

CompuCredit Holdings Corp  
Form 10-K  
March 06, 2012

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

For the fiscal year ended December 31, 2011

of

COMPUCREDIT HOLDINGS CORPORATION

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

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Atlanta, Georgia 30328  
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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 90 days.

CompuCredit has submitted electronically and posted on its corporate Web site every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that it was required to submit and post such files).

CompuCredit believes that during the 2011 fiscal year, its executive officers, directors and 10% beneficial owners subject to Section 16(a) of the Act complied with all applicable filing requirements, except as set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in CompuCredit's Proxy Statement for the 2012 Annual Meeting of Shareholders.

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

The aggregate market value of CompuCredit's common stock (based upon the closing sales price quoted on the NASDAQ Global Select Market) held by nonaffiliates as of June 30, 2011 was \$20.5 million. (For this purpose,

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directors and officers have been assumed to be affiliates, and we have excluded 1,672,656 loaned shares at June 30, 2011.)

As of February 24, 2012, 21,946,746 shares of common stock, no par value, of CompuCredit were outstanding. (This excludes 1,672,656 loaned shares to be returned as of that date.)

DOCUMENTS INCORPORATED BY REFERENCE

Portions of CompuCredit's Proxy Statement for its 2012 Annual Meeting of Shareholders are incorporated by reference into Part III.

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Cautionary Notice Regarding Forward-Looking Statements

We make forward-looking statements in this Report and in other materials we file with the Securities and Exchange Commission (“SEC”) or otherwise make public. In this Report, both Item 1, “Business,” and Item 7, “Management’s Discussion and Analysis of Financial Conditions and Results of Operations,” contain forward-looking statements. In addition, our senior management might make forward-looking statements to analysts, investors, the media and others. Statements with respect to expected revenue, income, receivables, income ratios, net interest margins, acquisitions and other growth opportunities, divestitures and discontinuations of businesses, loss exposure and loss provisions, delinquency and charge-off rates, impacts of account actions that we may take, changes in collection programs and practices, changes in the credit quality and fair value of our credit card loans and fees receivable and the fair value of their underlying structured financing facilities, the impact of actions by the Federal Deposit Insurance Corporation (“FDIC”), Federal Trade Commission (“FTC”), Consumer Financial Protection Bureau (“CFPB”) and other regulators on both us and banks that issue credit cards on our behalf, account growth, the performance of investments that we have made, operating expenses, the impact of bankruptcy law changes, marketing plans and expenses, the performance of our Auto Finance segment, expansion and growth of our Investments in Previously Charged-Off Receivables segment, growth and performance of receivables originated over the Internet, our plans in the United Kingdom (“U.K.”), the impact of our U.K. portfolio of credit card receivables (the “U.K. Portfolio”) on our financial performance, sufficiency of available liquidity, the prospect for improvements in the liquidity markets, future interest costs, sources of funding operations and acquisitions, our entry into international markets, our ability to raise funds or renew financing facilities, results associated with our equity-method investees, our servicing income levels, gains and losses from investments in securities, experimentation with new products and other statements of our plans, beliefs or expectations are forward-looking statements. These and other statements using words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “target,” “can,” “could,” “may,” “should,” “will,” “would” and similar expressions also are forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. The forward-looking statements we make are not guarantees of future performance, and we have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels.

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

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

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

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

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

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

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PART I

ITEM 1. BUSINESS

Sale of U.K. Internet Micro-Loans and U.S. Retail Micro-Loans Businesses

On April 1, 2011, we sold our subsidiary with a controlling interest in Month End Money (“MEM”), a provider in the U.K. of Internet-based, short-term micro-loans, to a subsidiary of Dollar Financial Corp, and on October 10, 2011, we sold our Retail Micro-Loans segment operations to a subsidiary of Advance America, Cash Advance Centers, Inc. The details related to these transactions are set forth in the General discussion below. Also, in this Report, we have classified the net assets and liabilities of our MEM business operations as held for sale in our consolidated balance sheet as of December 31, 2010, and we have included our MEM and Retail Micro-Loans segment operations as discontinued operations in all periods presented within our consolidated statements of operations. We had no business operating assets that were held for sale as of December 31, 2011.

General

A general discussion of the business of CompuCredit Holdings Corporation follows. For additional information about our business, please visit our website at [www.compucredit.com](http://www.compucredit.com). Information contained on our website is not incorporated by reference in this Report.

Reflecting the dispositions mentioned above, our current business includes the collection of portfolios of credit card receivables underlying now-closed credit card accounts within our Credit Cards segment. These receivables include both receivables that we originated through third-party financial institutions and portfolios of receivables that we purchased from third-party financial institutions. Given the global financial crisis arising in 2008 and given our own liquidity challenges that arose from that crisis, we worked with our third-party financial institution partners to close substantially all of the credit card accounts underlying our credit card receivables portfolios in 2009. The only open credit card accounts underlying our credit card receivables are those generated through our balance transfer program within our Investments in Previously Charged-Off Receivables segment in both the U.S. and the U.K. and through credit card products in the U.K. Several of our portfolios of credit card receivables underlying now-closed accounts are encumbered by non-recourse structured financings, and for some of these portfolios, our only remaining economic interest is the servicing compensation that we receive as an offset against our servicing costs given that the likely future collections on the portfolios are insufficient to allow for full repayment of the financings. We have been successful in one instance in partnering with another financing partner to purchase the debt underlying one such portfolio, and we are pursuing other similar transactions. Beyond these activities within our Credit Cards segment, we are applying the experiences and infrastructure associated with our historic credit card offerings to other credit product offerings, including merchant and private label credit. Lastly, through our Credit Cards segment, we are engaged in limited investment activities in ancillary finance, technology and other businesses as we seek to build new products and relationships that could allow for greater utilization of our expertise and infrastructure.

Additionally, through our Investment in Previously Charged-Off Receivable segment, we purchase and collect previously charged-off receivables from third parties and our equity method investees, as well as previously charged-off receivables that we have owned or serviced within our other segment operations. Our portfolio of previously charged-off receivables is 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 which time the credit card activity becomes reportable within our Credit Cards segment).

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

The last of our current product and service offerings includes a limited test portfolio of small-balance (generally less than \$500), short-term loans that we originate over the Internet and to which we refer as “micro-loans.” The results of our continuing U.S. Internet micro-loan product testing are reported within our Internet Micro-Loans segment.

We reflect our business lines within five reportable segments by which we manage our business: Credit Cards; Investments in Previously Charged-Off Receivables; Retail Micro-Loans; Auto Finance; and Internet Micro-Loans. For all but our Retail Micro-Loans segment, which contains no continuing operations, we further describe our segment operations below. (See, also, Note 4, “Segment Reporting,” to our consolidated financial statements included herein for segment-specific financial data.)

The most significant business changes or events for us during the year ended December 31, 2011 were:

- The sale, as noted above, of our Retail Micro-Loans segment to a subsidiary of Advance America, Cash Advance Centers, Inc. for \$46.2 million on October 10, 2011, thereby resulting in (1) a gain (net of related sales expenditures) of \$5.1 million that is included as a component of discontinued operations within our consolidated statement of operations for the year ended December 31, 2011, and (2) the classification our Retail Micro-Loans segment’s operations as discontinued operations for all periods presented within our consolidated statements of operations;
- Our repurchases in open market transactions of an aggregate of \$62.0 million in face amount of our 3.625% convertible senior notes due in 2025 and \$1.0 million in face amount of our 5.875% convertible senior notes due in 2035 for \$59.3 million and \$0.4 million, respectively, such amounts being inclusive of transaction costs and accrued interest through the dates of our repurchases of the notes;
- The closing of a tender offer in April 2011, through which we repurchased 13,125,000 shares of our common stock at a purchase price of \$8.00 per share for an aggregate cost of \$105.0 million;
- The sale, as noted above, of our MEM operations to a subsidiary of Dollar Financial Corp for \$195.0 million on April 1, 2011, thereby resulting in (1) a gain (net of related sales expenditures) of \$106.0 million that is included as a component of discontinued operations within our consolidated statements of operations for the year ended December 31, 2011, (2) the classification of our MEM operations as discontinued operations for all periods presented within our consolidated statements of operations, and (3) the confirmation of our classification of these operations on our consolidated balance sheet as of December 31, 2010 as held for sale;
- Our acquisition of a 50% interest in a joint venture that purchased in March 2011 all of the outstanding notes issued out of our U.K. Portfolio structured financing trust and reported a gain in the three months ended March 31, 2011 upon its marking of such notes to their fair value as of March 31, 2011 under its fair value option election (of which \$17.1 million was our allocable share);
- Our February 2011 sale of certain operating assets of our JRAS buy-here, pay-here lot subsidiaries in a transaction under which we retained its underlying loans and fees receivable, resulting in a loss of \$4.6 million; and
- Our January 2011 purchase of certain investor interests in our Credit Cards segment equity-method investees and substantially all of the noncontrolling interests in our Credit Cards segment majority-owned subsidiaries for \$4.1 million.





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Subject to the availability of growth capital at attractive terms and pricing, our shareholders should expect us to continue to evaluate and pursue a variety of activities that would be reflected predominantly within our Credit Cards segment: (1) the acquisition of additional credit card receivables portfolios, and potentially other financial assets that are complementary to our financially underserved credit card business; (2) investments in other assets or businesses that are not necessarily financial services assets or businesses; and (3) additional opportunities to repurchase our convertible senior notes and other debt or our outstanding common stock. Absent the availability of investment alternatives (in other portfolios, other non-financial assets or businesses, or our own debt) at prices necessary to provide attractive returns for our shareholders, we will continue to look to maximize shareholder value through the distribution of excess cash to shareholders (as has been done historically through dividends and tender offers, including our tender offer that closed in April 2011 and a tender offer that closed in May 2010 through which we paid \$85.3 million to shareholders who tendered 12.2 million shares). 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 complete further acquisitions.

Credit Cards Segment. Included within our Credit Cards segment are our credit card investment and servicing activities, as conducted with respect to receivables underlying accounts originated and portfolios purchased by us and one of our equity-method investees. This segment includes the activities associated with substantially all of our credit card products. Also included are the results of another of our equity-method investees, through which we partnered with another financing partner to purchase the debt underlying one of our credit card portfolios. Moreover, our Credit Cards segment activities include our efforts to apply the experiences and infrastructure associated with our historic credit card offerings to other credit product offerings, including merchant and private label credit. Lastly, we include within our Credit Cards segment certain limited investment activities in ancillary finance, technology and other businesses as we seek to build new products and relationships that could allow for greater utilization of our Credit Cards segment expertise and infrastructure.

Substantially all of the credit card accounts underlying our credit card receivables and portfolios have been closed to new cardholder purchases (and hence credit card receivables growth) since 2009. However, we do have a limited number of open credit card accounts in the U.K. and associated with our Investments in Previously Charged-Off Receivables segment's balance transfer program, whereby we offer potential customers a credit card product in exchange for payments made on a previously charged-off debt that we either have purchased or have agreed to purchase upon acceptance of our balance transfer offer terms. After our receipt of an offered and agreed-upon level of payments on the previously charged-off debt, a credit card is made available to the consumer, and as the consumer further reduces his or her outstanding previously charged-off debt balance, additional credit is made available to the consumer under the credit card product. After card issuance, the revenues and costs associated with the balance transfer program credit card offerings are included in our Credit Cards segment results; whereas, the pre-card-issuance activities associated with the initial purchase and collection of the outstanding balance of previously charged-off debt are included in our Investments in Previously Charged-Off Receivables segment results.

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. Customers at the lower end of the FICO scoring range intrinsically have higher loss rates than do customers at the higher end of the FICO scoring range. As a result, we have priced our products to reflect this greater risk. As such, our products are subject to greater regulatory scrutiny than the products of prime lenders who can price their credit products at much lower levels than we can. See "Consumer and Debtor Protection Laws and Regulations—Credit Cards Segment" and Item 1A, "Risk Factors."

As is customary in our industry, we historically financed most of our credit card receivables through the asset-backed securitization markets. These markets worsened significantly in 2008 and are not likely to return to any degree of efficient and effective functionality for us in the near term—particularly given a current U.S. regulatory and economic environment in which sub-prime credit card lending returns on investment are not attractive enough for us to want to originate any significant level of new credit card receivables in the U.S. (other than through our Investment in Previously Charged-Off Receivables segment’s balance transfer program). We continue, however, to originate credit cards in the U.K. because we believe the U.K. regulatory environment to be more favorable than the U.S. toward possible significant credit card origination growth in the future.

In the current environment, the only material recurring cash flows we receive within our Credit Cards segment are those associated with servicing compensation, distributions from our equity-method investee that purchased and holds all of the outstanding notes issued out of our U.K. Portfolio, and the modest cash flows we are receiving from unencumbered credit card receivables portfolios that have already generated enough cash to allow for the repayment of their underlying structured financing facilities. As such, 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 profitability. Our belief is that our reductions in personnel, overhead and other costs (through increased outsourcing) to levels that our Credit Cards segment can better support with its diminished cash inflows will not result in further impairments in the fair values of our credit card receivables; however, this outcome cannot be assured.

**Investments in Previously Charged-Off Receivables Segment.** Our Investments in Previously Charged-Off Receivables segment consists of the operations of our debt collection subsidiary, Jefferson Capital Systems, LLC (“Jefferson Capital”). Through this subsidiary, as market conditions and other factors justify, we acquire and sell previously charged-off credit card receivables and apply our collection expertise to the receivables we own. Additionally, our Investments in Previously Charged-Off Receivables segment includes accounts acquired through its balance transfer program prior to such time as credit cards are issued relating to the program’s underlying accounts (as explained in further detail in the Credit Cards segment discussion above). Revenues in this segment are classified as fees and related income on non-securitized earning assets in our consolidated statements of operations.

We expect improving trends and results associated with the balance transfer program within our Investments in Previously Charged-Off Receivables segment. We also believe that the current economic environment could lead to increased opportunities for growth in the balance transfer program as consumers with less access to credit create additional demand, which should lead to increased placements from third parties. Moreover, we have been testing a balance transfer program in the U.K., and although we expect it to grow more rapidly, its results are not anticipated to be material in 2012.

Our other Investments in Previously Charged-Off Receivables segment activities are also yielding improving trends and results that we expect will continue into 2012. We have recently completed several large purchases of previously charged-off receivables portfolios (particularly those related to Chapter 13 Bankruptcies) from third parties at attractive pricing, and we expect similar further opportunities in 2012.

Having noted the above improving trends and results within our Investments in Previously Charged-Off Receivables segment, we note that its required use of the cost recovery method of income recognition (i.e., whereby all collection and other costs currently are expensed and revenue is not recognized until our cost basis is completely recovered on each particular static pool of purchased previously charged-off receivables) gives rise to expense and revenue timing mismatches and a lack of comparability to several of the segment’s publicly traded peers who use a less conservative effective interest method of accounting for their charged-off receivables purchases.

Auto Finance Segment. Our Auto Finance segment historically has included a variety of auto sales and lending activities. Our original platform, CAR, acquired in April 2005, purchases auto loans at a discount and services auto loans for a fee; its customer base includes a nationwide network of pre-qualified auto dealers in the buy-here, pay-here used car business. We also historically owned substantially all of JRAS, a buy-here, pay-here dealer we acquired in 2007 and operated from that time until our disposition of certain JRAS operating assets in the first quarter of 2011. Subsequent to the first quarter of 2011, our only remaining JRAS asset is the portfolio of auto finance receivables that it had originated while under our ownership. Lastly, our ACC platform acquired during 2007 historically purchased retail installment contracts from franchised car dealers. We ceased origination efforts within the ACC platform during 2009 and outsourced the collection of its portfolio of auto finance receivables. The auto finance receivables of both the JRAS and the ACC portfolios are liquidating with collections and charge offs, and the effects of these liquidating receivables portfolios on our results of operations are diminishing with each successive financial reporting period.

In our CAR operations, we generate revenues on purchased loans through interest earned on the face value of the installment agreements combined with discounts on loans purchased. We generally earn discount income over the life of the applicable loan. Additionally, we generate revenues from servicing loans on behalf of dealers for a portion of actual collections and by providing back-up servicing for others' similar quality securitized assets. We offer a number of other products to our network of buy-here, pay-here dealers (including a product under which we lend directly to the dealers), but the vast majority of our activities are represented by our purchases of auto loans at discounts and our servicing of auto loans for a fee. Our CAR operations currently serve more than 700 dealers in 36 states and the District of Columbia. These operations are performing well in the current environment (achieving consistent profitability and generating positive cash flows with very modest growth).

