

CompuCredit Holdings Corp
Form 10-Q
August 10, 2009

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

For the quarterly period ended June 30, 2009

of

COMPUCREDIT HOLDINGS CORPORATION
a Georgia Corporation

IRS Employer Identification No. 58-2336689

SEC File Number 0-53717

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CompuCredit Holdings Corporation has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding twelve months and has been subject to such filing requirements for the past ninety days. CompuCredit Holdings Corporation is not yet required to file Interactive Data Files.

CompuCredit Holdings Corporation is an accelerated filer and is not a shell company.

As of July 31, 2009, 47,732,253 shares of Common Stock, no par value, of CompuCredit Holdings Corporation were outstanding. (This excludes 3,651,069 loaned shares to be returned.)

COMPUCREDIT HOLDINGS CORPORATION

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

	June 30, 2009	December 31, 2008 (as adjusted)
Assets		
Cash and cash equivalents (including restricted cash of \$17,741 at June 30, 2009 and \$19,913 at December 31, 2008)	\$ 102,639	\$ 94,428
Securitized earning assets	471,366	813,793
Non-securitized earning assets, net:		
Loans and fees receivable, net (of \$22,810 and \$24,757 in deferred revenue and \$56,735 and \$55,753 in allowances for uncollectible loans and fees receivable at June 30, 2009 and December 31, 2008, respectively)	309,231	340,734
Investments in previously charged-off receivables	59,271	47,676
Investments in securities	3,598	4,678
Deferred costs, net	5,509	6,161
Property at cost, net of depreciation	39,292	48,297
Investments in equity-method investees	22,002	53,093
Intangibles, net	3,344	4,547
Goodwill	44,302	59,129
Prepaid expenses and other assets	43,870	52,575
Assets of discontinued operations	1,931	—
Total assets	\$ 1,106,355	\$ 1,525,111
Liabilities		
Accounts payable and accrued expenses	\$ 96,900	\$ 120,235
Notes payable and other borrowings	161,631	199,939
Convertible senior notes (Note 9)	304,572	299,834
Deferred revenue primarily from forward flow agreement	23,261	23,492
Current and deferred income tax liabilities	24,681	134,754
Liabilities related to discontinued operations	2,372	—
Total liabilities	613,417	778,254
Commitments and contingencies (Note 11)		
Equity		
Common stock, no par value, 150,000,000 shares authorized: 60,042,482 shares issued and 51,383,322 shares outstanding at June 30, 2009 (including 3,651,069 loaned shares to be returned); and 59,947,301 shares issued and 51,213,385 shares outstanding at December 31, 2008 (including 3,651,069 loaned shares to be returned)	—	—
Additional paid-in capital	522,053	522,571
Treasury stock, at cost, 8,659,160 and 8,733,916 shares at June 30, 2009 and December 31, 2008, respectively	(220,429)	(222,310)
Accumulated other comprehensive loss	(30,089)	(31,431)
Retained earnings	206,288	453,149

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Total shareholders' equity (Note 2)	477,823	721,979
Noncontrolling interests (Note 2)	15,115	24,878
Total equity	492,938	746,857
Total liabilities and equity (Note 2)	\$1,106,355	\$1,525,111

See accompanying notes.

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

	For the Three Months		For the Six Months Ended	
	Ended June 30,		June 30,	
	2009	2008 (as adjusted)	2009	2008 (as adjusted)
Interest income:				
Consumer loans, including past due fees	\$18,967	\$24,866	\$38,768	\$47,782
Other	252	1,390	581	3,473
Total interest income	19,219	26,256	39,349	51,255
Interest expense	(10,018)	(12,949)	(20,210)	(26,939)
Net interest income before fees and related income on non-securitized earning assets and provision for loan losses	9,201	13,307	19,139	24,316
Fees and related income on non-securitized earning assets	40,926	49,775	83,572	104,151
Provision for loan losses	(18,555)	(15,704)	(30,808)	(35,885)
Net interest income, fees and related income on non-securitized earning assets	31,572	47,378	71,903	92,582
Other operating (loss) income:				
Loss on securitized earning assets	(161,688)	(60,661)	(313,714)	(18,068)
Servicing income	31,470	44,868	70,874	93,154
Ancillary and interchange revenues	5,229	15,710	11,227	31,131
Gain on repurchase of convertible senior notes	—	13,728	160	13,728
Gain on buy-out of equity-method investee members	20,990	—	20,990	—
Equity in (loss) income of equity-method investees	(7,833)	6,982	(10,015)	15,456
Total other operating (loss) income	(111,832)	20,627	(220,478)	135,401
Other operating expense:				
Salaries and benefits	13,843	17,908	28,075	36,687
Card and loan servicing	53,121	70,251	110,750	147,113
Marketing and solicitation	3,908	17,053	8,054	32,899
Depreciation	5,314	7,359	11,641	17,270
Goodwill Impairment	20,000	—	20,000	—
Other	25,309	35,815	50,503	64,497
Total other operating expense	121,495	148,386	229,023	298,466
Loss from continuing operations before income taxes	(201,755)	(80,381)	(377,598)	(70,483)
Income tax benefit	59,951	26,195	120,590	21,889
Loss from continuing operations	(141,804)	(54,186)	(257,008)	(48,594)
Discontinued operations:				
Loss from discontinued operations before income taxes	(6,750)	(3,098)	(6,599)	(7,176)
Income tax benefit	2,363	1,084	2,310	2,512
Loss from discontinued operations	(4,387)	(2,014)	(4,289)	(4,664)
Net loss	(146,191)	(56,200)	(261,297)	(53,258)
Net loss (income) attributable to noncontrolling interests	11,847	518	14,436	(1,501)
Net loss attributable to controlling interests	\$(134,344)	\$(55,682)	\$(246,861)	\$(54,759)

