CompuCredit Holdings Corp
Form 10-Q
November 05, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

For the quarterly period ended September 30, 2010

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

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

As of October 31, 2010, 35,754,189 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.)

COMPUCREDIT HOLDINGS CORPORATION
FORM 10-Q
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CompuCredit Holdings Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Dollars in thousands)

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and cash equivalents (including restricted cash of $39,672 at September 30, 2010 and $5,636 at December 31, 2009)	$ 128,001	$ 190,655
Securitized earning assets	—	36,514
Loans and fees receivable:		
Loans and fees receivable, net (of $8,707 and $7,030 in deferred revenue and $16,823 and $15,030 in allowances for uncollectible loans and fees receivable at September 30, 2010 and December 31, 2009, respectively)	79,069	70,928
Loans and fees receivable pledged as collateral under structured financings, net (of $19,227 and $33,864 in deferred revenue and $30,799 and $38,414 in allowances for uncollectible loans and fees receivable at September 30, 2010 and December 31, 2009, respectively)	139,146	214,439
Loans and fees receivable, at fair value	12,227	42,299
Loans and fees receivable pledged as collateral under structured financings, at fair value	457,486	—
Investments in previously charged-off receivables	30,654	29,669
Investments in securities	58,653	2,629
Deferred costs, net	3,358	4,432
Property at cost, net of depreciation	23,397	32,263
Investments in equity-method investees	8,099	13,517
Intangibles, net	2,495	2,816
Goodwill	43,245	43,422
Income tax asset, net	—	32,695
Prepaid expenses and other assets	26,097	32,554
Total assets	$ 1,011,927	$ 748,832
Liabilities		
Accounts payable and accrued expenses	$ 62,594	$ 67,295
Notes payable associated with structured financings, at face value	113,496	164,368
Notes payable associated with structured financings, at fair value	451,141	—
Convertible senior notes (Note 10)	232,562	307,573
Deferred revenue	1,529	1,875
Income tax liability	63,804	—
Total liabilities	925,126	541,111
Commitments and contingencies (Note 11)		
Equity		
Common stock, no par value, 150,000,000 shares authorized: 46,250,658 shares issued and 38,009,115 shares outstanding at September 30, 2010 (including 2,252,388 loaned shares to be returned); and 58,596,545 shares issued and 49,970,111 shares outstanding at December 31, 2009 (including 2,252,388 loaned shares to be returned)	—	—
Additional paid-in capital	406,626	500,064
	(209,736)	(219,714)

Treasury stock, at cost, 8,241,543 and 8,626,434 shares at September 30, 2010 and December 31, 2009, respectively		
Accumulated other comprehensive loss	(3,901)	(3,293)
Retained deficit	(123,504)	(87,740)
Total shareholders’ equity (Note 2)	69,485	189,317
Noncontrolling interests (Note 2)	17,316	18,404
Total equity	86,801	207,721
Total liabilities and equity (Note 2)	$ 1,011,927	$ 748,832

See accompanying notes.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest income:				
Consumer loans, including past due fees	$60,609	$17,987	$213,976	$56,755
Other	451	325	820	906
Total interest income	61,060	18,312	214,796	57,661
Interest expense	(11,599)	(9,465)	(45,434)	(29,675)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	49,461	8,847	169,362	27,986
Fees and related income on earning assets	112,605	58,890	394,098	142,462
Losses upon charge off of loans and fees receivable recorded at fair value	(86,971)	—	(391,615)	—
Provision for losses on loans and fees receivable recorded at net realizable value	(17,522)	(16,712)	(53,505)	(47,520)
Net interest income, fees and related income on earning assets	57,573	51,025	118,340	122,928
Other operating income (loss):				
Loss on securitized earning assets	—	(216,416)	—	(530,130)
Servicing income	1,621	21,999	5,447	92,873
Ancillary and interchange revenues	2,728	4,028	8,722	15,255
Gain on repurchase of convertible senior notes	5,681	—	28,374	160
Gain on buy-out of equity-method investee members	—	—	—	20,990
Equity in loss of equity-method investees	(1,372)	(2,170)	(11,043)	(12,185)
Total other operating income (loss)	8,658	(192,559)	31,500	(413,037)
Other operating expense:				
Salaries and benefits	7,568	12,182	26,928	40,257
Card and loan servicing	31,245	55,930	107,481	166,680
Marketing and solicitation	6,545	4,418	17,688	12,472
Depreciation	3,371	4,520	10,487	16,161
Goodwill impairment	—	—	—	20,000
Other	15,577	22,840	54,970	73,343
Total other operating expense	64,306	99,890	217,554	328,913
Income (loss) from continuing operations before income taxes	1,925	(241,424)	(67,714)	(619,022)
Income tax (expense) benefit	(600)	2,791	(1,700)	123,381
Income (loss) from continuing operations	1,325	(238,633)	(69,414)	(495,641)
Discontinued operations:				
Loss on discontinued operations before income taxes	—	—	—	(6,599)
Income tax benefit	—	—	—	2,310
Loss on discontinued operations	—	—	—	(4,289)
Net income (loss)	1,325	(238,633)	(69,414)	(499,930)
Net loss (income) attributable to noncontrolling interests	436	(778)	(565)	13,658
Net income (loss) attributable to controlling interests	$1,761	$(239,411)	$(69,979)	$(486,272)

Income (loss) from continuing operations attributable to controlling interests per common share—basic	$0.05	$(5.02)	$(1.70)	$(10.11)
Income (loss) from continuing operations attributable to controlling interests per common share—diluted	$0.05	$(5.02)	$(1.70)	$(10.11)
Loss on discontinued operations attributable to controlling interests per common share—basic	$—	$—	$—	$(0.09)
Loss on discontinued operations attributable to controlling interests per common share—diluted	$—	$—	$—	$(0.09)
Net income (loss) attributable to controlling interests per common share—basic	$0.05	$(5.02)	$(1.70)	$(10.20)
Net income (loss) attributable to controlling interests per common share—diluted	$0.05	$(5.02)	$(1.70)	$(10.20)

See accompanying notes.

CompuCredit Holdings Corporation and Subsidiaries
Condensed Consolidated Statements of Shareholders' Equity
For the Nine Months Ended September 30, 2010 (Unaudited)
(Dollars in thousands)

	Common Stock								
	Shares Issued	Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Deficit	Noncontrolling Interests	Comprehensive Loss	Total Equity
Balance at December 31, 2009	58,596,545	$ —	$ 500,064	$ (219,714)	$ (3,293)	$ (87,740)	$ 18,404		$ 207,721
Cumulative effect of accounting pronouncement adoption (see Note 2)	—	—	—	—	—	34,449	3,231		37,680
Retirement of shares	(12,180,604)		(85,264)	—	—	—	—		(85,264)
Use of treasury stock for stock-based compensation plans	(303,216)	—	(10,368)	10,602	—	(234)	—		—
Issuance of restricted stock, net of forfeiture	137,933	—	—	—	—	—	—		—
Amortization of deferred stock-based compensation costs	—	—	7,055	—	—	—	—		7,055
Purchase of treasury stock	—	—	—	(624)	—	—	—		(624)
Tax effects of stock-based compensation plans	—	—	(1,443)	—	—	—	—		(1,443)
Repurchase of noncontrolling interests	—	—	(3,418)	—	—	—	(4,119)		(7,537)
Distributions to owners of noncontrolling interests	—	—	—	—	—	—	(765)		(765)
Net (loss) income	—	—	—	—	—	(69,979)	565	$ (69,414)	(69,414)

Foreign currency translation adjustment, net of tax	—	—	—	—	(608)	—	—	(608)	(608)
Comprehensive loss	—	—	—	—	—	—	—	$(70,022)	—
Balance at September 30, 2010	46,250,658	$—	$406,626	$(209,736)	$(3,901)	$(123,504)	$17,316		$86,801

See accompanying notes.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income (loss)	$1,325	$(238,633)	$(69,414)	$(499,930)
Other comprehensive income (loss):				
Foreign currency translation adjustment	3,069	(2,484)	(609)	10,763
Income tax (expense) benefit related to other comprehensive loss	—	1	1	(11,906)
Comprehensive income (loss)	4,394	(241,116)	(70,022)	(501,073)
Comprehensive loss (income) attributable to noncontrolling interests	436	(778)	(565)	13,660
Comprehensive income (loss) attributable to controlling interests	$4,830	$(241,894)	$(70,587)	$(487,413)

See accompanying notes.

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

	For the Nine Months Ended September 30, 2010	2009
Operating activities		
Net loss	$ (69,414)	$ (499,930)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation expense	10,487	16,202
Impairment of goodwill	—	23,483
Losses upon charge off of loans and fees receivable recorded at fair value	391,615	—
Provision for losses on loans and fees receivable	53,505	48,212
Amortization and impairment of intangibles	321	1,518
Accretion of deferred revenue	(346)	(21,500)
Accretion of discount on convertible senior notes	7,022	7,572
Stock-based compensation expense	7,055	6,738
Retained interests adjustments, net	—	960,764
Unrealized gain on loans and fees receivable and underlying notes payable held at fair value	(217,882)	—
Unrealized gain on trading securities	(301)	(309)
Gain on repurchase of convertible senior notes	(28,374)	(160)
Loss on equity-method investments	11,043	—
Gain on buy-out of equity-method investee members	—	(20,990)
Changes in assets and liabilities, exclusive of business acquisitions:		
(Increase) decrease in uncollected fees on loans receivable	(5,594)	6,870
Decrease (increase) in JRAS auto loans receivable	31,168	(17,575)
Decrease in deferred costs	684	958
Increase (decrease) in income tax liability	95,222	(126,303)
Decrease in prepaid expenses	6,463	6,177
Decrease in accounts payable and accrued expenses	(6,649)	(34,721)
Other	8,291	4,661
Net cash provided by operating activities	294,316	361,667
Investing activities		
Purchase of third-party interest in equity-method investee	—	(19,542)
(Increase) decrease in restricted cash	(19,954)	16,274
Proceeds from equity-method investees	5,145	53,483
Investments in securitized earning assets	—	(448,544)
Proceeds from securitized earning assets	—	209,695
Investments in earning assets	(786,663)	(668,598)
Proceeds from earning assets	926,704	684,158
Acquisitions of assets	—	(621)
Purchases and development of property, net of disposals	(1,667)	(2,444)
Net cash provided by (used in) investing activities	123,565	(176,139)
Financing activities		
Noncontrolling interests distributions, net	(765)	(774)
Purchases of treasury stock	(624)	(119)
Purchases of noncontrolling interests	(7,537)	(1,096)

Purchase of outstanding stock subject to tender offer		(85,264)		—
Proceeds from borrowings		8,143		52,897
Repayments of borrowings		(428,250)		(195,755)
Net cash used in financing activities		(514,297)		(144,847)
Effect of exchange rate changes on cash		(274)		760
Net (decrease) increase in unrestricted cash		(96,690)		41,441
Unrestricted cash and cash equivalents at beginning of period		185,019		74,515
Unrestricted cash and cash equivalents at end of period	$	88,329	$	115,956
Supplemental cash flow information				
Effect of adoption of accounting pronouncements on restricted cash	$	(14,082)	$	—
Cash paid for interest	$	39,911	$	23,284
Net cash income tax (refunds) payments	$	(93,456)	$	131
Supplemental non-cash information				
Notes payable associated with capital leases	$	684	$	1,011
Issuance of stock options and restricted stock	$	1,127	$	1,129

See accompanying notes.

