CompuCredit Holdings Corp
Form 10-Q
August 06, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

For the quarterly period ended June 30, 2010

of
COMPUCREDIT HOLDINGS CORPORATION

a Georgia Corporation

IRS Employer Identification No. 58-2336689

SEC File Number 0-53717

Five Concourse Parkway, Suite 400

Atlanta, Georgia 30328

(770) 828-2000

CompuCredit's common stock, no par value per share, is registered pursuant to Section 12(b) of the Securities Exchange Act of 1934 (the "Act").

CompuCredit (1) is required to file reports pursuant to Section 13 or Section 15(d) of the Act, (2) has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months and (3) has been subject to such filing requirements for the past ninety days. CompuCredit Holdings Corporation is not yet required to file Interactive Data Files.

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

As of July 31, 2010, 35,793,965 shares of common stock, no par value, of the registrant were outstanding. (This excludes 2,252,388 loaned shares to be returned as of that date.)

Table of Contents

COMPUCREDIT HOLDINGS CORPORATION
FORM 10-Q
TABLE OF CONTENTS

Table of Contents

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

		June 30, 2010 (Unaudited)		December 31, 2009
Assets				
Cash and cash equivalents (including restricted cash of $41,580 at June 30, 2010 and $5,636 at December 31, 2009)	$	109,865	$	190,655
Securitized earning assets		—		36,514
Loans and fees receivable:				
Loans and fees receivable, net (of $6,836 and $7,030 in deferred revenue and $15,459 and $15,030 in allowances for uncollectible loans and fees receivable at June 30, 2010 and December 31, 2009, respectively)		71,663		70,928
Loans and fees receivable pledged as collateral under structured financings, net (of $23,789 and $33,864 in deferred revenue and $33,083 and $38,414 in allowances for uncollectible loans and fees receivable at June 30, 2010 and December 31, 2009, respectively)		163,698		214,439
Loans and fees receivable, at fair value		19,277		42,299
Loans and fees receivable pledged as collateral under structured financings, at fair value		530,334		—
Investments in previously charged-off receivables		33,297		29,669
Investments in securities		78,583		2,629
Deferred costs, net		3,672		4,432
Property at cost, net of depreciation		25,532		32,263
Investments in equity-method investees		11,092		13,517
Intangibles, net		2,599		2,816
Goodwill		42,147		43,422
Income tax asset, net		—		32,695
Prepaid expenses and other assets		25,107		32,554
Total assets	$	1,116,866	$	748,832
Liabilities				
Accounts payable and accrued expenses	$	69,268	$	67,295
Notes payable associated with structured financings, at face value		131,846		164,368
Notes payable associated with structured financings, at fair value		516,510		—
Convertible senior notes (Note 10)		253,345		307,573
Deferred revenue		1,644		1,875
Income tax liability		63,123		—
Total liabilities		1,035,736		541,111
Commitments and contingencies (Note 11)				
Equity				
Common stock, no par value, 150,000,000 shares authorized: 46,291,997 shares issued and 38,047,750 shares outstanding at June 30, 2010 (including 2,252,388 loaned shares to be returned); and 58,596,545 shares issued and 49,970,111 shares outstanding at December 31, 2009 (including 2,252,388 loaned shares to be returned)		—		—

Additional paid-in capital		405,084		500,064
Treasury stock, at cost, 8,244,247 and 8,626,434 shares at June 30, 2010 and December 31, 2009, respectively		(209,852)		(219,714)
Accumulated other comprehensive loss		(6,969)		(3,293)
Retained deficit		(125,190)		(87,740)
Total shareholders’ equity (Note 2)		63,073		189,317
Noncontrolling interests (Note 2)		18,057		18,404
Total equity		81,130		207,721
Total liabilities and equity (Note 2)	$	1,116,866	$	748,832

See accompanying notes.

1

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Interest income:				
Consumer loans, including past due fees	$69,179	$18,967	$153,367	$38,768
Other	343	252	369	581
Total interest income	69,522	19,219	153,736	39,349
Interest expense	(16,202)	(10,018)	(33,835)	(20,210)
Net interest income before fees and related income on earning assets and provision for losses on loans and fees receivable	53,320	9,201	119,901	19,139
Fees and related income on earning assets	154,599	40,926	281,493	83,572
Provision for losses on loans and fees receivable	(167,213)	(18,555)	(340,627)	(30,808)
Net interest income, fees and related income on earning assets	40,706	31,572	60,767	71,903
Other operating income (loss):				
Loss on securitized earning assets	—	(161,688)	—	(313,714)
Servicing income	1,807	31,470	3,826	70,874
Ancillary and interchange revenues	2,763	5,229	5,994	11,227
Gain on repurchase of convertible senior notes	8,797	—	22,693	160
Gain on buy-out of equity-method investee members	—	20,990	—	20,990
Equity in loss of equity-method investees	(9,391)	(7,833)	(9,671)	(10,015)
Total other operating income (loss)	3,976	(111,832)	22,842	(220,478)
Other operating expense:				
Salaries and benefits	8,522	13,843	19,360	28,075
Card and loan servicing	34,701	53,121	76,236	110,750
Marketing and solicitation	5,780	3,908	11,143	8,054
Depreciation	3,624	5,314	7,116	11,641
Goodwill impairment	—	20,000	—	20,000
Other	21,623	25,309	39,393	50,503
Total other operating expense	74,250	121,495	153,248	229,023
Loss from continuing operations before income taxes	(29,568)	(201,755)	(69,639)	(377,598)
Income tax (expense) benefit	(41)	59,951	(1,100)	120,590
Loss from continuing operations	(29,609)	(141,804)	(70,739)	(257,008)
Discontinued operations:				
Loss on discontinued operations before income taxes	—	(6,750)	—	(6,599)
Income tax benefit	—	2,363	—	2,310
Loss on discontinued operations	—	(4,387)	—	(4,289)
Net loss	(29,609)	(146,191)	(70,739)	(261,297)
Net loss (income) attributable to noncontrolling interests	650	11,847	(1,001)	14,436
Net loss attributable to controlling interests	$(28,959)	$(134,344)	$(71,740)	$(246,861)
Loss from continuing operations attributable to controlling interests per common share—basic	$(0.73)	$(2.72)	$(1.64)	$(5.09)
Loss from continuing operations attributable to controlling interests per common share—diluted	$(0.73)	$(2.72)	$(1.64)	$(5.09)

Loss on discontinued operations attributable to controlling interests per common share—basic	$—	$(0.09)	$—	$(0.09)
Loss on discontinued operations attributable to controlling interests per common share—diluted	$—	$(0.09)	$—	$(0.09)
Net loss attributable to controlling interests per common share—basic	$(0.73)	$(2.81)	$(1.64)	$(5.18)
Net loss attributable to controlling interests per common share—diluted	$(0.73)	$(2.81)	$(1.64)	$(5.18)

See accompanying notes.

Table of Contents

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

	Common Stock								
	Shares Issued	Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Deficit	Noncontrolling Interests	Comprehensive Loss	Total Equity
Balance at December 31, 2009	58,596,545	$—	$500,064	$(219,714)	$(3,293)	$(87,740)	$18,404		$207,721
Cumulative effect of accounting pronouncement adoption (see Note 2)	—	—	—	—	—	34,449	3,231		37,680
Retirement of shares	(12,180,604)		(85,264)	—	—	—	—		(85,264)
Use of treasury stock for stock-based compensation plans	(299,687)	—	(10,325)	10,484	—	(159)	—		—
Issuance of restricted stock	175,743	—	—	—	—	—	—		—
Amortization of deferred stock-based compensation costs	—	—	5,470	—	—	—	—		5,470
Purchase of treasury stock	—	—	—	(622)	—	—	—		(622)
Tax effects of stock-based compensation plans	—	—	(1,443)	—	—	—	—		(1,443)
Repurchase of noncontrolling interests	—	—	(3,418)	—	—	—	(4,119)		(7,537)
Distributions to owners of noncontrolling interests	—	—	—	—	—	—	(460)		(460)
Net loss	—	—	—	—	—	(71,740)	1,001	$(70,739)	(70,739)
Foreign currency	—	—	—	—	(3,676)	—	—	(3,676)	(3,676)

translation adjustment, net of tax									
Comprehensive loss	—	—	—	—	—	—	—	$ (74,415)	—
Balance at June 30, 2010	46,291,997	$—	$405,084	$(209,852)	$ (6,969)	$(125,190)	$ 18,057		$81,130

See accompanying notes.

3

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Net loss	$(29,609)	$(146,191)	$(70,739)	$(261,297)
Other comprehensive loss:				
Foreign currency translation adjustment	(1,329)	15,075	(3,677)	13,247
Income tax (expense) benefit related to other comprehensive loss	(2)	(12,347)	1	(11,907)
Comprehensive loss	(30,940)	(143,463)	(74,415)	(259,957)
Comprehensive loss (income) attributable to noncontrolling interests	650	11,802	(1,001)	14,438
Comprehensive loss attributable to controlling interests	$(30,290)	$(131,661)	$(75,416)	$(245,519)

See accompanying notes.

Table of Contents

CompuCredit Holdings Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	For the Six Months Ended June 30, 2010	2009
Operating activities		
Net loss	$(70,739)	$(261,297)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation expense	7,116	11,682
Impairment of goodwill	—	23,483
Provision for losses on loans and fees receivable	340,627	31,500
Amortization and impairment of intangibles	217	1,203
Accretion of deferred revenue	(231)	(230)
Accretion of discount on convertible senior notes	5,051	4,991
Stock-based compensation expense	5,470	4,387
Retained interests adjustments, net	—	526,832
Unrealized gain on loans and fees receivable and underlying notes payable held at fair value	(175,857)	—
Unrealized gain on trading securities	(148)	(163)
Gain on repurchase of convertible senior notes	(22,693)	(160)
Loss on equity-method investments	9,671	—
Gain on buy-out of equity-method investee members	—	(20,990)
Changes in assets and liabilities, exclusive of business acquisitions:		
Decrease in uncollected fees on loans receivable	6,794	6,508
Decrease (increase) in JRAS auto loans receivable	22,071	(16,176)
Decrease in deferred costs	504	652
Increase (decrease) in income tax liability	94,511	(123,513)
Decrease in prepaid expenses	4,313	4,845
Increase (decrease) in accounts payable and accrued expenses	394	(20,445)
Other	4,961	4,527
Net cash provided by operating activities	232,032	177,636
Investing activities		
Purchase of third-party interest in equity-method investee	—	(19,542)
(Increase) decrease in restricted cash	(21,862)	2,172
Proceeds from equity-method investees	3,524	50,633
Investments in securitized earning assets	—	(340,818)
Proceeds from securitized earning assets	—	186,844
Investments in earning assets	(520,558)	(426,809)
Proceeds from earning assets	575,216	425,533
Acquisitions of assets	—	(621)
Purchases and development of property, net of disposals	(594)	(2,084)
Net cash provided by (used in) investing activities	35,726	(124,692)
Financing activities		
Noncontrolling interests distributions, net	(460)	(756)
Purchases of treasury stock	(622)	(115)
Purchases of noncontrolling interests	(7,537)	(1,096)
Purchase of outstanding stock subject to tender offer	(85,264)	—
Proceeds from borrowings	6,397	41,351

Repayments of borrowings	(295,795)	(83,044)
Net cash used in financing activities	(383,281)	(43,660)
Effect of exchange rate changes on cash	(1,211)	1,099
Net (decrease) increase in unrestricted cash	(116,734)	10,383
Unrestricted cash and cash equivalents at beginning of period	185,019	74,515
Unrestricted cash and cash equivalents at end of period	$68,285	$84,898
Supplemental cash flow information		
Effect of adoption of accounting pronouncements on restricted cash	$(14,082)	—
Cash paid for interest	$29,472	$16,116
Net cash income tax (refunds) payments	$(93,456)	$613
Supplemental non-cash information		
Notes payable associated with capital leases	$811	$1,385
Issuance of stock options and restricted stock	$1,127	$1,129

See accompanying notes.

Table of Contents

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

1. Basis of Presentation

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

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

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

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

- a recommendation by our management to our Board of Directors to approve the spin-off;
- approval from our Board of Directors;
- the SEC's declaration of Purpose Financial's registration statement on Form 10 to be effective;

- our and Purpose Financial's receipt of any required permits, registrations and consents required under the securities or blue sky laws of states or other political subdivisions of the U.S. or of foreign jurisdictions in connection with the spin-off;

- the continued effectiveness of the private letter ruling that we received from the Internal Revenue Service;

- NASDAQ's approval for listing of Purpose Financial's common stock, subject to official notice of issuance;

6

Table of Contents

- the transfer of our micro-loan businesses, and the associated licenses and registrations relating to these businesses, to Purpose Financial;

- the execution by the parties of separation and distribution agreements, transition services agreements, services agreements, employee matters agreements, tax sharing agreements, sublease and other appropriate agreements; and

- the lack of any effective order, injunction or decree issued by any court of competent jurisdiction or other legal restraint or prohibition preventing consummation of the spin-off or any of the transactions related thereto, including the transfers of assets and liabilities contemplated by the separation and distribution agreement.

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

2. Significant Accounting Policies and Condensed Consolidated Financial Statement Components

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

Restricted Cash

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

Asset Securitization

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

Loans and Fees Receivable

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

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

Loans and Fees Receivable, Net. Our two categories of loans and fees receivable, net, currently consist of receivables carried at net realizable value associated with our retail and Internet micro-loan activities, our auto

Table of Contents

finance business and credit card accounts opened under our Investment in Previously Charged-off Receivables segment's balance transfer program. This latter category of balance transfer program receivables is included as a component of our Credit Card segment data and aggregated $14.5 million (net of allowances for uncollectible loans and fees receivable and deferred revenue) or 1.8% of our consolidated loans and fees receivable (net or at fair value) as of June 30, 2010.

