of the notes (which ended May 2012 for our 3.625% convertible senior notes). Amortization for the three and nine months ended September 30, 2012 totaled \$0.2 million and \$2.3 million, respectively, compared to \$1.5 million and \$5.1 million for the three and nine months ended September 30, 2011, respectively. Actual incurred interest (based on the contractual interest rates within the two convertible senior notes series) totaled \$2.0 million and \$7.4 million for the three and nine months ended September 30, 2012, respectively, compared to \$3.1 million and \$9.6 million for the three and nine months ended September 30, 2011, respectively. We will amortize the discount remaining at September 30, 2012 into interest expense over the expected term of the 5.875% convertible senior notes (currently expected to be October 2035). The weighted average effective interest rate for the 3.625% and 5.875% notes is 9.2% for all periods presented.

In open market transactions during the three and nine months ended September 30, 2011, we repurchased \$6.0 million and \$39.6 million in face amount of our 3.625% notes for \$5.7 million and \$37.0 million (inclusive of transaction costs and accrued interest through the date of our repurchase of the notes), respectively, thereby resulting in the recognition of an aggregate gain during the three and nine months ended September 30, 2011 of \$0.1 million and \$0.6 million (net of the notes' applicable share of deferred costs and debt discount, which were recovered in connection with the purchases). We did not repurchase in the open market any of our convertible senior notes during the three or nine months ended September 30, 2012.

## Notes Payable Associated with Structured Financings, at Fair Value

As of September 30, 2012, (1) the carrying amounts of structured financing notes secured by our credit card receivables and reported at fair value, (2) the outstanding face amounts of structured financing notes secured by our credit card receivables and reported at fair value, and (3) the carrying amounts of the credit card receivables and restricted cash that provide the exclusive means of repayment for the notes (i.e., lenders have recourse only to the specific credit card receivables and restricted cash underlying each respective facility and cannot look to our general credit for repayment) are scheduled (in millions) along with comparable December 31, 2011 carrying amounts as follows:

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Carrying Amounts at Fair Value as of |                   |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | September 30, 2012                   | December 31, 2011 |
| Amortizing securitization facility issued out of our upper-tier originated portfolio master trust (expiring June 2013), outstanding face amount of \$217.7 million bearing interest at a weighted average 3.3% interest rate, which is secured by credit card receivables and restricted cash aggregating \$110.4 million in carrying amount                                                                                                                                                                                          | \$110.4                              | \$154.1           |
| Amortizing term securitization facility (denominated and referenced in U.K. sterling and expiring April 2014) issued out of our U.K. Portfolio securitization trust, outstanding face amount of \$91.2 million bearing interest at a weighted average 4.9% interest rate, which is secured by credit card receivables and restricted cash aggregating \$59.8 million in carrying amount                                                                                                                                               | 56.0                                 | 81.6              |
| Amortizing term structured financing facility (expiring January 2015) issued out of a trust underlying a portfolio acquisition by one of our former equity investees, the controlling interests in which we acquired in February 2011, such facility having an outstanding face amount of \$1.2 million, bearing interest at a weighted average 2.0% interest rate and being secured by credit card receivables and restricted cash aggregating \$5.6 million in carrying amount and the repayment of which occurred in November 2012 | 1.1                                  | 6.1               |
| Total structured financing notes reported at fair value that are secured by credit card receivables and to which we are subordinated                                                                                                                                                                                                                                                                                                                                                                                                  | \$167.5                              | \$241.8           |

Contractual payment allocations within these credit cards receivable structured financings provide for a priority distribution of cash flows to us to service the credit card receivables, a distribution of cash flows to pay interest and principal due on the notes, and a distribution of all excess cash flows (if any) to us. Each of the structured financing facilities in the above table is amortizing down along with collections of the underlying receivables and there are no provisions within the debt agreements that allow for acceleration or bullet repayment of the facilities prior to their scheduled expiration dates. Accordingly, we believe that, for all intents and purposes, there is no practical risk of material equity loss associated with lender seizure of assets under the facilities. Nevertheless, the aggregate carrying amount of the credit card receivables and restricted cash that provide security for the \$167.5 million in fair value of structured financing notes in the above table is \$175.8 million, which means that our maximum aggregate exposure to pre-tax equity loss associated with the above structured financing arrangements is \$8.3 million.

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

## Notes Payable Associated with Structured Financings, at Face Value

The principal amount of the structured financing notes outstanding and the carrying amounts of the assets that provide the exclusive means of repayment for the notes (i.e., lenders have recourse only to the specific assets underlying each respective facility and cannot look to our general credit for repayment) are scheduled (in millions) as follows:

|                                                                                                                                                                                                                                                   | As of                 |                      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
|                                                                                                                                                                                                                                                   | September<br>30, 2012 | December<br>31, 2011 |
| Amortizing debt facility (expiring November 6, 2016) at a minimum fixed rate of 15% at September 30, 2012 that is secured by our ACC Auto Finance segment receivables and restricted cash with an aggregate carrying amount of \$12.6 million (1) | \$7.2                 | \$20.4               |
| Amortizing debt facility, the repayment of which occurred during the three months ended September 2012 (2)                                                                                                                                        | -                     | 2.6                  |
| Vendor-financed software and equipment purchases (expiring September 2014) at an implied rate of 15%, that are secured by certain equipment                                                                                                       | 0.2                   | -                    |
| Investment in Previously Charged-Off Receivables segment's asset-backed financing, the repayment of which occurred during the three months ended June 30, 2012                                                                                    | -                     | 0.2                  |
| Total asset-backed structured financing notes outstanding                                                                                                                                                                                         | \$7.4                 | \$23.2               |

- (1) The terms of this lending agreement provide for the application of all excess cash flows from the underlying auto finance receivables portfolio (above and beyond interest costs and contractual servicing compensation to our outsourced third-party servicer) to reduce outstanding debt balances. In addition, 37.5% of any cash flows (net of contractual servicing compensation) generated on the auto finance receivables portfolio after repayment of the notes will be allocated to the note holders as additional compensation for the use of their capital. Based on current estimates of this additional compensation, we currently are accruing interest expense on this loan at a 25.8% effective interest rate, and our liability for such accrued interest grew from \$1.5 million as of December 31, 2011 to \$3.7 million as of September 30, 2012. This liability is included as a component of the debt facility balance listed above.
- (2) In connection with our sale of JRAS's operations in February 2011, we received a \$2.4 million note secured by JRAS's assets, we retained receivables with a September 30, 2012 carrying amount of \$0.8 million that were originated while JRAS was under our ownership, we pledged those receivables as security for a then \$9.4 million non-recourse loan to us, and we contracted with JRAS to service those receivables on our behalf. This non-recourse loan was repaid in August of 2012 and the remaining receivables are now serviced by our CAR subsidiary.

Similar to our credit cards receivable structured financings, the structured financing facilities secured by the assets scheduled above (with the exception of the vendor-financed software and equipment lending arrangements) generally provide for a priority distribution of cash flows to us (or alternative loan servicers) to service any underlying pledged receivables, a distribution of cash flows to pay interest and principal due on the notes, and a distribution of all excess cash flows to us, other than the additional compensation referred to in footnote (1) to the above table. The receivables-backed structured financing facilities in the above table are amortizing down along with collections of the underlying receivables and there are no provisions within the debt agreements that represent any risks of acceleration or bullet repayment of the facilities prior to the facility expiration dates. Accordingly, we believe that, for all intents

and purposes, there is no practical risk of material equity loss associated with lender seizure of assets under the facilities. Nevertheless, the aggregate carrying amount of the receivables that provide security for the \$7.4 million of structured financing notes in the above table at September 30, 2012 was \$12.6 million, which means that our maximum aggregate exposure to pre-tax equity loss associated with the above structured financing arrangements was \$5.2 million on that date.

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

### Notes Payable, at Face Value

In October 2011, we entered a facility with \$40.0 million in available financing that can be drawn to the extent of CAR outstanding eligible principal receivables; \$20.0 million was drawn on this facility as of September 30, 2012. This facility is secured by the financial and operating assets of our CAR subsidiaries (such assets having a carrying value of \$50.1 million at September 30, 2012), accrues interest at an annual rate equal to LIBOR plus 4.0%, matures October 4, 2014, and is subject to certain affirmative covenants, including a coverage ratio, a leverage ratio and a collateral performance test, the failure of which could result in required early repayment of all or a portion of the outstanding balance. In March 2012, we entered into an interest rate swap related to \$20.0 million of the \$20.0 million amount drawn on the CAR facility. The interest rate swap effectively fixes our interest rate to 4.75% from LIBOR plus 4.0%. We include the fair value of the interest rate swap and changes in its fair value in our consolidated balance sheets and statements of operations, respectively. See Note 7, "Fair Values of Assets and Liabilities," for more information regarding this interest rate swap.

Additionally, we entered a facility with \$200,000 in available financing that can be drawn to the extent of outstanding eligible principal receivables (of which \$184,000 was drawn as of September 30, 2012) associated with one of our subsidiary's private label merchant credit products. This facility was expanded to allow for \$2,000,000 in total financing in October of 2012, and it accrues interest at an annual rate equal to the lender's cost of funds plus 6.0% and matures October 10, 2013.

## 9. Commitments and Contingencies

### General

In the normal course of business through the origination of unsecured credit card receivables, we incur off-balance-sheet risks. These risks include commitments of £489,000 (\$791,000) at September 30, 2012 to purchase receivables associated with cardholders who have the right to borrow in excess of their current balances up to the maximum credit limit on their credit card accounts. We have never experienced a situation in which all of our customers have exercised their entire available line of credit at any given point in time, nor do we anticipate this will ever occur in the future. Moreover, there would be a concurrent increase in assets should there be any exercise of these lines of credit. We also have the effective right to reduce or cancel these available lines of credit at any time, which our Credit Cards and Other Investments segment did with respect to substantially all of its outstanding cardholder accounts. At September 30, 2012, our remaining available lines of credit related solely to credit cards issued under programs in the U.K.

CompuCredit Corporation's third-party originating financial institution relationships require security (collateral) related to their issuance of credit cards and cardholder purchases thereunder, and notwithstanding the closure of all credit card accounts the receivables of which CompuCredit Corporation previously purchased, these institutions hold a remaining \$0.2 million of pledged collateral as of September 30, 2012. In addition, in connection with our U.K. Portfolio acquisition, CompuCredit Corporation guarantees certain obligations of its subsidiaries and its third-party originating financial institution to one of the European payment systems (\$0.2 million as of September 30, 2012). Those obligations include, among other things, compliance with one of the European payment system's operating regulations and by-laws. CompuCredit Corporation also guarantees certain performance obligations of its servicer subsidiary to the indenture trustee and the trust created under the structured financing relating to our U.K. Portfolio.