CompuCredit Holdings Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
September 30, 2010

1. Basis of Presentation

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

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Certain estimates, such as credit losses, payment rates, costs of funds, discount rates and the yields earned on credit card receivables significantly affect the reported amount of two categories of credit card receivables that we report at fair value and our notes payable associated with structured financings, at fair value, as reported on our condensed consolidated balance sheet at September 30, 2010, as well as the reported fair value of our securitized earning assets on our consolidated balance sheet at December 31, 2009; these estimates likewise affect our changes in fair value of loans and fees receivable recorded at fair value and changes in fair value of notes payable associated with structured financings recorded at fair value categories within our fees and related income on earning assets line item on our condensed consolidated statement of operations for the three and nine months ended September 30, 2010, as well as our reported loss on retained interests in credit card receivables securitized which is a component of loss on securitized earning assets on our condensed consolidated statement of operations for the three and nine months ended September 30, 2009. Additionally, estimates of future credit losses on our loans and fees receivable that we report at net realizable value, rather than fair value, have a significant effect on two categories of such loans and fees receivable, net, that we show on our condensed consolidated balance sheets, as well as on the provision for losses on loans and fees receivable within our condensed consolidated statements of operations. Operating results for the three and nine months ended September 30, 2010 are not indicative of what our results will be for the year ending December 31, 2010.

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

In connection with our consideration of a potential spin-off of our U.S. and U.K. micro-loan businesses, one of our subsidiaries, Purpose Financial Holdings, Inc. ("Purpose Financial"), filed a Form 10 Registration Statement and a related Information Statement with the SEC on January 4, 2010 and amended the Form 10 Registration Statement and related Information Statement in response to SEC comments most recently on May 28, 2010. The spin-off remains subject to a number of conditions, including, among others:

- a recommendation by our management to our Board of Directors to approve the spin-off;
- 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 any required 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 continued effectiveness of the private letter ruling that we received from the Internal Revenue Service;
  - NASDAQ's approval for listing of Purpose Financial's common stock, subject to official notice of issuance;

- the transfer of our micro-loan businesses, and the associated licenses and registrations relating to these businesses, to Purpose Financial;
- the execution by the parties of separation and distribution agreements, transition services agreements, services agreements, employee matters agreements, tax sharing agreements, sublease and other appropriate agreements; and
- the lack of any effective order, injunction or decree issued by any court of competent jurisdiction or other legal restraint or prohibition preventing 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.

2. Significant Accounting Policies and Condensed Consolidated Financial Statement Components

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

Restricted Cash

Restricted cash includes (1) certain collections on receivables within our Credit Cards segment (only as of the September 30, 2010 condensed consolidated balance sheet date pursuant to the accounting rules changes described in “Asset Securitization” below) and Auto Finance segment, the cash balances of which are required to be distributed to note holders under our debt facilities, and (2) cash collateral balances underlying standby letters of credit that have been issued in favor of certain regulators in connection with our retail micro-loan activities.

Asset Securitization

At December 31, 2009, most of our credit card receivables were held by off-balance-sheet securitization trusts. In June 2009, however, the Financial Accounting Standards Board (the “FASB”) issued new accounting rules that resulted in the consolidation of our securitization trusts onto our consolidated balance sheet effective as of January 1, 2010. As a result of these new accounting rules, cash and credit card receivables held by our securitization trusts and debt issued from those entities are presented as assets and liabilities on our condensed consolidated balance sheet as of September 30, 2010. Throughout the notes to our condensed consolidated financial statements, we use the term “securitizations” to refer to pre-2010 activities of our then-categorized off-balance-sheet securitization trusts (qualifying special purposes entities, or “QSPEs”). In contrast, we use the term “structured financings” to refer to non-recourse, asset-backed, on-balance-sheet debt financings either undertaken prior to 2010 or as accounted for under new accounting guidance effective as of January 1, 2010.

Loans and Fees Receivable

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

Loans and Fees Receivable, at Fair Value. Our loans and fees receivable, at fair value, represent our de-securitized and reconsolidated lower-tier credit card receivables that are valued at fair value in our condensed consolidated financial statements, while our loans and fees receivable pledged as collateral under structured financings, at fair value, represent the receivables underlying our remaining credit card securitization trusts that were consolidated pursuant to accounting rules changes on January 1, 2010. Further details concerning our loans and fees receivable held at fair value are presented within Note 9, "Fair Value of Assets and Liabilities."

Loans and Fees Receivable, Net. Our two categories of loans and fees receivable, net, currently consist of receivables carried at net realizable value associated with our retail and Internet micro-loan activities, our auto finance business and credit card accounts opened under our Investment in Previously Charged-off Receivables

segment's balance transfer program. This latter category of balance transfer program receivables is included as a component of our Credit Card segment data and aggregated $14.5 million (net of allowances for uncollectible loans and fees receivable and deferred revenue) or 2.1% of our consolidated loans and fees receivable (net or at fair value) as of September 30, 2010.

As applicable, we show loans and fees receivable net of both an allowance for uncollectible loans and fees receivable and unearned fees (or "deferred revenue") in accordance with applicable accounting rules. We also divide our loans and fees receivable, net, into two separate categories on our condensed consolidated balance sheet: (1) those that are unencumbered by asset-backed debt; and (2) those that are pledged as collateral for non-recourse asset-backed debt facilities.

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

	Balance at December 31, 2009	Additions	Subtractions	Balance at September 30, 2010
Loans and fees receivable, gross	$ 379.7	$ 846.4	$ (932.4)	$ 293.7
Deferred revenue	(40.9)	(50.9)	63.9	(27.9)
Allowance for uncollectible loans and fees receivable	(53.4)	(53.5)	59.3	(47.6)
Loans and fees receivable, net	$ 285.4	$ 742.0	$ (809.2)	$ 218.2

As of September 30, 2010, the weighted average remaining accretion period for the $27.9 million of deferred revenue reflected in the above tables is 16.6 months.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Balance at beginning of period	$(48.5)	$(56.7)	$(53.4)	$(55.8)
Provision for losses on loans and fees receivable recorded at net realizable value	(17.5)	(16.7)	(53.5)	(47.5)
Charge offs	20.4	15.0	66.6	47.8
Recoveries	(2.0)	(0.9)	(7.3)	(3.8)
Balance at end of period	$(47.6)	$(59.3)	$(47.6)	$(59.3)

Investments in Previously Charged-Off Receivables

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Unrecovered balance at beginning of period	$ 33,297	$ 59,271	$ 29,669	$ 47,676
Acquisitions of defaulted accounts	5,839	8,776	22,409	40,427
Cash collections	(17,158)	(54,668)	(45,858)	(82,889)
Cost-recovery method income recognized on defaulted accounts (included as a component of fees and related income on earning assets on our condensed consolidated statements of operations)	8,676	16,475	24,434	24,640
Unrecovered balance at end of period	$ 30,654	$ 29,854	$ 30,654	$ 29,854
Estimated remaining collections (“ERC”) (1)	$ 98,829	$ 86,946	$ 98,829	$ 86,946

(1) We anticipate collecting 44.7% of the ERC of the existing accounts over the next 12 months, with the balance to be collected thereafter.

We estimate the life of each pool of previously charged-off receivables acquired by us generally to be between 24 and 36 months for normal delinquency charged-off accounts and approximately 60 months for Chapter 13 Bankruptcy-related debt.

Previously charged-off receivables held as of September 30, 2010 are comprised principally of: normal delinquency charged-off accounts; charged-off accounts associated with Chapter 13 Bankruptcy-related debt; and charged-off accounts acquired through our Investments in Previously Charged-Off Receivables segment’s balance transfer program prior to such time as credit cards are issued relating to the program’s underlying accounts. At September 30, 2010, $10.4 million of our investments in previously charged-off receivables balance was comprised of previously charged-off receivables that our Investments in Previously Charged-Off Receivables segment purchased from our other consolidated subsidiaries, and in determining our net income or loss as reflected on our consolidated statements of operations, we eliminate all material intercompany profits that are associated with these transactions. Although we eliminate all intercompany profits associated with these purchases, we do not eliminate the corresponding purchases from our condensed consolidated balance sheet categories so as to better reflect the ongoing business operations of each of our reportable segments and because the amounts represent just 1.0% of our consolidated total assets.

For balance transfer program accounts, we include receivables in the above table until such time that the accounts qualify for a credit card issuance under the program. Under our Investments in Previously Charged-Off Receivables segment’s cost recovery method, there is no remaining basis in such balance transfer program accounts at the time of card issuance. Upon card issuance, all further activity with respect the accounts (e.g. cardholder purchases, payments, receivables levels, cash flows, finance charge and fee income and charge-off activities) is reported within our Credit Cards segment, with the exception of any cash flows representing further repayment of the acquired contractual charged-off balance, which continue to be reported as cash collections and cost-recovery method income in the above table.

Comparisons of data as of and for the three months ended September 30, 2010 with data as of and for the three months ended September 30, 2009 are affected by a 2005 forward flow contract into which our Investment in Previously Charged-off Receivables segment had entered to sell previously charged-off receivables to Encore Capital Group, Inc. ("Encore")—a forward flow contract that subsequently terminated in the third quarter of 2009. In that quarter, we resolved disputes that had arisen with Encore under the contract, thereby resulting in the recognition of $21.2 million in then-deferred revenue in the third quarter of 2009 and a corresponding release of $8.7 million in escrowed 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

that had built up on our consolidated balance sheet throughout the latter half of 2008 and through September 2009) 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 pre-tax gain of $11.0 million on our consolidated statement of operations for three months ended September 30, 2009.

Investments in Securities

We periodically invest in debt and equity securities, some of which we classify as trading securities and with respect to which we include realized and unrealized gains and losses in earnings, and some of which we classify as held to maturity or available for sale. Additionally, we occasionally have received distributions of debt securities from our equity-method investees ($0.7 million held at September 30, 2010), and we have classified such distributed debt securities as held to maturity. As appropriate, we may invest in securities we believe provide returns in excess of those realized in our cash accounts. Such was the case in the first quarter of 2010 during which we invested $75.0 million in publicly traded bond funds whose investment objectives are to invest in highly rated, investment-grade securities. The carrying values (in thousands) of our investments in debt and equity securities are as follows:

	As of	
	September 30, 2010	December 31, 2009
Held to maturity:		
Investments in debt securities	$ 714	$ 2,060
Available for sale:		
Investments in equity securities	1,672	—
Trading:		
Investments in debt securities	55,695	—
Investments in equity securities	572	569
Total investments in debt and equity securities	$ 58,653	$ 2,629

Prepaid Expenses and Other Assets

Prepaid expenses and other assets include amounts paid to third parties for marketing and other services. Also included are (1) various deposits (totaling $1.1 million and $6.2 million as of September 30, 2010 and December 31, 2009, respectively) required to be maintained with our third-party issuing bank partners and retail electronic payment network providers (including $0.4 million and $4.9 million as of September 30, 2010 and December 31, 2009, respectively, associated with our ongoing servicing efforts in the U.K.), (2) vehicle inventory ($0.6 million and $4.1 million as of September 30, 2010 and December 31, 2009, respectively) held by our buy-here, pay-here auto operations that we expense as cost of goods sold (within fees and related income on earning assets on our condensed consolidated statements of operations) as we earn associated sales revenues, and (3) and deposits of $7.7 million and $10.0 million at September 30, 2010 and December 31, 2009, respectively, held at a former third-party issuing bank partner (Columbus Bank and Trust Company), the September 30, 2010 balance of which is to be returned to us upon notification by the Federal Deposit Insurance Corporation (the "FDIC") to Columbus Bank and Trust Company of the FDIC's concurrence with our computations of credits and refunds that we provided to credit card customers pursuant to our December 2008 settlement of litigation with the FDIC and the Federal Trade Commission (the "FTC"). Having fully complied with the FDIC and FTC restitution requirements through our provided cardholder credits and refunds, no contingencies to the release of the $7.7 million deposit exist beyond the communication by the FDIC to Columbus Bank and Trust Company of the FDIC's concurrence with our provided restitution credits and refunds.