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

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

	Balance at December 31, 2009	Additions	Subtractions	Balance at June 30, 2010
Loans and fees receivable, gross	$ 379.7	$526.7	$ (591.9)	$314.5
Deferred revenue	(40.9)	(25.5)	35.8	(30.6)
Allowance for uncollectible loans and fees receivable	(53.4)	(36.0)	40.9	(48.5)
Loans and fees receivable, net	$ 285.4	$465.2	$ (515.2)	$235.4

As of June 30, 2010, the weighted average remaining accretion period for the $30.6 million of deferred revenue reflected in the above tables is 20 months.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Balance at beginning of period	$(50.8)	$(53.5)	$(53.4)	$(55.8)
Provision for losses on loans and fees receivable	(16.0)	(18.6)	(36.0)	(30.8)
Charge offs	21.3	16.7	46.2	32.8
Recoveries	(3.0)	(1.3)	(5.3)	(2.9)
Balance at end of period	$(48.5)	$(56.7)	$(48.5)	$(56.7)

Table of Contents

Investments in Previously Charged-Off Receivables

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Unrecovered balance at beginning of period	$25,985	$55,488	$29,669	$47,676
Acquisitions of defaulted accounts	12,973	14,278	16,570	31,651
Cash collections	(14,119)	(14,341)	(28,700)	(28,221)
Cost-recovery method income recognized on defaulted accounts (included as a component of fees and related income on earning assets on our condensed consolidated statements of operations)	8,458	3,846	15,758	8,165
Unrecovered balance at end of period	$33,297	$59,271	$33,297	$59,271
Estimated remaining collections (“ERC”) (1)	$102,913	$125,844	$102,913	$125,844

(1) We anticipate collecting 43.8% of the ERC of the existing accounts over the next 12 months, with the balance to be collected thereafter.

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

Previously charged-off receivables held as of June 30, 2010 are comprised principally of: normal delinquency charged-off accounts; charged-off accounts associated with Chapter 13 Bankruptcy-related debt; and charged-off accounts acquired through our Investments in Previously Charged-Off Receivables segment’s balance transfer program prior to such time as credit cards are issued relating to the program’s underlying accounts. At June 30, 2010, $10.9 million of our investments in previously charged-off receivables balance was comprised of previously charged-off receivables that our Investments in Previously Charged-Off Receivables segment purchased from our other consolidated subsidiaries, and in determining our net income or loss as reflected on our consolidated statements of operations, we eliminate all material intercompany profits that are associated with these transactions.

Comparisons of data as of and for the three months ended June 30, 2010 with data as of and for the three months ended June 30, 2009 are affected by a 2005 forward flow contract into which our Investment in Previously Charged-off Receivables segment had entered to sell previously charged-off receivables to Encore Capital Group, Inc. (“Encore”)—a forward flow contract that subsequently terminated in the third quarter of 2009. In that quarter, we resolved disputes that had arisen with Encore under the contract, thereby resulting in the recognition of $21.2 million in then-deferred revenue in the third quarter of 2009 and a corresponding release of $8.7 million in escrowed restricted cash—both in exchange for Encore’s purchase of previously charged-off credit card receivables that had been offered to Encore throughout the period covered by the forward flow agreement (and that had built up on our consolidated balance sheet throughout the latter half of 2008 and through September 2009) and Encore’s resumed offering of volumes of previously charged-off receivables it has purchased for placement under our balance transfer program. Inclusive of all liabilities extinguished and amounts received and paid in connection with our settlement with Encore, the settlement resulted in a net pre-tax gain of $11.0 million on our consolidated statement of operations for three months ended September 30, 2009.

9

Table of Contents

Investments in Securities

We periodically invest in debt and equity securities, some of which we classify as trading securities and with respect to which we include realized and unrealized gains and losses in earnings, and some of which we classify as held to maturity or available for sale. Additionally, we occasionally have received distributions of debt securities from our equity-method investees ($1.0 million held at June 30, 2010), and we have classified such distributed debt securities as held to maturity. As appropriate, we may invest in securities we believe provide returns in excess of those realized in our cash accounts. Such was the case in the first quarter of 2010 during which we invested $75.0 million in publicly traded bond funds whose investment objectives are to invest in highly rated, investment-grade securities. The carrying values (in thousands) of our investments in debt and equity securities are as follows:

	As of	
	June 30, 2010	December 31, 2009
Held to maturity:		
Investments in debt securities	$1,009	$2,060
Available for sale:		
Investments in equity securities	1,707	—
Trading:		
Investments in debt securities	75,108	—
Investments in equity securities	759	569
Total investments in debt and equity securities	$78,583	$2,629

Prepaid Expenses and Other Assets

Prepaid expenses and other assets include amounts paid to third parties for marketing and other services. Also included are (1) various deposits (totaling $1.1 million and $6.2 million as of June 30, 2010 and December 31, 2009, respectively) required to be maintained with our third-party issuing bank partners and retail electronic payment network providers (including $0.4 million and $4.9 million as of June 30, 2010 and December 31, 2009, respectively, associated with our ongoing servicing efforts in the U.K.), (2) vehicle inventory ($0.9 million and $4.1 million as of June 30, 2010 and December 31, 2009, respectively) held by our buy-here, pay-here auto operations that we expense as cost of goods sold (within fees and related income on earning assets on our condensed consolidated statements of operations) as we earn associated sales revenues, and (3) a $10.0 million deposit at a former third-party issuing bank partner (Columbus Bank and Trust Company) that is the subject of broader pending litigation between Columbus Bank and Trust Company and Synovus Financial Corporation (collectively, "CB&T") and us. See Note 11, "Commitments and Contingencies," for additional information regarding this outstanding litigation.

Deferred Costs

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

Income Taxes

We account for income taxes based on the liability method required by applicable accounting rules. Under the liability method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Additionally, we assess the probability that a tax position we have taken may not ultimately be sustained on audit, and we reevaluate our uncertain tax positions on a quarterly basis. We base these reevaluations on factors including, but not limited to, changes in facts and circumstances, changes in tax laws, effectively settled issues under audit, and new audit activity. A change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to tax expense.

The accounting rules also require that we assess the need to establish a valuation allowance against deferred tax assets by evaluating available evidence to determine whether it is more likely than not that some or all of the deferred tax assets will be realized in the future. To the extent there is insufficient positive evidence to support the realization of the deferred tax assets, we establish a valuation allowance.

We conduct business globally, and as a result, one or more of our subsidiaries files U.S. federal, state and/or foreign income tax returns. In the normal course of business we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as the U.S., the U.K., and the Netherlands. With a few exceptions, we are no longer subject to U.S. federal, state, local, or foreign income tax examinations for years prior to 2006. Currently, we are under audit by various jurisdictions for various years, including by the Internal Revenue Service for the 2007 and 2008 tax years. Although the audits have not been concluded, we do not expect any changes to our reported tax positions in those years that would have a material effect on our consolidated financial statements.

We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized \$0.6 million and \$1.2 million in potential interest and penalties associated with uncertain tax positions during the three and six months ended June 30, 2010, respectively, compared to \$.7 million and \$1.4 million during the three and six months ended June 30 2009, respectively. To the extent such interest and penalties are not assessed as a result of a resolution of the underlying tax position, amounts accrued will be reduced and reflected as a reduction of income tax expense; we experienced no such reductions during the three months ended June 30, 2010 and 2009.

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

Our overall effective tax rates (computed considering results for both continuing and discontinued operations before income taxes in the aggregate) were -0.1% and -1.6% for three and six months ended June 30, 2010, respectively, compared to 29.9% and 31.9% for the three and six months ended June 30, 2009, respectively. We have experienced no material changes in effective tax rates associated with differences in filing jurisdictions between these periods, and the variations in effective tax rates between these periods are substantially related to the effects of changes in valuation allowances provided against income statement-oriented U.S. federal, foreign and state deferred tax assets (\$5.7 million and \$18.0 million increases in valuation allowances, respectively, during the three and six months ended

June 30, 2010, versus a corresponding $10.7 million increase in valuation allowances during the three and six months ended June 30, 2009). As computed without regard to the effects of all changes in U.S. federal, foreign, state, and local tax valuation allowances taken against income statement-oriented deferred tax assets, our effective tax rates would more likely than not have been 19.3% and 24.3% for the three and six months ended June 30, 2010, respectively, compared to 35% and 33.7% for the three and six months ended June 30, 2009, respectively.

Table of Contents

Our negative effective tax rate during the three and six months ended June 30, 2010 results from the fact that we incurred net losses during such periods, while at the same time we incurred (1) U.K. tax expense associated with our profitable MEM operations (such U.K. tax expenses exceeding the recognized tax benefits (after valuation allowances) on our U.S. losses) and (2) interest accruals on unrecognized tax benefits.

Fees and Related Income on Earning Assets

Fees and related income on earning assets primarily include: (1) lending fees associated with our retail and Internet micro-loan activities; (2) fees associated with our credit card receivables during periods in which we hold them on balance sheet; (3) changes in the fair value of loans and fees receivable recorded at fair value; (4) changes in fair value of notes payable associated with structured financings recorded at fair value; (5) income on our investments in previously charged-off receivables; (6) gross profits and losses from auto sales within our Auto Finance segment; and (7) gains associated with our investments in securities.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Retail micro-loan fees	$17,079	$16,566	$35,266	$33,242
Internet micro-loan fees	20,813	15,104	40,055	26,892
Fees on credit card receivables held on balance sheet	6,269	—	15,859	—
Changes in fair value of loans and fees receivable recorded at fair value(1)	84,753	—	125,663	—
Changes in fair value of notes payable associated with structured financings recorded at fair value	17,598	—	50,194	—
Income on investments in previously charged-off receivables	8,458	3,846	15,758	8,165
Gross (loss) profit on auto sales	(127)	5,138	(1,649)	13,609
Gains on investments in securities	88	86	148	163
Other	(332)	186	199	1,501
Total fees and related income on earning assets	$154,599	$40,926	$281,493	$83,572

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

Loss on Securitized Earning Assets

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

	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2009

Loss on retained interests in credit card receivables securitized	$	(165,579	)	$	(323,834	)
Fees on securitized receivables		3,891			10,120	
Total loss on securitized earning assets	$	(161,688	)	$	(313,714	)

Recent Accounting Pronouncements

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

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

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

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

Subsequent Events

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

Table of Contents

3. Discontinued Operations

In May 2009, we discontinued our Retail Micro-Loans segment’s Arkansas operations based on regulatory opposition we faced within that state. Reflecting both our discontinued Arkansas operations, as well as those of other Retail Micro-Loans segment states that we discontinued in prior reporting periods, the components (in thousands) of our discontinued operations are as follows:

	For the Three Months Ended June 30, 2010	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2010	For the Six Months Ended June 30, 2009
Net interest income, fees and related income on earning assets	$—	$375	$—	$1,684
Other operating expense	—	863	—	2,021
Estimated loss upon sale	—	2,779	—	2,779
Goodwill impairment	—	3,483	—	3,483
Loss before income taxes	—	(6,750)	—	(6,599)
Income tax benefit	—	2,363	—	2,310
Net loss	$—	$(4,387)	$—	$(4,289)

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

4. Segment Reporting

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

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

Three Months Ended June 30, 2010	Credit Cards	Investments in Previously Charged-Off Receivables	Retail Micro-Loans	Auto Finance	Internet Micro-Loans	Total
Net interest income, fees and related income on earning assets	$ 2,237	$ 8,329	$ 14,201	$ 2,010	$ 13,929	$40,706
Total other operating income	$ 3,564	$ 275	$ —	$ 137	$ —	$3,976
(Loss) income from continuing operations before income taxes	$ (29,625)	$ 1,776	$ 1,501	$ (6,752)	$ 3,532	$(29,568)
Loss on discontinued operations before income	$ —	$ —	$ —	$ —	$ —	$—

taxes						
Loans and fees receivable, gross	$ 18,452	$ —	$ 37,038	$ 220,572	$ 38,466	$ 314,528
Loans and fees receivable, net	$ 14,475	$ —	$ 30,754	$ 163,698	$ 26,434	$ 235,361
Loans and fees receivable held at fair value	$ 549,611	$ —	$ —	$ —	$ —	$ 549,611
Total assets	$ 764,731	$ 42,913	$ 64,280	$ 181,087	$ 63,855	$ 1,116,866

Table of Contents

Three Months Ended June 30, 2009	Credit Cards	Investments in Previously Charged-Off Receivables	Retail Micro-Loans	Auto Finance	Internet Micro-Loans	Total
Net interest income, fees and related income (loss) on earning assets	$ (6,268)	$ 3,743	$ 14,118	$ 9,414	$ 10,565	$31,572
Total other operating (loss) income	$ (111,950)	$ 27	$ —	$ 90	$ 1	$(111,832)
(Loss) income from continuing operations before income taxes	$ (176,765)	$ (7,049)	$ (16,549)	$ (6,165)	$ 4,773	$(201,755)
Loss on discontinued operations before income taxes	$ —	$ —	$ (6,750)	$ —	$ —	$(6,750)
Loans and fees receivable, gross	$ 1,385	$ —	$ 33,492	$ 325,854	$ 28,045	$388,776
Loans and fees receivable, net	$ 1,039	$ —	$ 27,811	$ 260,968	$ 19,413	$309,231
Loans and fees receivable held at fair value	$ —	$ —	$ —	$ —	$ —	$—
Total assets	$ 609,806	$ 68,386	$ 66,793	$ 300,349	$ 61,021	$1,106,355