Also, under agreements with third-party originating financial institutions, we have agreed to indemnify the financial institutions for certain liabilities associated with the financial institutions' card issuance and other lending activities on our behalf. Indemnification obligations generally are limited to instances in which we either (1) have been afforded the opportunity to defend against any potentially indemnifiable claims or (2) have reached agreement with the financial institutions regarding settlement of potentially indemnifiable claims.

Total System Services, Inc. provides certain services to CompuCredit Corporation as a system of record provider under an agreement that extends through May 2015. Were CompuCredit Corporation to terminate its U.S. relationship with Total System Services, Inc. prior to the contractual termination period, it would incur significant penalties (\$12.0 million as of September 30, 2012).

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## Litigation

We are involved in various legal proceedings that are incidental to the conduct of our business. The most significant of these is described below.

CompuCredit Corporation and five of our other subsidiaries are defendants in a purported class action lawsuit entitled Knox, et al., vs. First Southern Cash Advance, et al., No. 5 CV 0445, filed in the Superior Court of New Hanover County, North Carolina, on February 8, 2005. The plaintiffs allege that in conducting a so-called “payday lending” business, certain subsidiaries within our Retail Micro-Loans segment (the operations of which were sold in October 2011, subject to our retention of liability for this litigation) violated various laws governing consumer finance, lending, check cashing, trade practices and loan brokering. The plaintiffs further allege that CompuCredit Corporation was the alter ego of the subsidiaries and is liable for their actions. The plaintiffs are seeking damages of up to \$75,000 per class member, and attorney’s fees. These claims are similar to those that have been asserted against several other market participants in transactions involving small-balance, short-term loans made to consumers in North Carolina. On January 23, 2012, among other orders, the trial court denied the defendants’ motion to compel arbitration, and granted the plaintiffs’ motion for class certification. We are vigorously defending this lawsuit.

## 10. Net Income Attributable to Controlling Interests Per Common Share

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

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

|                                                                                                          | For the Three Months<br>Ended September 30, |            | For the Nine Months<br>Ended September 30, |           |
|----------------------------------------------------------------------------------------------------------|---------------------------------------------|------------|--------------------------------------------|-----------|
|                                                                                                          | 2012                                        | 2011       | 2012                                       | 2011      |
| Numerator:                                                                                               |                                             |            |                                            |           |
| (Loss on) income from continuing operations attributable to controlling interests                        | \$(11,587                                   | ) \$(4,426 | ) \$(25,530                                | ) \$3,491 |
| Income from discontinued operations attributable to controlling interests                                | \$44,798                                    | \$6,125    | \$48,564                                   | \$127,429 |
| Net income attributable to controlling interests                                                         | \$33,211                                    | \$1,699    | \$23,034                                   | \$130,920 |
| Denominator:                                                                                             |                                             |            |                                            |           |
| Basic (including unvested share-based payment awards) (1)                                                | 19,306                                      | 22,497     | 21,092                                     | 26,987    |
| Effect of dilutive stock compensation arrangements (2)                                                   | 20                                          | 63         | 52                                         | 115       |
| Diluted (including unvested share-based payment awards) (1)                                              | 19,326                                      | 22,560     | 21,144                                     | 27,102    |
| (Loss on) income from continuing operations attributable to controlling interests per common share—basic | \$(0.60                                     | ) \$(0.19  | ) \$(1.21                                  | ) \$0.13  |

|                                                                                                            |          |            |            |           |
|------------------------------------------------------------------------------------------------------------|----------|------------|------------|-----------|
| (Loss on) income from continuing operations attributable to controlling interests per common share—diluted | \$ (0.60 | ) \$ (0.19 | ) \$ (1.21 | ) \$ 0.13 |
| Income from discontinued operations attributable to controlling interests per common share—basic           | \$ 2.32  | \$ 0.27    | \$ 2.30    | \$ 4.72   |
| Income from discontinued operations attributable to controlling interests per common share—diluted         | \$ 2.32  | \$ 0.27    | \$ 2.30    | \$ 4.70   |
| Net income attributable to controlling interests per common share—basic                                    | \$ 1.72  | \$ 0.08    | \$ 1.09    | \$ 4.85   |
| Net income attributable to controlling interests per common share—diluted                                  | \$ 1.72  | \$ 0.08    | \$ 1.09    | \$ 4.83   |

- (1) Shares related to unvested share-based payment awards we included in our basic and diluted share counts are as follows: 76,500 and 81,883 shares for the three and nine months ended September 30, 2012, respectively, compared to 88,370 and 231,857 shares for the three and nine months ended September 30, 2011, respectively.
- (2) The effect of dilutive options is shown only for informational purposes where we are in a net loss position. In such situations, the effect of including outstanding options and restricted stock would be anti-dilutive, and they are thus excluded from all loss period calculations.

As their effects were anti-dilutive, we excluded all of our stock options from our net income (loss) per share computations for the three and nine months ended September 30, 2012 and 2011.

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For the three and nine months ended September 30, 2012 and 2011, there were no shares potentially issuable and thus includible in the diluted net income (loss) attributable to controlling interests per common share calculations under our 3.625% convertible senior notes and 5.875% convertible senior notes. However, in future reporting periods during which our closing stock price is above the respective \$20.22 and \$24.61 conversion prices for the 3.625% convertible senior notes and 5.875% convertible senior notes, and depending on the closing stock price at conversion, the maximum potential dilution under the conversion provisions of the 3.625% convertible senior notes and 5.875% convertible senior notes is 22,246 and 5.7 million shares, respectively, which could be included in diluted share counts in net (loss) income per common share calculations. See Note 8, "Convertible Senior Notes and Notes Payable," for a further discussion of these convertible securities.

# 11. Stock-Based Compensation

We currently have two stock-based compensation plans, including an Employee Stock Purchase Plan (the "ESPP") and a 2008 Equity Incentive Plan (the "2008 Plan").

The 2008 Plan provides for grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units and incentive awards. The maximum aggregate number of shares of common stock that may be issued under this plan and to which awards may relate is 2,000,000 shares, and 1,043,518 shares remained available for grant under this plan as of September 30, 2012. Exercises and vestings under our stock-based employee compensation plans resulted in no income tax-related benefits or charges to additional paid-in capital during the three and nine months ended September 30, 2012 and 2011.

## Stock Options

Our 2008 Plan and its predecessor plans provide that we may grant options on or shares of our common stock to members of the Board of Directors, employees, consultants and advisors. The exercise price per share of the options may be less than, equal to, or greater than the market price on the date the option is granted. The option period may not exceed 10 years from the date of grant. The vesting requirements for options granted by us range from immediate to 5 years. During the three and nine months ended September 30, 2012, we expensed stock option-related compensation costs of \$0, compared to \$0 and \$0.5 million for the three and nine months ended September 30, 2011. We recognize stock option-related compensation expense for any awards with graded vesting on a straight-line basis over the vesting period for the entire award. Information related to options outstanding is as follows:

|                                   | For the Nine Months Ended September 30, 2012 |                  |                            |                 |
|-----------------------------------|----------------------------------------------|------------------|----------------------------|-----------------|
|                                   | Number of                                    | Weighted-Average | Weighted-Average of        | Aggregate       |
|                                   | Shares                                       | Exercise Price   | Remaining Contractual Life | Intrinsic Value |
| Outstanding at December 31, 2011  | 570,000                                      | \$ 39.24         |                            |                 |
| Issued/Cancelled/Forfeited        | (70,000 )                                    | -                |                            |                 |
| Outstanding at September 30, 2012 | 500,000                                      | \$ 40.99         | 0.6                        | \$ -            |
| Exercisable at September 30, 2012 | 500,000                                      | \$ 40.99         | 0.6                        | \$ -            |

|  | For the Nine Months Ended September 30, 2011 |                  |                            |                 |
|--|----------------------------------------------|------------------|----------------------------|-----------------|
|  | Number of                                    | Weighted-Average | Weighted-Average of        | Aggregate       |
|  | Shares                                       | Exercise Price   | Remaining Contractual Life | Intrinsic Value |

|                                   |         |    |       | Contractual<br>Life |      |
|-----------------------------------|---------|----|-------|---------------------|------|
| Outstanding at December 31, 2010  | 570,000 | \$ | 39.24 |                     |      |
| Issued/Cancelled/Forfeited        | -       |    | -     |                     |      |
| Outstanding at September 30, 2011 | 570,000 | \$ | 39.24 | 1.7                 | \$ - |
| Exercisable at September 30, 2011 | 570,000 | \$ | 39.24 | 1.7                 | \$ - |

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As of September 30, 2012, we had no unamortized deferred compensation costs associated with non-vested stock options. There were no stock option exercises during the three and nine months ended September 30, 2012 and 2011, and no options were granted in the three and nine months ended September 30, 2012 and 2011.

Restricted Stock and Restricted Stock Unit Awards

During the nine months ended September 30, 2012 and 2011, we granted 60,000 and 44,000 shares of aggregate restricted stock with aggregate grant date fair values of \$0.2 million and \$0.3 million, respectively. When we grant restricted stock, we defer the grant date value of the restricted stock and amortize the grant date values of these shares (net of anticipated forfeitures) as compensation expense with an offsetting entry to the additional paid-in capital component of our consolidated shareholders' equity. Our issued restricted stock generally vest over a range of twenty-four to sixty months and are being amortized to salaries and benefits expense ratably over the respective vesting periods. As of September 30, 2012, our unamortized deferred compensation costs associated with non-vested restricted stock awards were \$0.1 million with a weighted-average remaining amortization period of 10 months.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and the related notes included herein and our Annual Report on Form 10-K for the year ended December 31, 2011, where certain terms (including trust, subsidiary and other entity names and financial, operating and statistical measures) have been defined.

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements. We have based these forward-looking statements on our current plans, expectations and beliefs about future events. Actual results could differ materially, however, because of a number of factors, including the factors discussed in "Risk Factors" in Part II, Item 1A and elsewhere in this report. For more information, see "Forward-Looking Information" below.

Overview

We are a provider of various credit and related financial services and products to or associated with the financially underserved consumer credit market—a market represented by credit risks that regulators classify as "sub-prime." We traditionally have served this market principally through our marketing and solicitation of credit card accounts and other credit products and our servicing of various receivables.