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Deferred Costs

The principal components of our deferred costs historically have been unamortized costs associated with our (1) issuances of convertible senior notes and other debt facilities and (2) receivables origination activities. On January 1, 2009, we were required to adopt a GAAP pronouncement that resulted in the reclassification of $4.8 million of deferred loan costs associated with our convertible senior notes as a reduction to equity. See Note 10, "Convertible Senior Notes and Notes Payable," for additional effects of our adoption of this pronouncement.

Income Taxes

We conduct business globally, and as a result, one or more of our subsidiaries files U.S. federal, state and/or foreign income tax returns. In the normal course of business we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as the U.S., the U.K., and the Netherlands. With a few exceptions, we are no longer subject to U.S. federal, state, local, or foreign income tax examinations for years prior to 2007. Currently, we are under audit by various jurisdictions for various years, including by the Internal Revenue Service for the 2007 and 2008 tax years. Although the audits have not been concluded, we do not expect any changes to our reported tax positions in those years that would have a material effect on our consolidated financial statements.

We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized $0.6 million and $1.8 million in potential interest and penalties associated with uncertain tax positions during the three and nine months ended September 30, 2010, respectively, compared to $0.6 million and $2.0 million during the three and nine months ended September 30 2009, respectively. To the extent such interest and penalties are not assessed as a result of a resolution of the underlying tax position, amounts accrued will be reduced and reflected as a reduction of income tax expense. We recognized such a reduction in the amount of $2.0 million in the three months ended September 30, 2010 related to the closing of statutes of limitations.

We generally do not provide for income taxes on the undistributed earnings of our U.K. Internet micro-loan subsidiaries because we intend to reinvest these earnings indefinitely to finance foreign activities. Because this treatment is premised on our future plans and expectations of future events, the possibility exists that amounts we declare as indefinitely reinvested offshore may ultimately be repatriated. For instance, the actual cash needs of our U.S. entities may exceed our current expectations, or the actual cash needs of our foreign entities may be less than our current expectations. These additional foreign earnings could be subject to additional tax if remitted, or deemed remitted, as a dividend, in the year in which we determine that amounts are no longer intended to be indefinitely reinvested offshore. Such a deemed remittance occurred in the three and nine months ended September 30, 2010 due to expiration of a long-standing U.S. income tax deferral provision which historically had shielded active finance company income earned in foreign jurisdictions from U.S. income tax. Although the active finance company income provisions expired for taxable years beginning on or after January 1, 2010, the U.S. Congress currently is working on legislation that would retroactively extend the active finance company income exception and permit retroactive and ongoing deferral of such income. Our specific foreign income source that previously had been protected from U.S. income taxation by reason of the active finance company income exception is the income earned by our U.K. Internet micro-loan operations. Although we cannot and did not assume enactment of laws to extend the active finance company income exception, the expiration of the exception had no effect on our effective tax rate during the three and nine months ended September 30, 2010 due to the effects of valuation allowances that we maintain against net deferred tax assets.

Our overall effective tax rates (computed considering results for both continuing and discontinued operations before income taxes in the aggregate) were 31.2% and -2.5% for three and nine months ended September 30, 2010, respectively, compared to 1.2% and 20.1% for the three and nine months ended September 30, 2009, respectively. The variations in our effective tax rates between these periods are substantially related to (1) fluctuations in our pre-tax earnings and losses, (2) the U.K. tax expense exceeding the recognized tax benefits on

our U.S. losses, after valuation allowances and (3) interest accruals (net of releases) on our unrecognized tax benefits. The effects of changes in valuation allowances provided against income statement-oriented U.S. federal, foreign and state deferred tax assets were increases of $5.2 million and $23.2 million in valuation allowances,

respectively, during the three and nine months ended September 30, 2010, versus corresponding increases of $85.1 million and $95.8 million in valuation allowances during the three and nine months ended September 30, 2009, respectively.

Fees and Related Income on Earning Assets

Fees and related income on earning assets primarily include: (1) lending fees associated with our retail and Internet micro-loan activities; (2) fees associated with our credit card receivables during periods in which we hold them on balance sheet; (3) changes in the fair value of loans and fees receivable recorded at fair value; (4) changes in fair value of notes payable associated with structured financings recorded at fair value; (5) income on our investments in previously charged-off receivables; (6) gross profits and losses from auto sales within our Auto Finance segment; (7) gains associated with our investments in securities; and (8) gains realized in the three months ended September 30, 2010 associated with our settlement of litigation with Columbus Bank and Trust, one of our former third-party credit card issuing bank partners, and its parent corporation Synovus Financial Corporation (collectively, "CB&T") as further discussed in Note 11, "Commitments and Contingencies."

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Retail micro-loan fees	$18,490	$19,393	$53,756	$52,635
Internet micro-loan fees	25,910	18,636	65,965	45,528
Fees on credit card receivables held on balance sheet	5,002	—	20,861	—
Changes in fair value of loans and fees receivable recorded at fair value(1)	61,183	—	186,846	—
Changes in fair value of notes payable associated with structured financings recorded at fair value	(19,158)	—	31,036	—
Income on investments in previously charged-off receivables	8,676	16,475	24,434	24,640
Gross (loss) profit on auto sales	(478)	4,274	(2,127)	17,883
Gains on investments in securities	153	146	301	309
Gains upon litigation settlement with former third-party issuing bank partner	12,150	—	12,150	—
Other	677	(34)	876	1,467
Total fees and related income on earning assets	$112,605	$58,890	$394,098	$142,462

(1) The above changes in fair value of loans and fees receivable recorded at fair value excludes the impact of charge offs associated with these receivables which are separately stated on our condensed consolidated statements of operations. See Note 9, "Fair Values of Assets and Liabilities," for further discussion of these receivables and their effects on our condensed consolidated statements of operations.

Loss on Securitized Earning Assets

Loss on securitized earning assets is the net of (1) securitization gains, (2) loss on retained interests in credit card receivables securitized, and (3) returned-check, cash advance and certain other fees associated with our securitized credit card receivables, all of which are detailed (in thousands) in the following table. This category on our condensed consolidated statement of operations is not applicable in 2010 given our consolidation of all of our former off-balance-sheet securitization trusts as required by accounting rules changes effective at the beginning of 2010.

	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2009
Securitization gains	$113,961	$113,961
Loss on retained interests in credit card receivables securitized	(334,035)	(657,869)
Fees on securitized receivables	3,658	13,778
Total loss on securitized earning assets	$(216,416)	$(530,130)

Recent Accounting Pronouncements

In June 2010, the FASB issued new disclosure rules related to the allowance for credit losses and credit quality of financing receivables. The new requirements are intended to require an entity to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses, including a roll-forward of activity in the allowance and disclosure about credit quality indicators, past due information, and modifications of its financing receivables. The new disclosure requirements are effective for interim and annual reporting periods ending on or after December 15, 2010.

In January 2010, the FASB issued new rules concerning fair value measurement disclosures. The new disclosures require that we discuss the valuation techniques and inputs used to develop our fair value measurements and the effect that unobservable inputs may have on those measurements. Additional disclosure enhancements include disclosures of transfers in and/or out of Level 1, 2 or 3 and the reasons for those transfers. The enhanced disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements, which are effective for interim and annual reporting periods beginning after December 15, 2010. The adoption of these new disclosure requirements that are effective for us in 2010 are reflected in our accompanying notes to the condensed consolidated financial statements.

In October 2009, the FASB issued new rules providing that at the date of issuance, a share-lending arrangement entered into on an entity's own shares in contemplation of a convertible debt offering or other financing is required to be measured at fair value and recognized as a debt issuance cost in the financial statements of the entity. The debt issuance cost is required to be amortized using the effective interest method over the life of the financing arrangement as interest cost. The new rules also provide that the loaned shares are excluded from basic and diluted earnings per share calculations unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in these calculations. These new rules are effective for fiscal years, and interim periods within those years, beginning after December 15, 2009, are to be applied retrospectively to all arrangements outstanding on the effective date, and apply to loaned shares issued in connection with our November 2005 convertible senior notes. Our implementation of these new rules had no effect on our consolidated financial statements during any period presented.

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In June 2009, the FASB issued new accounting rules that, in addition to requiring certain new securitization and structured financing-related disclosures that we have incorporated into our condensed consolidated financial statements, resulted in the consolidation of our securitization trusts onto our condensed consolidated balance sheet effective as of January 1, 2010. As a result of these new accounting rules, cash and credit card receivables held by our securitization trusts and debt issued from those entities are presented as assets and liabilities on our condensed consolidated balance sheet effective on that date. Moreover, after adoption of these new accounting rules, we no longer reflect our securitization trusts' results of operations within loss on retained interests in credit card receivables securitized, but instead report interest income and provisions for loan losses (as well as gains and/or losses associated with fair value changes) with respect to the credit card receivables held within our securitization trusts; similarly, we separately report interest expense (as well as gains and/or losses associated with fair value changes) with respect to the debt issued from the securitization trusts. Lastly, because we account for our securitization transactions under the new rules as secured borrowings rather than asset sales, we present the cash flows from these transactions as cash flows from financing activities, rather than as cash flows from investing activities. As noted on our condensed consolidated statement of equity for the nine months ended September 30, 2010, our January 1, 2010 adoption of these rules resulted in an increase in total equity of $37.7 million.

In May 2008, the FASB issued new rules addressing convertible instruments that may be settled in cash upon conversion (including partial cash settlement). These rules address instruments commonly referred to as Instrument C type instruments. Those instruments essentially require the issuer to settle the principal amount in cash and the conversion spread in cash or net shares at the issuer's option. These rules are effective for fiscal periods beginning after December 15, 2008, did not permit early application, and are required to be applied retrospectively to all periods presented. Our January 1, 2009 adoption of these rules resulted in an increase in total equity of $56.1 million.

Subsequent Events

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

3. Discontinued Operations

In May 2009, we discontinued our Retail Micro-Loans segment's Arkansas operations based on regulatory opposition we faced within that state. Reflecting our discontinued Arkansas operations, the components (in thousands) of our discontinued operations are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Net interest income, fees and related income on earning assets	$ —	$ —	$ —	$ 1,684
Other operating expense	—	—	—	2,021
Estimated loss upon sale	—	—	—	2,779
Goodwill impairment	—	—	—	3,483
Loss before income taxes	—	—	—	(6,599)
Income tax benefit	—	—	—	2,310
Net loss	$ —	$ —	$ —	$ (4,289)

There were no discontinued assets held for sale on our condensed consolidated balance sheets as of either September 30, 2010 or December 31, 2009.

4. Segment Reporting

We operate primarily within one industry consisting of five reportable segments by which we manage our business. Our five reportable segments are: Credit Cards; Investments in Previously Charged-Off Receivables; Retail Micro-Loans; Auto Finance; and Internet Micro-Loans. In March 2010, we acquired noncontrolling interests representing 6% of MEM (within our Internet Micro-Loans segment) for £4.3 million ($6.6 million), thereby reducing outstanding noncontrolling interests in MEM from 24% at December 31, 2009 to 18% as of September 30, 2010. Also in March 2010, we acquired all of the noncontrolling interests in our Investments in Previously Charged-Off Receivables segment for $1.0 million, such that we now own 100% of this segment.

