WISCONSIN ENERGY CORP
Form 4
May 02, 2012

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
LEVERETT ALLEN L

(Last) (First) (Middle)

231 WEST MICHIGAN STREET

(Street)

MILWAUKEE, WI 53203

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
WISCONSIN ENERGY CORP [WEC]

3. Date of Earliest Transaction (Month/Day/Year)
04/30/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	04/30/2012		M		30,000	A	$ 17.1	65,760	D	
Common Stock	04/30/2012		S		30,000 (1)	D	$ 36.75	35,760	D	
Common Stock								2,548.401 (2)	I	ERSP

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Stock Option (right to buy)	$ 17.1	04/30/2012		M			30,000	01/18/2008	01/18/2015	Common Stock	30,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LEVERETT ALLEN L 231 WEST MICHIGAN STREET MILWAUKEE, WI 53203			Executive Vice President	

Signatures

/s/ Joshua M. Erickson, as Attorney-in-Fact	05/02/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) This transaction was effected pursuant to a Rule 10b5-1 trading plan adopted by the reporting person on February 9, 2012.

(2) Includes shares acquired under Wisconsin Energy Corporation's Employee Retirement Savings Plan (ERSP) in transactions exempt from Section 16(b) pursuant to Rule 16b-3(c) and exempt from reporting pursuant to Rule 16a-3(f)(1)(i)(B). The number of shares in the ERSP attributable to any one participant varies with the price of the Common Stock. The information in this report is based on a plan statement dated as of March 31, 2012.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Fees and related income (loss) on securitized earning assets
(107,034) — — — — (107,034)
Servicing income
181,502 — — 381 — 181,883

Ancillary and interchange revenues
54,652 631 — — — 55,283
Gain on extinguishment of debt
61,671 — — — — 61,671
Equity in income of equity-method investees
22,319 — — — — 22,319
Total other operating income
213,110 631 — 381 — 214,122
Total other operating expense
(365,976) (27,214) (50,104) (110,001) (26,357) (579,652)
(Loss) income from continuing operations before income taxes
$(177,744) $12,402 $8,964 $(44,799) $(375) $(201,552)
Loss from discontinued operations before income taxes
$— $— $(7,811) $— $(1,246) $(9,057)
Noncontrolling interests
$2,985 $(744) $— $— $(96) $2,145
Securitized earning assets
$813,793 $— $— $— $— $813,793
Non-securitized earning assets, net
$4,236 $48,652 $33,597 $291,559 $15,044 $393,088
Loans and fees receivable carried at net realizable value, gross
$712 $— $40,099 $359,662 $20,771 $421,244
Loans and fees receivable carried at net realizable value, net
$534 $— $33,597 $291,559 $15,044 $340,734
Total assets
$961,428 $59,850 $99,175 $342,465 $62,193 $1,525,111
Notes payable
$3,957 $4,125 $— $180,913 $10,944 $199,939

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5. Shareholders’ Equity

Retired Shares

In 2008, we received 2,026,881 of shares as a return to us of shares we had previously lent. During 2009, an additional 1,398,681 shares were returned to us. All returned shares are excluded from our outstanding share counts. As of December 31, 2009, we had 2,252,388 loaned shares outstanding.

Treasury Stock

During 2008, our Board of Directors authorized a program to repurchase up to an additional 10 million shares of our outstanding common stock through June 2010; this program is a successor program to others that have been in place over the past several years with similar authorizations for share repurchases. Under the plan, we may repurchase shares of our common stock from time to time either on the open market or through privately negotiated transactions in compliance with SEC guidelines.

At our discretion, we use treasury shares to satisfy option exercises and restricted stock vesting, and we use the cost approach when accounting for the repurchase and reissuance of our treasury stock. We reissued treasury shares totaling 152,991 during 2009 and 207,125 during 2008 at gross costs of $2.7 million and $3.7 million, respectively, in satisfaction of option exercises and share vestings under our restricted stock plan. We also effectively purchased shares totaling 45,509 during 2009 and 58,013 during 2008 at gross costs of $0.1 million and $0.6 million, respectively, by having employees who were exercising options or vesting in their restricted stock grants exchange a portion of their stock for our payment of required minimum tax withholdings.

6. Investments in Equity-Method Investees

We (generally through one or more of our wholly owned subsidiaries) have made several acquisitions for which we account using the equity-method of accounting. Our equity-method investments outstanding at December 31, 2009 were:

- Our January 2005 purchase of a 47.5% interest in a joint venture for $10.9 million, including transaction costs—such joint venture being formed to purchase $376.3 million (face amount) in credit card receivables; and

- Our fourth quarter 2004 purchase of a 33.3% interest in a joint venture (“Transistor”) for $48.3 million, including transaction costs—such joint venture being formed to purchase a portfolio of credit card receivables ($996.5 million face amount) from Fleet Bank (RI), National Association, a portfolio which Transistor subsequently securitized in exchange for a subordinated interest in a trust.

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

In the following tables, we summarize (in thousands) combined balance sheet and results of operations data for our equity-method investees (including December 31, 2008 balance sheet data and results of operations data associated with CSG while we held it in equity-method investee form prior to our buy-out of its other members):

	As of December 31,	
	2009	2008
Securitized earning assets	$35,844	$116,510
Non-securitized earning assets, net	$—	$—
Total assets	$38,332	$118,962
Total liabilities	$1,319	$1,967
Members’ capital	$37,013	$116,995

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	For the Year Ended December 31, 2009	2008
Net interest income, fees and related income on non-securitized earning assets	$5	$2
Fees and related income on securitized earning assets	$(50,839)	$44,438
Total other operating income	$(46,670)	$53,048
Net income	$(42,122)	$49,464

7. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price and related costs over the value assigned to net tangible and identifiable intangible assets acquired and accounted for under the purchase method. Under applicable accounting rules, we are required to assess the fair value of all acquisition-related goodwill on a reporting unit basis. We review the recorded value of goodwill for impairment at least annually at the beginning of the fourth quarter of each year, or earlier such as occurred in the second quarter of 2009, if events or changes in circumstances indicate that the carrying amount may exceed fair value.

In connection with our May 2009 decision to discontinue our Arkansas retail micro-loan operations, we allocated goodwill between our retained Retail Micro-Loans segment operations and our discontinued Arkansas operations, thereby resulting in a $3.5 million impairment loss that is reported within loss from discontinued operations in the third quarter of 2009. In connection with this reallocation, we performed a valuation analysis with respect to the remaining goodwill associated with our continuing Retail Micro-Loans segment operations based on current internal projections of residual cash flows and existing market data supporting valuation prices of similar companies; this analysis yielded an additional $20.0 million goodwill impairment charge associated with these continuing operations that is reflected within our consolidated statement of operations for the year ended December 31, 2009.

In April 2007, we acquired 95% of the outstanding shares of MEM, our U.K.-based, Internet, micro-loan operations, for £11.6 million ($22.3 million) in cash. Under the original purchase agreement, a contingent performance-related earn-out could have been payable to the sellers on achievement of certain earnings measurements for the years ended 2007, 2008 and 2009. The maximum amount payable under this earn-out was £120.0 million. The MEM acquisition agreement was amended in the first quarter of 2009 to remove the sellers' earn-out rights and in exchange grant the sellers a 22.5% ownership interest in the entity. The settlement of the contingent earn-out resulted in a re-measurement of the carrying value of our investment in MEM and additional goodwill of $5.6 million.

In connection with our first quarter 2008 decision to sell our Texas retail micro-loans operations and hold those operations for sale, we allocated goodwill between our retained Retail Micro-Loans segment operations and our discontinued Texas operations, thereby resulting in a $1.1 million impairment loss that is reported within loss from discontinued operations in 2008. This valuation analysis was based on then-current internal projections and then-existing market data supporting valuation prices of similar companies. Additionally, based on September 2008 amendments to financing facilities within one of our Auto Finance segment's reporting units, we determined that the then-carrying amount of this reporting unit more likely than not exceeded its fair value. We reassessed the carrying value of the reporting unit's goodwill, determined that the current fair value would not support the stated goodwill balance and recorded a third quarter 2008 goodwill impairment loss of $29.2 million. Lastly, in our 2008 annual goodwill impairment testing for JRAS, we determined that the total goodwill balance of $1.7 million was impaired, and we wrote it off in that period. These valuation analyses were based on then current internal projections and existing market data supporting valuation prices of similar companies.

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Changes (in thousands) in the carrying amount of goodwill for the years ended December 31, 2009 and 2008, respectively, by reportable segment are as follows:

	Retail Micro-Loans	Auto Finance	Internet Micro-Loans	Consolidated
Balance as of December 31, 2007	$ 44,346	$30,868	$ 21,955	$ 97,169
Impairment loss	(1,132)	(30,868)	—	(32,000)
Foreign currency translation	—	—	(6,040)	(6,040)
Balance as of December 31, 2008	43,214	—	15,915	59,129
Goodwill related to settlement of contingent performance-related earn-out	—	—	5,553	5,553
Impairment loss	(23,483)	—	—	(23,483)
Foreign currency translation	—	—	2,223	2,223
Balance as of December 31, 2009	$ 19,731	$—	$ 23,691	$ 43,422

Intangible Assets

In connection with our May 2009 decision to discontinue our Arkansas retail micro-loans operations, we allocated intangible assets that we determined had an indefinite benefit period between our retained Retail Micro-Loans segment operations and our discontinued Arkansas operations, thereby resulting in a $0.2 million impairment loss that is reported within loss from discontinued operations in 2009. This valuation analysis was based on current internal projections of residual cash flows and existing market data supporting valuation prices of similar companies. During 2008, we charged off $1.3 million of dealer relationship intangibles, such amount representing a subset of our larger dealer relationship intangibles asset that is being amortized over a three-year period following our acquisition of this asset.