Currently, within our Credit Cards and Other Investments segment, we are collecting on portfolios of credit card receivables underlying now-closed credit card accounts. These receivables include both receivables we originated through third-party financial institutions and portfolios of receivables we purchased from third-party financial institutions. The only open credit card accounts underlying our credit card receivables are those generated through our credit card products in the U.K. Several of our portfolios of credit card receivables underlying now-closed accounts are encumbered by non-recourse structured financings, and for some of these portfolios, our only remaining economic interest is the servicing compensation we receive as an offset against our servicing costs given that the likely future collections on the portfolios are insufficient to allow for full repayment of the financings. Beyond these activities within our Credit Cards and Other Investments segment, we are applying the experiences and infrastructure associated with our historic credit card offerings to other credit product offerings, including private label merchant credit. Lastly, through our Credit Cards and Other Investments segment we are engaged in limited investment activities in ancillary finance, technology and other businesses as we seek to build new products and relationships that could allow for greater utilization of our expertise and infrastructure.

Within our Auto Finance segment, our CAR subsidiary operations purchase and/or service auto loans from or for a pre-qualified network of dealers in the buy-here, pay-here used car business. We purchase the auto loans at a discount and with dealer retentions or holdbacks that provide risk protection. Also within our Auto Finance segment, we are collecting on portfolios of auto finance receivables that we previously originated through franchised and independent auto dealers in connection with prior business activities.

In August 2012, we completed a transaction to sell to Flexpoint Fund II, L.P. for \$130.5 million our Investments in Previously Charged-Off Receivables segment, including its balance transfer card operations, the credit card receivables (and underlying activities) of which were historically reflected within our Credit Cards and Other Investments segment. The sales price included (1) \$119.7 million (cash of \$106.7 million and a note receivable of \$13.0 million) at closing, of which \$5.4 million in cash and up to an additional \$4.6 million in potential repayments of the note receivable or proceeds from any potential sale of the note receivable will be held in escrow for 12 months following the closing date of the transaction to satisfy certain indemnification provisions, and (2) an additional \$10.8 million in cash that we may receive if certain performance targets are met by December 31, 2014. The \$10.8 million

of additional contingent consideration will be recognized into income upon the achievement of the performance targets. Our basis in the net assets that were included in the sale was \$67.0 million resulting in a gain on sale (after related expenses) of \$49.6 million, which is reported within our income from discontinued operations category on our consolidated statements of operations.

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We also completed transactions to dispose of our Retail Micro-Loans segment and our U.K. Internet micro-loan operations during 2011 as discussed further below. In accordance with applicable accounting requirements, we have classified the results of all our sold operations as discontinued operations within our consolidated statements of operations for all periods presented.

In the current environment, the recurring cash flows we receive within our Credit Cards and Other Investments segment are those associated with servicing compensation, distributions from one of our equity-method investees that in March 2011 purchased and now holds all of the outstanding notes issued out of our U.K. Portfolio structured financing trust, and the modest cash flows we are receiving from unencumbered credit card receivables portfolios that have already generated enough cash to allow for the repayment of their underlying structured financing facilities. We are closely monitoring and managing our liquidity position, reducing our overhead infrastructure (which was built to accommodate higher account originations and managed receivables levels) and further leveraging our global infrastructure in order to maximize returns to shareholders on existing assets. Some of these actions, while prudent to maximize cash returns on existing assets, have had the effect of reducing our potential for profitability. Our belief is that our reductions in personnel, overhead and other costs (through increased outsourcing) to levels that our Credit Cards and Other Investments segment can better support with its diminished cash inflows will not result in further impairments in the fair values of our credit card receivables; however, we cannot ensure this outcome.

Subject to the availability of growth capital at attractive terms and pricing, our shareholders should expect us to continue to evaluate and pursue a variety of activities, including: (1) the acquisition of additional credit card receivables portfolios, and potentially other financial assets that are complementary to our financially underserved credit card business; (2) investments in other assets or businesses that are not necessarily financial services assets or businesses; (3) additional opportunities to repurchase our convertible senior notes and other debt or our outstanding common stock; and (4) servicing credit card receivables and other assets for third parties (and in which we have limited or no equity interests) to allow us to leverage our expertise and infrastructure. Absent the availability of investment alternatives (in other portfolios, other non-financial assets or businesses, or our own debt) at prices necessary to provide attractive returns for our shareholders, we will continue to look to maximize shareholder value through the distribution of excess cash to shareholders such as occurred pursuant to the closing of our tender offer in September 2012, whereby we repurchased 8,250,000 shares of our common stock at a purchase price of \$10.00 per share for an aggregate cost of \$82.5 million or through dividends to shareholders.

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## Consolidated Results of Operations

|                                                                                                     | For the Three Months<br>Ended September 30, |           | Income<br>Increases<br>(Decreases)<br>from 2011<br>to 2012 |
|-----------------------------------------------------------------------------------------------------|---------------------------------------------|-----------|------------------------------------------------------------|
| (In Thousands)                                                                                      | 2012                                        | 2011      |                                                            |
| Total interest income                                                                               | \$20,377                                    | \$35,073  | \$ (14,696 )                                               |
| Interest expense                                                                                    | (7,406 )                                    | (10,282 ) | 2,876                                                      |
| Fees and related income on earning assets:                                                          |                                             |           |                                                            |
| Fees on credit products                                                                             | 5,316                                       | 2,566     | 2,750                                                      |
| Changes in fair value of loans and fees receivable recorded at fair value                           | 10,742                                      | 46,646    | (35,904 )                                                  |
| Changes in fair value of notes payable associated with structured financings recorded at fair value | (10,469 )                                   | (29,538 ) | 19,069                                                     |
| Gains (losses) on investments in securities                                                         | 285                                         | (5,418 )  | 5,703                                                      |
| Loss on sale of JRAS assets                                                                         | -                                           | -         | -                                                          |
| Other                                                                                               | (2,171 )                                    | 499       | (2,670 )                                                   |
| Other operating income:                                                                             |                                             |           |                                                            |
| Servicing income                                                                                    | 1,002                                       | 767       | 235                                                        |
| Ancillary and interchange revenues                                                                  | 570                                         | 1,429     | (859 )                                                     |
| Gain on repurchase of convertible senior notes                                                      | -                                           | 138       | (138 )                                                     |
| Gain on buy-out of equity-method investee members                                                   | -                                           | -         | -                                                          |
| Equity in income equity-method investees                                                            | 356                                         | 6,630     | (6,274 )                                                   |
| Total                                                                                               | \$18,602                                    | \$48,510  | (29,908 )                                                  |
| Losses upon charge off of loans and fees receivable recorded at fair value                          | 8,790                                       | 28,019    | 19,229                                                     |
| Provision for losses on loans and fees receivable recorded at net realizable value                  | 5,373                                       | 96        | (5,277 )                                                   |
| Operating expenses:                                                                                 |                                             |           |                                                            |
| Salaries and benefits                                                                               | 2,523                                       | 4,520     | 1,997                                                      |
| Card and loan servicing                                                                             | 10,428                                      | 11,043    | 615                                                        |
| Marketing and solicitation                                                                          | 223                                         | 1,181     | 958                                                        |
| Depreciation                                                                                        | 1,518                                       | 504       | (1,014 )                                                   |
| Other                                                                                               | 5,557                                       | 7,231     | 1,674                                                      |
| Net income                                                                                          | 32,924                                      | 1,422     | 31,502                                                     |
| Net loss attributable to noncontrolling interests                                                   | 287                                         | 277       | 10                                                         |
| Net income attributable to controlling interests                                                    | 33,211                                      | 1,699     | 31,512                                                     |

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|                                                                                                     | For the Nine Months<br>Ended September 30, |           | Income<br>Increases<br>(Decreases)<br>from 2011<br>to 2012 |
|-----------------------------------------------------------------------------------------------------|--------------------------------------------|-----------|------------------------------------------------------------|
| (In Thousands)                                                                                      | 2012                                       | 2011      |                                                            |
| Total interest income                                                                               | \$68,768                                   | \$115,372 | \$ (46,604 )                                               |
| Interest expense                                                                                    | (25,582 )                                  | (33,262 ) | 7,680                                                      |
| Fees and related income on earning assets:                                                          |                                            |           |                                                            |
| Fees on credit products                                                                             | 12,310                                     | 7,332     | 4,978                                                      |
| Changes in fair value of loans and fees receivable recorded at fair value                           | 93,613                                     | 166,164   | (72,551 )                                                  |
| Changes in fair value of notes payable associated with structured financings recorded at fair value | (35,859 )                                  | (82,507 ) | 46,648                                                     |
| Gains (losses) on investments in securities                                                         | 49                                         | (5,277 )  | 5,326                                                      |
| Loss on sale of JRAS assets                                                                         | -                                          | (4,648 )  | 4,648                                                      |
| Other                                                                                               | (2,112 )                                   | 1,213     | (3,325 )                                                   |
| Other operating income:                                                                             |                                            |           |                                                            |
| Servicing income                                                                                    | 3,234                                      | 2,593     | 641                                                        |
| Ancillary and interchange revenues                                                                  | 2,021                                      | 4,670     | (2,649 )                                                   |
| Gain on repurchase of convertible senior notes                                                      | -                                          | 607       | (607 )                                                     |
| Gain on buy-out of equity-method investee members                                                   | -                                          | 619       | (619 )                                                     |
| Equity in income equity-method investees                                                            | 9,912                                      | 28,757    | (18,845 )                                                  |
| Total                                                                                               | \$126,354                                  | \$201,633 | (75,279 )                                                  |
| Losses upon charge off of loans and fees receivable recorded at fair value                          | 81,693                                     | 117,209   | 35,516                                                     |
| Provision for losses on loans and fees receivable recorded at net realizable value                  | 13,828                                     | (325 )    | (14,153 )                                                  |
| Operating expenses:                                                                                 |                                            |           |                                                            |
| Salaries and benefits                                                                               | 12,990                                     | 16,545    | 3,555                                                      |
| Card and loan servicing                                                                             | 31,618                                     | 36,018    | 4,400                                                      |
| Marketing and solicitation                                                                          | 1,669                                      | 2,386     | 717                                                        |
| Depreciation                                                                                        | 2,294                                      | 4,232     | 1,938                                                      |
| Other                                                                                               | 18,755                                     | 20,450    | 1,695                                                      |
| Net income                                                                                          | 22,462                                     | 131,933   | (109,471 )                                                 |
| Net loss (income) attributable to noncontrolling interests                                          | 572                                        | (1,013 )  | 1,585                                                      |
| Net income attributable to controlling interests                                                    | 23,034                                     | 130,920   | (107,886 )                                                 |

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Three and Nine Months Ended September 30, 2012, Compared to Three and Nine Months Ended September 30, 2011

**Total interest income.** Total interest income consists primarily of finance charges and late fees earned on our credit card, private label merchant credit, and auto finance receivables. The decline period over period is due to continued net liquidations of our credit card and auto finance receivables over the past year. Moreover, absent the effects of possible portfolio acquisitions, we expect our ongoing total interest income to decline in subsequent quarters along with continuing expected net liquidations of our credit card and auto finance receivables.

