CompuCredit Holdings Corp
Form 10-Q
May 12, 2011

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

For the quarterly period ended March 31, 2011

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. CompuCredit Holdings Corporation is not yet required to file Interactive Data Files.

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

As of April 30, 2011, 22,716,447 shares of common stock, no par value, of the registrant were outstanding. (This excludes 2,252,388 loaned shares to be returned as of that date.)

Table of Contents

COMPUCREDIT HOLDINGS CORPORATION
FORM 10-Q
TABLE OF CONTENTS

Table of Contents

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

	March 31, 2011 (unaudited)	December 31, 2010
Assets		
Unrestricted cash and cash equivalents	$ 106,521	$ 68,931
Restricted cash and cash equivalents	40,276	36,023
Loans and fees receivable:		
Loans and fees receivable, net (of $5,372 and $4,591 in deferred revenue and $7,903 and $9,282 in allowances for uncollectible loans and fees receivable at March 31, 2011 and December 31, 2010, respectively)	42,804	50,805
Loans and fees receivable pledged as collateral under structured financings, net (of $13,453 and $15,912 in deferred revenue and $20,272 and $28,340 in allowances for uncollectible loans and fees receivable at March 31, 2011 and December 31, 2010, respectively)	99,047	118,801
Loans and fees receivable, at fair value	8,953	12,437
Loans and fees receivable pledged as collateral under structured financings, at fair value	415,078	373,155
Investments in previously charged-off receivables	22,882	29,889
Investments in securities	9,516	64,317
Deferred costs, net	2,937	3,151
Property at cost, net of depreciation	10,431	15,893
Investments in equity-method investees	56,287	8,279
Intangibles, net	2,312	2,378
Prepaid expenses and other assets	19,082	16,591
Assets held for sale	71,261	80,259
Total assets	$ 907,387	$ 880,909
Liabilities		
Accounts payable and accrued expenses	$ 46,419	$ 50,861
Notes payable associated with structured financings, at face value	80,910	96,905
Notes payable associated with structured financings, at fair value	399,256	370,544
Convertible senior notes (Note 9)	219,064	229,844
Deferred revenue	1,298	1,413
Income tax liability	60,787	60,411
Liabilities related to assets held for sale	8,727	9,114
Total liabilities	816,461	819,092
Commitments and contingencies (Note 10)		
Equity		
Common stock, no par value, 150,000,000 shares authorized: 45,982,313 shares issued and 38,093,835 shares outstanding at March 31, 2011 (including 2,252,388 loaned shares to be returned); and 46,217,050 shares issued and 37,997,708 shares outstanding at December 31, 2010 (including 2,252,388 loaned shares to be returned)	—	—
Additional paid-in capital	412,223	408,751
Treasury stock, at cost, 7,888,478 and 8,219,342 shares at March 31, 2011 and December 31, 2010, respectively	(194,355)	(208,696)
Accumulated other comprehensive loss	(3,748)	(5,608)

Retained deficit	(134,885)	(151,609)
Total shareholders’ equity (Note 2)	79,235	42,838
Noncontrolling interests (Note 2)	11,691	18,979
Total equity	90,926	61,817
Total liabilities and equity (Note 2)	$ 907,387	$ 880,909

See accompanying notes.

Table of Contents

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

	For the Three Months Ended March 31,	
	2011	2010
Interest income:	(unaudited)	
Consumer loans, including past due fees	$42,624	$84,188
Other	322	22
Total interest income	42,946	84,210
Interest expense	(11,951)	(17,633)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	30,995	66,577
Fees and related income on earning assets	76,408	107,921
Losses upon charge off of loans and fees receivable recorded at fair value	(52,848)	(152,047)
Provision for losses on loans and fees receivable recorded at net realizable value	(3,963)	(16,349)
Net interest income, fees and related income on earning assets	50,592	6,102
Other operating income (loss):		
Servicing income	966	2,019
Ancillary and interchange revenues	2,502	3,231
Gain on repurchase of convertible senior notes	268	13,896
Gain on buy-out of equity-method investee members	619	—
Equity in income (loss) of equity-method investees	18,304	(280)
Total other operating income	22,659	18,866
Other operating expense:		
Salaries and benefits	6,562	10,687
Card and loan servicing	27,011	39,128
Marketing and solicitation	1,061	1,499
Depreciation	2,219	3,167
Other	11,403	15,652
Total other operating expense	48,256	70,133
Income (loss) from continuing operations before income taxes	24,995	(45,165)
Income tax (expense) benefit	(274)	255
Income (loss) from continuing operations	24,721	(44,910)
Discontinued operations:		
Income from discontinued operations before income taxes	7,344	5,094
Income tax expense	(2,312)	(1,314)
Income from discontinued operations	5,032	3,780
Net income (loss)	29,753	(41,130)
Net income attributable to noncontrolling interests (including $1,131 and $737 of income associated with noncontrolling interests in discontinued operations in 2011 and 2010, respectively)	(1,298)	(1,651)
Net income (loss) attributable to controlling interests	$28,455	$(42,781)
Income (loss) from continuing operations attributable to controlling interests per common share—basic	$0.69	$(0.95)
Income (loss) from continuing operations attributable to controlling interests per common share—diluted	$0.68	$(0.95)
	$0.11	$0.06

Income from discontinued operations attributable to controlling interests per common share—basic		
Income from discontinued operations attributable to controlling interests per common share—diluted	$0.11	$0.06
Net income (loss) attributable to controlling interests per common share—basic	$0.80	$(0.89)
Net income (loss) attributable to controlling interests per common share—diluted	$0.79	$(0.89)

See accompanying notes.

Table of Contents

CompuCredit Holdings Corporation and Subsidiaries
Consolidated Statement of Shareholders' Equity
For the Three Months Ended March 31, 2011 (Unaudited)
(Dollars in thousands)

	Common Stock Shares Issued	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Deficit	Noncontrolling Interests	Comprehensive Income	Total Equity
Balance at December 31, 2010	46,217,050	$ —	$ 408,751	$ (208,696)	$ (5,608)	$ (151,609)	$ 18,979		$ 61,817
Use of treasury stock for stock-based compensation plans	(270,414)	—	(3,386)	15,117	—	(11,731)	—		—
Issuance of restricted stock	35,677	—	—	—	—	—	—		—
Amortization of deferred stock-based compensation costs	—	—	1,682	—	—	—	—		1,682
Purchase of treasury stock	—	—	—	(776)	—	—	—		(776)
Repurchase of noncontrolling interests	—	—	5,209	—	—	—	(9,186)		(3,977)
Contributions by owners of noncontrolling interests	—	—	—	—	—	—	600		600
Net income	—	—	—	—	—	28,455	1,298	$ 29,753	29,753
Foreign currency translation adjustment, net of tax	—	—	(33)	—	1,860	—	—	1,860	1,827
Comprehensive income	—	—	—	—	—	—	—	$ 31,613	—
Balance at March 31, 2011	45,982,313	$ —	$ 412,223	$ (194,355)	$ (3,748)	$ (134,885)	$ 11,691		$ 90,926

See accompanying notes.

Table of Contents

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

	For the Three Months Ended March 31,	
	2011	2010
Net income (loss)	$29,753	$(41,130)
Other comprehensive income (loss):		
Foreign currency translation adjustment	1,905	(2,348)
Income tax (expense) benefit related to other comprehensive income	(45)	3
Comprehensive income (loss)	31,613	(43,475)
Comprehensive income attributable to noncontrolling interests	(1,298)	(1,651)
Comprehensive income (loss) attributable to controlling interests	$30,315	$(45,126)

See accompanying notes.

Table of Contents

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

	For the Three Months Ended March 31, 2011	2010
Operating activities		
Net income (loss)	$29,753	$(41,130)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and accretion, net	2,768	3,496
Losses upon charge off of loans and fees receivable recorded at fair value	48,090	152,047
Provision for losses on loans and fees receivable	15,356	21,367
Accretion of discount on convertible senior notes	1,835	2,689
Stock-based compensation expense	1,682	3,442
Unrealized gain on loans and fees receivable and underlying notes payable held at fair value	(48,659)	(73,506)
Unrealized loss (gain) on trading securities	192	(60)
Gain on repurchase of convertible senior notes	(268)	(13,896)
Income (loss) on equity-method investments	(18,304)	280
Gain on buy-out of equity-method investee members	(619)	—
Changes in assets and liabilities, exclusive of business acquisitions:		
(Increase) decrease in uncollected fees on non-securitized earning assets	(2,985)	1,167
Decrease in JRAS auto loans receivable	4,549	8,689
(Decrease) increase in tax liability	(2,206)	97,879
Decrease in prepaid expenses	3	4,933
(Decrease) increase in accounts payable and accrued expenses	(623)	1,900
Other	(2,209)	4,074
Net cash provided by operating activities	28,355	173,371
Investing activities		
Increase in restricted cash	(2,765)	(36,629)
Investment in equity-method investees	(34,336)	—
Proceeds from equity-method investees	4,002	1,870
Investments in earning assets	(235,863)	(286,902)
Proceeds from earning assets	370,044	303,346
Net cash associated with newly acquired consolidated subsidiaries	2,781	—
Purchases and development of property, net of disposals	(533)	307
Net cash provided by (used in) investing activities	103,330	(18,008)
Financing activities		
Noncontrolling interests contributions (distributions), net	600	(231)
Purchase of treasury stock	(776)	(391)
Purchases of noncontrolling interests	(4,042)	(7,535)
Proceeds from borrowings	9,697	1,186
Repayment of borrowings	(109,820)	(139,194)
Net cash used in financing activities	(104,341)	(146,165)
Effect of exchange rate changes on cash	1,171	(1,278)
Net increase in unrestricted cash	28,515	7,920
Unrestricted cash and cash equivalents at beginning of period	85,350	185,019
Unrestricted cash and cash equivalents at end of period	$113,865	$192,939

Supplemental cash flow information		
Effect of adoption of accounting pronouncements on restricted cash	$—	$(14,082)
Unrestricted cash included in assets held for sale	$7,344	$—
Cash paid for interest	$11,079	$15,512
Net cash income tax payments (refunds)	$4,832	$(96,824)
Supplemental non-cash information		
Notes payable associated with capital leases	$—	$856
Issuance of stock options and restricted stock	$303	$1,127

See accompanying notes.

Table of Contents

CompuCredit Holdings Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2011

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. In the opinion of management, all normal recurring adjustments considered necessary to fairly state the results for the interim periods presented have been included.

The preparation of consolidated financial statements in conformity with GAAP requires management 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 the yields earned on credit card receivables significantly affect the reported amount of two categories of credit card receivables that we report at fair value and our notes payable associated with structured financings, at fair value, as reported on our consolidated balance 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, have a significant effect on two categories of such loans and fees receivable, net, that we show on our consolidated balance sheets, as well as on the provision for losses on loans and fees receivable within our consolidated statements of operations. Operating results for the three months ended March 31, 2011 are not indicative of what our results will be for the year ending December 31, 2011.

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

In accordance with applicable accounting literature, we have classified the net assets and liabilities of our Month End Money ("MEM") business operations as held for sale in our consolidated balance sheets and as discontinued operations within our consolidated statements of operations. On April 1, 2011, we completed the planned sale of these operations to Dollar Financial Corp for $195.0 million. We received net pre-tax proceeds of $170.7 million after the purchase of minority shares and other transaction-related expenditures, and inclusive of MEM's excess working capital that was returned to us prior to completion of the transaction under the terms of the sales contract.

In connection with our consideration of a potential spin-off of our United States ("U.S.") and United Kingdom ("U.K.") micro-loan businesses, one of our subsidiaries, Purpose Financial Holdings, Inc. ("Purpose Financial"), filed a Form 10 Registration Statement and a related Information Statement with the SEC on January 4, 2010 and amended the Form 10 Registration Statement and related Information Statement in response to SEC comments most recently on November 30, 2010. On April 13, 2011, we formally requested the withdrawal of this registration statement due to the completion of our MEM sale.

2. Significant Accounting Policies and Consolidated Financial Statement Components

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

Loans and Fees Receivable, Net. Our two categories of loans and fees receivable, net, currently consist of receivables carried at net realizable value associated with our U.S. retail and Internet micro-loan activities, credit card accounts opened under our Investment in Previously Charged-off Receivables segment's balance transfer program, and our current and former auto finance businesses (the receivables of our auto finance businesses being separately categorized as pledged as collateral for non-recourse asset-backed structured financing facilities). Our balance transfer program receivables are included as a component of our Credit Card segment data and aggregated $14.1 million (net of allowances for uncollectible loans and fees receivable and deferred revenue) or 2.5% of our

Table of Contents

consolidated loans and fees receivable (net or at fair value) as of March 31, 2011. 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.

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

	Balance at December 31, 2010	Additions	Subtractions	Balance at March 31, 2011
Loans and fees receivable, gross	$ 227.7	$ 143.4	$ (182.2)	$ 188.9
Deferred revenue	(20.5)	(16.7)	18.4	(18.8)
Allowance for uncollectible loans and fees receivable	(37.6)	(4.0)	13.4	(28.2)
Loans and fees receivable, net	$ 169.6	$ 122.7	$ (150.4)	$ 141.9

	Balance at December 31, 2009	Additions	Subtractions	Balance at March 31, 2010
Loans and fees receivable, gross	$ 379.7	$ 245.1	$ (288.8)	$ 336.0
Deferred revenue	(40.9)	(27.6)	33.0	(35.5)
Allowance for uncollectible loans and fees receivable	(53.4)	(20.0)	22.6	(50.8)
Loans and fees receivable, net	$ 285.4	$ 197.5	$ (233.2)	$ 249.7

As of March 31, 2011 and 2010, the weighted average remaining accretion periods for the $18.8 million and $35.5 million, respectively, of deferred revenue reflected in the above tables were 13.5 and 24.0 months, respectively.

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

For the Three Months Ended March 31, 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	(0.3)	(3.5)	(0.1)	(0.1)	(4.0)
Charge offs	1.6	4.2	9.0	—	14.8
Recoveries	(0.3)	(0.2)	(1.6)	—	(2.1)
Sale of assets	—	—	0.7	—	0.7
Balance at end of period	$ (3.0)	$ (4.7)	$ (20.3)	$ (0.2)	$ (28.2)
Balance at end of period individually evaluated for impairment	$ —	$ —	$ (0.4)	$ —	$ (0.4)
Balance at end of period collectively evaluated for impairment	$ (3.0)	$ (4.7)	$ (19.9)	$ (0.2)	$ (27.8)
Loans and fees receivable:					
Loans and fees receivable, gross	$ 17.2	$ 38.1	$ 132.8	$ 0.8	$ 188.9
Loans and fees receivable individually evaluated for impairment	$ —	$ —	$ 1.1	$ —	$ 1.1

Loans and fees receivable collectively evaluated for impairment	$17.2	$ 38.1	$131.7	$0.8	$187.8

Table of Contents

For the Three Months Ended March 31, 2010	Credit Cards	Micro-Loans	Auto Finance	Other	Total
Allowance for uncollectible loans and fees receivable:					
Balance at beginning of period	$(5.0)	$ (10.0)	$(38.4)	$—	$(53.4)
Provision for loan losses	(1.0)	(7.4)	(11.6)	—	(20.0)
Charge offs	1.9	8.2	15.1	—	25.2
Recoveries	(0.5)	(0.3)	(1.8)	—	(2.6)
Balance at end of period	$(4.6)	$ (9.5)	$(36.7)	$—	$(50.8)
Balance at end of period individually evaluated for impairment	$—	$ —	$(2.0)	$—	$(2.0)
Balance at end of period collectively evaluated for impairment	$(4.6)	$ (9.5)	$(34.7)	$—	$(48.8)
Loans and fees receivable:					
Loans and fees receivable, gross	$17.8	$ 66.7	$251.5	$—	$336.0
Loans and fees receivable individually evaluated for impairment	$—	$ —	$12.9	$—	$12.9
Loans and fees receivable collectively evaluated for impairment	$17.8	$ 66.7	$238.6	$—	$323.1

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

	For the Period Ended	
	March 31, 2011	December 31, 2010
Current loans receivable	$160.3	$189.9
Current fees receivable	7.6	7.7
Delinquent loans and fees receivable	21.0	30.1
Loans and fees receivable, gross	$188.9	$227.7

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 90 days from the point they become delinquent for our micro-loan receivables, 180 days from the point they become delinquent for our auto finance and credit card receivables, or sooner if facts and circumstances earlier indicate non-collectability. Recoveries on accounts previously charged off effectively offset our provision for loan losses in our accompanying consolidated statements of operations.

Table of Contents

An aging of our delinquent loans and fees receivable, gross (in millions) as of March 31, 2011 and December 31, 2010 is as follows:

As of March 31, 2011	Credit Cards	Micro-Loans	Auto Finance	Other	Total
0-30 days past due	$0.4	$ 3.6	$6.4	$—	$10.4
31-60 days past due	0.4	2.6	2.7	—	5.7
61-90 days past due	1.4	1.6	1.9	—	4.9
Delinquent loans and fees receivable, gross	$2.2	$ 7.8	$11.0	$—	$21.0
Current loans and fees receivable, gross	15.0	30.3	121.8	0.8	167.9
Total loans and fees receivable, gross	$17.2	$ 38.1	$132.8	$0.8	$188.9
Balance of loans greater than 90-days delinquent still accruing interest and fees	$—	$ —	$1.3	$—	$1.3

As of December 31, 2010	Credit Cards	Micro-Loans	Auto Finance	Other	Total
0-30 days past due	$0.8	$ 3.6	$11.6	$—	$16.0
31-60 days past due	0.7	2.2	4.3	—	7.2
61-90 days past due	1.8	1.4	3.7	—	6.9
Delinquent loans and fees receivable, gross	$3.3	$ 7.2	$19.6	$—	$30.1
Current loans and fees receivable, gross	15.4	38.4	143.5	0.3	197.6
Total loans and fees receivable, gross	$18.7	$ 45.6	$163.1	$0.3	$227.7
Balance of loans greater than 90-days delinquent still accruing interest and fees	$—	$ —	$2.7	$—	$2.7

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 Ended March 31, 2011	2010
Unrecovered balance at beginning of period	$29,889	$29,669
Acquisitions of defaulted accounts	3,024	3,597
Cash collections	(20,628)	(14,581)
Cost-recovery method income recognized on defaulted accounts (included as a component of fees and related income on non-securitized earning assets on our consolidated statements of operations)	10,597	7,300
Unrecovered balance at end of period	$22,882	$25,985

Previously charged-off receivables held as of March 31, 2011 are comprised principally of: normal delinquency charged-off accounts; charged-off accounts associated with Chapter 13 Bankruptcy-related debt; and charged-off accounts acquired through our Investments in Previously Charged-Off Receivables segment's balance transfer program prior to such time as credit cards are issued relating to the program's underlying accounts. At March 31, 2011, $7.1 million of our investments in previously charged-off receivables balance was comprised of previously charged-off receivables that our Investments in Previously Charged-Off Receivables segment purchased from our other consolidated subsidiaries, and in determining our net income or loss as reflected on our consolidated statements of operations, we eliminate all material intercompany profits that are associated with these transactions. Although we eliminate all intercompany profits associated with these purchases, we do not eliminate the corresponding purchases from our consolidated balance sheet categories so as to better reflect the ongoing business operations of each of our reportable segments and because the amounts represent just 0.8% of our consolidated total assets.

Table of Contents

We estimate the life of each pool of previously charged-off receivables acquired by us generally to be between 60 months for normal delinquency charged-off accounts and approximately 84 months for Chapter 13 Bankruptcies. Our estimated remaining collections on the $22.9 million unrecovered balance of our investments in previously charged-off receivables as of March 31, 2011 amount to $127.5 million, of which we expect to collect 43.5% over the next 12 months, with the balance to be collected thereafter.

Investments in Securities

The carrying values (in thousands) of our investments in debt and equity securities are as follows:

	As of	
	March 31, 2011	December 31, 2010
Held to maturity:		
Investments in non-marketable debt securities	$2,482	$2,414
Available for sale:		
Investments in non-marketable debt securities	4,942	4,087
Investments in non-marketable equity securities	1,500	1,500
Trading:		
Investments in marketable debt securities	250	55,770
Investments in marketable equity securities	342	546
Total investments in securities	$9,516	$64,317

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 investment in a 33.3%-owned limited liability company made during the fourth quarter of 2004. We also use the equity method to account for our March 2011 investment to acquire a 50.0% interest in a joint venture that purchased all of the outstanding notes issued out of our structured financing trust underlying our U.K. portfolio of credit card receivables (the "U.K. Portfolio"). We record our respective interests in the income or losses of our equity-method investees within the equity in loss of equity-method investees category on our consolidated statements of operations. The carrying amount of our equity-method investments is recorded on our consolidated balance sheets as investments in equity-method investees.

In January 2011, we acquired an additional 47.5% interest in a 47.5% 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 the assets and liabilities of this entity should now be consolidated within our consolidated balance sheets.