Internet Micro-Loans Segment. Our Internet Micro-Loans segment's results include the results of our discontinued MEM operations, which we sold in April 2011, and the results of our U.S.-based Internet, micro-loan operations. Our U.S. operations are limited in nature and are not material to our consolidated results of operations.

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How Do We Maintain the Accounts and Mitigate Our Risks?

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

For credit card accounts that are open to cardholder purchases (currently only those accounts arising through our Investment in Previously Charged-Off Receivables segment's balance transfer program and accounts opened under programs within the U.K.), we monitor authorizations, and we limit customer credit availability for transaction types we believe present higher risks, such as foreign transactions, cash advances, etc. We generally seek to manage credit lines to reward financially underserved customers who are performing well and to mitigate losses from delinquent customer segments, and we periodically review accounts exhibiting favorable credit characteristics for credit line increases. We also employ strategies to reduce otherwise open credit lines for customers demonstrating indicators of increased credit or bankruptcy risk. Data relating to account performance are captured and loaded into our proprietary database for ongoing analysis. We adjust account management strategies as necessary, based on the results of such analyses. Additionally, we use industry-standard fraud detection software to manage the portfolio. We route accounts to manual work queues and suspend charging privileges if the transaction-based fraud models indicate a high probability of fraudulent card use.

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

CAR applies specific purchase guidelines based upon each product offering, and we establish delegated approval authorities to assist in the monitoring of transactions during the loan acquisition process. Dealers are subject to specific approval criteria, and individual accounts typically are verified for accuracy before, during and after the acquisition process. Dealer portfolios across the business segment are monitored and compared against expected collections and peer dealer performance. Monitoring of dealer pool vintages, delinquencies and loss ratios helps determine past performance and expected future results, which are used to adjust pricing and reserve requirements. Our CAR operations manage risk through diversifying their receivables among over 700 dealers.

For our JRAS operations that we sold in February 2011, credit quality and loss mitigation initially were dependent upon our obtaining a first lien in the auto that was being financed. As a result, for credit evaluation purposes, we considered a portion of these loans to be unsecured and evaluated the creditworthiness of the customers in that context. When a JRAS customer defaulted and JRAS repossessed the auto, JRAS generally resold the car to another customer.

Internet Micro-Loans Segment. We apply risk-based scorecards developed from proprietary risk models to customer lending relationships within our U.S.-based Internet micro-loan operations. Through employing these proprietary scorecards along with efficiencies created within our collections practices, our goal is to minimize delinquencies and charge offs.

## How Do We Collect from Our Customers?

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

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

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

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

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

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We discontinue charging interest and fees when credit card receivables become contractually ninety or more days past due (and in certain circumstances where it is necessary in order to avoid so-called “negative amortization”), and we charge off credit card receivables when they become contractually more than 180 days past due (or within 30 days of notification and confirmation of a customer’s bankruptcy or death). However, if a cardholder makes a payment greater than or equal to two minimum payments within a month of the charge-off date, we may reconsider whether charge-off status remains appropriate. Additionally, in some cases of death, receivables are not charged off if, with respect to the deceased customer’s account, there is a surviving, contractually liable individual or an estate large enough to pay the debt in full.

Our determination of whether an account is contractually past due is relevant to our delinquency and charge-off data included under the “Credit Cards Segment” caption within Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Various factors are relevant in analyzing whether an account is contractually past due (i.e., whether an account has not satisfied its minimum payment due requirement), which for us is the trigger for moving receivables through our various delinquency buckets and ultimately to charge-off status. We consider a cardholder’s receivable to be delinquent if the cardholder fails to pay a minimum amount computed as the greater of a stated minimum payment or a fixed percentage of his or her statement balance (for example 3% to 10% of the outstanding balance in some cases or in other cases 1% of the outstanding balance plus any finance charges and late fees billed in the current cycle).

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

**Auto Finance Segment.** Accounts that CAR purchases from approved dealers initially are collected by the originating branch or service center location using a combination of traditional collection techniques. Auto Finance segment accounts that have been loaded into our data processing system are centrally serviced to leverage auto dialer processing for early stage collections. The collection process includes contacting the customer by phone or mail, skip tracing and using starter interrupt devices to minimize delinquencies. Uncollectible accounts in our CAR operation generally are returned to the dealer under an agreement with the dealer to charge the balance on the account against the dealer’s reserve account. We generally do not repossess autos in our CAR operation as a result of the agreements that we have with the dealers.

**Internet Micro-Loans Segment.** For our Internet-based micro-loan products, a customer will sign an agreement acknowledging when a loan will be repaid. On the agreed-upon repayment date, the customer’s bank account or debit card is automatically charged for the full amount of the loan plus applicable fees. If repayment is not made at the agreed upon repayment date, we seek to contact the customer in order to collect the amount due. We seek either full repayment or by agreement with the customer collect the amount under a repayment schedule of up to six months (depending on the amount due). After 90 days of in-house collection activity, the account is typically transferred to a third-party collection agency with an aim of maximizing recovery of the charged-off debt.

Consumer and Debtor Protection Laws and Regulations

Credit Cards Segment. Our U.S. business is regulated directly and indirectly under various federal and state consumer protection, collection and other laws, rules and regulations, including the federal Credit Card Accountability Responsibility and Disclosure Act of 2009 (the “CARD Act”), the federal Wall Street Reform and Consumer Protection Act, the federal TILA, the federal Equal Credit Opportunity Act, the federal Fair Credit Reporting Act, the federal Fair Debt Collection Practices Act, the federal Gramm-Leach-Bliley Act and the federal Telemarketing and Consumer Fraud and Abuse Prevention Act. These statutes and their enabling regulations, among other things, impose disclosure requirements when a consumer credit loan is advertised, when the account is opened and when monthly billing statements are sent. In addition, various statutes limit the liability of credit cardholders for unauthorized use, prohibit discriminatory practices in extending credit, impose limitations on the types of charges that may be assessed and restrict the use of consumer credit reports and other account-related information. Many of our products are designed for customers at the lower end of the FICO scoring range. To offset the higher loss rates among these customers, these products generally are priced higher than our other products. Because of the greater credit risks inherent in these customers and the higher prices that we have had to charge for these products, they, and the banks that have issued them on our behalf, are subject to significant regulatory scrutiny. If regulators, including the FDIC (which regulates the lenders that have issued these products on our behalf), the CFPB and the FTC, object to these products or how we have marketed them, then we could be required to modify or discontinue them. Over the past several years, we have modified both our products and how we have marketed them in response to comments from regulators. Also, in December 2008, we settled litigation associated with allegations that the FDIC and FTC had made about some of our credit card marketing practices.

In the U.K., our credit card operations are subject to U.K. regulations that provide similar consumer protections to those provided under the U.S. regulatory framework. We are licensed and regulated by the OFT, and we are governed by an extensive legislative and regulatory framework that includes the Consumer Credit Act, the Data Protection Act, Privacy and Electronic Communications Regulations, Consumer Protection and Unfair Trading regulations, Financial Services (Distance Marketing) Regulations, the Enterprise Act, Money Laundering Regulations, Financial Ombudsman Service and ASA adjudications. The aforementioned legislation and regulations imposes strict rules on the look and content of consumer contracts, how APRs are calculated and stated, advertising in all forms, who we can contact and disclosures to consumers, among others. The regulators such as the OFT provide guidance on consumer credit practices including collections.

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

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



Internet Micro-Loans Segment. Our micro-loan products and services are subject to extensive state and federal regulation. The regulation of our industry is intended primarily for the protection of consumers and is constantly changing as new regulations are introduced at the federal, state and local levels and existing regulations are repealed, amended and modified. As we develop new product and service offerings, we may become subject to additional federal, state and local regulations. State and local governments also may seek to impose new licensing requirements or interpret or enforce existing requirements in new ways. In addition, changes in current laws or to the prevailing interpretations thereof and future laws or regulations may restrict or eliminate our ability to continue our current methods of operation or expand our operations; such laws regularly are proposed, introduced or adopted at the state and federal level. These regulations govern or affect, among other things, interest rates and other fees, check cashing fees, lending practices, recording and reporting of certain financial transactions, privacy of personal consumer information and collection practices. This evolving regulatory landscape creates various uncertainties and risks for the operation of our business, any of which could have a material adverse effect on our business, prospects, results of operations or financial condition. See “Risk Factors” and “Our Business—Legal Proceedings.”

Privacy and Data Security Laws and Regulations. We are required to manage, use, and store large amounts of personally identifiable information, principally customers’ confidential personal and financial data, in the course of our business. We depend on our IT networks and systems, and those of third parties, to process, store, and transmit that information. In the past, consumer finance companies have been targeted for sophisticated cyber attacks. A security breach involving our files and infrastructure could lead to unauthorized disclosure of confidential information. We take numerous measures to ensure the security of our hardware and software systems as well as customer information.

We are subject to various U.S. federal and state laws and regulations designed to protect confidential personal and financial data. For example, we must comply with guidelines under the Gramm-Leach-Bliley Act that require each financial institution to develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to the financial institution’s size and complexity, the nature and scope of the financial institution’s activities and the sensitivity of any customer information at issue. Additionally, various federal banking regulatory agencies, and as many as 46 states, the District of Columbia, Puerto Rico and the Virgin Islands, have enacted data breach regulations and laws requiring customer notification in the event of a security breach.

#### Competition

Credit Cards Segment. We face substantial competition from other consumer lenders, the intensity of which varies depending upon economic and liquidity cycles. Our credit card business competes with national, regional and local bankcard issuers, other general-purpose credit card issuers and retail credit card issuers. Many of these competitors are substantially larger than we are, have significantly greater financial resources than we do and have significantly lower costs of funds than we have.

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Investments in Previously Charged-Off Receivables Segment. The consumer debt collection industry is highly fragmented and competitive. We compete with a wide range of other purchasers of charged-off consumer receivables, including third-party collection agencies, other financial service companies and credit originators that manage their own consumer receivables. Some of our competitors are larger and more established and may have substantially greater financial, technological, personnel and other resources than we have, including greater access to capital markets. Publicly held competitors with potentially greater access to capital markets than us include Encore Capital Group, Inc., Asset Acceptance Capital Corp., Portfolio Recovery Associates, Inc., and Asta Funding, Inc. Competitive pressures affect the availability and pricing of receivables portfolios, as well as the availability and cost of qualified debt collectors.

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

Internet Micro-Loans Segment. Competition for our micro-loan operations originates from numerous sources. Our subsidiaries compete with traditional financial institutions that offer similar products such as overdraft protection, cash advances and other personal loans, as well as with other micro-loan companies with both retail and Internet-based operations that offer substantially similar products and pricing models to ours. Key competitors, in addition to traditional financial institutions, include Cash America, Dollar Financial Corp, First Cash Financial Services and Advance America Cash Advance Centers, among others, some of whom have multiple store operations. Internet-based micro-lenders include Cash Net and Wonga, among others.

## Employees

As of December 31, 2011, we had 494 employees, most of which are employed within the U.S., principally in Florida, Georgia and Minnesota. Also included in this employee count are a limited number of employees in India and 40 employees in the U.K. We consider our relations with our employees to be good. Our employees are not covered by a collective-bargaining agreement, and we have never experienced any organized work stoppage, strike or labor dispute.

## Trademarks, Trade Names and Service Marks

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

## Additional Information

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

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

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ITEM 1A.

RISK FACTORS

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

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

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

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

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

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

Economic slowdowns increase our credit losses. During periods of economic slowdown or recession, we experience an increase in rates of delinquencies and frequency and severity of credit losses. Our actual rates of delinquencies and frequency and severity of credit losses may be comparatively higher during periods of economic slowdown or

recession than those experienced by more traditional providers of consumer credit because of our focus on the financially underserved consumer market, which may be disproportionately impacted.

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

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

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

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

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

Beginning in 2007, largely as a result of difficulties in the sub-prime mortgage market, new financing generally has been unavailable to sub-prime lenders, and the financing that has been available has been on significantly less favorable terms. As a result, beginning in the third quarter of 2007, we significantly curtailed our marketing for new credit cards and currently are not issuing a significant number of new cards. Moreover, commencing in October 2008 we reduced credit lines and closed a significant number of accounts in response to the unavailability of financing and to reduce our risk exposure. These activities continued into 2009 and, as a result, substantially all of our credit cards are now closed to cardholder purchases. If additional financing facilities are not available in the future on terms we

consider acceptable, we will not be able to grow our credit card business and it will continue to contract in size.

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

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

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

- the level and success of our marketing efforts;
- the degree to which we lose business to competitors;
- the level of usage of our credit products by our customers;
- the availability of portfolios for purchase on attractive terms;
- levels of delinquencies and charge offs;
- the availability of funding on favorable terms;
- the level of costs of soliciting new customers;
- our ability to employ and train new personnel;

our ability to maintain adequate management systems, collection procedures, internal controls and automated systems; and

- general economic and other factors beyond our control.

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

**We Operate in a Heavily Regulated Industry**

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

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

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

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



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

• receivables not originated in compliance with law (or revised interpretations) could become unenforceable and uncollectible under their terms against the obligors;

- we may be required to credit or refund previously collected amounts;
- certain fees could be prohibited or restricted, which would reduce the profitability of certain accounts;

• certain of our collection methods could be prohibited, forcing us to revise our practices or adopt more costly or less effective practices;

• limitations on the content of marketing materials could be imposed that would result in reduced success for our marketing efforts;

• federal and state laws may limit our ability to recover on charged-off receivables regardless of any act or omission on our part;

- reductions in statutory limits for finance charges could require us to reduce our fees and charges;
- some of our products and services could be banned in certain states or at the federal level;

• federal or state bankruptcy or debtor relief laws could offer additional protections to customers seeking bankruptcy protection, providing a court greater leeway to reduce or discharge amounts owed to us; and

- a reduction in our ability or willingness to lend to certain individuals, such as military personnel.

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

Legislative, regulatory and consumer activism toward the micro-loans industry is particularly active and at times particularly hostile, and changes in applicable laws and regulations or interpretations thereof, or our failure to comply with such laws and regulations, could have a materially adverse effect on our micro-loan business, its prospects, our results of operations and our financial condition. Our U.S. Internet micro-loan business is subject to numerous federal, state and local laws and regulations, which are subject to change and which may impose significant costs, limitations or prohibitions on the way we conduct or expand that business. These regulations govern or influence, among other things, interest rates and other fees, lending practices, recording and reporting of certain financial transactions, privacy of personal consumer information and collection practices. As we develop new product and service offerings, we may become subject to additional federal, state and local regulations. State and local governments also may seek to impose new licensing requirements or interpret or enforce existing requirements in new

ways. In addition, changes in current laws and future laws or regulations may restrict or eliminate our ability to continue our current methods of operation or expand our operations; such laws regularly are proposed, introduced or adopted at the state and federal level in the U.S.

Current and future litigation and regulatory proceedings against our former Retail Micro-Loans segment and U.S. Internet micro-loan business could have a material adverse effect on our business, prospects, results of operations and financial condition. Certain subsidiaries within our Retail Micro-Loans segment (the operations of which we sold in October 2011) are subject to a lawsuit that could generate adverse publicity and cause them and us to incur substantial expenditures. See Part II, Item 1, "Legal Proceedings."

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

#### Our Automobile Lending Activities Involve Risks in Addition to Others Described Herein

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

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

Funding for automobile lending is difficult to obtain and expensive. In large part due to market concerns regarding sub-prime lending, it is difficult to find lenders willing to fund our automobile lending activities. Our inability to obtain debt facilities with desirable terms (e.g., interest rates and advance rates) and the other capital necessary to fund growth within our Auto Finance segment will cause periods (like our current period) of liquidations in our Auto Finance segment receivables and reductions in profitability and returns on equity. Although we did not experience any such adverse effects when our CAR facility began its required amortization period in June 2011 and was repaid in July 2011 (and although any concerns of such adverse effects are now abated given the new lending facility CAR obtained in October 2011), in the event we may not be able to renew or replace any future Auto Finance segment facilities that bear refunding or refinancing risks when they become due, our Auto Finance segment could experience significant liquidity constraints and diminution in reported asset values as lenders retain significant cash flows within underlying structured financings or otherwise under security arrangements for repayment of their loans. If we cannot renew or replace future facilities or otherwise are unduly constrained from a liquidity perspective, we may choose to sell part or all of our auto loan portfolios, possibly at less than favorable prices.