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

Three Months Ended September 30, 2010	Credit Cards	Investments in Previously Charged-Off Receivables	Retail Micro-Loans	Auto Finance	Internet Micro-Loans	Total
Net interest income, fees and related income on earning assets	$ 9,474	$ 8,567	$ 15,672	$ 5,046	$ 18,814	$57,573
Total other operating income	$ 8,031	$ 494	$ —	$ 133	$ —	$8,658
Income (loss) from continuing operations before income taxes	$ (6,885)	$ 2,482	$ 2,789	$ (3,324)	$ 6,863	$1,925
Loss on discontinued operations before income taxes	$ —	$ —	$ —	$ —	$ —	$—
Loans and fees receivable, gross	$ 18,659	$ —	$ 40,291	$ 189,172	$ 45,649	$293,771

Loans and fees receivable, net	$ 14,478	$ —	$ 32,504	$ 139,146	$ 32,087	$218,215
Loans and fees receivable held at fair value	$ 469,713	$ —	$ —	$ —	$ —	$469,713
Total assets	$ 676,926	$ 36,316	$ 67,605	$ 155,950	$ 75,130	$1,011,927

Three Months Ended September 30, 2009	Credit Cards	Investments in Previously Charged-Off Receivables	Retail Micro-Loans	Auto Finance	Internet Micro-Loans	Total
Net interest income, fees and related income (loss) on earning assets	$ (7,268)	$ 16,585	$ 17,311	$ 11,132	$ 13,265	$ 51,025
Total other operating (loss) income	$ (192,727)	$ 83	$ —	$ 85	$ —	$ (192,559)
(Loss) income from continuing operations before income taxes	$ (254,564)	$ 7,041	$ 4,369	$ (1,518)	$ 3,248	$ (241,424)
Loss on discontinued operations before income taxes	$ —	$ —	$ —	$ —	$ —	$ —
Loans and fees receivable, gross	$ 15,698	$ —	$ 37,350	$ 300,551	$ 30,290	$ 383,889
Loans and fees receivable, net	$ 12,277	$ —	$ 32,007	$ 242,221	$ 20,604	$ 307,109
Loans and fees receivable held at fair value	$ —	$ —	$ —	$ —	$ —	$ —
Total assets	$ 298,351	$ 31,700	$ 68,747	$ 268,179	$ 62,495	$ 729,472

Nine Months Ended September 30, 2010	Credit Cards	Investments in Previously Charged-Off Receivables	Retail Micro-Loans	Auto Finance	Internet Micro-Loans	Total
Net interest income, fees and related income (loss) on earning assets	$ (978)	$ 24,056	$ 45,606	$ 2,782	$ 46,874	$ 118,340
Total other operating income	$ 29,952	$ 1,148	$ —	$ 400	$ —	$ 31,500
(Loss) income from continuing operations before income taxes	$ (70,311)	$ 5,239	$ 6,606	$ (24,603)	$ 15,355	$ (67,714)
Loss on discontinued operations before income taxes	$ —	$ —	$ —	$ —	$ —	$ —
Loans and fees receivable, gross	$ 18,659	$ —	$ 40,291	$ 189,172	$ 45,649	$ 293,771
Loans and fees receivable, net	$ 14,478	$ —	$ 32,504	$ 139,146	$ 32,087	$ 218,215
Loans and fees receivable held at fair value	$ 469,713	$ —	$ —	$ —	$ —	$ 469,713
Total assets	$ 676,926	$ 36,316	$ 67,605	$ 155,950	$ 75,130	$ 1,011,927

Nine Months Ended September 30, 2009	Credit Cards	Investments in Previously Charged-Off Receivables	Retail Micro-Loans	Auto Finance	Internet Micro-Loans	Total
Net interest income, fees and related income (loss) on earning assets	$ (19,152)	$ 24,533	$ 45,803	$ 39,130	$ 32,614	$ 122,928
Total other operating (loss) income	$ (413,664)	$ 138	$ —	$ 488	$ 1	$ (413,037)
(Loss) income from continuing operations before income taxes	$ (609,354)	$ (2,336)	$ (13,258)	$ (5,653)	$ 11,579	$ (619,022)
Loss on discontinued operations before income taxes	$ —	$ —	$ (6,599)	$ —	$ —	$ (6,599)
Loans and fees receivable, gross	$ 15,698	$ —	$ 37,350	$ 300,551	$ 30,290	$ 383,889
Loans and fees receivable, net	$ 12,277	$ —	$ 32,007	$ 242,221	$ 20,604	$ 307,109
Loans and fees receivable held at fair value	$ —	$ —	$ —	$ —	$ —	$—
Total assets	$ 298,351	$ 31,700	$ 68,747	$ 268,179	$ 62,495	$ 729,472

5. Shareholders' Equity

Retired Shares

In 2009, 1,398,681 of previously lent shares were returned to us. All returned shares are excluded from our outstanding share counts. As of September 30, 2010, we had 2,252,388 loaned shares outstanding. See further discussion of our share lending arrangement in Note 10, "Convertible Senior Notes and Notes Payable."

Additionally, pursuant to the closing of a tender offer in May 2010, we repurchased 12,180,604 shares of our common stock at a purchase price of $7.00 per share for an aggregate cost of $85.3 million. These shares subsequently were retired.

Treasury Stock

At our discretion, we use treasury shares to satisfy option exercises and restricted stock vestings, and we use the cost approach when accounting for the repurchase and reissuance of our treasury stock. We reissued treasury shares totaling 3,529 and 518,215 at gross costs of $0.1 million and $10.6 million during three and nine months ended September 30, 2010, respectively, in satisfaction of restricted share and restricted share unit vestings; this compares to our reissuance of shares for these purposes of 3,254 and 114,898 at gross costs of $0.06 million and $2.1 million during the three and nine months ended September 30, 2009, respectively. Additionally, by having employees who were exercising options or vesting in their restricted stock grants exchange a portion of their stock for our payment of required tax withholdings, we also effectively purchased shares totaling 825 and 133,324 at gross costs of $0.004 million and $0.6 million during the three and nine months ended September 30, 2010, respectively, compared to our effective purchase of 786 and 37,674 shares at gross costs of $0.004 million and $0.1 million during the three and nine months ended September 30, 2009, respectively.

6. Investments in Equity-Method Investees

In May 2009, we recognized a gain of $21.0 million that is separately classified on our condensed consolidated statement of operations associated with our buy-out of the remaining members of our then-longest standing equity-method investee, CSG (which was formed in July 2002 to acquire retained interests in a securitization that included $1.2 billion in credit card receivables originated by Providian Financial Corporation). Subsequent to this buy-out event, we have included the operations of this former equity-method investee and its underlying assets and liabilities within our consolidated results of operations and consolidated balance sheet categories, as opposed to the income from equity-method investees and investment in equity-method investee categories.

In the following tables, we summarize (in thousands) combined balance sheet and results of operations data for our equity-method investees (including 2009 results of operations data for CSG while we held it in equity-method investee form prior to our May 2009 buy-out of its other members):

	As of September 30, 2010	As of December 31, 2009
Securitized earning assets	$ —	$ 35,844
Loans and fees receivable pledged as collateral under structured financings, at fair value	$ 145,665	$ —
Total assets	$ 156,227	$ 38,332

Notes payable associated with structured financings, at fair value	$	132,260	$	—
Total liabilities	$	133,262	$	1,319
Members’ capital	$	22,965	$	37,013

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Net interest income, fees and related loss on earning assets	$ (2,044)	$ —	$ (26,957)	$ —
Fees and related loss on securitized earning assets	$ —	$ (6,230)	$ —	$ (37,241)
Total other operating income (loss)	$ 827	$ (5,315)	$ 3,311	$ (33,920)
Net loss	$ (4,368)	$ (5,892)	$ (34,706)	$ (28,892)

Reflected in the above 2010 results are the impacts of new accounting rules that resulted in the consolidation of the equity-method investees' securitization trusts (including their cash, receivables and underlying debt) onto their balance sheets at fair value effective January 1, 2010. They experienced a cumulative effect adjustment to opening retained earnings of $25.5 million associated with this change.

7. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price and related costs over the value assigned to net tangible and identifiable intangible assets acquired and accounted for under the purchase method. Under applicable accounting rules, we are required to assess the fair value of all acquisition-related goodwill on a reporting unit basis. We review the recorded value of goodwill for impairment at least annually at the beginning of the fourth quarter of each year, or earlier if events or changes in circumstances indicate that the carrying amount may exceed fair value.

In connection with our May 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 is reported within loss on discontinued operations for the nine months ended September 30, 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 internal projections of residual cash flows and market data supporting valuation prices of similar companies at the time; this analysis yielded an additional $20.0 million goodwill impairment charge associated with continuing operations that is reflected within our consolidated statement of operations for the nine months ended September 30, 2009.

In April 2007, one of our then-majority-owned subsidiaries (in which we now hold a 100% interest) acquired 95% of the outstanding shares of MEM, our U.K.-based, Internet, micro-loan operations, for £11.6 million ($22.9 million) in cash as part of our underlying diversification efforts and to establish a micro-loan presence in the U.K. 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 net 22.5% continuing minority ownership interest in MEM and a cash payment of £434,000 ($621,000), the aggregate value of which reflected the estimated fair value of the earn-out arrangement as of December 31, 2009. The settlement of the earn-out resulted in a re-measurement of the carrying value of our investment in MEM in accordance with applicable accounting standards and additional goodwill of $5.6 million.

Relative to respective December 31 balances, changes (in thousands) in the carrying amount of goodwill for the nine months ended September 30, 2009 and 2010, respectively, by reportable segment are as follows:

	Retail Micro-Loans	Internet Micro-Loans	Consolidated
Balance as of December 31, 2008	$ 43,214	$ 15,915	$ 59,129
Goodwill related to settlement of contingent performance-related earn-out	—	5,553	5,553
Impairment loss	(23,483)	—	(23,483)
Foreign currency translation	—	2,214	2,214
Balance as of September 30, 2009	$ 19,731	$ 23,682	$ 43,413
Balance as of December 31, 2009	$ 19,731	$ 23,691	$ 43,422
Foreign currency translation	—	(177)	(177)
Balance as of September 30, 2010	$ 19,731	$ 23,514	$ 43,245

Intangible Assets

In connection with our May 2009 decision to discontinue our Arkansas retail micro-loans operations, we allocated intangible assets that we determined had an indefinite benefit period between our retained Retail Micro-Loans segment operations and our discontinued Arkansas operations, thereby resulting in a $0.2 million impairment loss that is reported within loss on discontinued operations for the nine months ended September 30, 2009. This valuation analysis was based on internal projections of residual cash flows and market data supporting valuation prices of similar companies at the time.

We had $2.1 million of remaining intangible assets that we determined had an indefinite benefit period as of September 30, 2010 and December 31, 2009. The net unamortized carrying amount of intangible assets subject to amortization was $0.4 million and $0.7 million as of September 30, 2010 and December 31, 2009, respectively. Intangible asset-related amortization expense was $0.1 million and $0.3 million for the three and nine months ended September 30, 2010, respectively, and $0.3 million and $1.3 million for the three and nine months ended September 30, 2009, respectively.

8. Securitizations

This note provides historical off-balance-sheet credit card receivables “securitizations” data relative to our December 31, 2009 condensed consolidated balance sheet and our condensed consolidated statement of operations for the three and nine months ended September 30, 2009. As noted previously in this report, the FASB issued new accounting rules that resulted in the consolidation of our securitization trusts (including their cash, receivables and underlying debt) onto our consolidated balance sheet effective as of January 1, 2010. As such, our 2010 condensed consolidated financial statements contain no comparable balances to the historical securitized earnings assets category, and associated income and loss categories, as shown in our condensed consolidated 2009 financial statements.