We had $2.1 million and $2.3 million of remaining intangible assets that we determined had an indefinite benefit period as of December 31, 2009 and 2008, respectively. The net unamortized carrying amount of intangible assets subject to amortization was $0.7 million and $2.2 million as of December 31, 2009 and 2008, respectively. Intangible asset-related amortization expense was $1.6 million and $3.7 million for the years ended December 31, 2009 and 2008, respectively.

Estimated future amortization expense (in thousands) associated with intangible assets is as follows:

2010	$415
2011	265
Total	$680

8. Securitizations and Structured Financings

As of both December 31, 2009 and 2008, most of our credit card receivables were held by off-balance-sheet securitization trusts. As noted previously, we refer in our notes to our consolidated financial statements to transfers of financial assets to off-balance-sheet securitization trusts as “securitizations,” as contrasted with our use of the term “structured financings” to refer to non-recourse, on-balance-sheet asset-backed debt financings.

Securitizations

We have securitized certain credit card receivables that we have purchased through both our third-party financial institution relationships and our portfolio acquisition activities. Our credit card receivables securitization transactions do not affect the relationship we have with our customers, and we continue to service the securitized credit card receivables. Our ownership of retained interests in our securitized credit card receivables, the guarantee and note purchase agreements with respect to securitizations of acquired credit card receivables portfolios as described in Note 14, “Commitments and Contingencies,” and our obligation to service securitized receivables represent our only continuing involvement with our securitized credit card receivables.

Applicable accounting literature has in the past required us to treat our credit card receivables transfers to securitization trusts as sales and to remove the receivables from our consolidated balance sheets. Under this guidance, an entity recognizes the assets it controls and liabilities it has incurred, and derecognizes the financial assets for which control has been surrendered and all liabilities that have been extinguished. An entity is considered to have surrendered control over the transferred assets and, therefore, to have sold the assets if the following conditions are met:

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1. The transferred assets have been isolated from the transferor and put presumptively beyond the reach of the transferor and its creditors.

2. Each transferee has the right to pledge or exchange the assets it has received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.

3. The transferor does not maintain effective control over the transferred assets through either (i) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or (ii) the ability to unilaterally cause the holder to return specific assets, other than through a clean-up call.

In December 2009 and although not required to do so contractually, we received investor consent to repay the only remaining investor with an outside third-party interest in our lower-tier originated portfolio master trust. According to applicable accounting guidance (including that concerning a fair value option election we previously made with respect to the receivables underlying this trust), we reconsolidated those receivables onto our consolidated balance sheet and recorded them at fair value because we became the sole beneficiary of the trust's cash flows. As such, subsequent to their reconsolidation, the receivables and the related fees on the credit cards are no longer included within the securitization data presented herein, but instead are included respectively within loans and fees receivable, at fair value, on our consolidated balance sheet and within consumer loans, including past due fees and fees and related income on non-securitized earning assets on our consolidated statement of operations.

The table below summarizes (in thousands) our securitization activities for the periods presented. As with other tables included herein, it does not include the securitization activities of our equity-method investees:

	For the Year Ended December 31,	
	2009	2008
Gross amount of receivables securitized at year end	$1,318,976	$2,643,079
Proceeds from new transfers of financial assets to securitization trusts	$434,299	$1,322,993
Proceeds from collections reinvested in revolving-period securitizations	$415,543	$1,361,665
Excess cash flows received on retained interests	$88,655	$163,446
Securitization gains	$113,961	$—
Loss on retained interests in credit card receivables securitized	(676,236)	(135,561)
Fees on securitized receivables	16,209	28,527
Total loss on securitized earning assets	$(546,066)	$(107,034)

The $114.0 million securitization gain in the above table results from our purchase of $264.0 million of securitization facility notes for $150.0 million (including associated transaction costs) and their subsequent cancellation.

The investors in our securitization transactions have no recourse against us for our customers' failure to pay their credit card receivables. However, most of our retained interests are subordinated to the investors' interests until the investors have been fully paid.

Generally, we include all collections received from the cardholders underlying each securitization in our securitization cash flows. This includes collections from the cardholders for interest, fees and other charges on the accounts and collections from those cardholders repaying the principal portion of their account balances.

In general, absent an early amortization event, the cash flows are then distributed to us as servicer in the amounts of our contractually negotiated servicing fees, to the investors as interest on their outstanding notes, to the investors to repay any portion of their outstanding notes that becomes due and payable, and to us as the seller to fund new purchases. Any collections from cardholders remaining each month after making the various payments noted above generally are paid to us on our retained interests.

In the event of early amortization of the facilities within a securitization trust, the cash flows generally are distributed to the servicer in the amounts of its contractually negotiated servicing fees, to the investors as interest on their outstanding notes and to the investors to repay their outstanding notes. As such, upon early amortization of securitization facilities, a

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holder of residual interests in a securitization trust does not receive cash flows from the securitization trust to fund new cardholder purchases or as payments on its retained interests. In the third quarter of 2009, we concluded, based on worsening collections on the receivables underlying our upper and lower-tier originated portfolio master trusts, that a buyer of our residual interests in the securitization trusts would likely discount the price that they would pay for the residual interests to reflect the risk that the securitization facilities could soon enter early amortization status. This risk ultimately was borne out in January 2010 for the securitization facility underlying of our upper-tier originated portfolio master trust, and our December 31, 2009 calculation of the fair value of our retained interests in this trust reflects the securitization facility's early amortization status (i.e., under which our receipt of cash flows is delayed materially until the facility is completely repaid). Our recognition of our upper-tier originated portfolio master trust's securitization facility's early amortization potential and status, respectively, in our September 30, 2009 and December 31, 2009 fair value computations (especially when coupled with worsening cardholder payment performance expectations) caused a material decline in the fair value of our retained interests in credit card receivables securitized in the third and fourth quarters of 2009. (With our previously mentioned repayment of the securitization facility underlying our lower-tier originated portfolio master trust in December 2009, our September 30, 2009 early amortization assumption with respect to that facility is no longer relevant as we no longer hold retained interests in that trust at December 31, 2009.)

As suggested above, we carry the retained interests associated with the credit card receivables we have securitized at estimated fair market value within the securitized earning assets category on our consolidated balance sheets, and because we classify them as trading securities and have made a fair value election with respect to them, we include any changes in fair value in income. Because quoted market prices for our retained interests generally are not available, we estimate fair value based on the estimated present value of future cash flows using our best estimates of key assumptions (including, for example, the early amortization assumption mentioned above).

The measurements of retained interests associated with our securitizations are dependent upon our estimate of future cash flows using the cash-out method. Under the cash-out method, we record the future cash flows at a discounted value. We discount the cash flows based on the timing of when we expect to receive the cash flows. We base the discount rates on our estimates of returns that would be required by investors in investments with similar terms and credit quality. We estimate yields on the credit card receivables based on stated annual percentage rates and applicable terms and conditions governing fees as set forth in the credit card agreements, and we base estimated default and payment rates on historical results, adjusted for expected changes based on our credit risk models. We typically charge off credit card receivables when the receivables become 180 days past due, although earlier charge offs may occur specifically related to accounts of bankrupt or deceased customers. We generally charge off bankrupt and deceased customers' accounts within 30 days of verification.

Our retained interests in credit card receivables securitized (labeled as securitized earning assets on our consolidated balance sheets) include the following (in thousands):

	As of December 31,	
	2009	2008
I/O strip	$—	$132,360
Accrued interest and fees	—	22,723
Net servicing liability	(15,458)	(10,670)
Amounts due from securitization	1,570	12,369
Fair value of retained interests	52,396	659,156
Issuing bank partner continuing interests	(1,994)	(2,145)
Securitized earning assets	$36,514	$813,793

The I/O strip reflects the fair value of our rights to future income from securitizations arranged by us and includes certain credit enhancements. Accrued interest and fees represent the estimated collectible portion of fees earned but not billed to the cardholders underlying the credit card receivables portfolios we have securitized. For those securitization trusts with securitization facilities that have entered either early or planned amortization status (which is now the case for all our securitization trusts), we include the total fair value of our residual interests within the fair value of retained interest line item as of December 31, 2009 (i.e., with no segregated break-out of I/O strip fair value or accrued interest and fee balances). Amounts due from securitization represent cash flows that are distributable to us from the prior month's cash flows within each securitization trust; we generally expect to receive these amounts within 30 days from the close of each respective month. Lastly, we measure retained interests at fair value as set forth within the fair value of retained interests category in the above table.

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The net servicing liability in the above table reflects on a net basis, for those securitization structures for which servicing compensation is not adequate, the fair value of the net costs to service the receivables above and beyond the net servicing income we expect to receive from the securitizations. We initially record a servicing asset or a servicing liability associated with a securitization structure when the servicing fees we expect to receive do not represent adequate compensation for servicing the receivables. We record these initial servicing assets and servicing liabilities at estimated fair market value, and then we evaluate and update our servicing asset and servicing liability fair value estimates at the end of each financial reporting period. We present the net of our servicing assets and liabilities (i.e., a net servicing liability) in the above table, and we include changes in net servicing liability fair values within loss on securitized earning assets on our consolidated statements of operations (and more specifically as a component of loss on retained interests in credit card receivables securitized). Because quoted market prices generally are not available for our servicing liabilities, we estimate fair values based on the estimated present value of future cash flows.

The primary risk inherent within the determination of our net servicing liability is our ability to control our servicing costs relative to the servicing revenues we receive from our securitization trusts. We do not consider our servicing revenue stream to be a particularly significant risk because, with respect to a substantial majority of the receivables we service, even in the event of early amortization of our securitization facilities, we will continue to receive servicing revenues through the securitization waterfalls in the same manner and in no lower rate of compensation than we do currently. We have no instruments that we use to mitigate the income statement effects of changes in the fair value of our net servicing liability.