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

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

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

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

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

Portfolio purchases may cause fluctuations in reported credit card managed receivables data, which may reduce the usefulness of historical credit card managed loan data in evaluating our business. Our reported managed credit card receivables data may fluctuate substantially from quarter to quarter as a result of recent and future credit card portfolio acquisitions. As of December 31, 2011, credit card portfolio acquisitions accounted for 41.4% of our total credit card managed receivables portfolio based on our ownership percentages.

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

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

We regularly explore investments in other lines of business where we believe the returns will meet our requirements. While these investments have not been significant recently, we expect them to increase in the future as the opportunities to invest in our traditional businesses remain unattractive. These investments may or may not be in areas where we have specialized expertise, and may carry risks in addition to those described above. In addition, some of these investments that we have made and may make in the future are or will be in debt or equity securities of businesses over which we exert little or no control, which likely exposes us to greater risks of loss than investments in activities and operations that we control. We experienced such losses in the amount of \$5.3 million for the year ended December 31, 2011 associated with other-than-temporary declines in the values of loans that we made to other business enterprises.

#### Other Risks of Our Business

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

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

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

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

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We face heightened levels of economic risk associated with new investment activities. We recently have made a number of investments in businesses that are not directly allied to our traditional lending activities to, or associated with, the underserved consumer credit market and in businesses in which we exert little or no control. We expect to make other such investments in the future. While we will make only those investments that we believe will provide a favorable return, because some of the investments are outside of our core areas of expertise, they entail risks beyond those described elsewhere in this Report. These risks could result in the loss of part or all of our investments (e.g., as occurred with respect to our recognition of a complete loss of investment in the amount of \$3.4 million on notes that we held in a non-financial business concern during the three months ended September 30, 2011, and our loss of another \$1.9 million during the three months ended September 30, 2011 due to an other-than-temporary decline in the value of another issuer's notes in which we had previously invested).

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

Because we outsource account-processing functions that are integral to our business, any disruption or termination of that outsourcing relationship could harm our business. We outsource account and payment processing, and in 2011, we paid Total System Services, Inc. \$9.3 million for these services. If these agreements were not renewed or were terminated or the services provided to us were otherwise disrupted, we would have to obtain these services from an alternative provider. There is a risk that we would not be able to enter into a similar agreement with an alternate provider on terms that we consider favorable or in a timely manner without disruption of our business.

Unauthorized disclosure of sensitive or confidential customer data could expose us to protracted and costly litigation, and civil and criminal penalties. To conduct our business, we are required to manage, use, and store large amounts of personally identifiable information, consisting primarily of confidential personal and financial data regarding our customers. We also depend on our IT networks and systems, and those of third parties, to process, store, and transmit this information. As a result, we are subject to numerous U.S. federal and state laws designed to protect this information. Security breaches involving our files and infrastructure could lead to unauthorized disclosure of confidential information.

We take a number of measures to ensure the security of our hardware and software systems and customer information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in the technology used by us to protect data being breached or compromised. In the past, consumer finance companies have been the subject of sophisticated and highly targeted attacks on their information technology. An increasing number of websites have reported breaches of their security.

If any person, including our employees or those of third-party vendors, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to costly litigation, monetary damages, fines, and/or criminal prosecution. Any unauthorized disclosure of personally identifiable information could subject us to liability under data privacy laws. Further, under credit card rules and our contracts with our card processors, if there is a breach of credit card information that we

store, we could be liable to the credit card issuing banks for their cost of issuing new cards and related expenses. In addition, if we fail to follow credit card industry security standards, even if there is no compromise of customer information, we could incur significant fines.

Internet and data security breaches also could impede us from originating loans over the Internet, cause us to lose customers or otherwise damage our reputation or business. Consumers generally are concerned with security and privacy, particularly on the Internet. As part of our growth strategy, we have originated loans over the Internet. The secure transmission of confidential information over the Internet is essential to maintaining customer confidence in our products and services offered online.

Advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology used by us to protect customer application and transaction data transmitted over the Internet. In addition to the potential for litigation and civil penalties described above, security breaches could damage our reputation and cause customers to become unwilling to do business with us, particularly over the Internet. Any publicized security problems could inhibit the growth of the Internet as a means of conducting commercial transactions. Our ability to solicit new loans over the Internet would be severely impeded if consumers become unwilling to transmit confidential information online.

Also, a party that is able to circumvent our security measures could misappropriate proprietary information, cause interruption in our operations, damage our computers or those of our users, or otherwise damage our reputation and business.

Regulation in the areas of privacy and data security could increase our costs. We are subject to various regulations related to privacy and data security/breach, and we could be negatively impacted by these regulations. For example, we are subject to the safeguards guidelines under the Gramm-Leach-Bliley Act. The safeguards guidelines require that each financial institution develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to the financial institution's size and complexity, the nature and scope of the financial institution's activities and the sensitivity of any customer information at issue. Broad-ranging data security laws that affect our business also have been adopted by various states. Compliance with these laws regarding the protection of customer and employee data could result in higher compliance and technology costs for us, as well as potentially significant fines and penalties for non-compliance.

In addition to the foregoing enhanced data security requirements, various federal banking regulatory agencies, and as many as 46 states, the District of Columbia, Puerto Rico and the Virgin Islands, have enacted data breach regulations and laws requiring varying levels of customer notification in the event of a security breach.

Also, federal legislators and regulators are increasingly pursuing new guidelines, laws and regulations that, if adopted, could further restrict how we collect, use, share and secure customer information, which could impact some of our current or planned business initiatives.

Unplanned system interruptions or system failures could harm our business and reputation. Any interruption in the availability of our transactional processing services due to hardware and operating system failures will reduce our revenues and profits. Any unscheduled interruption in our services results in an immediate, and possibly substantial, loss of revenues. Frequent or persistent interruptions in our services could cause current or potential members to believe that our systems are unreliable, leading them to switch to our competitors or to avoid our websites or services, and could permanently harm our reputation.

Although our systems have been designed around industry-standard architectures to reduce downtime in the event of outages or catastrophic occurrences, they remain vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, computer viruses, computer denial-of-service attacks, and similar events or disruptions. Some of our systems are not fully redundant, and our disaster recovery planning may not be sufficient for

all eventualities. Our systems also are subject to break-ins, sabotage, and intentional acts of vandalism. Despite any precautions we may take, the occurrence of a natural disaster, a decision by any of our third-party hosting providers to close a facility we use without adequate notice for financial or other reasons, or other unanticipated problems at our hosting facilities could cause system interruptions, delays, and loss of critical data, and result in lengthy interruptions in our services. Our business interruption insurance may not be sufficient to compensate us for losses that may result from interruptions in our service as a result of system failures.



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Because of our loan to a coal mining operation (which was modified in late 2011 to require the consolidation of this operation into our financial statements), we could be subject to (i) significant administrative, civil, and criminal financial and other penalties if this operation does not comply with environmental, health and safety regulations and (ii) liability to third parties for environmental contamination. The coal mining industry is subject to strict regulation by federal, state and local authorities with respect to matters such as employee health and safety, permitting and licensing requirements, the protection of the environment, the protection of historic and natural resources, plants and wildlife, reclamation and restoration of mining properties after mining is completed, and the effects that mining has on groundwater quality and availability. Federal and state authorities inspect coal mines, and in the aftermath of the April 5, 2010 accident at an underground mine in Central Appalachia, mining operations have experienced, and may in the future continue to experience, a significant increase in the frequency and scope of these inspections. Numerous governmental permits and approvals are required for mining operations. Mining operations are required to prepare and present to federal, state and/or local authorities data pertaining to the effect or impact that any proposed exploration for or production of coal may have upon the environment.

The costs, liabilities and requirements associated with the laws and regulations related to these and other environmental matters may be costly and time-consuming and may delay commencement or continuation of exploration or production operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal financial and other penalties, the imposition of cleanup and site restoration costs and liens, the issuance of injunctions to limit or cease operations, the suspension or revocation of permits and other enforcement measures that could have the effect of limiting production from the mine's operations.

New legislation or administrative regulations or new judicial interpretations or administrative enforcement of existing laws and regulations, including proposals related to the protection of the environment and the protection of historic and natural resources that would further regulate and tax the coal industry, could have a material adverse effect on our financial condition and results of operations.

We also could be subject to claims by third parties under federal and state statutes and/or common law doctrines resulting from damage to the environment or historic or natural resources or exposure to hazardous substances on the mine property or elsewhere. Liability for environmental contamination may be without regard to fault and may be strict, joint and several, so that we may be held responsible for the entire amount of the contamination or related damages. These and other similar unforeseen impacts that the mining operation may have on the environment, as well as exposures to hazardous substances or wastes associated with the mining operation, could result in costs and liabilities that could adversely affect us.

Even though this coal mining operation is owned and primarily operated by third parties, our financial relationship with this coal mining operation could subject us to these types of claims and penalties, particularly if these matters are not properly addressed by the owners and operators of this coal mining operation. If we are held responsible for sanctions, costs and liabilities in respect of these matters, our profitability could be materially and adversely affected.

Taxing authorities routinely review our tax returns and could challenge the positions that we have taken. Our businesses and the tax accounting for our businesses are very complex, thereby giving rise to a number of tax positions that are under consideration, and in some cases under dispute, in audits of our operations by various taxing authorities, including the Internal Revenue Service at the federal level with respect to net operating losses that we incurred in 2007 and 2008 and that we carried back to obtain tentative refunds of federal taxes paid in earlier years dating back to 2003. It is possible that a court of ultimate jurisdiction may resolve tax positions in favor of the Internal Revenue Service or that we may ultimately settle with the Internal Revenue Service on one or more uncertain tax positions in a manner that differs from the liabilities that we have recorded associated with such positions under our recognition and measurement determinations. The amounts involved in these audits, particularly the amounts of net operating losses that we carried back, are material. To the extent that our ultimate resolution results in more

liability than we have recorded, we could experience a material adverse effect on our results of operations and liquidity.

#### Risks Relating to an Investment in Our Common Stock

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

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

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

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

Our business is going through a substantial period of transition and we are exploring various options. Because of the unavailability of growth financing for our traditional business, we are exploring various options designed to produce the greatest benefit possible for our shareholders. Currently these options include the payment of cash dividends and share repurchases, and we may consider additional options in the future. On December 31, 2009, we paid a \$.50 per share dividend to our shareholders, and a tender offer that we completed on May 14, 2010 resulted in our repurchase of 12,180,604 shares of our common stock for \$85.3 million, in addition to our repurchase of \$24.8 million in face amount of our 3.625% convertible senior notes due 2025 for \$14.7 million. Further, in a tender offer completed in April 2011, we repurchased 13,125,000 shares of our common stock at a purchase price of \$8.00 per share for an aggregate cost of \$105.0 million.

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

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

## Note Regarding Risk Factors

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

required by law.

ITEM 1B.

UNRESOLVED STAFF COMMENTS

None.

ITEM 2.

PROPERTIES

Our principal executive offices, comprising approximately 335,000 square feet, of which we have sub-leased approximately 214,000 square feet. Our operations centers and collection facilities for our Credit Cards segment, comprising approximately 63,000 square feet, are located in leased premises in St. Cloud, Minnesota. Our Investments in Previously Charged-Off Receivables segment also operates principally out of the St. Cloud, Minnesota facility. Our Auto Finance segment principally operates out of Lake Mary, Florida in approximately 9,605 square feet of leased space, with additional offices and branch locations in various states. Our operations in the U.K. include approximately 4,200 of aggregate square feet of leased space in Crawley and London. Currently, we have excess facility capacity that we are trying to sublease. As such, we believe that our facilities are suitable to our business and that we will be able to lease or purchase such additional facilities as our needs, if any, require.

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ITEM 3.

LEGAL PROCEEDINGS

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

Litigation

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

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

CompuCredit Corporation is named as a defendant in a class action lawsuit entitled Wanda Greenwood, et al. vs. CompuCredit Corporation and Columbus Bank and Trust, No. 4:08-cv-4878, filed in the U.S. District Court for the Northern District of California. The plaintiffs allege that in marketing and managing the Aspire Visa card the defendants violated the federal Credit Repair Organizations Act and California Unfair Competition Law. The class includes all persons who within the four years prior to the filing of the lawsuit were issued an Aspire Visa card or paid money with respect thereto. The plaintiffs seek various forms of damage, including unspecified monetary damages and the voiding of the plaintiffs’ obligations. On January 10, 2012, the U.S. Supreme Court ordered that the claims related to the Credit Repair Organizations Act are subject to arbitration. We are vigorously defending this lawsuit.

On December 21, 2009, certain holders of our 3.625% convertible senior notes due 2025 and 5.875% convertible senior notes due 2035 filed a lawsuit in the U.S. District Court for the District of Minnesota seeking, among other things, to enjoin our December 31, 2009 cash distribution to shareholders and the then-potential future spin-off of our micro-loan businesses. We prevailed in court at a December 29, 2009 hearing concerning the plaintiffs’ motion for a temporary restraining order against our December 31, 2009 cash distribution to shareholders, and that distribution was made as originally contemplated on that date. On March 19, 2010, the U.S. District Court for the District of Minnesota transferred venue to the U.S. District Court for the Northern District of Georgia, and on April 6, 2010, we filed a Renewed Motion to Dismiss. Shortly after that filing, on May 12, 2010, the plaintiffs filed a second amended complaint to add new claims and certain of our officers and directors as defendants, to continue to seek to enjoin the then-potential future spinoff and to seek unspecified damages against all defendants. The plaintiffs also sought temporary injunctive relief to prevent our completion of a then-pending tender offer for the repurchase of our 3.625% Convertible Notes due 2025 and our common stock at \$7.00 per share. At a hearing on May 12, 2010, the judge in the Northern District of Georgia denied the request for a temporary restraining order, and the tender offer was completed as scheduled on May 14, 2010. On June 4, 2010 and June 25, 2010, we and the other defendants filed respective motions with the U.S. District Court for the Northern District of Georgia to dismiss the second amended complaint. On March 15, 2011, the court denied our and the other defendants’ motions to dismiss the second amended complaint. On March 22, 2011, certain individual defendants filed a motion to certify a portion of the March 15, 2011 order for immediate interlocutory review, and on April 1, 2011, the court granted that motion. The Eleventh Circuit

Court of Appeals has agreed to hear that appeal, which is pending. Further, on March 23, 2011, plaintiffs filed an Emergency Motion for Preliminary Injunction in the U.S. District Court for the Northern District of Georgia seeking to enjoin as an alleged fraudulent transfer a then-pending tender offer to repurchase 13,125,000 shares of our common stock at a purchase price of \$8.00 per share for an aggregate cost of \$105.0 million. At a hearing on April 1, 2011, the court denied plaintiffs' motion for a preliminary injunction, and the tender offer was completed as scheduled on April 11, 2011. We are vigorously defending this lawsuit.

ITEM 4.

MINE SAFETY DISCLOSURES

None.

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## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Select Market under the symbol "CCRT." The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the NASDAQ Global Select Market. As of February 24, 2012, there were 56 record holders of our common stock, which does not include persons whose stock is held in nominee or "street name" accounts through brokers, banks and intermediaries.

	High	Low
2010		
1st Quarter 2010	\$5.36	\$2.90
2nd Quarter 2010	\$6.50	\$3.65
3rd Quarter 2010	\$5.23	\$4.15
4th Quarter 2010	\$7.23	\$4.85
2011		
1st Quarter 2011	\$6.97	\$5.90
2nd Quarter 2011	\$6.85	\$2.32
3rd Quarter 2011	\$3.20	\$2.25
4th Quarter 2011	\$4.21	\$2.63

The closing price of our common stock on the NASDAQ Global Select Market on February 24, 2012 was \$4.68.