The table below summarizes (in thousands) our securitization facility activities for the period prior to consolidation of our securitization trust. As with other tables included herein, it does not include the securitization activities of our equity-method investees:

	As of and for the Three Months Ended September 30, 2009	As of and for the Nine Months Ended September 30, 2009
Gross amount of receivables securitized at period end	$ 1,671,930	$ 1,671,930
Proceeds from new transfers of financial assets to securitization trusts	$ 90,601	$ 395,330
Proceeds from collections reinvested in revolving-period securitizations	$ 106,872	$ 382,334
Excess cash flows received on retained interests	$ 24,893	$ 80,377
Securitization gains	$ 113,961	$ 113,961
Loss on retained interests in credit card receivables securitized	(334,035)	(657,869)
Fees on securitized receivables	3,658	13,778
Total loss on securitized earning assets	$ (216,416)	$ (530,130)

During the three months ended September 30, 2009, based on inquiries from an unrelated party that held notes (with a face amount of $264 million) under a six-year term facility issued within our upper-tier originated portfolio master trust, an opportunity arose for us to repurchase the notes for $150 million in cash consideration, which represented a discount to the face amount of the notes. Upon completion of the transaction, and in recognition of the fact that we also owned the residual or retained interest in the upper-tier originated portfolio master trust, we sought to combine the purchased notes with our owned retained interest in the trust through cancellation of the notes by the trust. The cancellation of the notes by the trust increased our retained interest in the trust by the amount of collateral allocable to the cancelled series. Hence, we accounted for the transaction as a contribution of the notes (a "financial asset") to our upper-tier originated portfolio master trust in exchange for retained interests in the trust, thereby generating a securitization gain during the three months ended September 30, 2009 equal to the difference between the face amount of the contributed notes ($264 million) and their fair value ($150 million). Upon retirement of the notes by the trust, cash flow activities associated with the securitization trust continued in the ordinary course (e.g., the trust continued to draw under variable funding notes to the extent of any excess collateral maintained within the securitization trust and to collect payments on the underlying credit card receivables, and the trust continued to make distributions of cash to the transferor and other beneficial interest holders and to make payments to the servicer in accordance with governing trust documents). Moreover, the accounting for our retained interests in the securitization trust also continued in the ordinary course. In determining the fair value of our residual interests after the completion of the transaction, we applied our usual valuation model, considering only the underlying credit card receivables and remaining outstanding securitization notes after the transaction. Resulting changes in the fair value of our retained interests at the end of the relevant reporting period (as in all reporting periods) were included within the loss on retained interest in credit card receivables securitized subcategory of our loss on securitized earning assets category (the same category that included the $114.0 million securitization gain associated with the notes' repurchase and contribution to the trust) on our 2009 consolidated statement of operations.

Our retained interests in credit card receivables securitized (labeled as securitized earning assets on our condensed consolidated balance sheets) include the following (in thousands) at December 31, 2009. Amounts are not shown for 2010 due to the consolidation of these receivables on January 1, 2010:

As of December

	31, 2009
I/O strip	$—
Accrued interest and fees	—
Net servicing liability	(15,458)
Amounts due from securitization	1,570
Fair value of retained interests	52,396
Issuing bank partner continuing interests	(1,994)
Securitized earning assets	$36,514

Reflected within servicing income on our condensed consolidated statement of operations for the three and nine months ended September 30, 2009 were $17.9 million and $78.8 million, respectively of servicing income (fees) we received from our securitization trusts in that period. Changes in our net servicing liability for the nine months ended September 30, 2009 are summarized (in millions) in the following table.

	For the Nine Months Ended September 30, 2009
Net servicing liability at beginning of period	$10.7
Changes in fair value of net servicing liability due to changes in valuations inputs, including receivables levels within securitization trusts, length of servicing period, servicing costs and changes in servicing compensation rates	37.6
Balance at end of period	$48.3

Other key assumptions we used to estimate the fair value of our retained interests in the credit card receivables securitized as of December 31, 2009 are presented (as weighted averages) below:

	As of December 31, 2009	
Net collected yield (annualized)	31.3	%
Principal payment rate (monthly)	2.2	%
Expected principal credit loss rate (annualized)	27.2	%
Residual cash flows discount rate	18.8	%
Servicing liability discount rate	14.0	%
Life (in months) of securitized credit card receivables	45.4	

Our managed receivables portfolio underlying our securitizations (including only those of our consolidated subsidiaries) as of September 30, 2009 was comprised of credit card receivables that we securitized and other investors' shares of those securitized receivables. The following table summarizes (in thousands) the balances included within, and certain operating statistics associated with, our managed receivables portfolio underlying both the outside investors' shares of and our retained interests in our credit card receivables securitizations as of September 30, 2009. These figures include the results of our lower-tier credit cards prior to their re-consolidation in the fourth quarter of 2009.

	As of and for the Three Months Ended September 30, 2009
Total managed principal balance	$1,508,976
Total managed finance charge and fee balance	162,954
Total managed receivables	1,671,930
Cash collateral at trust and amounts due from QSPEs	35,703

Total assets held by QSPEs	1,707,633
QSPE-issued notes to which we are subordinated	(1,203,987)
Face amount of residual interests in securitizations	$503,646
Receivables delinquent—60 or more days	$267,619
Net charge offs during the three months ended September 30, 2009	$139,779

Data in the above table are aggregated from the various QSPEs supporting our securitizations as of September 30, 2009.

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9. Fair Values of Assets and Liabilities

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

We elected the fair value option with respect to our investments in equity securities as well as our investments in loans and fees receivable associated with our credit card portfolios. With respect to our equity securities, we decided to measure these assets at fair value due to our intent to invest and redeem these investments with expected frequency. For our credit card loans and fees receivable and the notes payable that are secured by those receivables, both of which were contained in off-balance-sheet securitization trusts in either certain or all periods prior to January 1, 2010, we elected the fair value option because, in contrast to substantially all other assets on our consolidated balance sheets, we had significant experiences in determining the fair value of these assets and liabilities based on our models previously used to determine the fair value of residual interests in underlying off-balance-sheet securitization trusts prior to their consolidation in our financial statements effective no later than January 1, 2010.

We account for certain financial assets and liabilities at fair value based upon a three-tiered valuation system. In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Where inputs used to measure fair value may fall into different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety has been determined is based on the lowest level input that is significant to the fair value measurement in its entirety.

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

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. For our assets measured on a recurring basis at fair value, the table below summarizes (in thousands) fair values as of September 30, 2010 by fair value hierarchy:

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets Measured at Fair Value
Investment securities—trading	$ 56,267	$ —	$ —	$ 56,267
Loans and fees receivable, at fair value	$ —	$ —	$ 12,227	$ 12,227
Loans and fees receivable pledged as collateral under structured financings, at fair value	$ —	$ —	$ 457,486	$ 457,486

Gains and losses associated with fair value changes for the above asset classes are detailed on our fees and related income on earning assets table within Note 2, “Significant Accounting Policies and Condensed Consolidated Financial Statement Components.” All interest and dividend income associated with the above asset classes are recognized as earned and are included within total interest income on our condensed consolidated statements of operations. For our Level 1 assets in the above table, total net gains were $0.1 million and $0.3 million for the three and nine months ended September 30, 2010, respectively, and $0.1 million and $0.3 million for the three and nine months ended

September 30, 2009, respectively, all of which are included as a component of fees and related income on earning assets on our condensed consolidated statements of operations. For our loans and fees receivable included in the above table, which represent liquidating portfolios closed to any possible re-pricing, we assess the fair value of these assets based on our estimate of future cash flows net of servicing costs, and to the extent that such cash flow estimates change from period to period, any such changes are considered to be attributable to changes in instrument-specific credit risk.

For Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs, the following table presents (in thousands) a reconciliation of the beginning and ending balances for the nine months ended September 30, 2010:

	Loans and Fees Receivable, at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings, at Fair Value	Securitized Earning Assets	Total
Beginning balance	$ 42,299	$ —	$ 36,514	$ 78,813
Transfers in due to adoption of new accounting guidance	—	836,346	(36,514)	799,832
Total gains (losses)—realized/unrealized:				
Net revaluations of loans and fees receivable pledged as collateral under structured financings, at fair value	—	125,541	—	125,541
Net revaluations of loans and fees receivable, at fair value	61,305	—	—	61,305
Purchases, issuances, and settlements, net	(91,377)	(509,887)		(601,264)
Impact of foreign currency translation gain	—	5,486	—	5,486
Net transfers in and/or out of Level 3	—	—	—	—
Ending balance	$ 12,227	$ 457,486	$ —	$ 469,713

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

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

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

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the liability. For our liabilities measured on a recurring basis at fair value, the table below summarizes (in thousands) fair values as of September 30, 2010 by fair value hierarchy:

Liabilities	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Liabilities Measured at Fair Value
	$ —	$ —	$ 451,141	$ 451,141

Notes payable associated with structured financings, at fair value

Gains and losses associated with fair value changes for the above liability class are detailed on our fees and related income on earning assets table within Note 2, "Significant Accounting Policies and Condensed Consolidated Financial Statement Components." For our liabilities included in the above table, which represent notes payable associated with our structured financings of liquidating portfolios of credit card receivables, we assess the fair value of these liabilities based on our estimate of future cash flows generated from their underlying credit card receivables collateral, net of servicing compensation required under the note facilities, and to the extent that such cash flow estimates change from period to period, any such changes are considered to be attributable to changes in instrument-specific credit risk.

For Level 3 liabilities measured at fair value on a recurring basis using significant unobservable inputs, the following table presents (in thousands) a reconciliation of the beginning and ending balances for the nine months ended September 30, 2010:

	Notes Payable Associated with Structured Financings, at Fair Value
Beginning balance	$—
Transfers in due to adoption of new accounting guidance	772,615
Total gains (losses)—realized/unrealized:	
Net revaluations of notes payable associated with structured financings, at fair value	(31,036)
Repayments on outstanding notes payable, net	(295,742)
Impact of foreign currency translation gain	5,304
Net transfers in and/or out of Level 3	—
Ending balance	$451,141

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

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

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

For our assets measured on a non-recurring basis at fair value, the table below summarizes (in thousands) fair values as of September 30, 2010 by fair value hierarchy:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets Measured at Fair Value
Assets				
Goodwill	$ —	$ —	$ 43,245	$ 43,245

Intangibles, net	$ —	$ —	$ 2,136	$ 2,136

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Other Relevant Data

Other relevant data (in thousands) as of September 30, 2010 concerning our assets and liabilities measured at fair value are as follows:

	Loans and Fees Receivable, at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings, at Fair Value
Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value	$ 29,623	$ 756,254
Aggregate fair value of loans and fees receivable that are reported at fair value	$ 12,227	$ 457,486
Aggregate fair value of receivables carried at fair value that are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies)	$ 300	$ 3,156
Aggregate excess of balance of unpaid principal receivables within loans and fees receivable that are reported at fair value and are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies) over the fair value of such loans and fees receivable	$ 7,345	$ 80,506

	Notes Payable Associated with Structured Financings, at Fair Value
Aggregate unpaid principal balance of notes payable	$ 701,096
Aggregate fair value of notes payable	$ 451,141

10. Convertible Senior Notes and Notes Payable

Convertible Senior Notes

In May 2005, we issued $250.0 million aggregate principal amount of 3.625% convertible senior notes due 2025, and in November 2005, we issued $300.0 million aggregate principal amount of 5.875% convertible senior notes due 2035. These notes (net of repurchases since the issuance dates) are reflected within convertible senior notes on our condensed consolidated balance sheets.

In conjunction with the 5.875% convertible senior notes due 2035 offering, we entered into a thirty-year share lending agreement with Bear, Stearns International Limited (“BSIL”) and Bear, Stearns & Co. Inc, as agent for BSIL, pursuant to which we lent BSIL 5,677,950 shares of our common stock that we exclude from all earnings per share computations and for which we received a fee upon consummation of the agreement of $0.001 per loaned share. The

obligations of Bear Stearns were assumed by JP Morgan in 2008. JP Morgan (as the guarantor of the obligation) is required to return the loaned shares to us at the end of the thirty-year term of the share lending agreement or earlier upon the occurrence of specified events. Such events include the bankruptcy of JP Morgan, its failure to make payments when due, its failure to post collateral when required or return loaned shares when due, notice of its inability to perform obligations, or its untrue representations. If an event of default occurs, then the borrower (JP Morgan) may settle the obligation in cash. Further, in the event that JP Morgan's credit rating drops below A/A2, it would be required to post collateral for the market value of the lent shares ($10.9 million based on the 2,252,388 of shares remaining outstanding under the share lending arrangement as of September 30, 2010). JP Morgan has agreed to use the loaned shares for the purpose of directly or indirectly facilitating the hedging of our convertible senior notes by the holders thereof or for such other purpose as reasonably determined by us. We deem

it highly remote that any event of default will occur and therefore cash settlement, while an option, is an unlikely scenario.