Six Months Ended June 30, 2010	Credit Cards	Investments in Previously Charged-Off Receivables	Retail Micro-Loans	Auto Finance	Internet Micro-Loans	Total
Net interest income, fees and related income (loss) on earning assets	$ (10,452)	$ 15,489	$ 29,934	$ (2,264)	$ 28,060	$60,767
Total other operating income	$ 21,921	$ 654	$ —	$ 267	$ —	$22,842
(Loss) income from continuing operations before income taxes	$ (63,426)	$ 2,757	$ 3,817	$ (21,279)	$ 8,492	$(69,639)
Loss on discontinued operations before income taxes	$ —	$ —	$ —	$ —	$ —	$—
Loans and fees receivable, gross	$ 18,452	$ —	$ 37,038	$ 220,572	$ 38,466	$314,528
Loans and fees receivable, net	$ 14,475	$ —	$ 30,754	$ 163,698	$ 26,434	$235,361
Loans and fees receivable held at fair value	$ 549,611	$ —	$ —	$ —	$ —	$549,611
Total assets	$ 764,731	$ 42,913	$ 64,280	$ 181,087	$ 63,855	$1,116,866

Six Months Ended June 30, 2009	Credit Cards	Investments in Previously Charged-Off Receivables	Retail Micro-Loans	Auto Finance	Internet Micro-Loans	Total
Net interest income, fees and related income (loss) on earning assets	$ (11,884)	$ 7,948	$ 28,492	$ 27,998	$ 19,349	$71,903
Total other operating (loss) income	$ (220,937)	$ 55	$ —	$ 403	$ 1	$(220,478)
(Loss) income from continuing operations before income taxes	$ (354,790)	$ (9,377)	$ (17,627)	$ (4,135)	$ 8,331	$(377,598)
Loss on discontinued operations before income taxes	$ —	$ —	$ (6,599)	$ —	$ —	$(6,599)
Loans and fees receivable, gross	$ 1,385	$ —	$ 33,492	$ 325,854	$ 28,045	$388,776
Loans and fees receivable, net	$ 1,039	$ —	$ 27,811	$ 260,968	$ 19,413	$309,231
Loans and fees receivable held at fair value	$ —	$ —	$ —	$ —	$ —	$—
Total assets	$ 609,806	$ 68,386	$ 66,793	$ 300,349	$ 61,021	$1,106,355

15

Table of Contents

5. Shareholders' Equity

Retired Shares

In 2009, 1,398,681 of previously lent shares were returned to us. All returned shares are excluded from our outstanding share counts. As of June 30, 2010, we had 2,252,388 loaned shares outstanding.

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

Treasury Stock

At our discretion, we use treasury shares to satisfy option exercises and restricted stock vestings, and we use the cost approach when accounting for the repurchase and reissuance of our treasury stock. We reissued treasury shares totaling 131,210 and 514,686 at gross costs of $4.2 million and $10.5 million during three and six months ended June 30, 2010, respectively, in satisfaction of restricted share and restricted share unit vestings; this compares to our reissuance of shares for these purposes of 8,006 and 111,644 at gross costs of $0.1 million and $2.0 million during the three and six months ended June 30, 2009, respectively. Additionally, by having employees who were exercising options or vesting in their restricted stock grants exchange a portion of their stock for our payment of required tax withholdings, we also effectively purchased shares totaling 43,212 and 132,499 at gross costs of $0.2 million and $0.6 million during the three and six months ended June 30, 2010, respectively, compared to our effective purchase of 2,939 and 36,888 shares at gross costs of $0.01 million and $0.11 million, respectively, during the three and six months ended June 30, 2009, respectively.

6. Investments in Equity-Method Investees

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

Table of Contents

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

	As of June 30, 2010	As of December 31, 2009
Securitized earning assets	$—	$35,844
Loans and fees receivable pledged as collateral under structured financings, at fair value	$164,615	$—
Total assets	$175,988	$38,332
Notes payable associated with structured financings, at fair value	$145,877	$—
Total liabilities	$147,009	$1,319
Members' capital	$28,979	$37,013

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Net interest income, fees and related loss on earning assets	$(25,303)	$—	$(24,913)	$—
Fees and related loss on securitized earning assets	$—	$(22,841)	$—	$(31,011)
Total other operating income (loss)	$1,064	$(21,745)	$2,483	$(28,605)
Net loss	$(27,891)	$(15,359)	$(30,339)	$(23,000)

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

7. Goodwill and Intangible Assets

Goodwill

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

In connection with our May 2009 decision to discontinue our Arkansas retail micro-loan operations, we allocated goodwill between our retained Retail Micro-Loans segment operations and our discontinued Arkansas operations, thereby resulting in a $3.5 million impairment loss that is reported within loss on discontinued operations for the three and six months ended June 30, 2009. In connection with this reallocation, we performed a valuation analysis with respect to the remaining goodwill associated with our continuing Retail Micro-Loans segment operations based on internal projections of residual cash flows and market data supporting valuation prices of similar companies at the time; this analysis yielded an additional $20.0 million goodwill impairment charge associated with continuing operations that is reflected within our consolidated statement of operations for the three and six months ended June 30, 2009.

In April 2007, one of our then-majority-owned subsidiaries (in which we now hold a 100% interest as of December 31, 2009) acquired 95% of the outstanding shares of MEM, our U.K.-based, Internet, micro-loan operations, for £11.6 million ($22.9 million) in cash as part of our underlying diversification efforts and to establish a micro-loan presence in the U.K. Under the original purchase agreement, a contingent performance-related earn-out could have been payable to the sellers on achievement of certain earnings measurements for the years ended 2007, 2008 and 2009. The maximum amount payable under this earn-out was £120.0 million, although none of the earn-out performance conditions was satisfied for 2007 and 2008. The MEM acquisition agreement was amended in the first quarter of 2009 to remove the sellers' earn-out rights in exchange for a net 22.5% continuing minority ownership interest in MEM and a cash payment of £434,000 ($621,000), the aggregate value of which reflected the estimated fair value of the earn-out arrangement as of December 31, 2009. The settlement of the earn-out resulted in a re-measurement of the carrying value of our investment in MEM in accordance with applicable accounting standards and additional goodwill of $5.6 million.

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

	Retail Micro-Loans	Internet Micro-Loans	Consolidated
Balance as of December 31, 2008	$ 43,214	$ 15,915	$ 59,129
Goodwill related to settlement of contingent performance-related earn-out	—	5,553	5,553
Impairment loss	(23,483)	—	(23,483)
Foreign currency translation	—	3,103	3,103
Balance as of June 30, 2009	$ 19,731	$ 24,571	$ 44,302
Balance as of December 31, 2009	$ 19,731	$ 23,691	$ 43,422
Foreign currency translation	—	(1,275)	(1,275)
Balance as of June 30, 2010	$ 19,731	$ 22,416	$ 42,147

Intangible Assets

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

We had $2.1 million of remaining intangible assets that we determined had an indefinite benefit period as of June 30, 2010 and December 31, 2009. The net unamortized carrying amount of intangible assets subject to amortization was $0.5 million and $0.7 million as of June 30, 2010 and December 31, 2009, respectively. Intangible asset-related amortization expense was $0.1 million and $0.2 million for the three and six months ended June 30, 2010, respectively, and $0.5 million and $1.0 million for the three and six months ended June 30, 2009, respectively.

8. Securitizations

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

18

Table of Contents

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

	As of and for the Three Months Ended June 30, 2009	As of and for the Six Months Ended June 30, 2009
Gross amount of receivables securitized at period end	$ 1,984,497	$ 1,984,497
Proceeds from new transfers of financial assets to securitization trusts	$ 213,102	$ 304,728
Proceeds from collections reinvested in revolving-period securitizations	$ 148,443	$ 275,462
Excess cash flows received on retained interests	$ 24,826	$ 55,484
Loss on retained interests in credit card receivables securitized	$ (165,579)	$ (323,834)
Fees on securitized receivables	3,891	10,120
Total loss on securitized earning assets	$ (161,688)	$ (313,714)

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

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

Reflected within servicing income on our condensed consolidated statement of operations for the three and six months ended June 30, 2009 were $31.5 million and $70.9 million, respectively of servicing income (fees) we received from our securitization trusts in that period. Changes in our net servicing liability for the six months ended June 30, 2009 are summarized (in millions) in the following table.

	For the Six Months Ended June 30, 2009
Net servicing liability at beginning of period	$10.7
Changes in fair value of net servicing liability due to changes in valuations inputs, including receivables levels within securitization trusts, length of servicing period, servicing costs and changes in servicing compensation rates	12.3
Balance at end of period	$23.0

19

Table of Contents

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

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

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

	As of and for the Three Months Ended June 30, 2009
Total managed principal balance	$1,745,827
Total managed finance charge and fee balance	238,670
Total managed receivables	1,984,497
Cash collateral at trust and amounts due from QSPEs	482,606
Total assets held by QSPEs	2,467,103
QSPE-issued notes to which we are subordinated	(1,790,376)
Face amount of residual interests in securitizations	$676,727
Receivables delinquent—60 or more days	$313,493
Net charge offs during the three months ended June 30, 2009	$159,015

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

9. Fair Values of Assets and Liabilities

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

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

Table of Contents

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

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

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

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets Measured at Fair Value
Investment securities—trading	$ 75,867	$ —	$ —	$ 75,867
Loans and fees receivable, at fair value	$ —	$ —	$ 19,277	$ 19,277
Loans and fees receivable pledged as collateral under structured financings, at fair value	$ —	$ —	$ 530,334	$ 530,334

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

	Loans and Fees Receivable, at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings, at Fair Value	Securitized Earning Assets	Total
Beginning balance	$ 42,299	$ —	$ 36,514	$ 78,813
Transfers in due to adoption of new accounting guidance	—	836,346	(36,514)	799,832
Total gains (losses)—realized/unrealized:				
Net revaluations of/additions to loans and fees receivable pledged as collateral under structured financings, at fair value	—	(103,982)	—	(103,982)
Net revaluations of loans and fees receivable, at fair value	(10,145)	—	—	(10,145)
Purchases, issuances, and settlements, net	(12,877)	(203,017)		(215,894)
Impact of foreign currency translation gain	—	987	—	987
Net transfers in and/or out of Level 3	—	—	—	—
Ending balance	$ 19,277	$ 530,334	$ —	$ 549,611

Table of Contents

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

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

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

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

Liabilities	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Liabilities Measured at Fair Value
Notes payable associated with structured financings, at fair value	$ —	$ —	$ 516,510	$ 516,510

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

	Notes Payable Associated with Structured Financings, at Fair Value
Beginning balance	$—
Transfers in due to adoption of new accounting guidance	772,615
Total gains (losses)—realized/unrealized:	
Net revaluations of notes payable associated with structured financings, at fair value	(50,194)
Repayments on outstanding notes payable, net	(205,317)
Impact of foreign currency translation gain	(594)
Net transfers in and/or out of Level 3	—
Ending balance	$ 516,510

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

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

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

Table of Contents

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets Measured at Fair Value
Assets:				
Goodwill	$ —	$ —	$ 42,147	$ 42,147
Intangibles, net	$ —	$ —	$ 2,136	$ 2,136

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

	Loans and Fees Receivable, at Fair Value	Loans and Fees Receivable Pledged as Collateral under Structured Financings, at Fair Value
Aggregate unpaid principal balance within loans and fees receivable that are reported at fair value	$ 38,642	$ 569,835
Aggregate fair value of loans and fees receivable that are reported at fair value	$ 19,277	$ 530,334
Aggregate fair value of receivables carried at fair value that are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies)	$ 352	$ 2,644
Aggregate excess of balance of unpaid principal receivables within loans and fees receivable that are reported at fair value and are 90 days or more past due (which also coincides with finance charge and fee non-accrual policies) over the fair value of such loans and fees receivable	$ 8,006	$ 92,356

	Notes Payable Associated with Structured Financings, at Fair Value
Aggregate unpaid principal balance of notes payable	$ 810,462
Aggregate fair value of notes payable	$ 516,510

10. Convertible Senior Notes and Notes Payable

Convertible Senior Notes

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

Upon our January 1, 2009 required adoption of new accounting rules for Instrument C convertible notes (a classification applicable to our convertible senior notes), we (1) reclassified a portion of our outstanding convertible senior notes to additional paid-in capital, (2) established a discount to the face amount of the notes as previously reflected on our condensed consolidated balance sheets, (3) created a deferred tax liability related to the discount on the notes, and (4) reclassified out of our originally reported deferred loan costs and into additional paid-in capital the portion of those costs considered under the new rules to have been associated with the equity component of the convertible senior notes issuances. We are amortizing the discount to the face amount of the notes to interest

Table of Contents

expense over the expected life of the notes, and this will result in a corresponding release of our associated deferred tax liability. Total amortization for the three and six months ended June 30, 2010 totaled $2.4 million and $5.1 million, respectively, compared to total amortization of $2.5 million and $5.0 million for the three and six months ended June 30, 2009, respectively. Actual incurred interest (based on the contractual interest rates within the two convertible senior notes series) totaled $3.8 million and $8.1 million for the three and six months ended June 30, 2010, respectively, versus, $4.4 million and $8.9 million for the three and six months ended June 30, 2009, respectively. We will amortize the discount remaining at June 30, 2010 to interest expense over the expected terms of the convertible senior notes (currently expected to be May 2012 and October 2035 for the 3.625% and 5.875% notes, respectively). The weighted average effective interest rate for the 3.625% and 5.875% notes was 9.2% for all periods presented.

