

CompuCredit Holdings Corp
Form 10-K
March 05, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

For the fiscal year ended December 31, 2009

of
COMPUCREDIT HOLDINGS CORPORATION

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

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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 believes that during the 2009 fiscal year, its executive officers, directors and 10% beneficial owners subject to Section 16(a) of the Act complied with all applicable filing requirements, except as set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in CompuCredit's Proxy Statement for the 2010 Annual Meeting of Shareholders.

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

The aggregate market value of CompuCredit's common stock (based upon the closing sales price quoted on the NASDAQ Global Select Market) held by nonaffiliates as of June 30, 2009 was \$39.0 million. (For this purpose, directors and officers have been assumed to be affiliates, and we have excluded 3,651,069 of loaned shares at June 30, 2009.)

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As of February 28, 2010, 47,770,624 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.)

DOCUMENTS INCORPORATED BY REFERENCE

Portions of CompuCredit's Proxy Statement for its 2010 Annual Meeting of Shareholders are incorporated by reference into Part III.

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Cautionary Notice Regarding Forward-Looking Statements

We make forward-looking statements in this Report and in other materials we file with the Securities and Exchange Commission (“SEC”) or otherwise make public. In this Report, both Item 1, “Business,” and Item 7, “Management’s Discussion and Analysis of Financial Conditions and Results of Operations,” contain forward-looking statements. In addition, our senior management might make forward-looking statements to analysts, investors, the media and others. Statements with respect to our expected revenue, income, receivables, income ratios, net interest margins, marketing-based volatility and peak charge-off vintages, 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 including account closures and modifications, changes in collection programs and practices, securitizations and gains and losses from securitizations, changes in the credit quality of our on-balance-sheet loans and fees receivable, the impact of actions by the Federal Deposit Insurance Corporation (“FDIC”), Federal Trade Commission (“FTC”) and other regulators on both us and the 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 profitability 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 or television, our plans in the United Kingdom (“U.K.”), the impact of our U.K. portfolio of credit card receivables (the “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 income in 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,” “should,” “will,” “would” and similar 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 are the risks and uncertainties described under “Risk Factors” set forth in Part I, Item 1A, and the risk factors and other cautionary statements in 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 uncertainties related to, and the impact of, the contemplated spin-off of our micro-loan businesses;

- 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 allowance for uncollectible loans and fees receivable and estimates of loan losses;
 - the availability of adequate financing;
 - the possible impairment of goodwill;
 - the future prospects of our Internet lending business in the U.K. and the United States (“U.S.”);
- 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 predecessors. 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.

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PART I

ITEM 1. BUSINESS

Holding Company Formation and Reorganization

On June 30, 2009, we completed a reorganization through which CompuCredit Corporation, our former parent company, became a wholly owned subsidiary of CompuCredit Holdings Corporation. We effected this reorganization through a merger pursuant to an Agreement and Plan of Merger, dated as of June 2, 2009, by and among CompuCredit Corporation, CompuCredit Holdings Corporation and CompuCredit Merger Sub, Inc., and as a result of the reorganization, each outstanding share of CompuCredit Corporation common stock was automatically converted into one share of CompuCredit Holdings Corporation common stock.

As a result of the reorganization, CompuCredit Corporation common stock is no longer publicly traded, and CompuCredit Holdings Corporation common stock commenced trading on the NASDAQ Global Select Market on July 1, 2009 under the symbol "CCRT," the same symbol under which CompuCredit Corporation common stock was previously listed and traded. We continue to consider other restructuring alternatives including a spin-off of one or more of our operations.

Potential Spin-Off of Micro-Loan Businesses

On November 5, 2009, our Board of Directors authorized management to review and evaluate the merits of a proposal to spin-off our U.S. and U.K. micro-loan businesses into a separate, publicly traded company called Purpose Financial Holdings, Inc. ("Purpose Financial"). Once management completes its review and evaluation, the Board will discuss and consider the merits of the proposal. In connection with management's review of the proposal to spin-off our U.S. and U.K. micro-loan businesses, Purpose Financial filed a Form 10 Registration Statement and a related Information Statement on January 4, 2010. The spin-off remains subject to a number of conditions, including, among others:

- approval from our Board of Directors;
- the SEC's declaration of Purpose Financial's registration statement on Form 10, to be effective;
- our and Purpose Financial's receipt of all permits, registrations and consents required under the securities or blue sky laws of states or other political subdivisions of the U.S. or of foreign jurisdictions in connection with the spin-off;
- the private letter ruling that we received from the Internal Revenue Service ("IRS") not being revoked or modified in any material respect;
- NASDAQ's approval for listing of Purpose Financial's common stock, subject to official notice of issuance; and
 - the nonexistence of any order, injunction or decree issued by any court of competent jurisdiction or other legal restraint or prohibition that might prevent the consummation of the spin-off or any of the transactions related thereto, including the transfers of assets and liabilities contemplated by the separation and distribution agreement.

We cannot assure you that any or all of these conditions will be met.

The Board of Directors is contemplating the spin-off of Purpose Financial because it believes that separating the micro-loan businesses from us may be in our and our shareholders' best interests. This belief is based, in part, on the following potential benefits which the spin-off is expected to provide:

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- greater access for us to banks and potential investors that do not do business with companies that own micro-loan businesses, even where the business opportunity does not involve micro-loans;
 - increased ability for us to: maintain and attract banking relationships; partner with private equity funds, hedge funds, and financial institutions in acquiring credit card portfolios and other assets; and obtain debt financing from financial institutions for credit card portfolio and other asset acquisitions and for day-to-day operations;
- ability of each company’s management to separately pursue the business strategies best suited to its long-term interests;
- greater market recognition and valuation due to the ability of analysts, shareholders and prospective investors in each company to better evaluate the merits of each company; and
 - stronger correlation between management incentives and each company’s performance.

General

A general discussion of the business of CompuCredit Holdings Corporation follows. For additional information about our business, including specific descriptions of how we market and segment customers and other operational items, please visit our website at www.compucredit.com.

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 accounts on a daily basis.

Our product and service offerings also include: small-balance, short-term cash advance loans—generally less than \$500 (or the equivalent thereof in the British pound for pound-denominated loans) for 30 days or less and to which we refer as “micro-loans;” installment loan and other credit products; and money transfer and other financial services. These loans and products are marketed through retail branch locations in Alabama, Colorado, Kentucky, Mississippi, Ohio, Oklahoma, South Carolina, Tennessee, and Wisconsin and over the Internet in the U.S. and U.K.

We also are collecting a portfolio of auto finance receivables that we previously originated through franchised and independent auto dealers, purchasing and/or servicing auto loans from or for a pre-qualified network of dealers in the “buy-here, pay-here” used car business and selling used automobiles through our own buy-here, pay-here lots.

Lastly, our debt collections subsidiary purchases and collects previously charged-off receivables from us, the trusts that we service and third parties.

We reflect our business lines within five reportable segments by which we manage our business: Credit Cards; Investments in Previously Charged-Off Receivables; Retail Micro-Loans; Auto Finance; and Internet Micro-Loans. We describe these segments below. (See, Note 4, “Segment Reporting,” to our consolidated financial statements included herein for segment-specific financial data.) If we consummate the spin-off, we will change our reportable segments to three segments: Credit Cards; Investments in Previously Charged-Off Receivables; and Auto Finance. The following discussion is based on the five reportable segments as they were structured for the fiscal year ended

December 31, 2009.

The most significant business changes or events during the year ended December 31, 2009 were:

- The continuing effects of the economic downturn and the ongoing difficulties in the liquidity markets that have prevented us from raising new funds in order to originate credit card receivables and auto loans, thereby causing us to offer payment incentive programs to credit card customers, to close 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 to cease all auto loan origination efforts associated with our ACC operations (all of which have a negative impact on both short-term earnings and the potential for longer term profitability) and to continue with our expense paring efforts;
- Our third quarter change in assumption in computing the fair value of our retained interests in our securitization trusts to reflect our determination during that quarter that a buyer of the residual interests we hold in our upper-tier and lower-tier originated portfolio master trusts would likely discount the price that they would pay for the residual

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interests to reflect the risk that the securitization facilities could soon enter early amortization status—thereby materially delaying the buyer’s receipt of cash flows until the underlying securitization facilities were completely repaid;

- Our recognition of a \$114.0 million securitization gain in the third quarter in connection with the cancellation of certain notes issued out of our upper-tier originated portfolio master trust;
- Our recognition of an \$11.0 million net pre-tax gain in the third quarter associated with our settlement with Encore over its claims that we breached contract and its failure to purchase certain previously charged-off receivables accounts under its forward flow contract with us;
- Our third quarter repayment of \$81.1 million of notes payable associated with our ACC and CAR operations within our Auto Finance segment as we were not able to reach satisfactory terms to renew or replace these debt facilities at that time, followed shortly thereafter in the fourth quarter by our issuance of a new, amortizing, non-recourse \$103.5 million debt facility secured by auto finance receivables associated with our ACC operations within our Auto Finance segment and our issuance of a new, non-recourse \$50.0 million line of credit secured by auto finance receivables associated with our CAR operations within our Auto Finance segment; and
- Our fourth quarter de-securitization of our lower-tier credit card receivables, our recording of these receivables on our balance sheet at their fair value in connection with our prior fair value option election made with respect to such receivables under applicable accounting rules, and our repayment of all securitization facilities that were secured by such receivables with the consent of the investor in the lower-tier originated portfolio master trust.

Credit Cards Segment. Our Credit Cards segment consists of our credit card investment and servicing activities, as conducted with respect to receivables underlying accounts originated and portfolios purchased by us and our equity-method investees. This segment includes the activities associated with substantially all of our credit card products.

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 credit card practices. For example, we made certain changes to our collections programs and practices and changes to our billing and fee crediting practices principally in 2007 in connection with our efforts to address negative amortization regulatory requirements; those changes had the effect of increasing our delinquencies and charge-off levels and ratios and decreasing our net interest margins and other income ratios. 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 some of which may produce adverse effects on our operating results and financial position. For example, we currently are assessing and may determine that further adverse changes are necessary to implement the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the “CARD Act”) and regulations issued in January 2010 by the Federal Reserve Board to implement the CARD Act.

We generally “securitize” our credit card receivables in order to obtain the most favorable financing terms and rates, and in December 2007, we securitized a significant portfolio (comprised of our lower-tier credit card receivables) in an off-balance-sheet securitization. These receivables were subsequently de-securitized and re-consolidated at their fair value during the fourth quarter of 2009 as the outside investor in the securitization trust consented to our repayment of the securitization facility underlying the trust and thus we became the sole beneficiary in the trust. Given these fourth quarter 2009 transactions, we have only two categories of credit card receivables that are reported on our consolidated balance sheet at December 31, 2009—our lower-tier credit card receivables (which are reported at fair value) and those credit card receivables associated with our Investment in Previously Charged-Off Receivables segment’s balance transfer program (which are reported at net realizable value). All other credit card receivables are securitized in

off-balance-sheet securitization trusts, our retained interests in which are presented under the securitized earning assets caption on our consolidated balance sheets. Our fees and related income on these securitized earning assets include (1) securitization gains, (2) income from retained interests in credit card receivables securitized and (3) returned-check, cash advance and other fees.

Also reflected within our Credit Cards segment results are equity in the income of equity-method investees and servicing income revenue sources as well as income or losses associated with ancillary investments in others' asset-backed securities. We earn servicing income from the trusts underlying our securitizations and the securitizations of our equity-method investees.

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During periods in which we hold credit card receivables on our consolidated balance sheet (i.e., in periods in which they are not securitized), our consolidated statement of operations revenue categories most affected by delinquency and credit loss trends with respect to such on-balance-sheet receivables are the net interest income, fees and related income on non-securitized earnings assets category (which is net of fair value adjustments for credit card receivables reported at fair value and a provision for loan losses for credit card receivables reported at net realizable value)).

In contrast, for all off-balance-sheet credit card receivables, the fees and related income on securitized earning assets category is the exclusive consolidated statement of operations category that bears the effects of delinquency and credit loss trends with respect to such credit card receivables.