Income Taxes

Our overall effective tax rates (computed considering results for only continuing operations before income taxes) were 1.1% (expense) and 0.6% (benefit) in the three months ended March 31, 2011 and 2010, respectively. 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 decreased valuation allowances against income statement-oriented federal, foreign and state deferred tax assets. Computed without regard to the effects of the valuation allowance changes, it is more likely than not that our effective tax rates would have been 38.3% and 33.9% in the three months ended March 31, 2011 and 2010, respectively.

We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized $0.5 million and $0.6 million in potential interest and penalties associated with uncertain tax positions during the three months ended March 31, 2011 and 2010, respectively. To the extent such interest and penalties are not assessed as a result of a resolution of the underlying tax position, amounts accrued will be reduced and reflected as a reduction of income tax expense; we experienced no such reduction in either of the three months ended March 31, 2011 and 2010.

Table of Contents

Fees and Related Income on Earning Assets

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

	For the Three Months Ended March 31,	
	2011	2010
Retail micro-loan fees	$17,186	$18,187
Internet micro-loan fees	552	269
Fees on credit card receivables held on balance sheet	3,208	9,590
Changes in fair value of loans and fees receivable recorded at fair value (1)	130,003	40,910
Changes in fair value of notes payable associated with structured financings recorded at fair value	(81,344)	32,596
Income on investments in previously charged-off receivables	10,597	7,300
Gross loss on auto sales	(125)	(1,522)
Gains on investments in securities	132	60
Loss on sale of JRAS assets	(4,648)	—
Other	847	531
Total fees and related income on earning assets	$76,408	$107,921

(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 9, "Fair values of Assets and Liabilities," for further discussion of these receivables and their effects on our consolidated statements of operations.

Subsequent Events

We evaluate subsequent events that have occurred 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, and based on our evaluation, we did not identify any recognized or nonrecognized subsequent events that would have required adjustments to our consolidated financial statements.

On December 31, 2010, we entered into an agreement to sell our subsidiary with a controlling interest in MEM. The transaction closed in April 2011.

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. These shares were subsequently retired.

3. Discontinued Operations

On December 31, 2010, we entered into an agreement to sell our subsidiary with a controlling interest in MEM. The transaction closed in April 2011. In accordance with applicable accounting literature, we have classified MEM's net assets as held for sale on our consolidated balance sheets and have reflected its operating results as discontinued operations for all periods presented.

11

Table of Contents

The following tables reflect (in thousands) the components of our discontinued operations:

	For the Three Months Ended March 31,	
	2011	2010
Net interest income, fees and related income on non-securitized earning assets	$20,793	$13,959
Other operating expense	13,449	8,865
Income before income taxes	7,344	5,094
Income tax expense	(2,312)	(1,314)
Net income	$5,032	$3,780
Net income attributable to noncontrolling interests	$1,131	$737

The table below presents the components (in thousands) of our consolidated balance sheet accounts classified as assets held for sale and liabilities related to assets held for sale:

	As of March 31, 2011	December 31, 2010
Assets held for sale:		
Unrestricted cash and cash equivalents	$7,344	$16,419
Loans and fees receivable, net (of $5,272 and $5,218 in deferred revenue and $8,776 and $8,465 of allowances for uncollectible loans and fees receivable as of March 31, 2011 and December 31, 2010, respectively)	33,253	32,786
Property at cost, net of depreciation	6,062	6,506
Prepaid expenses and other assets	756	1,537
Goodwill	23,846	23,011
Total assets held for sale	$71,261	$80,259
Liabilities related to assets held for sale:		
Accounts payable and accrued expenses	$5,293	$2,348
Income tax liability	3,434	6,766
Total liabilities related to assets held for sale	$8,727	$9,114

4. Segment Reporting

We operate primarily within one industry consisting of five reportable segments by which we manage our business. Our five reportable segments are: Credit Cards; Investments in Previously Charged-Off Receivables; Retail Micro-Loans; Auto Finance; and Internet Micro-Loans. In March 2010, we acquired all of the noncontrolling interests in our Investments in Previously Charged-Off Receivables segment for $1.0 million, such that we now own 100% of this segment. Similarly, in February 2011, we purchased substantially all of the noncontrolling interests in our Credit Cards segment majority-owned subsidiaries for $4.1 million.

Table of Contents

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

Three Months Ended March 31, 2011	Credit Cards	Investments in Previously Charged-Off Receivables	Retail Micro-Loans	Auto Finance	Internet Micro-Loans	Total
Net interest income, fees and related income on earning assets	$ 22,893	$ 10,515	$ 14,063	$ 2,888	$ 233	$ 50,592
Total other operating income	$ 21,824	$ 706	$ —	$ 129	$ —	$ 22,659
Income (loss) from continuing operations before income taxes	$ 24,533	$ 3,399	$ 1,533	$ (3,566)	$ (904)	$ 24,995
Income on discontinued operations before income taxes	$ —	$ —	$ —	$ —	$ 7,344	$ 7,344
Loans and fees receivable, gross	$ 17,998	$ —	$ 36,887	$ 132,772	$ 1,194	$ 188,851
Loans and fees receivable, net	$ 14,708	$ —	$ 27,379	$ 99,047	$ 717	$ 141,851
Loans and fees receivable held at fair value	$ 424,031	$ —	$ —	$ —	$ —	$ 424,031
Total assets	$ 664,489	$ 37,493	$ 42,109	$ 87,607	$ 75,689	$ 907,387

Three Months Ended March 31, 2010	Credit Cards	Investments in Previously Charged-Off Receivables	Retail Micro-Loans	Auto Finance	Internet Micro-Loans	Total
Net interest income, fees and related income (loss) on earning assets	$ (12,689)	$ 7,160	$ 15,733	$ (4,274)	$ 172	$ 6,102
Total other operating income	$ 18,357	$ 379	$ —	$ 130	$ —	$ 18,866
(Loss) income from continuing operations before income taxes	$ (33,801)	$ 981	$ 2,316	$ (14,527)	$ (134)	$ (45,165)
Income on discontinued operations before income taxes	$ —	$ —	$ —	$ —	$ 5,094	$ 5,094
Loans and fees receivable, gross	$ 17,730	$ —	$ 33,207	$ 251,542	$ 33,481	$ 335,960
Loans and fees receivable, net	$ 13,143	$ —	$ 27,631	$ 185,263	$ 23,639	$ 249,676
Loans and fees receivable held at fair value	$ 681,917	$ —	$ —	$ —	$ —	$ 681,917
Total assets	$ 1,043,573	$ 30,571	$ 61,850	$ 208,875	$ 63,034	$ 1,407,903

5. Shareholders' Equity

Retired Shares

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. These shares were subsequently retired.

We exclude all retired shares from our outstanding share counts. Also, as of March 31, 2010, we had 2,252,388 loaned shares outstanding.

Table of Contents

Treasury Stock

At our discretion, we use treasury shares to satisfy option exercises and restricted stock and restricted stock units vesting, and we use the cost approach when accounting for the repurchase and reissuance of our treasury stock. We reissued treasury shares totaling 452,567 during the three months ended March 31, 2011 and 383,476 during the three months ended March 31, 2010 at gross costs of $15.1 million and $6.3 million, respectively, in satisfaction of option exercises and vested restricted stock. We also effectively purchased shares totaling 121,703 during the three months ended March 31, 2011 and 89,287 during the three months ended March 31, 2010 at gross costs of $0.8 million and $0.4 million, respectively, by having employees who were exercising options or vesting in their restricted stock grants exchange a portion of their stock for our payment of required minimum tax withholdings.

6. Investments in Equity-Method Investees

Our equity-method investments outstanding at March 31, 2011 consist of our fourth quarter 2004 purchase of a 33.3% interest in a joint venture ("Transistor") and our March 2011 investment in a 50.0%-owned joint venture that purchased the outstanding notes issued out of our U.K. Portfolio structured financing trust. The 50%-owned joint venture elected under the fair value option 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 at March 31, 2011 over the joint venture's discounted purchase price of the notes.

In January 2011, we acquired an additional 47.5% interest in a 47.5% 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, thereby leading us to conclude that we should consolidate the assets and liabilities of this entity within our consolidated balance sheets.

In the following tables, we summarize (in thousands) combined balance sheet and results of operations data for our equity-method investees (including 2010 results of operations data for the above-mentioned 47.5% interest while we held it in equity-method investee form prior to our January 2011 purchase of a controlling interest):

	As of	
	March 31, 2011	December 31, 2010
Loans and fees receivable pledged as collateral under structured financings, at fair value	$103,924	$130,171
Investments in non-marketable debt securities, at fair value	$93,302	$—
Total assets	$211,605	$143,110
Notes payable associated with structured financings, at fair value	$92,264	$118,057
Total liabilities	$92,911	$118,941
Members' capital	$118,694	$24,169

Table of Contents

	For the Three Months Ended March 31,	
	2011	2010
Net interest income, fees and related income on earning assets	$37,675	$390
Fees and related loss on securitized earning assets	$—	$—
Total other operating income	$87	$1,419
Net income (loss)	$36,272	$(2,447)

Included in the above tables is our aforementioned March 2011 investment in a 50.0%-owned joint venture that purchased the outstanding notes issued out of our U.K. Portfolio structured financing trust. Separate financial data for this entity are as follows:

	As of March 31, 2011
Investments in non-marketable debt securities, at fair value	$93,302
Total assets	$98,069
Total liabilities	$105
Members' capital	$97,964

	For the Three Months Ended March 31, 2011
Net interest income, fees and related income on earning assets	$34,409
Net income	$34,303

7. Goodwill and Intangible Assets

Goodwill

As of both March 31, 2011 and December 31, 2010, we showed no goodwill balances on our consolidated balance sheets. Goodwill amounts attributable to our MEM discontinued operations are included within assets held for sale on our consolidated balance sheets, and as noted previously, we completed our sale of MEM's discontinued operations on April 1, 2011.

Table of Contents

Intangible Assets

We had $2.1 million of remaining intangible assets that we determined had an indefinite benefit period as of both March 31, 2011 and December 31, 2010. The net unamortized carrying amount of intangible assets subject to amortization was $0.2 million and $0.3 million as of March 31, 2011 and December 31, 2010, respectively. Intangible asset-related amortization expense was $0.1 million for both the three months ended March 31, 2011 and 2010.

8. Fair Values of Assets and Liabilities

Because we account for the credit card receivables underlying our formerly off-balance-sheet securitization trusts at fair value, accounting rules that required the consolidation of these securitization trusts effective January 1, 2010 also required that we account for any debt underlying and secured by our formerly securitized credit card receivables at fair value effective as of January 1, 2010.

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 as of March 31, 2011 and December 31, 2010 by fair value hierarchy:

Assets – As of March 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets Measured at Fair Value
Investment securities—trading	$ 592	$ —	$ —	$ 592
Loans and fees receivable, at fair value	$ —	$ —	$ 8,953	$ 8,953
Loans and fees receivable pledged as collateral under structured financings, at fair value	$ —	$ —	$ 415,078	$ 415,078

Assets – As of December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets Measured at Fair Value
Investment securities—trading	$ 56,316	$ —	$ —	$ 56,316
Loans and fees receivable, at fair value	$ —	$ —	$ 12,437	$ 12,437
Securitized earning assets	$ —	$ —	$ 373,155	$ 373,155

Table of Contents

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." For our Level 1 assets in the above table, total realized net gains were $0.4 million and $0.0 million for the three months ended March 31, 2011 and 2010, 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 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 three-month periods ended March 31, 2011 and 2010:

	Loans and Fees Receivable, at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings, at Fair Value	Securitized Earning Assets	Total
Balance at December 31, 2009	$ 42,299	$ —	$ 36,514	$ 78,813
Transfers in due to adoption of new accounting guidance	—	836,346	(36,514)	799,832
Total gains—realized/unrealized:				
Net revaluations of loans and fees receivable pledged as collateral under structured financings, at fair value	—	(1,380)	—	(1,380)
Net revaluations of loans and fees receivable, at fair value	42,290	—	—	42,290
Purchases, issuances, and settlements, net	(59,887)	(177,816)	—	(237,703)
Impact of foreign currency translation gain	—	65	—	65
Net transfers in and/or out of Level 3	—	—	—	—
Balance at March 31, 2010	$ 24,702	$ 657,215	$ —	$ 681,917
Balance at December 31, 2010	$ 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	—	126,586	—	126,586
Net revaluations of loans and fees receivable, at fair value	3,417	—	—	3,417
Purchases, issuances, and settlements, net	(6,901)	(102,601)	—	(109,502)
Impact of foreign currency translation	—	3,351	—	3,351
Net transfers in and/or out of Level 3	—	—	—	—
Balance at March 31, 2011	$ 8,953	$ 415,078	$ —	$ 424,031

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 and liabilities.

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.

Table of Contents

Valuations and Techniques for Liabilities 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 liability. For our liabilities measured on a recurring basis at fair value, the table below summarizes (in thousands) fair values as of March 31, 2011 and December 31, 2010 by fair value hierarchy:

Liabilities	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Liabilities Measured at Fair Value
Notes payable associated with structured financings, at fair value as of March 31, 2011	$ —	$ —	$ 399,256	$ 399,256
Notes payable associated with structured financings, at fair value as of December 31, 2010	$ —	$ —	$ 370,544	$ 370,544

Gains and losses associated with fair value changes for the above liability class 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 liabilities included in the above table, which represent 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.

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 March 31, 2011 and 2010:

	Notes Payable Associated with Structured Financings, at Fair Value	
	2011	2010
Beginning balance January 1	$ 370,544	$ —
Transfers in due to adoption of new accounting guidance	—	772,615
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	81,344	(32,596)
Repayments on outstanding notes payable, net	(71,689)	(89,167)
Impact of foreign currency translation	3,520	(182)
Net transfers in and/or out of Level 3	—	—
Ending balance, March 31	$ 399,256	$ 650,670

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.

Table of Contents

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

We also have assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets include those associated with acquired businesses, including goodwill and other intangible assets. For these assets, measurement at fair value in periods subsequent to their initial recognition is applicable as part of required annual impairment valuations or earlier impairment valuations if one or more of these assets is determined to be impaired.

We were required to make such a determination of the fair value of goodwill and intangible assets associated with our Retail Micro-Loans segment in the fourth quarter of 2010 as part of our annual impairment testing, and based on that testing, we wrote off the remaining balance of goodwill associated with that segment in the fourth quarter of 2010. Considering this goodwill write off coupled with our April 1, 2011 subsequent event under which we completed the sale of our MEM operations, we no longer have any goodwill represented within our consolidated balance sheets. (We note that we had no separately stated goodwill balance on our March 31, 2011 and December 31, 2010 consolidated balance sheets given that goodwill associated with our MEM operations was classified within assets held for sale on those consolidated balance sheets.)

With the above-discussed goodwill asset write offs and disposals, intangibles represent the only other assets that we have that are measured on a non-recurring basis at fair value. The table below summarizes (in thousands) intangibles fair values as of March 31, 2011 and December 31, 2010 by fair value hierarchy:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets Measured at Fair Value
Assets – As of March 31, 2011				
Intangibles	$ —	$ —	$ 2,113	$ 2,113

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets Measured at Fair Value
Assets – As of December 31, 2010				
Intangibles	$ —	$ —	$ 2,113	$ 2,113

Table of Contents

Other Relevant Data

Other relevant data (in thousands) as of March 31, 2011 and December 31, 2010 concerning our assets and liabilities measured at fair value are as follows:

As of March 31, 2011	Loans and Fees Receivable, at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings, at Fair Value
Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value	$ 16,152	$ 578,035
Aggregate fair value of loans and fees receivable that are reported at fair value	$ 8,953	$ 415,078
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)	$ 88	$ 1,707
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	$ 2,495	$ 40,886

As of December 31, 2010	Loans and Fees Receivable, at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings, at Fair Value
Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value	$ 21,925	$ 647,924
Aggregate fair value of loans and fees receivable that are reported at fair value	$ 12,437	$ 373,155
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)	$ 137	$ 2,792
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	$ 4,842	$ 57,076

Notes Payable	Notes Payable Associated	Notes Payable Associated

	with Structured Financings, at Fair Value as of March 31, 2011	with Structured Financings, at Fair Value as of December 31, 2011
Aggregate unpaid principal balance of notes payable	$ 599,768	$ 648,210
Aggregate fair value of notes payable	$ 399,256	$ 370,544

Table of Contents

9. 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, and in November 2005, we issued $300.0 million aggregate principal amount of 5.875% convertible senior notes due 2035. These notes (net of repurchases since the issuance dates) are reflected within convertible senior notes on our consolidated balance sheets.

We are amortizing the discount to the face amount of the notes into interest expense over the expected life of the notes, and this will result in a corresponding release of associated deferred tax liability. Total amortization for the three months ended March 31, 2011 and 2010 totaled $1.8 million and $2.7 million, respectively. Actual incurred interest (based on the contractual interest rates within the two convertible senior notes series) totaled $3.3 million and $4.3 million for the three months ended March 31, 2011 and 2010, respectively. We will amortize the discount remaining at March 31, 2011 into interest expense over the expected terms of the convertible senior notes (currently expected to be May 2012 and October 2035 for the 3.625% and 5.875% notes, respectively). The weighted average effective interest rate for the 3.625% and 5.875% notes was 9.2% for all periods presented.

The following summarizes (in thousands) components of our consolidated balance sheets associated with our convertible senior notes:

	As of March 31, 2011	As of December 31, 2010
Face amount of 3.625% convertible senior notes due 2025	$132,470	$145,970
Face amount of 5.875% convertible senior notes due 2035	140,467	140,467
Discount	(53,873)	(56,593)
Net carrying value	$219,064	$229,844
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	$—	$—

In open market transactions during the three months ended March 31, 2011, we repurchased $13.5 million in face amount of our 3.625% notes for $12.4 million (inclusive of transaction costs and accrued interest through the date of our repurchase of the notes), thereby resulting in the recognition of an aggregate gain during the three months ended March 31, 2011 of $0.3 million (net of the notes' applicable share of deferred costs and debt discount, which were recovered in connection with the purchases).

Under the terms of a tender offer for the repurchase of both series of our convertible senior notes, in March 2010, we repurchased $24.7 million in face amount of our 3.625% notes and $15.6 million in face amount of our 5.875% notes for $12.8 million and $5.7 million, respectively, both amounts being inclusive of transactions costs and accrued interest through the date of our repurchase of the notes. The repurchase resulted in an aggregate gain of $13.9 million (net of the notes' applicable share of deferred costs and debt discount, which were recovered in connection with the purchase).

Table of Contents

Notes Payable Associated with Structured Financings, at Fair Value

As of March 31, 2011, (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) as follows:

	Carrying Amounts at Fair Value as of	
	March 31, 2011	December 31, 2010
Amortizing structured financing facility issued out of our upper-tier originated portfolio master trust—outstanding face amount of $412.3 million as of March 31, 2011, bearing interest at a weighted average 2.4% interest rate, which is secured by credit card receivables and restricted cash aggregating $284.5 million in carrying amount (1)	$ 282.1	$ 273.2
Multi-year variable funding structured financing facility (expiring September 2014), outstanding face amount of $1.1 million as of March 31, 2011, bearing interest at a weighted average 3.8% interest rate, which is secured by credit card receivables and restricted cash aggregating $6.2 million in carrying amount (2)	1.1	2.1
Amortizing term structured financing facility (denominated and referenced in U.K. sterling and expiring April 2014) issued out of our U.K. Portfolio structured financing trust, outstanding face amount of $159.1 million as of March 31, 2011, bearing interest at a weighted average 3.3% interest rate, which is secured by credit card receivables and restricted cash aggregating $105.8 million in carrying amount (3)	97.8	87.2
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 $14.3 million as of March 31, 2011, bearing interest at a weighted average 2.0% interest rate and being secured by credit card receivables and restricted cash aggregating $16.9 million in carrying amount	13.6	—
Ten-year amortizing term structured financing facility issued out of a trust underlying one of our portfolio acquisitions (expiring January 2014), outstanding face amount of $13.0 million as of March 31, 2011, bearing interest at a weighted average 5.4% interest rate, which is secured by credit card receivables and restricted cash aggregating $27.6 million in carrying amount	4.7	8.0
Total structured financing notes reported at fair value that are secured by credit card receivables and to which we are subordinated	$ 399.3	$ 370.5

(1) Because this facility entered into early amortization in January 2010 before its scheduled expiration, the terms of the facility do not allow for the funding of purchases. Under early amortization, all excess cash (i.e., cash collected from cardholders, less servicing costs and debt service costs) is applied toward amortizing repayment of the outstanding note within the facility with the ultimate timing and amount of amortizing repayments limited to the available residual cash flows.

(2) Represents the conduit notes associated with our subsidiary that securitized the $92.0 million (face amount) of receivables it acquired in the third quarter of 2004 and the $72.1 million (face amount) of receivables it acquired in the first quarter of 2005.