**Interest expense.** The decrease is due to (1) our debt facilities being repaid commensurate with net liquidations of the underlying credit card receivables and auto finance receivables that serve as collateral for the facilities, and (2) the effects of our repurchases of our convertible senior notes throughout 2011 and our May 2012 repayment of substantially all of our 3.625% convertible senior notes as previously discussed in Note 8, “Convertible Senior Notes and Notes Payable,” in the accompanying notes to the consolidated financial statements.

We also note that notwithstanding the effects of our convertible senior notes issuance discount accretion in increasing monthly interest expense amounts in the future, we expect lower interest expense for these notes in future periods attributable to our 2011 repurchases and our May 2012 repayment of substantially all of our 3.625% convertible senior notes.

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

- slight 2012 increases in fees earned on our credit products, principally due to billings on test accounts in the U.K. offset by continued credit card receivables liquidations;
- “Other” category losses arising in 2012 due to operating losses incurred by a small coal mining operation we were required to consolidate in the fourth quarter of 2011 based on workout efforts we have undertaken related to a loan we made to the mining operation;
- our recognition of a \$4.6 million loss in the three months ended March 31, 2011 corresponding to our sale of certain assets associated with our JRAS operations; and
- our recognition of a \$3.4 million loss in the three months ended September 30, 2011 on an investment that we made in non-marketable debt securities—such loss representing 100% of the face amount of the notes that we held from the issuer of the notes based on an other-than-temporary decline in their value, and our recognition of another \$1.9 million loss in the three months ended September 30, 2011 due to an other-than-temporary decline in the value of another issuer’s non-marketable debt securities in which we had previously invested.

We do not expect significant ongoing losses with respect to the coal mining operation mentioned above; the carrying amount of the operation’s net assets is negligible, and we are exploring alternatives to reduce the scope of its future operations and losses.

Given expected net liquidations in our credit card receivables (absent possible portfolio acquisitions) in the future, we expect our change in fair value of credit card receivables recorded at fair value and our change in fair value of notes payable associated with structured financings recorded at fair value amounts to gradually diminish (absent significant changes in the assumptions used to determine these fair values) in the future. These amounts, however, are subject to potentially high levels of volatility if we experience changes in the quality of our credit card receivables or if there are significant changes in market valuation factors (e.g., interest rates and spreads) in the future. Such volatility will be muted somewhat, however, by the offsetting nature of the receivables and underlying debt being recorded at fair value and with the expected reductions in the face amounts of such outstanding receivables and debt as we experience

further credit card receivables liquidations and associated debt amortizing repayments.

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**Servicing income.** Our reported servicing income is comprised of servicing compensation paid to us by third parties associated with our servicing of their loans and fees receivable. Positively impacting 2012 is income from transitional services that we provided to the buyer of our Retail Micro-Loans segment, such services having substantially ended, and that we currently are providing to the buyer of our Investment in Previously Charged-Off Receivables and balance transfer card operations since our disposition of these operations in August 2012. Absent these revenues, servicing income would have declined commensurate with liquidations in the portfolios of loans and fees receivables that we service for third parties.

Currently, servicing income is not a significant income source for us, and unless we grow the number of contractual servicing relationships we have with other third parties, we will not experience sustained levels of growth and income within this category. Subsequent to the end of the quarter, however, we received an additional \$10.0 million as compensation for excess servicing costs one of our subsidiaries incurred with respect to its underlying credit card portfolio. We will report this \$10.0 million payment within our fourth quarter 2012 servicing income.

**Ancillary and interchange revenues.** During periods, unlike our current period, in which we are broadly originating credit card accounts or in which a significant number of credit card accounts are open to cardholder purchases, we market to cardholders other ancillary products, including credit and identity theft monitoring, health discount programs, shopping discount programs and debt waivers. The decline in our ancillary revenues associated with these activities and our interchange revenues corresponds with our account closure actions and net liquidations we have experienced in all of our credit card receivables portfolios in recent years. Absent portfolio acquisitions, we do not expect significant ancillary and interchange revenues in the future.

**Gain on repurchase of convertible senior notes.** In open market transactions during the three and nine months ended September 30, 2011, we repurchased \$6.0 million and \$39.6 million in face amount of our 3.625% notes for \$5.7 million and \$37.0 million (inclusive of transaction costs and accrued interest through the date of our repurchase of the notes), respectively, thereby resulting in the recognition of an aggregate gain during the three and nine months ended September 30, 2011 of \$0.1 million and \$0.6 million (net of the notes' applicable share of deferred costs and debt discount, which were recovered in connection with the purchases), respectively. No such repurchases were made in the three and nine months ended September 30, 2012.

We remain open to the possibility of further repurchases of our convertible senior notes at prices we find attractive in the future, which could result in additional as of yet unknown gains or losses upon such repurchases.

**Equity in income of equity-method investees.** The significant decrease in income associated with our equity-method investees is principally related to our 50.0% interest in the joint venture that purchased in March 2011 the outstanding notes issued out of our U.K. Portfolio structured financing trust. Contemporaneous with our March 2011 acquisition of our 50% interest in the joint venture, it elected to account for its investment in the U.K. Portfolio structured financing notes at their fair value, and it recognized a \$34.2 million gain (of which our 50% share represented \$17.1 million) equal to the excess of the fair value of the notes as of March 31, 2011 over the joint venture's discounted purchase price of the notes.

We expect to see continued liquidations in the credit card receivables portfolios and structured financing notes held by our equity-method investees for the foreseeable future. As such, absent possible additional investments in our existing or in new equity-method investees in the future, we expect gradually declining effects from our equity-method investments on our operating results.

**Losses upon charge off of loans and fees receivable recorded at fair value.** This account reflects charge offs of the face amount credit card receivables we record at fair value on our consolidated balance sheet. We have experienced a general trending decline in and we expect future trending declines in these charge offs as we continue to liquidate our credit card receivables. The effects of this general trending decline were muted for the nine months ended September

30, 2012, however, given our sale of a large volume of late-stage delinquent accounts and related receivables (which we treated as having been charged off contemporaneous with their sale) out of our U.K. credit card receivables portfolio during the first quarter of 2012. For this reason, our rate of decline in this category in the future will be more similar to the rate of decline experienced in the three months ended September 30, 2012 when compared to the same period in 2011 than to the rate of decline experienced in the three months ended June 30, 2012 when compared to the same period in 2011.

Provision for losses on loans and fees receivable recorded at net realizable value. Our provision for losses on loans and fees receivable recorded at net realizable value covers aggregate loss exposures on (1) principal receivable balances, (2) finance charges and late fees receivable underlying income amounts included within our total interest income category, and (3) other fees receivable. We have recently experienced trending declines in our provisions for losses on loans and fees receivable recorded at net realizable value associated with contractions in our auto finance loans and fees receivable combined with some modest effects of an improved economy in recent quarters. However, we experienced a year over year increase in this category between 2011 and 2012 due to the effects of (1) disproportionately greater reductions in our allowance for uncollectible loans and fees receivables recorded in the three and nine months ended September 30, 2011 associated with significant performance improvements experienced at that time, and (2) elevated losses incurred on new credit product testing in the nine months ended September 30, 2012. Given our continued gradual net liquidation of our auto finance receivables, which is expected to outpace growth in receivables associated with other receivables associated with new products we are testing (e.g., private label merchant credit products) for the next several quarters, we do not expect any significant deviations in our credit risks, delinquencies and loss rates in 2012 versus 2011.

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Total other operating expense. Total other operating expense decreased for the three and nine months ended September 30, 2012 relative to the three and nine months ended September 30, 2011, reflecting the following:

- diminished salaries and benefits costs resulting from our ongoing cost-cutting efforts as we continue to adjust our internal operations to reflect the declining size of our existing portfolios;
- lower card and loan servicing expenses reflecting the effects of continuing credit card and auto finance receivables portfolio liquidations;
- decreases in depreciation for the nine months ended September 30, 2012 reflecting a diminished level of capital investments by us, offset by higher depreciation expense in the three months ended September 30, 2012 due to the impairment of certain fixed assets held by a small coal mining operation we are required to consolidate based on workout efforts we have undertaken related to a loan we made to the mining operation; and
- decreases in marketing and solicitation and other expense levels consistent with the aforementioned receivables portfolio liquidations and our cost-cutting efforts.

A large portion of our operating costs are variable based on the levels of accounts we market and receivables we service (both for our own account and for others) and the pace and breadth of our search for, acquisition of and introduction of new business lines, products and services. However, a number of our operating costs are fixed and will over time comprise a larger percentage of our total costs given the ongoing contraction of our credit card and auto finance loans and fees receivable levels. To this extent, our rate of cost reduction can be expected to slow relative to the rate of contraction in these loans and fees receivable. We do, however, attempt to maximize the utility that we get from our incurrence of fixed costs by our testing and exploration of new products and services and areas of investment, and we continue to perform extensive reviews of all areas of our businesses for cost savings opportunities to better align our costs with our net liquidating portfolio of managed receivables.

Notwithstanding our cost-cutting efforts and focus, while it is relatively easy for us to scale back our variable expenses, it is much more difficult (to which we alluded above) for us to appreciably reduce our fixed and other costs associated with an infrastructure (particularly within our Credit Cards and Other Investments segment) that was built to support growing managed receivables and levels of managed receivables that are significantly higher than both our current levels and the levels that we expect to see in the near future. At this point, our Credit Cards and Other Investments segment cash inflows are sufficient to cover its direct variable costs and a portion, but not all, of its share of overhead costs (including, for example, corporate-level executive and administrative costs and our convertible senior notes interest costs). As such, if we are not successful in further reducing overhead costs or expanding revenue-earning activities to levels commensurate with such costs, then, depending upon the sufficiency of excess cash flows and earnings generated from our Auto Finance subsidiary and those credit card portfolios that have repaid their underlying structured financing facilities, we may experience continuing pressure on our liquidity position and our ability to be profitable.

Noncontrolling interests. We reflect the ownership interests of noncontrolling holders of equity in our majority-owned subsidiaries as noncontrolling interests in our consolidated statements of operations. Because of various transactions that took place in early 2011, unless we enter into significant new majority-owned subsidiary ventures with noncontrolling interest holders in the future, we expect to have negligible noncontrolling interests in our majority-owned subsidiaries and negligible allocations of income or loss to noncontrolling interest holders in future quarters. Transactions contributing to this development and the decline in net income attributable to noncontrolling interests in 2012 versus 2011 include:

- Our collective January 2011 and April 2011 purchases of most of the noncontrolling interest holders' ownership interests in our Credit Cards and Other Investments segment majority-owned subsidiaries; and

- Our April 2011 sale of the majority-owned subsidiaries through which we owned our U.K. Internet micro-loan operations.