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

	As of June 30, 2010	As of December 31, 2009
Face amount of outstanding convertible senior notes	$316,514	$386,551
Discount	(63,169)	(78,978)
Net carrying value	$253,345	$307,573
Carrying amount of equity component included in additional paid-in capital	$108,714	$108,714
Excess of instruments' if-converted values over face principal amounts	$—	$—

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 $12.8 million and $5.7 million, respectively, both amounts being inclusive of transactions costs and accrued interest through the date of our repurchase of the notes. The repurchase resulted in an aggregate gain recognized during the three months ended March 31, 2010 of $13.9 million (net of the notes' applicable share of deferred costs and debt discount, which were recovered in connection with the purchase). Subsequently, during the three months ended June 30, 2010, both in open market transactions and pursuant to the closing of a second tender offer, we repurchased an additional $29.8 million in face amount of our 3.625% notes for $18.2 million (inclusive of transaction costs and accrued interest through the date of our repurchase of the notes), thereby resulting in the recognition of an aggregate gain during the three months ended June 30, 2010 of $8.8 million (net of the notes' applicable share of deferred costs and debt discount, which were recovered in connection with the purchases). Accordingly, in the aggregate, we recognized $22.7 million of gains on the repurchase of our convertible senior notes during the six months ended June 30, 2010.

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

Notes Payable Associated with Structured Financings, at Fair Value

Upon the consolidation of our securitization trusts effective January 1, 2010 in accordance with new accounting requirements, we began presenting on our consolidated balance sheet certain non-recourse, asset-backed structured financing debt facilities that are secured by credit card receivables held within such trusts. Given our decision to elect the fair value option for reporting the credit card receivables held within the trusts, accounting rules require that we report the underlying debt facilities at fair value as well. We are required to consolidate the assets (credit card receivables, which are presented as loans and fees receivable pledged as collateral under structured financings, at fair value, on our condensed consolidated balance sheets) and debt (classified as notes payable

Table of Contents

associated with structured financings, at fair value, on our condensed consolidated balance sheets) associated with these structured financings on our consolidated balance sheets because the transactions do not meet the criteria for de-recognition and because we are the primary beneficiary of the structured financing transactions.

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

	Carrying Amounts at Fair Value as of June 30, 2010
Amortizing securitization facility issued out of our upper-tier originated portfolio master trust—outstanding face amount of $586.9 million bearing interest at a weighted average 2.1% interest rate, which is secured by credit card receivables and restricted cash aggregating $411.4 million in carrying amount (1)	$394.7
Multi-year variable funding securitization facility (expiring September 2014), outstanding face amount of $4.7 million bearing interest at a weighted average 3.9% interest rate, which is secured by credit card receivables and restricted cash aggregating $11.8 million in carrying amount (2)	4.6
Amortizing term securitization facility (denominated and referenced in U.K. sterling and expiring April 2014) issued out of our U.K. Portfolio securitization trust, outstanding face amount of $193.5 million bearing interest at a weighted average 2.7% interest rate, which is secured by credit card receivables and restricted cash aggregating $102.2 million in carrying amount (3)	100.4
Ten-year amortizing term securitization facility issued out of a trust underlying one of our portfolio acquisitions (expiring January 2014), outstanding face amount of $17.2 million bearing interest at a weighted average 3.4% interest rate, which is secured by credit card receivables and restricted cash aggregating $40.0 million in carrying amount	16.8
Total structured financing notes reported at fair value that are secured by credit card receivables and to which we are subordinated	$516.5

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

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

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

Contractual payment allocations within these credit cards receivable structured financings provide for a priority distribution of cash flows to us to service the credit card receivables (cash flows that we consider adequate to meet our variable costs of servicing these assets), a distribution of cash flows to pay interest and principal due on the notes, and a distribution of all excess cash flows (if any) to us. Each of the structured financing facilities in the above table is amortizing down along with collections of the underlying receivables and there are no provisions within the debt agreements that allow for acceleration or bullet repayment of the facilities. As such, for all intents and purposes, there is no practical risk of equity loss associated with lender seizure of assets under the facilities. Nevertheless, the aggregate carrying amount of the credit card receivables and restricted cash that provide security for the $516.5 million in fair value of structured financing notes in the above table is $565.4 million, which means that our maximum aggregate exposure to pre-tax equity loss associated with the above structured financing arrangements is $48.9 million.

Table of Contents

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

Notes Payable Associated with Structured Financings, at Face Value

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

	As of June 30, 2010	As of December 31, 2009
Asset-Backed Structured Financing Facilities		
Amortizing debt facility of ACC Auto Finance segment receivables, stated rate of 15.0% (effective rate of 18.9%) at June 30, 2010, which is secured by auto receivables and restricted cash with an aggregate carrying amount of $93.4 million at June 30, 2010 (1)	$77.9	$99.2
Revolving line of credit of CAR Auto Finance segment receivables, rate of 3.9% at June 30, 2010, which is secured by auto receivables and restricted cash with an aggregate carrying amount of $52.7 million at June 30, 2010 and is payable over a six-month amortization period beginning June 2011	34.0	31.0
Financing of JRAS Auto Finance segment receivables, rate of 11.0%, which is secured by auto receivables, land and restricted cash with an aggregate carrying amount of $21.7 million at June 30, 2010 and due September 2010	15.0	26.8
Financing of JRAS Auto Finance segment inventory, average rate of 24.0%, which is secured by inventory with an aggregate carrying amount of $0.9 million at June 30, 2010 and which is currently payable	0.1	1.4
Vendor-financed software and equipment acquisitions, average rate of 5.5% at June 30, 2010, secured by certain equipment with an aggregate carrying amount of $0.1 million at June 30, 2010, payable to 2010 through 2013	0.8	1.1
Investment in Previously Charged-Off Receivables segment's asset-backed financing, rate of 12%, secured by certain investments in previously charged-off receivables with an aggregate carrying amount of $2.4 million at June 30, 2010, payable through 2012	4.0	4.9
Total asset-backed structured financing notes outstanding (which are secured by assets with carrying amounts aggregating $171.2 million at June 30, 2010)	$131.8	$164.4

(1) The terms of this lending agreement provide for the application of all excess cash flows (above and beyond interest costs and contractual servicing compensation to our outsourced third-party servicer) to reduce outstanding debt balances. After repayment of the debt facility, 37.5% of the remaining excess cash flows will be allocated to the note holders as additional compensation for the use of their capital. Reflecting this arrangement, we have estimated all available cash flows to all parties and have reflected the results of such estimates in our determination of a contingent interest rate and contingent interest expense associated with this amortizing debt facility.

Table of Contents

Similar to our credit cards receivable structured financings, the structured financing facilities secured by the assets scheduled above (with the exception of the vendor-financed software and equipment and inventory lending arrangements) generally provide for a priority distribution of cash flows to us to service any underlying pledged receivables (cash flows that we consider adequate to meet our costs of servicing these receivables), a distribution of cash flows to pay interest and principal due on the notes, and a distribution of all excess cash flows to us. The receivables-backed structured financing facilities in the above table are amortizing down along with collections of the underlying receivables and, except as provided in the following paragraph with respect to the CAR facility and the JRAS facility, there are no provisions within the debt agreements that allow for acceleration or bullet repayment of the facilities. As such, for all intents and purposes, there is no practical risk of equity loss associated with lender seizure of assets under all of the facilities other than the CAR facility and the JRAS facility. Nevertheless, the aggregate carrying amount of the receivables that provide security for the \$131.8 million of structured financing notes in the above table at June 30, 2010 is \$171.2 million, which means that our maximum aggregate exposure to pre-tax equity loss associated with the above structured financing arrangements is \$39.4 million.

The \$15.0 million JRAS facility scheduled above matured in January 2010, but we have entered into a forbearance agreement effective through September 2010 with the lender under which we essentially operate as though the facility had not matured while we work to collect a gradually liquidating portfolio of JRAS receivables. The portfolio is gradually liquidating as we are not adding new JRAS receivables at the same pace at which the existing receivables are either being collected or charged off. Based on our ongoing favorable dialogue with the lender, we believe that the forbearance agreement will be extended until the date of our expected complete repayment of the lender during the first half of 2011. However, this result is not assured, and if the lender decides to subject this loan to immediate repayment in September 2010, we would be required to repay the outstanding loan balance in full or could be forced to surrender the loan and fee receivables serving as collateral for the loan. As of June 30, 2010, the maximum exposure to pre-tax loss of equity under this structured financing was \$6.7 million. The CAR facility begins to amortize down in June 2011 over a six-month period. In the event we are unable to secure either an extension of this facility or a replacement facility, the maximum exposure to pre-tax loss of equity under this CAR structured financing is \$18.7 million as measured as of June 30, 2010.

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

11. Commitments and Contingencies

General

In the normal course of business through the origination of unsecured credit card receivables, we incur off-balance-sheet risks. These risks include one of our subsidiary’s (i.e., CompuCredit Corporation’s) commitments of \$73.4 million at June 30, 2010 to purchase receivables associated with cardholders who have the right to borrow in excess of their current balances up to the maximum credit limit on their credit card accounts. These commitments involve, to varying degrees, elements of credit risks in excess of amounts we can fund through our securitization facilities. We have not experienced a situation in which all of our customers have exercised their entire available line of credit at any given point in time, nor do we anticipate this will ever occur in the future. Moreover, there would be a concurrent increase in assets should there be any exercise of these lines of credit. We also have the effective right to reduce or cancel these available lines of credit at any time, which we have now done with respect to substantially all of our outstanding cardholder accounts.

For various receivables portfolio investments we have made through our subsidiaries and equity-method investees, CompuCredit Corporation has entered into guarantee agreements and/or note purchase agreements whereby CompuCredit Corporation has agreed to guarantee the purchase of or purchase directly additional interests in portfolios of credit card receivables owned by trusts, the residual interests in which are owned by its subsidiaries and equity-method investees, should there be net new growth in the receivables

27

or should collections not be available to fund new cardholder purchases. As of June 30, 2010, neither CompuCredit Corporation nor any of its subsidiaries or equity-method investees had purchased or been required to purchase any additional notes under the note purchase agreements. CompuCredit Corporation's guarantee is limited to its respective ownership percentages in the various subsidiaries and equity-method investees multiplied by the total amount of the notes that each of the subsidiaries and equity-method investees could be required to purchase. As of June 30, 2010, the maximum aggregate amount of CompuCredit Corporation's collective guarantees and direct purchase obligations related to all of its subsidiaries and equity-method investees was $65.8 million (included as a subcomponent of the $73.4 million mentioned in the paragraph above)—a decrease from $72.0 million at December 31, 2009 as a result of declines in our liquidating credit card receivables portfolios. In general, this aggregate contingency amount will decline in the absence of portfolio acquisitions as the aggregate amounts of credit available to cardholders for future purchases decline along with our liquidation of the purchased portfolios and a corresponding reduction in the number of open cardholder accounts. The acquired credit card receivables portfolios of all of CompuCredit Corporation's affected subsidiaries and equity-method investees have declined with each passing quarter since acquisition and we expect them to continue to decline because we expect combined payments and charge offs to exceed new purchases each month. We currently do not have any liability recorded with respect to these guarantees or direct purchase obligations, but we will record one if events occur that make payment probable under the guarantees or direct purchase obligations. The fair value of these guarantees and direct purchase obligations is not material. Moreover, should we ever be required to fund any of the guarantees, there would be a concurrent increase in the underlying assets.

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

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

Total System Services, Inc. provides certain services to CompuCredit Corporation as a system of record provider under an agreement that extends through May 2015. Were CompuCredit Corporation to terminate its U.S. relationship with Total System Services, Inc. prior to the contractual termination period, it would incur significant penalties ($18.9 million as of June 30, 2010).

Litigation

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

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.

Table of Contents

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 concluded that the claims asserted were without merit; and we communicated that conclusion to Ms. Sue An's legal counsel. Ms. An has filed suit against our directors, which is in the early stages. We will vigorously contest the allegations in that complaint.

On December 21, 2009, certain holders of our 3.625% Convertible Senior Notes Due 2025 and 5.875% Convertible Senior Notes Due 2035 filed a lawsuit in the U.S. District Court for the District of Minnesota seeking, among other things, to enjoin our December 31, 2009 cash distribution to shareholders and a potential future spin-off of our micro-loan businesses. We prevailed in court at a December 29, 2009 hearing concerning the plaintiffs' motion for a temporary restraining order against our December 31, 2009 cash distribution to shareholders, and that distribution was made as originally contemplated on that date. On March 19, 2010, the U.S. District Court for the District of Minnesota transferred venue to the U.S. District Court for the Northern District of Georgia, and on April 6, 2010, we filed a Renewed Motion to Dismiss. Shortly after that filing, the plaintiffs amended their complaint to add new claims and certain of our officers and directors as defendants, continued to seek to enjoin the spinoff and sought unspecified damages against all defendants. The plaintiffs also sought temporary injunctive relief to prevent our completion of a then-pending tender offer for the repurchase of our 3.625% Convertible Notes due 2025 and our common stock at $7.00 per share. At a hearing on May 12, 2010, the judge in the Northern District of Georgia denied the request for a temporary restraining order, and the tender offer was completed as scheduled on May 14, 2010. We since have filed with the U.S. District Court for the Northern District of Georgia a motion to dismiss the plaintiffs' Second Amended

Complaint. We do not know when the court will rule on our motion to dismiss or the other relief requested. Consequently, should our Board of Directors ultimately approve a spin-off of our micro-loan businesses, it is possible that the spin-off might be delayed or enjoined by court order or that the court could impose other remedies.