(3) In April 2007, we completed an amortizing structured financing facility in connection with our U.K. Portfolio acquisition; this facility is denominated in U.K. sterling.

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 (cash flows that we consider adequate to meet our variable costs of servicing these assets), 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. As such, for all intents and purposes, there is no practical risk of 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 $399.3 million in fair value of structured financing notes in the above table is $441.0 million, which means that our maximum aggregate exposure to pre-tax equity loss associated with the above structured financing arrangements is $41.7 million.

Beyond our role as servicer of the underlying assets within the credit card 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 March 31, 2011	As of December 31, 2010
Amortizing debt facility of ACC Auto Finance segment receivables, rate of 15.0% at March 31, 2011, which is secured by auto finance receivables and restricted cash with an aggregate carrying amount of $48.0 million and $58.1 million at March 31, 2011 and December 31, 2010, respectively (1)	$44.3	$54.4
Revolving line of credit of CAR Auto Finance segment receivables, rate of 4.8% at March 31, 2011, which is secured by auto finance receivables and restricted cash with an aggregate carrying amount of $43.1 million and $49.1 million at March 31, 2011 and December 31, 2010, respectively and is payable over an amortization period of not more than six months beginning June 2011	27.7	31.4
Financing of JRAS Auto Finance segment receivables, which is secured by auto finance receivables, land and restricted cash with an aggregate carrying amount of $14.1 million at December 31, 2010 (2)	—	8.1
Amortizing debt facility against JRAS Auto Finance segment receivables originated while we owned JRAS, rate of 12.3% at March 31, 2011, which is secured by auto finance receivables and restricted cash with an aggregate carrying amount of $7.9 million at March 31, 2011 (2)	7.8	—
Financing of JRAS Auto Finance segment inventory, which is secured by inventory with an aggregate carrying amount of $0.6 million at December 31, 2010	—	0.3
Vendor-financed software and equipment acquisitions, secured by certain equipment with an aggregate carrying amount of $0.03 at December 31, 2010	—	0.5
Investment in Previously Charged-Off Receivables segment's asset-backed financing, rate of 12% at March 31, 2011, secured by certain investments in previously charged-off receivables with an aggregate carrying of $1.0 million and $1.4 million at March 31, 2011 and December 31, 2010, respectively, payable through 2012	1.1	2.2
Total asset-backed structured financing notes outstanding (which are secured by assets with carrying amounts aggregating $100.0 million at March 31, 2011)	$80.9	$96.9

(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. Although the terms of this facility provide that 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, we do not anticipate any such additional payments to the note holders.

(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 March 31, 2011 carrying amount of $7.9 million that were originated while JRAS was under our ownership, we pledged those receivables as security for a $9.4 million non-recourse loan to us (the partial proceeds of which we used to repay the remaining balance of the above-scheduled $7.8

million JRAS note payable), and we contracted with JRAS to service those receivables on our behalf.

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 and inventory lending arrangements) generally provide for a priority distribution of cash flows to us to service any underlying pledged receivables (cash flows that we consider adequate to meet our costs of servicing these 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. The receivables-backed structured financing facilities in the above table are amortizing down along with collections of the underlying receivables and, except as provided in the following paragraph with respect to the CAR facility (and because of a replacement JRAS facility into which we entered in connection with the sale of our JRAS operations in February 2011 as discussed further below), there are no provisions within the debt agreements that represent any material risks of acceleration or bullet repayment of the facilities. As such, for all intents and purposes, there is no practical risk of equity loss associated with lender seizure of assets under all of the facilities other than the CAR facility. Nevertheless, the aggregate carrying amount of the receivables that provide security for the $80.9 million of structured financing notes in the above table at March 31, 2011 is $100.0 million, which means that our maximum aggregate exposure to pre-tax equity loss associated with the above structured financing arrangements is $19.1 million.

Table of Contents

The CAR facility begins to amortize down in June 2011 over a period not to exceed six months. In the event we are unable to secure either an extension of this facility or a replacement facility, the maximum exposure to pre-tax loss of equity under this CAR structured financing is $15.4 million as measured as of March 31, 2011.

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.

10. 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 one of our subsidiary's (i.e., Jefferson Capital's) commitments of $5.8 million at March 31, 2011 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 not 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 we have now done with respect to substantially all of our outstanding cardholder accounts. The remaining available lines of credit relate solely to cards issued under our balance transfer program.

For various receivables portfolio investments we have made through our subsidiaries and equity-method investees, our subsidiary, CompuCredit Corporation, has entered into guarantee agreements and/or note purchase agreements whereby CompuCredit Corporation has agreed to guarantee the purchase of or purchase directly additional interests in portfolios of credit card receivables owned by trusts, the residual interests in which are owned by our subsidiaries and equity-method investees, should there be net new growth in the receivables or should collections not be available to fund new cardholder purchases. As a result of the closure of all outstanding accounts (with the exception of those cards associated with our balance transfer program for which we do not have any associated guarantees), CompuCredit Corporation effectively has no collective guarantees and direct purchase obligations related to any of our subsidiaries and equity-method investees at March 31, 2011. We currently do not have any liability recorded with respect to these guarantees or direct purchase obligations, but we will record one if events occur that make payment probable under the guarantees or direct purchase obligations. The fair value of these guarantees and direct purchase obligations is not material. Moreover, should we ever be required to fund any of the guarantees, there would be a concurrent increase in the underlying assets.

CompuCredit Corporation's third-party originating financial institution relationships require security for its purchases of their credit card receivables, and CompuCredit Corporation has pledged $1.0 million in collateral as such security as of March 31, 2011. 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 March 31, 2011). 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 securitization relating to our U.K. Portfolio.

Also, under its agreements with third-party originating financial institutions, CompuCredit Corporation has agreed to indemnify the financial institutions for certain costs 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 ($15.9 million as of March 31, 2011).

Litigation

We are involved in various legal proceedings that are incidental to the conduct of our business. The most significant of these are 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 of our Retail Micro-Loans segment subsidiaries violated various laws governing consumer finance, lending, check cashing, trade practices and loan brokering. The plaintiffs further allege that CompuCredit Corporation is the alter ego of our subsidiaries and is liable for their actions. The plaintiffs are seeking damages of up to $75,000 per class member, and attorney's fees. We are vigorously defending this lawsuit. 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.

Table of Contents

CompuCredit Corporation is named as a defendant in a class action lawsuit entitled Wanda Greenwood, et al. vs. CompuCredit Corporation and Columbus Bank and Trust, No. 4:08-cv-4878, filed in the U.S. District Court for the Northern District of California. The plaintiffs allege that in marketing and managing the Aspire Visa card the defendants violated the federal Credit Repair Organizations Act and California Unfair Competition Law. The class includes all persons who within the four years prior to the filing of the lawsuit were issued an Aspire Visa card or paid money with respect thereto. The plaintiffs seek various forms of damage, including unspecified monetary damages and the voiding of the plaintiffs' obligations. We are vigorously defending this lawsuit.

On December 21, 2009, certain holders of our 3.625% Convertible Senior Notes Due 2025 and 5.875% Convertible Senior Notes Due 2035 filed a lawsuit in the U.S. District Court for the District of Minnesota seeking, among other things, to enjoin our December 31, 2009 cash distribution to shareholders and the then-potential future spin-off of our micro-loan businesses (a transaction that is not expected to be completed given the April 1, 2011 sale of our MEM operations). We prevailed in court at a December 29, 2009 hearing concerning the plaintiffs' motion for a temporary restraining order against our December 31, 2009 cash distribution to shareholders, and that distribution was made as originally contemplated on that date. On March 19, 2010, the U.S. District Court for the District of Minnesota transferred venue to the U.S. District Court for the Northern District of Georgia, and on April 6, 2010, we filed a Renewed Motion to Dismiss. Shortly after that filing, on May 12, 2010, the plaintiffs filed a second amended complaint to add new claims and certain of our officers and directors as defendants, to continue to seek to enjoin the then-potential future spinoff and to seek unspecified damages against all defendants. The plaintiffs also sought temporary injunctive relief to prevent our completion of a then-pending tender offer for the repurchase of our 3.625% Convertible Notes due 2025 and our common stock at $7.00 per share. At a hearing on May 12, 2010, the judge in the Northern District of Georgia denied the request for a temporary restraining order, and the tender offer was completed as scheduled on May 14, 2010. On June 4, 2010 and June 25, 2010, we and the other defendants filed respective motions with the U.S. District Court for the Northern District of Georgia to dismiss the second amended complaint. On March 15, 2011, the court denied our and the other defendants' motions to dismiss the second amended complaint. On March 22, 2011, certain individual defendants filed a motion to certify a portion of the March 15, 2011 order for immediate interlocutory review, and on April 1, 2011, the court granted that motion. Further, on March 23, 2011, plaintiffs filed an Emergency Motion for Preliminary Injunction in the United States District Court for the Northern District of Georgia seeking to enjoin as an alleged fraudulent transfer a then-pending tender offer to repurchase 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. At a hearing on April 1, 2011, the court denied plaintiffs' motion for a preliminary injunction, and the tender offer was completed as scheduled on April 11, 2011.

11. Net Income (Loss) 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 outstanding 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 losses or earnings. 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.

Table of Contents

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

	For the Three Months Ended	
	2011	2010
Numerator:		
Income (loss) from continuing operations attributable to controlling interests	$24,554	$(45,824)
Income from discontinued operations attributable to controlling interests	$3,901	$3,043
Net income (loss) attributable to controlling interests	$28,455	$(42,781)
Denominator:		
Basic (including unvested share-based payment awards) (1)	35,801	47,834
Effect of dilutive stock options and warrants (2)	215	178
Diluted (including unvested share-based payment awards) (1)	36,016	48,012
Income (loss) from continuing operations attributable to controlling interests per common share—basic	$0.69	$(0.95)
Income (loss) from continuing operations attributable to controlling interests per common share—diluted	$0.68	$(0.95)
Income from discontinued operations attributable to controlling interests per common share—basic	$0.11	$0.06
Income from discontinued operations attributable to controlling interests per common share—diluted	$0.11	$0.06
Net income (loss) attributable to controlling interests per common share—basic	$0.80	$(0.89)
Net income (loss) attributable to controlling interests per common share—diluted	$0.79	$(0.89)

(1) Shares related to unvested share-based payment awards that we included in our basic and diluted share counts are as follows: 426,911 and 723,778 shares for the three months ended March 31, 2011 and 2010, respectively.

(2) The effect of dilutive options is shown for informational purposes only in periods where we were in a net loss position. In such periods, the effect of including outstanding options and restricted stock would be anti-dilutive, and they are thus excluded from all calculations.

As their effects were anti-dilutive, we excluded all of our stock options and 0 and 213,219 of unvested restricted share units, respectively, from our net income or loss attributable to controlling interests per common share calculations for the three months ended March 31, 2011 and 2010, respectively.

For the three months ended March 31, 2011 and 2010, there were no shares potentially issuable and thus warranting consideration in diluted share computations associated with our 3.625% convertible senior notes due 2025 issued in May 2005 and 5.875% convertible senior notes due 2035 issued in November 2005. However, in future reporting periods during which our closing stock price is above the respective $29.31 and $35.67 conversion prices for the May 2005 and November 2005 convertible senior notes, and depending on the closing stock price at conversion, the maximum potential dilution under the conversion provisions of the May 2005 and November 2005 convertible senior notes is 5.2 million and 3.9 million shares, respectively, which could be included in diluted share counts in net income per common share calculations. See Note 9, “Convertible Senior Notes and Notes Payable,” for a further discussion of these convertible securities.

26

Table of Contents

12. 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 1,101,058 shares remained available for grant under this plan as of March 31, 2011. Exercises and vestings under our stock-based employee compensation plans resulted in our recognition of an income tax-related charge to additional paid-in capital of $0.0 million and $2.0 million, respectively, for the three months ended March 31, 2011 and 2010, respectively.

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 each of the three month-periods ended March 31, 2011 and 2010, we expensed stock-option-related compensation costs of $0.4 million. 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 Three Months Ended March 31, 2011			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average of Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2010	570,000	$ 39.24		
Cancelled/Forfeited	—	—		
Outstanding at March 31, 2011	570,000	$ 39.24	2.0	$—
Exercisable at March 31, 2011	70,000	$ 26.76	1.1	$—

	For the Three Months Ended March 31, 2010			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average of Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2009	790,000	$ 31.75		
Cancelled/Forfeited	—	—		
Outstanding at March 31, 2010	790,000	$ 31.75	2.9	$—
Exercisable at March 31, 2010	290,000	$ 15.81	2.6	$—

As of March 31, 2011, our unamortized deferred compensation costs associated with non-vested stock options were $0.1 million. There were no stock option exercises during the three months ended March 31, 2011. No options have been granted thus far in 2011, and none were granted during 2010 either.

Restricted Stock and Restricted Stock Unit Awards

During the three months ended March 31, 2011 and 2010, we granted 44,000 and 253,107 shares of aggregate restricted stock and restricted stock units, respectively, with aggregate grant date fair values of $0.3 million and $1.1 million, respectively. When we grant restricted shares, we defer the grant date value of the restricted shares 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 shares 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 March 31, 2011, our unamortized deferred compensation costs associated with non-vested restricted stock awards were $0.8 million with a weighted-average remaining amortization period of 0.9 years.

Table of Contents

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, 2010, 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.

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. We have contracted with third-party financial institutions pursuant to which the financial institutions have issued general purpose consumer credit cards and we have purchased the receivables relating to such credit card accounts on a daily basis. Today we manage the portfolios that we previously originated or acquired and are not currently offering new credit cards on a broad basis.

Our product and service offerings also include small-balance, short-term cash advance loans that typically are due on the customer's next payday—generally less than $500 (or the equivalent thereof in the British pound for pound-denominated loans made through our MEM operations that are classified as held for sale and that were sold on April 1, 2011) for 30 days or less and to which we refer as "micro-loans;" installment loans, title loans, and other credit products; and money transfer, bill payment, and other financial services. We market these loans and products through retail branch locations in Alabama, Colorado, Kentucky, Mississippi, Ohio, Oklahoma, South Carolina, Tennessee, and Wisconsin and over the Internet in the U.S. Similarly, up until its sale on April 1, 2011, our MEM operations marketed these cash advance loans over the Internet in the U.K.

We also are collecting a portfolio of auto finance receivables that we previously originated through franchised and independent auto dealers (and our own buy-here, pay-here lots prior to our closure or sale of all such lots, the last of which occurred in February 2011) and purchasing and/or servicing auto loans from or for a pre-qualified network of dealers in the buy-here, pay-here used car business.

Lastly, our debt collections subsidiary purchases and collects previously charged-off receivables from third parties, our equity-method investees and us.

The most significant changes to our business during the three months ended March 31, 2011 were:

- Our January 2011 purchase of substantially all of the investor interests in our Credit Card segment equity-method investees and noncontrolling interests in our Credit Cards segment majority-owned subsidiaries for $4.1 million;

- Our March 2011 investment in a 50.0%-owned joint venture which purchased all of the outstanding notes issued out of our U.K. Portfolio structured financing trust at discounted price and reported a gain in the three months ended March 31, 2011 upon its marking of such notes to fair value under its fair value option election (of which $17.1 million was our allocable share);

- Our repurchases in open market transactions of an aggregate of $13.5 million in face amount of our 3.625% convertible senior notes due in 2025 for $12.4 million, such amount being inclusive of transaction costs and accrued interest through the date of our repurchase of the notes; and

- Our sale of certain operating assets of our JRAS buy-here, pay-here lot subsidiaries in a transaction under which we retained its underlying loans and fees receivable, resulting in a loss of $4.6 million.

Table of Contents

As is customary in our industry, we historically financed most of our credit card receivables through the asset-backed securitization markets—markets that worsened significantly in 2008 and have not sufficiently recovered to facilitate growth for us thus far. We are concerned that the traditional securitization markets may not return to any degree of efficient and effective functionality in the near term, and, even if they were available, the current regulatory and economic environment and our current liquidity position are not attractive enough for us to want to originate any significant level of new credit card receivables in the U.S. (other than through our Investment in Previously Charged-Off Receivables segment's balance transfer program). We continue, however, to plan for and conduct limited tests of credit card originations in the U.K. because we believe the U.K. regulatory environment to be more favorable than the U.S. toward possible significant credit card origination growth in the future.

In the current environment, wherein the only material cash flows we will receive within our Credit Cards segment are those associated with servicing compensation until our securitization facilities are fully repaid and distributions from our new 50.0%-owned joint venture, which purchased and holds all of the outstanding notes issued out of our U.K. Portfolio, 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 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, this outcome cannot be assured.

Our credit card and other operations are heavily regulated, and over time we change how we conduct our operations either in response to regulation or in keeping with our goals of continuing to lead the industry in the application of consumer-friendly practices. We have made several significant changes to our practices over the past several years, and because our account management practices are evolutionary and dynamic, it is possible that we may make further changes to these practices, some of which may produce positive, and others of which may produce adverse, effects on our operating results and financial position.

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 that would be reflected predominantly within our Credit Card segment: (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; and (3) additional opportunities to repurchase our convertible senior notes and other debt or our outstanding common stock. 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 (as has been done historically through dividends and tender offers, including our tender offer that closed in April 2011, whereby 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). Additionally, given that financing for growth and acquisitions currently is constrained, our shareholders should expect us to pursue less capital intensive activities, like servicing credit card receivables and other assets for third parties (and in which we have limited or no equity interests), that allow us to leverage our expertise and infrastructure until we can finance and complete further acquisitions.

Cessation of Plans for Potential Spin-Off of Micro-Loan Businesses

In connection with our consideration of a potential spin-off of our U.S. and U.K. micro-loan businesses, one of our subsidiaries, Purpose Financial Holdings, Inc. ("Purpose Financial"), filed a Form 10 Registration Statement and a related Information Statement with the SEC on January 4, 2010 and amended the Form 10 Registration Statement and related Information Statement in response to SEC comments most recently on November 30, 2010. On April 13, 2011, we formally requested the withdrawal of this registration statement due to the completion of our MEM sale.

Table of Contents

CONSOLIDATED RESULTS OF OPERATIONS

(In thousands)	For the Three Months Ended March 31, 2011	2010	Income Increases (Decreases) from 2010 to 2011
Earnings:			
Total interest income	$42,946	$84,210	$(41,264)
Interest expense	(11,951)	(17,633)	5,682
Fees and related income on earning assets:			
Retail micro-loan fees	17,186	18,187	(1,001)
Internet micro-loan fees	552	269	283
Fees on credit card receivables held on balance sheet	3,208	9,590	(6,382)
Changes in fair value of loans and fees receivable recorded at fair value	130,003	40,910	89,093
Changes in fair value of notes payable associated with structured financings recorded at fair value	(81,344)	32,596	(113,940)
Income on investments in previously charged-off receivables	10,597	7,300	3,297
Gross loss on auto sales	(125)	(1,522)	1,397
Gains on investments in securities	132	60	72
Loss on sale of JRAS assets	(4,648)	—	(4,648)
Other	847	531	316
Other operating income (loss):			
Servicing income	966	2,019	(1,053)
Ancillary and interchange revenues	2,502	3,231	(729)
Gain on repurchase of convertible senior notes	268	13,896	(13,628)
Gain on buy-out of equity-method investee members	619	—	619
Equity in income (loss) of equity-method investees	18,304	(280)	18,584
Total	130,062	193,364	(63,302)
Losses upon charge off of loans and fees receivable recorded at fair value	52,848	152,047	99,199
Provision for losses on loans and fees receivable recorded at net realizable value	3,963	16,349	12,386
Operating expenses:			
Salaries and benefits	6,562	10,687	4,125
Card and loan servicing	27,011	39,128	12,117
Marketing and solicitation	1,061	1,499	438
Depreciation	2,219	3,167	948
Other	11,403	15,652	4,249
Noncontrolling interests	(1,298)	(1,651)	353

Table of Contents

Three Months Ended March 31, 2011, Compared to Three Months Ended March 31, 2010

Total interest income. In the three months ended March 31, 2011, total interest income consists primarily of finance charges and late fees earned on our credit card and auto finance receivables. The decline from the three months ended March 31, 2010 is due to 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.

Also included within total interest income (under the other category on our consolidated statements of operations) is interest income we earn on our various investments in debt securities, including interest earned on bond investments, and on bonds previously distributed to us from our former equity-method investees. Principal amortization has caused a reduction in interest income levels associated with some of these investments. However, we experienced some growth in this category during the three months ended March 31, 2011 associated with our investment in publicly traded bond funds whose investment objectives are to invest in highly rated, investment-grade securities—such investments being outstanding at varying levels during the three months ended March 31, 2011.

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 2010.

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 our 2011 repurchases of an aggregate $13.5 million in face amount of our 3.625% convertible senior notes to result in lower interest expense in future quarters.