The following table sets forth information with respect to our repurchases of common stock during the year ended December 31, 2011:

	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Announced Plans or Programs (2)	Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs
July 1—July 31 (1)	173,500	\$ 2.42	173,500	9,826,500
August 1 —August 31 (1)	62,200	\$ 2.87	62,200	9,764,300
November 1 —November 30 (1)	509,200	\$ 3.25	509,200	9,255,100
Total	744,900	\$ 3.03	744,900	9,255,100

- (1) In open market transactions and pursuant our Board-authorized plan to repurchase up to 10,000,000 common shares through June 30, 2012, we repurchased 744,900 shares of our common stock during the year ended December 31, 2011 at an average purchase price of \$3.03 per share for an aggregate cost of \$2.3 million. These shares are held in treasury.
- (2) Because withholding-tax-related treasury stock acquisitions are permitted outside the scope of our 10,000,000 share Board-authorized repurchase plan, these amounts exclude 206,504 shares of treasury stock returned to us by employees in satisfaction of withholding tax requirements on stock option exercises and vested stock grants.

We will continue to evaluate our stock price relative to other investment opportunities and, to the extent we believe that the repurchase of our stock represents an appropriate return of capital, we will repurchase additional shares of our stock.

ITEM 6.

SELECTED FINANCIAL DATA

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

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and the related notes included therein where certain terms have been defined.

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements. We base these forward-looking statements on our current plans, expectations and beliefs about future events. There are risks that our actual experience will differ materially from the expectations and beliefs reflected in the forward-looking statements in this section. See "Cautionary Notice Regarding Forward-Looking Statements."

OVERVIEW

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

Currently, within our Credit Cards segment, we are collecting on portfolios of credit card receivables underlying now-closed credit card accounts. These receivables include both receivables that we originated through third-party financial institutions and portfolios of receivables that we purchased from third-party financial institutions. Given the global financial crisis arising in 2008 and given our own liquidity challenges that arose from that crisis, we worked with our third-party financial institution partners to close substantially all of the credit card accounts underlying our credit card receivables portfolios in 2009. The only open credit card accounts underlying our credit card receivables are those generated through our balance transfer program within our Investments in Previously Charged-Off Receivables segment in both the U.S. and the U.K. and through credit card products in the U.K. Several of our portfolios of credit card receivables underlying now-closed accounts are encumbered by non-recourse structured financings, and for some of these portfolios, our only remaining economic interest is the servicing compensation that we receive as an offset against our servicing costs given that the likely future collections on the portfolios are insufficient to allow for full repayment of the financings. We have been successful in one instance in partnering with another financing partner to purchase the debt underlying one such portfolio at a discounted purchase price and we are pursuing other similar transactions. Beyond these activities within our Credit Cards segment, we are applying the experiences and infrastructure associated with our historic credit card offerings to other credit product offerings, including merchant and private label credit. Lastly, through our Credit Cards segment we are engaged in limited investment activities in ancillary finance, technology and other businesses as we seek to build new products and relationships that could allow for greater utilization of our expertise and infrastructure.

Through our Investment in Previously Charged-Off Receivable segment, we purchase and collect previously charged-off receivables from third parties and our equity method investees, as well as previously charged-off receivables that we have owned or serviced within our other segment operations. Our portfolio of previously charged-off receivables is 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 which time the credit card activity becomes reportable within our Credit Cards segment).

Within our Auto Finance segment, our CAR subsidiary operations purchase and/or service auto loans from or for a pre-qualified network of dealers in the buy-here, pay-here used car business. We purchase the auto loans at a discount

and with dealer retentions or holdbacks that provide risk protection. Also within our Auto Finance segment, we are collecting on a couple of portfolios of auto finance receivables that we previously originated through franchised and independent auto dealers in connection with prior business activities.

The last of our current product and service offerings includes a limited test portfolio of small-balance (generally less than \$500), short-term loans that we originate over the Internet in the U.S. and to which we refer as “micro-loans.” The results of our continuing U.S. Internet micro-loan testing are reported within our Internet Micro-Loans segment.

We also entered into a contract and completed a transaction to dispose of our Retail Micro-Loans segment during 2011 as discussed further below. In accordance with applicable accounting literature, we have classified this segment’s business operations as discontinued operations within our consolidated statements of operations for all periods presented.

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., filed a Form 10 Registration Statement and a related Information Statement with the SEC on January 4, 2010 and amended the Form 10 Registration Statement and related Information Statement in response to SEC comments most recently on November 30, 2010. On April 13, 2011, we formally requested the withdrawal of this registration statement due to the completion of our MEM sale.

The most significant business changes or events for us during the year ended December 31, 2011 were:

- The sale of our Retail Micro-Loans segment to a subsidiary of Advance America, Cash Advance Centers, Inc. for \$46.2 million on October 10, 2011, thereby resulting in (1) a gain (net of related sales expenditures) of \$5.1 million that is included as a component of discontinued operations within our consolidated statement of operations for the year ended December 31, 2011, and (2) the classification our Retail Micro-Loans segment’s operations as discontinued operations for all periods presented within our consolidated statements of operations;
- Our repurchases in open market transactions of an aggregate of \$62.0 million in face amount of our 3.625% convertible senior notes due in 2025 and \$1.0 million in face amount of our 5.875% convertible senior notes due in 2035 for \$59.3 million and \$0.4 million, respectively, such amounts being inclusive of transaction costs and accrued interest through the dates of our repurchases of the notes;
- The closing of a tender offer in April 2011, through which we repurchased 13,125,000 shares of our common stock at a purchase price of \$8.00 per share for an aggregate cost of \$105.0 million;
- The sale of our MEM operations to a subsidiary of Dollar Financial Corp for \$195.0 million on April 1, 2011, thereby resulting in (1) a gain (net of related sales expenditures) of \$106.0 million that is included as a component of discontinued operations within our consolidated statements of operations for the year ended December 31, 2011, (2) the classification of our MEM operations as discontinued operations for all periods presented within our consolidated statements of operations, and (3) the confirmation of our classification of these operations on our consolidated balance sheet as of December 31, 2010 as held for sale;
- Our acquisition of a 50% interest in a joint venture that purchased at discounted price in March 2011 all of the outstanding notes issued out of our U.K. Portfolio structured financing trust and reported a gain in the three months ended March 31, 2011 upon its marking of such notes to their fair value as of March 31, 2011 under its fair value option election (of which \$17.1 million was our allocable share);
- Our February 2011 sale of certain operating assets of our JRAS buy-here, pay-here lot subsidiaries in a transaction under which we retained its underlying loans and fees receivable, resulting in a loss of \$4.6 million; and
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Our January 2011 purchase of certain investor interests in our Credit Cards segment equity-method investees and substantially all of the noncontrolling interests in our Credit Cards segment majority-owned subsidiaries for \$4.1 million.

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As is customary in our industry, we historically financed most of our credit card receivables through the asset-backed securitization markets. These markets worsened significantly in 2008 and are not likely to return to any degree of efficient and effective functionality for us in the near term—particularly given a current U.S. regulatory and economic environment in which sub-prime credit card lending returns on investment are not attractive enough for us to want to originate any significant level of new credit card receivables in the U.S. (other than through our Investment in Previously Charged-Off Receivables segment’s balance transfer program). We continue, however, to originate credit cards in the U.K. because we believe the U.K. regulatory environment to be more favorable than the U.S. toward possible significant credit card origination growth in the future.

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

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

Subject to the availability of growth capital at attractive terms and pricing, our shareholders should expect us to continue to evaluate and pursue a variety of activities that would be reflected predominantly within our Credit Cards segment: (1) the acquisition of additional credit card receivables portfolios, and potentially other financial assets that are complementary to our financially underserved credit card business; (2) investments in other assets or businesses that are not necessarily financial services assets or businesses; and (3) additional opportunities to repurchase our convertible senior notes and other debt or our outstanding common stock. Absent the availability of investment alternatives (in other portfolios, other non-financial assets or businesses, or our own debt) at prices necessary to provide attractive returns for our shareholders, we will continue to look to maximize shareholder value through the distribution of excess cash to shareholders (as has been done historically through dividends and tender offers, including our tender offer that closed in April 2011, whereby we repurchased 13,125,000 shares of our common stock at a purchase price of \$8.00 per share for an aggregate cost of \$105.0 million). Additionally, given that financing for growth and acquisitions currently is constrained, as well the potential conversions of our 3.625% convertible senior notes, which would require us to repurchase the \$83.9 million in face amount of such notes outstanding as of December 31, 2011, our shareholders should expect us to pursue less capital intensive activities, like servicing credit card receivables and other assets for third parties (and in which we have limited or no equity interests), that allow us to leverage our expertise and infrastructure until we can finance and complete further acquisitions.

**CONSOLIDATED RESULTS OF OPERATIONS**

(In Thousands)	2011	2010	Income Increases
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			(Decreases) from 2010 to 2011
Total interest income	\$ 149,429	\$ 263,821	\$ (114,392 )
Interest expense	(43,979 )	(58,631 )	14,652
Fees and related income on earning assets:			
Internet micro-loan fees	3,614	1,935	1,679
Fees on credit card receivables	10,609	24,384	(13,775 )
Changes in fair value of loans and fees receivable recorded at fair value	181,502	230,911	(49,409 )
Changes in fair value of notes payable associated with structured financings recorded at fair value	(90,524 )	32,300	(122,824 )
Income on investments in previously charged-off receivables	42,483	32,293	10,190
Gross loss on auto sales	(111 )	(2,290 )	2,179
(Losses) gains on investments in securities	(4,449 )	4,207	(8,656 )
Loss on sale of JRAS assets	(4,648 )	—	(4,648 )
Gains upon litigation settlement with former third-party issuing bank partner	—	12,150	(12,150 )
Other	2,321	1,858	463
Other operating income:			
Servicing income	3,281	6,880	(3,599 )
Ancillary and interchange revenues	9,281	10,955	(1,674 )
Gain on repurchase of convertible senior notes	645	28,787	(28,142 )
Gain on buy-out of equity-method investee members	623	—	623
Equity in gain (loss) of equity-method investees	32,657	(9,584 )	42,241
Total	\$ 292,734	\$ 579,976	\$ (287,242 )
Losses upon charge off of loans and fees receivable recorded at fair value	139,480	464,809	325,329
Provision for losses on loans and fees receivable recorded at net realizable value	4,663	35,423	30,760
Operating expenses:			
Salaries and benefits	22,353	33,563	11,210
Card and loan servicing	74,038	97,307	23,269
Marketing and solicitation	3,620	2,058	(1,562 )
Depreciation	4,772	10,957	6,185
Other	28,044	43,620	15,576
Net income (loss)	135,064	(94,945 )	230,009
Net income attributable to noncontrolling interests	1,047	2,559	1,512
Net income (loss) attributable to controlling interests	134,017	(97,504 )	231,521

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Year Ended December 31, 2011, Compared to Year Ended December 31, 2010

Total interest income. In the year ended December 31, 2011, total interest income consists primarily of finance charges and late fees earned on our credit card and auto finance receivables. The decline from the year ended December 31, 2010 is due to net liquidations of our credit card and auto finance receivables over the past year. Moreover, absent the effects of possible portfolio acquisitions, we expect our ongoing total interest income to decline in subsequent quarters along with continuing expected net liquidations of our credit card and auto finance receivables.

Interest expense. The decrease is due to (1) our debt facilities being repaid commensurate with net liquidations of the underlying credit card receivables and auto finance receivables that serve as collateral for the facilities, and (2) the effects of our repurchases of our convertible senior notes throughout 2010 and 2011.

We also note that notwithstanding the effects of our convertible senior notes issuance discount accretion in increasing monthly interest expense amounts in the future, we expect lower interest expense for these notes in future periods attributable to (1) our 2011 repurchases of an aggregate \$62.0 million in face amount of our 3.625% convertible senior notes and \$1.0 million in face amount of our 5.875% convertible senior notes and (2) the likely investor put of our 3.625% convertible senior notes to us in May 2012.

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

- improved performance within our Investments in Previously Charged-Off Receivables segment;
- reductions in fees earned on our credit card receivables due to continued liquidations offset slightly by the consolidation of former equity-method investees as a result of our January 2011 purchase of certain investor interests in these entities;
- reduced gross losses in 2011 on automotive vehicle sales corresponding to our minimization of additional inventory purchases within our JRAS operations and our ultimate suspension of operations and final sale of our remaining JRAS lot in February 2011;
  - our recognition of a \$4.6 million loss in the three months ended March 31, 2011 corresponding to our above-mentioned sale of certain assets associated with our JRAS operations; and
- our recognition of a \$3.4 million loss in the third quarter of 2011 on an investment that we made in non-marketable debt securities—such loss representing 100% of the face amount of the notes that we held from the issuer of the notes based on an other-than-temporary decline in their value, and our recognition of another \$1.9 million loss in the third quarter of 2011 due to an other-than-temporary decline in the value of another issuer's non-marketable debt securities in which we had previously invested.

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

as we experience further credit card receivables liquidations and associated debt amortizing repayments.

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

**Servicing income.** Our reported servicing income is comprised of servicing compensation paid to us by third parties associated with our servicing of their loans and fees receivable. Reflecting both continued liquidations in the loans and fees receivable we service for third parties and our January 2011 purchase of certain third-party investor interests in our Credit Cards segment equity-method investees that held loans and fees receivable serviced by us (and their subsequent consolidation and elimination), servicing income has declined over that experienced in the prior year. Moreover, we expect further declines in such income absent our obtaining contracts to service portfolios for other third parties.

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

**Gain on repurchase of convertible senior notes.** In open market transactions during the year ended December 31, 2011, we repurchased \$62.0 million in face amount of our 3.625% notes due 2025 and \$1.0 million in face amount of our 5.875% convertible senior notes due 2035 for \$59.3 million and \$0.4 million (inclusive of transaction costs and accrued interest through the date of our repurchase of the notes), respectively, thereby resulting in the recognition of an aggregate gain during the year ended December 31, 2011 of \$0.3 million and \$0.3 million (net of the notes' applicable share of deferred costs and debt discount, which were recovered in connection with the purchases), respectively.

In the year ended December 31, 2010 both in open market transactions and pursuant to the closing of two tender offers, we repurchased \$84.6 million in face amount of our 3.625% notes due 2025 and \$15.6 million in face amount of our 5.875% convertible senior notes due 2035 for \$52.1 million and \$5.7 million (inclusive of transaction costs and accrued interest through the date of our repurchase of the notes), respectively, thereby resulting in the recognition of an aggregate gain during the year ended December 31, 2010 of \$24.2 million and \$4.6 million (net of the notes' applicable share of deferred costs and debt discount, which were recovered in connection with the purchases), respectively.

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

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





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

Losses upon charge off of loans and fees receivable recorded at fair value. This account reflects charge offs of credit card receivables recorded at fair value on our consolidated balance sheet. We expect these charge offs to continue to decline over time as we continue to liquidate the underlying credit card receivables.

Provision for losses on loans and fees receivable recorded at net realizable value. Our provision for losses on loans and fees receivable recorded at net realizable value covers aggregate loss exposures on (1) principal receivable balances, (2) finance charges and late fees receivable underlying income amounts included within our total interest income category, and (3) other fees receivable. Contractions in our auto finance loans and fees receivable combined with some modest effects of an improved economy over recent quarters account for the significant declines in our provisions for losses on loans and fees receivable recorded at net realizable value in the year ended December 31, 2011, compared to the year ended December 31, 2010. Similarly, we expect continued reductions in our provision for losses on loans and fees receivable recorded at net realizable value throughout 2012 attributable to the continued expected gradual net liquidation of our auto finance receivables. The level of contraction in these receivables is expected to outpace growth in receivables within our Internet micro-loan business, receivables associated with our Investment in Previously Charged-Off Receivables segment's balance transfer program, and other receivables associated with new products we are testing (e.g., merchant and private label credit products). Moreover, we do not expect any significant deviations in our credit risks, delinquencies and loss rates in 2012 versus 2011.