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Income taxes. Computed considering results for only our continuing operations before income taxes, our effective income tax benefit rate was 25.5% and 28.8% for the three and nine months ended September 30, 2012, respectively, versus our negative effective income tax benefit rate of 15.2% for the three months ended September 30, 2011 and our positive effective income tax expense rate of 34.1% for the nine months ended September 30, 2011. We have experienced no material changes in effective tax rates associated with differences in filing jurisdictions, and the variations in our effective tax rates between the periods principally bear the effects of (1) changes in valuation allowances against income statement-oriented federal, foreign and state deferred tax assets, (2) variations in the level of our pre-tax income among the different reporting periods relative to the level of our permanent differences within such periods, and (3) the effects on our interim financial reporting results of intra-period tax allocations associated with our discontinued operations as required under GAAP. Computed without regard to the effects of the valuation allowance changes, our effective tax rates would have been a positive 24.8% and a positive 28.5% benefit rate in the three and nine months ended September 30, 2012, respectively, compared to a positive 9.5% benefit rate and a positive 99.1% expense rate, in the three and nine months ended September 30, 2011, respectively.

We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized \$0.6 million and \$1.5 million in potential interest and penalties associated with uncertain tax positions during the three and nine months ended September 30, 2012, respectively, compared to \$0.6 million and \$1.7 million during the three and nine months ended September 30, 2011, respectively. To the extent such interest and penalties are not assessed as a result of a resolution of the underlying tax position, amounts accrued are reduced and reflected as a reduction of income tax expense. We recognized no such reductions in the three and nine months ended September 30, 2012 and 2011, respectively.

## Credit Cards and Other Investments Segment

Our Credit Cards and Other Investments segment includes our continuing activities relating to investments in and servicing of our various credit card receivables portfolios, as well as other investments and products that are not yet material to our overall financial position but which generally utilize much of the same infrastructure as our credit card operations.

The revenues we earn from credit card activities primarily include finance charges, late fees, over-limit fees, annual fees, activation fees, monthly maintenance fees, returned-check fees and cash advance fees. Also, while insignificant currently, revenues (during previous periods of broad account origination and in which significant numbers of accounts were open to cardholder purchases) also have included those associated with (1) our sale of ancillary products such as memberships, subscription services and debt waiver, as well as (2) interchange fees representing a portion of the merchant fee assessed by card associations based on cardholder purchase volumes underlying credit card receivables.

We record the finance charges and late fees assessed on our Credit Cards and Other Investments segment credit products in the consumer loans, including past due fees category on our consolidated statements of operations, we include the over-limit, annual, monthly maintenance, returned-check, cash advance and other fees in the fees and other income on earning assets category on our consolidated statements of operations, and we reflect the charge offs within our provision for losses on loans and fees receivable on our consolidated statements of operations (for all credit product receivables other than those credit card receivables underlying formerly off-balance-sheet securitization structures) and within losses upon charge off of loans and fees receivable recorded at fair value on our consolidated statements of operations (for all of our other credit card receivables underlying formerly off-balance-sheet securitization structures for which we have elected the fair value option). Additionally, we show the effects of fair value changes for those credit card receivables for which we have elected the fair value option as a component of fees and related income on earning assets in our consolidated statements of operations.

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

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### Background

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

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

Reconciliation of the managed receivables data to our GAAP financial statements requires: (1) an understanding that our managed receivables data are based on billings and actual charge offs as they occur, without regard to any changes in our allowance for uncollectible loans and fees receivable or any changes in the fair value of loans and fees receivable and their associated structured financing notes; (2) inclusion of our economic share of (or equity interest in) the receivables we manage for our equity-method investees; (3) removal of our noncontrolling interest holders' shares of the managed receivables underlying our GAAP consolidated results; and (4) treatment of the transaction in which our 50%-owned equity-method investee acquired our U.K. Portfolio structured financing trust notes (a) as a deemed sale of the U.K. Portfolio trust receivables at their face amount, (b) followed by the 50%-owned equity-method investee's deemed repurchase of such receivables for consideration equal to the discounted purchase price that it paid for the notes, and (c) as though the difference between the deemed face amount and the deemed discounted repurchase price of the receivables is to be treated as credit quality discount to be accreted into managed earnings as a reduction of net charge offs over the remaining life of the receivables.

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

### Asset Quality

Our delinquency and charge-off data at any point in time reflect the credit performance of our managed receivables. The average age of the accounts underlying our receivables, the timing of portfolio purchases, the success of our collection and recovery efforts and general economic conditions all affect our delinquency and charge-off rates. The average age of the accounts underlying our receivables portfolio also affects the stability of our delinquency and loss rates. We consider this delinquency and charge-off data in our determination of the fair value of our credit card receivables underlying formerly off-balance-sheet securitization structures, as well as our allowance for uncollectible loans and fees receivable in the case of our other credit product receivables that we report at net realizable value. Our

strategy for managing delinquency and receivables losses consists of account management throughout the customer relationship. This strategy includes credit line management and pricing based on the risks. See also our discussion of collection strategies under the heading “How Do We Collect from Our Customers?” in Item 1, “Business,” of our Annual Report on Form 10-K for the year ended December 31, 2011.

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

|                                  | At or for the Three Months Ended |   |           |   |           |   |           |   |           |   |           |   |           |   |           |   |
|----------------------------------|----------------------------------|---|-----------|---|-----------|---|-----------|---|-----------|---|-----------|---|-----------|---|-----------|---|
|                                  | 2012                             |   |           |   |           |   | 2011      |   |           |   |           |   |           |   | 2010      |   |
|                                  | Sept. 30                         |   | Jun. 30   |   | Mar. 31   |   | Dec. 31   |   | Sept. 30  |   | Jun. 30   |   | Mar. 31   |   | Dec. 31   |   |
| Period-end managed receivables   | \$326,557                        |   | \$356,897 |   | \$401,394 |   | \$480,355 |   | \$540,023 |   | \$613,747 |   | \$698,226 |   | \$776,770 |   |
| Period-end managed accounts      | 281                              |   | 309       |   | 340       |   | 390       |   | 431       |   | 481       |   | 543       |   | 603       |   |
| Percent 30 or more days past due | 11.0                             | % | 9.9       | % | 10.4      | % | 13.0      | % | 12.6      | % | 11.9      | % | 12.5      | % | 15.2      | % |
| Percent 60 or more days past due | 8.1                              | % | 6.9       | % | 7.9       | % | 9.7       | % | 8.9       | % | 8.7       | % | 9.5       | % | 11.6      | % |
| Percent 90 or more days past due | 5.8                              | % | 4.6       | % | 5.9       | % | 6.9       | % | 6.2       | % | 6.2       | % | 7.0       | % | 8.7       | % |
| Average managed receivables      | \$340,628                        |   | \$378,227 |   | \$438,601 |   | \$511,834 |   | \$580,212 |   | \$659,686 |   | \$754,300 |   | \$845,084 |   |
| Combined gross charge-off ratio  | 15.3                             | % | 20.7      | % | 53.9      | % | 19.3      | % | 20.9      | % | 24.2      | % | 29.7      | % | 36.4      | % |
| Net charge-off ratio             | 13.1                             | % | 16.8      | % | 47.4      | % | 15.2      | % | 16.7      | % | 19.8      | % | 24.1      | % | 28.9      | % |
| Adjusted charge-off ratio        | 11.4                             | % | 15.1      | % | 30.6      | % | 12.2      | % | 13.9      | % | 16.7      | % | 22.9      | % | 28.6      | % |
| Total yield ratio                | 23.5                             | % | 24.2      | % | 22.9      | % | 23.2      | % | 19.2      | % | 21.8      | % | 22.0      |   |           |   |

Managed receivables. The consistent quarterly declines in our period-end and average managed receivables over the last eight quarters reflect the net liquidating state of our credit card receivables portfolios given the closure of substantially all credit card accounts underlying the portfolios. Moreover, with the exception of some limited product testing in the U.K., we have curtailed our credit card marketing efforts in light of (1) dislocation in the liquidity markets and uncertainty as to when and if these markets will rebound sufficiently to facilitate organic growth in our credit card receivables operations and (2) an unfavorable credit card account origination regulatory climate in our primary U.S. market. We do not anticipate meaningful account or receivables additions in the near term to offset the receivables balance contractions noted above.

Delinquencies. Delinquencies have the potential to impact net income in the form of net credit losses. Delinquencies also are costly in terms of the personnel and resources dedicated to resolving them. We intend for the account management strategies we use on our portfolio to manage and, to the extent possible, reduce the higher delinquency rates that can be expected in a more mature managed portfolio such as ours. These account management strategies include conservative credit line management, purging of inactive accounts and collection strategies intended to optimize the effective account-to-collector ratio across delinquency categories. We further describe these collection strategies under the heading “How Do We Collect from Our Customers?” in Item 1, “Business” of our Annual Report on Form 10-K for the year ended December 31, 2011. We measure the success of these efforts by measuring delinquency rates. These rates exclude accounts that have been charged off.

Our lower-tier credit card receivables typically experience substantially higher delinquency rates and charge-off levels than those of our other originated and purchased portfolios. Our delinquency statistics recently have benefited from a mix change whereby disproportionately higher charge-off levels for our lower-tier credit card portfolios relative to those of our other credit card receivables have caused a decline in lower-tier credit card receivables as a percentage of our aggregate managed credit card receivables.

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Given that our accounts primarily consist of closed credit card accounts with no significant account actions taken in the past several quarters, one would logically expect to see the relatively lower delinquency and charge-off benefits of our more mature portfolios. This trend is bearing out as noted in the trending year-over-year declines in our 2012 and late 2011 delinquency statistics relative to corresponding dates in prior years and is consistent with our expectations for the next few quarters. We do note, however, that we participated in a unique transaction opportunity during the first quarter of 2012, whereby we sold for a total of \$10.4 million, a price that we viewed as attractive, \$44.0 million in face value of our U.K. portfolio credit cards receivable associated with late-stage delinquent accounts that had not yet reached the 180-day charge-off threshold. These receivables had a GAAP carrying value of \$9.8 million on the sale date, thereby rendering an insignificant gain upon their sale. This transaction had two effects on our managed receivables data: (1) the future periods' charge off of these receivables was accelerated into the first quarter of 2012 through our treatment of the accounts as having been charged off in all of our managed receivables charge-off ratios contemporaneous with the sale of these receivables; and (2) the removal of these late-stage delinquent accounts from our March 31, 2012 managed receivables balances contributed to a better-than-typical improvement in our delinquency statistics as of March 31, 2012 and June 30, 2012. Given this acceleration we expected to see a slight increase in our delinquency rates as the impact of this isolated transaction diminishes. We experienced this increase in delinquencies as of September 30, 2012, in part due to the aforementioned transaction, but also in part to the effects of higher delinquency rates associated with credit card product testing in the U.K. (the effects of which are also evident in the table of current loans receivable, current fees receivable and delinquent loans and fees receivable as of September 30, 2012 and December 31, 2011 presented within Note 2, "Significant Accounting Policies and Consolidated Financial Statement Components," to our consolidated financial statements). Nevertheless, we still expect to see continuing future trending declines in our delinquency rates when compared to similar prior year periods.