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

- improved performance within our Investments in Previously Charged-Off Receivables segment, principally reflecting the growth within this segment subsequent to the termination of its forward flow arrangement with Encore;

- slight reductions in revenues related to our retail micro-loan operations as a result of their required implementation of new database requirements in Wisconsin in January 2011, slightly offset, however, by growth in South Carolina volumes from the lows that it experienced immediately after it implemented a new database requirement in the three months ended March 31, 2010;

- reductions in fees earned on our credit card receivables due to continued liquidations offset slightly by the consolidation of former equity-method investees as a result of our January 2011 purchase of substantially all of the investor interests in these entities;

- reduced gross losses in 2011on automotive vehicle sales corresponding to our minimization of additional inventory purchases within our JRAS operations and our ultimate suspension of operations and final sale of our remaining JRAS lot in February 2011; and

- our recognition of a $4.6 million loss corresponding to our above-mentioned sale of certain assets associated with our JRAS operations.

Given expected net liquidations in our credit card receivables (absent possible portfolio acquisitions) in the future, we expect to experience declining levels of fee income on credit card receivables in the future. For the same reason, we also 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.

Additionally, prospects for profits and revenue growth within our Investments in Previously Charged-off Receivables segment remain good. Although competition for purchases of pools of charged-off receivables is keen, we believe that we can favorably compete within the marketplace, particularly given some of our unique offerings like our balance transfer program.

Table of Contents

Lastly, because of the new database requirements in South Carolina, Kentucky and Wisconsin as discussed throughout this Report, we do not expect any significant growth in our retail micro-loan fees over the next year; such fees may even contract (although not by an amount that we would consider material) over the next year.

Servicing income. Our reported servicing income is comprised of only that portion of servicing paid to us by our equity-method investees and any other third parties. Due to our January 2011 purchase of substantially all of the investor interests in our Credit Cards segment equity-method investees and their subsequent consolidation and elimination, servicing income has declined over that experienced in the prior year. Moreover, we expect further declines in such income absent our obtaining contracts to service portfolios for new equity-method investees or other third parties.

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, debt waivers and life insurance. The decline in our ancillary revenues associated with these activities and our interchange revenues corresponds with our account closure actions and the net liquidations we have experienced in all of our credit card receivables portfolios in recent years. Absent portfolio acquisitions, we expect only immaterial amounts of ancillary and interchange revenues in the future.

Gain on repurchase of convertible senior notes. During the three months ended March 31, 2011, we repurchased in open market transactions $13.5 million in face amount of our 3.625% notes due 2025 for $12.4 million (inclusive of transaction costs and accrued interest through the dates of our repurchases of the notes). The repurchases resulted in the recognition of aggregate gains for the three months ended March 31, 2011of $0.3 million (net of the notes' applicable share of deferred costs and debt discount, which were written off in connection with the purchases).

In the three months ended March 31, 2010 and under the terms of a tender offer for the repurchase of both series of our convertible senior notes, we repurchased $24.7 million in face amount of our 3.625% convertible senior notes due 2025 and $15.6 million in face amount of our 5.875% convertible senior notes due 2035 for $12.8 million and $5.7 million, respectively, both amounts being inclusive of transactions costs and accrued interest through the date of our repurchase of the notes. The repurchases resulted in an aggregate gain of $13.9 million (net of the notes' applicable share of deferred costs and debt discount, which were recovered in connection with the purchases).

We are actively pursuing other repurchases of our 3.625% convertible senior notes, which could result in additional as of yet unknown gains or losses upon such repurchases.

Equity in income (loss) of equity-method investees. The significant increase in income associated with our equity-method investees is principally related to our March 2011 investment in a 50.0%-owned joint venture that purchased the outstanding notes issued out of our U.K. Portfolio structured financing trust. The 50%-owned joint venture elected under the fair value option 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 at 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 investments 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. The balance of this account reflects charge offs of credit card receivables associated with the de-securitization and reconsolidation of our lower-tier credit card receivables portfolio upon investor repayment in the fourth quarter of 2009 and the consolidation of our formerly off-balance-sheet credit card receivables securitizations onto our consolidated balance sheet pursuant to accounting rules changes effective as of January 1, 2010. We expect for charge offs associated with these consolidated portfolios to decline over time as we continue to liquidate the underlying portfolios.

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. Despite increased provisions within our JRAS operations related to the closure of several of our JRAS sales and servicing locations and the corresponding impact on charge offs prior to the sale of these operations in February 2011, our provisions for losses on loans and fees receivable has declined in the three months ended March 31, 2011 compared to the three months ended March 31, 2010 principally due to net liquidations in our auto finance receivables over the past few years (i.e., fewer receivables generating fewer charge offs), but also due in minor part to improvements in the overall economy as it recovers. Similarly, we expect continued reductions in our provision for losses on loans and fees receivable recorded at net realizable value for the remainder of 2011 attributable to the continued expected gradual net liquidation of our auto finance receivables. The level of contraction in these receivables is expected to outpace growth, if any, in receivables within our U.S. retail and Internet micro-loan businesses. Moreover, we do not expect any significant deviations in our credit risks, delinquencies and loss rates in 2011 versus 2010 (other than further potential improvements as the economy continues with its recovery); such improvements could further contribute to expected reductions in our provision for losses on loans and fees receivable recorded at net realizable value.

Table of Contents

Further details concerning credit loss trends and expectations by segment are provided throughout our forthcoming discussion and analysis of each segment.

Total other operating expense. Total other operating expense decreased for the three months ended March 31, 2011 relative to the three months ended March 31, 2010, 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;
- decreases within card and loan servicing expenses, primarily as a result of credit card and auto finance receivables portfolio liquidations;
- decreases in depreciation due to cost containment measures, specifically a diminished level of capital investments by us; and
- lower other expenses (which include, for example, rent and other occupancy costs, legal and professional fees, transportation and travel costs, telecom and data processing costs, insurance premiums, and other overhead cost categories) as we continue to adjust our internal costs based on the declining size of our existing portfolios;

offset, however, by:

- start-up costs associated with our exploration and testing of various new business opportunities that largely utilize existing resources but prevent further downsizing of personnel costs.

While we incur certain base levels of fixed costs, 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. We also 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. Given our current focus on cost-cutting and maximizing shareholder returns in light of the continuing dislocation in the liquidity markets and significant uncertainties as to when these markets and the economy will sufficiently improve, we expect further reductions in most cost categories discussed above over the next several quarters. 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, we currently are incurring and will continue to incur somewhat heightened legal costs until we resolve all outstanding litigation. Additionally, while it is relatively easy for us to scale back our variable expenses, it is much more difficult for us to appreciably reduce our fixed and other costs associated with an infrastructure (particularly within our Credit Cards 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 segment cash inflows are sufficient to cover the direct variable costs of this segment and a portion, but not all, of the segment’s 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, then, depending upon the sufficiency of excess cash flows and earnings generated from our Auto Finance, Investments in Previously Charged-Off Receivables and U.S. retail and Internet micro-loan businesses, we may experience continuing pressure on our liquidity position and our ability to be profitable.

Table of Contents

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 have taken place during 2010 and into the first quarter of 2011, unless we enter into 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 include:

- Our March 2010, acquisition of noncontrolling interests representing 6% of MEM (within our Internet Micro-Loans segment), thereby reducing outstanding noncontrolling interests in MEM from 24% at December 31, 2009 to 18% at March 31, 2010, and our follow-on transaction on April 1, 2011 under which we sold our MEM operations to Dollar Financial Corp;

- Our purchase of all of the noncontrolling interests held by management team members in our Investments in Previously Charged-off Receivables segment in the three months ended March 31, 2010; and

- Our January 2011 purchase of substantially all of the the noncontrolling interest holders' ownership interests in our Credit Cards segment majority-owned subsidiaries.

Considering the above and the fact that we sold our MEM operations on April 1, 2011, the decline in income allocable noncontrolling interest holders in the three months ended March 31, 2011 compared to the three months ended March 31, 2010, principally reflects (1) the reduction in noncontrolling interest holders' ownership in our profitable MEM operations from 24% throughout most of the three months ended March 31, 2010 to only 18% during the entire three-month period ended March 31, 2011 and (2) the fact that there was no allocation of our Investments in Previously Charged-off Receivables segment's profits to noncontrolling interest holders during the entire three-month period ended March 31, 2011.

Income taxes. Our overall effective tax rates (computed considering results for only continuing operations before income taxes) were 1.1% (expense) and 0.6% (benefit) in the three months ended March 31, 2011 and 2010, respectively. 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 decreased valuation allowances against income statement-oriented federal, foreign and state deferred tax assets. Computed without regard to the effects of the valuation allowance changes, it is more likely than not that our effective tax rates would have been 38.3% and 33.9% in the three months ended March 31, 2011 and 2010, respectively.

We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized \$0.5 million and \$0.6 million in potential interest and penalties associated with uncertain tax positions during the three months ended March 31, 2011 and 2010, respectively. To the extent such interest and penalties are not assessed as a result of a resolution of the underlying tax position, amounts accrued will be reduced and reflected as a reduction of income tax expense; we experienced no such reduction in either of the three months ended March 31, 2011 and 2010.

Credit Cards Segment

Our Credit Cards segment includes our activities relating to investments in and servicing of our various credit card receivables portfolios. 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, insurance products, 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.

Additionally, we solicit accounts to participate in our balance transfer program through our Investments in Previously Charged-Off Receivables segment, whereby we offer potential customers a credit card product in exchange for payments made on a previously charged-off debt that we either have purchased or have agreed to purchase upon acceptance of our balance transfer offer terms. After our receipt of an offered and agreed-upon level of payments on the previously charged-off debt, a credit card is made available to the consumer, and as the consumer further reduces his or her outstanding previously charged-off debt balance, additional credit is made available to the consumer under the credit card product. The initial costs of this program are relatively low when compared to our traditional credit card offerings, and while we anticipate growing this product at a moderate pace during the coming quarters, this product offerings' open credit card accounts currently represent 2.5% of our consolidated loans and fees receivable (net or at fair value). After card issuance, the revenues and costs associated with the balance transfer program credit card offerings are included in our Credit Cards segment results; whereas, the pre-card-issuance activities associated with the initial purchase and collection of the outstanding balance of previously charged-off debt are included in our Investments in Previously Charged-Off Receivables segment results.

Table of Contents

During any periods in which we hold credit card receivables on our consolidated balance sheet (e.g., after our consolidation of them), we record the finance charges and late fees 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 those credit card receivables of our balance transfer program for which we use net realizable value accounting) 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 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 our 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.

Background

We make various references within our discussion of the Credit Cards segment to our managed receivables. In calculating managed receivables data, we assume that none of the credit card receivables underlying our off-balance-sheet securitization facilities was ever transferred to an off-balance-sheet securitization trust (i.e., applicable for pre-2010 periods only). Additionally, while we include within managed receivables those receivables we manage for our consolidated subsidiaries, we exclude from managed receivables our noncontrolling interest holders' shares of the receivables. Lastly, 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 vital 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) treatment of 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; and (4) removal of our noncontrolling interest holders' shares of the managed receivables underlying our GAAP consolidated results

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 of our acquisition discount 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 credit card 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 credit card 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, as well as our allowance for uncollectible loans and fees receivable in the case of our balance transfer program credit card 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 of the credit card accounts. 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, 2010.

Table of Contents

The following table presents the delinquency trends of the credit card receivables we manage, as well as charge-off data and other managed loan statistics (in thousands; percentages of total):

	At or for the Three Months Ended							
	2011	2010				2009		
	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun.
Period-end managed receivables	$697,032	$774,875	$913,707	$1,052,977	$1,259,687	$1,523,105	$1,751,037	$2,049
Period-end managed accounts	540	599	696	754	916	1,096	1,290	1,542
Percent 30 or more days past due	12.5 %	15.2 %	18.0 %	19.3 %	20.2 %	22.5 %	21.0 %	20.5
Percent 60 or more days past due	9.5 %	11.6 %	14.0 %	14.5 %	16.0 %	17.1 %	15.8 %	15.7
Percent 90 or more days past due	7.0 %	8.7 %	10.4 %	10.3 %	12.5 %	12.1 %	11.1 %	11.6
Average managed receivables	$752,758	$843,394	$984,259	$1,146,358	$1,396,628	$1,633,455	$1,916,291	$2,190
Combined gross charge-off ratio	29.5 %	36.4 %	37.1 %	47.8 %	42.8 %	42.7 %	45.9 %	54.4
Net charge-off ratio	23.9 %	28.9 %	29.6 %	37.2 %	34.8 %	33.5 %	30.0 %	29.7
Adjusted charge-off ratio	22.6 %	28.6 %	29.2 %	36.8 %	34.5 %	33.0 %	29.5 %	29.2
Total yield ratio	23.1 %	25.1 %	31.9 %	27.6 %	29.4 %	30.5 %	55.7 %	34.0
Gross yield ratio	18.6 %	18.8 %	20.4 %	20.6 %	21.2 %	22.1 %	21.5 %	20.6
Net interest margin	11.9 %	11.9 %	13.1 %	11.3 %	14.9 %	14.0 %	14.7 %	11.7
Other income ratio	2.0 %	3.3 %	8.9 %	3.6 %	4.7 %	5.9 %	22.7 %	(4.8
Operating ratio	10.4 %	9.8 %	9.2 %	12.0 %	11.2 %	16.8 %	11.4 %	10.2

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 individual credit card receivables portfolios given the closure of substantially all credit card accounts underlying our credit card receivables portfolios. More specifically, with the isolated exceptions of our balance transfer program within our Investments in Previously Charged-Off Receivables segment (the post-card issuance activities of which are reported within our Credit Cards segment) and some limited product testing, we have curtailed our credit card marketing efforts in light of dislocation in the liquidity markets and our uncertainty as to when and if these markets will rebound sufficiently to facilitate organic growth in our credit card receivables operations and in light of an unfavorable 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” in our Annual Report on Form 10-K for the year ended December 31, 2010. 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.

Table of Contents

Given that the largest wave of account reduction and account closure-related charge offs cycled through early in 2009, 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 2011 and 2010 delinquency statistics relative to corresponding periods in prior years and is consistent with our expectations for the next few quarters. While improvements in our charge-off ratios generally can be expected to lag delinquency improvements, we do note the significant year-over-year reductions in our combined gross charge-off ratios in all 2011 and 2010 quarters relative to corresponding periods in prior years—a trend that we expect to continue to see into the future.

Lastly, we note that our exceptionally low delinquency rates as of March 31, 2011 reflect seasonal payment patterns. Payment rates were particularly strong relative to recent years during this year's tax refund season, thereby bringing delinquency rates down.

Charge offs. We generally charge off credit card 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 combined gross charge-off rates. 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.

Combined gross charge-off ratio. Although our combined gross charge-off ratio is trending lower, it spiked somewhat in the second quarter of 2010 with the transition during that time period of our collection efforts to outsourced third parties. With that effort now completed and with stability in our portfolios (given the quarters that have elapsed since account closure actions), we expect continued lower combined gross charge-off ratios in future periods when compared to those experienced in the past several quarters.

Net charge-off ratio. The net charge-off ratio measures principal charge offs, net of recoveries. Variations in the rates of growth or decline in the net charge-off ratio relative to those of our combined gross charge-off ratio can be caused by (1) the relative volumes of principal versus fee credits provided to customers associated with settlement programs and payment incentive programs—such credits being treated as charge offs in our various managed receivables statistics and (2) the relative percentage of our charge offs within our lower-tier credit card portfolio (for which fee charge offs relative to principal charge offs are much greater than with our other originated and purchased portfolios). The increase in our net charge-off ratios in late 2009 through the second quarter of 2010 in particular reflects both of these factors, which caused a mix change toward a greater percentage of our charge offs being comprised of principal as opposed to finance and fee charge offs. See our net interest margin and other income ratio discussions for further discussion of the relative volumes of principal versus fee credits provided to customers on settlement programs. With aforementioned account closure and collection outsourcing actions having long been completed and given a somewhat more stable economic environment, we expect a continuation of the generally trending decline in our net charge-off ratio for the next several quarters (with such generally continuing trending declines closely correlating with expected declines in our combined gross charge-off ratio).

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. Because our most recent portfolio acquisition was our second quarter 2007 U.K. Portfolio acquisition, the gap between the net charge-off ratio and the adjusted charge-off ratio continued its general decline in the quarters since that acquisition. Beginning in the first and second quarters of 2011, however, the gap between the net charge-off ratio and the adjusted charge-off ratio will widen and then gradually begin to narrow over successive future quarters. This is 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. Moreover, any other potential acquisitions of portfolios at discounts to the face amount of their receivables could cause further widening of the gap between the net charge-off ratio and the adjusted charge-off ratio.

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 assessments than do our other portfolios, and thus have higher total yield and gross yield ratios as well. Accordingly, the generally trending decline in our total yield and gross yield ratios is consistent with disproportionate reductions in our lower-tier credit card receivables due to their higher charge-off levels over the past several quarters.

Table of Contents

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 trending declines in our total and gross yield ratios, the total yield ratio is skewed higher in the first, second, third and fourth quarters of 2010 and the third quarter of 2009 due to gains associated with debt repurchases in those quarters as detailed and quantified in the discussion of our other income ratio 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 two quarters, we expect a relatively stable low-double-digit net interest margin for the foreseeable future.

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 other income ratio was positively impacted by gains realized on the repurchase of our convertible senior notes in the first and second quarters of 2010. As computed without regard to these gains, our other income ratio would have been 0.7% and 0.5% in the three months ended March 31 and June 30, 2010, respectively. Similarly, our third quarter and fourth quarter 2010 other income ratios were skewed higher by gains realized on the repurchase of our convertible senior notes and $12.1 million in gains on settlement of our CB&T litigation in the third quarter and a $4.1 million recovery of losses we experienced several years ago on an investment that we had made in a third-party’s asset-backed securities in the fourth quarter; absent these gains, our other income ratios would have been 1.7% and 1.2% for the three months ended September 30 and December 31, 2010. Like in the first quarter of 2011, we expect a positive generally low-single-digit other income ratio for the foreseeable future unless we experience further gains associated with future debt repurchases, which could cause an increase in the ratio.

Operating ratio. While we have been highly focused on expense reduction and cost control efforts since 2009, our managed receivables levels typically have fallen 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). As such, we experienced a trending increase in our operating ratio into 2010 relative to normalized prior years’ levels. In the third quarter of 2010, our 9.2% operating ratio reflects the completion of our outsourcing of collection efforts late in the second quarter of 2010—an initiative that is expected to help in controlling our operating ratio in future quarters as well. Our fourth quarter of 2010 operating ratio came in slightly better than our general expectations, as was evident in the slight increase experienced in the first quarter of 2011. We generally expect a low-double-digit operating ratio for the next several quarters, even with the effects that net liquidations of our credit card receivables will have on the operating ratio given our fixed cost base.

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. It is also possible that ongoing litigation may result in higher legal expenses for us that could offset other cost-cutting measures that we currently expect to experience within our operating ratios.

Table of Contents

Our Credit Cards segment operations are separate and distinct from our other segment 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 operating segments. We reference the table included in Note 9, “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 Card segment’s receivables.

Investments in Previously Charged-Off Receivables Segment

For the three months ended March 31, 2011 and 2010, the following table shows a roll-forward of our investments in previously charged-off receivables activities (in thousands of dollars):

	For the Three Months Ended March 31, 2011	2010
Unrecovered balance at beginning of period	$29,889	$29,669
Acquisitions of defaulted accounts	3,024	3,597
Cash collections	(20,628)	(14,581)
Cost-recovery method income recognized on defaulted accounts (included as a component of fees and related income on non-securitized earning assets on our consolidated statements of operations)	10,597	7,300
Unrecovered balance at end of period	$22,882	$25,985

The above table reflects our use of the cost recovery method of accounting for our investments in previously charged-off receivables. Under this method, we establish static pools consisting of homogenous accounts and receivables for each portfolio acquisition. Once we establish a static pool, we do not change the receivables within the pool. We record each static pool at cost and account for it as a single unit for payment application and income recognition purposes. Under the cost recovery method, we do not recognize income associated with a particular portfolio until cash collections have exceeded the investment. Additionally, until such time as cash collected for a particular portfolio exceeds our investment in the portfolio, we incur commission costs and other internal and external servicing costs associated with the cash collections on the portfolio investment that we charge as an operating expense without any offsetting income amounts. Our estimated remaining collections on the $22.9 million unrecovered balance of our investments in previously charged-off receivables as of March 31, 2011 amount to $127.5 million, of which we expect to collect 43.5% over the next 12 months, with the balance to be collected thereafter.