Total other operating expense. Total other operating expense decreased for the year ended December 31, 2011 relative to the year ended December 31, 2010, reflecting the following:

- diminished salaries and benefits costs resulting from our ongoing cost-cutting efforts as we continue to adjust our internal operations to reflect the declining size of our existing portfolios;
- decreases within card and loan servicing expenses, primarily as a result of credit card and auto finance receivables portfolio liquidations;
- decreases in depreciation due to cost containment measures, specifically a diminished level of capital investments by us; and
- lower other expenses (which include, for example, net rent and other occupancy costs, legal and professional fees, transportation and travel costs, telecom and data processing costs, insurance premiums, and other overhead cost categories) as we continue to adjust our internal costs based on the declining size of our existing portfolios;

offset, however, by:

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

While we incur certain base levels of fixed costs, a large portion of our operating costs are variable based on the levels of accounts we market and receivables we service (both for our own account and for others) and the pace and breadth of our search for, acquisition of and introduction of new business lines, products and services. We also attempt to maximize the utility that we get from our incurrence of fixed costs by our testing and exploration of new products and services and areas of investment. Given our current focus on cost-cutting and maximizing shareholder returns in light

of the continuing dislocation in the liquidity markets and significant uncertainties as to when these markets and the economy will sufficiently improve, we expect further reductions in most cost categories discussed above over the next several quarters. We continue to perform extensive reviews of all areas of our businesses for cost savings opportunities to better align our costs with our net liquidating portfolio of managed receivables.

Notwithstanding our cost-cutting efforts and focus, we currently are incurring, and will continue to incur, somewhat heightened legal costs until we resolve all outstanding litigation. Additionally, while it is relatively easy for us to scale back our variable expenses, it is much more difficult for us to appreciably reduce our fixed and other costs associated with an infrastructure (particularly within our Credit Cards segment) that was built to support growing managed receivables and levels of managed receivables that are significantly higher than both our current levels and the levels that we expect to see in the near future. At this point, our Credit Cards segment cash inflows are sufficient to cover its direct variable costs and a portion, but not all, of its share of overhead costs (including, for example, corporate-level executive and administrative costs and our convertible senior notes interest costs). As such, if we are not successful in further reducing overhead costs, then, depending upon the sufficiency of excess cash flows and earnings generated from our Auto Finance and Investments in Previously Charged-Off Receivables businesses, we may experience continuing pressure on our liquidity position and our ability to be profitable.

**Noncontrolling interests.** We reflect the ownership interests of noncontrolling holders of equity in our majority-owned subsidiaries as noncontrolling interests in our consolidated statements of operations. Because of various transactions that have taken place during 2010 and into the first and second quarters of 2011, unless we enter into significant new majority-owned subsidiary ventures with noncontrolling interest holders in the future, we expect to have negligible noncontrolling interests in our majority-owned subsidiaries and negligible allocations of income or loss to noncontrolling interest holders in future quarters. Transactions contributing to this development and the decline in net income attributable to noncontrolling interests in 2011 versus 2010 include:

- Our March 2010, acquisition of noncontrolling interests representing 6% of MEM (within our Internet Micro-Loans segment), thereby reducing outstanding noncontrolling interests in MEM from 24% at December 31, 2009 to 18% at March 31, 2010, and our follow-on transaction on April 1, 2011 under which we sold our MEM operations; and
- Our collective January 2011 and April 2011 purchases of most of the noncontrolling interest holders' ownership interests in our Credit Cards segment majority-owned subsidiaries.

**Income taxes.** Computed considering results for only our continuing operations before income taxes, our effective income tax expense rate was a negative 1.8% for the year ended December 31, 2011, versus our effective income tax benefit rate of a positive 1.8% for the year ended December 31, 2010. We have experienced no material changes in effective tax rates associated with differences in filing jurisdictions, and the variations in our effective tax rates between the periods principally bear the effects of (1) changes in valuation allowances against income statement-oriented federal, foreign and state deferred tax assets and (2) variations in the level of our pre-tax income among the different reporting periods relative to the level of our permanent differences within such periods. Computed without regard to the effects of the valuation allowance changes, it is more likely than not that our effective tax rates would have been an 88.1% expense rate and a 31.9% benefit rate, in the years ended December 31, 2011 and 2010, respectively.

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We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized \$2.1 million and \$3.5 million in potential interest and penalties associated with uncertain tax positions during the years ended December 31, 2011 and 2010, respectively. To the extent such interest and penalties are not assessed as a result of a resolution of the underlying tax position, amounts accrued are reduced and reflected as a reduction of income tax expense. We recognized such reductions in the amounts of \$1.0 million and \$3.5 million in the years ended December 31, 2011 and 2010, respectively.

### Credit Cards Segment

Included at the end of this “Credit Cards Segment” section under the heading “Definitions of Financial, Operating and Statistical Measures” are definitions for various terms we use throughout our discussion of the Credit Cards segment.

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

We solicit credit card accounts to participate in our balance transfer program through our Investments in Previously Charged-Off Receivables segment, whereby we offer potential customers a credit card product in exchange for payments made on a previously charged-off debt that we either have purchased or have agreed to purchase upon acceptance of our balance transfer offer terms. After our receipt of an offered and agreed-upon level of payments on the previously charged-off debt, a credit card is made available to the consumer, and as the consumer further reduces his or her outstanding previously charged-off debt balance, additional credit is made available to the consumer under the credit card product. The initial costs of this program are relatively low when compared to our traditional credit card offerings, and while we anticipate growing this product at a moderate pace during the coming quarters, this product offering’s open credit card accounts carrying value currently represents 4.1% of our consolidated loans and fees receivable (net or at fair value). After card issuance, the revenues and costs associated with the balance transfer program credit card offerings are included in our Credit Cards segment results; whereas, the pre-card-issuance activities associated with the initial purchase and collection of the outstanding balance of previously charged-off debt are included in our Investments in Previously Charged-Off Receivables segment results.

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

We historically have originated and purchased our credit card portfolios through subsidiary entities. Generally, if we control through direct ownership or exert a controlling interest in the entity, we consolidate it and reflect its operations

as noted above. If we exert significant influence but do not control the entity, we record our share of its net operating results in the equity in income (loss) of equity-method investees category on our consolidated statements of operations.

## Background

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

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

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

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

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## Asset Quality

Our delinquency and charge-off data at any point in time reflect the credit performance of our managed receivables. The average age of the credit card accounts underlying our receivables, the timing of portfolio purchases, the success of our collection and recovery efforts and general economic conditions all affect our delinquency and charge-off rates. The average age of the accounts underlying our credit card receivables portfolio also affects the stability of our delinquency and loss rates. We consider this delinquency and charge-off data in our determination of the fair value of our credit card receivables underlying formerly off-balance-sheet securitization structures, as well as our allowance for uncollectible loans and fees receivable in the case of our other credit card receivables that we report at net realizable value. Our strategy for managing delinquency and receivables losses consists of account management throughout the customer relationship. This strategy includes credit line management and pricing based on the risks of the credit card accounts. See also our discussion of collection strategies under the heading “How Do We Collect from Our Customers?” in Item 1, “Business,” of this Report.

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

	At or for the Three Months Ended							
	2011				2010			
	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Period-end managed receivables	\$477,242	\$537,807	\$612,104	\$697,032	\$774,875	\$913,707	\$1,052,977	\$1,259,687
Period-end managed accounts	384	426	478	540	599	696	754	916
Percent 30 or more days past due	12.8 %	12.7 %	11.9 %	12.5 %	15.2 %	18.0 %	19.3 %	20.2 %
Percent 60 or more days past due	9.6 %	9.0 %	8.7 %	9.5 %	11.6 %	14.0 %	14.5 %	16.0 %
Percent 90 or more days past due	6.9 %	6.3 %	6.2 %	7.0 %	8.7 %	10.4 %	10.3 %	12.5 %
Average managed receivables	\$509,083	\$578,254	\$658,309	\$752,758	\$843,394	\$984,259	\$1,146,358	\$1,396,628
Combined gross charge-off ratio	18.8 %	20.6 %	24.0 %	29.5 %	36.4 %	37.1 %	47.8 %	42.8 %
Net charge-off ratio	14.9 %	16.5 %	19.6 %	23.9 %	28.9 %	29.6 %	37.2 %	34.8 %
Adjusted charge-off ratio	11.8 %	13.7 %	16.5 %	22.6 %	28.6 %	29.2 %	36.8 %	34.5 %
Total yield ratio	25.4 %	21.5 %	24.6 %	23.1 %	25.1 %	31.9 %	27.6 %	29.4 %
Gross yield ratio	18.7 %	19.4 %	18.9 %	18.6 %	18.8 %	20.4 %	20.6 %	21.2 %
Net interest margin	12.7 %	13.4 %	12.8 %	11.9 %	11.9 %	13.1 %	11.3 %	14.9 %
Other income ratio	2.8 %	(1.6 %)	1.7 %	2.0 %	3.3 %	8.9 %	3.6 %	4.7 %
Operating ratio	11.4 %	11.5 %	11.9 %	10.4 %	9.8 %	9.2 %	12.0 %	11.2 %

Managed receivables. The consistent quarterly declines in our period-end and average managed receivables over the last eight quarters reflect the net liquidating state of our credit card receivables portfolios given the closure of substantially all credit card accounts underlying the portfolios. Moreover, with the isolated exceptions of our balance transfer program within our Investments in Previously Charged-Off Receivables segment (the post-card issuance activities of which are reported within our Credit Cards segment) and some limited product testing in the U.K., we have curtailed our credit card marketing efforts in light of (1) dislocation in the liquidity markets and uncertainty as to

when and if these markets will rebound sufficiently to facilitate organic growth in our credit card receivables operations and (2) an unfavorable account origination regulatory climate in our primary U.S. market. We do not anticipate meaningful account or receivables additions in the near term to offset the receivables balance contractions noted above.

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

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

Given that the largest wave of account reduction and account closure-related charge offs cycled through early in 2009, one would logically expect to see the relatively lower delinquency and charge-off benefits of our more mature portfolios. This trend is bearing out as noted in the trending year-over-year declines in our 2011 and 2010 delinquency statistics relative to corresponding dates in prior years and is consistent with our expectations for the next few quarters. While improvements in our charge-off ratios generally can be expected to lag delinquency improvements, we do note the significant year-over-year reductions in all of our charge-off ratios in 2011 quarters relative to corresponding 2010 quarters—a trend that we expect to continue to see into the future.

Lastly, we note that our low delinquency rates at the close of the second quarter of 2011 reflect seasonal payment patterns through the first quarter. Payment rates were particularly strong relative to recent years during this year’s tax refund season, thereby bringing delinquency rates down. Our delinquency rates as of the close of the fourth quarter of 2011 are trending slightly higher than they were at the close of the second quarter of 2011. We do note (consistent with our expectations) that the trend of significantly falling delinquency rates over the past several quarters ceased in the third quarter of 2011. At this point, we expect 30-or-more-day-past-due delinquency rates to stabilize in the low to mid teens with more normalized seasonal variations evident in the rates.

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

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

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

Net charge-off ratio. The net charge-off ratio measures principal charge offs, net of recoveries. Variations in the rates of growth or decline in the net charge-off ratio relative to those of our combined gross charge-off ratio can be caused by (1) the relative volumes of principal versus fee credits provided to customers associated with settlement programs and payment incentive programs—such credits being treated as charge offs in our various managed receivables statistics and (2) the relative percentage of our charge offs within our lower-tier credit card portfolio (for which fee charge offs relative to principal charge offs are much greater than with our other originated and purchased portfolios). Because of these factors, our rate of decline in our net charge-off ratio in 2010 and 2011 is not entirely consistent with the rate of decline in our combined gross charge-off ratio. Nevertheless, our net charge-off ratio has trended lower in each quarter throughout 2010 and 2011. Moreover, with aforementioned 2009 account closure and early 2010 collection outsourcing actions having long been completed and given a somewhat more stable economic environment, we expect a continuation of the generally trending decline in our net charge-off ratio for the next several quarters (with such generally continuing trending declines more closely correlating with expected declines in our combined gross charge-off ratio).

Adjusted charge-off ratio. This ratio reflects our net charge offs, less credit quality discount accretion with respect to our acquired portfolios. Therefore, its trend line should follow that of our net charge-off ratio, adjusted for the diminishing impact of past portfolio acquisitions and for the additional impact of new portfolio acquisitions. Because our most recent portfolio acquisition was our second quarter 2007 U.K. Portfolio acquisition, the gap between the net charge-off ratio and the adjusted charge-off ratio continued its general decline in the quarters since that acquisition. Beginning in the first and second quarters of 2011, however, the gap between the net charge-off ratio and the adjusted charge-off ratio widened and then gradually will begin to narrow over successive future quarters. This is because we determine our managed receivables statistics by treating the transaction in which our 50%-owned equity-method investee acquired our U.K. Portfolio structured financing trust notes as a deemed sale of the U.K. Portfolio trust receivables at their face amount, followed by the 50%-owned equity-method investee's repurchase of such receivables for consideration equal to the discounted purchase price that it paid for the notes. Moreover, any other potential acquisitions of portfolios at discounts to the face amount of their receivables could cause further widening of the gap between the net charge-off ratio and the adjusted charge-off ratio.

Total yield ratio and gross yield ratio. As noted previously, the mix of our managed receivables generally has shifted away from those receivables of our lower-tier credit card offerings. Those receivables have higher delinquency rates and late and over-limit fee assessments than do our other portfolios, and thus have higher total yield and gross yield ratios as well. Accordingly, the generally trending decline in our total yield and gross yield ratios is consistent with disproportionate reductions in our lower-tier credit card receivables due to their higher charge-off levels over the past several quarters.

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

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

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

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

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

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

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



increase in the ratio. We note that we have experienced only immaterial gains associated with our convertible senior note repurchases in 2011—gains which are not material enough effect to warrant pro forma computations of the other income ratios in 2011 quarters without the effects of such gains. Negatively affecting our other income ratio for the third quarter of 2011 were \$5.3 million of losses that we recognized due to other-than-temporary declines in the values of non-marketable debt securities in which we had previously invested; excluding the impact of these write downs, our other income ratio would have been 2.1%.

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Operating ratio. While we have been highly focused on expense reduction and cost control efforts, our managed receivables levels are generally falling at faster rates than the rates at which we have been able thus far to reduce our costs (particular when considering our fixed infrastructure costs). This phenomenon is reflected in our operating ratio statistics over the 2010 and 2011 quarters, and notwithstanding this phenomenon, we generally expect a low-double-digit operating ratio for the next several quarters, even with the effects that net liquidations of our credit card receivables will have on the operating ratio given our fixed cost base.

## Future Expectations

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

Our Credit Cards segment operations are separate and distinct from our other segment operations. As such, if we were ever to conclude that the ongoing costs of these operations exceeded their benefits (i.e., cash flows to us and residual asset values), we could liquidate our Credit Card operations (either by continuing to allow them to decline in size or through more aggressive action) with minimal impact on future financial performance of our other operating segments. We reference the table included in Note 11, “Notes Payable Associated with Structured Financings, at Fair Value,” to our consolidated financial statements, which quantifies the risk to our consolidated total equity position associated with a complete liquidation of our credit cards receivables portfolios.

## Definitions of Financial, Operating and Statistical Measures

Combined gross charge-off ratio. Represents an annualized fraction the numerator of which is the aggregate amounts of finance charge, fee and principal losses from customers unwilling or unable to pay their receivables balances, as well as from bankrupt and deceased customers, less current-period recoveries, and the denominator of which is average managed receivables. Recoveries on managed receivables represent all amounts received related to managed receivables that previously have been charged off, including payments received directly from customers and proceeds received from the sale of those charged-off receivables. Recoveries typically have represented less than 2% of average managed receivables.

Net charge-off ratio. Represents an annualized fraction the numerator of which is the principal amount of losses, net of recoveries, and the denominator of which is average managed receivables. (The numerator excludes finance charge and fee charge offs, which are charged against the related income item at the time of charge off, as well as losses from fraudulent activity in accounts, which are included separately in other operating expenses.)

Adjusted charge-off ratio. Represents an annualized fraction the numerator of which is principal net charge offs as adjusted to apply discount accretion related to the credit quality of acquired portfolios to offset a portion of the actual face amount of net charge offs, and the denominator of which is average managed receivables. (Historically, upon our acquisitions of credit card receivables, a portion of the discount reflected within our acquisition prices has related to the credit quality of the acquired receivables—that portion representing the excess of the face amount of the receivables acquired over the future cash flows expected to be collected from the receivables. Because we treat the credit quality discount component of our acquisition discount as related exclusively to acquired principal balances, the difference between our net charge offs and our adjusted charge offs for each respective reporting period represents the total dollar amount of our charge offs that were charged against our credit quality discount during each respective reporting period.)