Our most recent credit card receivables acquisition was an April 2007 acquisition of a portfolio of approximately £490 million (\$970 million) in face amount of credit card receivables (associated with 594,000 underlying managed accounts) from Barclaycard, a division of Barclays Bank PLC in the U.K. (the “U.K. Portfolio”). We paid the purchase price of £383.5 million (\$766.4 million) in cash and then securitized the U.K. Portfolio’s receivables. Preceding this acquisition were several other portfolio acquisitions aggregating \$6.3 billion in face amount of purchased credit card receivables from 1998 through 2005; such acquisitions were made in some cases through our wholly owned subsidiaries, in some cases through majority owned subsidiaries in which non-controlling interests were owned by lending or investing partners, and in some cases through equity-method investees in which lending and investing partners also had interests. The effects of the 1998 through 2005 acquisitions on our financial position and results of operations are significantly diminished relative to prior periods and continue to further diminish with the liquidation of these acquired portfolios.

We decide whether to grow receivables levels through our origination efforts or to acquire other portfolios based upon several factors, including credit quality and financing availability and costs. We assess credit quality using an analytical model that we believe predicts the likelihood of payment more accurately than traditional credit scoring models. For instance, we have identified factors (such as delinquencies, defaults and bankruptcies) that under some circumstances we weight differently than do other credit providers. Our analysis enables us to better identify consumers within the financially underserved market who are likely to be better credit risks than otherwise would be expected. Similarly, we apply our analytical model to entire portfolios to identify those that may be more valuable than the seller or other potential purchasers might recognize.

Customers at the lower end of the FICO scoring range intrinsically have higher loss rates than do customers at the higher end of the FICO scoring range. As a result, during periods in which we have experienced originations or repricings of acquired credit card receivables portfolios, we have priced our products to reflect this greater risk—with these customers paying higher prices for our products than they would pay if their FICO scores were higher. As such, our products are subject to greater regulatory scrutiny than the products of prime lenders who can price their credit products at much lower levels than we can. See “Consumer and Debtor Protection Laws and Regulations—Credit Cards Segment” and Item 1A, “Risk Factors.”

As is customary in our industry, we have financed most of our credit card receivables by selling them to a securitization vehicle, such as a trust, that in turn issues notes or sells participation interests. The rates of return that purchasers have required and the percentage of the funding that the purchasers have been willing to provide (as contrasted with the subordinated portion that we must provide), which is known as the advance rate, have been our two most significant financial considerations.

Beginning in 2007, as financing became increasingly difficult to obtain on terms as favorable as those that we previously obtained, we significantly curtailed our marketing efforts and the issuance of new cards. The financing environment worsened significantly in 2008 and did not recover sufficiently to support our credit card originations in

2009. We are concerned that the traditional securitization markets may not return to any degree of efficient and effective functionality for us for the foreseeable future. As a result, we are closely monitoring and managing our liquidity position and have closed substantially all accounts to new purchases. We also have taken other actions (including reducing our overhead infrastructure, which was built to accommodate higher account originations and managed receivables levels) in an effort to bolster our cash position. Some of these actions, while prudent given the challenging liquidity environment, have the effect of reducing our profitability. For example, in an environment in which funding is available, we ordinarily would be seeking to market new accounts and expand credit lines for our most profitable consumers, but in the current environment, our liquidity situation mandates that we reduce our credit lines and exposure—even to our most profitable customers.

The current global financial crisis differs in key respects from our experiences during the last financial downturn that we experienced in 2001 through 2003. First, while we had difficulty obtaining asset-backed securitization financing for our originated portfolio activities at attractive advance rates during that prior time period, the credit spreads (above base pricing indices like LIBOR) at that time were not as wide (expensive) as they now are. Additionally, while we were quite successful during that time period in obtaining asset-backed securitization financing for portfolio acquisitions at attractive advance rates,

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pricing and other terms, that financing currently is not available from traditional market participants. Last and most significant is the adverse impact that the current 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 some economists to increase further. Lower asset values and higher rates of job loss and the overall level of unemployment recently have translated into reduced payment rates and higher charge off rates within the credit card industry generally and for us specifically. This extended period of reduced payment rates and higher charge off rates has resulted in significantly curtailed cash flows to us from our securitization trusts (e.g., the terms of our securitization facilities have required them to accumulate or retain cash or use it to repay investor notes on an accelerated basis, rather than distribute it to us) and has caused significant impairments in the values of our retained interests in our securitized credit card receivables.

Investments in Previously Charged-Off Receivables Segment. Our Investments in Previously Charged-Off Receivables segment consists of the operations of our debt collection subsidiary, Jefferson Capital Systems, LLC (“Jefferson Capital”). Through this subsidiary, as market conditions and other factors justify, we acquire and sell previously charged-off credit card receivables and apply our collection expertise to the receivables we own. Revenues in this segment are classified as fees and related income on non-securitized earning assets in our consolidated statements of operations.

In 2005, our Investment in Previously Charged-off Receivables segment entered into a forward flow contract to sell previously charged-off receivables to a subsidiary of Encore Capital Group, Inc. (collectively with all other subsidiaries or affiliates of Encore Capital Group, Inc. to which we refer, “Encore”). On July 10, 2008, Encore did not purchase certain accounts as contemplated by the forward flow contract, alleging that we breached certain representations and warranties set forth in the contract (based upon then-outstanding allegations made by the Federal Trade Commission (“FTC”). Subsequently, both our subsidiary and Encore advised one another that they were in default of various obligations under the contract and various related agreements among them, and the parties proceeded to resolve these disputes through arbitration. Immediately prior to the arbitration panel hearing in the third quarter of 2009, we settled our outstanding disputes with Encore. The settlement resulted in the recognition of the remaining \$21.2 million in deferred revenue in the third quarter of 2009 and a corresponding release of \$8.7 million in restricted cash—both in exchange for Encore’s purchase of previously charged-off credit card receivables that had been offered to Encore throughout the period covered by the forward flow agreement and Encore’s resumed offering of volumes of previously charged-off receivables it has purchased for placement under our balance transfer program. Inclusive of all liabilities extinguished and amounts received and paid in connection with our settlement with Encore, the settlement resulted in a net gain of \$11.0 million which is reflected in our consolidated statements of operations for the year ended December 31, 2009.

With settlement of the Encore dispute and its commitment under the settlement terms to resume placements of balance transfer program volumes to us, we expect improving trends and results associated with the balance transfer program within our Investments in Previously Charged-Off Receivables segment. Beyond the committed Encore placement volumes under the program, 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. We also note that we began exploring a balance transfer program in the U.K. in the second quarter of 2008; this program generated modest revenues in 2009 and although it is expected to grow rapidly, its results are not anticipated to be material in 2010.

Most of our Investments in Previously Charged-Off Receivables segment’s acquisitions of normal delinquency charge offs recently have been comprised of previously charged-off receivables from the credit card receivables we own and the securitization trusts we service. Until the dispute arose with Encore in 2008, the segment had, almost simultaneously with each of its purchases from these securitization trusts, sold these charge offs for a fixed sales price

under its five-year forward flow contract with Encore rather than retained them on its balance sheet. With these essentially simultaneous pass-through transactions, the segment had not previously experienced any substantial mismatch between the timing of its collections expenses and the production of revenues under its cost recovery method of accounting. This changed in the third quarter of 2008, however, as a result of Encore's refusal to purchase receivables under the forward flow contract. During the term of this now-settled dispute, our Investment in Previously Charged-Off receivables segment retained its purchased charge offs on its balance sheet and undertook collection activities to maximize its return on these purchases. The retention of these receivables caused significant reductions in its earnings given the mismatching of cost recovery method collection expenses with their associated revenues (i.e., as collection expenses were incurred up front, while revenue recognition was delayed until complete recovery of each respective acquired portfolio's investment). However, our third quarter 2009 settlement with Encore allowed our Investments in Previously Charged-Off Receivables segment to dispose of volumes of previously charged off receivables that had built up on its balance sheet during the term of the Encore dispute and record the \$11.0 million net pre-tax gain described above.

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With the Encore settlement now behind us, we do not expect our Investments in Previously Charged-Off Receivables segment to return immediately to pre-dispute profitability levels. Encore will no longer be purchasing the portfolios of previously charged-off receivables that this segment purchases from us and from the securitization trusts we service. As such, the segment will likely hold such previously charged-off receivables on its balance sheet and collect on them—thereby giving rise to the aforementioned cost-recovery-induced expense and revenue timing mismatches. Additionally, even if our Investments in Previously Charged-Off Receivables segment were to identify a buyer for its holdings of these previously charged-off receivables, it is likely that such a buyer would pay significantly less than Encore did. Under its fixed-price commitment, Encore was paying a price that was reflective of the high valuations being placed on charged-off paper in the market generally in 2005, rather than in today's environment in which the relative supply of charged-off paper is greater. Moreover, the volumes of previously charged off receivables coming out of the securitizations trusts that we service will fall significantly from the volumes that our Investments in Previously Charged-Off Receivables segment purchased prior to the beginning of the Encore dispute.

Notwithstanding the above-discussed factors surrounding our Investments in Previously Charged-Off Receivables segment's purchases of previously charged-off receivables from us and the securitization trusts we service, an increase in the availability of third-party charged-off paper has created several opportunities for us since the fourth quarter of 2008. We have been able to complete several large purchases of charged-off portfolios from third parties at attractive pricing. The increasing supply of charged-off paper also is likely to result in further opportunities to acquire third-party charged-off receivables portfolios at prices under which we can generate significant returns, and subject to liquidity constraints, we expect to increase our purchases of charged off portfolios from third parties in the coming year.

Retail Micro-Loans Segment. Our Retail Micro-Loans segment consists of a network of storefront locations that, depending on the location, provide some or all of the following products or services: (1) small-balance, short-term cash advance loans—generally less than \$500 for 30 days or less and to which we refer as “micro-loans;” (2) installment loan and other credit products; and (3) money transfer and other financial services. These loans and products are marketed through retail branch locations in Alabama, Colorado, Kentucky, Mississippi, Ohio, Oklahoma, South Carolina, Tennessee, and Wisconsin. The assets associated with our retail micro-loan operations were principally acquired during 2004 and early 2005. Our revenues in this segment primarily consist of fees and/or interest earned on our cash advance, installment loan and other credit products, as well as various transactional fees earned on our money transfer and other financial services. Our Retail Micro-Loans segment marketed, originated, invested in, and/or serviced \$440.3 million in micro-loans during 2009, which resulted in 2009 revenue of \$73.1 million and net loans and fees receivables of \$34.0 million at December 31, 2009.

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 dollars but are subject to change pursuant to changes in applicable laws. Fees for returned items declined 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.

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, 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.

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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 federal Truth-In-Lending Act, 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 new or more restrictive laws or regulations, or interpretations thereof, 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 state of South Carolina, new laws have been enacted to require the use of a database to limit consumers to one outstanding micro-loan. The effects of this new regulation could result in a loss of customers because many of our customers currently have outstanding loans with our competitors in addition to us, and they will be forced to choose and utilize the services of only one micro-loan provider. We are active in the Financial Service Centers of America (“FISCA”) and continually monitor federal, state and local regulatory activity through FISCA, as well as state and local lobbyists.

From the inception of our retail micro-loan operations through mid-2007, we embarked on a strategy of converting our mono-line micro-loan storefronts into neighborhood financial centers offering a wide array of financial products and services, including auto insurance, stored-value cards, check cashing, money transfer, money order, bill payment, auto title loans and tax preparation service assistance. These new products had some success in improving foot traffic within our storefronts and increasing our revenues on a per store basis. In certain states, however, we saw increasingly stringent lending regulations (which in many cases precluded the execution of our multi-product line strategy) and possible evidence of market saturation, both of which resulted in revenue growth that did not meet our expectations. At the same time, we saw rising delinquencies and charge offs in almost all of the states where we had retail micro-loan operations. After evaluating the operations of our Retail Micro-Loans segment on a state-by-state basis, it became evident during 2007 that the potential risk-adjusted returns expected in certain states did not justify the ongoing required investment in the operations of those states. As a result, during the fourth quarter of 2007, we decided to pursue a sale of our Retail Micro-Loans segment’s operations in six states: Florida; Oklahoma; Colorado; Arizona; Louisiana; and Michigan. Through a series of staged closings with a single buyer, the first of which was completed July 31, 2008, we completed the sale of operations in three states (Florida, Louisiana, and Arizona) in the third quarter of 2008. By September 30, 2008, we had closed all remaining storefronts in Michigan and our unprofitable storefronts in Colorado and Oklahoma. For a limited number of profitable storefronts in Colorado and Oklahoma, however, we elected to continue operations, and we have removed these storefronts from discontinued operations in our consolidated statements of operations for all periods presented. Our various discontinued operations within these six states are included in the discontinued operations category in our consolidated statements of operations for all periods presented.