Previously charged-off receivables held as of March 31, 2011 principally are comprised of: normal delinquency charged-off accounts; charged-off accounts associated with Chapter 13 Bankruptcy-related debt; and charged-off accounts acquired through our Investments in Previously Charged-Off Receivables segment’s balance transfer program prior to such time as credit cards are issued relating to the program’s underlying accounts (as explained in further detail in the Credit Cards segment discussion above). At March 31, 2011, $7.1 million of our investments in previously charged-off receivables balance was comprised of previously charged-off receivables that our Investments in Previously Charged-Off Receivables segment purchased from our other consolidated subsidiaries, and in determining our net income or loss as reflected on our consolidated statements of operations, we eliminate all material intercompany profits that are associated with these transactions. Although we eliminate all material intercompany profits associated with these purchases, we do not eliminate the corresponding purchases from our consolidated balance sheet categories so as to better reflect the ongoing business operations of each of our reportable segments and because the amounts represent just 0.8% of our consolidated total assets.

We generally estimate the life of each pool of previously charged-off receivables we typically acquire to be between 60 months for normal delinquency charged-off accounts (including balance transfer program accounts) and approximately 84 months for Chapter 13 Bankruptcy-related debt. Our acquisition of previously charged-off accounts through our balance transfer program results in receivables with a higher-than-typical expected collectible balance. At times when the composition of our defaulted accounts includes more of this type of receivable, the resulting estimated remaining collectible portion per dollar invested is expected to increase.

We have experienced and expect further improving trends and results associated with the balance transfer program within our Investments in Previously Charged-Off Receivables segment. We also believe that the current economic environment could lead to increased opportunities for growth in the balance transfer program as consumers with less access to credit create additional demand and can lead to increased placements from third parties. Moreover, we began exploring a balance transfer program in the U.K. in the second quarter of 2008, but this program has generated only modest revenues thus far, and although we expect it to grow more rapidly, its results are not anticipated to be material for the foreseeable future.

Table of Contents

The increase in the availability of third-party charged-off paper has created several opportunities for us over the past few years. We have been able to complete several large purchases of previously charged-off receivables portfolios from third parties at attractive pricing. We note, however, that the landscape for purchases of previously charged-off receivables is increasingly competitive, thus making it more challenging for us to grow as rapidly as desired and at our desired returns on investment. Notwithstanding the effects of competition on our growth rates, we do expect to continue to expand our activities and earn attractive returns in this area.

Micro-Loan Businesses

Our current micro-loan businesses principally consist of marketing, servicing and/or originating small-balance, short-term loans that typically are due on the customer’s next payday through a network of 305 retail branch locations in the U.S. and via the Internet in the U.S. Operations through our retail branch locations are referred to as our “Retail Micro-Loans” segment, while our micro-loans made through the Internet are referred to as our “Internet Micro-Loans” segment. The Internet Micro-Loans segment includes the continuing operations of our U.S. Internet micro-loans business, as well as the discontinued operations of our MEM U.K. Internet micro-loans business, which was sold on April 1, 2011. Because our MEM operations were classified as discontinued operations and subsequently sold on April 1, 2011, various operating statistics included in management’s discussion and analysis of our micro-loan segments exclude any effects of our MEM operations.

Retail Micro-Loans Segment

In most of the states in which our Retail Micro-Loans segment operates, we make loans directly to customers against personal checks, which are held until the customers repay the loan principal and fees or until the holding period has expired (typically 14 days). This form of business is generally referred to as a “deferred presentment” service. In exchange for this service, we receive an earned check fee typically ranging from approximately 15% to 17% of the advance amount. This deferred presentment model operates under the authority of state-governed enabling statutes. The form and structure of these deferred presentments may change in accordance with corresponding changes in state, local and federal law.

We also cash checks for our customers at a fee calculated as a percentage of the face of the check in certain locations. We also may charge and collect additional fees for loan originations, returned checks, late fees and other fees as allowed by governing laws and statutes. Currently, origination fees range from $15 to $30 but are subject to change pursuant to changes in applicable laws. Fees for returned items due to NSF and closed accounts are typically set by state and range from $30 to $50, while late fees, which also vary by state, can be as high as $50.

Customers obtain micro-loans from us by visiting our retail storefronts and completing the loan application process. Once the application is completed by the customer, the store personnel review the documents to ensure that the information provided is accurate and sufficient to make an informed underwriting decision. Once approved by our underwriting model, the customer signs an agreement that outlines the micro-loan terms. The customer then provides a check or ACH authorization to cover the amount of the micro-loan plus any fees or interest associated with the micro-loan. By signing the micro-loan agreement, the customer agrees to return on the date specified, typically his/her pay date to “buy back” his/her check or revoke his/her ACH authorization, thus repaying the micro-loan including any fees or interest outstanding. Should the customer fail to return on the specified date, we may deposit his/her check or initiate the ACH previously authorized by the customer. In addition to the balance of the micro-loan and associated fees or interest, we may also seek to collect any applicable NSF and/or late fees accrued.

Table of Contents

In states where permissible by law, we may offer alternative products to micro-loan customers as well as to customers who do not obtain micro-loans from us. Product and service offerings include check cashing and state installment loans, as well as services offered by independent third parties through contractual agreements with us. These third-party products and services include tax preparation services, money order and wire transfer services and bill payment services.

Our deferred presentment service businesses are regulated directly and indirectly under various federal and state consumer protection and other laws, rules and regulations, including the TILA, the federal Equal Credit Opportunity Act, the federal Fair Credit Reporting Act, the federal Fair Debt Collection Practices Act, the federal Gramm-Leach-Bliley Act and federal Telemarketing and Consumer Fraud and Abuse Prevention Act. These statutes and their enabling regulations, among other things, impose disclosure requirements when a consumer loan or cash advance is advertised and when the account is opened. In addition, various state statutes limit the rate and fees that may be charged, prohibit discriminatory practices in extending credit, impose limitations on the number and form of transactions and restrict the use of consumer credit reports and other account-related information. Many of the states in which these businesses operate have various licensing requirements and impose certain financial or other conditions in connection with their licensing requirements. Any adverse change in or interpretation of existing laws or regulations or the failure to comply with any such laws and regulations could result in fines, class-action litigation, or interruption or cessation of certain business activities. Any of these events could have a material adverse effect on our business. In addition, there can be no assurance that amendments to such laws and regulations, or interpretations thereof, or new or more restrictive laws or regulations will not be adopted in the future which may make compliance more difficult or expensive, further limit or restrict fees and other charges, curtail current operations, restrict our ability to expand operations or otherwise materially adversely affect our businesses or prospects. For example, in the states of South Carolina and Kentucky, new laws were enacted in 2010 to require the use of a database to limit consumers to one outstanding micro-loan. This caused us to lose customers because many of our customers had outstanding loans with our competitors in addition to us and were forced to choose and utilize the services of only one micro-loan provider. A similar database requirement took effect on January 1, 2011 in the state of Wisconsin. Moreover, we continue to face regulatory challenges in the state of Ohio. Although the effects of the South Carolina, Kentucky and Wisconsin database requirements have resulted in some contractions in our outstanding micro-loan receivables and earnings thereon that have not been material to our consolidated financial statements and although we believe we may be able to implement alternative business and lending models that will allow our continued profitable operations in Ohio for the foreseeable future, we cannot assure any particular outcomes. Additionally, we do not yet know the potential future effects on our business, prospects, results of operations or financial condition that the July 2010 enactment of the Wall Street Reform and Consumer Protection Act, along with its creation of a federal Consumer Financial Protection Bureau with jurisdiction over U.S. micro-loan product offerings, will have on our U.S. micro-loan activities, and it is possible that the effects, if any, may not be known for several months or years.

We closed two retail locations in the three months ended March 31, 2011 and one location in the three months ended March 31, 2010 and did not open any new locations. Currently, we are not planning to expand the current number of locations in any new or existing markets; instead, we likely will continue to look at closing individual locations that do not meet our profitability thresholds. In addition, we will continue to evaluate our risk-adjusted returns in the states comprising the continuing operations of our Retail Micro-Loans segment.

Table of Contents

A roll-forward of our Retail Micro-Loans segment locations follows:

	For the Three Months Ended March 31,	
	2011	2010
Beginning number of locations included in continuing operations	305	314
Closed locations	(2)	(1)
Ending number of locations included in continuing operations	303	313

Our Retail Micro-Loans segment marketed and originated $88.0 million and $98.6 million in micro-loans during the three months ended March 31, 2011 and 2010, respectively, which resulted in revenue of $17.2 million and $18.2 million for the three months ended March 31, 2011 and 2010. Summary financial data for this segment (dollars in thousands) is as follows:

	For the Three Months Ended March 31,	
	2011	2010
Total revenues	$17,186	$18,187
Income from continuing operations before income taxes	$1,533	$2,316
Period end loans and fees receivable, gross	$36,887	$33,207

The above table illustrates the effects of new South Carolina, Kentucky and Wisconsin database requirements on loans and fees receivable levels, total revenues and profitability when comparing 2011 to 2010. Notwithstanding the adverse effects of these requirements, we expect our positive trending charge-off data to continue, and we expect to be able to rebuild our loans and fees receivable levels in the new database states at a modest pace over the next several quarters, thereby permitting us to realize quarterly total revenues and profitability at similar, but perhaps slightly lower, levels relative to comparable prior years' quarters. The rebuilding of our South Carolina receivables levels from their lows as of March 31, 2010 (shortly after the February 1, 2010 required database implementation date in South Carolina) underlies the growth in period end loans and fees receivable, gross, between March 31, 2010 and March 31, 2011.

The following tables present additional financial, operating and statistical metrics (dollars per store in thousands) for the continuing operations of our Retail Micro-Loans segment for the three months ended March 31, 2011 and 2010.

	For the Three Months Ended March 31,		
Per store (based on weighted average 304 and 314 storefronts open during the three months ended March 31, 2011 and 2010, respectively):	2011	2010	Income Increase (Decrease)
Revenue	$58	$58	$—
Direct expense			
Salaries and benefits	16	16	—
Provision for losses on loans and fees receivable	7	8	1
Occupancy	8	8	—
Depreciation	1	1	—
Advertising	2	4	2
Other	5	4	(1)
Total direct expense	39	41	2
Contribution margin	$19	$17	$2

Principally contributing to the lower per store contribution margin in the three months ended March 31, 2010 were the heightened advertising costs we incurred to counter the effects of South Carolina's February 1, 2010 database requirements on our customer base. Although the South Carolina, Kentucky and Wisconsin database requirements continue to depress our revenue-per-store metrics somewhat, we anticipate gradual improvements in receivables levels, revenues and profits in these states and overall over the next several quarters. Absent aggressive store openings or closures, we expect for costs to continue at similar levels to our current levels.

Table of Contents

Internet Micro-Loans Segment

As previously noted, on April 1, 2011, we completed the planned sale of our MEM operations to Dollar Financial Corp for $195.0 million, the net pre-tax proceeds of which were $170.7 million after the purchase of minority shares and other transaction-related expenditures. Our MEM operations are classified as held for sale on our consolidated balance sheet as of March 31, 2011 and December 31, 2010 and accordingly as discontinued operations on our consolidated statements of operations and in our operating segment tables for all periods presented.

We are testing the Internet micro-loan platform underwriting techniques and marketing approaches within the U.S. at a measured pace, and depending upon the results of this testing, we may significantly grow Internet-based micro-loan cash advance lending within the U.S. As noted previously, our U.S. Internet micro-loan operations represent our only continuing Internet micro-loan operations, and they originated $2.2 million and $1.1 million in micro-loans during the three months ended March 31, 2011 and 2010, respectively, resulting in revenue of $0.5 million and $0.3 million for the three months ended March 31, 2011 and 2010, respectively. Summary financial data (in thousands) for our Internet Micro-Loans segment are as follows:

	For the Three Months Ended March 31,	
	2011	2010
Total revenues	$550	$267
Loss on continuing operations before income taxes	$(904)	$(134)
Income from discontinued operations before income taxes	$7,344	$5,094
Income attributable to noncontrolling interests in discontinued operations	$(1,131)	$(737)
Period end loans and fees receivable for continuing operations, gross	$1,194	$712

Combined Financial, Operating and Statistical Data for Micro-Loan Businesses

Financial, operating and statistical metrics for our continuing combined micro-loan operations are detailed in the following table. As discussed elsewhere in this information statement, continuing operations in these periods included our Retail Micro-Loans segment's operations in nine states (Alabama, Colorado, Kentucky, Mississippi, Ohio, Oklahoma, South Carolina, Tennessee, and Wisconsin) as well as our U.S.-based Internet micro-loan operations.

	At or for the Three Months Ended							
	2011	2010				2009		
	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30
Number of customers served—all credit products	82,213	91,262	89,754	83,785	85,042	94,563	91,108	80,228
Number of cash advances originated	224,028	294,473	282,809	265,114	259,017	371,826	336,149	290,842
Aggregate principal amount of cash advances originated (in thousands)	$90,228	$119,395	$113,071	$104,416	$99,703	$132,000	$117,590	$101,382
Average amount of each cash advance originated	$403	$405	$400	$394	$385	$355	$350	$349
Aggregate Fee Amount (in thousands)	$11,514	$16,405	$15,738	$14,652	$14,139	$18,850	$16,959	$14,683
	$51	$56	$56	$55	$55	$51	$50	$50

Average charge to customers for providing and processing a cash advance								
Average duration of a cash advance (days)	19	19	18	19	18	19	19	18
Number of installment loans originated	10,748	9,368	9,156	5,053	3,872	6,344	4,911	4,323
Aggregate principal amount of installment loans originated (in thousands)	$8,762	$4,789	$4,621	$2,857	$2,102	$3,193	$2,093	$1,812
Average principal amount of each installment loan originated	$815	$511	$505	$565	$543	$503	$426	$419

Table of Contents

Our Retail Micro-Loans segment will typically originate fewer cash advances during the first quarter of each year than in subsequent periods due to decreased demand for these loan products during tax refund season. The impact of this can be seen throughout all the above metrics as first quarter data tend to lag behind that experienced in the fourth quarter. Also evident in the above data are the adverse effects on revenues and the number and amount of cash advances made associated with the new South Carolina, Kentucky database requirements in 2010 and the Wisconsin database requirement implemented in January of 2011. Given the effects of these requirements, even when potential 2011 U.S. Internet micro-loan business growth is factored in, we do not expect to see any significant growth in our micro-loan revenues in 2011; in fact, they may even slightly lag 2010 revenues.

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. As of March 31, 2011, our only remaining JRAS asset is the portfolio of auto finance receivables that it had originated while under our ownership.

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 694 dealers through our Auto Finance segment in 32 states and the District of Columbia.

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							
	2011	2010				2009		
	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30
Period-end managed receivables	$128,254	$154,191	$177,799	$206,435	$232,418	$262,775	$283,640	$307,978
Period-end managed accounts	30	33	35	38	38	40	41	42
Percent 30 or more days past due	8.6 %	12.8 %	12.2 %	10.2 %	11.6 %	24.6 %	19.8 %	19.3 %
Percent 60 or more days past due	3.6 %	5.3 %	4.8 %	3.9 %	6.6 %	11.1 %	9.0 %	7.8 %
Percent 90 or more days past due	1.5 %	2.4 %	1.8 %	1.4 %	4.2 %	6.1 %	4.7 %	3.7 %
Average managed receivables	$140,132	$165,286	$192,480	$220,416	$248,315	$272,664	$296,247	$318,961

Gross yield ratio	29.2 %	29.1 %	27.5 %	25.2 %	24.1 %	25.6 %	24.9 %	24.1 %
Adjusted charge-off ratio	21.1 %	20.3 %	18.1 %	18.2 %	17.0 %	20.1 %	14.5 %	14.9 %
Recovery ratio	3.4 %	3.6 %	3.1 %	4.5 %	2.4 %	1.4 %	1.0 %	1.4 %
Net interest margin	20.5 %	19.8 %	23.4 %	14.9 %	14.0 %	18.0 %	20.7 %	19.5 %
Other income ratio	(11.2) %	0.6 %	(0.3)%	(0.8)%	(1.6)%	4.7 %	5.0 %	5.6 %
Operating ratio	18.7 %	20.7 %	17.6 %	16.1 %	16.6 %	21.0 %	16.2 %	18.3 %
Retail sales	$384	$1,035	$1,072	$557	$2,556	$5,921	$9,300	$11,322
Retail units sold	51	144	165	91	243	564	829	993
Average stores in operation	1	1	1	1	2	6	6	7
Period-end stores in operation	0	1	1	1	1	6	6	6

Table of Contents

Managed receivables. Period-end managed receivables have gradually declined as we have curtailed significant purchasing and origination activities. As of March 31, 2011, only CAR continued to purchase/originate loans—albeit at significantly reduced levels than those experienced in prior periods. While we believe that purchases within the CAR platform will offset liquidations of previously existing receivables within that platform, we expect that net liquidations at ACC and JRAS (particularly in the case of JRAS with our sale of its origination platform and other operations in February 2011 and our retention of its prior-originated receivables) will continue to overshadow the CAR additions for the foreseeable future.

Delinquencies. Throughout 2009, increases in delinquencies were primarily due to generally worsening economic conditions as well as our shutdown of storefront locations associated with our JRAS operations which tended to increase charge offs. Although our ACC and JRAS receivables portfolios are liquidating and becoming less significant relative to our better performing CAR portfolios which generally have significantly lower delinquencies and charge offs, we expect to see delinquency levels over the next several quarters to remain relatively constant compared to December 31, 2010 levels given that we do not expect ACC and JRAS servicers to undertake the same level of charge-off account management activities as were undertaken during the first two quarters of 2010, which resulted in lower than typical delinquencies in the latter quarters of 2010. The lower delinquency rates seen in the first quarter of 2011 are largely seasonal, and we expect modest increases in those rates to be more consistent with that experienced at December 31, 2010. The above factors are expected to diminish delinquency improvements over the next several quarters even though we expect recent and future purchases within our CAR operations to have delinquency rates at or below our historical delinquency averages.

Gross yield ratio, net interest margin and other income ratio. Notwithstanding the above-noted ACC and JRAS-related delinquency improvements, the effects of higher delinquencies and charge offs generally have served to depress our net interest margins in recent quarters and are expected to continue to depress our net interest margins for the foreseeable future. Moreover, higher interest costs of an amortizing ACC debt facility into which we entered the fourth quarter of 2009 put significant additional pressure on our net interest margin in that quarter and in subsequent quarters and are expected to continue to adversely impact our net interest margin into the future, but at diminishing levels as we repay the facility. Also adversely impacting our fourth quarter 2009 net interest margin was the write off of the then-remaining deferred loan costs associated with a $23.3 million facility within our ACC operations that was repaid during November 2009. Offsetting the interest-expense-increasing effects of the higher interest cost ACC debt facility and causing the net interest margin spike in the third quarter of 2010 is the reversal in that quarter of previously recognized contingent interest expense associated with debt within our ACC operations. Although the terms of the 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, we concluded in the third quarter of 2010 that it was not longer probable that any such additional payments would be available to be made to the note holders. Lastly, as our ACC and JRAS receivables decline in relative significance as a percentage of our total portfolio of auto finance receivables, the higher gross yields and relatively lower cost of funds that we achieve within our CAR operations are expected to result in incrementally higher gross yield ratios and net interest margins in future quarters as was experienced in the first quarter of 2011.

The principal component of our other income ratio in quarters prior to the first quarter of 2011 was the gross profit (or more recently loss) 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. The 2010 suspension of new inventory purchases and corresponding dramatic decline in sales caused the significant reduction in our other income ratio in 2010, particularly given that we sold off inventory to pay down lines of credit collateralized by our inventory, often below cost, generating overall losses on sales. Our other income ratio in the first quarter of 2011 reflects the $4.6 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.

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. The general trending increase in our adjusted charge-off ratio, therefore, reflects (1) the passage of time since our acquisition of the 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, (3) the adverse effects, particularly in the fourth quarter of 2009 and in subsequent quarters, of the six 2009 and five 2010 JRAS lot closures and the corresponding negative impact this had on collections within our JRAS operations, (4) the initial impact on charge offs as we outsourced collections for our ACC portfolio and collection practices were modified resulting in a wave of increased charge offs in the first quarter of 2010, and (5) the initial impact on charge offs of JRAS's modified collection practices in 2010 as it worked with its lender pursuant to a then-standing forbearance agreement with the lender. As 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 decline in relative significance as a percentage of our total portfolio of auto finance receivables, the lower charge offs that we experience within our CAR operations are expected to result in lower adjusted charge-off ratios in future quarters.

Operating ratio. The operating ratio in the Auto Finance segment generally has trended lower throughout 2010 relative to comparable 2009 quarters primarily due to continued cost-cutting initiatives to better reflect existing portfolio balances primarily within our CAR operations. This decrease was offset, however, by fixed expenses associated with our JRAS operations that were not decreasing in line with corresponding receivables prior to the sale of these operations in February 2011. Given the February 2011 sale of our JRAS operations, we expect to see continued improvement in our operating ratio in 2011 beyond that experienced in the first quarter.