Total yield ratio. Represents an annualized fraction, the numerator of which includes all finance charge and late fee income billed on all outstanding receivables, plus credit card fees (including over-limit fees, cash advance fees, returned check fees and interchange income), plus earned, amortized amounts of annual membership fees and activation fees with respect to certain of our credit card products, plus ancillary product income, plus amortization of the accretable yield component of our acquisition discounts for portfolio purchases, plus gains (or less losses) on debt repurchases and other activities within our Credit Cards segment, and the denominator of which is average managed receivables.

Gross yield ratio. Represents an annualized fraction, the numerator of which is finance charges and late fees, and the denominator of which is average managed receivables.

Net interest margin. Represents an annualized fraction, the numerator of which includes finance charge and late fee income billed on all outstanding receivables, plus amortization of the accretable yield component of our acquisition discounts for portfolio purchases, less interest expense associated with portfolio-specific structured financing debt facilities and finance charge and late fee charge offs, and the denominator of which is average managed receivables. (Net interest margins are influenced by a number of factors, including (1) the level of finance charges and late fees, (2) the weighted average cost of funds underlying portfolio-specific debt or within our securitization structures, (3) amortization of the accretable yield component of our acquisition discounts for portfolio purchases and (4) the level of our finance charge and late fee charge offs.)

Other income ratio. Represents an annualized fraction, the numerator of which includes credit card fees (including over-limit fees, cash advance fees, returned check fees and interchange income), plus earned, amortized amounts of annual membership fees and activation fees with respect to certain of our credit card products, plus ancillary product income, less all fee charge offs (with the exception of late fee charge offs, which are netted against the net interest margin), plus gains (or less losses) on debt repurchases and other activities within our Credit Cards segment, and the denominator of which is average managed receivables.

Operating ratio. Represents an annualized fraction, the numerator of which includes all expenses (other than marketing and solicitation and ancillary product expenses) associated with our Credit Cards segment, net of any servicing income we receive from third parties associated with their economic interests in the credit card receivables that we service on their behalf, and the denominator of which is average managed receivables.

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## Investments in Previously Charged-Off Receivables Segment

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

	2011	2010
Unrecovered balance at beginning of period	\$29,889	\$29,669
Acquisitions of defaulted accounts	46,974	30,548
Cash collections	(82,236 )	(62,621 )
Cost-recovery method income recognized on defaulted accounts (included as a component of fees and related income on earning assets on our consolidated statements of operations)	42,483	32,293
Unrecovered balance at end of period	\$37,110	\$29,889

The above table reflects our use of the cost recovery method of accounting for our investments in previously charged-off receivables. Under this method, we establish static pools consisting of homogenous accounts and receivables for each portfolio acquisition. Once we establish a static pool, we do not change the receivables within the pool. We record each static pool at cost and account for it as a single unit for payment application and income recognition purposes. Under the cost recovery method, we do not recognize income associated with a particular portfolio until cash collections have exceeded the investment. Additionally, until such time as cash collected for a particular portfolio exceeds our investment in the portfolio, we incur commission costs and other internal and external servicing costs associated with the cash collections on the portfolio investment that we charge as an operating expense without any offsetting income amounts. Our estimated remaining collections on the \$37.1 million unrecovered balance of our investments in previously charged-off receivables as of December 31, 2011 amount to \$182.9 million (before servicing costs), of which we expect to collect 41.5% over the next 12 months, with the balance to be collected thereafter.

Previously charged-off receivables held as of December 31, 2011 principally are comprised of: normal delinquency charged-off accounts; charged-off accounts associated with Chapter 13 Bankruptcy-related debt; and charged-off accounts acquired through our Investments in Previously Charged-Off Receivables segment's balance transfer program prior to such time as credit cards are issued relating to the program's underlying accounts (as explained in further detail in the Credit Cards segment discussion above). At December 31, 2011, \$3.3 million of our investments in previously charged-off receivables balance was comprised of previously charged-off receivables that our Investments in Previously Charged-Off Receivables segment purchased from our other consolidated subsidiaries, and in determining our net income or loss as reflected on our consolidated statements of operations, we eliminate all material intercompany profits that are associated with these transactions. Although we eliminate all material intercompany profits associated with these purchases, we do not eliminate the corresponding purchases from our consolidated balance sheet categories so as to better reflect the ongoing business operations of each of our reportable segments and because the amounts represent just 0.5% of our consolidated total assets.

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

We have experienced and expect further improving trends and results associated with the balance transfer program within our Investments in Previously Charged-Off Receivables segment. We also believe that the current economic

environment could lead to increased opportunities for growth in the balance transfer program as consumers with less access to credit create additional demand and can lead to increased placements from third parties. Moreover, we have been testing a balance transfer program in the U.K. To date, this program has generated revenues that, while currently growing, are not yet material to our consolidated financial statements.

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

#### Micro-Loan Businesses

Our continuing micro-loan operations consist of those test operations conducted in the U.S. via the Internet. Discontinued micro-loan operations presented within our consolidated financial statements are comprised of (1) our former Retail Micro-Loans segment operations, which were sold on October 10, 2011 and through which we marketed, serviced and/or originated small-balance, short-term loans that were typically due on the customer's next payday through a network of retail branch locations in the U.S. and (2) our former MEM business, which was sold on April 1, 2011. Because of the sale of our former Retail Micro-Loans segment and MEM operations, the data included in management's discussion and analysis of our micro-loan segments exclude any effects of our Retail Micro-Loans segment and our MEM operations.

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## Internet Micro-Loans Segment

As previously noted, on April 1, 2011, we completed the planned sale of our MEM operations. Our MEM operations are classified as held for sale on our consolidated balance sheet as of December 31, 2010 and accordingly as discontinued operations (along with the associated gain on their sale) on our consolidated statements of operations and in our operating segment tables for all periods presented.

We are testing the Internet micro-loan platform underwriting techniques and marketing approaches within the U.S. at a measured pace. As noted previously, our U.S. Internet micro-loan operations represent our only continuing micro-loan operations, and they originated \$14.8 million in micro-loans during the year ended December 31, 2011 resulting in revenue of \$3.6 million; this compares with \$5.9 million in U.S. Internet micro-loans originated during the year ended December 31, 2010 which produced revenue of \$1.9 million. Summary financial data (in thousands) for our Internet Micro-Loans segment are as follows:

	For the Year Ended December 31,	
	2011	2010
Total revenues	\$3,639	\$1,935
Loss on continuing operations before income taxes	\$(6,465 )	\$(3,590 )
Income from discontinued operations before income taxes	\$110,992	\$26,435
Income attributable to noncontrolling interests in discontinued operations	\$(1,129 )	\$(3,501 )
Period end loans and fees receivable for continuing operations, gross	\$3,093	\$1,895

## Auto Finance Segment

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

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

We also historically owned substantially all of JRAS, a buy-here, pay-here dealer we acquired in 2007 and operated from that time until our disposition of certain JRAS operating assets in the first quarter of 2011. In connection with our sale of JRAS's operations in February 2011, we received a \$2.4 million note secured by JRAS's assets, we retained receivables with a December 31, 2011 carrying amount of \$3.2 million that were originated while JRAS was under our ownership, we pledged those receivables as security for a then \$9.4 million non-recourse loan to us (the partial proceeds of which we used to repay a prior lender and of which \$2.6 million was outstanding as of December 31, 2011), and we contracted with JRAS to service those receivables on our behalf.

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

Collectively, we currently serve more than 700 dealers through our Auto Finance segment in 36 states and the District of Columbia.

## Managed Receivables Background

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

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

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

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## Analysis of Statistical Data

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

	At or for the Three Months Ended							
	2011				2010			
	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Period-end managed receivables	\$87,755	\$99,237	\$113,316	\$128,254	\$154,191	\$177,799	\$206,435	\$232,418
Period-end managed accounts	26	27	29	30	33	35	38	38
Percent 30 or more days past due	12.8 %	11.9 %	10.2 %	8.6 %	12.8 %	12.2 %	10.2 %	11.6 %
Percent 60 or more days past due	4.9 %	4.7 %	3.8 %	3.6 %	5.3 %	4.8 %	3.9 %	6.6 %
Percent 90 or more days past due	2.1 %	2.3 %	1.5 %	1.5 %	2.4 %	1.8 %	1.4 %	4.2 %
Average managed receivables	\$92,719	\$106,881	\$120,773	\$140,132	\$165,286	\$192,480	\$220,416	\$248,315
Gross yield ratio	36.3 %	35.5 %	32.6 %	29.2 %	29.1 %	27.5 %	25.2 %	24.1 %
Adjusted charge-off ratio	8.3 %	9.8 %	10.9 %	21.1 %	20.3 %	18.1 %	18.2 %	17.0 %
Recovery ratio	7.1 %	5.6 %	7.0 %	3.4 %	3.6 %	3.1 %	4.5 %	2.4 %
Net interest margin	24.4 %	25.6 %	23.8 %	20.5 %	19.8 %	23.4 %	14.9 %	14.0 %
Other income ratio	1.4 %	1.2 %	0.9 %	(11.2) %	0.6 %	(0.3) %	(0.8) %	(1.6) %
Operating ratio	21.3 %	19.5 %	18.7 %	18.7 %	20.7 %	17.6 %	16.1 %	16.6 %

**Managed receivables.** Period-end managed receivables have gradually declined as we have curtailed significant purchasing and origination activities. As of December 31, 2011, only CAR continues to purchase/originate loans. Given liquidations of the ACC and JRAS portfolios, managed receivables within this segment will continue to decline for the next several quarters.

**Delinquencies.** Our ACC and JRAS receivables portfolios are liquidating and becoming less significant relative to our better performing CAR portfolios which have significantly lower late stage (60 or more days past due) delinquency and charge-off rates; this fact and a recovering economy account for the modest year-over-year improvement in delinquency statistics. Because the JRAS and ACC portfolios are now of lesser significance, we do not expect any material further improvements in our delinquency statistics.

**Gross yield ratio, net interest margin and other income ratio.** The effects of higher JRAS and ACC delinquencies and charge offs generally have served to depress our net interest margins in recent quarters, although there is a general trend line of improving net interest margins relative to comparable 2010 periods due in part to the gradual liquidation of the JRAS and ACC receivables portfolios, thereby causing the better-performing CAR portfolio to comprise a greater percentage of average managed auto finance receivables. The spike in the net interest margin in the third quarter of 2010 resulted from the reversal in that quarter of previously recognized contingent interest expense associated with debt within our ACC operations. The terms of the ACC debt facility provide that 37.5% of any cash flows (net of contractual servicing compensation) generated on the ACC auto finance receivables portfolio after repayment of the notes will be allocated to the note holders as additional compensation for the use of their capital. We



concluded in the third quarter of 2010 that such additional compensation was unlikely; however, based on recent improvements in the performance of the ACC receivables, we reestablished an additional interest expense liability of \$1.5 million as of December 31, 2011.

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

The principal component of our other income ratio in pre-2011 quarters was the gross profit (or more recently loss) that our JRAS buy-here, pay-here operations generated from their auto sales prior to our sale of these operations in February 2011. As such, the other income ratio historically moved in relative tandem with the volume of JRAS's auto sales. The 2010 suspension of new inventory purchases and corresponding dramatic decline in sales caused the significant reduction in our other income ratio in 2010, particularly given that we sold off inventory to pay down lines of credit collateralized by our inventory, often below cost, generating overall losses on sales. Our other income ratio in the first quarter of 2011 reflects the \$4.6 million loss recognized on the sale of our JRAS operating assets in February 2011. Because of the sale of these operations (and the commensurate elimination of the principal source of other income), we expect an insignificant other income ratio for the foreseeable future in line with what we experienced in 2011.

Adjusted charge-off ratio and recovery ratio. We generally charge off auto finance receivables when they are between 120 and 180 days past due, unless the collateral is repossessed and sold before that point, in which case we will record a charge off when the proceeds are received. The adjusted charge-off ratio reflects our net charge offs, less credit quality discount accretion with respect to our acquired portfolios. The general trending increase in our adjusted charge-off ratio through the first quarter of 2011, therefore, reflected (1) the passage of time since our acquisition of the Patelco portfolio at a significant purchase price discount to the face amount of the acquired receivables, (2) the adverse macro-economic effects being seen throughout the auto finance industry, (3) the adverse effects, particularly in the fourth quarter of 2009 and in subsequent quarters, of the six 2009 and five 2010 JRAS lot closures and the corresponding negative impact this had on collections within our JRAS operations during 2010, (4) the initial impact on charge offs as we outsourced collections for our ACC portfolio and collection practices were modified resulting in a wave of increased charge offs in the first quarter of 2010, and (5) the initial impact on charge offs of JRAS's modified collection practices in 2010 as it worked with its lender pursuant to a then-standing forbearance agreement with the lender. Because our ACC receivables and the receivables of our JRAS operations that we retained in connection with our sale of our JRAS operations in February 2011 have declined in relative significance as a percentage of our total portfolio of auto finance receivables and because of significantly improved performance of the ACC and JRAS receivables due both to the aging of the portfolios and some economic recovery and better than expected tax refund seasonal effects, our adjusted charge-off ratio has declined significantly subsequent to the first quarter of 2011. Our CAR receivables, which experience significantly lower charge offs, now comprise a more significant proportion of our average managed auto finance receivables—a factor that not only contributed to the 2011 decline in our adjusted charge-off ratio, but is also expected to result in lower adjusted charge-off ratios in future quarters. Also serving to reduce our second quarter 2011 adjusted charge-off ratio as well as increase our second quarter 2011 recovery ratio was a large sale of repossessed autos at auction related to the receivables of our former JRAS operations, which had accumulated a growing inventory of such vehicles leading into the second quarter of 2011 as well as increased recoveries experienced in our ACC portfolio. A similar increase in recoveries was seen during the fourth quarter in our ACC portfolio. We expect our recovery rate to fluctuate modestly from quarter to quarter due to the timing of the sale of repossessed autos, but overall we expect it to fall in the 5-7% range.

Operating ratio. We have experienced a modest general trend line of increasing year-over-year operating ratios, which largely reflects the higher costs of our CAR operations as a percentage of receivables than such operating costs of our ACC and JRAS operations as a percentage of their receivables in prior periods. (Such higher costs correspond with the significantly higher gross yield ratios and net interest margins within our CAR operations as well.) As noted above,

our CAR receivables and operating costs now comprise a greater percentage of respective total Auto Finance segment receivables and operating costs given the gradual liquidation of ACC and JRAS receivables balances. Notwithstanding this general trend line, we do not expect a significantly higher operating ratio for the foreseeable future.

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### Future Expectations

Our CAR operations are performing well in the current environment (achieving consistent profitability) and are expected to continue at current levels for the foreseeable future. Offsetting these positive results are ACC and JRAS operations which (due to ongoing credit losses and increased contingent interest expense associated with our ACC amortizing debt facility) are expected to depress overall Auto Finance segment results for 2012. As these ACC and JRAS receivables gradually liquidate, however, they should have a diminishing adverse effect on the positive results we are experiencing within our CAR operations.

### Liquidity, Funding and Capital Resources

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

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

All of our Credit Cards segment's structured financing facilities are expected to amortize down with collections on the receivables within their underlying trusts with no bullet repayment requirements or refinancing risks to us. Additionally, with the exception of our new CAR structured finance facility into which we entered in October of 2011 and which does not mature until October 2014, our remaining Auto Finance segment structured financing facilities are likewise expected to amortize down with collections on the receivables that serve as collateral for the facilities with no bullet repayment requirements or refinancing risks to us. We also note that we do not have any outstanding debt facilities within our Internet Micro-Loans segment. (Also, as noted throughout this Report, we have sold our Retail Micro-Loans segment and MEM operations and thus carry no debt associated with these discontinued former operations.) Lastly, and notwithstanding the various debt market and sub-prime financing challenges cited above, our Investment in Previously Charged-Off Receivables segment was able to obtain a new credit facility on favorable terms in November 2011. This facility initially provides for \$35.0 million in available financing to facilitate the growth of this segment's operations, can be drawn upon to the extent of outstanding eligible receivables within the segment's operations, and accrues interest at an annual rate equal to LIBOR plus an applicable margin ranging from 3.25% to 4.75% based on certain financial metrics. The facility is subject to certain affirmative covenants, including a coverage ratio, a leverage ratio, a collections minimum and a tangible net worth minimum, the failure of which could result in required early repayment of all or a portion of the outstanding balance. The facility matures in November 2014.