During the first quarter of 2008, after reevaluating the capital required for sustaining start-up losses associated with our eighty-one store locations in Texas, we decided to pursue a sale of our Texas store locations—a sale that was completed in April 2008. We have included our Texas results in the discontinued operations category in our consolidated statements of operations for all periods presented. In connection with our decision to sell our Texas retail micro-loans operations and hold those operations for sale, we allocated goodwill between our retained Retail

Micro-Loans segment operations and our discontinued Texas operations, thereby resulting in a \$1.1 million impairment loss that is reported within loss from discontinued operations in 2008. This valuation analysis was based on then-current internal projections and then-existing market data supporting valuation prices of similar companies.

Additionally, during the second quarter of 2009, we elected to close all the remaining locations in Arkansas due to an increasingly negative regulatory environment. We have included our Arkansas results in the discontinued operations category in our consolidated statements of operations for all periods presented. In connection with our second quarter 2009 decision to discontinue our Arkansas retail micro-loan operations, we allocated goodwill between our retained Retail Micro-Loans segment operations and our discontinued Arkansas operations, thereby resulting in a \$3.5 million impairment loss that

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is reported within loss from discontinued operations in the year ended December 31, 2009. In connection with this reallocation, we performed a valuation analysis with respect to the remaining goodwill associated with our continuing Retail Micro-Loans segment operations based on current internal projections of residual cash flows and existing market data supporting valuation prices of similar companies; this analysis yielded an additional \$20.0 million goodwill impairment charge associated with these continuing operations that is reflected within our condensed consolidated statement of operations for the year ended December 31, 2009.

During the first half of 2006, we began exploring potential international market opportunities for our Retail Micro-Loans segment. As part of this effort, we focused on potential opportunities in the U.K. To test market receptiveness for our products in the U.K. we opened a total of four locations during 2006 and 2007. Subsequently, capital requirements to continue these exploratory operations became excessive and we decided to discontinue our efforts and closed these locations during 2009.

During 2009 and 2008, we closed 9 and 10 locations, respectively (other than those closed as part of our discontinued operations) and did not open any new locations. Included in the 2009 store closures are all of our storefront locations associated with our U.K. storefront operations. 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.

Auto Finance Segment. Our Auto Finance segment includes 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 own substantially all of JRAS, a buy-here, pay-here dealer we acquired in 2007. Through the JRAS platform, we sell vehicles to consumers and provide the underlying financing associated with the vehicle sales. Customer purchases are financed for periods of time between 24 and 42 months and credit is approved and payments are received in each storefront. We currently retain all loans and the servicing rights and obligations for all contracts. As of December 31, 2008, JRAS had twelve retail lots in four states. In the first quarter of 2009, we undertook steps to close four lots in two states, and we closed an additional two lots in two states in the second quarter of 2009 leaving a remaining six lots as of December 31, 2009. The capital requirements to bring JRAS's sales for its twelve locations to a level necessary to completely cover fixed overhead costs and consistently generate profits were more than we are willing to undertake given the current liquidity environment. We currently do not intend to expand JRAS's operations, and we currently are evaluating the closure of additional JRAS lots.

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 collections on its portfolio of auto finance receivables.

During the third quarter of 2009, we paid off our CAR debt facility and one of the debt facilities underlying our ACC originated receivables as we were not able to reach satisfactory terms to renew or replace these debt facilities at that time. In the fourth quarter of 2009, however, we were able to obtain financing against our ACC auto finance receivables, and in connection with that transaction, we repaid a \$23.3 million debt facility secured by certain ACC auto finance receivables, combined those receivables with other ACC auto finance receivables and pledged the aggregated liquidating pool of ACC receivables against a \$103.5 million amortizing debt facility. Also in that quarter, we obtained a new, non-recourse \$50.0 million line of credit secured by auto finance receivables associated with our

CAR operations.

In our CAR operations, we generate revenues on purchased loans through interest earned on the face value of the installment agreements combined with discounts on loans purchased. We generally earn discount income over the life of the applicable loan. Additionally, we generate revenues from servicing loans on behalf of dealers for a portion of actual collections and by providing back-up servicing for others' similar quality securitized assets. We offer a number of other products to our network of buy-here, pay-here dealers (including a product under which we lend directly to the dealers), but the vast majority of our activities are represented by our purchases of auto loans at discounts and our servicing of auto loans for a fee.

Collectively, we currently serve 795 dealers through our Auto Finance segment in 46 states and the District of Columbia.

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We were required to make a determination of the fair value of goodwill and intangible assets within our Auto Finance segment in the third quarter of 2008 because our refinancing of certain debt facilities in September 2008 under higher pricing and reduced leverage (i.e., advance rates against underlying asset values) caused us to expect both lower profit margins and higher capital requirements (and hence diminished profit and growth potential relative to our acquisition date expectations). In connection with this determination, we recorded a non-cash goodwill impairment charge of \$29.2 million in the third quarter of 2008. We also recorded a non-cash impairment charge of \$1.7 million in the fourth quarter of 2008 to write off our remaining Auto Finance segment goodwill (associated with our JRAS reporting unit) pursuant to our annual goodwill impairment testing. With these two impairment determinations and charges in 2008, we no longer have any recorded goodwill within our Auto Finance segment.

To summarize the current status of our Auto Finance segment, our CAR operations are performing well in the current environment (achieving consistent profitability with very modest growth), our JRAS operations currently are losing money and have contracted significantly during 2009, and our ACC origination and internal servicing activities have ceased and its liquidating pool of auto finance receivables has been pledged against non-recourse debt and is being serviced by an outsourced third-party contractor.

Internet Micro-Loans Segment. Our Internet Micro-Loans segment currently is comprised of our U.K. and U.S.-based Internet, micro-loan operations.

In April 2007, we acquired 95% of the outstanding shares of Month-End Money (“MEM”), our U.K.-based, Internet, micro-loan operations, for £11.6 million (\$22.3 million) in cash. Under the original purchase agreement, a contingent performance-related earn-out could have been payable to the sellers on achievement of certain earnings measurements for the years ended 2007, 2008 and 2009. The maximum amount payable under this earn-out was £120.0 million, although none of the earn-out performance conditions was satisfied for 2007 and 2008. The MEM acquisition agreement was amended in the first quarter of 2009 to remove the sellers’ earn-out rights in exchange for a 22.5% continuing minority ownership interest in MEM. The settlement of the contingent earn-out resulted in a re-measurement of the carrying value of our investment in MEM in accordance with applicable accounting literature and additional goodwill of \$5.6 million.

Using proprietary analytics to market, underwrite and manage loans to consumers in need of short-term financial assistance, MEM loans are made for a period of up to 40 days and are repayable in full on the customer’s next payday. A typical customer is 22 to 35 years of age, has average net monthly income of £1,300, works in an office or skilled environment and borrows £200. In exchange for this service, we receive a fee, typically equal to 25% of the advance amount.

Internet micro-loans in the U.K. are predominantly made by directing the customer to the MEM website generally through direct marketing. Once at the website, the customer completes an online application for a loan by providing his or her name, address, employment information, desired loan amount and bank account information. This information is automatically screened for fraud and other indicators and based on this information an application is immediately approved or declined. In some cases, additional information may be required from the applicant prior to making a loan decision. Once a loan is approved, the customer agrees to the terms of the loan and the amount borrowed is directly deposited into a customer’s bank account. At the agreed upon repayment date, the customer’s debit card is automatically charged for the full amount of the loan plus applicable fees. If repayment is not made at the agreed upon repayment date, MEM will continually seek to contact the customer in order to collect the amount due. We will either seek full repayment or by agreement with the customer collect the amount under a repayment schedule of up to six months (depending on the amount due). After 90 days of in-house collection activity, the account will be transferred to a third-party collection agency with an aim of maximizing recovery of the charged-off debt.

Our MEM, U.K.-based, Internet, micro-loan operations are subject to U.K. regulations that provide similar consumer protections to those provided under the U.S. regulatory framework. MEM is directly licensed and regulated by the Office of Fair Trading (“OFT”). MEM is governed by an extensive regulatory framework, including the following: Consumer Credit Act, Data Protection Act; Privacy and Electronic Communications Regulations; Consumer Protection and Unfair Trading regulations; Financial Services (Distance Marketing) Regulations; Enterprise Act; Money Laundering Regulations and ASA adjudications. The aforementioned legislation imposes strict rules on the look and content of consumer contracts, how interest rates are calculated and stated, advertising in all forms, who we can contact and disclosures to consumers, among others. The regulators such as the OFT provide guidance on consumer credit practices including collections. The regulators are constantly reviewing legislation and guidance in many areas of consumer credit. MEM is involved in discussions with the regulators via trade groups while keeping up to date with any regulatory changes and implementing them where and when required.

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Also currently included within our Internet Micro-Loans segment are our U.S.-based, Internet micro-loan operations, which are start-up and limited in nature and are not yet material to our consolidated results of operations. We intend to continue testing underwriting techniques and marketing approaches within the U.S. at a measured pace, and depending upon the results of this testing, we may grow Internet-based micro-loan cash advance lending within the U.S.

Because of the start-up nature of our U.S. Internet micro-loan operations, MEM represents the only significant continuing operations within our Internet Micro-Loans segment. We have experienced positive impacts from these operations throughout 2009, and we expect to continue to profitably grow this business at a modest pace in 2010. Our Internet micro-loan operations originated \$264.2 million in micro-loans during 2009, resulting in 2009 revenue of \$65.3 million and net loans and fees receivables of \$23.5 million at December 31, 2009.

How Do We Operate?

Credit Cards Segment. Historically, we have marketed unsecured general-purpose credit cards through our contractual relationships with third-party financial institutions. Under our issuing bank agreements, the issuing banks have owned the credit card accounts, and we have purchased receivables underlying the accounts.

During periods in which credit card accounts are open (i.e., not closed to purchases like substantially all of our credit card accounts are currently), on a daily basis, we purchase the credit card receivables generated in the accounts originated by the banks issuing our credit cards. We in turn securitize substantially all of the receivables generated each day by selling the receivables to securitization trusts. When we sell the receivables, we receive cash proceeds and a retained interest in the applicable trust. The cash proceeds we receive from investors when we sell receivables in our securitizations are less than the cash we use to initially purchase the credit card receivables. The retained interest we receive equals this difference and is a use of our cash. Our retained interests are subordinate to the other investors' interests. The receivables sold in our securitizations generate future cash flows as cardholders remit payments, which include repayments of principal, interest and various fees on their accounts. These payments are remitted to the securitization trusts and then disbursed in accordance with the securitization agreements. We receive all of the excess cash flows from the securitizations, which represent collections on the accounts in excess of the interest paid to the investors, servicing fees paid to us, credit losses and required amortization or other principal payments. We use the cash proceeds that we receive when we sell the receivables to help fund the new receivables generated in the accounts. We use cash flows generated from operations, as well as cash from the issuance of debt and equity, to fund our retained interests in the receivables generated in the accounts.

As noted, the above discussion focuses on an environment in which we are actively marketing new credit card accounts, credit card accounts are open to cardholder purchases, and we are financing these activities through the securitization markets—an environment in which we do not find ourselves today. For over two years, we have not been able to access the securitization markets to facilitate any of our traditional credit card marketing activities, and all of our credit card receivables securitization arrangements currently are in amortization status—which for us means that the only cash flows we are receiving from the securitization trusts are compensation for our servicing efforts until such time, if any, that all of the non-recourse securitization facilities underlying each securitization trust are completely repaid.