Table of Contents

Future Expectations

Given our expectation of contractions in our auto finance receivables over the coming quarters, as well as an anticipated mix change toward a greater percentage of our receivables being comprised of CAR receivables for which loan losses are less significant than for our other auto finance segment receivables (i.e., given CAR's ability to put loans back to its dealers), we expect both absolute reductions in our allowance for uncollectible loans and fees receivable and reductions in the percentage of our allowance for uncollectible loans and fees receivable to total loans and fees receivable for 2011. This expectation, however, is dependent upon an assumption that economic conditions do not worsen in 2011 in the geographic areas in which our customers reside. Despite the improved pricing power that we now possess within CAR as a result of the reduction in lending by our auto finance competitors, which allows us to price all new acquisitions for higher risks of defaults, we could experience further erosion in our delinquencies and higher charge offs against earnings.

Our CAR operations are performing well in the current environment (achieving consistent profitability with modest growth) and are expected to continue doing so for the foreseeable future. However, as we move forward into the future, losses expected to be incurred on our retained ACC and JRAS receivables portfolios (especially when coupled with the high costs of our borrowings within ACC) are expected to keep our Auto Finance segment from achieving profitability over the next few quarters. As the ACC and JRAS receivables gradually liquidate and over time have a diminished adverse effect on the positive results we are experiencing within our CAR operations, we should see gradually improved Auto Finance segment results.

Liquidity, Funding and Capital Resources

We continue to see dislocation in the availability of 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 that the 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 the 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 now closed substantially all of our credit card accounts (other than those associated with our Investment in Previously Charged-Off Receivables segment's balance transfer program and limited 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 enhancing shareholder value to the greatest extent possible.

All of our Credit Card 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, our most significant Auto Finance segment facility is that which is secured by our ACC operation's auto finance receivables; as of March 31, 2011, $44.3 million remained outstanding on this amortizing debt facility, the terms of which do not require any accelerated or bullet repayment obligation by or refinancing risks to us. Lastly, with our having entered into a February 2011 non-recourse financing arrangement secured by auto finance receivables that we retained upon the sale of our JRAS operations also in February 2011, our only significant remaining asset-backed debt facility that carries bullet repayment or refinancing risks is a $50.0 million revolving debt facility (against which $27.7 million was drawn and outstanding at March 31, 2011) secured by our CAR operations' auto finance receivables. Unless we renew or replace the $50.0 million CAR facility, it will require amortizing repayments over a period not to exceed 6 months beginning in June 2011. Although we are optimistic we can renew or replace this facility under acceptable terms, there is no assurance of this outcome, and we are prepared to repay the facility out of available liquidity should repayment be required. Lastly, we note that we do not have any significant asset-based debt facilities within our Investments in Previously Charged-Off Receivables segment and that we have no outstanding debt facilities within our Retail Micro-Loans and Internet Micro-Loans segments.

As noted above, our risks of required bullet pay-off of asset-backed debt facilities or of having to refinance such facilities has substantially diminished over the last several quarters. Our continuing challenge within our Credit Cards segment, however, will be to reduce our overhead cost infrastructure to match our incoming servicing compensation cash flows under our amortizing credit card structured financing facilities and the cash flows that we expect to receive from our 50%-owned equity-method investee that owns all of the outstanding notes underlying our U.K. Portfolio structured financing trust. Furthermore, the values of our credit card receivables 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 opportunity for 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 Investment in Previously Charged-Off Receivables segment’s balance transfer program and test program accounts); consequently, each of our managed credit card receivables portfolios is expected to show fairly rapid net liquidations in balances for the foreseeable future. Similarly, the lack of available growth financing for our Auto Finance segment has caused us to limit capital deployment to that business, which will cause contraction in its receivables and revenues over the coming months. Offsetting these restrictions on available capital is the incremental $65.7 million of net capital generated in April 2011 following (1) the sale of our MEM operations on April 1, 2011, which resulted in $170.7 million of pre-tax cash to us after the purchase of minority shares and other transaction-related expenditures and (2) the closing of a tender offer in April 2011, under which 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.

At March 31, 2011, we had $106.5 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 first quarter 2011 cash flows follow:

- During the three months ended March 31, 2011, we generated $28.4 million in cash flows from operations, compared to $173.4 million of cash flows from operations generated during the three months ended March 31, 2010. The decrease was principally related to (1) significant net tax refunds during 2010 as contrasted with a small level of net tax payments during 2011, (2) lower collections of credit card finance charge receivables in the three months ended March 31, 2011 relative to the same period in 2010 given diminished receivables levels, and (3) reductions in the net liquidation of receivables associated with our JRAS operations, given the diminishing levels of receivables, offset by (1) increased finance and fee collections associated with our growing MEM operations prior to the sale of these operations on April 1, 2011, and (2) overall reduced spending levels during 2011 as a result of our various ongoing cost-cutting initiatives.

- During the three months ended March 31, 2011, we generated $103.3 million of cash through our investing activities, compared to our use of $18.0 million of cash in investing activities during the three months ended March 31, 2010. But for our investment of $75.0 million in marketable securities during the three months ended March 31, 2010 (substantially all of which marketable securities investments subsequently have been redeemed), we would have generated $57.0 million in cash from investing activities in the three months ended March 31, 2010. Consistent with the current net liquidating status of our credit card and auto finance receivables, we expect continued net cash provided by investing activities over the next few quarters.

- During the three months ended March 31, 2011, we used $104.3 million of cash in financing activities, compared to our use of $146.2 million of cash in financing activities during the three months ended March 31, 2010. In both three month periods ended March 31, 2011 and 2010, 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). Also increasing our cash used in financing activities for the three months ended March 31, 2010 were our repurchases of: $24.7 million in face amount of our 3.625% notes and $15.6 million in face amount of our 5.875% notes for $12.8 million and $5.7 million, respectively, compared to repurchases in the three months ended March 31, 2011 of only $13.5 million in face amount of our 3.625% notes for $12.4 million. Further increasing the use of cash in financing activities for the three months ended March 31, 2010 was our purchase of 6% of the outstanding noncontrolling interests of MEM for £4.3 million ($6.6 million).

We had no material unused draw capacity under our debt facilities as of March 31, 2011. As such, our $106.5 million of unrestricted cash on our consolidated balance sheet represents our maximum available liquidity at March 31, 2011. Additionally, the sale of our MEM operations mentioned throughout this Report which closed on April 1, 2011 resulted in an estimated $170.7 million of additional cash to us (of which $105.0 million was used as part of our previously mentioned tender offer in April 2011, whereby we repurchased 13,125,000 shares of our common stock at a purchase price of $8.00 per share), and we continue to pursue a number of new financing facilities and liquidity sources. If new financing facilities and liquidity sources are ultimately available to us at attractive pricing and terms, they could support investment opportunities to include repurchases of our convertible senior notes and stock, portfolio acquisitions, and marketing and originations within our various businesses. However, the liquidity environment continues to be particularly challenging in general and more specifically for sub-prime asset classes such as ours. Moreover, the $106.5 million in aggregate March 31, 2011 unrestricted cash mentioned herein is represented by summing up all unrestricted cash from among all of our business segments, and the liquidity available to any one of our business segments is appreciably below the $106.5 million in unrestricted cash balance.

Table of Contents

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, 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 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 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 non-financial assets or businesses. As of the date of this Report, and pursuant to a decision by our Board of Directors on August 5, 2010, we are authorized to repurchase 10,000,000 common shares under our share repurchase program, and this authorization extends through June 30, 2012.

Lastly, we note that beyond the one Auto Finance segment facility that presents refunding or refinancing risks to us as discussed above, the only remaining material refunding or refinancing risk to us does not arise until May 2012, at which time we have an obligation to satisfy, at the option of note holders, potential conversions of our 3.625% convertible senior notes issued in May 2005, of which $132.5 million in face amount were outstanding as of March 31, 2011. In addition to any cash or other assets that we have on hand at such time to satisfy these potential conversions, we ultimately may rely on debt or equity issuances or possible exchange offerings, none of which are assured, to satisfy them. Moreover, as we noted previously, we continue to evaluate repurchases of this particular series of our convertible senior notes and our 5.875% convertible senior notes due in 2035 at prices that generate acceptable returns for our shareholders relative to alternative uses of our capital.

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, 2010.

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 10, “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.

Table of Contents

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.

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

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

The aforementioned credit losses, payment rates, servicing costs, costs of funds, discount rates and yields earned on credit card receivables estimates significantly affect the amount of our loans and fees receivables and our notes payable associated with structured financings that we report 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.

Investments in Previously Charged-Off Receivables

We account for our investments in previously charged-off receivables using the “cost recovery method” of accounting in accordance with applicable accounting standards. We establish static pools consisting of homogenous accounts and receivables for each acquisition. Once we establish a static pool, we do not change the receivables within the pool.

We record each static pool at cost and account for it as a single unit for the economic life of the pool (similar to one loan) for recovery of our basis, recognition of revenue and impairment testing. We earn revenue from previously charged-off receivables after we have recovered the original cost for each pool. Each quarter, we perform an impairment test on each static pool. If the remaining forecasted collections are less than our current carrying value and reflect an other-than-temporary impairment, we record an impairment charge.

Table of Contents

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 our portfolio of on-balance-sheet loans and fees receivable. Given the addition of our Retail micro-loan operations in 2004, our auto-finance operations in 2005 and our MEM operations in 2007, our allowance for uncollectible loans and fees receivable has become much more material to our financial statements in recent years—although with net liquidations in receivables within our auto-finance operations throughout 2010 and into 2011 and the classification of our MEM operations as held for sale at March 31, 2011, our allowance for uncollectible loans and fees receivable has fallen relative to its balance at March 31, 2010. 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.

Related Party Transactions

As part of our April 2011 tender offer we purchased the following shares from our executive officers and members of our Board of Directors at $8 per share:

	Number of Shares	Total Price
Executive Officers		
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
Board Members		
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 affiliates of the Hanna's 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 new 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 $23.35 per square foot is the same as the rate that we pay on the prime lease. This sublease expires in May of 2022.

In June, 2007, a partnership formed by Richard W. Gilbert (our Chief Operating Officer and Vice Chairman of our Board of Directors), Richard R. House, Jr. (our President and a member of our Board of Directors), J. Paul Whitehead III (our Chief Financial Officer), Krishnakumar Srinivasan (President of our Credit Cards segment), and other individual investors (including an unrelated third-party individual investor), acquired £4.7 million ($9.2 million) of class "B" notes originally issued to another investor out of our U.K. Portfolio structured financing trust. This acquisition price of the notes was the same price at which the original investor had sold $60 million of notes to another unrelated third party. Due to various partnership member terminations in 2009 and 2010, only Richard W. Gilbert, Richard R. House, Jr. and one other individual investor remained as partners in the partnership at December 31, 2010. In March 2011, we invested in a 50.0%-owned joint venture that purchased the outstanding notes issued out of our U.K. Portfolio structured financing trust including those owned by this partnership; no consideration was paid for the notes.

Table of Contents

In December 2006, we established a contractual relationship with Urban Trust Bank, a federally chartered savings bank ("Urban Trust"), pursuant to which we purchase credit card receivables underlying specified Urban Trust credit card accounts. Under this arrangement, in general Urban Trust was entitled to receive 5% of all payments received from cardholders and was obligated to pay 5% of all net costs incurred by us in connection with managing the program, including the costs of purchasing, marketing, servicing and collecting the receivables. In April 2009, however, we amended our contractual relationship with Urban Trust such that, in exchange for a payment by us of $300,000, Urban Trust would sell back its ownership interest in the economics underlying cards issued through Urban Trust Bank. The purchase of this interest resulted in a net gain of $1.1 million which we recorded in our second quarter 2009 results of operations. Frank J. Hanna, Jr., owns a substantial noncontrolling interest in Urban Trust and serves on its Board of Directors. In December 2006, we deposited $0.3 million with Urban Trust to cover purchases by Urban Trust cardholders. As of March 31, 2011, our deposit with Urban Trust decreased to only $11,200, corresponding to account closures and reduced credit lines impacting Urban Trust cardholders.

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 our expected revenue, income, receivables, income ratios, net interest margins, acquisitions and other growth opportunities, divestitures and discontinuations of businesses, location openings and closings, loss exposure and loss provisions, delinquency and charge-off rates, impacts of account actions that we may take, changes in collection programs and practices, changes in the credit quality and fair value of our on-balance-sheet 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") 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, expansion and growth of our Investments in Previously Charged-Off Receivables 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, the profitability of our Retail Micro-Loans segment, our entry into international markets, our ability to raise funds or renew financing facilities, our 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," "shou 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 limits or prohibits the operation of our businesses;
- current and future litigation and regulatory proceedings against us;
- the effect of the current 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;

Table of Contents

- 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 business; and
- theft and employee errors.

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

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

In this Report, except as the context suggests otherwise, the words "Company," "CompuCredit Holdings Corporation," "CompuCredit," "we," "our," "ours" and "us" refer to CompuCredit Holdings Corporation and its subsidiaries and predecessor CompuCredit owns Aspire®, CompuCredit®, Emblem®, Embrace®, Emerge®, Fanfare®, Imagine®, Majestic®, Monument®, Purpose®, Purpose Money®, Salute®, Tribute® and other trademarks and service marks in the U.S. and the U.K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective at meeting their objectives.

(b) Internal control over financial reporting.

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various legal proceedings that are incidental to the conduct of our business. The most significant of these are described in Note 10, “Commitments and Contingencies,” to our Consolidated Financial Statements contained in Part I Item 1 of this Report.

ITEM 1A. RISK FACTORS

An investment in our common stock or other securities involves a number of risks. You should carefully consider each of the risks described below before deciding to invest in our common stock. If any of the following risks develops into actual events, our business, financial condition or results of operations could be negatively affected, the market price of our common stock or other securities could decline and you may lose all or part of your investment.

Investors should be particularly cautious regarding investments in our common stock or other securities at the present time in light of the current economic circumstances. We are predominately a sub-prime lender, and our customers have been adversely impacted by the loss of jobs and the overall decline in the economy.

Our Cash Flows and Net Income Are Dependent Upon Payments from Our Loans and Fees Receivable and Other Credit Products

The collectibility of our loans and fees receivable is a function of many factors including the criteria used to select who is issued credit, the pricing of the credit products, the lengths of the relationships, general economic conditions, the rate at which customers repay their accounts or become delinquent, and the rate at which customers borrow funds from us. Deterioration in these factors, which we have experienced over the past few years, adversely impacts our business. In addition, to the extent we have over-estimated collectibility, in all likelihood we have over-estimated our financial performance. Some of these concerns are discussed more fully below.

Our portfolio of receivables is not diversified and originates from customers whose creditworthiness is considered sub-prime. Historically, we have obtained receivables in one of two ways—we have either solicited for the origination of the receivables or purchased pools of receivables from other issuers. In either case, substantially all of our receivables are from financially underserved borrowers—borrowers represented by credit risks that regulators classify as “sub-prime.” Our reliance on sub-prime receivables has negatively impacted and may in the future negatively impact, our performance. Our various past and current losses might have been mitigated had our portfolios consisted of higher-grade receivables in addition to our sub-prime receivables. We have no immediate plans to issue or acquire significant higher-grade receivables.

We may not successfully evaluate the creditworthiness of our customers and may not price our credit products so as to remain profitable. The creditworthiness of our target market generally is considered “sub-prime” based on guidance issued by the agencies that regulate the banking industry. Thus, our customers generally have a higher frequency of delinquencies, higher risks of nonpayment and, ultimately, higher credit losses than consumers who are served by more traditional providers of consumer credit. Some of the consumers included in our target market are consumers who are dependent upon finance companies, consumers with only retail store credit cards and/or lacking general purpose credit cards, consumers who are establishing or expanding their credit, and consumers who may have had a delinquency, a default or, in some instances, a bankruptcy in their credit histories, but who, in our view, have demonstrated recovery. We price our credit products taking into account the perceived risk level of our customers. If our estimates are incorrect, customer default rates will be higher, we will receive less cash from the receivables and the value of our loans and fees receivable will decline, all of which will have a negative impact on performance. While they have begun to rebound modestly, payment rates by our customers declined significantly in 2008 and 2009 and, correspondingly, default rates likewise increased throughout that time period. It also is unclear whether modest improvement in payment rates can be sustained given weakness in the employment outlook and economic environment at large.

Economic slowdowns increase our credit losses. During periods of economic slowdown or recession, we experience an increase in rates of delinquencies and frequency and severity of credit losses. Our actual rates of delinquencies and frequency and severity of credit losses may be comparatively higher during periods of economic slowdown or recession than those experienced by more traditional providers of consumer credit because of our focus on the financially underserved consumer market, which may be disproportionately impacted. Other economic and social factors, including, among other things, changes in consumer confidence levels, the public's perception of the use of credit and changing attitudes about incurring debt, and the stigma of personal bankruptcy, also can impact credit use and account performance. Moreover, adverse changes in economic conditions in states where customers are located, including as a result of severe weather, can have a direct impact on the timing and amount of payments of receivables. The U.S. economy recently experienced a period characterized by months of economic downturn or recession, and the current recovery is modest at best. Although our payments and default rates have improved somewhat in recent months as the economy has begun to recover, any erosion of the pace and significance of the recovery will more significantly, and more negatively, impact our business.

We are subject to foreign economic and exchange risks. Because of our investments in the U.K., we have exposure to fluctuations in the U.K. economy, recent fluctuations in which have been significantly negative. We also have exposure to fluctuations in the relative values of the U.S. dollar and the British pound. Because the British pound has experienced a net decline in value relative to the U.S. dollar since we made the most significant of our investments in the U.K., we have experienced significant transaction and translation losses within our financial statements.

Table of Contents

Because a significant portion of our reported income is based on management's estimates of the future performance of our loans and fees receivable, differences between actual and expected performance of the receivables may cause fluctuations in net income. Significant portions of our reported income (or losses) are based on management's estimates of cash flows we expect to receive on our loans and fees receivable, particularly for such assets that we report based at fair value. The expected cash flows are based on management's estimates of interest rates, default rates, payment rates, cardholder purchases, servicing costs, and discount rates. These estimates are based on a variety of factors, many of which are not within our control. Substantial differences between actual and expected performance of the receivables will occur and cause fluctuations in our net income. For instance, higher than expected rates of delinquencies and losses could cause our net income to be lower than expected. Similarly, as we have experienced for our credit card receivables portfolios with respect to financing agreements secured by our loans and fees receivable, levels of loss and delinquency can result in our being required to repay our lenders earlier than expected, thereby reducing funds available to us for future growth. Because all of our credit card receivables structured financing facilities are now in amortization status—which for us generally means that the only meaningful cash flows that we are receiving with respect the credit card receivables that are encumbered by such structured financing facilities are those associated with our contractually specified fee for servicing the receivables—recent payment and default trends have substantially reduced the cash flow that we receive from these receivables.

Seasonal factors may result in fluctuations in our net income. Our quarterly income may fluctuate substantially as a result of seasonal consumer spending. In particular, our customers may borrow more during the year-end holiday season and during the late summer vacation and back-to-school period, resulting in corresponding increases in the receivables.

Due to the lack of historical experience with Internet customers, we may not be able to target successfully these customers or evaluate their creditworthiness. There is less historical experience with respect to the credit risk and performance of customers acquired over the Internet. As a result, we may not be able to target and evaluate successfully the creditworthiness of these potential customers should we engage in marketing efforts to acquire these customers. Therefore, we may encounter difficulties managing the expected delinquencies and losses and appropriately pricing our products.

We Are Substantially Dependent Upon Borrowed Funds to Fund the Receivables That We Originate or Purchase

All of our financing facilities are of finite duration (and ultimately will need to be extended or replaced) and contain financial covenants and other conditions that must be fulfilled in order for funding to be available. Moreover, most of these facilities currently are in amortization stages (and are not allowing for the funding of any new loans), either based on their original terms or because we have not met financial or asset performance-related covenants. The cost and availability of equity and borrowed funds is dependent upon our financial performance, the performance of our industry generally and general economic and market conditions, and at times equity and borrowed funds have been both expensive and difficult to obtain. Most recently, funding for sub-prime lending has been very difficult to achieve. Some of these concerns are discussed more fully below.

As our financing facilities mature or experience early amortization events, the proceeds from the underlying receivables will not be available to us for reinvestment or other purposes. Absent early amortization events, repayment for our credit card financing facilities typically has begun approximately one year prior to their maturity dates. Once repayment begins and until the facility is paid, payments from customers on the underlying receivables are accumulated to repay the lenders and no longer are reinvested in new receivables. When a financing facility matures, the underlying trust continues to own the receivables, and the maturing facility retains its priority in payments on the underlying receivables until it is repaid in full. As a result, new purchases need to be funded using debt, equity or a replacement facility subordinate to the maturing facility's interest in the underlying receivables. If we are obligated to repay a securitization facility and we also are unable to obtain alternative sources of liquidity, such as debt, equity or new financing facilities that are structurally subordinate to the facility being repaid, we generally are forced to prohibit new purchases in some or all of our accounts in order to reduce our need for any additional cash. Such is our situation currently, and in response to this situation, we have closed substantially all of our credit card accounts that are pledged as security for underlying financing facilities to new purchases.