Our continuing challenge within our Credit Cards segment is to reduce our overhead cost infrastructure to match our incoming servicing compensation cash flows under our amortizing credit card structured financing facilities, the cash flows we receive from our 50%-owned equity-method investee that owns all of the outstanding notes underlying our U.K. Portfolio structured financing trust, and the modest cash flows we are receiving from unencumbered credit card receivables portfolios that have already generated enough cash to allow for the repayment of their underlying structured financing facilities. Furthermore, the values of our credit card receivables that are pledged as collateral

against our currently outstanding structured financing facilities could prove insufficient to provide for any residual value that ultimately would be payable to us. In such a case, we could experience further impairments to the recorded value of our credit card receivables, although we note that the recorded value has been substantially written down already leaving significantly less opportunity for write-downs in the future.

Our current focus on liquidity has resulted in and will continue to result in growth and profitability trade-offs. For example, as noted throughout this Report, we have closed substantially all of our credit card accounts (other than those underlying our Investment in Previously Charged-Off Receivables segment's balance transfer program and accounts in the U.K.); consequently, each of our managed credit card receivables portfolios is expected to show fairly rapid net liquidations in balances for the foreseeable future. Similarly, the lack of available growth financing for our Auto Finance segment has caused us to limit capital deployment to that segment, which will cause contraction in its receivables and revenues over the coming months. Offsetting these restrictions on available capital is the incremental \$65.5 million of net capital generated in April 2011 following (1) the sale of our MEM operations on April 1, 2011, which resulted in \$170.5 million of pre-tax cash to us after the purchase of minority shares and other transaction-related expenditures and (2) the closing of a tender offer in April 2011, under which we repurchased 13,125,000 shares of our common stock at a purchase price of \$8.00 per share for an aggregate cost of \$105.0 million. Additionally, the October 2011 sale of our Retail Micro-Loans segment resulted in additional cash proceeds of \$43.8 million (net of related sales expenditures).

At December 31, 2011, we had \$144.9 million in unrestricted cash. Because the characteristics of our assets and liabilities change, liquidity management has been a dynamic process for us affected by the pricing and maturity of our assets and liabilities. We historically have financed our business through cash flows from operations, asset-backed structured financings and the issuance of debt and equity. Details concerning our cash flows for the year ended December 31, 2011 are as follow:

- During the year ended December 31, 2011, we generated \$83.8 million in cash flows from operations compared to \$335.5 million of cash flows from operations generated during the year ended December 31, 2010. The decrease was principally related to (1) significant net tax refunds during 2010 as contrasted with a small level of net tax payments during 2011, (2) lower collections of credit card finance charge receivables in the year ended December 31, 2011 relative to the same period in 2010 given diminished receivables levels, and (3) reductions in the net liquidation of receivables associated with our JRAS operations, given the diminishing levels of receivables, offset by reduced spending levels during 2011 as a result of our various ongoing cost-cutting initiatives.
- During the year ended December 31, 2011, we generated \$433.5 million of cash through our investing activities, compared to generating \$173.4 million of cash in investing activities during the year ended December 31, 2010. But for our investment of \$75.0 million in marketable securities during the year ended December 31, 2010 (\$19.2 million of which marketable securities had been redeemed as of December 31, 2010), we would have generated \$229.2 million in cash from investing activities in the year ended December 31, 2010. Adding to net cash generated during the year ended December 31, 2011 was cash received for the sale of our MEM, JRAS and Retail Micro-Loans operations. Consistent with the current net liquidating status of our credit card and auto finance receivables, we expect continued net cash provided by investing activities over the next few quarters.
- During the year ended December 31, 2011, we used \$458.6 million of cash in financing activities, compared to our use of \$607.7 million of cash in financing activities during the year ended December 31, 2010. In both periods ended December 31, 2011 and 2010, the data reflect net repayments of debt facilities (which were greater in 2010 than in 2011) corresponding with net declines in our loans and fees receivable that serve as the underlying collateral for the facilities (principally credit card and auto loans and fees receivable). Other factors contributing to our 2010 use of cash in financing activities included (1) our repurchases of \$84.6 million in face amount of our 3.625% convertible senior notes due in 2025 and \$15.6 million in face amount of our 5.875% convertible senior notes due in 2035 for \$52.1 million and \$5.7 million, respectively (2) our purchase of 6% of the outstanding noncontrolling interests of MEM for £4.3 million (\$6.6 million), and (3) our purchase of 12.2 million shares of our common stock

for an aggregate cost of \$85.3 million pursuant to the May 2010 closing of a tender offer for such shares. Unique transactions reflected in 2011 cash used in financing activities included (1) our repurchases of \$62.0 million in face amount of our 3.625% convertible senior notes due in 2025 and \$1.0 million in face amount of our 5.875% convertible senior notes due in 2035 for \$59.3 million and \$0.4 million, respectively, and (2) our April 2011, repurchase of 13,125,000 shares of our common stock at a purchase price of \$8.00 per share for an aggregate cost of \$105.0 million.

Except as to the \$35.0 million in unused financing capacity within our Investment in Previously Charged-Off Receivables segment, the borrowings under which would be restricted for use only by subsidiaries within that segment and would not be available to us for general corporate purposes, we had no material unused draw capacity under our debt facilities as of December 31, 2011. As such, our \$144.9 million of unrestricted cash on our consolidated balance sheet represents our maximum available liquidity at December 31, 2011. Moreover, the \$144.9 million in aggregate December 31, 2011 unrestricted cash mentioned herein is represented by summing up all unrestricted cash from among all of our business segments, and the liquidity available to any one of our business segments as of December 31, 2011 is appreciably below the \$144.9 million in unrestricted cash balance. We continue to pursue a number of new financing facilities and liquidity sources. If new financing facilities and liquidity sources are ultimately available to us at attractive pricing and terms, they could support investment opportunities, including further repurchases of our convertible senior notes and stock, portfolio acquisitions, and marketing and originations within our various businesses.

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

Beyond our immediate financing efforts discussed throughout this Report, shareholders should expect us to evaluate debt and equity issuances as a means to fund our investment opportunities. We expect to take advantage of any opportunities to raise additional capital if terms and pricing are attractive to us. Any proceeds raised under these efforts could be used to fund (1) potential portfolio acquisitions, which may represent attractive opportunities for us in the current liquidity environment, (2) further repurchases of our convertible senior notes and common stock, (3) further dividends similar to the one on December 31, 2009, and (4) investments in certain financial and non-financial assets or businesses. Net of 2011 share repurchases, and pursuant to a 10,000,000 common share repurchase plan authorized by our Board of Directors on August 5, 2010, we are authorized to repurchase a remaining 9,255,100 common shares under the repurchase plan through June 30, 2012.

Lastly, we note that, absent draws under our Investment in Previously Charge-Off Receivables segment debt facility (none of which have occurred to date), the only remaining material refunding or refinancing risks to us are those of our convertible senior notes and the new CAR financing facility into which we entered in October 2011 and which does not mature until October 2014. In May 2012, we have an obligation to satisfy, at the option of note holders, potential conversions of our 3.625% convertible senior notes, of which \$83.9 million in face amount were outstanding as of December 31, 2011. We anticipate that all of the holders of our 3.625% convertible senior notes will require us to repurchase the notes in May 2012. In addition to any cash or other assets that we have on hand at such time to satisfy these potential conversions, we ultimately may rely on debt or equity issuances or possible exchange offerings, none of which are assured, to satisfy them. Moreover, as we noted previously, we continue to evaluate repurchases of our 3.625% convertible senior notes and our 5.875% convertible senior notes due in 2035 at prices that generate acceptable returns for our shareholders relative to alternative uses of our capital.

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

### Commitments and Contingencies

We do not currently have any off-balance-sheet arrangements; however, we do have certain contractual arrangements that would require us to make payments or provide funding if certain circumstances occur (“contingent commitments”). We do not currently expect that these contingent commitments will result in any material amounts being paid by us. See Note 13, “Commitments and Contingencies,” to our consolidated financial statements included herein for further discussion of these matters.

### Recent Accounting Pronouncements

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

## Critical Accounting Estimates

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

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

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

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

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

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### Investments in Previously Charged-Off Receivables

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

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

### Allowance for Uncollectible Loans and Fees

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

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

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

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

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

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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



ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Index to Financial Statements in Item 15, “Exhibits and Financial Statements Schedules.”

Management’s Report on Internal Control over Financial Reporting

Management of CompuCredit Holdings Corporation is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f)) for CompuCredit Holdings Corporation and our subsidiaries. Our internal control over financial reporting is a process designed under the supervision of our principal executive and financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with GAAP. Under the supervision and with the participation of management, including our principal executive and financial officers, we conducted an evaluation of the effectiveness of internal control over financial reporting as of December 31, 2011, based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

Based on our evaluation under the framework in Internal Control—Integrated Framework, management has concluded that internal control over financial reporting was effective as of December 31, 2011.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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ITEM 9A.

CONTROLS AND PROCEDURES

As of December 31, 2011, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a—15(e) under the Act) was carried out on behalf of CompuCredit Holdings Corporation and our subsidiaries by our management with the participation of our Chief Executive Officer and Chief Financial Officer. Based upon the evaluation, management concluded that these disclosure controls and procedures were effective as of December 31, 2011. During the fourth quarter of our year ended December 31, 2011, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) occurred that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting is set forth in Part II, Item 8 of this Annual Report on Form 10-K.

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

ITEM 9B.

OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Shareholders in the sections entitled “Proposal One: Election of Directors,” “Executive Officers of CompuCredit,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance” and is incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Shareholders in the sections entitled “Executive Compensation” and “Director Compensation” and is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

We maintain two stock-based employee compensation plans (our Employee Stock Purchase Plan or “ESPP” and our 2008 Equity Incentive Plan), which we assumed from CompuCredit Corporation in connection with a June 30, 2009 holding company reorganization. The 2008 Equity Incentive 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 (of which 1,103,518 remain). Upon shareholder approval of the 2008 Equity Incentive Plan in May 2008, all remaining shares available for grant under our previous stock option and restricted stock plans were terminated.

All employees, excluding executive officers, are eligible to participate in the ESPP. Under the ESPP, employees can elect to have up to 10% of their annual wages withheld to purchase common stock in CompuCredit up to a fair market value of \$10,000. The amounts deducted and accumulated by each participant are used to purchase shares of common stock at the end of each one-month offering period. The price of stock purchased under the ESPP is approximately 85% of the fair market value per share of our common stock on the last day of the offering period.

The following table provides information about our outstanding option and restricted stock unit awards as of December 31, 2011.

Plan Category	Number of Securities to Be Issued upon Exercise of Outstanding Options and Vesting of Restricted Stock Units (1)	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance under Employee Compensation Plans (Excluding Securities Reflected in First Column) (2)
Equity compensation plans previously approved by security holders	678,807	\$ 39.24	1,169,651
Equity compensation plans not approved by security holders	—	—	—

Total	678,807	\$ 39.24	1,169,651
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- (1) Does not include outstanding shares of previously awarded restricted stock.  
 (2) Includes 1,103,518 options or other share-based awards available under our 2008 Equity Incentive Plan and 66,133 shares available under our ESPP as of December 31, 2011.

Further information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Shareholders in the section entitled “Security Ownership of Certain Beneficial Owners and Management” and is incorporated by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Shareholders in the sections entitled “Related Party Transactions” and “Corporate Governance” and is incorporated by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Shareholders in the section entitled “Auditor Fees” and is incorporated by reference.

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## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Report:

## 1. Financial Statements

## INDEX TO FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2011 and 2010</u>	F-2
<u>Consolidated Statements of Operations for the Years Ended December 31, 2011 and 2010</u>	F-3
<u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2011 and 2010</u>	F-4
<u>Consolidated Statements of Equity for the Years Ended December 31, 2011 and 2010</u>	F-5
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## 2. Financial Statement Schedules

None.

## 3. Exhibits

Incorporated by Reference from  
CompuCredit's SEC Filings Unless  
Otherwise Indicated(1)

Exhibit Number	Description of Exhibit	Incorporated by Reference from CompuCredit's SEC Filings Unless Otherwise Indicated(1)
2.1	Agreement for the sale and purchase of the entire issued share capital of Purpose UK Holdings Limited and certain shares in MEM Holdings Limited, dated December 31, 2010, among CCRT International Holdings B.V., CompuCredit Holdings Corporation, Dollar Financial U.K. Limited and Dollar Financial Corp.	March 4, 2011, Form 10-K, exhibit 2.2
2.2	Asset Purchase Agreement, dated August 5, 2011, by August 8, 2011, Form 8-K, exhibit 2.1 and among Advance America, Cash Advance Centers, Inc., AAFA Acquisition, Inc., CompuCredit Holdings Corporation, CompuCredit Intellectual Property Holdings Corp. II, Valued Services, LLC, Valued Services of Alabama, LLC, Valued Services of Colorado, LLC, Valued Services of Kentucky, LLC, Valued Services of Oklahoma, LLC, Valued Services of Mississippi, LLC, Valued Services of Tennessee, LLC, Valued Services of Wisconsin, LLC, Valued Services of Ohio, LLC, VS of Ohio, LLC, Valued Services of South Carolina, LLC, and VS of South Carolina, LLC.	

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3.1	Articles of Incorporation.	June 8, 2009, Proxy Statement/Prospectus, Annex B
3.2	Bylaws.	August 10, 2009, Form 10-Q, exhibit 3.1
4.1	Form of common stock certificate.	July 7, 2009, Form 8-K, exhibit 3.3
4.2	Indenture dated May 27, 2005 with U.S. Bank National Association, as successor to Wachovia Bank, National Association.	May 31, 2005, Form 8-K, exhibit 4.1
4.3	Supplemental Indenture dated June 30, 2009 with U.S. Bank National Association, as successor to Wachovia Bank, National Association.	July 7, 2009, Form 8-K, exhibit 4.1
4.4	Indenture dated November 23, 2005 with U.S. Bank National Association, as successor to Wachovia Bank, National Association.	November 28, 2005, Form 8-K, exhibit 4.1
4.5	Supplemental Indenture dated June 30, 2009 with U.S. Bank National Association, as successor to Wachovia Bank, National Association.	July 7, 2009, Form 8-K, exhibit 4.2
10.1	Stockholders Agreement dated as of April 28, 1999.	January 18, 2000, Form S-1, exhibit 10.1
10.2	† 2008 Equity Incentive Plan	April 16, 2008, Schedule 14A, Appendix A
10.2	(a) Form of Restricted Stock Agreement—Directors.	May 13, 2008, Form 8-K, exhibit 10.2
10.2	(b) Form of Restricted Stock Agreement—Employees.	May 13, 2008, Form 8-K, exhibit 10.3
10.2	(c) Form of Stock Option Agreement—Directors.	May 13, 2008, Form 8-K, exhibit 10.4
10.2	(d) Form of Stock Option Agreement—Employees.	May 13, 2008, Form 8-K, exhibit 10.5
10.2	(e) Form of Restricted Stock Unit Agreement—Directors	May 13, 2008, Form 8-K, exhibit 10.6
10.2	(f) Form of Restricted Stock Unit Agreement—Employees.	May 13, 2008, Form 8-K, exhibit 10.7
10.3	† Amended and Restated Employee Stock Purchase Plan.	April 16, 2008, Schedule 14A, Appendix B
10.4	† Amended and Restated Employment Agreement for Richard R. House, Jr.	December 29, 2008, Form 8-K, exhibit 10.4
10.4	(a) Restricted Stock Agreement, dated May 9, 2006 between CompuCredit Holdings Corporation and Richard R. House, Jr.	May 15, 2006, Form 8-K, exhibit 10.1
10.4	(b) Option Agreement, dated May 9, 2006 between CompuCredit Holdings Corporation and Richard R. House, Jr.	May 15, 2006, Form 8-K, exhibit 10.2