**Charge offs.** We generally charge off our Credit Card and Other Investments segment receivables when they become contractually 180 days past due or within 30 days of notification and confirmation of a customer's bankruptcy or death. However, if a cardholder makes a payment greater than or equal to two minimum payments within a month of the charge-off date, we may reconsider whether charge-off status remains appropriate. Additionally, in some cases of death, receivables are not charged off if, with respect to the deceased customer's account, there is a surviving, contractually liable individual or an estate large enough to pay the debt in full.

Our lower-tier credit card offerings have higher charge offs relative to their average managed receivables balances, than do our other portfolios. Due to the recent higher rate of decline in these receivables relative to all of our other outstanding credit card receivables, all things being equal, one would expect reduced charge-off ratios. This is supported by the above overall trend of declining charge-off rates in all quarters but the first quarter of 2012. This trend is muted to some degree, however, for our net charge-off ratio and our adjusted charge-off ratio (as discussed in more detail below) simply due to a change in the mix of our charge offs toward a higher relative level of principal charge offs versus finance and fee charge offs.

All of our charge-off ratios were skewed higher during the first quarter of 2012 by reason of the unique transaction opportunity mentioned in our Delinquencies discussion above. In future quarters (and absent any unique transaction opportunities like that experienced in the first quarter of 2012), we expect the general rate of decline in our charge-off ratios to moderate and our charge-off ratios to generally stabilize (subject to normal seasonal variations). Our expectation of a reduced rate of decline in our charge-off ratios is based on (1) the age, maturity and stability of our portfolio of liquidating receivables associated with closed credit card accounts, coupled with (2) an expectation of higher charge off rates on a relatively small dollar balance of credit card receivables underlying test accounts in the U.K.

**Combined gross charge-off ratio.** See the above general Charge Offs discussion.

**Net charge-off ratio.** See the above general Charge Offs discussion.



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Adjusted charge-off ratio. This ratio reflects our net charge offs, less credit quality discount accretion with respect to our acquired portfolios. Therefore, its trend line should follow that of our net charge-off ratio, adjusted for the diminishing impact of past portfolio acquisitions and for the additional impact of new portfolio acquisitions. In the first and second quarters of 2011, the gap between the net charge-off ratio and the adjusted charge-off ratio widened (as it typically does following each portfolio acquisition at a discounted purchase price) because we determine our managed receivables statistics by treating the transaction in which our 50%-owned equity-method investee acquired our U.K. Portfolio structured financing trust notes as a deemed sale of the U.K. Portfolio trust receivables at their face amount, followed by the 50%-owned equity-method investee's repurchase of such receivables for consideration equal to the discounted purchase price that it paid for the notes. Although one would expect the gap between the net charge-off ratio and the adjusted charge-off ratio to gradually narrow (as we saw in the last two quarters of 2011) absent another portfolio acquisition, the unique transaction opportunity mentioned in our Delinquencies discussion above caused a significant widening of the gap between the net charge-off ratio and the adjusted net charge-off ratio in the first quarter of 2012. That transaction opportunity caused our first quarter 2012 charge offs to be comprised of a disproportionately higher level of U.K. Portfolio charge offs than normal (for which significant levels of credit quality discount were accreted in the adjusted net charge-off ratio computation in the first quarter of 2012).

Total yield ratio and gross yield ratio. As noted previously, the mix of our managed receivables generally has shifted away from those receivables of our lower-tier credit card offerings. Those receivables have higher delinquency rates and late and over-limit fee assessments than do our other portfolios, and thus have higher total yield and gross yield ratios as well. Accordingly, we would expect to see a slight generally trending decline in our total yield and gross yield ratios consistent with disproportionate reductions in our lower-tier credit card receivables due to their higher charge-off levels over the past several quarters. However, our addition of lower-tier test credit card accounts in the U.K. in 2012 has temporarily reversed and delayed our generally declining total and gross yield ratio trends. While the addition of these accounts has resulted in temporary increases in our total and gross yield ratios, we expect these accounts to also reduce the rate of decline in our charge-off rates as the accounts season, mature, and charge off at higher rates than we experience on our liquidating pool of credit card receivables associated with closed credit card accounts.

Our total and gross yield ratios also have been adversely affected over the past several quarters by our 2007 U.K. Portfolio acquisition. Its total and gross yields are below average as compared to our other portfolios, and the rate of decline in receivables in this portfolio has lagged behind the rate of decline in receivables in our other portfolios, thus continuing to suppress our yield ratios.

Notwithstanding the above factors causing slight trending declines in our total and gross yield ratios, the total yield ratio is skewed higher in the fourth quarter of 2010 due to gains associated with debt repurchases in that quarter as detailed and quantified in the discussion of our other income ratio below. Negatively impacting our third quarter 2011 total yield ratio were \$5.3 million of losses we recognized due to other-than-temporary declines in the values of non-marketable debt securities in which we had previously invested (as also addressed in our Other income ratio discussion below.)

Net interest margin. Because of the significance of the late fees charged on our lower-tier credit card receivables as a percentage of outstanding receivables balances, we generally would expect our net interest margin to increase as our lower-tier credit card receivables become a larger percentage and to decrease as they become a smaller percentage of our overall managed receivables. Accordingly, the disproportionate reductions we have experienced in our lower-tier credit card receivables levels is the principal factor that has contributed to the continued general declining trend in our net interest margins relative to those experienced in prior years.

Our net interest margin also is affected by the effects of our 2007 U.K. Portfolio acquisition. The net interest margin for this portfolio is below the weighted average rate of our other portfolios, and the impact of this portfolio continues to be felt as our originated portfolios continue to decline in size at a faster pace than our acquired U.K. Portfolio, thus

increasing the impact of this portfolio's lower net interest margin on the overall results.

Consistent with our experiences in past few quarters, we expect a relatively stable low-double-digit net interest margin for the foreseeable future.

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Other income ratio. We generally expect our other income ratio to increase as our lower-tier receivables become a larger percentage, and to decrease as our lower-tier receivables become a smaller percentage, of our overall managed receivables. When underlying open accounts, these receivables generate significantly higher annual membership, over-limit, monthly maintenance and other fees than do our other portfolios. Consequently, the closure of credit card accounts and the mix change discussed above under which our lower-tier receivables comprise a much smaller percentage of our total receivables accounts in significant part for our low other income ratios.

Our fourth quarter 2010 other income ratio was skewed higher by gains realized on the repurchase of our convertible senior notes and a \$4.1 million recovery in the fourth quarter of losses we experienced several years ago on an investment that we had made in a third-party's asset-backed securities; absent these gains, our other income ratios would have been 1.2% for the three months ended December 31, 2010. Like in the first, second and fourth quarters of 2011, we expect a positive generally low single-digit other income ratio for the foreseeable future unless we experience further material gains associated with future debt repurchases, which could cause an increase in the ratio. We note that we experienced only immaterial gains associated with our convertible senior note repurchases in 2011—gains which were not material enough effect to warrant pro forma computations of the other income ratios in 2011 quarters without the effects of such gains. Negatively affecting our other income ratio for the third quarter of 2011 were \$5.3 million of losses that we recognized due to other-than-temporary declines in the values of non-marketable debt securities in which we had previously invested; excluding the impact of these write downs, our other income ratio would have been 2.1%.

Operating ratio. While we have been highly focused on expense reduction and cost control efforts, our managed receivables levels are generally falling at faster rates than the rates at which we have been able thus far to reduce our costs (particular when considering our fixed infrastructure costs). This phenomenon is reflected in our operating ratio statistics over the 2010 and 2011 quarters, and has recently been exacerbated as seen in the 2012 operating ratios computation by the effects of our late 2011 consolidation of a small coal mining operation that we have financed and its underlying costs—such operation and costs bearing no relationship to managed receivables levels.

## Future Expectations

Because the accounts underlying substantially all of our credit card receivables are closed, because of expected liquidations within each of our credit card receivables portfolios, and because of ongoing challenges to the U.S. and U.K. economies and continually high unemployment rates within both countries, we generally do not expect our yield-oriented managed receivables statistics to improve significantly from their current levels for the foreseeable future.

Our credit card operations within our Credit Cards and Other Investments segment are separate and distinct from our other operations. As such, if we were ever to conclude that the ongoing costs of these operations exceeded their benefits (i.e., cash flows to us and residual asset values), we could liquidate our credit card operations (either by continuing to allow them to decline in size or through more aggressive action) with minimal impact on future financial performance of our other operations. We reference the table included in Note 8, "Convertible Senior Notes and Notes Payable," to our consolidated financial statements, which quantifies the risk to our consolidated total equity position associated with a complete liquidation of our credit cards receivables portfolios.

## Auto Finance Segment

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

Our original platform, CAR, acquired in April 2005, purchases auto loans at a discount and services auto loans for a fee; its customer base includes a nationwide network of pre-qualified auto dealers in the buy-here, pay-here used car business.

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

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

Collectively, we currently serve more than 680 dealers through our Auto Finance segment in 34 states.

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### Managed Receivables Background

Like with our Credit Cards and Other Investments segment, we make various references to our managed receivables within our Auto Finance segment discussion.

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

Reconciliation of the auto finance managed receivables data to our GAAP financial statements requires an understanding that our managed receivables data are based on billings and actual charge offs as they occur, without regard to any changes in our allowance for uncollectible loans and fees receivable.