We may be unable to obtain capital from third parties needed to fund our existing loans and fees receivable, lenders under our debt facilities may be unable or unwilling to meet their contractual commitments to provide us funding, or we may be forced to rely on more expensive funding sources than those that we have today. We need equity or debt capital to fund any portion of our loans and fees receivable against which lenders are unable or unwilling to advance or lend to us. Investors should be aware of our dependence on third parties for funding and our exposure to increases in costs for that funding. External factors, including the general economy, impact our ability to obtain funds. These factors have been significant enough in the recent past that we have not been able to raise cash by issuing additional debt or equity or by selling a portion of our subordinated loans and fees receivable interests at acceptable pricing. As a result, like all participants in the sub-prime market place, we continue to operate under liquidity constraints.

Our growth is dependent on our ability to add new financing facilities. We finance our receivables in large part through financing facilities. Beginning in 2007, largely as a result of difficulties in the sub-prime mortgage market, new financing generally has been unavailable to sub-prime lenders, and the financing that has been available has been on significantly less favorable terms. As a result, beginning in the third quarter of 2007, we significantly curtailed our marketing for new credit cards and currently are not issuing a significant number of new cards. Moreover, commencing in October 2008 we reduced credit lines and closed a significant number of accounts in response to the unavailability of financing and to reduce our risk exposure. These activities continued into 2009 and, as a result, substantially all of our credit cards are now closed to cardholder purchases. If additional financing facilities are not available in the future on terms we consider acceptable, we will not be able to grow our credit card business and it will continue to contract in size.

Table of Contents

Our Financial Performance Is, in Part, a Function of the Aggregate Amount of Receivables That Are Outstanding

The aggregate amount of outstanding receivables is a function of many factors including purchase rates, payment rates, interest rates, seasonality, general economic conditions, competition from other credit card issuers and other sources of consumer financing, access to funding, the timing and extent of our marketing efforts and the success of our marketing efforts.

Our business currently is contracting. Growth is a product of a combination of factors, many of which are not in our control. Factors include:

- the level of our marketing efforts;
- the success of our marketing efforts;
- the degree to which we lose business to competitors;
- the level of usage of our credit products by our customers;
- the availability of portfolios for purchase on attractive terms;
- levels of delinquencies and charge offs;
- the availability of funding on favorable terms;
- the level of costs of soliciting new customers;
- our ability to employ and train new personnel;
- our ability to maintain adequate management systems, collection procedures, internal controls and automated systems; and
- general economic and other factors beyond our control.

We have substantially eliminated our credit card marketing efforts and have aggressively reduced credit lines and closed credit card accounts. In addition, the general economic downturn experienced in 2008 and 2009 significantly impacted not just the level of usage of our credit products by our customers but also levels of payments and delinquencies and other performance metrics. As a result, our business currently is contracting, and until market conditions more substantially reverse, we do not expect overall net growth in our credit card business.

Our decisions regarding marketing have a significant impact on our growth. We can increase or decrease the size of our outstanding receivables balances by increasing or decreasing our marketing efforts. Marketing is expensive, and during periods when we have less liquidity than we like or when prospects for continued liquidity in the future do not look promising, we have limited our marketing and thereby our growth. We decreased our credit card marketing during 2003, although we increased such marketing in 2004 through 2006 because of our improved access to capital. Similarly, we significantly curtailed our credit cards marketing in August 2007 because of uncertainty regarding future access to capital as a result of difficulties in the sub-prime mortgage market and, except as to current marketing activities associated with our Investment in Previously Charged-Off Receivables segment's balance transfer program and limited U.S. and U.K. test programs, we currently have ceased credit card marketing activities.

Table of Contents

We Operate in a Heavily Regulated Industry

Changes in bankruptcy, privacy or other consumer protection laws, or to the prevailing interpretation thereof, may expose us to litigation, adversely affect our ability to collect account balances in connection with our traditional credit card business, our debt collection subsidiary’s charged-off receivables operations, and our auto finance and micro-loan activities, or otherwise adversely affect our operations. Similarly, regulatory changes could adversely affect our ability or willingness to market credit cards and other products and services to our customers. The accounting rules that govern our business are exceedingly complex, difficult to apply and in a state of flux. As a result, how we value our receivables and otherwise account for our business is subject to change depending upon the changes in, and, interpretation of, those rules. Some of these issues are discussed more fully below.

Reviews and enforcement actions by regulatory authorities under banking and consumer protection laws and regulations may result in changes to our business practices, may make collection of account balances more difficult or may expose us to the risk of fines, restitution and litigation. Our operations, and the operations of the issuing banks through which we originate credit products, are subject to the jurisdiction of federal, state and local government authorities, including the Consumer Financial Protection Bureau, the SEC, the FDIC, the Office of the Comptroller of the Currency, the FTC, U.K. banking authorities, state regulators having jurisdiction over financial institutions and debt origination and collection and state attorneys general. Our business practices, including the terms of our products and our marketing, servicing and collection practices, are subject to both periodic and special reviews by these regulatory and enforcement authorities. These reviews can range from investigations of specific consumer complaints or concerns to broader inquiries into our practices generally. If as part of these reviews the regulatory authorities conclude that we are not complying with applicable law, they could request or impose a wide range of remedies including requiring changes in advertising and collection practices, changes in the terms of our products (such as decreases in interest rates or fees), the imposition of fines or penalties, or the paying of restitution or the taking of other remedial action with respect to affected customers. They also could require us to stop offering some of our products, either nationally or in selected states. To the extent that these remedies are imposed on the issuing banks through which we originate credit products, under certain circumstances we are responsible for the remedies as a result of our indemnification obligations with those banks. We also may elect to change practices or products that we believe are compliant with law in order to respond to regulatory concerns. Furthermore, negative publicity relating to any specific inquiry or investigation could hurt our ability to conduct business with various industry participants or to attract new accounts and could negatively affect our stock price, which would adversely affect our ability to raise additional capital and would raise our costs of doing business.

If any deficiencies or violations of law or regulations are identified by us or asserted by any regulator, or if the Consumer Financial Protection Bureau, the FDIC, the FTC or any other regulator requires us to change any of our practices, the correction of such deficiencies or violations, or the making of such changes, could have a materially adverse effect on our financial condition, results of operations or business. In addition, whether or not we modify our practices when a regulatory or enforcement authority requests or requires that we do so, there is a risk that we or other industry participants may be named as defendants in litigation involving alleged violations of federal and state laws and regulations, including consumer protection laws. Any failure to comply with legal requirements by us or the issuing banks through which we originate credit products in connection with the issuance of those products, or by us or our agents as the servicer of our accounts, could significantly impair our ability to collect the full amount of the account balances. The institution of any litigation of this nature, or any judgment against us or any other industry participant in any litigation of this nature, could adversely affect our business and financial condition in a variety of ways.

Increases in required minimum payment levels have impacted our business adversely. For some time, regulators of credit card issuers have requested or required that issuers increase their minimum monthly payment requirements to prevent so-called “negative amortization,” in which the monthly minimum payment is not sufficient to reduce the outstanding balance even if new purchases are not made. This can be caused by, among other things, the imposition of over-limit, late and other fees. In response to comments about minimum payments and negative amortization received from the FDIC in the course of its routine examinations of the banks that issued credit cards on our behalf, we made a number of changes to our practices over the past several years, including our discontinuation of finance charges and fee billings on credit card accounts once they become 90 or more days delinquent, the reversal of fees and finance charges on the accounts of cardholders who made payments so that those accounts would not be in negative amortization, and the modification of our minimum payment requirements in some cases to require a minimum payment equal to 1% of the outstanding balance plus any finance charges and late fees billed in the current cycle. Based on our various changes to our practices in this area, only an insignificant portion of our U.S. credit card receivables experience negative amortization. The changes that we have made have adversely impacted and are likely in the future to adversely impact amounts collected from cardholders and therefore our reported fee income and delinquency and charge-off statistics. Additionally, should regulators require more rapid amortization of credit card account balances by banks, we could be required to may make further payment and fee-related changes that could adversely affect our financial position and future results of operations.

We are dependent upon banks to issue credit cards. Historically our credit card operations have been and our modest balance transfer program and test issuances currently are entirely dependent on our issuing bank relationships, and their regulators could at any time limit their ability to issue some or all products on our behalf, or that we service on their behalf, or to modify those products significantly. Any significant interruption of those relationships would result in our being unable to originate new receivables and other credit products. It is possible that a regulatory position or action taken with respect to any of the issuing banks through which we have originated credit products or for whom we service receivables might result in the bank's inability or unwillingness to originate future credit products on our behalf or in partnership with us. In the current state, such a disruption of our issuing bank relationships would adversely affect our ability to grow our balance transfer program (and potentially the profitability of the program if issuing bank partners were to require account closures) within our Investments in Previously Charged-Off Receivables segment and to conduct our limited market testing of credit card issuances in the U.K.

Table of Contents

Changes to consumer protection laws or changes in their interpretation may impede collection efforts or otherwise adversely impact our business practices. Federal and state consumer protection laws regulate the creation and enforcement of consumer credit card receivables and other loans. Many of these laws (and the related regulations) are focused on sub-prime lenders and are intended to prohibit or curtail industry-standard practices as well as non-standard practices. For instance, Congress enacted legislation that regulates loans to military personnel through imposing interest rate and other limitations and requiring new disclosures, all as regulated by the Department of Defense. Similarly, in 2009 Congress enacted legislation that required changes to a variety of marketing, billing and collection practices, and the Federal Reserve recently adopted significant changes to a number of practices through its issuance of regulations. While our practices are in compliance with these changes, some of the changes (e.g., limitations on the ability to assess up-front fees) have significantly affected the viability of certain of our prior (in particular our lower-tier) product offerings. Changes in the consumer protection laws could result in the following:

- receivables not originated in compliance with law (or revised interpretations) could become unenforceable and uncollectible under their terms against the obligors;
- we may be required to credit or refund previously collected amounts;
- certain fees could be prohibited or restricted, which would reduce the profitability of certain accounts;
- certain of our collection methods could be prohibited, forcing us to revise our practices or adopt more costly or less effective practices;
- limitations on the content of marketing materials could be imposed that would result in reduced success for our marketing efforts;
- federal and state laws may limit our ability to recover on charged-off receivables regardless of any act or omission on our part;
- reductions in statutory limits for finance charges could require us to reduce our fees and charges;
- some of our products and services could be banned in certain states or at the federal level;
- federal or state bankruptcy or debtor relief laws could offer additional protections to customers seeking bankruptcy protection, providing a court greater leeway to reduce or discharge amounts owed to us; and
- a reduction in our ability or willingness to lend to certain individuals, such as military personnel.

Material regulatory developments are likely to impact our business and results from operations.

Negative publicity may impair acceptance of our products. Critics of sub-prime credit and micro-loan providers have in the past focused on marketing practices that they claim encourage consumers to borrow more money than they should, as well as on pricing practices that they claim are either confusing or result in prices that are too high. Consumer groups, Internet chat sites and media reports frequently characterize sub-prime lenders as predatory or abusive toward consumers and may misinform consumers regarding their rights. If these negative characterizations and misinformation become widely accepted by consumers, demand for our products and services could be adversely impacted. Increased criticism of the industry or criticism of us in the future could hurt customer acceptance of our products or lead to changes in the law or regulatory environment, either of which would significantly harm our business.

Table of Contents

Because of the Recent and Ongoing Contraction of Our Credit Cards and Auto Finance Businesses, Our Micro-Loan Businesses Are Now a Larger Component of Our Financial Position and Results of Operations

Legislative, regulatory and consumer activism toward the micro-loans industry is particularly active and at times particularly hostile, and changes in applicable laws and regulations or interpretations thereof, or our failure to comply with such laws and regulations, could have a materially adverse effect on our micro-loan businesses, their prospects, our results of operations and our financial condition. Our continuing U.S. retail and internet micro-loan businesses are subject to numerous federal, state and local laws and regulations, which are subject to change and which may impose significant costs, limitations or prohibitions on the way we conduct or expand these businesses. These regulations govern or affect, among other things, interest rates and other fees, check cashing fees, lending practices, recording and reporting of certain financial transactions, privacy of personal consumer information and collection practices. As we develop new product and service offerings, we may become subject to additional federal, state and local regulations. State and local governments also may seek to impose new licensing requirements or interpret or enforce existing requirements in new ways. In addition, changes in current laws and future laws or regulations may restrict or eliminate our ability to continue our current methods of operation or expand our operations; such laws regularly are proposed, introduced or adopted at the state and federal level in the U.S.

A federal law that imposes a national cap on our micro-loan fees and interest likely would eliminate our ability to continue our current micro-loan businesses in the U.S. Various anti-cash advance legislation has been proposed or introduced in the U.S. Congress. Congressional members continue to receive pressure to adopt such legislation from consumer advocates and other industry opposition groups. Any federal legislative or regulatory action that severely restricts or prohibits cash advance and similar services, if enacted, could have a material adverse impact on our business, prospects, results of operations and financial condition. Any federal law that would impose a national 36% APR limit on our services likely would eliminate our ability to continue our current operations. Moreover, we do not yet know the potential future effects that the recent enactment of the Wall Street Reform and Consumer Protection Act, along with its creation of a federal Consumer Financial Protection Bureau with jurisdiction over U.S. micro-loan product offerings, will have on our U.S. micro-loan activities, and it is possible that the effects may not be known for several months or years. Such effects, however, could ultimately have a material adverse effect on our business, prospects, results of operations and financial condition.

The micro-loans industry is regulated under federal law and subject to federal and state unfair and deceptive practices statutes. Our failure to comply with these regulations and statutes could have a material adverse effect on our business, prospects, results of operations and financial condition. Although states provide the primary regulatory framework under which we offer cash advances within the U.S., certain federal laws also impact our business. We must comply with the federal Truth-in-Lending Act and Regulation Z adopted under that act. Additionally, we are subject to the Equal Credit Opportunity Act, the Fair Debt Collection Practices Act, the Fair Credit Reporting Act and the Gramm-Leach-Bliley Act. We also are subject to the Bank Secrecy Act, the Money Laundering Act, and the PATRIOT Act. Any failure to comply with any of these federal laws and regulations could have a material adverse effect on our business, prospects, results of operations and financial condition.

Our marketing efforts and the representations we make about our products and services also are subject to federal and state unfair and deceptive practices statutes. The FTC enforces the Federal Trade Commission Act and the state attorneys general and private plaintiffs enforce the analogous state statutes. If we are found to have violated any of these statutes, that violation could have a material adverse effect on our business, results of operations and financial condition.

The micro-loans industry is highly regulated under state law. Changes in state laws and regulations or interpretations thereof, or our failure to comply with such laws and regulations, could have a material adverse effect on our business, prospects, results of operations and financial condition. Our business is regulated under a variety of enabling state statutes, including cash advance, deferred presentment, check cashing, money transmission, small loan and credit services organization laws, all of which are subject to change and which may impose significant costs, limitations or prohibitions on the way we conduct or expand our business. As of March 31, 2011, 36 states had specific laws that permitted cash advances or a similar form of short-term consumer loans. As of March 31, 2011, we operated in 8 of these 36 states under traditional enabling statutes, and we offered a small loan product in Ohio under the Ohio Mortgage Loan Act. Currently, we do not conduct business in the remaining states or in the District of Columbia because we do not believe it is economically attractive to operate in these jurisdictions due to specific legislative restrictions, such as interest rate ceilings, an unattractive population density or unattractive location characteristics. However, we may open storefronts in any of these states if we believe doing so may become economically attractive because of a change in any of these variables.

During the last few years, legislation has been introduced or adopted in some states that prohibits or severely restricts our products and services. In 2008, bills that would severely restrict or effectively prohibit cash advances if adopted as law were introduced in 21 states. Also, in 2009, the enabling statutes in both Kentucky and South Carolina were amended to require, among other things, the use of a common database to track and limit the number of micro-loans a consumer may have outstanding at a given time. Although our experience to date with the implementation of database requirements in Kentucky and South Carolina has not materially affected our business, it has caused us to lose customers because many of our customers had outstanding loans with our competitors in addition to us, and it has resulted in some contractions in our outstanding micro-loan receivables and earnings thereon. Moreover, any such new or modified legislation (like the Wisconsin database requirements that went into effect on January 1, 2011) could have a material adverse impact on our results of operations. In addition, Mississippi has a sunset provision in its cash advance laws that requires renewals of the laws by the state legislature at periodic intervals, and the cash advance laws will expire in 2015 if no further action is taken; an expiration of these laws could have a detrimental impact on our ability to issue existing or new micro-loan products within the state.

Table of Contents

Ohio is another example of how laws prohibiting cash advances and similar products and services or making them less profitable, or even unprofitable, could be passed in any other state at any time or existing enabling laws could expire or be amended, any of which would have a material adverse effect on our business, prospects, results of operations and financial condition. In November 2008, a new Ohio law became effective that capped interest rates on cash advances and limited the number of advances a customer may take in any one year. In response to this legislation, we now offer a small loan product that is not as profitable as our former cash advance product, and our current operations in Ohio are under significant scrutiny by the Ohio Attorney General, thereby causing us evaluate alternative business and lending models that will allow our continued profitable operations in Ohio for the foreseeable future; should there be legislative or regulatory changes in Ohio in the future that affect the viability of our product offerings in that state, there could be a material adverse effect on our business, prospects, results of operations and financial condition, particularly given our revenue concentration in that state as noted below.

Statutes authorizing cash advance and similar products and services typically provide the state agencies that regulate banks and financial institutions with significant regulatory powers to administer and enforce the law. In most states, we are required to apply for a license, file periodic written reports regarding business operations and undergo comprehensive state examinations to ensure that we comply with applicable laws. Under statutory authority, state regulators have broad discretionary power and may impose new licensing requirements, interpret or enforce existing regulatory requirements in different ways or issue new administrative rules, even if not contained in state statutes, that affect the way we do business and may force us to terminate or modify our operations in particular states. They also may impose rules that are generally adverse to our industry. Any new licensing requirements or rules, or new interpretations of existing licensing requirements or rules, or failure to follow licensing requirements or rules could have a material adverse effect on our business, prospects, results of operations and financial condition.

In some cases, we rely on the interpretations of the staff of state regulatory bodies with respect to the laws and regulations of their respective jurisdictions. These staff interpretations generally are not binding legal authority and may be subject to challenge in administrative or judicial proceedings. Additionally, as the staff of state regulatory bodies change, it is possible that their interpretations of applicable laws and regulations also may change to the detriment of our business. As a result, our reliance on staff interpretations could have a material adverse effect on our business, results of operations and financial condition.

Additionally, state attorneys general and banking regulators are scrutinizing cash advances and other alternative financial products and services and taking actions that require us to modify, suspend or cease operations in their respective states. For example, our subsidiaries decided to exit North Carolina, West Virginia and Arkansas in settlement of reviews by applicable state regulators. Similar or additional actions could have a material adverse effect on our business, prospects, results of operations and financial condition.

Our ability to find additional micro-loan growth opportunities may be limited. We may not be able to maintain or further expand our market presence in our current markets or successfully enter new markets through the opening of new storefronts or acquisitions. Moreover, the start-up costs and the losses from initial operations attributable to each newly opened storefront place demands upon our liquidity and cash flow, and we may not be able to satisfy these demands.

Because our Retail Micro-Loans and Internet Micro-Loans segments currently lack product and business diversification, these segments' revenues and earnings may be disproportionately negatively impacted by external factors and may be more susceptible to fluctuations than more diversified companies. The primary business activity of our micro-loan businesses is offering cash advance products. If we are unable to maintain our cash advance products business and/or diversify our operations, our revenues and earnings could decline. Our current lack of product and business diversification could inhibit our opportunities for growth, reduce our revenues and profits and make us more susceptible to earnings fluctuations than many of our competitors who are more diversified and provide other services such as pawn lending, title lending or other similar services. External factors, such as changes in laws and regulations or interpretations thereof, new entrants and enhanced competition, also could make it more difficult for us to operate as profitably as a more diversified company could operate. Any internal or external change in our industry could result in a decline in our revenues and earnings, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

Our inability to introduce or manage new products or alternative methods for conducting business in an efficient and profitable manner could have a material adverse effect on our business, prospects, results of operations and financial condition. In order to offer new products, we need to comply with additional regulatory and licensing requirements. Because of such requirements, alternative methods of conducting business and new products are subject to risk and uncertainty and require significant investment in time and capital, including additional marketing expenses, legal costs and other incremental start-up costs. For these reasons and based on our prior experience in offering alternative products, we may not be able to introduce any new products in a successful or timely manner. Furthermore, our failure to offer new products in an efficient manner, or low customer demand for any of these new products, could have a material adverse effect on our business, prospects, results of operations and financial condition.