We also historically have acquired distressed and other portfolios of sub-prime credit card receivables. We typically have acquired these portfolios at a substantial discount due to the likelihood that a large percentage of the receivables will be charged off as the underlying debtors default. We use our credit models to predict the extent to which the underlying debtors will be able to repay us, which we factor into the price that we pay for a portfolio. Our profitability in these transactions hinges on whether the underlying debtors in the aggregate remit payments that exceed the price

we paid for the portfolio. While portfolio acquisitions historically have been a significant component of our business and a significant source of profitability for us, we have not acquired a credit card receivables portfolio since 2007. We are, however, pursuing several portfolio acquisitions and servicing opportunities at this time, although we cannot be certain that we will be successful in completing any such transactions.

See our consolidated financial statements included herein and our “Liquidity, Funding and Capital Resources” section of Management’s Discussion and Analysis of Financial Conditions and Results of Operations for further details on our securitizations.

Retail Micro-Loans Segment. Our Retail Micro-Loans segment operates through a subsidiary, which serves as a holding company for the several separate subsidiaries required to support these operations. This business is conducted by subsidiaries that operate separately in each state. Each of these operating subsidiaries has a board of managers and management distinct from those of CompuCredit, has been capitalized at a level that we believe is appropriate for its business, conducts its operations independently of the other operating subsidiaries and on an arms’-length basis with its parent and other CompuCredit-related entities, has its own books and records and maintains its assets independently of the

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other operating companies and other CompuCredit-related entities except insofar as certain cash management and administrative functions that are or may be performed under administrative service contracts on a collective basis for the benefit of the operating subsidiaries. Each of these subsidiaries is operated as an independent entity in accordance with the laws of the state of its formation.

Auto Finance Segment. Our CAR operations within our Auto Finance segment are licensed and/or authorized to acquire loans in the 46 states and the District of Columbia in which they presently operate. These operations acquire and service aged or newly originated receivables principally from buy-here, pay-here used car dealers. Acquired receivables are purchased at a discount to par, and typically have a remaining maturity of 20 to 30 months.

JRAS sells vehicles to consumers and provides the underlying financing associated with the vehicle sales. Customer purchases are generally financed for periods of time between 24 and 42 months and credit is approved and payments are received in each storefront. JRAS currently retains all loans and the servicing rights and obligations for all of its sales contracts.

Internet Micro-Loans Segment. Our Internet Micro-Loans segment operates through separate U.K. and U.S. subsidiaries required to support our operations. Each of these operating subsidiaries has a board of managers and management distinct from those of CompuCredit, has been capitalized at a level that we believe is appropriate for its business, conducts its operations independently of the other operating subsidiaries and on an arms'-length basis with other CompuCredit-related entities, has its own books and records and maintains its assets independently of the other CompuCredit-related entities except insofar as certain cash management and administrative functions that are or may be performed under administrative service contracts on a collective basis for the benefit of the operating subsidiaries. Each of these subsidiaries is operated as an independent entity in accordance with the laws of the jurisdiction of its formation.

How Do We Collect and Evaluate Data?

Our general business model is predicated upon our ability to successfully predict the performance of sub-prime receivables, irrespective of whether the receivables arise from portfolio acquisitions or through other origination channels. In other words, we do not wholly focus on the financial institution that originated the particular receivable, but, rather, on how it will perform. We believe our unique skill set is our ability to predict this credit behavior and to service the portfolio in a superior manner to ensure maximum performance. To this end, we have developed proprietary information management systems that support our decision-making functions, including target marketing, solicitation, application processing, account management and collections activities. These information systems take advantage of a state-of-the-art data warehouse and ancillary data management systems that maintain information regarding a customer throughout the customer's relationship with us. The systems' purpose is to gather, store and analyze the data necessary to facilitate our target marketing and risk management decisions.

Our information systems capture customer information gathered either from prior owners of our acquired receivables or in the target marketing, application and solicitation phases of an originated customer relationship and throughout the remainder of our relationship with the customer, including customer credit behavior and payment patterns. By combining and storing such information, we have established an analytical database linking "static" historical data with "dynamic" actual customer performance. Our portal interfaces and business intelligence tools allow management to access and analyze the information management system on demand.

We believe the information we collect in our information system, as well as the ability we have to access, study and model this information, provides us with a more efficient and complete process to effectively price our products and our portfolio acquisitions. Our objective is to price our products and acquisitions such that over time the income we earn from the receivables that are not charged off is sufficient to cover our marketing expenses, our servicing

expenses, overhead expenses, our costs of funds and our losses from cardholders who fail to make their payments and are charged off.

How Do We Obtain Our Customers?

Credit Cards Segment. As noted above, we view our customers the same regardless of whether we acquire them through traditional marketing activities or via portfolio purchases. For our credit card lending activities, we believe we have developed an effective model for predicting the credit behavior of consumers who are classified by regulators as sub-prime credit risks, and this model works for credit card receivables generated through acquisition and through our other origination channels. We believe we can use this model to predict the credit behavior of these consumers with sub-prime-related products and asset classes other than credit cards. Since 1996, we have worked with national credit bureaus to develop proprietary risk evaluation systems using credit bureau data. Our systems enable us to segment customers into narrower ranges within each FICO scoring range. The FICO scoring, developed by Fair, Isaac & Co., Inc., is the most commonly used credit risk score in

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the U.S. consumer credit industry. The purpose of the FICO score is to rank consumers relative to their probability of non-payment on a consumer loan. We believe that sub-segmenting our market within FICO scoring ranges enables us to better evaluate credit risk and to price our products effectively. Within each FICO scoring range, we evaluate potential customers using credit and marketing segmentation methods derived from a variety of data sources. We place potential customers into product offering segments based upon combinations of factors. During periods (unlike the current period) in which we are actively marketing credit card accounts, we focus our marketing programs (direct mail, telemarketing, Internet, etc.) on those customer segments that appear to have high income potential when compared to other segments and demonstrate acceptable credit and bankruptcy risks. Our objective is to use our systems to evaluate credit risk more effectively than the use of FICO scores alone.

Our target marketing system is intended to provide the same competitive advantage when evaluating portfolios as when originating customers through marketing campaigns. We believe that our ability to evaluate credit risk within FICO scoring ranges enables us to determine a portfolio's overall credit risk more accurately than many portfolio sellers and potential purchasers. This risk evaluation expertise is designed to enable us to avoid portfolio purchases in which the final discount does not accurately reflect the credit risk of the portfolio. Conversely, we may bid more aggressively for portfolios in which the perceived credit risk, as reflected by the FICO scores, is significantly higher than our forecast of credit risk.

Retail Micro-Loans Segment. Our subsidiaries obtain new retail micro-loan customers through direct marketing on the Internet and radio, as well as through local advertising in appropriate markets. All new customers are required to have an active bank account and a regular source of income, of which they must provide positive evidence, prior to obtaining most micro-loan product offerings. Once approved, a customer signs a lending agreement detailing the terms of the loan and, depending upon the type of micro-loan product, may write a personal check to cover the amount of the loan plus a finance charge.

Auto Finance Segment. Our CAR operations within this unit acquire existing retail installment contracts directly from buy-here, pay-here used car dealers and small finance companies, while our JRAS operations lend directly to the customers who purchase their used cars. CAR also enters agreements to service retail installment contracts.

We develop and maintain relationships with buy-here, pay-here used car dealers and franchised and independent auto dealerships through a direct sales force, and we analyze markets through the acquisition of data from industry-related service providers, which provide information that indicates sufficient dealer and customer densities. We also conduct direct advertising campaigns in specific target markets in conjunction with industry-focused advertising in established magazines and periodicals. This segment also sponsors and participates in most state and local auto dealer associations and is a sponsor in national organizations such as the NIADA and NABD.

Internet Micro-Loans Segment. Internet micro-loans are predominantly made by directing the customer to the applicable company website generally through direct marketing. Once at the website, the customer completes an online application for a loan by providing his or her name, address, employment information, desired loan amount and bank account information. This information is automatically screened for fraud and other indicators and based on this information an application is immediately approved or declined. In some cases, additional information may be required from the applicant prior to making a loan decision. Once a loan is approved, the customer agrees to the terms of the loan and the amount borrowed is provided to the customer generally through a deposit to a customer's bank account.

What Other Services Do We Offer to Our Customers?

Credit Cards Segment. While not offered currently, during periods in which credit card accounts are open to cardholder purchases, we offer several ancillary products and services to our cardholder customers, including

memberships, insurance products, subscription services and debt waiver. These products and services are offered throughout our relationship with a customer, and we have several relationships with third-party providers of such products. We provide marketing support and a billing platform for these third-party products, and the third-party providers are fully responsible for the fulfillment of the products. Our responsibility is to ensure that enrollment and cancellation of the products purchased by our customers are properly processed and billed to the customers at the rates established.

The success of our ancillary products business is a function principally of whether credit card accounts are open to cardholder purchases (and substantially all of our customer accounts currently are not), as well as the number and variety of our product offerings, the marketing channels leveraged to sell these products and the customers to whom we market these products. The profitability of our ancillary products and services is affected by new credit card account growth, the levels at which customer credit card accounts are open to cardholder purchases, the response rates to product solicitations, the volume and frequency of marketing programs and the operating expenses associated with the programs. Although a wide range of our

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customers purchase ancillary products and services, such product and service sales generally are higher to new customers and tend to diminish throughout our relationship with our cardholders. As a result, we anticipate that during periods of low new account growth, our profitability from ancillary products and services will either grow at a reduced rate or decline.

How Do We Maintain the Accounts and Mitigate Our Risks?

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

For credit card accounts that are open to cardholder purchases (and very few such accounts exist in our portfolio currently), we monitor authorizations, and we limit customer credit availability for transaction types we believe present higher risks, such as foreign transactions, cash advances, etc. We generally seek to manage credit lines to reward financially underserved customers who are performing well and to mitigate losses from delinquent customer segments. During periods when we have the liquidity available to fund increased line usage, we periodically review accounts exhibiting favorable credit characteristics are for credit line increases. We also employ strategies to reduce otherwise open credit lines for customers demonstrating indicators of increased credit or bankruptcy risk. Data relating to account performance are captured and loaded into our proprietary database for ongoing analysis. We adjust account management strategies as necessary, based on the results of such analyses. Additionally, we use industry-standard fraud detection software to manage the portfolio. We route accounts to manual work queues and suspend charging privileges if the transaction-based fraud models indicate a high probability of fraudulent card use.

Retail and Internet Micro-Loans. In a practice that we believe to be unique within the retail micro-loans industry, we began in 2008 to apply risk-based scorecards developed from propriety risk models to customer lending relationships within our retail and U.K.- and U.S.-based Internet micro-loan operations. Through employing these proprietary scorecards within these operations, along with efficiencies created within our collections practices, we have experienced significant reductions in delinquencies and charge offs relative to both our historical performance and other industry participants. While the use of these scorecards has reduced loan size and store revenues in certain cases, it has significantly improved our profitability per transaction.

Auto Finance Segment. Our CAR operations manage credit quality and loss mitigation at the dealer portfolio level through the implementation of dealer-specific loss reserve accounts. In most instances, the reserve accounts are cross-collateralized across all business presented by any single dealer. CAR monitors performance at the dealer portfolio level (by product type) to adjust pricing or the reserve account or to determine if the dealer is to be excluded from our account purchase program.

CAR applies specific purchase guidelines based upon each product offering, and we establish delegated approval authorities to assist in the monitoring of transactions during the loan acquisition process. Dealers are subject to specific approval criteria, and individual accounts are typically verified for accuracy before, during and after the acquisition process. Dealer portfolios across the business segment are monitored and compared against expected collections and peer dealer performance. Monitoring of dealer pool vintages, delinquencies and loss ratios helps

determine past performance and expected future results, which are used to adjust pricing and reserve requirements. Our CAR operations manage risk through diversifying their receivables among 795 active dealers.