Table of Contents

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Numerator:				
Loss from continuing operations attributable to controlling interests	$(28,959)	$(129,957)	$(71,740)	$(242,572)
Loss on discontinued operations attributable to controlling interests	$—	$(4,387)	$—	$(4,289)
Loss attributable to controlling interests	$(28,959)	$(134,344)	$(71,740)	$(246,861)
Denominator:				
Basic (including unvested share-based payment awards) (1)	39,802	47,733	43,818	47,639
Effect of dilutive stock options and warrants (2)	163	47	171	24
Diluted (including unvested share-based payment awards) (1)	39,965	47,780	43,989	47,663
Loss from continuing operations attributable to controlling interests per common share—basic	$(0.73)	$(2.72)	$(1.64)	$(5.09)
Loss from continuing operations attributable to controlling interests per common share—diluted	$(0.73)	$(2.72)	$(1.64)	$(5.09)
Loss on discontinued operations attributable to controlling interests per common share—basic	$—	$(0.09)	$—	$(0.09)
Loss on discontinued operations attributable to controlling interests per common share—diluted	$—	$(0.09)	$—	$(0.09)
Net loss attributable to controlling interests per common share—basic	$(0.73)	$(2.81)	$(1.64)	$(5.18)
Net loss attributable to controlling interests per common share—diluted	$(0.73)	$(2.81)	$(1.64)	$(5.18)

(1) Shares related to unvested share-based payment awards that we included in our basic and diluted share counts are as follows: 681,747 and 702,646 shares for the three and six months ended June 30, 2010; and 847,017 and 764,282 shares for the three and six months June 30, 2009.

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

For the three and six months ended June 30, 2010 and 2009, there were no shares potentially issuable and thus includible in the diluted EPS 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 $35.57 and $43.28 conversion prices for the May 2005 and November 2005 convertible senior notes, and depending on the closing stock price at conversion, the maximum potential dilution as of June 30, 2010 under the conversion provisions of the May 2005 and November 2005 convertible senior notes is approximately 4.9 million and 3.2 million shares, respectively, which could be included

Table of Contents

in diluted share counts in net income per common share calculations. See Note 10, "Convertible Senior Notes and Notes Payable," for a further discussion of these convertible securities.

13. Stock-Based Compensation

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

The 2008 Plan provides for grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units and incentive awards. The maximum aggregate number of shares of common stock that may be issued under this plan and to which awards may relate is 2,000,000 shares, and 1,113,058 shares remained available for grant under this plan as of June 30, 2010. Exercises and vestings under our stock-based employee compensation plans resulted in our recognition of an income tax-related (benefit)/charge to additional paid-in capital of $(0.6) million and $1.4 million for the three and six months ended June 30, 2010, respectively, compared to an income tax-related charge to additional paid in capital of $0.1 million and $1.3 million for the three and six months ended June 30, 2009, respectively.

Stock Options

Our 2008 Plan and its predecessor plans provide that we may grant options on or shares of our common stock to members of the Board of Directors, employees, consultants and advisors. The exercise price per share of the options may be less than, equal to or greater than the market price on the date the option is granted. The option period may not exceed 10 years from the date of grant. The vesting requirements for options granted by us range from immediate to 5 years. During the three and six months ended June 30, 2010, we expensed stock-option-related compensation costs of $0.4 million and $0.8 million, respectively, compared to $0.5 million and $1.0 million during the three and six months ended June 30, 2009, respectively. We recognize stock-option-related compensation expense for any awards with graded vesting on a straight-line basis over the vesting period for the entire award. Information related to options outstanding is as follows:

For the Six Months Ended June 30, 2010	$	**(34)**	**$**	**(5)**	**$**	**5**	

		Six Months Ended June 30, 2010		**Six Months Ended June 30, 2010**		**Six Months Ended June 30, 2009**		**Six Months Ended June 30, 2009**
Interest rate swaps	$	39(1)	$	(39)(1)	$	(16)(1)	$	16(1)
Total	**$**	**39**	**$**	**(39)**	**$**	**(16)**	**$**	**16**

(1) Gain/(loss) was recognized in interest expense, which offset to $0.

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share)

Cash Flow Hedging

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI(1) on Derivative (Effective Portion) Three Months Ended June 30, 2010	Amount of Gain or (Loss) Reclassified from Accumulated OCI(1) into Income (Effective Portion) Three Months Ended June 30, 2010	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) Three Months Ended June 30, 2010
Foreign currency contracts	$ 5	$ 6(2)	$
Agricultural feedstocks	4	(7)(3)	
Energy feedstocks	1	(17)(3)	
Total	**$ 10**	**$ (18)**	**$**
	Six Months Ended June 30, 2010	**Six Months Ended June 30, 2010**	**Six Months Ended June 30, 2010**
Foreign currency contracts	$ 10	$ 12(2)	$
Agricultural feedstocks	(42)	(21)(3)	(3)(3)
Energy feedstocks	(30)	(35)(3)	
Total	**$ (62)**	**$ (44)**	**$ (3)**

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI(1) on Derivative (Effective Portion) Three Months Ended June 30, 2009	Amount of Gain or (Loss) Reclassified from Accumulated OCI(1) into Income (Effective Portion) Three Months Ended June 30, 2009	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) Three Months Ended June 30, 2009
Foreign currency contracts	$ (7)	$ (6)(2)	$
Agricultural feedstocks	(8)	(33)(3)	(1)(3)
Energy feedstocks	2	(30)(3)	
Total	**$ (13)**	**$ (69)**	**$ (1)**
	Six Months Ended June 30, 2009	**Six Months Ended June 30, 2009**	**Six Months Ended June 30, 2009**
Foreign currency contracts	$ (2)	$ (21)(2)	$
Agricultural feedstocks	(23)	(47)(3)	(5)(3)
Energy feedstocks	(48)	(64)(3)	
Total	**$ (73)**	**$ (132)**	**$ (5)**

(1) OCI is defined as other comprehensive income / (loss).

(2) Gain (loss) was reclassified from accumulated other comprehensive income into net sales.

(3) Loss was recognized in cost of goods sold and other operating charges.

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share)

Derivatives not Designated in Hedging Instruments

Derivatives Not Designated in Hedging Instruments	Amount of Gain or (Loss) Recognized in Income on Derivative Three Months Ended June 30, 2010	Amount of Gain or (Loss) Recognized in Income on Derivative Six Months Ended June 30, 2010	Amount of Gain or (Loss) Recognized in Income on Derivative Three Months Ended June 30, 2009	Amount of Gain or (Loss) Recognized in Income on Derivative Six Months Ended June 30, 2009
Foreign currency contracts	$ 328(1)	$ 543(1)	$ (368)(1)	$ (172)(1)
Agricultural feedstocks	8(2)	15(2)	(7)(2)	(4)(2)
Total	**$ 336**	**$ 558**	**$ (375)**	**$ (176)**

(1) Gain (loss) recognized in other income, net, was partially offset by the related gain (loss) on the foreign currency denominated monetary assets and liabilities of the company s operations, which were $(223) and $(408) for the three and six months ended June 30, 2010, respectively, and $224 and $98 for the three and six months ended June 30, 2009, respectively.

(2) Gain (loss) was recognized in cost of goods sold and other operating charges.

Note 12. Long-Term Employee Benefits

The following sets forth the components of the company s net periodic benefit cost for pensions:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Service cost	$ 50	$ 47	$ 101	$ 94
Interest cost	314	315	630	630
Expected return on plan assets	(356)	(399)	(716)	(797)
Amortization of unrecognized loss	127	69	253	139
Amortization of prior service cost	4	5	8	9
Net periodic benefit cost	$ 139	$ 37	$ 276	$ 75

The company disclosed in its Consolidated Financial Statements for the year ended December 31, 2009, that it expected to contribute approximately $270 to its pension plans, other than to the principal U.S. pension plan in 2010. As of June 30, 2010, contributions of $149 have been made to these pension plans and the company anticipates additional contributions during the remainder of 2010 to total approximately $121.

Table of Contents

The following sets forth the components of the company s net periodic benefit cost for other long-term employee benefits:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share)

	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Service cost	$ 7	$ 8	$ 14	$ 16
Interest cost	59	61	119	122
Amortization of unrecognized loss	14	13	29	25
Amortization of prior service benefit	(26)	(27)	(53)	(53)
Net periodic benefit cost	$ 54	$ 55	$ 109	$ 110

The company disclosed in its Consolidated Financial Statements for the year ended December 31, 2009, that it expected to make payments of approximately $341 to its other long-term employee benefit plans in 2010. Through June 30, 2010, the company has made benefit payments of $154 related to its other long-term employee benefit plans and anticipates additional payments during the remainder of 2010 to total approximately $187.

Note 13. Segment Information

Segment sales include transfers to another business segment. Products are transferred between segments on a basis intended to reflect, as nearly as practicable, the market value of the products. Segment pre-tax operating income/(loss) (PTOI) is defined as operating income/(loss) before income taxes, exchange gains/(losses), corporate expenses, interest and the cumulative effect of changes in accounting principles. Prior year data have been reclassified to reflect the current organizational structure.

Three Months Ended June 30,	Agriculture & Nutrition(2)	Electronics & Communications	Performance Chemicals	Performance Coatings	Performance Materials	Safety & Protection	Pharmaceuticals	Other	Total (1)
2010									
Segment sales	$ 3,030	$ 657	$ 1,569	$ 962	$ 1,576	$ 845	$	$ 57	$ 8,696
Less transfers	(1)	(4)	(54)		(18)	(3)			(80)
Net sales	3,029	653	1,515	962	1,558	842		57	8,616
Pre-tax operating income (loss)	762	108	274	75	261	121	70	(16)	1,655
2009									
Segment sales	2,613	429	1,243	840	1,087	664		31	$ 6,907
Less transfers		(4)	(32)	(1)	(9)	(3)			(49)
Net sales	2,613	425	1,211	839	1,078	661		31	6,858
	580(3)	(23)(4)	79(3),(4)	8(3),(4)	5(3),(4),(5)	(6)(3),(4)	272	(43)(3),(4)	872

Pre-tax operating income (loss)	

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share)

Six Months Ended June 30,	Agriculture & Nutrition(2)	Electronics & Communications	Performance Chemicals	Performance Coatings	Performance Materials	Safety & Protection	Pharmaceuticals	Other	Total (1)
2010									
Segment sales	$ 6,272	$ 1,288	$ 2,983	$ 1,864	$ 3,110	$ 1,634	$	$ 105	$ 17,256
Less transfers	(1)	(8)	(104)	(1)	(37)	(5)			(156)
Net sales	6,271	1,280	2,879	1,863	3,073	1,629		105	17,100
Pre-tax operating income (loss)	1,703	213	464	120	491	223	291	(47)	3,458
2009									
Segment sales	5,675	794	2,313	1,572	2,029	1,382		59	$ 13,824
Less transfers		(8)	(58)	(1)	(14)	(5)		(9)	(95)
Net sales	5,675	786	2,255	1,571	2,015	1,377		50	13,729
Pre-tax operating income (loss)	1,432(3)	(57)(4)	123(3),(4)	(67)(3),(4)	(141)(3),(4),(5)	58(3),(4)	524	(87)(3),(4)	1,785

(1) A reconciliation of the pre-tax operating income totals reported for the operating segments to the applicable line item on the Consolidated Financial Statements is as follows:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Total segment PTOI	$ 1,655	$ 872	$ 3,458	$ 1,785
Net exchange gains (losses), including affiliates	105	(144)	135	(74)
Corporate expenses and net interest	(192)	(256)	(438)	(490)
Income before income taxes	$ 1,568	$ 472	$ 3,155	$ 1,221

(2) As of June 30, 2010, Agriculture & Nutrition net assets were $8,688, an increase of $2,476 from $6,212 at December 31, 2009. The increase was primarily due to higher trade receivables due to normal seasonality in the sales and cash collections cycle.

(3) Includes a $75 net reduction in estimated costs related to the 2008 restructuring program, in the following segments: Agriculture & Nutrition - $(1); Performance Chemicals - $3; Performance Coatings - $42; Performance Materials - $28; Safety & Protection - $1; and Other - $2. See Note 4 for additional information.

(4) Includes a $(340) restructuring charge impacting the segments as follows: Electronics & Communications - $(43); Performance Chemicals - $(66); Performance Coatings - $(65); Performance Materials - $(110); Safety & Protection - $(55); and Other - $(1). See Note 4 for additional information.

(5) Includes a $50 benefit related to a reduction in the reserve for hurricane damage in 2008 for $26, and initial insurance recoveries related to damage from Hurricane Ike in 2008 in the amount of $24.

Table of Contents

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

Cautionary Statements About Forward-Looking Statements

This report contains forward-looking statements which may be identified by their use of words like plans, expects, will, anticipates, intends, projects, estimates or other words of similar meaning. All statements that address expectations or projections about the future, including statements about the company s strategy for growth, product development, market position, expenditures and financial results, are forward-looking statements.

Forward-looking statements are based on certain assumptions and expectations of future events. The company cannot guarantee that these assumptions and expectations are accurate or will be realized. For some of the important factors that could cause the company s actual results to differ materially from those projected in any such forward-looking statements see the Risk Factors discussion set forth under Part II, Item 1A beginning on page 41. Additional risks and uncertainties not presently known to the company or that the company currently believes to be immaterial also could affect its businesses.

Results of Operations

Overview

Sales for all segments are growing steadily, with Electronics & Communications and DuPont Titanium Technologies surpassing pre-recession levels attained in the second quarter 2008. Sales improvements principally reflect volume growth across geographic and product markets supported by global economic growth, particularly in emerging markets(1), and market share gains for certain businesses. Earnings for all segments increased significantly compared to prior year principally due to strong volume growth. Total company sales of $8.6 billion were 26 percent higher than second quarter 2009, reflecting significantly higher sales volume and higher selling prices. Increases in local selling prices more than offset higher costs for raw material, freight and transportation. Net income attributable to DuPont for the second quarter increased to $1,159 million from $417 million in 2009. Programs for productivity and cost-cutting remain on track while focus continues on actions to support a strong balance sheet, cash generation, and capital productivity. The company continues to execute strategies for further development and growth of new products for agriculture, photovoltaics, and the alternative energy and materials industries.