Reflected within servicing income on our consolidated statements of operations are servicing income (fees) we have received from both our securitization trusts and equity-method investees that have contracted with us to service their assets. The servicing fees received exclusively from our securitization trusts were $89.1 million and $154.8 million for the years ended December 31, 2009 and 2008, respectively. Changes in our net servicing liability for each financial reporting period presented are summarized (in millions) in the following table:

	For the Year Ended December 31, 2009	2008
Net servicing liability at beginning of period	$10.7	$22.8
Changes in fair value of net servicing liability due to changes in valuations inputs, including receivables levels within securitization trusts, length of servicing period, servicing costs and changes in servicing compensation rates (including an assumed 0.0% servicing compensation rate once debt holders have been repaid in an early amortization scenario that we first used in our retained interests fair value computations in the third quarter of 2009)	4.8	(12.1)
Balance at end of period	$15.5	$10.7

Changes in any of the assumptions used to value our retained interests in our securitizations can materially affect our fair value estimates. Case in point is our assumption change made in the third quarter of 2009, wherein we concluded that a buyer of the residual interests in our upper and lower-tier originated portfolio master trusts would likely discount its purchase price for such residual interests to reflect the subsequently borne out risks that the securitization facilities underlying such trusts could soon enter early amortization status, thereby significantly delaying the buyer’s receipt of cash upon a purchase of such residual interests until all underlying securitization facilities were completely repaid. Other key assumptions we have used to estimate the fair value of our retained interests in the credit card receivables securitized are presented (as weighted averages) below:

	As of December 31, 2009	2008
Net collected yield (annualized)	31.3%	38.7%

Principal payment rate (monthly)	2.2	%	4.2	%
Expected principal credit loss rate (annualized)	27.2	%	20.8	%
Residual cash flows discount rate	18.8	%	22.6	%
Servicing liability discount rate	14.0	%	14.0	%
Life (in months) of securitized credit card receivables	45.5		23.8	

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All of the above assumptions for the year ended December 31, 2009 are impacted to varying degrees by the removal of our residual interests in the lower-tier originated portfolio master trust from all of the weighted average computations subsequent to our December 2009 repayment of the trust's remaining outstanding securitization facilities. The trending decrease in our net collected yield and principal payment rates is a product of both (1) a general decline in payments being made by consumers and the expectation that this trend will continue and (2) the removal of our lower-tier originated portfolio master trust residual interests from these weighted average calculations. Also contributing to trending lower net collected yield assumptions are (1) the adverse effects of recent account closure actions for substantially all remaining credit card accounts on annual, monthly maintenance and certain other recurring types of credit card fees associated with open credit card accounts, (2) fee credit programs we have used at increasing levels to encourage consumers to make payments at higher levels within a distressed economy and (3) elevated late stage delinquencies and the expectation that these delinquencies will continue (i.e., as we do not assess fees and finance charge billings for credit card receivables in the later stages of delinquency). The increase in the expected principal credit loss rate at December 31, 2009 relative to December 31, 2008 reflects increased expected charge offs as a result of recent account closure actions and a significantly worsening employment outlook, but also reflects the removal of our lower-tier originated portfolio master trust residual interests from the weighted average calculations. Because principal receivables comprise a smaller percentage of total receivables for our lower-tier credit card accounts than for the other credit card accounts that we manage, the removal of our lower-tier credit card receivables from the calculations contributed to an increased weighted expected principal credit loss rate assumption.

Our retained interests valuation models recognize in computing the residual cash flows discount rate that variations in collateral enhancement levels affect the returns that investors require on residual interests within securitization structures; specifically, with lower levels of collateral enhancement (and hence greater investment risk), investors in securitization structure residual interests will require higher investment returns, and with higher levels of collateral enhancement (and hence lower investment risk), investors in securitization structure residual interests will require lower investment returns. The decline in the December 31, 2009 residual cash flows discount rate relative to December 31, 2008 reflects (1) a narrowing of market interest rate spreads above the one-month LIBOR interest rate index applicable in most of our securitizations between these two dates, (2) our recent experiences (as we have collaborated with other market participants on potential portfolio purchase opportunities) with respect to the levels of returns on equity that market participants desire to achieve in transactions (which have dropped relative to December 31, 2008 levels), and (3) excess levels of collateral enhancement that build up fairly rapidly over the coming months given the early and planned amortization status of our securitization facilities at December 31, 2009 (such levels of excess collateral enhancement not being built up in December 31, 2008 residual cash flows discount rate computations as there was not an early amortization scenario explicitly provided for in December 31, 2008 fair value computations).

The following illustrates the hypothetical effect on the December 31, 2009 value of our retained interests in credit card receivables securitized (dollars in thousands) of an adverse 10 and 20 percent change in our key quantitative valuation assumptions:

		Assumptions and Valuation Effects of Changes Thereto	
Net collected yield (annualized)		31.3	%
Impact on fair value of 10% adverse change	$	(15,816	)
Impact on fair value of 20% adverse change	$	(26,928	)
Payment rate (monthly)		2.2	%
Impact on fair value of 10% adverse change	$	(19,620	)
Impact on fair value of 20% adverse change	$	(33,699	)
Expected principal credit loss rate (annualized)		27.2	%

Impact on fair value of 10% adverse change	$	(16,981	)
Impact on fair value of 20% adverse change	$	(29,695	)
Residual cash flows discount rate		18.8	%
Impact on fair value of 10% adverse change	$	(4,942	)
Impact on fair value of 20% adverse change	$	(9,349	)
Servicing liability discount rate		14.0	%
Impact on fair value of 10% adverse change	$	(602	)
Impact on fair value of 20% adverse change	$	(1,171	)

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These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% and a 20% variation in assumptions generally cannot be extrapolated because the relationship of a change in assumption to the change in fair value of our retained interests in credit card receivables securitized may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumptions; in reality, changes in one assumption may result in changes in another. For example, increases in market interest rates may result in lower prepayments and increased credit losses, which could magnify or counteract the sensitivities.

Our managed receivables portfolio underlying our securitizations (including only those of our consolidated subsidiaries) is comprised of our retained interests in the credit card receivables we have securitized and other investors' shares of these securitized receivables. The investors' shares of securitized credit card receivables are not our assets. The following table summarizes (in thousands) the balances included within, and certain operating statistics associated with, our managed receivables portfolio underlying both the outside investors' shares of and our retained interests in our credit card receivables securitizations. These figures include the results of our lower-tier credit cards prior to their re-consolidation in the fourth quarter of 2009.

	As of December 31,	
	2009	2008
Total managed principal balance	$1,194,946	$2,157,626
Total managed finance charge and fee balance	124,030	485,453
Total managed receivables	1,318,976	2,643,079
Cash collateral at trust and amounts due from QSPEs	20,349	125,051
Total assets held by QSPEs	1,339,325	2,768,130
QSPE-issued notes to which we are subordinated	(1,043,476)	(1,728,996)
Face amount of residual interests in securitizations	$295,849	$1,039,134
Receivables delinquent—60 or more days	$187,610	$458,795
Net charge offs during each year	$543,538	$559,261

Data in the above table are aggregated from the various QSPEs that underlie our securitizations. QSPE-issued notes (in millions) to which we are subordinated within our various securitization structures historically have been our most significant source of liquidity and include the following:

	As of December 31,	
	2009	2008
Six-year term securitization facility (expiring October 2010) issued out of our upper-tier originated portfolio master trust (1)	$—	$264.0
Two-year variable funding securitization facility with renewal options (expiring January 2010) issued out of our upper-tier originated portfolio master trust	750.0	370.0
Five-year term securitization facility (which was repaid September 30, 2009) issued out of our upper-tier originated portfolio master trust	—	286.6
Two-year variable funding securitization facility (which was repaid December 2009) issued out of our lower-tier originated portfolio master trust	—	260.5
Two-year amortizing securitization facility (repaid upon expiration in December 2009) issued out of our lower-tier originated portfolio master trust	—	137.5
Multi-year variable funding securitization facility (expiring September 2014) issued out of the trust associated with our securitization of $92.0 million and $72.1 million (face amount) in credit card receivables acquired in 2004 and 2005, respectively	7.6	16.4
Amortizing term securitization facility (denominated and referenced in U.K. sterling and expiring April 2014) issued out of our U.K. Portfolio securitization trust	247.7	310.3
	38.2	83.7

Ten-year amortizing term securitization facility issued out of a trust underlying one of our portfolio acquisitions (expiring January 2014)		
Total QSPE-issued notes to which we are subordinated	$1,043.5	$1,729.0

1) In the third quarter of 2009, we purchased all of the notes associated with our six-year term securitization facility that had been issued to a third party out of our upper-tier originated portfolio master trust, and these notes were subsequently cancelled.

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Because we hold residual retained interests in our securitization trusts, we remain subject to largely the same types and levels of risks to which we would be subject if we did not transfer our credit card receivables to our securitization trusts. These risks include: interest rate risks; payment, default and charge-off risks; regulatory risks related to the origination and servicing of the receivables; credit card fraud risks; risks associated with employment base and infrastructure that we maintain for servicing the receivables; and risks associated with the availability of funding for and cost of funding the securitizations. As securitization facility notes mature, there can be no assurance that they will be renewed or replaced on terms as favorable as their current terms or at all. Moreover, adverse developments in one or more of the factors underlying these above-denoted risks can lead to (and has in fact led to) early amortization of the outstanding series of notes issued by our securitization trusts.

Except as described below or as set forth in Note 14, "Commitments and Contingencies," concerning guarantee agreements and note purchase agreements associated with our securitization of certain acquired credit card receivables portfolios, we have no explicit or implicit arrangements under which we have provided or could be called upon to provide financial support to our securitization trusts or their beneficiaries, and there are no events or circumstances that could expose us to losses in excess of the carrying amounts of our retained interests. However, as servicer for the receivables held in our securitization trusts, we have significant continuing involvement in overseeing the receivables and their collection, and we perform a variety of functions that benefit our securitization trusts (and their beneficiaries, including our transferor subsidiaries). We incur significant costs associated with this continuing involvement (costs that are reflected in the determination of our net servicing liability in cases where we do not receive adequate compensation for our servicing obligations).