For our JRAS operations, credit quality and loss mitigation initially are dependent upon our obtaining a first lien in the auto being financed. As a result, for credit evaluation purposes, we consider a portion of these loans to be unsecured and evaluate the creditworthiness of the customers in that context. When a JRAS customer defaults and JRAS repossesses the auto, JRAS can resell the car to another customer.

How Do We Collect from Our Customers?

Credit Cards Segment. The goal of the collections process is to collect as much of the money that is owed to us in the most cost effective and customer friendly manner possible. To this end, we employ the traditional cross-section of letters and telephone calls to encourage payment. However, recognizing that our objective is to maximize the amount collected, we also

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will offer customers flexibility with respect to the application of payments in order to encourage larger or prompter payments. For instance, in certain cases we vary from our general payment application priority (i.e., of applying payments first to finance charges, then to fees, and then to principal) by agreeing to apply payments first to principal and then to finance charges and fees or by agreeing to provide payments or credits of finance charges and principal to induce or in exchange for an appropriate customer payment. Application of payments in this manner also permits our collectors to assess real time the degree to which a customer's payments over the life of an account have covered the principal credit extensions to the customer. This allows our collectors to readily identify our potential "economic" loss associated with the charge off of a particular account (i.e., the excess of principal loaned to the customer over payments received back from the customer throughout the life of the account). With this information, our collectors work with our customers in a way intended to best protect us from economic loss on the cardholder relationship. Our selection of collection techniques, including, for example, the order in which we apply payments or the provision of payments or credits to induce or in exchange for customer payment, impacts the statistical performance of our portfolios that we reflect under the "Credit Cards Segment" caption within Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

We consider management's experience in operating professional collection agencies, coupled with our proprietary systems, to be a competitive advantage in minimizing delinquencies and charge offs. Our collectors employ various and evolving tools when working with a cardholder, and they routinely test and evaluate new tools in their drive toward improving our collections with the greatest degree of efficiency possible. These tools include programs under which we may reduce or eliminate a cardholder's APR or waive a certain amount of accrued fees, provided the cardholder makes a minimum number or amount of payments. In some instances, we may agree to match a customer's payments, for example, with a commensurate payment or reduction of finance charges or waiver of fees. In other situations, we may actually settle with customers and adjust their finance charges and fees, for example, based on their commitment and their follow through on their commitment to pay certain portions of the balances they owe. Our collectors may also decrease a customer's minimum payment under certain collection programs. Additionally, we employ re-aging techniques as discussed below. We also may occasionally use our marketing group to assist in determining various programs to assist in the collection process. Moreover, we willingly participate in the Consumer Credit Counseling Service ("CCCS") program by waiving a certain percentage of a customer's debt that is considered our "fair share" under the CCCS program. All of our programs are utilized based on the degree of economic success they achieve.

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

Our collection strategies include utilizing both internal and third-party collectors and creating a competitive process of rewarding the most effective and efficient group of collectors from within our system and among third-party agencies. We divide our portfolios into various groups that are statistically equivalent and provide these groups of accounts to our various internal and external collection resources. We compare the results of the internal and external collectors against one another to determine which techniques and which collection groups are producing the best results.

As in all aspects of our risk management strategies, we compare the results of each of the above strategies with other collection strategies and devote resources to those strategies that yield the best results. Results are measured based on delinquency rates, expected losses and costs to collect. Existing strategies are then adjusted as suggested by these results. Management believes that maintaining the ongoing discipline of testing, measuring and adjusting collection strategies will result in minimized bad debt losses and operating expenses. We believe this on-going evaluation differs

from the approach taken by the vast majority of credit grantors that implement collection strategies based on commonly accepted peer group practices.

We discontinue charging interest and fees when credit card receivables become contractually ninety or more days past due (and in certain circumstances where it is necessary in order to avoid so-called “negative amortization”), and we charge off credit card receivables when they become contractually more than 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 determination of whether an account is contractually past due is relevant to our delinquency and charge-off data included under the “Credit Cards Segment” caption within Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Various factors are relevant in analyzing whether an account is contractually past due

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(i.e., whether an account has not satisfied its minimum payment due requirement), which for us is the trigger for moving receivables through our various delinquency buckets and ultimately to charge-off status. We consider a cardholder's receivable to be delinquent if the cardholder fails to pay a minimum amount computed as a fixed percentage of his or her statement balance (3% or 4% of the outstanding balance in some cases and in other cases 1% of the outstanding balance plus any finance charges and late fees billed in the current cycle).

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

Retail and Internet Micro-Loans. Generally, for our traditional retail cash advance micro-loan product, upon the establishment of a relationship with a customer, the store will schedule when the customer is expected to return to our retail location and repay the cash advance. Prior to that date, the store will attempt to contact the customer to confirm scheduling.

If a customer does not return to repay the cash advance, the store manager will either attempt to contact the customer to schedule another payment date through a promise to pay or deposit the personal check issued to us by the customer when he or she received his or her cash advance loan. Re-scheduling of payment dates is generally attempted first to improve customer relations and enhance overall collections.

If the store manager is unable to re-schedule a payment date, the customer's check is deposited. If the check does not clear, either due to insufficient funds, a closed account or a stop-payment order, the branch employees use additional collection efforts. These collection efforts typically include contacting the customer by phone or in person to obtain a promise to pay, sending collection letters to the customer or attempting to deposit the customer's check if funds become available. After attempting to collect at the store level for 30 days, the delinquent account is moved to one of two competing centralized collection sites. These sites attempt to collect the debt in full but have the authority to negotiate a lesser payment in order to satisfy the debt. If these collection efforts fail, the debt may be sold to either our own debt collections subsidiary or to a third party to attempt collection.

For our Internet-based micro-loan products, a customer will sign an agreement acknowledging when a loan will be repaid (typically the customer's next payday). On the agreed-upon day, the loan will be repaid either through a debit to the consumers checking account or through a charge to a customer's debit card. If repayment is not made at the agreed upon repayment date, we will continually seek to contact the customer in order to collect the amount due. We will either seek full repayment or by agreement with the customer collect the amount under a repayment schedule of up to six months (depending on the amount due). After 90 days of in-house collection activity, the account will be transferred to a third-party collection agency with an aim of maximizing recovery of the charged-off debt.

Auto Finance Segment. Accounts that CAR purchases from approved dealers initially are collected by the originating branch or service center location using a combination of traditional collection techniques. Auto Finance segment accounts that have been loaded into our data processing system are centrally serviced to leverage auto dialer processing for early stage collections. The collection process includes contacting the customer by phone or mail, skip

tracing and using starter interrupt devices to minimize delinquencies. Uncollectible accounts in our CAR operation generally are returned to the dealer under an agreement with the dealer to charge the balance on the account against the dealer's reserve account. We generally do not repossess autos in our CAR operation as a result of the agreements that we have with the dealers. JRAS customarily repossesses autos following the default and resells those autos directly to other customers. Within our liquidating portfolio of ACC auto finance receivables, we customarily repossess autos following default and sell those autos at national auctions; there almost always is a deficiency for an ACC sale, at which point we assess whether to pursue or, more often, not pursue that deficiency.

Consumer and Debtor Protection Laws and Regulations

Credit Cards Segment. Our business is regulated directly and indirectly under various federal and state consumer protection, collection and other laws, rules and regulations, including the CARD Act, the federal Truth-In-Lending Act, the federal Equal Credit Opportunity Act, the federal Fair Credit Reporting Act, the federal Fair Debt Collection Practices Act,

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the federal Gramm-Leach-Bliley Act and the federal Telemarketing and Consumer Fraud and Abuse Prevention Act. These statutes and their enabling regulations, among other things, impose disclosure requirements when a consumer credit loan is advertised, when the account is opened and when monthly billing statements are sent. In addition, various statutes limit the liability of credit cardholders for unauthorized use, prohibit discriminatory practices in extending credit, impose limitations on the types of charges that may be assessed and restrict the use of consumer credit reports and other account-related information. Some of our products are designed for customers at the lower end of the FICO scoring range. To offset the higher loss rates among these customers, these products generally are priced higher than our other products. Because of the greater credit risks inherent in these customers and the higher prices that we have had to charge for these products, they, and the banks that have issued them on our behalf, are subject to significant regulatory scrutiny. If regulators, including the FDIC (which regulates the lenders that have issued these products on our behalf) and the FTC, object to these products or how we have marketed them, then we could be required to modify or discontinue them. Over the past several years, we have modified both our products and how we have marketed them in response to comments from regulators. Also, in December 2008, we settled litigation associated with allegations that the FDIC and FTC had made about some of our credit card marketing practices.

Investments in Previously Charged-Off Receivables Segment. Our business is regulated directly and indirectly under various federal and state consumer protection and other laws, rules and regulations, including the federal Truth-In-Lending Act, 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, the U.S. Bankruptcy Code and the federal Telemarketing and Consumer Fraud and Abuse Prevention Act. These statutes and their enabling regulations, among other things, establish specific regulations that debt collectors must follow when collecting consumer accounts and contain specific restrictions when communicating with customers, including the time, place and manner of the communications. In addition, some states require licensure prior to attempting collection efforts.

Retail and Internet Micro-Loans. Our micro-loan products and services are subject to extensive state, federal and foreign regulation. The regulation of our industry is intended primarily for the protection of consumers and is constantly changing as new regulations are introduced at the foreign, federal, state and local levels and existing regulations are repealed, amended and modified. As we develop new product and service offerings, we may become subject to additional foreign, 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 or to the prevailing interpretations thereof 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. and in the U.K. 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. This evolving regulatory landscape creates various uncertainties and risks for the operation of our business, any of which could have a material adverse effect on our business, prospects, results of operations or financial condition. See “Risk Factors” and “Our Business—Legal Proceedings.”

Federal Regulation - Although states provide the primary regulatory framework under which we offer cash advances within the U.S., certain federal laws also impact our business. Our products and services are subject to a variety of federal laws and regulations, such as the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Gramm-Leach-Bliley Act, the Bank Secrecy Act, the Money Laundering Act, and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (the “PATRIOT Act”) and the regulations promulgated for each. Among other things, these laws (1) require disclosure of the principal terms of each transaction when a consumer loan or cash advance is advertised and when an account is opened, (2) prohibit misleading advertising, (3) protect against discriminatory lending practices and (4) proscribe unfair credit practices. The Truth-in-Lending Act and Regulation Z,

adopted under the Truth-in-Lending Act, require disclosure of, among other things, the pertinent elements of consumer credit transactions, including the dollar amount of the finance charge and the charge expressed in terms of an APR. 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 Federal Trade Commission 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.

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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. In February 2009, Senator Richard Durbin introduced a bill in Congress to establish a federal cap of 36% on the effective APR on all consumer loan transactions. Likewise, Representative Luis Gutierrez introduced a bill on the same day that would, among other things, place a 15 cent per dollar borrowed (\$.15/\$1.00) cap on fees for cash advances, ban rollovers (payment of a fee to extend the term of a cash advance or other short-term financing), and require lenders to offer an extended payment plan that would severely restrict lenders' U.S. cash advance products. Most recently, Representative Barney Frank introduced a bill that would create the Consumer Financial Protection Agency ("CFPA"). This agency would take certain consumer regulatory responsibility of financial products from seven other agencies and centralize it in one office. It would have the authority and accountability to supervise, examine, and enforce consumer financial protection laws. In December 2009, the House of Representatives passed the Wall Street Reform and Consumer Protection Act of 2009 (H.R. 4173), which incorporated the CFPA. The timing of any Senate action on this legislation is uncertain. Also, the Obama Administration agenda states that U.S. President Barack Obama and Vice President Joseph Biden seek to extend a 36% APR limit to all consumer credit transactions. Any U.S. 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, like that proposed in the Durbin bill, if enacted, likely would eliminate our ability to continue our current operations.

State Regulation - 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 December 31, 2009, 36 states had specific laws that permitted cash advances or a similar form of short-term consumer loans. As of December 31, 2009, 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.