Upon our January 1, 2009 required adoption of new accounting rules for Instrument C convertible notes (a classification applicable to our convertible senior notes), we (1) reclassified a portion of our outstanding convertible senior notes to additional paid-in capital, (2) established a discount to the face amount of the notes as previously reflected on our condensed consolidated balance sheets, (3) created a deferred tax liability related to the discount on the notes, and (4) reclassified out of our originally reported deferred loan costs and into additional paid-in capital the portion of those costs considered under the new rules to have been associated with the equity component of the convertible senior notes issuances. We are amortizing the discount to the face amount of the notes to interest expense over the expected life of the notes, and this will result in a corresponding release of our associated deferred tax liability. Total amortization for the three and nine months ended September 30, 2010 totaled $1.9 million and $7.0 million, respectively, compared to total amortization of $2.6 million and $7.6 million for the three and nine months ended September 30, 2009, respectively. Actual incurred interest (based on the contractual interest rates within the two convertible senior notes series) totaled $3.5 million and $11.6 million for the three and nine months ended September 30, 2010, respectively, versus, $4.4 million and $13.3 million for the three and nine months ended September 30, 2009, respectively. We will amortize the discount remaining at September 30, 2010 to interest expense over the expected terms of the convertible senior notes (currently expected to be May 2012 and October 2035 for the 3.625% and 5.875% notes, respectively). The weighted average effective interest rate for the 3.625% and 5.875% notes was 9.2% for all periods presented.

The following summarizes (in thousands) components of our condensed consolidated balance sheets associated with our convertible senior notes after giving effect to both our required adoption of the new Instrument C rules upon their January 1, 2009 effective date and our retrospective application of the rules to prior presented financial reporting periods:

	As of September 30, 2010	As of December 31, 2009
Face amount of outstanding convertible senior notes	$ 291,437	$ 386,551
Discount	(58,875)	(78,978)
Net carrying value	$ 232,562	$ 307,573
Carrying amount of equity component included in additional paid-in capital	$ 108,714	$ 108,714
Excess of instruments’ if-converted values over face principal amounts	$ —	$ —

In open market transactions during the three months ended September 30, 2010, we repurchased $25.1 million in face amount of our 3.625% notes for $17.1 million (inclusive of transaction costs and accrued interest through the date of our repurchase of the notes), thereby resulting in the recognition of an aggregate gain during the three months ended September 30, 2010 of $5.7 million (net of the notes’ applicable share of deferred costs and debt discount, which were recovered in connection with the purchases). Coupled with earlier note repurchases in 2010, we have purchased (either in open market transactions or pursuant to the terms of two separate tender offers) an aggregate of $79.6 million in face amount of our 3.625% notes for $48.1 million and an aggregate of $15.6 million in face amount of our 5.875% notes for $5.7 million, both aggregate amounts being inclusive of transaction costs and accrued interest through the date of our repurchase of the notes. The repurchases have resulted in our recognition of $28.4 million in aggregate gains (net of the notes’ applicable share of deferred costs and debt discount, which were recovered in connection with the purchases) during the nine months ended September 30, 2010.

The above-noted 2010 transactions compare to our repurchase of $300,000 in face amount of our 3.625% notes during the nine months ended September 30, 2009. In a January 2009 transaction, we purchased the 3.625% notes for $90,000 (inclusive of transaction costs and accrued interest), resulting in an aggregate gain of $160,000 (net of the notes' applicable share of deferred costs and debt discount, which were recovered in connection with the purchase).

Notes Payable Associated with Structured Financings, at Fair Value

Upon the consolidation of our securitization trusts effective January 1, 2010 in accordance with new accounting requirements, we began presenting on our consolidated balance sheet certain non-recourse, asset-backed structured financing debt facilities that are secured by credit card receivables held within such trusts. Given our decision to elect the fair value option for reporting the credit card receivables held within the trusts, accounting rules require that we report the underlying debt facilities at fair value as well. We are required to consolidate the assets (credit card receivables, which are presented as loans and fees receivable pledged as collateral under structured financings, at fair value, on our condensed consolidated balance sheets) and debt (classified as notes payable associated with structured financings, at fair value, on our condensed consolidated balance sheets) associated with these structured financings on our consolidated balance sheets because the transactions do not meet the criteria for de-recognition and because we are the primary beneficiary of the structured financing transactions.

As of September 30, 2010, (1) the carrying amounts of structured financing notes secured by our credit card receivables and reported at fair value, (2) the outstanding face amounts of structured financing notes secured by our credit card receivables and reported at fair value, and (3) the carrying amounts of the credit card receivables that provide the exclusive means of repayment for the notes (i.e., lenders have recourse only to the specific credit card receivables underlying each respective facility and cannot look to our general credit for repayment) are scheduled (in millions) as follows:

	Carrying Amounts at Fair Value as of September 30, 2010
Amortizing securitization facility issued out of our upper-tier originated portfolio master trust—outstanding face amount of $491.8 million bearing interest at a weighted average 2.2% interest rate, which is secured by credit card receivables and restricted cash aggregating $350.9 million in carrying amount (1)	$ 339.6
Multi-year variable funding securitization facility (expiring September 2014), outstanding face amount of $3.3 million bearing interest at a weighted average 3.8% interest rate, which is secured by credit card receivables and restricted cash aggregating $7.8 million in carrying amount (2)	3.3
Amortizing term securitization facility (denominated and referenced in U.K. sterling and expiring April 2014) issued out of our U.K. Portfolio securitization trust, outstanding face amount of $185.6 million bearing interest at a weighted average 2.9% interest rate, which is secured by credit card receivables and restricted cash aggregating $97.0 million in carrying amount (3)	96.2
Ten-year amortizing term securitization facility issued out of a trust underlying one of our portfolio acquisitions (expiring January 2014), outstanding face amount of $20.4 million bearing interest at a weighted average 3.9% interest rate, which is secured by credit card receivables and restricted cash aggregating $32.3 million in carrying amount	12.0
Total structured financing notes reported at fair value that are secured by credit card receivables and to which we are subordinated	$ 451.1

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

(2) Represents the conduit notes associated with our 75.1% membership interest in our majority-owned subsidiary that securitized the $92.0 million (face amount) of receivables it acquired in the third quarter of 2004 and the $72.1 million (face amount) of receivables it acquired in the first quarter of 2005.

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

Contractual payment allocations within these credit cards receivable structured financings provide for a priority distribution of cash flows to us to service the credit card receivables (cash flows that we consider adequate to meet our variable costs of servicing these assets), a distribution of cash flows to pay interest and principal due on the notes, and a distribution of all excess cash flows (if any) to us. Each of the structured financing facilities in the

above table is amortizing down along with collections of the underlying receivables and there are no provisions within the debt agreements that allow for acceleration or bullet repayment of the facilities. As such, for all intents and purposes, there is no practical risk of equity loss associated with lender seizure of assets under the facilities. Nevertheless, the aggregate carrying amount of the credit card receivables and restricted cash that provide security for the $451.1 million in fair value of structured financing notes in the above table is $488.0 million, which means that our maximum aggregate exposure to pre-tax equity loss associated with the above structured financing arrangements is $36.9 million.

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

Notes Payable Associated with Structured Financings, at Face Value

Beyond the credit card receivables structured financings held at fair value mentioned above, we have entered into certain other non-recourse, asset-backed structured financing transactions within our businesses. We consolidate onto our condensed consolidated balance sheets both the assets (Auto Finance segment receivables, which are presented as loans and fees receivable pledged as collateral under structured financings, net, on our condensed consolidated balance sheets, Auto Finance segment inventories, investments in previously charged-off receivables, and other equipment) and debt (classified within notes payable associated with structured financings, at face value, on our condensed consolidated balance sheets) associated with these structured financings because the transactions do not meet the criteria for de-recognition and because we are the primary beneficiary of the structured financing transactions. The principal amount of the structured financing notes outstanding at September 30, 2010 and December 31, 2009, and the September 30, 2010 carrying amounts of the assets that provide the exclusive means of repayment for the notes (i.e., lenders have recourse only to the specific assets underlying each respective facility and cannot look to our general credit for repayment) are scheduled (in millions) as follows:

	As of September 30, 2010	As of December 31, 2009
Amortizing debt facility of ACC Auto Finance segment receivables, rate of 15.0% at September 30, 2010, which is secured by auto receivables and restricted cash with an aggregate carrying amount of $72.3 million at September 30, 2010 (1)	$ 64.8	$ 99.2
Revolving line of credit of CAR Auto Finance segment receivables, rate of 4.0% at September 30, 2010, which is secured by auto receivables and restricted cash with an aggregate carrying amount of $49.9 million at September 30, 2010 and is payable over a six-month amortization period beginning September 2011	33.5	31.0
Financing of JRAS Auto Finance segment receivables, rate of 11.0%, which is secured by auto receivables, land and restricted cash with an aggregate carrying amount of $17.0 million at September 30, 2010 and due December 2010	11.1	26.8
Financing of JRAS Auto Finance segment inventory, average rate of 24.0%, which is secured by inventory with an aggregate carrying amount of $0.6 million at September 30, 2010 and which is currently payable	0.3	1.4
Vendor-financed software and equipment acquisitions, average rate of 5.5% at September 30, 2010, secured by certain equipment with an aggregate carrying amount of $0.03 million at September 30, 2010, payable to 2010 through 2013	0.7	1.1
Investment in Previously Charged-Off Receivables segment's asset-backed financing, rate of 12%, secured by certain investments in previously charged-off receivables with an aggregate carrying amount of $1.9 million at September 30, 2010, payable through 2012	3.1	4.9
Total asset-backed structured financing notes outstanding (which are secured by assets with carrying amounts aggregating $141.7 million at September 30, 2010)	$ 113.5	$ 164.4

(1) The terms of this lending agreement provide for the application of all excess cash flows from the underlying auto finance receivables portfolio (above and beyond interest costs and contractual servicing compensation to our outsourced third-party servicer) to reduce outstanding debt balances. Although the terms of this facility provide that 37.5% of any cash flows (net of contractual servicing compensation) generated on the auto finance receivables portfolio after repayment of the notes will be allocated to the note holders as additional compensation for the use of their capital, we do not anticipate any such additional payments to the note holders.

Similar to our credit cards receivable structured financings, the structured financing facilities secured by the assets scheduled above (with the exception of the vendor-financed software and equipment and inventory lending arrangements) generally provide for a priority distribution of cash flows to us to service any underlying pledged receivables (cash flows that we consider adequate to meet our costs of servicing these receivables), a distribution of cash flows to pay interest and principal due on the notes, and a distribution of all excess cash flows to us. The receivables-backed structured financing facilities in the above table are amortizing down along with collections of the underlying receivables and, except as provided in the following paragraph with respect to the CAR facility and the JRAS facility, there are no provisions within the debt agreements that allow for acceleration or bullet repayment of the facilities. As such, for all intents and purposes, there is no practical risk of equity loss associated with lender seizure of assets under all of the facilities other than the CAR facility and the JRAS facility. Nevertheless, the aggregate carrying

amount of the receivables that provide security for the $113.5 million of structured financing notes in the above table at September 30, 2010 is $141.7 million, which means that our maximum aggregate exposure to pre-tax equity loss associated with the above structured financing arrangements is $28.2 million.