Net Sales

Net sales for the second quarter 2010 were $8.6 billion versus $6.9 billion in the prior year, an increase of 26 percent, reflecting 21 percent higher sales volume, a 5 percent increase in local selling prices, a 1 percent positive impact from currency exchange rates and a 1 percent net reduction from portfolio changes. Sales volumes were higher across all segments with volumes improving 27 percent in emerging markets, increasing 14 percent in the United States and increasing 26 percent outside the United States. Sales in emerging markets of $2.4 billion improved 32 percent from 2009, and the percentage of total company sales in these markets increased to 28 percent from 26 percent.

(1) Emerging markets include China, India and countries located in Latin America, Eastern and Central Europe, Middle East, Africa and Southeast Asia.

Table of Contents

The table below shows a regional breakdown of net sales based on location of customers and percentage variances from the prior year:

	Three Months Ended June 30, 2010		Percent Change Due to:			
	2010 Net Sales ($ Billions)	Percent Change vs. 2009	Local Price	Currency Effect	Volume	Portfolio
U.S.	$ 3.6	18	5		14	(1)
Europe, Middle East & Africa (EMEA)	2.1	24	4	(2)	22	
Asia Pacific	1.8	47	5	3	40	(1)
Latin America	0.7	20	3	2	16	(1)
Canada	0.4	30	6	14	12	(2)
Total Consolidated Sales	$ 8.6	26	5	1	21	(1)

Net sales for the six months ended June 30, 2010 were $17.1 billion versus $13.7 billion in the prior year, an increase of 25 percent. This increase reflects a 20 percent higher sales volume, a 4 percent increase in local selling prices, a 2 percent positive impact from currency exchange rates and a 1 percent net reduction from portfolio changes. Sales volumes were higher across all segments with volumes improving 13 percent in the United States and 25 percent outside the United States. Sales in emerging markets of $4.7 billion improved 32 percent from 2009, and the percentage of total company sales in these markets increased to 28 percent from 26 percent.

	Six Months Ended June 30, 2010		Percent Change Due to:			
	2010 Net Sales ($ Billions)	Percent Change vs. 2009	Local Price	Currency Effect	Volume	Portfolio
U.S.	$ 7.1	17	5		13	(1)
EMEA	4.5	19	2	2	15	
Asia Pacific	3.4	57	3	3	51	
Latin America	1.5	21	1	5	16	(1)
Canada	0.6	24	3	13	9	(1)
Total Consolidated Sales	$ 17.1	25	4	2	20	(1)

Other Income, Net

Second quarter 2010 other income, net, totaled $464 million as compared to $230 million in the prior year, an increase of $234 million. The increase was attributable largely to an increase in net pre-tax exchange gains of $247 million coupled with a benefit of $59 million related to accrued interest associated with settlements of prior year income tax contingencies, an increase in net gains on sales of assets of $52 million and an increase in insurance recoveries of $38 million. The increase in other income, net for the second quarter 2010 was partially offset by a $202 million reduction of Cozaar®/Hyzaar® antihypertensive drugs income, which reflects the expiration of certain patents.

Table of Contents

For the six months ended June 30, 2010, other income, net, was $824 million as compared to $629 million last year, an increase of $195 million. The increase was attributable primarily to an increase in net pre-tax exchange gains of $225 million combined with a benefit of $59 million related to accrued interest associated with settlements of prior year income tax contingencies, an increase in net gains on sales of assets of $53 million, higher income from equity affiliates of $36 million and an increase in insurance recoveries of $38 million. The increase in other income, net for the year-to-date 2010 was partially offset by $234 million reduction of Cozaar®/Hyzaar® income, which reflects the expiration of certain patents.

Additional information related to the company s other income, net, is included in Note 3 to the interim Consolidated Financial Statements.

Cost of Goods Sold and Other Operating Charges (COGS)

COGS totaled $6.0 billion in the second quarter 2010 versus $5.0 billion in the prior year, an increase of 20 percent. COGS as a percent of net sales improved to 69 percent versus 73 percent for the second quarter 2009. The 4 percentage point improvement principally reflects increased manufacturing utilization from higher volume, higher selling prices, and a favorable impact from currency exchange rates, partly offset by the absence of a prior-year benefit for hurricane related items. Raw material, energy and freight costs, adjusted for volume and currency, were 3 percent higher.

COGS for the six months ended June 30, 2010 was $11.8 billion, an increase of 16 percent versus $10.2 billion in the prior year. COGS was 69 percent of net sales, a 5 percentage point decrease from prior year. The 5 percentage point improvement principally reflects increased manufacturing utilization from higher volume, higher selling prices, and a favorable impact from currency exchange rates. Raw material, energy and freight costs, adjusted for volume and currency, were essentially flat. The company anticipates that full-year 2010 raw material, energy and freight costs, adjusted for volume and currency, will increase approximately 3 percent compared to prior year.

Selling, General and Administrative Expenses (SG&A)

SG&A totaled $1,021 million for the second quarter 2010 versus $907 million in the prior year. Year-to-date SG&A totaled $2.0 billion versus $1.8 billion in 2009. The increase for the three and six months ended June 30, 2010 was due to higher selling expenses, primarily in the Agriculture & Nutrition segment as a result of increased global commissions and selling and marketing investments related to the company s seed products, and higher non-cash pension expenses. SG&A was approximately 12 percent of net sales for the three and six month periods ended June 30, 2010 and 13 percent for the same periods in 2009.

Research and Development Expense (R&D)

R&D totaled $404 million and $331 million for the second quarter 2010 and 2009, respectively. For the six month period ended June 30, 2010, R&D was $769 million versus $654 million last year. The increase for the three and six months ended June 30, 2010 in R&D was due to continued growth investment in the Agriculture & Nutrition segment. R&D was constant at approximately 5 percent of net sales for the three and six month periods ended June 30, 2010 and 2009.

Interest Expense

Interest expense totaled $103 million in the second quarter 2010 compared to $106 million in 2009. For the six month period ended June 30, 2010, interest expense decreased from $212 million in 2009 to $206 million in 2010. The decrease in interest expense for the three and six months ended June 30, 2010 is due primarily to lower rates partially offset by higher average debt.

Table of Contents

Employee Separation / Asset Related Charges, Net

For the three and six months ended June 30, 2009, the company recorded a $340 million restructuring charge comprised of severance and related benefit costs, asset write-offs, and impairment charges, partially offset by a $75 million net reduction in the estimated costs related to the 2008 restructuring program. The $75 million net reduction in the estimated costs for the 2008 program was primarily due to work force reductions realized through non-severance programs and redeployments within the company. Additional information related to the company s restructuring programs is located in Note 4 to the interim Consolidated Financial Statements.

Provision for Income Taxes

The company s effective tax rate for the second quarter 2010 was 25.5 percent as compared to 10.8 percent in 2009. The higher effective tax rate in 2010 versus 2009 principally relates to the tax impact associated with the company s policy of hedging the foreign currency-denominated monetary assets and liabilities of its operations and the absence of tax benefits related to restructuring recorded in 2009. This impact is partially offset by favorable geographic mix of pre-tax earnings and the net adjustment of income tax accruals associated with settlements of prior year tax contingencies in the current quarter.

The company s effective tax rate for year-to-date 2010 was 26.9 percent as compared to 25.5 percent in 2009. The higher effective tax rate principally relates to the tax impact associated with the company s policy of hedging the foreign currency-denominated monetary assets and liabilities of its operations partially offset by favorable geographic mix of pre-tax earnings. See Note 5 to the interim Consolidated Financial Statements for additional information.

Net Income Attributable to DuPont (Earnings)

Earnings for the second quarter 2010 were $1,159 million versus $417 million in the second quarter 2009, a $742 million increase. The increase in earnings principally reflects higher sales volume and selling prices, the absence of a prior-year restructuring charge, and a one-time tax benefit, partly offset by higher non-cash pension costs and higher raw material, energy and freight costs.

For the six months ended June 30, 2010, earnings were $2,288 million, compared to $905 million in the prior year, a $1,383 million increase. The increase in earnings principally reflects higher sales volume and selling prices, the absence of a prior year restructuring charge, and favorable currency impact, partly offset by higher non-cash pension costs.

Corporate Outlook

The company increased its full year 2010 earnings outlook to a range of $3.00 to $3.15 per share from its previous range of $2.50 to $2.70. The outlook includes an estimated full year earnings benefit of approximately $.10 per share for the adjustment of interest and accruals related to prior year income tax settlements. The outlook increase reflects strong second quarter results and the expected continuation of year-over-year gains from higher sales, further strengthening of mid-cycle businesses such as Safety & Protection, and ongoing productivity improvement. The outlook also assumes Pharmaceuticals full year pre-tax income will be in a range from $460 to $480 million. The company expects full year free cash flow to be greater than $1.7 billion.

Health Care Reform

During March 2010, a comprehensive health care reform legislation was signed into law in the U.S. under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (the Acts). Included among the major provisions of the law is a change in tax treatment of the federal drug subsidy paid with respect to Medicare-eligible retirees. This change did not have a significant impact because the company operates its principal drug plan for Medicare-eligible retirees as secondary to Medicare and manages Medicare Part D reimbursement through a third party administrator. The effect of the Acts on the company s other long-term employee benefit obligation and cost depends on finalization of related regulatory requirements. The company will continue to monitor and assess the effect of the Acts as the regulatory requirements are finalized.

Table of Contents

Segment Reviews

Summarized below are comments on individual segment sales and pre-tax operating income/(loss) (PTOI) for the three and six month periods ended June 30, 2010 compared with the same periods in 2009. Segment sales include transfers to another business segment. Products are transferred between segments on a basis intended to reflect, as nearly as practicable, the market value of the products. Segment PTOI is defined as operating income before income taxes, exchange gains/(losses), corporate expenses and interest. All references to selling prices are on a U.S. dollar (USD) basis, including the impact of currency. A reconciliation of segment sales to consolidated net sales and segment PTOI to income before income taxes for the three and six month periods ended June 30, 2010 and 2009 is included in Note 13 to the interim Consolidated Financial Statements.

The following tables summarize second quarter and year-to-date 2010 segment sales and related variances versus prior year:

	Three Months Ended June 30, 2010		Percentage Change Due to:		
	Segment Sales* ($ Billions)	Percent Change vs. 2009	Selling Price	Volume	Portfolio and Other
Agriculture & Nutrition	$ 3.0	16	5	12	(1)
Electronics & Communications	0.7	53	5	48	
Performance Chemicals	1.6	26	8	19	(1)
Performance Coatings	1.0	15	4	11	
Performance Materials	1.6	45	11	35	(1)
Safety & Protection	0.8	27		27	

* Segment sales include transfers

	Six Months Ended June 30, 2010		Percentage Change Due to:		
	Segment Sales* ($ Billions)	Percent Change vs. 2009	Selling Price	Volume	Portfolio and Other
Agriculture & Nutrition	$ 6.3	11	5	6	
Electronics & Communications	1.3	62	6	56	
Performance Chemicals	3.0	29	6	24	(1)
Performance Coatings	1.9	19	5	14	
Performance Materials	3.1	53	9	45	(1)
Safety & Protection	1.6	18	1	17	

* Segment sales include transfers

Agriculture & Nutrition Sales of $3.0 billion increased $0.4 billion, or 16 percent, principally from 12 percent volume growth and 5 percent higher selling prices. Segment sales primarily reflect North American seed share and price gains. Crop protection volumes increased across all product lines with particularly strong sales of Rynaxypyr® insecticide and fungicides in Latin America. Segment PTOI of $762 million improved 31 percent, principally from higher volumes, partly offset by increased spending for growth initiatives.

Year-to-date sales were $6.3 billion, an 11 percent increase versus the prior year, reflecting a 6 percent increase in volume and 5 percent higher selling prices. Higher volumes were primarily due to higher seed sales in North America coupled with higher global sales of crop protection products, mostly due to strong demand for Rynaxypyr®. PTOI for the first half 2010 was $1.7 billion, up 19 percent versus $1.4 billion in the same period last year, principally due to the higher sales, partially offset by increased spending for growth initiatives.

Electronics & Communications Sales of $657 million increased $228 million, or 53 percent, reflecting 48 percent higher volumes and 5 percent higher selling prices. Higher volumes were primarily due to growth in all regions, particularly in Asia Pacific, continued global economic recovery, and strong demand across all market segments, particularly in photovoltaics. Higher selling prices resulted from pass-through of metals prices. PTOI of $108 million was up $131 million reflecting significantly higher volumes and the absence of a $43 million restructuring charge in prior year.

Year-to-date sales of $1.3 billion were up 62 percent, with 56 percent higher volumes and 6 percent higher selling prices. The higher volumes reflect strong global demand across all regions, primarily in Asia Pacific. PTOI for the first half 2010 was $213 million, an improvement of $270 million from the same period last year. The increase in PTOI was driven by substantially higher volumes and the absence of a $43 million restructuring charge in prior year.

Performance Chemicals Sales of $1.6 billion increased $0.3 billion, or 26 percent, principally driven by a 19 percent increase in volume and 8 percent higher selling prices. The sales increase occurred in all regions, primarily in North America and Asia Pacific, and was driven by strong demand for titanium dioxide, fluoropolymers, and refrigerants, with continuing adoption of ISCEON® as a preferred retrofit to R22 refrigerant. PTOI was $274 million, an improvement of $195 million, primarily due to higher volumes and selling prices and the absence of a $66 million restructuring charge in prior year.

Year-to-date sales of $3.0 billion increased 29 percent from the same period last year, reflecting 24 percent higher volumes and 6 percent higher selling prices. The sales increase was primarily driven by continued broad-based recovery in all markets, reflecting strong demand for titanium dioxide, fluoropolymers and refrigerants. PTOI for the first half of 2010 was $464 million, an improvement of $341 million. The increase in PTOI was driven by significantly higher volumes and the absence of a $66 million restructuring charge in prior year.