The scope of state regulation, including the fees and terms of our products and services, varies from state to state. Most states with laws that specifically regulate our products and services establish allowable fees and/or interest and other charges to consumers. In addition, many states regulate the maximum amount, maturity and renewal or extension of cash advances or loans. The terms of our products and services vary from state to state in order to comply with the laws and regulations of the states in which we operate. We are active in FISCA and continually monitor federal, state and local regulatory activity through FISCA, as well as state and local lobbyists.

The states with laws that specifically regulate our products and services typically limit the principal amount of a cash advance or loan and set maximum fees and interest rates that customers may be charged. Some states also limit a customer's ability to renew a cash advance and require various disclosures to consumers. State statutes often specify minimum and maximum maturity dates for cash advances and, in some cases, specify mandatory cooling-off periods between transactions. Our collection activities regarding past due amounts are subject to consumer protection laws and state regulations relating to debt collection practices. In addition, some states restrict the advertising content of our marketing materials. Several 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 our 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 new or more restrictive laws or regulations, or interpretations thereof, 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.

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 at a given time. The effects of these new regulations could result in a loss of customers as many of our customers

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currently have outstanding loans with our competitors in addition to us and they will be forced to utilize the services of only one micro-lender. 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 2012 if no further action is taken; an expiration of these laws could have a detrimental impact on our ability to issue existing or new loan products within the state.

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. For instance, 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; should there be legislative or regulatory changes in Ohio in the future that affect the viability of our small loan product offering, there could be a material adverse effect on our business, prospects, results of operations and financial condition. Laws prohibiting our products and services or making them unprofitable could be passed in any other state at any time or existing enabling laws could expire or be amended.

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. During the third quarter of 2006, our subsidiaries completed the process of closing 52 branch locations in North Carolina and 11 branch locations in West Virginia, and in the second quarter of 2009, one of our subsidiaries completed the process of closing 27 locations in Arkansas. Similar or additional actions could be taken against our industry in the future by other state attorneys general and banking regulators requiring us to suspend or cease operations in such jurisdictions and have a material adverse effect on our business, prospects, results of operations and financial condition.

State-specific legislative or regulatory action can reduce our revenues and/or margins in a state, cause us to temporarily operate at a loss in a state, or even cause us to cease or suspend our operations in a state. From time to time, we may also choose to operate in a state even if legislation or regulations cause us to operate at a loss in that

state.

Local Regulation - In addition to state and federal laws and regulations, our business can be subject to various local rules and regulations such as local zoning regulations. Any actions taken in the future by local zoning boards or other local governing bodies to require special use permits for, or impose other restrictions on providers of, cash advance and similar services could have a material adverse effect on our business, results of operations and financial condition.

Foreign Regulation - MEM is subject to U.K. regulations that provide similar consumer protections to those provided under the U.S. regulatory framework. MEM is directly licensed and regulated by the OFT. MEM is governed by an extensive regulatory framework, with the key legislation as follows: Consumer Credit Act, Data Protection Act; Privacy and Electronic Communications Regulations; Consumer Protection and Unfair Trading regulations; Financial Services (Distance Marketing) Regulations; Enterprise Act; Money Laundering Regulations and ASA adjudications. The aforementioned legislation imposes strict rules on the look and content of consumer contracts, how interest rates are calculated and stated, advertising in all forms, who we can contact and disclosures to consumers, among others. The regulators such as the OFT

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provide guidance on consumer credit practices including collections. The regulators are constantly reviewing legislation and guidance in many areas of consumer credit. MEM is involved in discussions with the regulators via trade groups while keeping up to date with any regulatory changes and implementing them where and when required.

The OFT currently is undertaking a review of what it perceives as “high cost credit,” which includes the sector in which we operate in the U.K. The results of this review are expected to be released in the early part of 2010. While it is impossible to speculate on what the results of this review will be, should the OFT adopt some of the restrictions that have been applied in certain U.S. jurisdictions (e.g., interest rate caps or restrictions on repeat borrowings or multiple simultaneous borrowings), there could be materially adverse effects on our business, results of operations and financial condition.

Auto Finance Segment. This segment is regulated directly and indirectly under various federal and state consumer protection and other laws, rules and regulations, including the federal Truth-In-Lending Act, 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 the federal Telemarketing and Consumer Fraud and Abuse Prevention Act. These statutes and their enabling regulations, among other things, impose disclosure requirements. In addition, various state statutes limit the interest rates and fees that may be charged, limit the types of interest computations (e.g., interest bearing or pre-computed) and refunding processes that are permitted, prohibit discriminatory practices in extending credit, impose limitations on fees and other ancillary products and restrict the use of consumer credit reports and other account-related information. Many of the states in which this segment operates have various licensing requirements and impose certain financial or other conditions in connection with these licensing requirements.

Competition

Credit Cards Segment. We face substantial competition from other consumer lenders, the intensity of which varies depending upon economic and liquidity cycles. Our credit card business competes with national, regional and local bankcard issuers, other general-purpose credit card issuers and retail credit card issuers. Large credit card issuers, including but not limited to JP Morgan Chase, Bank of America, CitiBank, and Capital One, may compete with us for customers in a variety of ways, including but not limited to interest rates and fees. Many of these competitors are substantially larger than we are, have significantly greater financial resources than we do and have significantly lower costs of funds than we have. In addition, most of our largest competitors are banks and do not have to rely on third parties to issue their credit cards. Customers choose credit card issuers largely on the basis of price, including interest rates and fees, credit limit and other product features. Customer loyalty is often limited in this area. As such, we may lose entire accounts or account balances to competing credit card issuers.

Our competitors are continually introducing new strategies to attract customers and increase their market share via techniques such as advertising, target marketing, balance transfers and price competition. In response to competition, some issuers of credit cards have lowered interest rates and offered incentives to retain existing customers and attract new ones. These competitive practices, as well as competition that may develop in the future, could harm our ability to obtain customers and maintain profitability.

Investments in Previously Charged-Off Receivables Segment. The consumer debt collection industry is highly fragmented and competitive. We compete with a wide range of other purchasers of charged-off consumer receivables, including third-party collection agencies, other financial service companies and credit originators that manage their own consumer receivables.

Some of our competitors are larger and more established and may have substantially greater financial, technological, personnel and other resources than we have, including greater access to capital markets. We believe that no individual

competitor or group of competitors has a dominant presence in the market. Competitive pressures affect the availability and pricing of receivables portfolios, as well as the availability and cost of qualified debt collectors.

We face bidding competition in our acquisition of charged-off consumer receivables portfolios. Some of our current competitors, and possible new competitors, may have more effective pricing and collection models, greater adaptability to changing market needs and more established relationships in our industry than we have. Moreover, our competitors may elect to pay prices for portfolios that we determine are not reasonable and, in that event, our volume of portfolio purchases may be diminished.

We believe that our management's experience and expertise in identifying, evaluating, pricing and acquiring consumer receivable portfolios and managing collections coupled with our strategic alliances with third-party servicers give us a competitive advantage. However, we cannot be assured that we will be able to compete successfully against current or future competitors or that competition will not increase in the future. Because our Investments in Previously Charged-Off Receivables segment serves in some respects as a hedge for the sale of charged-off credit card receivables by our Credit Cards

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segment, the adverse effects of competition for our Investments in Previously Charged-Off Receivables segment typically would serve to benefit the operating results of our Credit Cards segment.

Retail and Internet Micro-Loans. Competition for our micro-loan operations originates from numerous sources both in the U.S. and the U.K. Our subsidiaries compete with traditional financial institutions (e.g., major banks such as Bank of America, JP Morgan or CitiBank) that offer similar products such as overdraft protection, cash advances and other personal loans, as well as with other micro-loan companies with both retail and Internet-based operations that offer substantially similar products and pricing models to ours. Key competitors, in addition to traditional financial institutions, include Cash America, Dollar Financial Corp., First Cash Financial Services and Advance America Cash Advance Centers, among others, some of whom have multiple store operations located throughout the U.S. and the U.K. Internet-based micro-lenders include Cash Net in the U.S. and Dollar Financial and Cash America in the U.K., among others.

Differentiation among micro-loan providers is often relegated to location of branches, customer service, convenience and confidentiality. Due to the low barriers to entry within the market in terms of both cost and regulatory safe harbors within certain states, the micro-loan industry recently has experienced a period of significant growth, with multiple local chains and single unit operators often operating within the same market. The competition created by these operations could restrict our businesses' ability to effectively earn adequate returns or grow at desired rates in certain markets.

Auto Finance Segment. Competition within the auto finance sector is very widespread and fragmented. Our auto finance operations target a customer base and dealer profile that often times are not capable of accessing indirect lending from major financial institutions or captive finance companies. We compete mainly with a handful of national and regional companies focused on this credit segment (e.g., Credit Acceptance Corp., WestLake Financial, Mid-Atlantic Finance, AmeriCredit, Drive Financial and Western Funding, Americas Car Mart) and a large number of smaller, regional based private companies with a narrow geographic focus. Individual dealers with access to capital may also compete in this segment through the purchase of receivables from peer dealers in their markets.

Employees

As of December 31, 2009, we had 2,561 employees, most of which are employed within the U.S., principally in Florida, Georgia, Minnesota, Nevada, North Carolina and Utah; also included in this employee count are a limited number of employees in India and 329 employees in the U.K. We note, however, that in the first quarter of 2010 and in furtherance of our cost reduction efforts, we took actions (including issuing planned termination notices to affected U.S. call center employees) to better leverage our global infrastructure, thereby outsourcing portions of our U.S. credit card customer service and collections operations.

We consider our relations with our employees to be good. Our employees are not covered by a collective-bargaining agreement, and we have never experienced any organized work stoppage, strike or labor dispute.

Trademarks, Trade Names and Service Marks

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

Additional Information

CompuCredit is incorporated in Georgia. Our principal executive offices are located at Five Concourse Parkway, Suite 400, Atlanta, Georgia 30328, and the telephone number at that address is (770) 828-2000. Our Internet address is www.compucredit.com. We make available free of charge on our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

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

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In addition, in connection with our contemplated spin-off of our micro-loan businesses, Purpose Financial has filed a registration statement on Form 10 (File No. 001-34597) with the SEC. You may obtain additional information regarding the spin-off and Purpose Financial by reviewing the registration statement and corresponding information statement.

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ITEM 1A. RISK FACTORS

An investment in our common stock or other securities involves a number of risks. You should carefully consider each of the risks described below before deciding to invest in our common stock. 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. Moreover, we have no meaningful access to liquidity.

Our Cash Flows and Net Income Are Dependent Upon Payments on the Receivables Underlying Our Securitizations and From Our Other Credit Products

The collectibility of the receivables underlying our securitizations and those that we hold and do not securitize 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 use their cards or otherwise borrow funds from us. Deterioration in these factors, which we recently have experienced, 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.

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 have, in our view, 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 retained interests and our loans and fees receivable will decline, all of which will have a negative impact on performance. Payment rates by our customers have declined recently and, correspondingly, default rates have increased. It is unclear how long these changes will last and whether, for instance, the federal government’s economic stimulus programs will partially or fully offset them.

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. Recent trends in the U.S. economy indicate that we have entered a period of economic downturn or recession, and we

have seen reduced payments and an increase in default rates over the past several months. If this trend continues, it will more significantly, and more negatively, impact our business.

We are subject to foreign economic and exchange risks. Because of our MEM and other 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.

Because a significant portion of our reported income is based on management's estimates of the future performance of securitized receivables, differences between actual and expected performance of the receivables may cause fluctuations in net income. Significant portions of our reported income (or losses) are based on management's estimates of cash flows we

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expect to receive from the interests that we retain when we securitize receivables. The expected cash flows are based on management's estimates of interest rates, default rates, payment rates, cardholder purchases, costs of funds paid to investors in the securitizations, servicing costs, discount rates and required amortization payments. 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 will cause fluctuations in our net income. For instance, higher than expected rates of delinquency and loss could cause our net income to be lower than expected. Similarly with respect to financing agreements secured by our on-balance-sheet receivables, levels of loss and delinquency could 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 securitization facilities are now in amortization status—which for us generally means that the only meaningful cash flows that we are receiving from the securitization trusts 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 securitized receivables.