Table of Contents

Current and future litigation and regulatory proceedings against our micro-loan businesses could have a material adverse effect on our business, prospects, results of operations and financial condition. Our U.S. micro-loan businesses are subject to lawsuits and regulatory proceedings that could generate adverse publicity and cause us to incur substantial expenditures. See Part II, Item 1, "Legal Proceedings." Adverse rulings in lawsuits or regulatory proceedings could significantly impair our business and/or force us to cease doing business in one or more states or other geographic areas.

Our U.S. micro-loan businesses are likely to be subject to further litigation and proceedings in the future. The consequences of an adverse ruling in any current or future litigation or proceeding could cause us to have to refund fees and/or interest collected, refund the principal amount of advances, pay treble or other multiple damages, pay monetary penalties and/or modify or terminate our operations in particular states. We also may be subject to adverse publicity. Defense of any lawsuits or proceedings, even if successful, requires substantial time and attention of our senior officers and other management personnel that would otherwise be spent on other aspects of our business and requires the expenditure of significant amounts for legal fees and other related costs. Settlement of lawsuits also may result in significant payments and modifications to our operations. Any of these events could have a material adverse effect on our business, prospects, results of operations and financial condition.

The concentration of our micro-loan businesses' revenues in certain geographic areas could adversely affect us. As of March 31, 2011, we operated retail storefronts in nine states. Total revenues within Kentucky, Ohio, South Carolina and Wisconsin, our four largest states (measured by revenue), accounted for 71.1% of our micro-loans businesses' revenue during the three months ended March 31, 2011. While we believe we have a diverse geographic presence within the U.S., for the near term we expect that significant micro-loan business revenues will continue to be generated by certain states, largely due to the currently prevailing economic, demographic, regulatory, competitive and other conditions in those states. For example, during the three months ended March 31, 2011, Kentucky, Ohio, South Carolina and Wisconsin each accounted for more than 9.0% of our micro-loans businesses' revenue, with Ohio accounting for 37.1% of our micro-loans businesses' revenue during that period. Changes to prevailing economic, demographic, regulatory or any other conditions in the markets in which we operate could lead to a reduction in demand for our products and services, a decline in our revenues or an increase in our provision for losses on loans and fees receivable that could result in a deterioration of our financial condition. A regulatory change similar to the recent changes in Ohio, South Carolina, Kentucky and Wisconsin, or an action by a state regulator similar to those in North Carolina, West Virginia and Arkansas, in any one of our larger states may have a material adverse effect on our business, prospects, results of operations or financial condition.

Competition in the micro-loans industry could cause our micro-loan businesses to lose market share, experience increased customer acquisition costs or reduce their interest and fees, possibly resulting in a decline in our revenues and earnings. The industry in which our micro-loan businesses operate has low barriers to entry and is highly fragmented and very competitive. We believe that the market may become even more competitive as the industry matures and/or consolidates. We compete with services provided by traditional financial institutions, such as overdraft protection, and with other cash advance providers, small loan providers, pawn stores, short-term consumer lenders, other financial service entities and other retail businesses that offer consumer loans or other products and services that are similar to ours. We also compete with companies offering cash advances and short-term loans over the Internet as well as by phone. Some of these competitors have larger local or regional customer bases, more locations and substantially greater financial, marketing and other resources than we have. As a result of this increasing competition, we could lose market share or experience increased customer acquisition costs, or we may need to reduce our interest and fees, possibly resulting in a decline in our revenues and earnings.

Our micro-loan businesses' provision for losses on loans and fees receivable may increase and net income may decrease if we are unable to collect customers' personal checks that are returned due to non-sufficient funds ("NSF") in the customers' accounts or other reasons. In the three months ended March 31, 2011, our retail storefront operations deposited or presented an Automated Clearing House ("ACH") authorization for 9.2% of all the customer checks we received and 66.5% of these deposited customer checks or ACH authorizations were returned unpaid or rejected because of non-sufficient funds in the customers' bank accounts or because of closed accounts or stop-payment orders. Total retail storefront charge offs in the three months ended March 31, 2011 were $3.3 million. An increase in returned checks or rejected ACH authorizations would increase our provision for losses on loans and fees receivable and our allowance for uncollectible loans and fees receivable.

Our micro-loan businesses are dependent on cash management services from banks to operate their businesses. If banks decide to stop providing cash management services to companies in the micro-loans industry, it could have a material adverse effect on our business, prospects, results of operations and financial condition. Certain banks have notified us and other companies in the cash advance and check-cashing industries that they will no longer maintain bank accounts for these companies due to reputational risks and increased compliance costs of servicing money services businesses and other cash intensive industries. If one of our larger depository banks requests that we close our bank accounts or puts other restrictions on how we use its services, we could face higher costs of managing our cash and limitations on our ability to maintain or expand our business, both of which could have a material adverse effect on our business, prospects, results of operations and financial condition.

Our micro-loan businesses are seasonal in nature, which causes our revenues, collection rates and earnings to fluctuate. These fluctuations could have a material adverse effect on our business, prospects, results of operations and financial condition. Our micro-loan businesses are seasonal due to the impact of fluctuating demand for our products and services and fluctuating collection rates throughout the year. Demand has historically been highest in the third and fourth quarters of each year, corresponding to the back-to-school and holiday seasons, and lowest in the first quarter of each year, corresponding to our customers' receipt of income tax refunds. Typically, our provision for losses on loans and fees receivable is the lowest as a percentage of revenues in the first quarter of each year, corresponding to our customers' receipt of income tax refunds, and increases as a percentage of revenues for the remainder of each year. This seasonality requires us to manage our cash flows over the course of the year. If our revenues or collections were to fall substantially below what we would normally expect during certain periods, our ability to service any potential future debt, pay any potential future dividends on our common stock and meet our other liquidity requirements may be adversely affected, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

Table of Contents

In addition, our micro-loans businesses' quarterly results have fluctuated in the past and are likely to continue to fluctuate in the future because of the seasonal nature of our business. Therefore, our quarterly revenues and results of operations are difficult to forecast, which in turn could cause our quarterly results not to meet the expectations of securities analysts or investors. Our failure to meet expectations could cause a material drop in the market price of our common stock.

Because we maintain a significant supply of cash in our storefronts, we may be subject to cash shortages due to employee and third-party theft and errors. We also may be subject to liability as a result of crimes at our centers. Because our retail storefront business requires us to maintain a significant supply of cash in each of our storefronts, we are subject to the risk of cash shortages resulting from employee and third-party theft and errors. Although we have implemented various programs to reduce these risks, maintain insurance coverage for theft and provide security for our employees and facilities, employee and third- party theft and errors may still occur. There was approximately $3,000 in cash shortages from employee and third-party theft and errors in the three months ended March 31, 2011 after factoring in recoveries, which tend to lag the actual period of theft or error. The extent of cash shortages could increase as we expand the nature and scope of our products and services. Theft and errors could lead to cash shortages and could adversely affect our business, prospects, results of operations and financial condition. It also is possible that crimes such as armed robberies may be committed at our storefronts. We could be subject to legal claims or adverse publicity arising from such crimes. For example, we may be subject to legal claims if an employee, customer or bystander suffers bodily injury, emotional distress or death. Any such event may have a material adverse effect on our business, prospects, results of operations and financial condition.

Regular turnover among our managers and employees at our storefronts makes it more difficult for us to operate our storefronts and increases our costs of operations, which could have an adverse effect on our business, prospects, results of operations and financial condition. The annual 2010 turnover among our storefront managers was 28.8% and among our other storefront employees was 58.9%. This turnover increases our cost of operations and makes it more difficult to operate our storefronts. If we are unable to retain our employees in the future, our business, prospects, results of operations and financial condition could be adversely affected.

Our Automobile Lending Activities Involve Risks In Addition to Others Described Herein

Automobile lending exposes us not only to most of the risks described above but also to additional risks, including the regulatory scheme that governs installment loans and those attendant to relying upon automobiles and their repossession and liquidation value as collateral. In addition, our most significant active Auto Finance segment business acquires loans on a wholesale basis from used car dealers, for which we rely upon the legal compliance and credit determinations by those dealers.

Declines in automobile sales as we saw in recent years can cause declines in the overall demand for automobile loans. While currently recovering fairly significantly, sales of both new and used cars declined precipitously in recent years. While the unavailability of funding may have had a greater impact on our business, the decline in demand in recent years was consequential as well as it adversely affected the volume of our lending transactions and our recoveries of repossessed vehicles at auction. Any such future declines in demand will adversely impact our business.

Funding for automobile lending is difficult to obtain and expensive. In large part due to market concerns regarding sub-prime lending, it is difficult to find lenders willing to fund our automobile lending activities. Our inability to obtain debt facilities with desirable terms (e.g., interest rates and advance rates) and the other capital necessary to fund growth within our Auto Finance segment will cause periods (like our current period) of liquidations in our Auto Finance segment receivables and reductions in profitability and returns on equity. We also may not be able to renew or replace any Auto Finance segment facilities that bear refunding or refinancing risks when they become due (e.g., the CAR facility, which is the only such facility outstanding currently), in which event our Auto Finance segment could experience significant liquidity constraints and diminution in reported asset values as lenders retain significant cash flows within underlying structured financings or otherwise under security arrangements for repayment of their loans. If we cannot renew or replace facilities or otherwise are unduly constrained from a liquidity perspective, we may choose to sell part or all of our auto loan portfolios, possibly at less than favorable prices.

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

The financial performance of our automobile loan portfolio is in part dependent upon the liquidation of repossessed automobiles. In the event of certain defaults, we may repossess automobiles and sell repossessed automobiles at wholesale auction markets located throughout the U.S. Auction proceeds from these types of sales and other recoveries rarely are sufficient to cover the outstanding balances of the contracts; where we experience these shortfalls, we will experience credit losses. Decreased auction proceeds resulting from depressed prices at which used automobiles may be sold in periods of economic slowdown or recession have resulted in higher credit losses for us. Additionally, higher gasoline prices (like those experienced during 2008) tend to decrease the auction value of certain types of vehicles, such as SUVs.

Table of Contents

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

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

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

Portfolio purchases may cause fluctuations in reported credit card managed receivables data, which may reduce the usefulness of historical credit card managed loan data in evaluating our business. Our reported managed credit card receivables data may fluctuate substantially from quarter to quarter as a result of recent and future credit card portfolio acquisitions. As of March 31, 2011, credit card portfolio acquisitions accounted for 35.3% of our total credit card managed receivables portfolio based on our ownership percentages.

Receivables included in purchased portfolios are likely to have been originated using credit criteria different from the criteria of issuing bank partners that have originated accounts on our behalf. Receivables included in any particular purchased portfolio may have significantly different delinquency rates and charge-off rates than the receivables previously originated and purchased by us. These receivables also may earn different interest rates and fees as compared to other similar receivables in our receivables portfolio. These variables could cause our reported managed receivables data to fluctuate substantially in future periods making the evaluation of our business more difficult.

Any acquisition or investment that we make will involve risks different from and in addition to the risks to which our business is currently exposed. These include the risks that we will not be able to integrate and operate successfully new businesses, that we will have to incur substantial indebtedness and increase our leverage in order to pay for the acquisitions, that we will be exposed to, and have to comply with, different regulatory regimes and that we will not be able to apply our traditional analytical framework (which is what we expect to be able to do) in a successful and value-enhancing manner.

We regularly explore investments in other lines of business where we believe the returns will meet our requirements. While these investments have not been significant recently, we expect them to increase in the future as the opportunities to invest in our traditional businesses remain unattractive. These investments may or may not be in areas where we have specialized expertise, and may carry risks in addition to those described above.

Other Risks of Our Business

Climate change and related regulatory responses may impact our business. Climate change as a result of emissions of greenhouse gases is a significant topic of discussion and may generate federal and other regulatory responses in the near future, including the imposition of a so-called “cap and trade” system. It is impracticable to predict with any certainty the impact on our business of climate change or the regulatory responses to it, although we recognize that they could be significant. The most direct impact is likely to be an increase in energy costs, which would adversely impact consumers and their ability to incur and repay indebtedness. However, it is too soon for us to predict with any certainty the ultimate impact, either directionally or quantitatively, of climate change and related regulatory responses.

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

Unless we obtain a bank charter, we cannot issue credit cards other than through agreements with banks. Because we do not have a bank charter, we currently cannot issue credit cards other than through agreements with banks. Previously we applied for permission to acquire a bank and our application was denied. Unless we obtain a bank or credit card bank charter, we will continue to rely upon banking relationships to provide for the issuance of credit cards to our customers. Even if we obtain a bank charter, there may be restrictions on the types of credit that it may extend. Our various issuing bank agreements have scheduled expirations dates. If we are unable to extend or execute new agreements with our issuing banks at the expirations of our current agreements with them, or if our existing or new agreements with our issuing banks were terminated or otherwise disrupted, there is a risk that we would not be able to enter into agreements with an alternate provider on terms that we consider favorable or in a timely manner without disruption of our business.

Table of Contents

We are party to substantial litigation. As more fully discussed above, we are defendants in a number of legal proceedings. This includes litigation with holders of our convertible senior notes concerning past and possible future distributions to our shareholders and litigation relating to our retail micro-loan operations and other litigation customary for a business of our nature. In each case we believe that we have meritorious defenses or that the positions we are asserting otherwise are correct. However, adverse outcomes are possible in each of these matters, and we could decide to settle one or more of these matters in order to avoid the cost of litigation or to obtain certainty of outcome. Adverse outcomes or settlements of these matters could require us to pay damages, make restitution, change our business practices or take other actions at a level, or in a manner, that would adversely impact our business.

We face heightened levels of economic risk associated with new investment activities. We recently have made a number of investments in businesses that are not directly allied to our traditional lending activities to, or associated with, the underserved consumer credit market. We expect to make other such investments in the future. While we will make only those investments that we believe will provide a favorable return, because some of the investments are outside of our core areas of expertise, they entail risks beyond those described elsewhere in this Report. These risks could result in the loss of part or all of our investments.

We may not be able to purchase charged-off receivables at sufficiently favorable prices or terms for our debt collection operations to be successful. The charged-off receivables that Jefferson Capital, our debt collection subsidiary, acquires and services (or resells) have been deemed uncollectible and written off by the originators. Factors causing the acquisition price of targeted portfolios to increase could reduce the ratio of collections (or sales prices received) to acquisitions costs for a given portfolio, and thereby negatively affect Jefferson Capital's profitability. The availability of charged-off receivables portfolios at favorable prices and on favorable terms depends on a number of factors, including the continuation of the current growth and charge-off trends in consumer receivables, our ability to develop and maintain long-term relationships with key charged-off receivable sellers, our ability to obtain adequate data to appropriately evaluate the collectibility of portfolios and competitive factors affecting potential purchasers and sellers of charged-off receivables, including pricing pressures, which may increase the cost to us of acquiring portfolios of charged-off receivables and reduce our return on such portfolios.

Additionally, sellers of charged-off receivables generally make numerous attempts to recover on their non-performing receivables, often using a combination of their in-house collection and legal departments as well as third-party collection agencies. Charged-off receivables are difficult to collect, and we may not be successful in collecting amounts sufficient to cover the costs associated with purchasing the receivables and funding our Jefferson Capital operations.

Because we outsource account-processing functions that are integral to our business, any disruption or termination of that outsourcing relationship could harm our business. We outsource account and payment processing, and in 2010, we paid Total System Services, Inc. $14.3 million for these services. If these agreements were not renewed or were terminated or the services provided to us were otherwise disrupted, we would have to obtain these services from an alternative provider, such as First Data Resources, Inc., which currently provides only limited account and payment processing for us. There is a risk that we would not be able to enter into a similar agreement with an alternate provider on terms that we consider favorable or in a timely manner without disruption of our business.

If we obtain a bank charter, any changes in applicable state or federal laws could adversely affect our business. From time-to-time we have explored the possibility of acquiring a bank or credit card bank. If we obtain a bank or credit card bank charter, we will be subject to the various state and federal regulations generally applicable to similar institutions, including restrictions on the ability of the banking subsidiary to pay dividends to us. Any future changes of applicable state and federal laws or regulations could adversely affect the bank's business and operations.

Internet security breaches could damage our reputation and business. As part of our growth strategy, we have originated loans over the Internet. The secure transmission of confidential information over the Internet is essential to maintaining consumer confidence in our products and services offered online. Advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology used by us to protect customer application and transaction data transmitted over the Internet. Security breaches could damage our reputation and expose us to a risk of loss or litigation. Moreover, consumers generally are concerned with security and privacy on the Internet, and any publicized security problems could inhibit the growth of the Internet as a means of conducting commercial transactions. Our ability to solicit new loans over the Internet would be severely impeded if consumers become unwilling to transmit confidential information online.

Any disruption in the availability of our information systems could adversely affect our operations. We rely upon our information systems to manage and operate our business. Our back-up systems and security measures could fail to prevent a disruption in our information systems. Any disruption in our information systems due to catastrophic events or other factors could adversely affect our business, prospects, results of operations and financial condition.

Table of Contents

Our systems, procedures, controls and existing personnel may not be adequate to support new or replacement products or to expand into new geographic areas. Our results of operations depend substantially on the ability of our officers and key employees to manage changing business conditions and unpredictable regulations and to implement and improve our technical, administrative, financial control and reporting systems. Our ability to maintain or further expand our business may require us to develop new or replacement products. In addition, business conditions could make it necessary for us to expand our operations in new geographic areas. Our systems, procedures, controls and existing personnel may not be adequate to support new or replacement products or operations in new geographic areas.

Risks Relating to an Investment in Our Common Stock

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

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

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

64

Table of Contents

Future sales of our common stock or equity-related securities in the public market, including sales of our common stock pursuant to share lending agreements or short sales transactions by purchasers of convertible notes securities, could adversely affect the trading price of our common stock and our ability to raise funds in new stock offerings. Sales of significant amounts of our common stock or equity-related securities in the public market, including sales pursuant to share lending agreements, or the perception that such sales will occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. Future sales of shares of common stock or the availability of shares of common stock for future sale, including sales of our common stock in short sales transactions by purchasers of our convertible notes, may have a material adverse effect on the trading price of our common stock.

Our business is going through a substantial period of transition and we are exploring various options. Because of the unavailability of growth financing for our traditional business, we are exploring various options designed to produce the greatest benefit possible for our shareholders. Currently these options include the payment of cash dividends and share repurchases, and we may consider additional options in the future. On December 31, 2009, we paid a $.50 per share dividend to our shareholders, and a tender offer that we completed on May 14, 2010 resulted in our repurchase of 12,180,604 shares of our common stock for $85.3 million, in addition to our repurchase of $24.8 million in face amount of our 3.625% convertible senior notes due 2025 for $14.7 million. Further, in a tender offer completed 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.

We have the ability to issue preferred shares, warrants, convertible debt and other securities without shareholder approval. Our common shares may be subordinate to classes of preferred shares issued in the future in the payment of dividends and other distributions made with respect to common shares, including distributions upon liquidation or dissolution. Our articles of incorporation permit our Board of Directors to issue preferred shares without first obtaining shareholder approval. If we issued preferred shares, these additional securities may have dividend or liquidation preferences senior to the common shares. If we issue convertible preferred shares, a subsequent conversion may dilute the current common shareholders' interest. We have similar abilities to issue convertible debt, warrants and other equity securities.

Our executive officers, directors and parties related to them, in the aggregate, control a majority of our voting stock and may have the ability to control matters requiring shareholder approval. Our executive officers, directors and parties related to them own a large enough stake in us to have an influence on, if not control of, the matters presented to shareholders. As a result, these shareholders may have the ability to control matters requiring shareholder approval, including the election and removal of directors, the approval of significant corporate transactions, such as any reclassification, reorganization, merger, consolidation or sale of all or substantially all of our assets and the control of our management and affairs. Accordingly, this concentration of ownership may have the effect of delaying, deferring or preventing a change of control of us, impede a merger, consolidation, takeover or other business combination involving us or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could have an adverse effect on the market price of our common stock.

Note Regarding Risk Factors

The risk factors presented above are all of the ones that we currently consider material. However, they are not the only ones facing our company. Additional risks not presently known to us, or which we currently consider immaterial, may also adversely affect us. There may be risks that a particular investor views differently from us, and our analysis might be wrong. If any of the risks that we face actually occur, our business, financial condition and operating results could be materially adversely affected and could differ materially from any possible results suggested by any forward-looking statements that we have made or might make. In such case, the trading price of our common stock could decline, and you could lose part or all of your investment. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Table of Contents

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit	Incorporated by reference from CompuCredit Holding Corporation's SEC filings unless otherwise indicated:
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a).	Filed herewith
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a).	Filed herewith
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350.	Filed herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	COMPUCREDIT HOLDINGS CORPORATION	
May 12, 2011	By	/s/ J.PAUL WHITEHEAD, III J.Paul Whitehead, III Chief Financial Officer (duly authorized officer and principal financial officer)