Performance Coatings Sales of $962 million increased $122 million, or 15 percent, with 11 percent higher volumes and 4 percent higher selling prices. Higher volumes reflect improving demand in global automotive OEM markets and continued improvement in North American and European industrial markets, particularly heavy duty truck markets. PTOI was $75 million, up $67 million, from higher volumes and price, and the absence of a $65 million restructuring charge recorded in prior year. Second quarter 2009 PTOI also included a $42 million benefit related to the reduction in the estimated costs associated with the 2008 restructuring program.

Year-to-date sales of $1.9 billion increased 19 percent from the same period last year, reflecting 14 percent higher volumes and a 5 percent increase in selling prices. Higher volumes reflect increased demand in global automotive OEM markets as a result of higher global motor vehicle builds, and strong demand across most regions. PTOI for the first half of 2010 was $120 million, an improvement of $187 million from the same period last year. The increase in PTOI primarily reflects the impact of higher volumes and the absence of a $65 million restructuring charge recorded in prior year. Second quarter 2009 PTOI also included a $42 million benefit related to the reduction in the estimated costs associated with the 2008 restructuring program.

Performance Materials Sales of $1.6 billion increased $0.5 billion, or 45 percent, with 35 percent higher volumes and an 11 percent increase in selling prices. Strong demand in automotive, electronic and packaging markets, led to growth in all regions. PTOI was $261 million, an improvement of $256 million, from higher volumes, selling prices, a $27 million benefit from a gain on the sale of a business and an insurance recovery, and the absence of a $110 million restructuring charge in prior year. Second quarter 2009 PTOI also included a $28 million benefit related to the reduction in the estimated costs associated with the 2008 restructuring program, a $26 million benefit from a reduction in the hurricane-related reserve and proceeds from hurricane-related insurance recoveries of $24 million.

Year-to-date sales were $3.1 billion versus $2.0 billion in the same period last year. The 53 percent increase in sales is due to 45 percent higher volumes and a 9 percent increase in selling prices. The higher volumes were led by continued improvement in most markets, with strong volume recovery in all regions, led by Asia Pacific. PTOI for the first half 2010 was $491 million, an improvement of $632 million from the same period last year. The increase in PTOI was primarily driven by higher sales and the absence of a $110 million restructuring charge in prior year.

Safety & Protection Sales of $845 million increased $181 million, or 27 percent, due to higher volume. Growth primarily reflects strengthening in industrial markets. PTOI was $121 million, an improvement of $127 million, from higher volumes and the absence of a $55 million restructuring charge in prior year.

Year-to-date sales of $1.6 billion were 18 percent higher than prior year, principally due to a 17 percent increase in volume. The increase in volume reflects increased demand for products across all markets, excluding public sector, and regions as strong recovery continued to occur. Year-to-date PTOI was $223 million compared to $58 million in the same period last year. The increase in earnings was primarily due to higher volumes and the absence of a $55 million restructuring charge in prior year.

Pharmaceuticals Second quarter PTOI was $70 million compared to $272 million in the second quarter 2009. Year-to-date 2010 PTOI was $291 million compared to $524 million in the prior year. The decreased income reflects the expiration of certain patents for Cozaar®/Hyzaar®.

Other The company includes embryonic businesses not included in growth platforms, such as Applied BioSciences and nonaligned businesses in Other. Sales in the second quarter of $57 million increased 84 percent from the second quarter 2009 due to higher sales from the Applied BioSciences business. PTOI for the second quarter 2010 was a loss of $16 million, which included $31 million in insurance recoveries, compared to a loss of $43 million in the second quarter 2009.

Year-to-date sales were $105 million compared to $59 million in 2009. Year-to-date pre-tax operating loss was $47 million, compared to pre-tax operating loss of $87 million in the same period last year. The reduction of the current year loss is primarily due to the receipt of $31 million in insurance recoveries, coupled with higher sales.

Liquidity & Capital Resources

Management believes the company s ability to generate cash from operations and access to capital markets, will be adequate to meet anticipated cash requirements to fund working capital, capital spending, dividend payments, debt maturities and other cash needs. The company s liquidity needs can be met through a variety of sources, including: cash provided by operating activities, cash and cash equivalents, marketable securities, commercial paper, syndicated credit lines, bilateral credit lines, equity and long-term debt markets and asset sales. The company s current strong financial position, liquidity and credit ratings provide excellent access to the capital markets. In addition, cash generating actions have been implemented including spending reductions and restructuring to better align capital expenditures and costs. The company will continue to monitor the financial markets in order to respond to changing conditions.

Pursuant to its cash discipline policy, the company seeks first to maintain a strong balance sheet and second, to return excess cash to shareholders unless the opportunity to invest for growth is compelling. Cash and cash equivalents and marketable securities balances of $4.0 billion as of June 30, 2010, provide primary liquidity to support all short-term obligations. The company has access to approximately $2.5 billion in unused credit lines with several major financial institutions, as additional support to meet short term liquidity needs.

Table of Contents

The company continually reviews its debt portfolio and occasionally may rebalance it to ensure adequate liquidity and an optimum debt maturity schedule.

During the first quarter 2010, Standard & Poor s revised the company s credit outlook to Stable from Negative and Fitch Ratings affirmed the company s current credit rating.

The company s credit ratings impact its access to and cost of capitalThe company s long term and short term credit ratings are as follows:

	Long term	Short term	Outlook
Standard & Poor s	A	A-1	Stable
Moody s Investors Service	A2	P-1	Negative
Fitch Ratings	A	F1	Negative

Cash used for operating activities was $424 million for the six months ended June 30, 2010 compared to cash provided by operating activities of $45 million during the same period ended in 2009. The $469 million change is primarily due to increases in working capital, mainly driven by higher changes in inventory and accounts receivable due to higher sales, and the stronger dollar, which was hedged by forward exchange contracts in investing activities, partially offset by higher earnings.

Cash provided by investing activities was $275 million for the six months ended June 30, 2010 compared to cash used for investing activities of $1.5 billion for the same period last year. The $1.8 billion change was mainly due to a reduction in investments in short-term financial instruments, a net increase in proceeds from forward exchange contract settlements, and reduced capital expenditures. Purchases of property, plant and equipment for the six months ended June 30, 2010 totaled $500 million, a decrease of $219 million compared to the prior year.

Cash used for financing activities was $1.5 billion for the six months ended June 30, 2010 compared to cash used for financing activities of $57 million for the same period last year. The $1.5 billion increase was primarily due to cash used to reduce borrowings for the six months ended June 30, 2010 compared to net proceeds from borrowings for the same period last year.

	Six Months Ended June 30,			
(Dollars in millions)	**2010**		**2009**	
Cash (used for) provided by operating activities	$	(424)	$	45
Purchases of property, plant and equipment		(500)		(719)
Free cash flow	**$**	**(924)**	$	(674)

Free cash flow for the six months ended June 30, 2010 was an outflow of $924 million, as compared to an outflow of $674 million for the same period last year. The company expects full year free cash flow to be greater than $1.7 billion, while continuing to support growth investments including $1.6 billion of capital investment and working capital increases from improved levels of demand.

Free cash flow is a measurement not recognized in accordance with generally accepted accounting principles (GAAP) and should not be viewed as an alternative to GAAP measures of performance. All companies do not calculate non-GAAP financial measures in the same manner and, accordingly, the company s free cash flow definition may not be consistent with the methodologies used by other companies. The company defines free cash flow as cash provided by operating activities less purchases of property, plant and equipment, and therefore indicates operating cash flow available for payment of dividends, other investing activities, and other financing activities. Free cash flow is useful to investors and management to evaluate the company s cash flow and financial performance, and is an integral financial measure used in the company s financial planning process.

Table of Contents

Dividends paid to shareholders during the six months ended June 30, 2010 totaled $748 million, including the second quarter 2010 dividend declared on April 28, 2010. In July 2010, the company s Board of Directors declared a third quarter common stock dividend of $0.41 per share. The third quarter dividend was the company s 424th consecutive quarterly dividend since the company s first dividend in the fourth quarter 1904.

Cash and Cash Equivalents and Marketable Securities

Cash and cash equivalents and marketable securities were $4.0 billion at June 30, 2010, a decrease of $2.1 billion from $6.1 billion at December 31, 2009. The reduction was due to the funding of normal working capital needs and the funding of capital projects combined with dividend payments and payments to reduce debt.

Debt

Total debt at June 30, 2010 was $10.2 billion, a decrease of $806 million from $11.0 billion at December 31, 2009, reflecting the use of cash to pay down debt.

Guarantees and Off-Balance Sheet Arrangements

For detailed information related to Guarantees, Indemnifications, Obligations for Equity Affiliates and Others and Certain Derivative Instruments, see pages 37 - 38 of the company s 2009 Annual Report, and Note 9 to the interim Consolidated Financial Statements.

Contractual Obligations

Information related to the company s contractual obligations at December 31, 2009 can be found on page 39 of the company s 2009 Annual Report. The company s contractual obligations at June 30, 2010 have decreased approximately $1.0 billion versus prior year-end. The decrease is primarily attributable to the payment of debt that came due in the second quarter 2010.

PFOA

The following is an update of the PFOA discussion found on pages 45-47 of the company s 2009 Annual Report.

DuPont respects EPA s position raising questions about exposure routes and the potential toxicity of PFOA and DuPont and other companies have outlined plans to continue research, emission reduction and product stewardship activities to help address EPA s questions. In January 2006, DuPont pledged its commitment to EPA s 2010/15 PFOA Stewardship Program. The EPA program asks participants (1) to commit to achieve, no later than 2010, a 95 percent reduction in both facility emissions and product content levels of PFOA, PFOA precursors and related higher homologue chemicals and (2) to commit to working toward the elimination of PFOA, PFOA precursors and related higher homologue chemicals from emissions and products by no later than 2015. In October 2009, (for the year 2008), DuPont reported to EPA that it had achieved about a 99 percent reduction of PFOA emissions in U.S. manufacturing facilities. The company achieved about a 98 percent reduction in global manufacturing emissions, exceeding EPA s 2010 objective. In February 2007, DuPont announced its commitment to no longer make, use or buy PFOA by 2015, or sooner if possible. DuPont has developed PFOA replacement technology and successfully used this technology in its global manufacturing facilities to produce test materials for all major fluoropolymer product lines. DuPont has begun to supply fluoropolymer products without PFOA to customers for testing in their processes, and is working to obtain appropriate regulatory approvals for this technology. 3M filed suit against the company in March 2010, alleging that certain DuPont fluoropolymer dispersion products infringe its patents. The lawsuit will not prevent DuPont from meeting its 2010/2015 goals noted above.

DuPont has established reserves in connection with certain PFOA environmental and litigation matters (see Note 9 to the interim Consolidated Financial Statements).

Table of Contents

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Note 11, Derivatives and Other Hedging Instruments to the interim Consolidated Financial Statements. See also Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, on pages 48 - 50 of the company s 2009 Annual Report for information on the company s utilization of financial instruments and an analysis of the sensitivity of these instruments.

Table of Contents

Item 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

The company maintains a system of disclosure controls and procedures to give reasonable assurance that information required to be disclosed in the company s reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. These controls and procedures also give reasonable assurance that information required to be disclosed in such reports is accumulated and communicated to management to allow timely decisions regarding required disclosures.

As of June 30, 2010, the company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), together with management, conducted an evaluation of the effectiveness of the company s disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures are effective.

b) Changes in Internal Control over Financial Reporting

There has been no change in the company s internal control over financial reporting that occurred during the quarter ended June 30, 2010 that has materially affected or is reasonably likely to materially affect the company s internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The company is subject to various litigation matters, including, but not limited to, product liability, patent infringement, antitrust claims, and claims for third party property damage or personal injury stemming from alleged environmental torts. Information regarding certain of these matters is set forth below and in Note 9 to the interim Consolidated Financial Statements.

Litigation

PFOA: Environmental and Litigation Proceedings

For purposes of this report, the term PFOA means collectively perfluorooctanoic acid and its salts, including the ammonium salt and does not distinguish between the two forms. Information related to this matter is included in Note 9 to the interim Consolidated Financial Statements under the heading PFOA.

Environmental Proceedings

Belle Plant, West Virginia

The Occupational Safety and Health Administration (OSHA), Chemical Safety Board, U.S. Environmental Protection Agency (EPA) and West Virginia Department of Environmental Protection are investigating 3 chemical releases at DuPont s Belle facility in West Virginia which occurred in January 2010. One of the releases involved the death of a DuPont employee after exposure to phosgene. In July 2010, OSHA cited DuPont with six serious violations of process safety related requirements and proposed a penalty of $43,000.00.

Chambers Works Plant, Deepwater, New Jersey

In September 2009, the New Jersey Department of Environmental Protection (NJDEP) notified DuPont that it was seeking administrative penalties for past violations of the New Jersey Air Regulations governing Leak Detection and Reporting (LDAR) at the Chambers Works facility. These violations were self-reported by the company in March 2009. NJDEP is seeking $444,000.00 in administrative penalties for alleged violations during calendar year 2006. In fourth quarter 2009, DuPont filed an appeal regarding the basis of the penalty assessment and is in settlement negotiations with NJDEP.

Chambers Works Plant, Deepwater, New Jersey

In January 2010, EPA and the U.S. Attorney s Office for New Jersey, informed DuPont that the government was initiating an enforcement action arising from alleged environmental non-compliance at the Chambers Works facility. The government alleges that the facility violated recordkeeping requirements of certain provisions of the Clean Air Act and the Federal Clean Air Act Regulations governing LDAR and that it failed to report fugitive emissions of a compound from Chambers Works waste water treatment facility under the Emergency Planning and Community Right-to-Know Act (EPRCA.) The alleged non-compliance was identified by EPA in 2007 and 2009 following separate environmental audits. DuPont is in settlement negotiations with EPA and the Department of Justice.