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Exhibit Number	Description of Exhibit	Incorporated by Reference from CompuCredit's SEC Filings Unless Otherwise Indicated (1)
10.5	† Amended and Restated Employment Agreement for December 29, 2008, Form 8-K, exhibit 10.1 David G. Hanna.	
10.6	† Amended and Restated Employment Agreement for December 29, 2008, Form 8-K, exhibit 10.3 Richard W. Gilbert.	
10.7	† Amended and Restated Employment Agreement for December 29, 2008, Form 8-K, exhibit 10.2 J.Paul Whitehead, III.	
10.8	† Consulting Agreement for Krishnakumar Srinivasan April 7, 2010, Form 8-K, exhibit 10.1	
10.9	† Outside Director Compensation Package.	Filed herewith
10.10	Master Indenture, dated as of July 14, 2000, among CompuCredit Credit Card Master Note Business Trust, The Bank of New York, and CompuCredit Corporation.	November 14, 2000, Form 10-Q, exhibit 10.1
10.10	(a) First Amendment to Master Indenture dated as of September 7, 2000.	November 14, 2000, Form 10-Q, exhibit 10.1(a)
10.10	(b) Second Amendment to Master Indenture dated as of April 1, 2001.	March 1, 2004, Form 10-K, exhibit 10.9(b)
10.10	(c) Third Amendment to Master Indenture dated as of March 18, 2002.	March 1, 2004, Form 10-K, exhibit 10.9(c)
10.10	(d) Form of Indenture Supplement.	November 22, 2000, Form 10-Q/A, exhibit 10.1(b)
10.10	(e) Amended and Restated Series 2004-One Indenture Supplement, dated March 1, 2010, to the Master Indenture.	June 25, 2010, Form 8-K/A, exhibit 10.2

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Exhibit Number	Description of Exhibit	Incorporated by Reference from CompuCredit's SEC Filings unless Otherwise Indicated (1)
10.10	(f) Transfer and Servicing Agreement, dated as of July 14, 2000, among CompuCredit Funding Corp., CompuCredit Corporation, CompuCredit Credit Card Master Note Business Trust and The Bank of New York.	March 24, 2003, Form 10-K, exhibit 10.11
10.10	(g) First Amendment to Transfer and Servicing Agreement dated as of September 7, 2000.	November 14, 2000, Form 10-Q, exhibit 10.2(a)
10.10	(h) Second Amendment to Transfer and Servicing Agreement dated as of December 28, 2000.	March 30, 2001, Form 10-K, exhibit 10.8(b)
10.10	(i) Third Amendment to Transfer and Servicing Agreement dated as of April 1, 2001.	March 1, 2004, Form 10-K, exhibit 10.10(c)
10.10	(j) Fourth Amendment to Transfer and Servicing Agreement dated as of August 3, 2001.	March 1, 2004, Form 10-K, exhibit 10.10(d)
10.10	(k) Fifth Amendment to Transfer and Servicing Agreement dated as of August 20, 2002.	March 1, 2004, Form 10-K, exhibit 10.10(e)
10.10	(l) Sixth Amendment to Transfer and Servicing Agreement dated as of April 1, 2003.	March 1, 2004, Form 10-K, exhibit 10.10(f)
10.10	(m) Seventh Amendment to Transfer and Servicing Agreement dated as of June 26, 2003.	March 1, 2004, Form 10-K, exhibit 10.10(g)
10.10	(n) Eighth Amendment to Transfer and Servicing Agreement dated as of December 1, 2004.	March 2, 2006, Form 10-K, exhibit 10.10(o)
10.10	(o) Ninth Amendment to Transfer and Servicing Agreement dated as of June 10, 2005.	March 2, 2006, Form 10-K, exhibit 10.10(p)
10.11	Amended and Restated Note Purchase Agreement, dated March 1, 2010, among Merrill Lynch Mortgage Capital Inc., CompuCredit Funding Corp., CompuCredit Corporation, and CompuCredit Credit Card Master Note Business Trust.	June 25, 2010, Form 8-K/A, exhibit 10.1
10.12	Share Lending Agreement.	November 22, 2005, Form 8-K, exhibit 10.1
10.12	(a) Amendment to Share Lending Agreement	Filed herewith



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Exhibit Number	Description of Exhibit	Incorporated by Reference from CompuCredit's SEC Filings unless Otherwise Indicated (1)
10.13	Agreement relating to the Sale and Purchase of Monument Business, dated April 4, 2007.	August 1, 2007, Form 10-Q, exhibit 10.1
10.13	(a) Account Ownership Agreement for Partridge Acquired Portfolio Business Trust, dated April 4, 2007, with R Raphael & Sons PLC.	August 1, 2007, Form 10-Q, exhibit 10.2
10.13	(b) Receivables Purchase Agreement for Partridge Acquired Portfolio Business Trust, dated April 4, 2007, with R Raphael & Sons PLC.	August 1, 2007, Form 10-Q, exhibit 10.3
10.13	(c) Receivables Purchase Agreement for Partridge Acquired Portfolio Business Trust, dated April 4, 2007, with Partridge Funding Corporation.	August 1, 2007, Form 10-Q, exhibit 10.4
10.13	(d) Master Indenture for Partridge Acquired Portfolio Business Trust, dated April 4, 2007, among Partridge Acquired Portfolio Business Trust, Deutsche Bank Trust Company Americas, Deutsche Bank AG, London Branch and CompuCredit International Acquisition Corporation.	August 1, 2007, Form 10-Q, exhibit 10.5
10.13	(e) Series 2007-One Indenture Supplement for Partridge Acquired Portfolio Business Trust, dated April 4, 2007.	August 1, 2007, Form 10-Q, exhibit 10.6
10.13	(f) Transfer and Servicing Agreement for Partridge Acquired Portfolio Business Trust, dated April 4, 2007, among Partridge Funding Corporation, CompuCredit International Acquisition Corporation, Partridge Acquired Portfolio Business Trust and Deutsche Bank Trust Company Americas.	August 1, 2007, Form 10-Q, exhibit 10.7
10.14	Assumption Agreement dated June 30, 2009 between CompuCredit Holdings Corporation and CompuCredit Corporation	July 7, 2009, Form 8-K, exhibit 10.1

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Exhibit Number	Description of Exhibit	Incorporated by Reference from CompuCredit's SEC Filings unless Otherwise Indicated (1)
10.15	Amended and Restated Loan and Security Agreement, dated November 19, 2007 among JRAS, LLC and CapitalSource Finance.	March 5, 2010, Form 10-K, exhibit 10.19
10.15	(a) First Amendment to Amended and Restated Loan and Security Agreement dated April 18, 2008.	March 5, 2010, Form 10-K, exhibit 10.19(a)
10.15	(b) Second Amendment to Amended and Restated Loan and Security Agreement dated September 11, 2008.	March 5, 2010, Form 10-K, exhibit 10.19(b)
10.15	(c) Third Amendment to Amended and Restated Loan and Security Agreement dated July 15, 2009.	March 5, 2010, Form 10-K, exhibit 10.19(c)
10.15	(d) Fourth Amendment to Amended and Restated Loan and Security Agreement dated January 22, 2010.	March 5, 2010, Form 10-K, exhibit 10.19(d)
10.16	Loan and Security Agreement, dated October 4, 2011 among CARS Acquisition LLC, et al and Wells Fargo Preferred Capital, Inc.	Filed herewith
10.16	(a) Agreement by CompuCredit Holdings Corporation in favor of Wells Fargo Preferred Capital, Inc	Filed herewith
10.17	Credit Agreement, dated November 2, 2011, by and among Jefferson Capital Systems, LLC, Jefferson Capital Card Services, LLC and The Private Bank and Trust Company	February 24, 2012, Form 8-K/A, exhibit 10.1
10.17	(a) Security Agreement, dated November 2, 2011 by and between Jefferson Capital Systems, LLC and The Private Bank and Trust Company.	February 24, 2012, Form 8-K/A, exhibit 10.2
10.17	(b) Security Agreement, dated November 2, 2011 by and between Jefferson Capital Card Services, LLC and The Private Bank and Trust Company.	February 24, 2012, Form 8-K/A, exhibit 10.3
21.1	Subsidiaries of the Registrant.	Filed herewith
23.1	Consent of BDO USA, LLP.	Filed herewith
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a).	Filed herewith
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a).	Filed herewith
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350.	Filed herewith
99.1	Charter of the Audit Committee of the Board of Directors.	March 4, 2011, Form 10-K, exhibit 99.1
99.2	Charter of the Nominating and Corporate Governance Committee of the Board of Directors.	March 1, 2004, Form 10-K, exhibit 99.2
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL		Filed herewith

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XBRL Taxonomy Extension Calculation  
Linkbase Document

101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Presentation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith

Management contract, compensatory plan or arrangement.

(1) Documents incorporated by reference from SEC filings made prior to June 2009 were filed under CompuCredit Corporation (File No. 000-25751), our predecessor issuer.

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Report of Independent Registered Public Accounting Firm

The Board of Directors

CompuCredit Holdings Corporation

We have audited the accompanying consolidated balance sheets of CompuCredit Holdings Corporation as of December 31, 2011 and 2010 and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CompuCredit Holdings Corporation at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Atlanta, Georgia

March 5, 2012

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

	December 31,	
	2011	2010
<b>Assets</b>		
Unrestricted cash and cash equivalents	\$ 144,913	\$ 68,931
Restricted cash and cash equivalents	23,759	36,023
<b>Loans and fees receivable:</b>		
Loans and fees receivable, net (of \$4,494 and \$4,591 in deferred revenue and \$7,156 and \$9,282 in allowances for uncollectible loans and fees receivable at December 31, 2011 and 2010, respectively)	64,721	50,805
Loans and fees receivable pledged as collateral under structured financings, net (of \$511 and \$15,912 in deferred revenue and \$7,537 and \$28,340 in allowances for uncollectible loans and fees receivable at December 31, 2011 and 2010, respectively)	31,902	118,801
Loans and fees receivable, at fair value	28,226	12,437
Loans and fees receivable pledged as collateral under structured financings, at fair value	238,763	373,155
Investments in previously charged-off receivables	37,110	29,889
Investments in securities	6,203	64,317
Deferred costs, net	3,033	3,151
Property at cost, net of depreciation	8,098	15,893
Investments in equity-method investees	49,862	8,279
Intangibles, net	—	2,378
Prepaid expenses and other assets	11,317	16,591
Assets held for sale	—	80,259
<b>Total assets</b>	<b>\$ 647,907</b>	<b>\$ 880,909</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 46,135	\$ 50,861
Notes payable, at face value	23,765	—
Notes payable associated with structured financings, at face value	23,151	96,905
Notes payable associated with structured financings, at fair value	241,755	370,544
Convertible senior notes (Note 12)	176,400	229,844
Deferred revenue	1,005	1,413
Income tax liability	59,368	60,411
Liabilities related to assets held for sale	—	9,114
<b>Total liabilities</b>	<b>571,579</b>	<b>819,092</b>
<b>Commitments and contingencies (Note 13)</b>		
<b>Equity</b>		
Common stock, no par value, 150,000,000 shares authorized: 31,997,581 shares issued and 23,559,402 shares outstanding (including 1,672,656 loaned shares to be returned) at December 31, 2011; and 46,217,050 shares issued and 37,997,708 shares outstanding (including 2,252,388 loaned shares to be returned) at December 31, 2010	—	—
Additional paid-in capital	294,246	408,751
Treasury stock, at cost, 8,438,179 and 8,219,342 shares at December 31, 2011 and 2010, respectively	(187,615 )	(208,696 )
Accumulated other comprehensive loss	(2,257 )	(5,608 )
Retained deficit	(28,257 )	(151,609 )

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Total shareholders' equity	76,117	42,838
Noncontrolling interests	211	18,979
Total equity	76,328	61,817
Total liabilities and equity	\$647,907	\$880,909

See accompanying notes.

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

	For the Year Ended December 31,	
	2011	2010
Interest income:		
Consumer loans, including past due fees	\$148,057	\$262,576
Other	1,372	1,245
Total interest income	149,429	263,821
Interest expense	(43,979 )	(58,631 )
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	105,450	205,190
Fees and related income on earning assets	140,797	337,748
Losses upon charge off of loans and fees receivable recorded at fair value	(139,480 )	(464,809 )
Provision for losses on loans and fees receivable recorded at net realizable value	(4,663 )	(35,423 )
Net interest income, fees and related income on earning assets	102,104	42,706
Other operating income (loss):		
Servicing income	3,281	6,880
Ancillary and interchange revenues	9,281	10,955
Gain on repurchase of convertible senior notes	645	28,787
Gain on buy-out of equity-method investee members	623	—
Equity in income (loss) of equity-method investees	32,657	(9,584 )
Total other operating income	46,487	37,038
Other operating expense:		
Salaries and benefits	22,353	33,563
Card and loan servicing	74,038	97,307
Marketing and solicitation	3,620	2,058
Depreciation	4,772	10,957
Other	28,044	43,620
Total other operating expense	132,827	187,505
Income from (loss on) continuing operations before income taxes	15,764	(107,761 )
Income tax benefit	277	1,907
Income from (loss on) continuing operations	16,041	(105,854 )
Discontinued operations:		
Income from discontinued operations before income taxes	122,253	18,062
Income tax expense	(3,230 )	(7,153 )
Income from discontinued operations	119,023	10,909
Net income (loss)	135,064	(94,945 )
Net income attributable to noncontrolling interests (including \$1,129 and \$3,501 of income associated with noncontrolling interests in discontinued operations in 2011 and 2010, respectively)	(1,047 )	(2,559 )
Net income (loss) attributable to controlling interests	\$134,017	\$(97,504 )
Income from (loss on) continuing operations attributable to controlling interests per common share—basic	\$0.63	\$(2.64 )
Income from (loss on) continuing operations attributable to controlling interests per common share—diluted	\$0.62	\$(2.64 )
	\$4.58	\$0.19

Income from discontinued operations attributable to controlling interests per common share—basic		
Income from discontinued operations attributable to controlling interests per common share—diluted	\$4.57	\$0.19
Net income (loss) attributable to controlling interests per common share—basic	\$5.21	\$(2.45 )
Net income (loss) attributable to controlling interests per common share—diluted	\$5.19	\$(2.45 )

See accompanying notes.

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

	For the Year Ended December 31,	
	2011	2010
Net income (loss)	\$ 135,064	\$(94,945 )
Other comprehensive income (loss):		
Foreign currency translation adjustment	588	(1,815 )
Reclassifications of foreign currency translation adjustment to consolidated statements of operations	2,699	(500 )
Income tax benefit related to other comprehensive income	64	—
Comprehensive income (loss)	138,415	(97,260 )
Comprehensive income attributable to noncontrolling interests	(1,047 )	(2,559 )
Comprehensive income (loss) attributable to controlling interests	\$ 137,368	\$(99,819 )

See accompanying notes.

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CompuCredit Holdings Corporation and Subsidiaries  
Consolidated Statements of Equity  
For the Years Ended December 31, 2011 and 2010  
(Dollars in thousands)

	Common Stock			Accumulated Other			Noncontrolling Interests	Total Equity
	Shares Issued	Amount	Additional Paid-In Capital	Treasury Stock	Comprehensive Loss	Retained Deficit		
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
Use of treasury stock for stock-based compensation plans	(336,316 )	—	(10,893 )	11,707	—	(814 )	—	—
Issuance of restricted stock	137,425	—	—	—	—	—	—	—
Amortization of deferred stock-based compensation costs	—	—	8,739	—	—	—	—	8,739
Purchase of treasury stock	—	—	—	(689 )	—	—	—	(689 )
Repurchase of noncontrolling interests	—	—	(3,895 )	—	—	—	(4,110 )	(8,005 )
Distributions to owners of noncontrolling interests	—	—	—	—	—	—	(1,105 )	(1,105 )
Redemption and retirement of shares	(12,180,604)	—	(85,264 )	—	—	—	—	(85,264 )
Net income (loss)	—	—	—	—	—	(97,504 )	2,559	(94,945 )
Foreign currency translation adjustment, net of tax	—	—	—	—	(2,315 )	—	—	(2,315 )
	46,217,050	—	408,751	(208,696)	(5,608 )	(151,609)	18,979	61,817

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Balance at December 31, 2010								
Use of treasury stock for stock-based compensation plans	(550,414 )	—	(13,804 )	24,469	—	(10,665 )	—	—
Issuance of restricted stock	35,677	—	—	—	—	—	—	—
Amortization of deferred stock-based compensation costs	—	—	2,460	—	—	—	—	2,460
Purchase of treasury stock	—	—	—	(3,388 )	—	—	—	(3,388 )
Repurchase of noncontrolling interests	—	—	5,385	—	—	—	(20,243 )	(14,858 )
Contributions by owners of noncontrolling interests	—	—	—	—	—	—	663	663
Redemption and retirement of shares	(13,704,732)		(105,000)	—	—	—	—	(105,000)
Consolidation of variable interest entity	—							