As servicer, we provide call center customer support and collections services on behalf of the securitization trusts. The objective of the collections process is to maximize the amount collected in the most cost effective and customer-friendly manner possible. To fulfill this objective, on behalf of the securitization trusts (and their beneficiaries, including our transferor subsidiaries), we employ the traditional cross-section of letters and telephone calls to encourage payment, and we exercise broad discretion under our credit card servicing guidelines to apply customer payments to finance charges or principal; to waive interest and fees or otherwise provide promotional or matching payments and other credits (including principal credits) to avoid negative amortization and to encourage prompter and larger payments; to send out mailings for promotional marketing-oriented collection programs or to facilitate balance transfer marketing programs on behalf of our bank partners; and to re-age customer accounts that meet applicable regulatory qualifications for re-aging or otherwise adjust billing cycles and practices to reflect operational objectives. These and other collection-oriented techniques and practices have varying effects on the statistical performance of the receivables held by our securitization trusts and thereby have varying effects on the beneficiaries of the securitization trusts, including our transferor subsidiaries.

Structured Financings

Beyond the securitizations discussed above, we have entered into certain non-recourse, asset-backed structured financing transactions within our Auto Finance and Investments in Previously Charged-Off Receivables segments. We consolidate the assets (auto finance receivables, which are presented as loans and fees receivable pledged as collateral under structured financings, net, on our consolidated balance sheets, and investments in previously charged-off receivables) and debt (classified within notes payable and other borrowings on our consolidated balance sheets) associated with these structured financings on our balance sheet because the transactions do not meet the legal isolation and other off-balance-sheet securitization criteria for de-recognition and because we are the primary beneficiary of the structured financing transactions. Structured financing notes outstanding, the carrying amount of the auto finance receivables and investments in previously charged-off receivables that provide the exclusive means of repayment for the notes (i.e., lenders have recourse only to the specific auto finance receivables or investments in previously charged-off receivables underlying each respective facility and cannot look to our general credit for repayment), and the maximum exposure to loss (which represents the carrying amount of the pledged auto finance receivables and investments in previously charged-off receivables minus the non-recourse notes) are scheduled (in millions) as follows:

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	As of December 31, 2009	As of December 31, 2008
Carrying amount of auto finance receivables and investments in previously charged-off receivables underlying structured financings	$218.5	$340.6
Structured financing notes secured by $3.5 million and $5.4 million carrying amount of investments in previously charged-off receivables at December 31, 2009 and 2008, respectively	(4.9)	(4.1)
Structured financing notes secured by $51.4 million and $64.0 million carrying amount of CAR Financial Services ("CAR") auto finance receivables at December 31, 2009 and 2008, respectively	(31.0)	(37.0)
Structured financing notes secured by $47.5 million and $56.4 million carrying amount of JRAS auto finance receivables at December 31, 2009 and 2008, respectively	(26.8)	(27.1)
Structured financing notes secured by $116.0 million and $200.5 million carrying amount of ACC auto finance receivables at December 31, 2009 and 2008, respectively	(99.2)	(115.1)
Maximum exposure to loss under structured financings	$56.6	$157.3

Much like with our credit card securitizations, there is a waterfall within these structured financings that provides for a priority distribution of cash flows to us to service the underlying auto finance receivables and investments in previously charged-off receivables (cash flows that we consider adequate to meet our costs of servicing these assets), a distribution of cash flows to pay interest and principal due on the notes, and a distribution of all excess cash flows to us. The $99.2 million facility in the above table is secured by auto finance receivables with a carrying amount of $116.0 million at December 31, 2009; this particular facility is amortizing down along with collections of the underlying auto finance receivables and there are no provisions within the debt agreement that allow for acceleration or bullet repayment of the facility. As such, for all intents and purposes, there is no practical risk of equity loss associated with lender seizure of assets under this facility. For the other facilities listed in the above table, however, our failure at any time to meet the various covenants within the structured financings could cause early repayment of the facilities.

The $26.8 million JRAS facility matured as scheduled in January 2010 and although our JRAS subsidiary was in violation of the covenants underlying this facility at December 31, 2009, the lender has not pursued default remedies against JRAS at this time (although it has preserved all of its rights to do so), and we are in active discussions with the lender to provide for a modification of the covenants underlying the facility and to extend the payment terms of the facility. At risk as a result of the JRAS situation is approximately $20.7 million of our consolidated total equity at December 31, 2009 that is represented by our investment in JRAS.

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

See Note 12, "Notes Payable and Other Borrowings," for a detail of all notes payable and other borrowings, including these structured financings.

9. Fair Values of Assets

In February 2007, the FASB issued new accounting guidance, which allows companies to elect to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded into earnings. The new accounting guidance was effective for fiscal years beginning after November 15, 2007, and we adopted this statement with respect to our securitized earning assets (and their underlying credit card receivables) effective January 1, 2008.

In January 2008, we adopted accounting guidance that defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The guidance applies under other accounting pronouncements that require or permit fair value measurements, except accounting pronouncements that address share-based payment transactions and their related interpretive accounting pronouncements, and does not eliminate the practicability exceptions to fair value measurements in accounting pronouncements within the scope of the Statement. In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and

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include situations where there is little, if any, market activity for the asset or liability. Where inputs used to measure fair value may fall into different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety has been determined is based on the lowest level input that is significant to the fair value measurement in its entirety.

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

Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. For our assets measured on a recurring basis at fair value, the table below summarizes (in thousands) fair values as of December 31, 2009 by fair value hierarchy:

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets Measured at Fair Value
Investment securities—trading	$ 569	$ —	$ —	$ 569
Loans and fees receivable, at fair value	$ —	$ —	$ 42,299	$ 42,299
Securitized earning assets	$ —	$ —	$ 36,514	$ 36,514

For Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs, the following table presents (in thousands) a reconciliation of the beginning and ending balances for 2009:

	2009			
	Investment Securities—Trading	Loans and Fees Receivable, at Fair Value	Securitized Earning Assets	Total
Beginning balance	$—	$ —	$ 813,793	$ 813,793
Total gains (losses)—realized/unrealized:				
Net revaluations of/additions to retained interests (reported within loss on securitized earning assets)	—	—	(90,895)	(90,895)
Net revaluations of loans and fees receivable (reported within fees and related income on non-securitized earning assets)	—	(1,112)	—	(1,112)
Purchases, issuances, and settlements, net	—	43,411	(686,384)	(642,973)
Net transfers in and/or out of Level 3	—	—	—	—
Ending balance	$—	$ 42,299	$ 36,514	$ 78,813

	2009		
	Non-securitized Earning Assets, Net	Securitized Earning Assets	Total
Total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at year end	$(1,112)	$ (90,895)	$(92,007)

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

Net Revaluation of Retained Interests. We record the net revaluation of retained interests in the loss on securitized earning assets category in our consolidated statements of operations, specifically as loss on retained interests in credit card receivables securitized. The net revaluation of retained interests includes revaluations of our I/O strip, accrued interest and fees, servicing liabilities associated with our residual interests, amounts due from securitization, residual interests and issuing bank partner continuing interests. We estimate the present value of 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 and discount rates.

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Net Revaluation of Loans and Fees Receivable. We record the net revaluation of loans and fees receivable in the changes in fair value of loans and fees receivable recorded at fair value line item within the fees and related income on non-securitized earning assets category of our consolidated statements of operations. The net revaluation of loans and fees receivable is based on the present value of 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, servicing costs and discount rates.

Total Realized and Unrealized Losses. We record total realized and unrealized losses within the fees and related income from non-securitized earning assets category in our consolidated statements of operations. We formerly held certain securities available for sale that we classified as Level 3, indicating that significant valuation assumptions are not readily observable in the market due to limited trading activity. For those securities, the last of which we disposed of by June 30, 2008, we measured fair value using the best available data, in the form of quotes provided directly by various dealers associated with the securities and third-party valuations.

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

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

We were required to make such a determination of the fair value of goodwill and intangible assets associated with our Retail Micro-Loans segment in the second quarter of 2009 and in first quarter of 2008 with our decisions to discontinue that segment’s Arkansas and Texas operations, respectively. We estimated the fair value of those assets using Level 3 inputs, specifically discounted cash flow projections reflecting our best estimate of what third-party market participants would use in determining fair value, including estimates of yield, default rates, same-store growth (or liquidation) rates and payment rates. We recorded within loss from discontinued operations a non-cash goodwill impairment charge of $3.5 million and $1.1 million in second quarter of 2009 and the first quarter of 2008, respectively. We also recorded a $20.0 million goodwill impairment charge associated with our continuing Retail Micro-Loans segment operations in the second quarter of 2009.

For our assets measured on a non-recurring basis at fair value, the table below summarizes (in thousands) fair values as of December 31, 2009 by fair value hierarchy:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets Measured at Fair Value
Assets:				
Goodwill	$ —	$ —	$ 43,422	$ 43,422
Intangibles, net	$ —	$ —	$ 2,816	$ 2,816

10. Property

Details (in thousands) of our property on our consolidated balance sheets are as follows:

	As of December 31,	
	2009	2008

Software	$92,326	$87,020
Furniture and fixtures	18,558	20,415
Data processing and telephone equipment	85,145	84,574
Leasehold improvements	34,681	35,226
Vehicles	960	1,167
Buildings	1,008	1,008
Land	2,456	2,456
Other	381	649
Total cost	235,515	232,515
Less accumulated depreciation	(203,252)	(184,218)
Property, net	$32,263	$48,297

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As of December 31, 2009, the weighted-average remaining depreciable life of our depreciable property was 6.3 years.