The $11.1 million JRAS facility scheduled above matured in January 2010, but we have entered into forbearance agreements effective through December 2010 with the lender under which we essentially operate as though the facility had not matured while we work to collect a gradually liquidating portfolio of JRAS receivables. The portfolio is gradually liquidating as we are not adding new JRAS receivables at the same pace at which the existing receivables are either being collected or charged off. Based on our ongoing favorable dialogue with the lender, we believe that the forbearance agreement will be extended until the date of our expected complete repayment of the lender during the first half of 2011. However, this result is not assured, and if the lender decides to subject this loan to immediate repayment in December 2010, we would be required to repay the outstanding loan balance in full or could be forced to surrender the loan and fee receivables serving as collateral for the loan. As of September 30, 2010, the maximum exposure to pre-tax loss of equity under this structured financing was $5.9 million. The CAR facility begins to amortize down in June 2011 over a six-month period. In the event we are unable to secure either an extension of this facility or a replacement facility, the maximum exposure to pre-tax loss of equity under this CAR structured financing is $16.4 million as measured as of September 30, 2010.

Beyond our role as servicer of the underlying assets within the above-scheduled structured financings, we have provided no other financial or other support to the structures, and we have no explicit or implicit arrangements that could require us to provide financial support to the structures. Moreover, with the exception of our JRAS facility mentioned above, we are in compliance with the covenants underlying our various notes payable.

11. Commitments and Contingencies

General

In the normal course of business through the origination of unsecured credit card receivables, we incur off-balance-sheet risks. These risks include one of our subsidiary's (i.e., CompuCredit Corporation's) commitments of $70.5 million at September 30, 2010 to purchase receivables associated with cardholders who have the right to borrow in excess of their current balances up to the maximum credit limit on their credit card accounts. These commitments involve, to varying degrees, elements of credit risks in excess of amounts we can fund through our securitization facilities. We have not experienced a situation in which all of our customers have exercised their entire available line of credit at any given point in time, nor do we anticipate this will ever occur in the future. Moreover, there would be a concurrent increase in assets should there be any exercise of these lines of credit. We also have the effective right to reduce or cancel these available lines of credit at any time, which we have now done with respect to substantially all of our outstanding cardholder accounts.

For various receivables portfolio investments we have made through our subsidiaries and equity-method investees, CompuCredit Corporation has entered into guarantee agreements and/or note purchase agreements whereby CompuCredit Corporation has agreed to guarantee the purchase of or purchase directly additional interests in portfolios of credit card receivables owned by trusts, the residual interests in which are owned by its subsidiaries and equity-method investees, should there be net new growth in the receivables or should collections not be available to fund new cardholder purchases. As of September 30, 2010, neither CompuCredit Corporation nor any of its subsidiaries or equity-method investees had purchased or been required to purchase any additional notes under the note purchase agreements. CompuCredit Corporation's guarantee is limited to its respective ownership percentages in the various subsidiaries and equity-method investees multiplied by the total amount of the notes that each of the subsidiaries and equity-method investees could be required to purchase. As of September 30, 2010, the maximum aggregate amount of CompuCredit Corporation's collective guarantees and direct purchase obligations related to all of its subsidiaries and equity-method investees was $62.9 million (included as a subcomponent of the $70.5 million mentioned in the paragraph above)—a decrease from $72.0 million at December 31, 2009 as a result of declines in our liquidating credit card receivables portfolios. In general, this aggregate contingency amount will decline in the absence of portfolio acquisitions as the aggregate amounts of credit available to cardholders for future purchases decline along with our liquidation of the purchased portfolios and a corresponding reduction in the number of open cardholder accounts. The acquired credit card receivables portfolios of all of CompuCredit Corporation's affected subsidiaries and equity-method investees have declined with each passing quarter since acquisition and we expect them to continue to decline because we expect combined payments and charge offs to exceed new purchases each month. We currently do not have any liability recorded with respect to these guarantees or direct purchase obligations, but we will record one if events occur that make payment probable under the guarantees or direct purchase obligations. The fair value of these guarantees and direct purchase obligations is not material. Moreover, should we ever be required to fund any of the guarantees, there would be a concurrent increase in the underlying assets.

CompuCredit Corporation's third-party originating financial institution relationships require security for its purchases of their credit card receivables, and CompuCredit Corporation has pledged $1.0 million in collateral as such security as of September 30, 2010. In addition, in connection with our U.K. Portfolio acquisition, CompuCredit Corporation guarantees certain obligations of its subsidiaries and its third-party originating financial institution to one of the European payment systems ($0.2 million as of September 30, 2010). Those obligations include, among other things, compliance with one of the European payment system's operating regulations and by-laws. CompuCredit Corporation also guarantees certain performance obligations of its servicer subsidiary to the indenture trustee and the trust created under the securitization relating to our U.K. Portfolio.

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

Total System Services, Inc. provides certain services to CompuCredit Corporation as a system of record provider under an agreement that extends through May 2015. Were CompuCredit Corporation to terminate its U.S. relationship with Total System Services, Inc. prior to the contractual termination period, it would incur significant penalties ($17.9 million as of September 30, 2010).

Litigation

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

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CompuCredit Corporation and five other subsidiaries are defendants in a purported class action lawsuit entitled Knox, et al., vs. First Southern Cash Advance, et al., No. 5 CV 0445, filed in the Superior Court of New Hanover County, North Carolina, on February 8, 2005. The plaintiffs allege that in conducting a so-called "payday lending" business, certain of our Retail Micro-Loans segment subsidiaries violated various laws governing consumer finance, lending, check cashing, trade practices and loan brokering. The plaintiffs further allege that CompuCredit Corporation is the alter ego of our subsidiaries and is liable for their actions. The plaintiffs are seeking damages of up to $75,000 per class member, and attorney's fees. We are vigorously defending this lawsuit. These claims are similar to those that have been asserted against several other market participants in transactions involving small balance, short-term loans made to consumers in North Carolina.

On May 23, 2008, CompuCredit Corporation and one of our other subsidiaries filed a complaint against CB&T in the Georgia State Court, Fulton County, (subsequently transferred to the Georgia Superior Court, Fulton County) in an action entitled CompuCredit Corporation et al. vs. CB&T et al., Civil Action No. 08-EV-004730-F. Among other things, the complaint as now amended alleges that CB&T, in violation of its contractual obligations, failed to provide us rebates, marketing fees, revenues or other fees or discounts that were paid or granted by Visa®, MasterCard®, or other card associations with respect to or apportionable to accounts covered by CB&T's agreements with us and other consideration due to us. The complaint also alleges that CB&T refused to approve changes requested by us to the terms of the credit card accounts and refused to permit certain marketing, all in violation of the agreements among the parties. Also in this litigation, CB&T has asserted claims against CompuCredit Corporation for alleged failure to follow certain account management guidelines and for reimbursement of certain legal fees that it has incurred associated with CompuCredit Corporation's contractual relationship with CB&T.   On September 13, 2010, CB&T and CompuCredit Corporation settled this matter in full, and this case was dismissed with prejudice, thereby resulting in our recognition of a $12.1 million gain during the three months ended September 30, 2010.

On July 14, 2008, CompuCredit Corporation and four of our officers, David G. Hanna, Richard R. House, Jr., Richard W. Gilbert and J.Paul Whitehead III, were named as defendants in a purported class action securities case filed in the U.S. District Court for the Northern District of Georgia entitled Waterford Township General Employees Retirement System vs. CompuCredit Corporation, et al., Civil Action No. 08-CV-2270. On August 22, 2008, a virtually identical case was filed entitled Steinke vs. CompuCredit Corporation et al., Civil Action No. 08-CV-2687.   In general, the complaints alleged that we made false and misleading statements (or concealed information) regarding the nature of our assets, accounting for loan losses, marketing and collection practices, exposure to sub-prime losses, ability to lend funds, and expected future performance. The complaints were consolidated, and a consolidated complaint was filed. We filed a motion to dismiss, which the court granted on December 4, 2009.   In its order, the court allowed the plaintiff to amend its complaint, but the plaintiff failed to do so timely. On January 13, 2010, the court entered final judgment, with prejudice, in favor of all defendants. The appeal period for the court's final judgment expired on February 12, 2010.

CompuCredit Corporation received a demand dated August 25, 2008, from a shareholder, Ms. Sue An, that CompuCredit Corporation take action against all of its directors and two of its officers for alleged breaches of fiduciary duty. In general, the alleged breaches are the same as the actions that were the subject of the class action securities case prior to its dismissal. Our Board of Directors appointed a special litigation committee to investigate the allegations; that investigation concluded that the claims asserted were without merit; and we communicated that conclusion to Ms. Sue An's legal counsel. Ms. An has filed suit against our directors, which is in the early stages. We will vigorously contest the allegations in that complaint.

On December 21, 2009, certain holders of our 3.625% Convertible Senior Notes Due 2025 and 5.875% Convertible Senior Notes Due 2035 filed a lawsuit in the U.S. District Court for the District of Minnesota seeking, among other things, to enjoin our December 31, 2009 cash distribution to shareholders and a potential future spin-off of our micro-loan businesses. We prevailed in court at a December 29, 2009 hearing concerning the plaintiffs' motion for a

temporary restraining order against our December 31, 2009 cash distribution to shareholders, and that distribution was made as originally contemplated on that date. On March 19, 2010, the U.S. District Court for the District of Minnesota transferred venue to the U.S. District Court for the Northern District of Georgia, and on April 6, 2010, we filed a Renewed Motion to Dismiss. Shortly after that filing, the plaintiffs amended their complaint to add new claims and certain of our officers and directors as defendants, continued to seek to enjoin the spinoff and sought unspecified damages against all defendants. The plaintiffs also sought temporary injunctive relief to prevent

our completion of a then-pending tender offer for the repurchase of our 3.625% Convertible Notes due 2025 and our common stock at $7.00 per share. At a hearing on May 12, 2010, the judge in the Northern District of Georgia denied the request for a temporary restraining order, and the tender offer was completed as scheduled on May 14, 2010. We since have filed with the U.S. District Court for the Northern District of Georgia a motion to dismiss the plaintiffs' Second Amended Complaint. We do not know when the court will rule on our motion to dismiss or the other relief requested. Consequently, should our Board of Directors ultimately approve a spin-off of our micro-loan businesses, it is possible that the spin-off might be delayed or enjoined by court order or that the court could impose other remedies.

12. Net Income (Loss) Attributable to Controlling Interests Per Common Share

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

The following table sets forth our EPS computations (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Numerator:				
Net income (loss) from continuing operations attributable to controlling interests	$1,761	$(239,411)	$(69,979)	$(481,983)
Net loss on discontinued operations attributable to controlling interests	$—	$—	$—	$(4,289)
Net income (loss) attributable to controlling interests	$1,761	$(239,411)	$(69,979)	$(486,272)
Denominator:				
Basic (including unvested share-based payment awards) (1)	35,759	47,731	41,131	47,670
Effect of dilutive stock options (2)	143	68	175	39
Diluted (including unvested share-based payment awards) (1)	35,902	47,799	41,306	47,709
Income (loss) from continuing operations attributable to controlling interests per common share—basic	$0.05	$(5.02)	$(1.70)	$(10.11)
Income (loss) from continuing operations attributable to controlling interests per common share—diluted	$0.05	$(5.02)	$(1.70)	$(10.11)
Loss on discontinued operations attributable to controlling interests per common share—basic	$—	$—	$—	$(0.09)
Loss on discontinued operations attributable to controlling interests per common share—diluted	$—	$—	$—	$(0.09)
Net income (loss) attributable to controlling interests per common share—basic	$0.05	$(5.02)	$(1.70)	$(10.20)

Net income (loss) attributable to controlling interests per common share—diluted	$0.05	$(5.02)	$(1.70)	$(10.20)

(1) Shares related to unvested share-based payment awards that we included in our basic and diluted share counts are as follows: 636,116 and 680,226 shares for the three and nine months ended September 30, 2010; and 843,324 and 790,919 shares for the three and nine months September 30, 2009.