### Analysis of Statistical Data

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

|                                  | At or for the Three Months Ended |   |          |   |          |   |          |   |           |   |           |   |           |   |           |   |
|----------------------------------|----------------------------------|---|----------|---|----------|---|----------|---|-----------|---|-----------|---|-----------|---|-----------|---|
|                                  | 2012                             |   |          |   | 2011     |   |          |   |           |   |           |   | 2010      |   |           |   |
|                                  | Sept. 30                         |   | Jun. 30  |   | Mar. 31  |   | Dec. 31  |   | Sept. 30  |   | Jun. 30   |   | Mar. 31   |   | Dec. 31   |   |
| Period-end managed receivables   | \$67,858                         |   | \$72,886 |   | \$75,275 |   | \$87,755 |   | \$99,237  |   | \$113,316 |   | \$128,254 |   | \$154,191 |   |
| Period-end managed accounts      | 23                               |   | 24       |   | 24       |   | 26       |   | 27        |   | 29        |   | 30        |   | 33        |   |
| Percent 30 or more days past due | 13.3                             | % | 10.7     | % | 8.3      | % | 12.8     | % | 11.9      | % | 10.2      | % | 8.6       | % | 12.8      | % |
| Percent 60 or more days past due | 5.4                              | % | 3.6      | % | 3.3      | % | 4.9      | % | 4.7       | % | 3.8       | % | 3.6       | % | 5.3       | % |
| Percent 90 or more days past due | 2.4                              | % | 1.1      | % | 1.6      | % | 2.1      | % | 2.3       | % | 1.5       | % | 1.5       | % | 2.4       | % |
| Average managed receivables      | \$69,538                         |   | \$75,877 |   | \$80,503 |   | \$92,719 |   | \$106,881 |   | \$120,773 |   | \$140,132 |   | \$165,286 |   |
| Gross yield ratio                | 35.3                             | % | 35.2     | % | 33.9     | % | 36.3     | % | 35.5      | % | 32.6      | % | 29.2      | % | 29.1      | % |
| Adjusted charge-off ratio        | 3.9                              | % | 4.2      | % | 8.2      | % | 8.3      | % | 9.8       | % | 10.9      | % | 21.1      | % | 20.3      | % |
| Recovery ratio                   | 3.9                              | % | 4.7      | % | 6.0      | % | 7.1      | % | 5.6       | % | 7.0       | % | 3.4       | % | 3.6       | % |
| Net interest margin              | 23.8                             | % | 32.0     | % | 17.0     | % | 24.4     | % | 25.6      | % | 23.8      | % | 20.5      | % | 19.8      | % |
| Other income ratio               | 2.7                              | % | 2.3      | % | 2.3      | % | 1.4      | % | 1.2       | % | 0.9       | % | -11.2     | % | 0.6       | % |
| Operating ratio                  | 24.7                             | % | 24.0     | % | 29.9     | % | 21.3     | % | 19.5      | % |           |   |           |   |           |   |

Managed receivables. Period-end managed receivables have gradually declined as we have curtailed significant purchasing and origination activities. As of September 30, 2012, only CAR continues to purchase/originate loans. Given liquidations of the ACC and JRAS portfolios, managed receivables within this segment will continue to decline for the next several quarters.

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Delinquencies. Our ACC and JRAS receivables portfolios are liquidating and becoming less significant relative to our better performing CAR portfolios which have significantly lower late stage (60 or more days past due) delinquency and charge-off rates; this fact and a recovering economy accounted for the modest year-over-year general improvement in delinquency statistics through the end of the second quarter of 2012. Because the JRAS and ACC portfolios are now of lesser significance, we do not expect any material further improvements in our delinquency statistics associated with the liquidating nature of these portfolios. Delinquencies have risen somewhat within our CAR receivables portfolio in the third quarter of 2012, and delinquencies as of September 30, 2012 are higher than they were at the end of prior 2012 quarters and at September 30, 2011. However, because we earn significant yields on CAR's receivables and have significant dealer reserves (i.e., retainages or holdbacks on the amount of funding CAR provides to its dealer customers) to protect against credit losses, we are not currently concerned about this rise in delinquencies.

Gross yield ratio, net interest margin and other income ratio. The effects of higher JRAS and ACC delinquencies and charge offs depressed our net interest margin in the fourth quarter of 2010. With the exception of the three months ended March 31, 2012, a general trend line of improving net interest margins is evident relative to comparable prior year periods due in part to the gradual liquidation of the JRAS and ACC receivables portfolios, thereby causing the better-performing CAR portfolio to comprise a greater percentage of average managed auto finance receivables. The terms of our ACC debt facility provide that 37.5% of any cash flows (net of contractual servicing compensation) generated on the ACC auto finance receivables portfolio after repayment of the notes will be allocated to the note holders as additional compensation for the use of their capital. Significant recent improvements in performance of the ACC portfolio have caused us to resume significant accruals of contingent interest expense under the debt facility, and our accrual of \$2.0 million of such additional interest during the three months ended March 31, 2012 caused the decline in our net interest margin relative to the prior quarters' improving net interest margin trend line. This additional interest charge abated modestly in the second quarter of 2012 resulting in a reduction in the amount of contingent interest recorded and providing additional lift to our net interest margin. We do not expect any significant future effects on our net interest margin associated with contingent interest under the ACC portfolio debt facility.

Consistent with our recent experiences, as our ACC and JRAS receivables continue their decline in relative significance as a percentage of our total portfolio of auto finance receivables, the higher gross yields we achieve within our CAR operations generally are expected to continue to result in slightly higher trending gross yield ratios and net interest margins in future quarters relative to comparable prior year quarterly levels.

The principal component of our other income ratio before 2011 was the gross profit that our JRAS buy-here, pay-here operations generated from their auto sales prior to our sale of these operations in February 2011. As such, the other income ratio historically moved in relative tandem with the volume of JRAS's auto sales. Our other income ratio in the first quarter of 2011 reflects the \$4.6 million loss recognized on the sale of our JRAS operating assets in February 2011. Because of the sale of these operations (and the commensurate elimination of the principal source of other income), we expect an insignificant other income ratio for the foreseeable future in line with what we have experienced in 2012 quarters.

Adjusted charge-off ratio and recovery ratio. We generally charge off auto finance receivables when they are between 120 and 180 days past due, unless the collateral is repossessed and sold before that point, in which case we will record a charge off when the proceeds are received. The adjusted charge-off ratio reflects our net charge offs, less credit quality discount accretion with respect to our acquired portfolios. A general trending increase in our adjusted charge-off ratio through the first quarter of 2011, therefore, reflected (1) the passage of time since our acquisition of ACC's Patelco portfolio at a significant purchase price discount to the face amount of the acquired receivables, (2) the adverse macro-economic effects being seen throughout the auto finance industry, and (3) the adverse effects of five 2010 JRAS lot closures and the corresponding negative impact this had on JRAS collections. Because our ACC receivables and the receivables of our JRAS operations that we retained in connection with our sale of our JRAS operations in February 2011 have declined in relative significance as a percentage of our total portfolio of auto finance

receivables and because of significantly improved performance of the ACC and JRAS receivables due both to the aging of the portfolios and some economic recovery and better than expected tax refund seasonal effects, our adjusted charge-off ratio has declined significantly subsequent to the first quarter of 2011. Our CAR receivables, which experience significantly lower charge offs, now comprise a more significant proportion of our average managed auto finance receivables—a factor that not only contributed to the 2011 decline in our adjusted charge-off ratio, but is also expected to result in lower adjusted charge-off ratios in future quarters. Also serving to reduce our second quarter 2011 adjusted charge-off ratio as well as increase our second quarter 2011 recovery ratio was a large sale of repossessed autos at auction related to the receivables of our former JRAS operations, which had accumulated a growing inventory of such vehicles leading into the second quarter of 2011 as well as increased recoveries experienced in our ACC portfolio. A similar increase in recoveries was seen during the fourth quarter of 2011 in our ACC portfolio. We expect our recovery rate to fluctuate modestly from quarter to quarter due to the timing of the sale of repossessed autos, but more importantly, we expect our recovery rate to fall gradually with the declining effects of ACC and JRAS on our operations; CAR experiences significantly lower charge offs and recoveries than experienced in ACC's and JRAS's operations.

Operating ratio. We have experienced a modest general trend line of increasing year-over-year operating ratios, which largely reflects the higher costs of our CAR operations as a percentage of receivables than such operating costs of our ACC and JRAS operations as a percentage of their receivables in prior periods. (Such higher costs correspond with the significantly higher gross yield ratios and net interest margins within our CAR operations as well.) As noted above, our CAR receivables and operating costs now comprise a greater percentage of respective total Auto Finance segment receivables and operating costs given the gradual liquidation of ACC and JRAS receivables. Notwithstanding this general trend line, we do not expect a significantly higher operating ratio for the foreseeable future. The spike in the first quarter of 2012 operating ratio arose due to an impairment charge of \$1.2 million recognized during that quarter associated with unfavorable terms on the sublease of our former ACC offices and certain non-recurring costs we incurred in the collection of our JRAS receivables.

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Future Expectations

Our CAR operations are performing well in the current environment (achieving consistent profitability) and are expected to continue at current levels for the foreseeable future. Generally offsetting these positive results are ACC and JRAS operations, which are expected to modestly depress overall Auto Finance segment results relative to CAR's stand-alone results for 2012. As ACC's and JRAS's receivables gradually liquidate, however, they should have a diminishing adverse effect on the positive results we are experiencing within our CAR operations.

Liquidity, Funding and Capital Resources

We continue to see dislocation in the availability of attractively priced and termed liquidity as a result of the market disruptions that began in 2007. This ongoing disruption has resulted in a decline in liquidity available to sub-prime market participants, including us, wider spreads above the underlying interest indices (typically LIBOR for our borrowings) for the loans that lenders are willing to make, and a decrease in advance rates for those loans.

Although we are hopeful liquidity markets ultimately will return to more traditional levels, we are not able to predict when or if that will occur, and we are managing our business with the assumption that liquidity markets will not return to more traditional levels in the near term. Specifically, we have curtailed or limited growth in many parts of our business and have closed substantially all of our credit card accounts (other than those associated with our U.K. test accounts). To the extent possible given constraints thus far on our ability to reduce expenses at the same rate as our managed receivables are liquidating, we are managing our receivables portfolios with a goal of generating the necessary cash flows over the coming quarters for us to use in de-leveraging our business, while continuing to enhance shareholder value to the greatest extent possible.

All of our Credit Cards and Other Investments segment's structured financing facilities are expected to amortize down with collections on the receivables within their underlying trusts with no bullet repayment requirements or refinancing risks to us. Additionally, with the exception of our new CAR structured finance facility into which we entered in October of 2011 and which does not mature until October 2014, our remaining Auto Finance segment structured financing facilities are likewise expected to amortize down with collections on the receivables that serve as collateral for the facilities with no bullet repayment requirements or refinancing risks to us. Our continuing challenge within our Credit Cards and Other Investments segment is to reduce our overhead cost infrastructure to match our incoming servicing compensation cash flows under our amortizing credit card structured financing facilities, the cash flows we receive from our 50%-owned equity-method investees, and the modest cash flows we are receiving from unencumbered credit card receivables portfolios that have already generated enough cash to allow for the repayment of their underlying structured financing facilities. Furthermore, the values of our credit card receivables that are pledged as collateral against our currently outstanding structured financing facilities could prove insufficient to provide for any residual value that ultimately would be payable to us. In such a case, we could experience further impairments to the recorded value of our credit card receivables, although we note that the recorded value has been substantially written down already leaving significantly less exposure to write-downs in the future.