11. Leases

We lease premises and certain equipment under cancelable and non-cancelable leases, some of which contain renewal options under various terms. Total rental expense associated with these operating leases was $20.4 million (including $0.0 million of lease termination and impairment expense) and $31.7 million (including $5.5 million of lease termination and impairment expense) for 2009 and 2008, respectively. During the fourth quarter of 2006, we entered into a 15-year lease for 411,125 square feet, 183,461 square feet of which we subleased in the second quarter of 2008 and the remainder of which houses our corporate offices and certain Atlanta-based call center operations. The 2008 sublease resulted in an impairment charge of $5.5 million. Construction of this new space began in January 2007, and we moved into the new building in June 2007. In connection with this lease, we received a $21.2 million construction allowance for the build-out of our new corporate offices. We are amortizing the construction allowance as a reduction of rent expense over the term of the lease. Upon the expiration of a lease facility in Peachtree City, Georgia during the third quarter of 2009, the operations associated with our Retail Micro-Loans segment were relocated to our Atlanta corporate offices. As of December 31, 2009, the future minimum rental commitments (in thousands) for all non-cancelable operating leases with initial or remaining terms of more than one year (both gross and net of any sublease income) are as follows:

	Gross	Sublease Income	Net
2010	$25,542	$(6,172)	$19,370
2011	19,521	(6,219)	13,302
2012	14,645	(4,569)	10,076
2013	13,138	(4,595)	8,543
2014	12,238	(4,622)	7,616
Thereafter	84,889	(38,630)	46,259
Total	$169,973	$(64,807)	$105,166

In addition, we lease certain equipment under cancelable and non-cancelable leases, which are accounted for as capital leases in our consolidated financial statements. As of December 31, 2009, the future minimum commitments (in thousands) for all non-cancelable capital leases with initial or remaining terms of more than one year are as follows:

	Note	Interest	Gross
2010	$873	$50	$923
2011	170	5	175
2012	16	1	17
2013	8	—	8
	$1,067	$56	$1,123

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12. Notes Payable and Other Borrowings

Notes payable consists of the following (in millions) as of December 31, 2009 and 2008:

	As of December 31, 2009	2008
Structured financings within our Auto Finance segment, average rate of 6.8% at December 31, 2008 (repaid in September 2009)	$—	$152.1
Third-party amortizing debt facility of ACC Auto Finance segment receivables, stated rate of 15.0% (effective rate of 20.6%) at December 31, 2009	99.2	—
Third-party revolving line of credit of CAR Auto Finance segment receivables, rate of 4.7%, payable in six straight-line monthly level payments from June 2011 to November 2011	31.0	—
Third-party financing of JRAS Auto Finance segment receivables, rate of 9.5%, due January 2010	26.8	27.1
Third-party financing of JRAS Auto Finance segment inventory, average rate of 24.0%, due January 2010	1.4	1.8
Vendor-financed software and equipment acquisitions, average rate of 5.5% at December 31, 2009, payable to 2010 through 2013	1.1	3.9
MEM secured debt, average rate of 4.1% at December 31, 2008, payable upon demand (repaid in December 2009)	—	7.2
MEM secured debt, average rate of 3.1% at December 31, 2008, payable through 2009 (repaid in December 2009)	—	3.3
MEM subordinated debt, rate of 9% at December 31, 2008, payable through 2009	—	0.4
Investment in Previously Charged-Off Receivables segment's asset-backed financing, rate of 12%, payable through 2011	4.9	4.1
Total notes payable	$164.4	$199.9

The scheduled maturities of our notes payable are $28.2 million in 2010, $37.0 million in 2011 and $99.2 million thereafter.

During the third quarter of 2009, we repaid $81.1 million of CAR and ACC notes payable within our Auto Finance segment as we were not able to reach satisfactory terms to renew or replace these debt facilities. In November 2009, an additional ACC Auto Finance segment debt facility scheduled above was repaid, and the collateral underlying that facility was then combined with other ACC Auto Finance segment collateral and pledged against a new amortizing $103.5 million debt facility, the terms of which do not require any accelerated or bullet repayment obligation by us. This facility includes a stated interest rate of 15.0% and provides for the sharing of residual cash flows subsequent to the debt repayment. Under applicable accounting guidance, we estimated the timing and extent of these future cash flows and we will accrete the additional payment as a charge to interest expense over the anticipated payment period. We currently estimate that this additional payment will total $5.8 million resulting in an effective interest rate paid under the facility of 20.6%.

In December 2009, our CAR auto finance operations entered into a $50 million revolving line of credit. This facility includes a stated interest rate of 4.7% and is secured by the receivables associated by our CAR auto finance operations; it amortizes down in six level monthly required payments beginning in June 2011.

The $26.8 million JRAS facility matured as scheduled in January 2010 and although our JRAS subsidiary was in violation of the covenants underlying this facility at December 31, 2009, the lender has not pursued default remedies against JRAS at this time (although it has preserved all of its rights to do so), and we are in active discussions with the lender to provide for a modification of the covenants underlying the facility and to extend the payment terms of the facility. Notwithstanding these efforts, the loan is currently callable and there can be no assurance that we will not be required to repay the facility in the near term; if the lender decides to subject this loan to immediate repayment, we would be required to repay the outstanding loan balance in full or could be forced to surrender the loan and fee receivables serving as collateral for the loan. As of December 31, 2009 the maximum exposure to loss under this structured financing was $20.7 million.

With the exception of our JRAS facility mentioned above, we are in compliance with the covenants underlying our various notes payable.

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13. Convertible Senior Notes

3.625% Convertible Senior Notes Due 2025

In May 2005, we issued $250.0 million aggregate principal amount of 3.625% convertible senior notes due 2025 to qualified institutional buyers in a private placement, and we subsequently registered the notes for resale with the SEC. The outstanding balances of these notes (net of repurchases since the issuance dates) are reflected within our convertible senior notes balance on our consolidated balance sheets. In 2009 and 2008, we repurchased $1.3 million and $18.2 million, respectively, in face amount of these notes. The purchase price for these notes totaled $0.5 million and $7.6 million (including accrued interest) and resulted in an aggregate gain of $0.7 million and $7.1 million (net of the notes' applicable share of deferred costs, which were written off in connection with the purchases) in 2009 and 2008, respectively.

During certain periods and subject to certain conditions (and as adjusted based on our December 31, 2009 dividend payment), the remaining $230.5 million of outstanding notes as of December 31, 2009 will be convertible by holders into cash and, if applicable, shares of our common stock at an adjusted effective conversion rate of 26.9108 shares of common stock per $1,000 principal amount of notes, subject to further adjustment; the conversion rate is based on an adjusted conversion price of $37.16 per share of common stock. Upon conversion of the notes, we will deliver to holders of the notes cash of up to $1,000 per $1,000 aggregate principal amount of notes and, at our option, either cash or shares of our common stock in respect of the remainder of the conversion obligation, if any. The maximum number of common shares that any note holder may receive upon conversion is fixed at 26.9108 shares per $1,000 aggregate principal amount of notes, and we have a sufficient number of authorized shares of our common stock to satisfy this conversion obligation should it arise. We may redeem the notes at our election commencing May 30, 2009 if certain conditions are met. In addition, holders of the notes may require us to repurchase the notes on each of May 30, 2012, 2015, and 2020 and upon certain specified events. Beginning with the six-month period commencing on May 30, 2012, we will pay contingent interest on the notes during a six-month period if the average trading price of the notes is above a specified level.

5.875% Convertible Senior Notes Due 2035

In November 2005, we issued $300.0 million aggregate principal amount of 5.875% convertible senior notes due 2035 to qualified institutional buyers in a private placement, and we subsequently registered the notes for resale with the SEC. These notes are reflected within our convertible senior notes balance on our consolidated balance sheets. In 2009 and 2008, we repurchased $2.0 million and $141.9 million, respectively, in face amount of these notes. The purchase price for these notes totaled $0.6 million and $39.6 million (including accrued interest) and resulted in an aggregate gain of $0.7 million and $54.6 million (net of the notes' applicable share of deferred costs, which were written off in connection with the purchases) in 2009 and 2008, respectively.

During certain periods and subject to certain conditions (and as adjusted based on our December 31, 2009 dividend payment), the remaining $156.0 million of outstanding notes as of December 31, 2009 will be convertible by holders into cash and, if applicable, shares of our common stock at an adjusted effective conversion rate of 22.1149 shares of common stock per $1,000 principal amount of notes, subject to further adjustment; the conversion rate is based on an adjusted conversion price of $45.22 per share of common stock. Upon conversion of the notes, we will deliver to holders of the notes cash of up to $1,000 per $1,000 aggregate principal amount of notes and, at our option, either cash or shares of our common stock in respect of the remainder of the conversion obligation, if any. The maximum number of common shares that any note holder may receive upon conversion is fixed at 22.1149 shares per $1,000 aggregate principal amount of notes, and we have a sufficient number of authorized shares of our common stock to satisfy both this conversion obligation and the conversion obligation under the 3.625% convertible senior notes should they arise.

Beginning with the six-month period commencing on January 30, 2009, we could pay contingent interest on the notes during a six-month period if the average trading price of the notes is above a specified level. Thus far we have not paid any contingent interest on these notes. In addition, holders of the notes may require us to repurchase the notes upon certain specified events.

In conjunction with the 2035 convertible senior notes offering, we entered into a thirty-year share lending agreement with Bear, Stearns International Limited ("BSIL") and Bear, Stearns & Co. Inc, as agent for BSIL, pursuant to which we lent BSIL 5,677,950 shares of our common stock in exchange for a loan fee of $0.001 per share. BSIL is required to return the loaned shares to us at the end of the thirty-year term of the share lending agreement or earlier upon the occurrence of specified events. BSIL has agreed to use the loaned shares for the purpose of directly or indirectly facilitating the hedging of our convertible senior notes by the holders thereof or for such other purpose as reasonably determined by us. In 2009 and 2008, 1,398,681 and 2,026,881, respectively of these lent shares were returned to us and retired.