(2) In reporting periods for which we have experienced losses, the effect of dilutive options is shown for informational purposes only. In such loss periods, the effect of including outstanding options would be anti-dilutive, and they are thus excluded from all calculations.

For the three and nine months ended September 30, 2010 and 2009, there were no shares potentially issuable and thus includible in the diluted share counts above associated with our 3.625% convertible senior notes due 2025 issued in May 2005 and 5.875% convertible senior notes due 2035 issued in November 2005. However, in future reporting periods during which our closing stock price is above the respective $35.57 and $43.28 conversion prices for the May 2005 and November 2005 convertible senior notes, and depending on the closing stock price at conversion, the maximum potential dilution as of September 30, 2010 under the conversion provisions of the May 2005 and November 2005 convertible senior notes is approximately 4.2 million and 3.2 million shares, respectively, which could be included in diluted share counts. See Note 10, “Convertible Senior Notes and Notes Payable,” for a further discussion of these convertible securities.

13. Stock-Based Compensation

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

The 2008 Plan provides for grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units and incentive awards. The maximum aggregate number of shares of common stock that may be issued under this plan and to which awards may relate is 2,000,000 shares, and 1,145,058 shares remained available for grant under this plan as of September 30, 2010. Exercises and vestings under our stock-based employee compensation plans resulted in our recognition of an income tax-related charge to additional paid-in capital of $0.0 million and $1.4 million for the three and nine months ended September 30, 2010, respectively, compared to an income tax-related charge to additional paid in capital of $0.0 million and $1.3 million for the three and nine months ended September 30, 2009, respectively.

Stock Options

Our 2008 Plan and its predecessor plans provide that we may grant options on or shares of our common stock to members of the Board of Directors, employees, consultants and advisors. The exercise price per share of the options may be less than, equal to or greater than the market price on the date the option is granted. The option period may not exceed 10 years from the date of grant. The vesting requirements for options granted by us range from immediate to 5 years. During the three and nine months ended September 30, 2010, we expensed stock-option-related compensation costs of $0.4 million and $1.2 million, respectively, compared to $0.5 million and $1.5 million during the three and nine months ended September 30, 2009, respectively. We recognize stock-option-related compensation expense for any awards with graded vesting on a straight-line basis over the vesting period for the entire award. Information related to options outstanding is as follows:

	For the Nine Months Ended September 30, 2010			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average of Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2010	790,000	$ 31.75		
Cancelled/Forfeited	(220,000)	$ 11.60		
Outstanding at September 30, 2010	570,000	$ 39.24	2.5	$—
Exercisable at September 30, 2010	70,000	$ 26.76	1.6	$—

As of September 30, 2010, our unamortized deferred compensation costs associated with non-vested stock options were $1.0 million. There were no stock option exercises during the three months ended September 30, 2010.

Restricted Stock and Restricted Stock Unit Awards

During the nine months ended September 30, 2010 and 2009, we granted 253,107 and 211,454 shares of aggregate restricted stock and restricted stock units, respectively, with aggregate grant date fair values of $1.1 million and $1.1 million, respectively. When we grant restricted shares, we defer the grant date value of the restricted shares and amortize the grant date values of these shares (net of anticipated forfeitures) as compensation expense with an offsetting entry to the additional paid-in capital component of our consolidated shareholders' equity. Our issued restricted shares generally vest over a range of twenty-four to sixty months and are being amortized to salaries and benefits expense ratably over the respective vesting periods. As of September 30, 2010, our unamortized deferred compensation costs associated with non-vested restricted stock awards were $2.4 million with a weighted-average remaining amortization period of 0.8 years.

Occasionally, we issue or sell stock or stock appreciation rights in our subsidiaries to certain members of the subsidiaries' management teams. The terms of these awards vary but generally include vesting periods comparable to those of stock issued under our restricted stock plan. Generally, these shares can be converted to cash or our stock at our discretion after the specified vesting period or the occurrence of other contractual events. Ownership in these shares constitutes noncontrolling interests in the subsidiaries. We are amortizing these compensation costs commensurate with the applicable vesting period. The weighted-average remaining vesting period for stock and stock appreciation rights still subject to restrictions was 8 months as of September 30, 2010.

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

The following discussion should be read in conjunction with our condensed consolidated financial statements and the related notes included herein and our Annual Report on Form 10-K for the year ended December 31, 2009, where certain terms (including trust, subsidiary and other entity names and financial, operating and statistical measures) have been defined.

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

OVERVIEW

We are a provider of various credit and related financial services and products to or associated with the financially underserved consumer credit market—a market represented by credit risks that regulators classify as "sub-prime." We traditionally have served this market principally through our marketing and solicitation of credit card accounts and other credit products and our servicing of various receivables. We contracted with third-party financial institutions pursuant to which the financial institutions issued general purpose consumer credit cards and we purchased the receivables relating to such accounts on a daily basis. Today we manage the portfolios that we previously originated or acquired and are not currently offering new credit cards on a broad basis.

Our product and service offerings also include small-balance, short-term cash advance loans—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. We market these loans and products through retail branch locations in Alabama, Colorado, Kentucky, Mississippi, Ohio, Oklahoma, South Carolina, Tennessee, and Wisconsin and over the Internet in the U.S. and U.K.

We also are servicing 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 lot.

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

The most significant changes to our business during the nine months ended September 30, 2010 were:

- Our adoption of new accounting pronouncements that resulted in the consolidation of our securitization trusts onto our condensed consolidated balance sheet effective as of January 1, 2010. As a result of these new accounting rules, we present cash and credit card receivables held by our securitization trusts and debt issued from those entities as assets and liabilities on our condensed consolidated balance sheet as of September 30, 2010, and we adjusted our January 1, 2010 opening balance of total equity by $37.7 million reflecting the impact of adoption of the new accounting rules;

- Our March 2010 acquisition of noncontrolling interests representing 6% of MEM (within our Internet Micro-Loans segment) for £4.3 million ($6.6 million), thereby reducing outstanding noncontrolling interests in MEM from 24% at December 31, 2009 to 18% as of September 30, 2010;

- Our outsourcing of portions of our U.S. credit card customer service and collections operations to better leverage our global infrastructure;

- Reflecting our continued focus on cost-cutting, our May 2010 exercise of an option to terminate our lease obligation in one of the office buildings at the site of our headquarters operations—such exercise allowing us to pay $4.3 million in May 2011 to avoid an estimated $20.6 million of future operating lease, taxes and utilities payments through May 2022 and resulting in a $4.3 million lease termination-related charge to expense during the three months ended June 30, 2010;

- Our May 2010 repurchase pursuant to a tender offer of 12.2 million shares of our common stock at a purchase price of $7.00 per share for an aggregate cost of $85.3 million;

  - Our repurchases (both in open market transactions and pursuant to the terms of two separate tender offers) of an aggregate of $79.6 million in face amount of our 3.625% convertible senior notes due in 2025 for $48.1 million and an aggregate of $15.6 million in face amount of our 5.875% convertible senior notes due in 2035 for $5.7 million, both aggregate amounts being inclusive of transaction costs and accrued interest through the date of our repurchase of the notes—such repurchases resulting in our recognition of $28.4 million in aggregate gains (net of the notes' applicable share of deferred costs and debt discount, which were recovered in connection with the purchases) during the nine months ended September 30, 2010; and

- Our September 2010 settlement of outstanding litigation with CB&T, which resulted in the recognition of $12.1 million in gain and is discussed further in Note 11, "Commitments and Contingencies," to our condensed consolidated financial statements.

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

In the current environment, wherein the only material cash flows we will receive within our Credit Cards segment are those associated with servicing compensation until our securitization facilities are fully repaid, we are closely monitoring and managing our liquidity position, reducing our overhead infrastructure (which was built to accommodate higher account originations and managed receivables levels) and further leveraging our global infrastructure in order to maximize returns to shareholders on existing assets. Some of these actions, while prudent to maximize cash returns on existing assets, have had the effect of reducing our potential for profitability. Our belief is that our reductions in personnel, overhead and other costs (through increased outsourcing) to levels that our Credit Cards segment can support with servicing compensation as its only cash inflow will not result in further impairments in the fair values of our credit card receivables; however, this outcome cannot be assured.

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

Subject to the availability of growth capital at attractive terms and pricing, which is difficult to obtain in the current market, our shareholders should expect us to continue to evaluate and pursue (1) the acquisition of additional credit card receivables portfolios, and potentially other financial assets that are complementary to our financially underserved credit card business, (2) modest investments in other assets or businesses that are not necessarily financial services assets or businesses, and (3) additional opportunities to repurchase our convertible senior notes and other debt or our outstanding common stock. Absent the availability of investment alternatives (in other portfolios, other non-financial assets or businesses, or our own debt) at prices necessary to provide attractive returns for our shareholders, we will continue to look to maximize shareholder value through the distribution of excess cash to

shareholders (as was done through a $23.9 million distribution paid on December 31, 2009 and the May 14, 2010 closing of a tender offer through which we paid $85.3 million to shareholders who tendered 12.2 million shares) or through a potential spin-off of our micro-loan businesses. Additionally, given that financing for growth and acquisitions currently is constrained, our shareholders should expect us to pursue less capital intensive activities, like

servicing credit card receivables and other assets for third parties (and in which we have limited or no equity interests), that allow us to leverage our expertise and infrastructure until we can finance and complete any potential acquisitions.

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. Once management completes its review and evaluation and makes a recommendation, if any, to the Board, the Board will 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 with the SEC on January 4, 2010, subsequently amended the registration statement in response to SEC comments most recently on May 28, 2010, and continues to work on further registration amendments in response to SEC comments. The spin-off remains subject to a number of conditions, including, among others:

- a recommendation by our management to our Board of Directors to approve the spin-off;
- 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 any required 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 continued effectiveness of the private letter ruling that we received from the Internal Revenue Service ("IRS");
- NASDAQ's approval for listing of Purpose Financial's common stock, subject to official notice of issuance;
- the transfer of our micro-loan businesses, and the associated licenses and registrations relating to these businesses, to Purpose Financial;
- the execution by the parties of separation and distribution agreements, transition services agreements, services agreements, employee matters agreements, tax sharing agreements, sublease and other appropriate agreements; and
- the lack of any effective order, injunction or decree issued by any court of competent jurisdiction or other legal restraint or prohibition preventing 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.

CONSOLIDATED RESULTS OF OPERATIONS (In thousands)	For the Three Months Ended September 30, 2010	2009	Income Increases (Decreases) from 2009 to 2010
Earnings:			
Total interest income	$ 61,060	$ 18,312	$ 42,748
Interest expense	(11,599)	(9,465)	(2,134)
Fees and related income on earning assets:			
Retail micro-loan fees	18,490	19,393	(903)
Internet micro-loan fees	25,910	18,636	7,274
Fees on credit card receivables held on balance sheet	5,002	—	5,002
Changes in fair value of loans and fees receivable recorded at fair value	61,183	—	61,183
Changes in fair value of notes payable associated with structured financings recorded at fair value	(19,158)	—	(19,158)
Income on investments in previously charged-off receivables	8,676	16,475	(7,799)
Gross (loss) profit on auto sales	(478)	4,274	(4,752)
Gains on investments in securities	153	146	7
Gains upon litigation settlement with former third-party issuing bank partner	12,150	—	12,150
Other	677	(34)	711
Other operating income (loss):			
Securitization gain	—	113,961	(113,961)
Loss on retained interest in credit card receivables securitized	—	(334,035	