Our portfolio of receivables is not diversified and originates from customers whose creditworthiness is considered sub-prime. Historically, we have obtained the receivables that we securitize and retain on our balance sheet in one of two ways—we have either originated 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.

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 or charge more and carry higher balances during the year-end holiday season and during the late summer vacation and back-to-school period, resulting in corresponding increases in the receivables.

The timing and volume of originations with respect to our lower-tier credit card offerings causes significant fluctuations in quarterly income. During periods, unlike the current period, in which we are marketing lower-tier credit card accounts, fluctuations in the timing or the volume of our originations of receivables cause fluctuations in our quarterly income. Factors that affect the timing or volume include marketing efforts, the general economy and the other factors discussed in this section. For example, given the significant and variable growth rates that we have experienced in the past for our lower-tier credit card offerings and given the appreciably shorter vintage life cycles for these offerings relative to our more traditional credit card offerings, we experienced, and in the future may experience, significant volatility of quarterly earnings from these offerings based on the varying levels of marketing and receivables origination in the quarters preceding peak vintage charge-off periods. Our lower-tier credit card receivables tend to follow similar patterns of delinquency and write off, with the peak period of write offs occurring approximately eight to nine months following account origination. During periods of sustained growth, the negative impact of these peak periods generally is offset by the impact of new receivables. During periods of no or more limited growth, it is not. We substantially reduced our credit card marketing efforts beginning in August 2007 and more recently have stopped issuing new cards, thereby eliminating our growth. This followed a period of substantial marketing efforts and growth. One impact of this was an increase in write offs during the first, second and third quarters of 2008 that were not offset by growth. In addition, commencing early in the fourth quarter of 2008, like others in our industry, we reduced credit lines and closed accounts in order to ensure that we had the capacity to fund new purchases on the remaining accounts and to reduce our risk exposure, and in 2009, we continued account closures so that substantially all of our credit card accounts are now closed to cardholder purchases. This has resulted, and is likely to continue to result, in an overall decline in the amount of outstanding receivables.

Increases in interest rates will increase our cost of funds and may reduce the payment performance of our customers. Increases in interest rates will increase our cost of funds, which could significantly affect our results of operations and financial condition. We recently have experienced higher interest rates. Our credit card accounts have variable interest rates. Significant increases in these variable interest rates may reduce the payment performance of our customers.

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 Securitizations and Other Borrowed Funds to Fund the Receivables That We Originate or Purchase

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All of our securitization and 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. If future advance rates (i.e., the percentage on a dollar of receivables that lenders will lend us) for securitizations or financing facilities remain depressed or are reduced, investors in securitizations or financing facilities lenders require currently high or even greater rates of return, or securitization or financing arrangements otherwise continue to be unavailable to us on acceptable terms, we will not be able to maintain or grow our base of receivables. In addition, because of advance rate limitations, we retain subordinated “retained interests” in our securitizations that must be funded through profitable operations, equity raised from third parties or funds borrowed elsewhere. 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 largely unavailable. Some of these concerns are discussed more fully below.

As our securitization and 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 securitization 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 investors and no longer are reinvested in new receivables. When a securitization 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 securitization 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 to new purchases.

The documents governing our securitization facilities provide that, upon the occurrence of certain adverse events known as “early redemption events,” and sometimes called “early amortization events,” investors can accelerate payments. Early redemption events include portfolio performance triggers, the termination of certain of our affinity agreements with third-party financial institutions to originate credit cards, breach of certain representations, warranties and covenants, insolvency or receivership, and servicer defaults, and may include the occurrence of an early redemption event with respect to another securitization transaction. Our upper-tier originated portfolio master trust variable funding facility also provides for the triggering of an early redemption event based on a total consolidated equity test, a maximum permitted reduction in quarterly total consolidated equity levels test, a change of control in CompuCredit or other corporate finance events. Early redemption events have occurred for several of our securitization facilities, and as a result, principal payments are being made to investors to reduce their notes in our securitizations. Until these investors are repaid in full, we will receive no further funds from the receivables other than the servicing fees provided for in the documents governing the securitizations. These servicing fees are significantly less than the cash flows that we recently have received as holders of the retained interests. Under our early amortization status with respect to our upper-tier originated portfolio master trust securitization facility, we estimate it could take several years to repay investors, after which time we would again receive other funds from the receivables to the extent that the receivables are sufficient to provide for investor repayment. During this intervening period, our liquidity will be negatively impacted, our financial results will suffer and we may need to (although we currently do not anticipate needing to) obtain alternative sources of funding, which under current market conditions is very difficult for us to do.

We may be unable to obtain capital from third parties needed to fund our existing securitizations and loans and fees receivable, investors and lenders under our securitization and 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 our retained interests in our securitizations and the difference between our loans and fees receivable and the amount that lenders will advance or lend to us against those receivables. 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 retained interests at acceptable pricing. As a result, like all participants in the sub-prime market place, we continue to operate under significant liquidity constraints, which may worsen and could require us to sell assets at less than favorable prices.

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Expected losses and delinquencies have prevented us from securitizing future receivables on terms similar to those that traditionally have been available and from obtaining favorable financing for non-securitized receivables. Our anticipated delinquencies and losses have impacted our ability to complete securitization and financing transactions on acceptable terms. In the event we need additional funding, we are likely to have to rely on alternative, and potentially more expensive, funding sources if even available. In recent months, payment rates have declined significantly and defaults correspondingly have increased. Although we are uncertain about the ultimate impact of these changes on our ability to securitize future receivables, particularly given that there is no active securitization market at the current time, we expect it to have an adverse impact.

The performance of our competitors impacts the costs of our securitizations and financing facilities. Generally speaking, investors in our securitizations also invest in our competitors' securitizations, and lenders against our receivables also lend against our competitors' receivables. When these investors and lenders evaluate their investments and lending arrangements, they typically do so based on overall industry performance. Thus, independent of our own performance, when our competitors perform poorly, we typically experience negative investor and lender sentiment, and the investors in our securitizations and lenders against our receivables require greater returns, particularly with respect to subordinated interests in our securitizations. Largely because of difficulties in the sub-prime mortgage market, investors have been substantially more reluctant, if even willing, to invest and those that have been willing to invest have sought greater returns.

Rating agencies have been aggressively reducing ratings across broad segments of the consumer finance sector, and ratings on securitization facilities underlying pools we service have been downgraded. Rating agency actions have impacted the securitization industry and are likely to impact our future ability to issue new debt.

Although due to conditions in the broader economic market, there currently are no securitization opportunities for us, should these opportunities return in the future, we expect investors to require higher returns. As a result, when we sell our retained interests in securitizations at that time, the total returns to buyers may be greater than the discount rates we are using to value the retained interests for purposes of our financial statements. This would result in losses for us at the time of the sales as the total proceeds from the sales would be less than the carrying amount of the retained interests in our financial statements. We also might increase the discount rates used to value all of our other retained interests, which would result in further losses. Conversely, if we sold our retained interests for total returns to investors that were less than our current discount rates, we would record income from the sales, and we potentially would decrease the rates used to value all of our other retained interests, which would result in additional income.

Our growth is dependent on our ability to add new securitization and financing facilities. We finance our receivables through securitizations and 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 securitization and financing facilities are not available in the future on terms we consider acceptable, we will not be able to grow our business and it will continue to contract in size.

We may be required to pay to investors in our securitizations an amount equal to the amount of securitized receivables if representations and warranties regarding those receivables are inaccurate. The representations and warranties made to us by sellers of receivables we have purchased may be inaccurate. In securitization transactions, in reliance on the representations and warranties that we have received, we make similar representations and warranties to investors and,

generally speaking, if there is a breach of our representations and warranties, we could be required to pay the investors the amount of the non-compliant receivables. Thus, our reliance on a representation or warranty of a receivables seller, which proves to be false and causes a breach of one of our representations or warranties, could subject us to a potentially costly liability.

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.

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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, including securitizations, on favorable terms;
 - our ability to sell retained interests 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 substantially eliminated our marketing efforts and have aggressively reduced credit lines and closed accounts. In addition, the general economy has been experiencing a significant downturn, which has 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 reverse, we do not expect to grow our 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 may decide to limit our marketing and thereby our growth. We decreased our marketing during 2003, although we increased our marketing in 2004 through 2006 because of our improved access to capital. Similarly, we significantly curtailed our marketing in August 2007 because of uncertainty regarding future access to capital as a result of difficulties in the sub-prime mortgage market and currently have ceased substantially all card marketing activities.

Our operating expenses and our ability to effectively service our accounts are dependent on our ability to estimate the future size and general growth rate of the portfolio. Some of our servicing and vendor agreements require us to make additional payments if we overestimate the size or growth of our business. These additional payments compensate the servicers and vendors for increased staffing expenses and other costs they incur in anticipation of our growth. In addition, if we overestimate our growth, we have excess facilities and capacity. We currently have substantial excess

capacity.

Intense competition for customers may cause us to lose receivables to competitors. Historically, we have faced intense competition from other providers of credit cards. While we are not actively soliciting new accounts at the current time, we do hope to resume account growth in the future, and we would expect to lose receivables to competitors that offer lower interest rates and fees or other more attractive terms or features. We believe that customers choose credit card issuers and other lenders largely on the basis of interest rates, fees, credit limits and other product features. For this reason, customer loyalty is often limited. Our ability to maintain and grow our business depends largely upon the success of our marketing efforts. Our credit card business competes with national, regional and local bank and other credit card issuers. Our other businesses have substantial competitors as well. Some of these competitors already may use or may begin using many of the programs and strategies that we have used to attract new accounts. In addition, many of our competitors are substantially larger than we are and have greater financial resources. Further, the Gramm-Leach-Bliley Act of 1999, which permits the affiliation of commercial banks, insurance companies and securities firms, may increase the level of competition in the financial services market, including the credit card business.

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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 (including whether we consolidate our securitizations) 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 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.

As discussed in more detail below, in March 2006, one of our subsidiaries stopped processing and servicing micro-loans in North Carolina in settlement of a review by the North Carolina Attorney General, and also in 2006, we terminated our processing and servicing of micro-loans for third-party banks in three other states in response to a position taken in February 2006 with respect to banks generally by the FDIC.

In June 2006, we entered into an assurance agreement with the New York Attorney General in order to resolve an inquiry into our marketing and other materials and our servicing and collection practices, principally as a result of New York Personal Property Law Section 413. Pursuant to this agreement, we agreed to pay a \$0.5 million civil penalty to the State of New York and to refund certain fees to New York cardholders, which resulted in cash payments of under \$2.0 million and a charge against a \$5.0 million liability that we accrued for this purpose. In addition, we assured the New York Attorney General that we would not engage in certain marketing, billing, servicing and collection practices.

Also, commencing in June 2006, the FDIC began investigating the policies, practices and procedures used in connection with our credit card originating financial institution relationships. In December 2006, the FTC commenced a related investigation. In June 2008, both of the regulators commenced actions against us and the FDIC commenced

actions against two of the banks that historically have issued cards on our behalf. We settled the actions against us in December 2008.

If any additional deficiencies or violations of law or regulations are identified by us or asserted by any regulator, or if the FDIC, 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.

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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. Prior to changes to our minimum payment requirements over the past few years, we historically had followed a more consumer-friendly practice of not treating cardholders as delinquent (with commensurate adverse credit agency reporting) provided they made a minimum payment of only 3% or 4% (depending upon the credit card product) of their outstanding balance (i.e., exclusive of the requested over-limit, late and other fees). However, 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 issue 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 ninety 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.

Adverse regulatory actions with respect to issuing banks have adversely impacted our business and could continue to do so in the future. 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. For instance, in February 2006 the FDIC effectively asked insured financial institutions not to issue cash advance and installment micro-loans through third-party servicers. As a result of this request, the issuing bank for which we provided services in four states stopped making new loans. Similarly, certain banks for which we traditionally had marketed credit card accounts stopped issuing new accounts (before our liquidity-based decision to stop new account marketing efforts), principally because of the FDIC and FTC investigations and litigation discussed elsewhere. In the future, regulators may find other aspects of the products that we originate or service objectionable, including, for instance, the terms of the credit offerings (particularly for our higher priced lower-tier products), the manner in which we market them or our servicing and collection practices. Our credit card operations 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, which, during periods, unlike the current period, in which we are actively marketing, would have a materially adverse impact on our business.