We analogize the share lending agreement to a prepaid forward contract, which we have evaluated under applicable accounting guidance. We determined that the instrument was not a derivative in its entirety and that the embedded derivative

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would not require separate accounting. The net effect on shareholders' equity of the shares lent pursuant to the share lending agreement, which includes our requirement to lend the shares and the counterparties' requirement to return the shares, is the fee received upon our lending of the shares. As mentioned in the Recent Accounting Pronouncements section above, in June 2008, the FASB ratified a consensus reached by the EITF on the determination of whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. After considering these new rules, we re-affirmed our conclusion reached in 2005 that we are not required to bifurcate and separately account for any of the embedded features within our convertible senior notes. We have also considered new rules (also addressed in the above Recent Accounting Pronouncements discussion) that are effective for us in 2010 with respect to our share lending agreement, and we do not believe that these new rules will result in any material change to our consolidated financial position, consolidated results of operations, or earnings per share measurements. Moreover, these new rules validate our prior accounting conclusions that the shares of common stock subject to the share lending agreement are excluded from our earnings per share calculations.

Accounting Change

Upon our January 1, 2009 required adoption of new accounting rules for Instrument C convertible notes (a classification applicable to our convertible senior notes), we (1) reclassified a portion of our outstanding convertible senior notes to additional paid-in capital, (2) established a discount to the face amount of the notes as previously reflected on our consolidated balance sheets, (3) created a deferred tax liability related to the discount on the notes, and (4) reclassified out of our originally reported deferred loan costs and into additional paid-in capital the portion of those costs considered under the new rules to have been associated with the equity component of the convertible senior notes issuances. We are amortizing the discount to the face amount of the notes to interest expense over the expected life of the notes, and this will result in a corresponding release of our associated deferred tax liability. Total amortization for the years ended December 31, 2009 and 2008 (under retrospective application) totaled $10.2 million and $10.1 million, respectively. We will amortize the remaining discount at December 31, 2009 to interest expense over the expected term of the convertible senior notes (currently expected to be May 2012 and October 2035 for the 3.625% and 5.875% notes, respectively). The weighted average effective interest rate for the 3.625% and 5.875% notes was 9.2% for all periods presented.

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

	As of December 31,	
	2009	2008
Face amount of outstanding convertible senior notes	$386,551	$389,851
Discount	(78,978)	(90,017)
Net carrying value	$307,573	$299,834
Carrying amount of equity component included in additional paid-in capital	$108,714	$108,714
Excess of instruments' if-converted values over face principal amounts	$—	$—

2010 Repurchase Activity

Under the terms of a tender offer for the repurchase of both series of our convertible senior notes, in March 2010 we repurchased $24.7 million in face amount of our 3.625% notes and $15.6 million in face amount of our 5.875% notes for $12.6 million and $5.5 million, respectively, both amounts being inclusive of transactions costs and accrued interest through the date of our repurchase of the notes.

14. Commitments and Contingencies

General

In the normal course of business through the origination of unsecured credit card receivables, we incur off-balance-sheet risks. These risks include one of our subsidiary's (i.e., CompuCredit Corporation's) commitments of $78.6 million at December 31, 2009 to purchase receivables associated with cardholders who have the right to borrow in excess of their current balances up to the maximum credit limit on their credit card accounts. These commitments involve, to varying

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degrees, elements of credit risks in excess of amounts we can fund through our securitization facilities. We have not experienced a situation in which all of our customers have exercised their entire available line of credit at any given point in time, nor do we anticipate this will ever occur in the future. We also have the effective right to reduce or cancel these available lines of credit at any time, which we have now done with respect to substantially all of our outstanding cardholder accounts.

For various receivables portfolio investments we have made through our subsidiaries and equity-method investees, CompuCredit Corporation has entered into guarantee agreements and/or note purchase agreements whereby CompuCredit Corporation has agreed to guarantee the purchase of or purchase directly additional interests in portfolios of credit card receivables owned by trusts, the retained interests in which are owned by its subsidiaries and equity-method investees, should there be net new growth in the receivables or should collections not be available to fund new cardholder purchases. As of December 31, 2009, neither CompuCredit Corporation nor any of its subsidiaries or equity-method investees had purchased or been required to purchase any additional notes under the note purchase agreements. CompuCredit Corporation’s guarantee is limited to its respective ownership percentages in the various subsidiaries and equity-method investees multiplied by the total amount of the notes that each of the subsidiaries and equity-method investees could be required to purchase. As of December 31, 2009, the maximum aggregate amount of CompuCredit Corporation’s collective guarantees and direct purchase obligations related to all of its subsidiaries and equity-method investees was $72.0 million—a decrease from $152.0 million at December 31, 2008 as a result of further account actions and declines in our liquidating credit card receivables portfolios. In general, this aggregate contingency amount will decline in the absence of portfolio acquisitions as the aggregate amounts of credit available to cardholders for future purchases decline along with our liquidation of the purchased portfolios and a corresponding reduction in the number of open cardholder accounts. The acquired credit card receivables portfolios of all of CompuCredit Corporation’s affected subsidiaries and equity-method investees have declined with each passing quarter since acquisition and we expect them to continue to decline because we expect combined payments and charge offs to exceed new purchases each month. We currently do not have any liability recorded with respect to these guarantees or direct purchase obligations, but we will record one if events occur that make payment probable under the guarantees or direct purchase obligations. The fair value of these guarantees and direct purchase obligations is not material.

CompuCredit Corporation’s third-party originating financial institution relationships require security for its purchases of their credit card receivables, and CompuCredit Corporation has pledged $2.2 million in collateral as such security as of December 31, 2009. In addition, in connection with our U.K. Portfolio acquisition, CompuCredit Corporation guarantees certain obligations of its subsidiaries and its third-party originating financial institution to one of the European payment systems ($4.0 million as of December 31, 2009). Those obligations include, among other things, compliance with one of the European payment system’s operating regulations and by-laws. CompuCredit Corporation also guarantees certain performance obligations of its servicer subsidiary to the indenture trustee and the trust created under the securitization relating to our U.K. Portfolio.

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

Total System Services, Inc. provides certain services to CompuCredit Corporation as a system of record provider under an agreement that extends through May 2015. Were CompuCredit Corporation to terminate its U.S. relationship with Total System Services, Inc. prior to the contractual termination period, it would incur significant penalties ($20.8 million as of December 31, 2009).

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

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On May 23, 2008, CompuCredit Corporation and one of our other subsidiaries filed a complaint against CB&T in the Georgia State Court, Fulton County, (subsequently transferred to the Georgia Superior Court, Fulton County) in an action entitled CompuCredit Corporation et al. vs. CB&T et al., Civil Action No. 08-EV-004730-F. Among other things, the complaint as now amended alleges that CB&T, in violation of its contractual obligations, failed to provide us rebates, marketing fees, revenues or other fees or discounts that were paid or granted by Visa®, MasterCard®, or other card associations with respect to or apportionable to accounts covered by CB&T's agreements with us and other consideration due to us. The complaint also alleges that CB&T refused to approve changes requested by us to the terms of the credit card accounts and refused to permit certain marketing, all in violation of the agreements among the parties. Also in this litigation, CB&T has asserted claims against CompuCredit Corporation for alleged failure to follow certain account management guidelines and for reimbursement of certain legal fees that it has incurred associated with CompuCredit Corporation's contractual relationship with CB&T. Settlement discussions are at an advanced stage, but CompuCredit cannot provide any assurances regarding their outcome.

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

CompuCredit Corporation received a demand dated August 25, 2008, from a shareholder, Ms. Sue An, that CompuCredit Corporation take action against all of its directors and two of its officers for alleged breaches of fiduciary duty. In general, the alleged breaches are the same as the actions that were the subject of the class action securities case prior to its dismissal. Our Board of Directors appointed a special litigation committee to investigate the allegations; that investigation has now been concluded; and we have communicated that conclusion to Ms. Sue An's legal counsel. Ms. An has filed suit, which is in the early stages. We will vigorously contest the allegations in that complaint.

Our debt collections subsidiary, Jefferson Capital, was a party to a series of agreements with Encore. In general, Encore was obligated to purchase from Jefferson Capital certain defaulted credit card receivables. The agreements also required Encore to sell certain charged-off receivables to Jefferson Capital under its balance transfer program and chapter 13 bankruptcy agreements. On July 10, 2008, Encore did not purchase certain accounts as contemplated by the agreements, alleging that we breached certain representations and warranties set forth in the agreements, generally as a result of the allegations made by the FTC and settled by us in December 2008. This dispute was submitted to the American Arbitration Association for resolution. Immediately prior to the arbitration panel hearing in the third quarter of 2009, we settled our outstanding disputes with Encore. The settlement resulted in the recognition of the remaining $21.2 million in deferred revenue in the third quarter of 2009 and a corresponding release of $8.7 million in restricted cash—both in exchange for Encore's purchase of previously charged-off credit card receivables that had been offered to Encore throughout the period covered by the forward flow agreement and Encore's resumed offering of volumes of previously charged-off receivables it has purchased for placement under our balance transfer program. Inclusive of all liabilities extinguished and amounts received and paid in connection with our settlement with Encore, the settlement resulted in a net gain of $11.0 million which is reflected in our consolidated statements of operations for the year ended December 31, 2009.

On December 21, 2009, certain holders of our 3.625% Convertible Senior Notes Due 2025 and 5.875% Convertible Senior Notes Due 2035 filed a lawsuit in the U.S. District Court for the District of Minnesota seeking, among other things, to enjoin our December 31, 2009 cash distribution to shareholders and a potential future spin-off of our micro-loan businesses. We prevailed in court at a December 29, 2009 hearing concerning the plaintiffs' motion for a temporary restraining order against our December 31, 2009 cash distribution to shareholders, and that distribution was made as originally contemplated on that date. On January 26, 2010, we filed a motion to dismiss all claims. Subsequently, on February 22, 2010, the plaintiffs purported to file an amended complaint, seeking, among other things damages in connection with our December 31, 2009 cash dividend and an injunction preventing future distributions to shareholders, including the proposed spin-off of our micro-loan businesses. The litigation remains pending and we do not know when the court will rule on our motion to dismiss. Consequently, should our Board of Directors ultimately approve a spin-off of our micro-loan businesses, it is possible that the spin-off ultimately might be delayed or enjoined by court order.