Our current focus on liquidity has resulted in and will continue to result in growth and profitability trade-offs. For example, as noted throughout this report, we have closed substantially all of our credit card accounts (other than those underlying our test accounts in the U.K.); consequently, each of our managed credit card receivables portfolios is expected to show fairly rapid net liquidations in balances for the foreseeable future.

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At September 30, 2012, we had \$47.9 million in unrestricted cash. Because the characteristics of our assets and liabilities change, liquidity management has been a dynamic process for us affected by the pricing and maturity of our assets and liabilities. We historically have financed our business through cash flows from operations, asset-backed structured financings and the issuance of debt and equity. Details concerning our cash flows for the nine months ended September 30, 2012 are as follow:

- During the nine months ended September 30, 2012, we generated \$26.6 million in cash flows from operations compared to \$93.2 million of cash flows from operations generated during the nine months ended September 30, 2011. The decrease was principally related to (1) lower collections of credit card finance charge receivables in the nine months ended September 30, 2012 relative to the same period in 2011 given diminished receivables levels, (2) the lack of any finance and fee collections associated with our U.K. Internet micro-loan operations in the nine months ended September 30, 2012 given our sale of these operations in April 2011, (3) reduced net liquidations of receivables associated with our JRAS operations in 2012 versus 2011.
- During the nine months ended September 30, 2012, we generated \$162.2 million of cash through our investing activities, compared to generating \$344.2 million of cash in investing activities during the nine months ended September 30, 2011. This decrease is primarily due to the reduced levels of our outstanding investments and the cash returns thereof in 2012 based on the shrinking size our liquidating credit card and auto finance receivable portfolios, as well as the net proceeds we received from the sale of our MEM and JRAS operations during the nine months ended September 30, 2011. Offsetting this decline are net proceeds received during the nine months ended September 30, 2012 from the sale of our sale Investments in Previously Charged-Off Receivables segment, including its balance transfer card operations.
- During the nine months ended September 30, 2012, we used \$286.0 million of cash in financing activities, compared to our use of \$406.6 million of cash in financing activities during the nine months ended September 30, 2011. In both periods, the data reflect net repayments of debt facilities corresponding with net declines in our loans and fees receivable that serve as the underlying collateral for the facilities (principally credit card and auto loans and fees receivable). Beyond the effects of higher 2011 than 2012 repayment levels based on receivables liquidations under our structured financing facilities, the \$105.0 million in proceeds used to repurchase stock in our April 2011 tender offer also contributed to the higher use of cash in financing activities in 2011 compared to our use of \$82.5 million used to repurchase 8,250,000 shares of our common stock at a purchase price of \$10.00 per share in September 2012. These effects were partially offset, however, by the fact that we used only \$31.3 million of cash for convertible senior notes repurchases in the nine months ended September 30, 2011, versus the \$83.5 million we used to repay our 3.625% convertible senior notes upon the exercise of note holder put rights in May 2012.

We note that the \$47.9 million in aggregate September 30, 2012 unrestricted cash mentioned herein represents the sum of all unrestricted cash from among all of our various business subsidiaries.

The most recent global financial crisis differs in key respects from our experiences during other down economic and financing cycles. First, while we had difficulty obtaining asset-backed financing for our originated portfolio activities at attractive advance rates in the last down cycle (2001 through 2003), the credit spreads (above base pricing indices like LIBOR) at that time were not as wide (expensive) as those seen during the recent crisis. Additionally, while we were successful during that down cycle in obtaining asset-backed financing for portfolio acquisitions at attractive advance rates, pricing and other terms, that financing has not been available from traditional market participants since the advent of the most recent crisis. Last and most significant is the adverse impact that the most recent global liquidity crisis has had on the U.S. and worldwide economies (including real estate and other asset values and the labor markets). Unemployment is still significantly higher than during 2001 through 2003 and is forecasted by many economists not to decline in any meaningful way for several more quarters. Lower assets values and higher rates of job loss and levels of unemployment have translated into reduced payment rates within the credit card industry

generally and for us specifically.

Beyond our immediate financing efforts discussed throughout this report, shareholders should expect us to evaluate debt and equity issuances as a means to fund our investment opportunities. We expect to take advantage of any opportunities to raise additional capital if terms and pricing are attractive to us. Any proceeds raised under these efforts or additional liquidity available to us could be used to fund (1) potential portfolio acquisitions, which may represent attractive opportunities for us in the current liquidity environment, (2) further repurchases of our convertible senior notes and common stock, (3) further dividends similar to the one on December 31, 2009, and (4) investments in certain financial and non-financial assets or businesses. Pursuant to a share repurchase plan authorized by our Board of Directors on May 11, 2012, we are authorized to repurchase 10,000,000 shares of our common stock through June 30, 2014.

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Lastly, we note that as of this Report date the only remaining material refunding or refinancing risks to us are those of the CAR financing facility into which we entered in October 2011 and which does not mature until October 2014 and our 5.875% convertible senior notes which are due in November 2035.

## Contractual Obligations, Commitments and Off-Balance-Sheet Arrangements

See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2011. In May of 2012, substantially all of the investors in our 3.625% convertible senior notes exercised then-existing put rights, under which we repaid \$83.5 million in face amount of such notes outstanding at par.

## Commitments and Contingencies

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

## Recent Accounting Pronouncements

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

## Critical Accounting Estimates

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

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

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

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

net collected yield, principal payment rates and expected principal credit loss rates on the credit card receivables that secure the non-recourse notes payable; costs of funds; discount rates; and contractual servicing fees.

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

### Allowance for Uncollectible Loans and Fees

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

### Recognition and Measurements with Respect to Uncertain Tax Positions

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

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

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

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## Related Party Transactions

In our September 2012 tender offer, we purchased the following shares from our executive officers, members of our Board of Directors, and a 10-percent shareholder at \$10 per share:

|                                                                            | Number of<br>Shares | Total Price  |
|----------------------------------------------------------------------------|---------------------|--------------|
| <b>Executive Officers</b>                                                  |                     |              |
| David G. Hanna, Chief Executive Officer and Chairman of the Board          | 2,344,323           | \$23,443,230 |
| Richard R. House, Jr., President and Director                              | 100,240             | \$1,002,400  |
| Richard W. Gilbert, Chief Operating Officer and Vice Chairman of the Board | 212,023             | \$2,120,230  |
| J.Paul Whitehead, III, Chief Financial Officer                             | 49,949              | \$499,490    |
| <b>Board Members</b>                                                       |                     |              |
| Deal W. Hudson                                                             | 18,700              | \$187,000    |
| Mack F. Mattingly                                                          | 20,726              | \$207,260    |
| Thomas G. Rosencrants                                                      | 16,172              | \$161,720    |
| <b>10% Shareholder</b>                                                     |                     |              |
| Frank J. Hanna, III                                                        | 2,344,324           | \$23,443,240 |

In our April 2011 tender offer, we purchased the following shares from our executive officers and then-members of our Board of Directors at \$8 per share:

|                                                                            | Number of<br>Shares | Total Price  |
|----------------------------------------------------------------------------|---------------------|--------------|
| <b>Executive Officers</b>                                                  |                     |              |
| David G. Hanna, Chief Executive Officer and Chairman of the Board          | 3,656,028           | \$29,248,224 |
| Richard R. House, Jr., President and Director                              | 202,610             | \$1,620,880  |
| Richard W. Gilbert, Chief Operating Officer and Vice Chairman of the Board | 330,654             | \$2,645,232  |
| J.Paul Whitehead, III, Chief Financial Officer                             | 23,984              | \$191,872    |
| <b>Board Members</b>                                                       |                     |              |
| Frank J. Hanna, III                                                        | 3,656,028           | \$29,248,224 |
| Deal W. Hudson                                                             | 19,231              | \$153,848    |
| Mack F. Mattingly                                                          | 20,974              | \$167,792    |
| Thomas G. Rosencrants                                                      | 13,871              | \$110,968    |
| Gregory J. Corona                                                          | 29,574              | \$236,592    |

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

In June 2007 we entered into a sublease for 1,000 square feet of excess office space at our Atlanta headquarters office location, to HBR Capital, Ltd., a corporation co-owned by David G. Hanna and Frank J. Hanna, III. The sublease rate of \$24.30 per square foot is the same as the rate that we pay on the prime lease. This sublease expires in May of 2022.



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Forward-Looking Information

We make forward-looking statements in this report and in other materials we file with the SEC or otherwise make public. This Item 2, “Management’s Discussion and Analysis of Financial Conditions and Results of Operations,” of this report contains forward-looking statements. In addition, our senior management might make forward-looking statements to analysts, investors, the media and others. Statements with respect to potential receipt of contingent consideration from the sale of our Investments in Previously Charged-Off Receivables segment, expected revenue, income, receivables, income ratios, net interest margins, acquisitions and other growth opportunities, divestitures and discontinuations of businesses, loss exposure and loss provisions, delinquency and charge-off rates, impacts of account actions we may take or have taken, changes in collection programs and practices, changes in the credit quality and fair value of our credit card loans and fees receivable and the fair value of their underlying structured financing facilities, the impact of actions by the Federal Deposit Insurance Corporation (“FDIC”), Federal Trade Commission (“FTC”), Consumer Financial Protection Bureau (“CFPB”) and other regulators on both us and banks that issue credit cards on our behalf, account growth, the performance of investments that we have made, operating expenses, the impact of bankruptcy law changes, marketing plans and expenses, the performance of our Auto Finance segment, growth and performance of receivables originated over the Internet, our plans in the U.K., the impact of our U.K. Portfolio on our financial performance, sufficiency of available liquidity, the prospect for improvements in the liquidity markets, future interest costs, sources of funding operations and acquisitions, our entry into international markets, our ability to raise funds or renew financing facilities, results associated with our equity-method investees, our servicing income levels, gains and losses from investments in securities, experimentation with new products and other statements of our plans, beliefs or expectations are forward-looking statements. These and other statements using words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “target,” “can,” “could,” “may,” “would” and similar expressions also are forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. The forward-looking statements we make are not guarantees of future performance, and we have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels.

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

- the extent to which federal, state, local and foreign governmental regulation of our various business lines and products limits or prohibits the operation of our businesses;
  - current and future litigation and regulatory proceedings against us;
- the effect of adverse economic conditions on our revenues, loss rates and cash flows;
- the fragmentation of our industry and competition from various other sources providing similar financial products, or other alternative sources of credit, to consumers;
  - the adequacy of our allowances for uncollectible loans and fees receivable and estimates of loan losses;
  - the availability of adequate financing;

- the possible impairment of assets;
- our ability to reduce or eliminate overhead and other costs to lower levels consistent with the contraction of our loans and fees receivable and other income-producing assets;
- our relationship with the banks that provide certain services that are needed to operate our businesses; and