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. The Federal Reserve recently has adopted significant changes to a number of practices that will

be effective July 2010. While our practices are in compliance with most of these proposed changes, some (e.g., limitations on the ability to assess up-front fees) could significantly impact our lower-tier products. 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;

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• 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.

Because of the Recent and Ongoing Contraction of Our Credit Cards and Auto Finance Businesses and the Growth of Our Retail and Internet Micro-Loan 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 micro-loan businesses are subject to numerous foreign, 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. and in the U.K.

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. In February 2009, Senator Richard Durbin introduced a bill in Congress to establish a federal cap of 36% on the effective annual percentage rate (“APR”) on all consumer loan transactions. Likewise, U.S. Representative Luis Gutierrez introduced a bill on the same day that would, among other things, place a 15 cent per dollar borrowed (\$.15/\$1.00) cap on fees for cash advances, ban rollovers (payment of a fee to extend the term of a cash advance or other short-term financing), and require lenders to offer an extended payment plan that would severely restrict lenders’ U.S. cash advance products. Most recently, Representative Barney Frank introduced a bill that would create the CFPB. This agency would take certain consumer regulatory responsibility of financial products from seven other agencies and centralize it in one office. It would have the authority and accountability to supervise, examine, and enforce consumer financial protection laws. In December 2009, the House of Representatives passed the Wall Street Reform and Consumer Protection Act of 2009 (H.R. 4173), which incorporated the CFPB. The timing of any Senate action on this legislation is uncertain. Also, the Obama Administration agenda states that U.S. President Barack Obama and Vice President Joseph Biden seek to extend a 36% APR limit to all consumer credit transactions. Any U.S. federal legislative or regulatory action that severely restricts or prohibits cash advance and similar services, if enacted, could have a material adverse impact

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on our business, prospects, results of operations and financial condition. Any federal law that would impose a national 36% APR limit on our services, like that proposed in the Durbin bill, if enacted, likely would eliminate our ability to continue our current operations.

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. See “Our Business—U.S. Federal Regulation.” 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 Federal Trade Commission 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 December 31, 2009, 36 states had specific laws that permitted cash advances or a similar form of short-term consumer loans. As of December 31, 2009, 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 at a given time. Such new or modified legislation 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 2012 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.

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. For instance, 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; should there be legislative or regulatory changes in Ohio in the future that affect the viability of our small loan product offering, there could be a material adverse effect on our business, prospects, results of operations and financial condition.

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

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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. During the third quarter of 2006, our subsidiaries completed the process of closing 52 branch locations in North Carolina and 11 branch locations in West Virginia, and in the second quarter of 2009, one of our subsidiaries completed the process of closing 27 locations in Arkansas. Similar or additional actions could have a material adverse effect on our business, prospects, results of operations and financial condition.

Our industry is subject to various local rules and regulations. Changes in these local regulations or interpretations thereof could have a material adverse effect on our business, prospects, results of operations and financial condition. In addition to state and federal laws and regulations, our business can be subject to various local rules and regulations such as local zoning regulations. Any actions taken in the future by local zoning boards or other local governing bodies to require special use permits for, or impose other restrictions on providers of, cash advance and similar services could have a material adverse effect on our business, results of operations and financial condition.

Our operations in the U.K. are subject to differing laws and regulations. Our inability to operate in the U.K. in compliance with applicable laws and regulations and changes in those applicable laws and regulations could have a material adverse effect on our business, prospects, results of operations and financial condition. In the U.K., consumer lending is governed by the Consumer Credit Act of 1974, which was amended by the Consumer Credit Act of 2006, and related rules and regulations. Our subsidiaries in the U.K. must maintain licenses from the OFT, which is responsible for regulating consumer credit and competition, for policy-making and for consumer protection. The U.K. also has strict rules regarding the presentation, form and content of loan agreements, including statutory warnings and the layout of financial information. Our non-compliance with these rules could render a loan agreement unenforceable. Our inability to obtain and maintain the required licenses or to comply with the applicable rules or regulations in the U.K. could limit our expansion opportunities and/or could result in a material adverse effect on our business, results of operations and financial condition.

The OFT currently is undertaking a review of what it perceives as “high cost credit,” which includes the sector in which we operate in the U.K. The results of this review are expected to be released in the early part of 2010. While it is impossible to speculate on what the results of this review will be, should the OFT adopt some of the restrictions that have been applied in certain U.S. jurisdictions (e.g., interest rate caps or restrictions on repeat borrowings or multiple simultaneous borrowings), there could be materially adverse effects on our business, 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.

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Prior efforts by our micro-loan businesses to expand their product offerings at our micro-loan storefronts did not prove successful. 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. From 2004 through mid-2007, we embarked on a strategy of converting our mono-line micro-loan storefronts into neighborhood financial centers offering a wide array of financial products and services, including auto insurance, stored-value cards, check cashing, money transfer, money order, bill payment, auto title loans and tax preparation service assistance. These new products had some success in improving foot traffic within our storefronts and increasing our revenues on a per store basis. In certain states, however, we saw increasingly stringent lending regulations (which in many cases precluded the execution of our multi-product line strategy) and possible evidence of market saturation, both of which resulted in revenue growth that did not meet our expectations. As a result, we discontinued many of these product offerings in mid-2007.

In order to offer new products, we need to comply with additional regulatory and licensing requirements. Each of these changes, 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.

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 micro-loan businesses are subject to lawsuits and regulatory proceedings that could generate adverse publicity and cause us to incur substantial expenditures. See Part I, Item 3, "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 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.

Adverse economic conditions may significantly and adversely affect our micro-loan businesses' prospects, results of operations, financial condition and access to liquidity. The current global economic crisis may adversely affect our micro-loan businesses in several ways. For example, the rise in unemployment levels likely will reduce the number of customers who qualify for our products and services, which in turn may reduce our revenues. Similarly, reduced consumer confidence and spending may decrease the demand for our products. Also, the widespread loss of jobs, housing foreclosures and general economic uncertainty may affect our loss experience. Our methodology for establishing our provision for loan losses is based in large part on our historic loss experience. If customer behavior changes as a result of current economic conditions, our provision may be inadequate. Additionally, should our micro-loan businesses require external sources of liquidity to fund customer advances in the future (they do not today), they may be unable to access that liquidity due to the current state of the credit markets. If they are unable to obtain external liquidity, our ability to finance their current operations could be impaired. Lastly, given the

unprecedented nature of the current economic crisis, our micro-loan businesses may be adversely affected in ways that we are unable to anticipate.

The concentration of our micro-loan businesses' revenues in certain geographic areas could adversely affect us. As of December 31, 2009, 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 approximately 40.7% of our retail micro-loans revenue during 2009. 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 2009, Kentucky, Ohio, South Carolina and Wisconsin each accounted for more than 7.6% of our retail micro-loans revenue, with Ohio accounting for 16.4% of our retail micro-loans 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

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reduction in demand for our products and services, a decline in our revenues or an increase in our provision for loan losses that could result in a deterioration of our financial condition. A regulatory change similar to the recent change in Ohio, for example, 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.

Moreover, our U.K. Internet-based micro-loan operations comprised 46.8% of our micro-loan businesses' revenue during 2009; as such, a regulatory change in the U.K. to reduce the profitability of or otherwise limit or ban our product offerings in the U.K. could 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.

Media reports and public perception of cash advances and similar loans as being predatory or abusive could materially adversely affect our business, prospects, results of operations and financial condition. Consumer advocacy groups and certain media reports advocate for governmental and regulatory action to prohibit or severely restrict our micro-loan businesses' products and services. The consumer groups and media reports typically focus on the cost to a consumer and typically characterize our micro-loan businesses' products and services as predatory or abusive toward consumers. If this negative characterization of advances becomes widely accepted by consumers, demand for our micro-loan businesses' products and services could significantly decrease, which could materially adversely affect our business, results of operations and financial condition. Negative perception of our micro-loan businesses' products and services could also result in increased regulatory scrutiny and litigation, encourage restrictive local zoning rules, make it more difficult to obtain government approvals necessary to open new storefronts and cause industry trade groups, such as the Community Financial Services Association of America, to promote policies that cause our business to be less profitable. These trends could materially adversely affect our business, prospects, results of operations and financial condition.

Our micro-loan businesses' provision for loan losses 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 2009 and 2008, our retail storefront operations deposited or presented an Automated Clearing House ("ACH") authorization for approximately 7.0% and 8.9%, respectively, of all the customer checks we received and approximately 72.9% and 75.8%, respectively, 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 2009 and 2008 were approximately \$9.6 million and \$9.9 million, respectively. An increase in returned checks or rejected ACH authorizations would increase our provision for loan losses and our allowance for uncollectible loans and fees receivable.

MEM, our U.K. Internet-based micro-loans business, uses an electronic debit card process to electronically charge our payments against the customers' bank accounts for loan repayment and fees due. In 2009 and 2008, approximately 6.2% and 6.1%, respectively, of these electronically charged payments against our customers' bank accounts were charged back or rejected because of non-sufficient funds in the customers' bank accounts or because of closed accounts or charge-back orders. If repayment is not made at the agreed upon repayment date, MEM will continually seek to contact the customer in order to collect the amount due. MEM either seeks full repayment or by agreement with the customer collects the amount under a repayment schedule of up to six months (depending on the amount due). After 90 days of in-house collection activity, the account will be passed to a third-party collection agency with an aim of maximizing recovery of the charged-off debt. Total U.K. charge-offs, net of recoveries, in 2009 and 2008 were approximately \$18.0 million and \$16.1 million, respectively. An increase in charged-back or rejected electronic payments would increase our provision for loan losses and our allowance for uncollectible loans and fees receivable.

Our micro-loan businesses have a significant amount of goodwill that is subject to periodic review and testing for impairment. A significant portion of our micro-loan businesses' total assets is comprised of goodwill. Under generally accepted accounting principles, goodwill is subject to periodic review and testing to determine if it is impaired. These tests

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require projections of future cash flows. Unfavorable trends in our industry and unfavorable events or disruptions to our operations can affect these projections and estimates. Significant impairment charges, although not affecting cash flow, could have a material impact on our operating results and financial position.

Our continued expansion of our micro-loan operations within the U.K. may contribute materially to increased costs and negatively affect our business, prospects, results of operations and financial condition. We have devoted significant management time and financial resources to expanding our micro-loan operations within the U.K. Our international operations have increased the complexity of our organization and the administrative, operating and legal cost of operating our business. Penetrating new markets likely will require additional marketing expenses and incremental start-up costs. Additionally, our foreign business is subject to local regulations, tariffs and labor controls to which other domestic businesses are not subject. Our financial results also may be negatively affected by tax rates in the U.K. or as a result of withholding requirements and tax treaties with the U.K. Moreover, if political, regulatory or economic conditions deteriorate in the U.K., our ability to further expand and maintain our international operations could be impaired or the costs of doing so could increase, either of which could further erode our business, prospects, results of operations and financial condition.

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.

In our U.S. retail storefront operations, we use an electronic check conversion process to electronically present most of our past due checks to the customers' bank accounts. This process uses either the ACH or the VISA Point-of-Sale ("VISA POS") network. We depend on our banks to settle our ACH transactions and on VISA and certain participating financial institutions to operate the VISA POS system. If our banks decide to no longer process our ACH transactions due to increased credit risk or other reasons or if a financial institution were to exit the VISA POS payment network or if VISA stopped supporting this network, our ability to collect on past due accounts could be adversely affected and our cost of collections could increase.

Our U.K. Internet micro-loan operations use an electronic debit card process to electronically charge payments against our customers' bank accounts. We depend on our banks to settle these transactions and on certain participating institutions to operate the debit card payment system. If they were to decide to cease processing our transactions due to increased credit risk or other reasons, our ability to collect on accounts could be adversely affected and our cost of collections could increase—thereby possibly having a material adverse effect on our business, prospects, results of operations and financial condition.

Our micro-loans 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-loans 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 loan losses 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.

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

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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