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15. Income Taxes

Deferred tax assets and liabilities reflect the effects of tax losses, credits, and the future income tax effects of temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates that apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The current and deferred portions (in thousands) of federal and state income tax benefit or expense as the case may be are as follows:

	For the Year Ended December 31, 2009	2008
Federal income tax (benefit) expense:		
Current tax (benefit) expense	$(112,255)	$(18,943)
Deferred tax (benefit) expense	(70,499)	(50,753)
Total federal income tax (benefit) expense	(182,754)	(69,696)
Foreign income tax (benefit) expense:		
Current tax (benefit) expense	2,984	1,067
Deferred tax (benefit) expense	369	691
Total foreign income tax (benefit) expense	3,353	1,758
State and other income tax (benefit) expense:		
Current tax (benefit) expense	(8)	364
Deferred tax (benefit) expense	(1,007)	(1,417)
Total state and other income tax (benefit) expense	(1,015)	(1,053)
Total income tax (benefit) expense	$(180,416)	$(68,991)

Income tax (benefit) expense in 2009 and 2008 differed from amounts computed by applying the statutory U.S. federal income tax rate to pretax income from consolidated operations principally as a result of the impact of the establishment in 2009 of valuation allowances on certain federal deferred tax assets, foreign tax expense including the establishment of valuation allowances on certain foreign deferred tax assets, unfavorable state income tax effects in certain jurisdictions and unfavorable permanent differences, including the effects of accruals for uncertain tax positions. The following table reconciles our effective tax benefit rates to the federal statutory rate:

	For the Year Ended December 31, 2009	2008
Statutory rate	35.0 %	35.0 %
(Decrease in income tax benefit) increase in income tax expense resulting from:		
Change in valuation allowances	(9.6)	(1.0)
Interest and penalties related to uncertain tax positions	(0.1)	(0.6)
Foreign income taxes , including indefinitely invested earnings of foreign subsidiaries	0.4	(1.2)
State and other income taxes and other differences, net	(1.0)	0.6
Effective tax benefit rate	24.7 %	32.8 %

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As of December 31, 2009 and December 31, 2008, the significant components (in thousands) of our deferred tax assets and liabilities were:

	As of December 31, 2009	2008
Deferred tax assets:		
Software development costs/fixed assets	$6,015	$2,797
Equity in income of equity-method investees	2,321	4,791
Goodwill and intangible assets	30,594	25,890
Deferred costs	2,366	2,724
Provision for loan loss	15,566	20,138
Equity based compensation	8,263	6,813
Charitable contributions	5,300	5,119
Other	3,035	7,703
Federal net operating loss carryforward	158,458	46,122
Federal credit carryforward	214	—
Foreign net operating loss carryforward	2,299	—
AMT credit carryforward	—	3,931
State tax benefits	32,444	32,694
	266,875	158,722
Valuation allowance	(102,729)	(34,750)
	164,146	123,972
Deferred tax liabilities:		
Prepaid expenses	(1,901)	(2,391)
Mark-to-market	(17,119)	2,803
Securitization-related income	(41,910)	(136,445)
Interest on debentures	(33,098)	(35,556)
Convertible senior notes	(27,750)	(31,576)
Cancellation of indebtedness income	(50,315)	—
	(172,093)	(203,165)
Net deferred tax liability	$(7,947)	$(79,193)

The amounts reported for both 2009 and 2008 have been adjusted to account for the reclassification of unrecognized tax benefits as required by applicable accounting literature.

We incurred federal, foreign and state net operating losses during 2009 and 2008, certain amounts that we will carry forward to future tax years to reduce future federal, foreign and state tax due. New U.S. federal legislation was passed in November, 2009 that allows for an extended carryback period (up to five years) for net operating losses incurred in 2008 or 2009. As a result of the legislation, we recorded a current benefit related to this available carry back. The remaining net operating loss carryforwards after giving effect to the available carryback are included as deferred tax assets in the table above. Certain of the deferred tax assets related to federal, foreign and state net operating losses have been offset by valuation allowances as discussed below.

Our deferred tax asset valuation allowances are primarily the result of uncertainties regarding the future realization of recorded tax benefits on tax loss or credit carry-forwards from operations in the U.S. (both federal and state) and foreign jurisdictions. Approximately $47.8 million of our valuation allowances relate to entities that are not expected for the foreseeable future to generate a taxable profit in these federal, foreign and state jurisdictions. Therefore, it is more likely than not that these net operating losses or credits will not be utilized to reduce future federal, foreign and state tax liabilities in these jurisdictions. There are no other net operating losses or credit carry-forwards other than those described herein.

We generally do not provide income taxes on the undistributed earnings of non-U.S. subsidiaries because such earnings are intended to be reinvested indefinitely to finance foreign activities. Because this determination involves our future plans and expectations of future events, the possibility exists that amounts declared as indefinitely reinvested offshore may ultimately be repatriated. For instance, the actual cash needs of our U.S. entities may exceed our current expectations, or the actual cash needs of our foreign entities may be less than our current expectations. These additional foreign earnings could be subject to additional tax if remitted, or deemed remitted, as a dividend, in the year we determined that amounts were no longer indefinitely reinvested offshore; however, it is not practicable to estimate the additional amount, if any, of taxes payable.

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We conduct business globally, and as a result, one or more of our subsidiaries files U.S. federal, state and/or foreign income tax returns. In the normal course of business we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as the U.S., the U.K., the Netherlands and India. With a few exceptions, we are no longer subject to U.S. federal, state, local, or foreign income tax examinations for years prior to 2005. Currently, we are under audit by various jurisdictions for various years. Although the audits have not been concluded, we do not expect any material changes to our reported tax positions.

We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. During 2009 and 2008, we recognized $2.8 million and $2.5 million, respectively, in potential interest and penalties associated with uncertain tax positions, and to the extent such interest and penalties are not assessed as a result of a resolution of the underlying tax position, amounts accrued will be reduced and reflected as a reduction of income tax expense. We recognized such a reduction in the amount of $2.5 and $2.6 million related to the closing of the statute of limitations for the 2005 and 2004 tax year, respectively.

Reconciliation (in thousands) of unrecognized tax benefits from the beginning to the end of 2009 is as follows:

	2009
Balance at January 1, 2009	$(67,262)
Additions based on tax positions related to the prior year	(28,099)
Reductions based on tax positions related to the prior year	8,147
Additions based on tax positions related to the current year	(607)
Reductions based on tax positions related to the current year	34,918
Interest and penalties accrued	(2,805)
Reductions for tax positions of prior years for lapses of applicable statute of limitations	2,498
Balance at December 31, 2009	$(53,210)

Unrecognized tax benefits that, if recognized, would affect the effective tax rate totaled $14.4 million and $13.6 million at December 31, 2009 and 2008, respectively.

The total amount of unrecognized tax benefits with respect to certain of our unrecognized tax positions will significantly change as a result of the lapse of applicable state and federal limitations periods in the next 12 months. However, it is not reasonably possible to determine which (if any) limitations periods will lapse in the next 12 months due to the effect of existing and new tax audits and tax agency determinations. Moreover, the net amount of such change cannot be reasonably estimated because our operations over the next 12 months may cause other changes to the total amount of unrecognized tax benefits. Due to the complexity of the tax rules underlying our uncertain tax position liabilities, and the unclear timing of tax audits, tax agency determinations, and other events (such as the outcomes of tax controversies involving related issues with unrelated taxpayers), we cannot establish reasonably reliable estimates for the periods in which the cash settlement of our uncertain tax position liabilities will occur.

16. Net Loss Attributable to Controlling Interests Per Common Share

We compute earnings per share ("EPS") attributable to our common shareholders by dividing income or loss attributable to controlling interests by the weighted-average common shares outstanding including participating securities outstanding during the period, as discussed below. Diluted EPS reflects the potential dilution beyond shares for basic EPS that could occur if securities or other contracts to issue common stock were exercised, were converted into common stock or were to result in the issuance of common stock that would share in our earnings.

On January 1, 2009, we adopted new accounting rules that require us to include all unvested stock awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, in the number of shares outstanding in our basic and diluted EPS calculations. Common stock and unvested share-based payment awards earn dividends equally, and we have included all outstanding restricted stock awards in our calculation of basic and diluted EPS for current and prior periods.

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

	For the Year Ended December 31,	
	2009	2008
Numerator:		
Loss from continuing operations attributable to controlling interests	$(536,600)	$(133,587)
Loss from discontinued operations attributable to controlling interests	$(4,289)	$(5,886)
Loss attributable to controlling interests	$(540,889)	$(139,473)
Denominator:		
Basic (including unvested share-based payment awards) (1)	47,683	47,586
Effect of dilutive stock options and warrants (2)	47	48
Diluted (including unvested share-based payment awards) (1)	47,730	47,634
Loss from continuing operations attributable to controlling interests per common share—basic	$(11.25)	$(2.81)
Loss from continuing operations attributable to controlling interests per common share—diluted	$(11.25)	$(2.81)
Loss from discontinued operations attributable to controlling interests per common share—basic	$(0.09)	$(0.12)
Loss from discontinued operations attributable to controlling interests per common share—diluted	$(0.09)	$(0.12)
Net loss attributable to controlling interests per common share—basic	$(11.34)	$(2.93)

(1) Shares related to unvested share-based payment awards that we included in our basic and diluted share counts are as follows: 796,455 and 803,873 shares for the years ended December 31, 2009 and 2008, respectively.

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

As their effects were anti-dilutive due to our net losses, we excluded all of our stock options and 367,412 and 321,376 of unvested restricted share units, respectively, from our net loss attributable to controlling interests per common share calculations for the years ended December 31, 2009 and 2008, respectively.