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Loss from continuing operations attributable to controlling interests per common share—basic	\$ (2.72)	\$ (1.13)	\$ (5.09)	\$ (1.05)
Loss from continuing operations attributable to controlling interests per common share—diluted	\$ (2.72)	\$ (1.13)	\$ (5.09)	\$ (1.05)
Loss from discontinued operations attributable to controlling interests per common share—basic	\$ (0.09)	\$ (0.04)	\$ (0.09)	\$ (0.10)
Loss from discontinued operations attributable to controlling interests per common share—diluted	\$ (0.09)	\$ (0.04)	\$ (0.09)	\$ (0.10)
Net loss attributable to controlling interests per common share—basic	\$ (2.81)	\$ (1.17)	\$ (5.18)	\$ (1.15)
Net loss attributable to controlling interests per common share—diluted	\$ (2.81)	\$ (1.17)	\$ (5.18)	\$ (1.15)

See accompanying notes.

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CompuCredit Holdings Corporation and Subsidiaries
Condensed Consolidated Statement of Equity (Unaudited)
For the Six months ended June 30, 2009
(Dollars in thousands)

	Common Stock		Accumulated		Retained Earnings	Noncontrolling Interests	Comprehensive Loss	Total Equity
	Shares Issued	Additional Paid-In Capital	Treasury Stock	Other Comprehensive Income				
Balance at December 31, 2008 (as adjusted)	59,947,301	\$—\$522,571	\$(222,310)	\$(31,431)	\$453,149	\$24,878	\$—	\$746,857
Use of treasury stock for stock-based compensation plans	(111,644)	— (1,996)	1,996	—	—	—	—	—
Issuance of restricted stock	206,825	— —	—	—	—	—	—	—
Amortization of deferred stock-based compensation costs	—	— 4,387	—	—	—	—	—	4,387
Purchase of treasury stock	—	— —	(115)	—	—	—	—	(115)
Tax effects of stock-based compensation plans	—	— (1,317)	—	—	—	—	—	(1,317)
Settlement of contingent earn-out as referenced in Note 10, "Goodwill and Intangible Assets"	—	— (1,592)	—	—	—	5,431	—	3,839
Distributions to owners of noncontrolling interests	—	— —	—	—	—	(756)	—	(756)
Comprehensive loss:								
Net loss	—	— —	—	—	(246,861)	(14,436)	(261,297)	(261,297)
	—	— —	—	1,342	—	(2)	1,340	1,340

Foreign currency translation adjustment, net of tax								
Comprehensive loss	—	—	—	—	—	—	—	\$(259,957)
Balance at June 30, 2009	60,042,482	\$—	\$522,053	\$(220,429)	\$(30,089)	\$206,288	\$15,115	\$492,938

See accompanying notes.

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

	For the Three Months		For the Six Months Ended	
	Ended June 30,		June 30,	
	2009	2008 (as adjusted)	2009	2008 (as adjusted)
Net loss	\$(146,191)	\$(56,200)	\$(261,297)	\$(53,258)
Other comprehensive loss:				
Foreign currency translation adjustment	15,075	33	13,247	(279)
Income tax (expense) benefit related to other comprehensive loss	(12,347)	—	(11,907)	96
Comprehensive loss	(143,463)	(56,167)	(259,957)	(53,441)
Comprehensive loss (income) attributable to noncontrolling interests	11,802	518	14,438	(1,505)
Comprehensive loss attributable to controlling interests	\$(131,661)	\$(55,649)	\$(245,519)	\$(54,946)

See accompanying notes.

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CompuCredit Holdings Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	For the Six Months Ended June 30,	
	2009	2008 (as adjusted)
Operating activities		
Net loss	\$(261,297)	\$(53,258)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation expense	11,682	17,359
Impairment of goodwill	23,483	1,132
Provision for loan losses	31,500	36,509
Amortization and impairment of intangibles	1,203	1,250
Accretion of deferred revenue	(230)	(11,467)
Stock-based compensation expense	4,387	4,844
Retained interests adjustments, net	526,832	303,191
Unrealized loss on debt and equity securities classified as trading securities	—	1,950
Gain on repurchase of convertible senior notes	(160)	(13,728)
Interest expense accreted on convertible senior notes	4,991	5,090
Gain on buy-out of equity-method investee members	(20,990)	—
Income in excess of distributions from equity-method investments	—	(2,055)
Changes in assets and liabilities, exclusive of business acquisitions:		
Net (increase) decrease in valuation of debt, equity and U.S. government securities classified as trading securities	(163)	17,939
Decrease in uncollected fees on non-securitized earning assets	6,508	3,823
Decrease in deferred costs	652	1,290
(Decrease) increase in income tax liability	(123,513)	62,699
Increase in deferred revenue	—	1,914
Decrease (increase) in prepaid expenses	4,845	(23,186)
Decrease in accounts payable and accrued expenses	(20,445)	(22,357)
Other	4,527	10,542
Net cash provided by operating activities	193,812	343,481
Investing activities		
Purchase of third-party interest in equity-method investee	(19,542)	—
Proceeds from equity-method investees	50,633	5,314
Investments in securitized earning assets	(340,818)	(924,331)
Proceeds from securitized earning assets	186,844	701,806