TSCA Voluntary Audit

DuPont voluntarily undertook a self-audit concerning reporting of inhalation studies pursuant to Toxic Substances Control Act (TSCA) section 8(e). DuPont voluntarily reported the results of that audit to EPA. EPA has reviewed the information submitted under this self-audit and has indicated potential violations exist with respect to some of the submitted studies. EPA and the company are negotiating a settlement agreement that will include monetary penalties.

Table of Contents

Item 1A. RISK FACTORS

The company s operations could be affected by various risks, many of which are beyond its control. Based on current information, the company believes that the following identifies the most significant risk factors that could affect its businesses. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

Price increases for energy and raw materials could have a significant impact on the company s ability to sustain and grow earnings.

The company s manufacturing processes consume significant amounts of energy and raw materials, the costs of which are subject to worldwide supply and demand as well as other factors beyond the control of the company. Significant variations in the cost of energy, which primarily reflect market prices for oil and natural gas and raw materials affect the company s operating results from period to period. Legislation to address climate change by reducing greenhouse gas emissions and establishing a price on carbon could create increases in energy costs and price volatility. When possible, the company purchases raw materials through negotiated long-term contracts to minimize the impact of price fluctuations. Additionally, the company enters into over-the-counter and exchange traded derivative commodity instruments to hedge its exposure to price fluctuations on certain raw material purchases. The company takes actions to offset the effects of higher energy and raw material costs through selling price increases, productivity improvements and cost reduction programs. Success in offsetting higher raw material costs with price increases is largely influenced by competitive and economic conditions and could vary significantly depending on the market served. If the company is not able to fully offset the effects of higher energy and raw material costs, it could have a significant impact on the company s financial results.

Failure to develop and market new products could impact the company s competitive position and have an adverse effect on the company s financial results.

The company s operating results are largely dependent on its ability to renew its pipeline of new products and services and to bring those products and services to market. The company plans to grow earnings by focusing on emerging markets and solutions to meet increasing demand for food productivity, decrease dependency on fossil fuels and protect people, assets and the environment. This ability could be adversely affected by difficulties or delays in product development such as the inability to identify viable new products, successfully complete research and development, obtain relevant regulatory approvals, obtain intellectual property protection, or gain market acceptance of new products and services. Because of the lengthy development process, technological challenges and intense competition, there can be no assurance that any of the products the company is currently developing, or could begin to develop in the future, will achieve substantial commercial success. Sales of the company s new products could replace sales of some of its current products, offsetting the benefit of even a successful product introduction.

The company s results of operations could be adversely affected by litigation and other commitments and contingencies.

The company faces risks arising from various unasserted and asserted litigation matters, including, but not limited to, product liability, patent infringement, antitrust claims, and claims for third party property damage or personal injury stemming from alleged environmental torts. The company has noted a nationwide trend in purported class actions against chemical manufacturers generally seeking relief such as medical monitoring, property damages, off-site remediation and punitive damages arising from alleged environmental torts without claiming present personal injuries. The company also has noted a trend in public and private nuisance suits being filed on behalf of states, counties, cities and utilities alleging harm to the general public. Various factors or developments can lead to changes in current estimates of liabilities such as a final adverse judgment, significant settlement or changes in applicable law. A future adverse ruling or unfavorable development could result in future charges that could have a material adverse effect on the company. An adverse outcome in any one or more of these matters could be material to the company s financial results.

In the ordinary course of business, the company may make certain commitments, including representations, warranties and indemnities relating to current and past operations, including those

Table of Contents

related to divested businesses and issue guarantees of third party obligations. If the company were required to make payments as a result, they could exceed the amounts accrued, thereby adversely affecting the company s results of operations.

Failure to appropriately manage safety, human health, product liability and environmental risks associated with the company s products and production processes could adversely impact employees, communities, stakeholders and results of operations. While the company has procedures and controls to manage such risks, process safety issues could be created by events outside of its control including natural disasters, severe weather events and acts of sabotage.

As a result of the company s current and past operations, including operations related to divested businesses, the company could incur significant environmental liabilities.

The company is subject to various laws and regulations around the world governing the environment, including the discharge of pollutants and the management and disposal of hazardous substances. As a result of its operations, including its past operations and operations of divested businesses, the company could incur substantial costs, including cleanup costs. The costs of complying with complex environmental laws and regulations, as well as internal voluntary programs, are significant and will continue to be so for the foreseeable future. The ultimate costs under environmental laws and the timing of these costs are difficult to predict. The company s accruals for such costs and liabilities may not be adequate because the estimates on which the accruals are based depend on a number of factors including the nature of the matter, the complexity of the site, site geology, the nature and extent of contamination, the type of remedy, the outcome of discussions with regulatory agencies and other Potentially Responsible Parties (PRPs) at multi-party sites and the number and financial viability of other PRPs.

The company s ability to generate sales from genetically modified products, particularly seeds and other agricultural products, could be adversely affected by market acceptance, government policies, rules or regulations and competition.

The company is using biotechnology to create and improve products, particularly in its Agriculture & Nutrition segment. The use of biotechnology to characterize the genetic and performance characteristics of Pioneer seeds provides Pioneer with competitive advantages in the development of new products, and in the most effective placement of those products on customer acres. Demand for these products could be affected by market acceptance of genetically modified products as well as governmental policies, laws and regulations that affect the development, manufacture and distribution of products, including the testing and planting of seeds containing biotechnology traits and the import of commodity grain grown from those seeds.

The company competes with major global companies that have strong intellectual property estates supporting the use of biotechnology to enhance products, particularly in the agricultural products and production markets. Speed in discovering and protecting new technologies and bringing products based on them to market is a significant competitive advantage. Failure to predict and respond effectively to this competition could cause the company s existing or candidate products to become less competitive, adversely affecting sales.

Changes in government policies and laws could adversely affect the company s financial results.

Sales outside the U.S. constitute approximately 60 percent of the company s 2009 revenue. The company anticipates that international sales will continue to represent a substantial portion of its total sales and that continued growth and profitability will require further international expansion, particularly in emerging markets. Sales from emerging markets represent approximately 30 percent of the company s revenue in 2009 and the company s growth plans include focusing on expanding its presence in emerging markets. The company s financial results could be affected by changes in trade, monetary and fiscal policies, laws and regulations, or other activities of U.S. and non-U.S. governments, agencies and similar organizations. These conditions include, but are not limited to, changes in a country s or region s economic or political conditions, trade regulations affecting production, pricing and marketing of products, local labor conditions and regulations, reduced protection of intellectual property rights in some countries,

Table of Contents

changes in the regulatory or legal environment, restrictions on currency exchange activities, burdensome taxes and tariffs and other trade barriers. International risks and uncertainties, including changing social and economic conditions as well as terrorism, political hostilities and war, could lead to reduced sales and profitability.

Economic factors, including inflation, deflation and fluctuations in currency exchange rates, interest rates and commodity prices could affect the company s financial results.

The company is exposed to fluctuations in currency exchange rates, interest rates and commodity prices. Because the company has significant international operations, there are a large number of currency transactions that result from international sales, purchases, investments and borrowings. The company actively manages currency exposures that are associated with monetary asset positions, committed currency purchases and sales, foreign currency-denominated revenues and other assets and liabilities created in the normal course of business. Failure to successfully manage these risks could have an adverse impact on the company s financial position, results of operations and cash flows.

Conditions in the global economy and global capital markets may adversely affect the company s results of operations, financial condition, and cash flows.

The company s business and operating results may in the future be adversely affected by global economic conditions, including instability in credit markets, declining consumer and business confidence, fluctuating commodity prices, volatile exchange rates, and other challenges that could affect the global economy. The company s customers may experience deterioration of their businesses, cash flow shortages, and difficulty obtaining financing. As a result, existing or potential customers may delay or cancel plans to purchase products and may not be able to fulfill their obligations in a timely fashion. Further, suppliers could experience similar conditions, which could impact their ability to fulfill their obligations to the company. Adversity within capital markets may impact future return on pension assets, thus resulting in greater future pension costs that impact the company s results. Future weakness in the global economy could adversely affect the company s results of operations, financial condition and cash flows in future periods.

Business disruptions could seriously impact the company s future revenue and financial condition and increase costs and expenses.

Business disruptions, including supply disruptions, increasing costs for energy, temporary plant and/or power outages and information technology system and network disruptions, could seriously harm the company s operations as well as the operations of its customers and suppliers. Although it is impossible to predict the occurrences or consequences of any such events, they could result in reduced demand for the company s products, make it difficult or impossible for the company to deliver products to its customers or to receive raw materials from suppliers, and create delays and inefficiencies in the supply chain. The company actively manages the risks within its control that could cause business disruptions to mitigate any potential impact from business disruptions regardless of cause including acts of terrorism or war, and natural disasters. Despite these efforts, the impact from business disruptions could significantly increase the cost of doing business or otherwise adversely impact the company s financial performance.

Inability to protect and enforce the company s intellectual property rights could adversely affect the company s financial results.

Intellectual property rights are important to the company s business. The company endeavors to protect its intellectual property rights in jurisdictions in which its products are produced or used and in jurisdictions into which its products are imported. However, the company may be unable to obtain protection for its intellectual property in key jurisdictions. Additionally, the company has designed and implemented internal controls to restrict access to and distribution of its intellectual property, including confidential information and trade secrets. Despite these precautions, it is possible that unauthorized parties may access and use such property. When misappropriation is discovered, the company reports such situations to the appropriate governmental authorities for investigation and takes measures to mitigate any potential impact.

Table of Contents

Item 6. EXHIBITS

Exhibits: The list of exhibits in the Exhibit Index to this report is incorporated herein by reference.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

E. I. DU PONT DE NEMOURS AND COMPANY
(Registrant)

Date:	July 27, 2010
By:	/s/Nicholas C. Fanandakis Nicholas C. Fanandakis Senior Vice President and Chief Financial Officer (As Duly Authorized Officer and Principal Financial and Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
3.1	Company s Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the company s Annual Report on Form 10-K for the year ended December 31, 2007).
3.2	Company s Bylaws, as last amended effective November 1, 2009 (incorporated by reference to Exhibit 3.2 to the company s Annual Report on Form 10-K for the year ended December 31, 2009).
4	The company agrees to provide the Commission, on request, copies of instruments defining the rights of holders of long-term debt of the company and its subsidiaries.
10.1*	The DuPont Stock Accumulation and Deferred Compensation Plan for Directors, as last amended effective January 1, 2009 (incorporated by reference to Exhibit 10.1 to the company s Annual Report on Form 10-K for the year ended December 31, 2008).
10.2*	Company s Supplemental Retirement Income Plan, as last amended effective June 4, 1996 (incorporated by reference to Exhibit 10.3 to the company s Annual Report on Form 10-K for the year ended December 31, 2006).
10.3*	Company s Pension Restoration Plan, as restated effective July 17, 2006 (incorporated by reference to Exhibit 99.1 to the company s Current Report on Form 8-K filed on July 20, 2006).
10.4*	Company s Rules for Lump Sum Payments adopted July 17, 2006 (incorporated by reference to Exhibit 99.2 to the company s Current Report on Form 8-K filed on July 20, 2006).
10.5*	Company s Stock Performance Plan, as last amended effective January 25, 2007 (incorporated by reference to Exhibit 10.7 to the company s Quarterly Report on Form 10-Q for the period ended March 31, 2007).
10.6*	Company s Equity and Incentive Plan as approved by the company s shareholders on April 25, 2007 (incorporated by reference to pages C1-C13 of the company s Annual Meeting Proxy Statement dated March 19, 2007).
10.7*	Form of Award Terms under the company s Equity and Incentive Plan (incorporated by reference to Exhibit 10.8 to the company s Quarterly Report on Form 10-Q for the period ended March 31, 2009).
10.8*	Company s Retirement Savings Restoration Plan, as last amended effective January 1, 2009 (incorporated by reference to Exhibit 10.16 to the company s Quarterly Report on Form 10-Q for the period ended June 30, 2008).
10.9*	Company s Retirement Income Plan for Directors, as last amended August 1995 (incorporated by reference to Exhibit 10.17 to the company s Annual Report on Form 10-K for the year ended December 31, 2007).
10.10*	Company s Bicentennial Corporate Sharing Plan, adopted by the Board of Directors on December 12, 2001 and effective January 9, 2002 (incorporated by reference to Exhibit 10.19 to the company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).

Table of Contents

Exhibit Number	Description
10.11*	Company s Management Deferred Compensation Plan, adopted on May 2, 2008, as last amended May 12, 2010.
10.12*	Supplemental Deferral Terms for Deferred Long Term Incentive Awards and Deferred Variable Compensation Awards (incorporated by reference to Exhibit 10.15 to the company s Annual Report on Form 10-K for the year ended December 31, 2008).
12	Computation of Ratio of Earnings to Fixed Charges.
31.1	Rule 13a-14(a)/15d-14(a) Certification of the company s Principal Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of the company s Principal Financial Officer.
32.1	Section 1350 Certification of the company s Principal Executive Officer. The information contained in this Exhibit shall not be deemed filed with the Securities and Exchange Commission nor incorporated by reference in any registration statement filed by the registrant under the Securities Act of 1933, as amended.
32.2	Section 1350 Certification of the company s Principal Financial Officer. The information contained in this Exhibit shall not be deemed filed with the Securities and Exchange Commission nor incorporated by reference in any registration statement filed by the registrant under the Securities Act of 1933, as amended.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-Q.