For the years ended December 31, 2009 and 2008, there were no shares potentially issuable and thus includible in the diluted net income per common share calculation under our 3.625% convertible senior notes due 2025 issued in May 2005 and 5.875% convertible senior notes due 2035 issued in November 2005. However, in future reporting periods during which our closing stock price is above the respective $37.16 and $45.22 conversion prices for the May 2005 and November 2005 convertible senior notes, and depending on the closing stock price at conversion, the maximum potential dilution under the conversion provisions of the May 2005 and November 2005 convertible senior notes is approximately 6.2 million and 3.5 million shares, respectively, which could be included in diluted share counts in net income per common share calculations. See Note 13, “Convertible Senior Notes,” for a further discussion of these convertible securities.

17. Stock-Based Compensation

In connection with our holding company reorganization and pursuant to an Assumption Agreement dated as of June 30, 2009, we assumed CompuCredit Corporation’s equity incentive plans and Employee Stock Purchase Plan (the

"ESPP"). This allows us to grant equity awards under the CompuCredit Corporation 2008 Equity Incentive Plan (the "2008 Plan") and will permit our eligible employees to participate in the ESPP. The number of shares authorized for issuance under the 2008 Plan and the ESPP was not increased as a result of the reorganization. Outstanding awards under all of CompuCredit Corporation's equity incentive plans will continue in effect in accordance with the terms and conditions of the applicable plan and award, except that CompuCredit Holdings Corporation common stock has been substituted for CompuCredit Corporation common stock.

The 2008 Plan provides for grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units and incentive awards. The maximum aggregate number of shares of common stock that may be issued under this plan and to which awards may relate is 2,000,000 shares, and 1,366,165 shares remained available for grant under this plan as of December 31, 2009. Upon shareholder approval of the 2008 Plan in May 2008, all remaining shares available for grant under our previous stock option and restricted stock plans were terminated. Exercises and vestings under our stock-based employee compensation plans resulted in our recognition of an income tax-related charge to additional paid-in capital of $1.6 million and $1.4 million, respectively, for the years ended December 31, 2009 and 2008, respectively.

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Stock Options

Our 2008 Plan and its predecessor plans provide that we may grant options on or shares of our common stock to members of the Board of Directors, employees, consultants and advisors. The exercise price per share of the options may be less than, equal to or greater than the market price on the date the option is granted. The option period may not exceed 10 years from the date of grant. The vesting requirements for options granted by us range from immediate to 5 years. During the years ended December 31, 2009 and 2008, we expensed stock-option-related compensation costs of $2.1 million and $2.0 million, respectively. We recognize stock-option-related compensation expense for any awards with graded vesting on a straight-line basis over the vesting period for the entire award. Information related to options outstanding is as follows:

	For the Year Ended December 31, 2009			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average of Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2009	840,664	$ 31.04		
Cancelled/Forfeited	(50,664)	19.97		
Outstanding at December 31, 2009	790,000	$ 31.75	3.2	$—
Exercisable at December 31, 2009	40,000	$ 27.90	1.5	$—

	For the Year Ended December 31, 2008			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average of Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2008	666,264	$ 36.99		
Granted	200,000	8.66		
Exercised	(11,000)	6.72		
Cancelled/Forfeited	(14,600)	14.67		
Outstanding at December 31, 2008	840,664	$ 31.04	3.9	$—
Exercisable at December 31, 2008	90,664	$ 23.47	1.2	$—

The following table summarizes information about stock options outstanding as of December 31, 2009:

	Options Outstanding			Options Exercisable		
Exercise price	Number Outstanding	Weighted Remaining Average Contractual Life (in Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Remaining Average Contractual Life (in Years)	Weighted Average Exercise Price
0.00 – $$12.00	220,000	3.2	$8.49	20,000	2.3	$6.79
25.01 – $$50.00	570,000	3.2	$40.72	20,000	0.7	$49.00
	790,000	3.2	$31.75	40,000	1.5	$27.90

As of December 31, 2009, our unamortized deferred compensation costs associated with non-vested stock options were $2.2 million. There were no stock option exercises during 2009.

We have estimated the fair value of options granted in 2008 at the date of grant using a Black-Scholes option-pricing model with the assumptions described below. No options were granted during 2009.

Assumptions (1)	2008	
Fair value per share	$2.16	
Dividend yield	—	
Volatility factors of expected market price of stock(2)	30.00	%
Risk-free interest rate	2.00	%
Expected option term (in years)	3.50	

(1) No options were issued during 2009.

(2) We use the implied volatility evidenced within our publicly traded convertible bonds, warrants and over-the-counter stock options as a basis for the expected volatility assumption.

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Restricted Stock and Restricted Stock Unit Awards

During the years ended December 31, 2009 and 2008, we granted 211,454 and 712,545 shares of aggregate restricted stock and restricted stock units, respectively, with aggregate grant date fair values of $1.1 million and $6.9 million, respectively. When we grant restricted shares, we defer the grant date value of the restricted shares and amortize the grant date values of these shares (net of anticipated forfeitures) as compensation expense with an offsetting entry to the additional paid-in capital component of our consolidated shareholders' equity. Our issued restricted shares generally vest over a range of twenty-four to sixty months and are being amortized to salaries and benefits expense ratably over the respective vesting periods. As of December 31, 2009, our unamortized deferred compensation costs associated with non-vested restricted stock awards were $5.7 million with a weighted-average remaining amortization period of 1.5 years.

Occasionally, we issue or sell stock in our subsidiaries to certain members of the subsidiaries' management teams. The terms of these awards vary but generally include vesting periods comparable to those of stock issued under our restricted stock plan. Generally, these shares can be converted to cash or our stock (or in one case the stock of one of our subsidiaries) at our discretion after the specified vesting period or the occurrence of other contractual events. Ownership in these shares constitutes noncontrolling interests in the subsidiaries. We are amortizing these compensation costs commensurate with the applicable vesting period. The weighted-average remaining vesting period for stock still subject to restrictions was 1.2 years as of December 31, 2009.

18. Employee Benefit Plans

We maintain a defined contribution retirement plan ("401(k) plan") for our U.S. employees that provides for a matching contribution by us. All full time U.S. employees are eligible to participate in the 401(k) plan. Our U.K. credit card subsidiary offers eligible employees membership in a Group Personal Pension Plan which is set up with Friend's Provident. This plan is a defined contribution plan in which all permanent employees who have completed three months of continuous service are eligible to join the plan. Company matching contributions are available to U.K. employees who contribute a minimum of 3%. We contributed matching contributions under our U.S. and U.K. plans of $0.8 million and $1.1 million in 2009 and 2008, respectively.

Also, all employees, excluding executive officers, are eligible to participate in the ESPP to which we referred above. 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. Employees contributed $0.2 million to purchase 60,772 shares of common stock in 2009 and $0.4 million to purchase 65,054 shares of common stock in 2008 under the ESPP. The ESPP covers up to 150,000 shares of common stock. Our charge to expense associated with the ESPP was $52,000 and $84,000 in 2009 and 2008, respectively.

19. Related Party Transactions

During 2008, two of our executive officers and a member of our Board of Directors separately purchased an aggregate $3.4 million (face amount) of our outstanding convertible senior notes. The purchases were made at prevailing market prices from unrelated third parties. In 2009 we repurchased $1.0 million and $2.0 million in face amount of the 3.625% Convertible Senior Notes Due 2025 and the 5.875% Convertible Senior Notes Due 2035, respectively, from Krishnakumar Srinivasan (President of our Credit Cards segment). The purchase price of the notes totaled $1.0 million (including accrued interest) and resulted in an aggregate gain to us of $2.0 million (net of the notes' applicable share of deferred costs, which were written off in connection with the purchases).

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

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In June 2007, we entered into a sublease for 1,000 square feet of excess office space at our new Atlanta headquarters office location, to HBR Capital, Ltd., a corporation co-owned by David G. Hanna and Frank J. Hanna, III. The sublease rate of $22.44 per square foot is the same as the rate that we pay on the prime lease. This sublease expires in May of 2022.

In June, 2007, a partnership formed by Richard W. Gilbert (our Chief Operating Officer and Vice Chairman of our Board of Directors), Richard R. House, Jr. (our President and a member of our Board of Directors), J. Paul Whitehead III (our Chief Financial Officer), Krishnakumar Srinivasan (President of our Credit Cards segment), and other individual investors (including an unrelated third-party individual investor), acquired £4.7 million ($9.2 million) of class “B” notes originally issued to another investor out of our U.K. Portfolio securitization trust. This acquisition price of the notes was the same price at which the original investor had sold $60 million of notes to another unrelated third party. As of December 31, 2009, the outstanding balance of the notes held by the partnership was £1.1 million ($1.7 million). The notes held by the partnership comprise 0.7% of the $247.7 million in total notes within the trust on that date and are subordinate to the senior tranches within the trust. The “B” tranche bears interest at LIBOR plus 9%.

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on March 5, 2010.

CompuCredit Holdings Corporation

By: /s/ David G. Hanna
David G. Hanna
Chief Executive Officer and Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ DAVID G. HANNA David G. Hanna	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 5, 2010
/s/ J. PAUL WHITEHEAD, III J. Paul Whitehead, III	Chief Financial Officer (Principal Financial & Accounting Officer)	March 5, 2010
/s/ GREGORY J. CORONA Gregory J. Corona	Director	March 5, 2010
/s/ RICHARD W. GILBERT Richard W. Gilbert	Director	March 5, 2010
/s/ FRANK J. HANNA, III Frank J. Hanna, III	Director	March 5, 2010
/s/ RICHARD R. HOUSE, JR. Richard R. House, Jr.	Director	March 5, 2010
/s/ DEAL W. HUDSON Deal W. Hudson	Director	March 5, 2010

/s/ MACK F. MATTINGLY Mack F. Mattingly	Director	March 5, 2010
/s/ NICHOLAS B. PAUMGARTEN Nicholas B. Paumgarten	Director	March 5, 2010
/s/ THOMAS G. ROSENCRANTS Thomas G. Rosencrants	Director	March 5, 2010