

CONSUMER PORTFOLIO SERVICES INC  
Form 10-Q  
November 16, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

Commission file number: 1-11416

CONSUMER PORTFOLIO SERVICES, INC.  
(Exact name of registrant as specified in its charter)

California	33-0459135
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
19500 Jamboree Road, Irvine, California	92612
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including Area Code: (949) 753-6800

Former name, former address and former fiscal year, if changed since last report: N/A

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of November 9, 2009 the registrant had 18,223,794 common shares outstanding.

1

---

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
INDEX TO FORM 10-Q  
For the Quarterly Period Ended September 30, 2009

	Page	
<b>PART I. FINANCIAL INFORMATION</b>		
Item 1.	Financial Statements	
	Unaudited Condensed Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008	3
	Unaudited Condensed Consolidated Statements of Operations for the three-month and nine-month periods ended September 30, 2009 and 2008	4
	Unaudited Condensed Consolidated Statements of Cash Flows for the nine-month periods ended September 30, 2009 and 2008	5
	Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	33
Item 4T.	Controls and Procedures	33
<b>PART II. OTHER INFORMATION</b>		
Item 1.	Legal Proceedings	34
Item 1A.	Risk Factors	34
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 4.	Submission of Matters to a Vote of Security Holders	38
Item 5.	Other Information	38
Item 6.	Exhibits	38
	Signatures	40

## Item 1. Financial Statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands, except share and per share data)

	September 30, 2009	December 31, 2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 20,396	\$ 22,084
Restricted cash and equivalents	132,236	153,479
Finance receivables	1,009,079	1,417,343
Less: Allowance for finance credit losses	(33,066 )	(78,036 )
Finance receivables, net	976,013	1,339,307
Residual interest in securitizations	4,144	3,582
Furniture and equipment, net	1,410	1,404
Deferred financing costs	6,755	8,954
Deferred tax assets, net	52,727	52,727
Accrued interest receivable	10,193	14,903
Other assets	20,891	42,367
	\$ 1,224,765	\$ 1,638,807
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 24,396	\$ 21,702
Warehouse lines of credit	5,171	9,919
Residual interest financing	59,850	67,300
Securitization trust debt	1,012,787	1,404,211
Senior secured debt, related party	20,842	20,105
Subordinated renewable notes	21,232	25,721
	1,144,278	1,548,958
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>Shareholders' Equity</b>		
Preferred stock, \$1 par value; authorized 5,000,000 shares; none issued	-	-
Series A preferred stock, \$1 par value; authorized 5,000,000 shares; none issued	-	-
Common stock, no par value; authorized 75,000,000 shares; 18,415,427 and 19,110,777 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	55,209	54,702
Additional paid in capital, warrants	8,371	7,471
Retained earnings	23,934	34,703
Accumulated other comprehensive loss	(7,027 )	(7,027 )
	80,487	89,849
	\$ 1,224,765	\$ 1,638,807

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

3

---

## CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Interest income	\$ 49,320	\$ 87,706	\$ 165,459	\$ 281,924
Servicing fees	839	235	2,811	944
Other income	2,662	3,775	8,922	10,930
	52,821	91,716	177,192	293,798
<b>Expenses:</b>				
Employee costs	8,224	12,455	26,466	38,824
General and administrative	5,569	7,497	18,021	22,417
Interest	26,175	40,963	87,278	120,952
Provision for credit losses	15,258	25,961	49,836	91,764
Loss on sale of receivables	-	13,963	-	13,963
Marketing	895	2,417	2,975	8,658
Occupancy	825	972	2,859	3,011
Depreciation and amortization	182	126	526	364
	57,128	104,354	187,961	299,953
Income (loss) before income tax expense (benefit)	(4,307 )	(12,638 )	(10,769 )	(6,155 )
Income tax expense (benefit)	-	(6,312 )	-	(3,432 )
Net income (loss)	\$ (4,307 )	\$ (6,326 )	\$ (10,769 )	\$ (2,723 )
<b>Earnings (loss) per share:</b>				
Basic	\$ (0.23 )	\$ (0.32 )	\$ (0.57 )	\$ (0.14 )
Diluted	(0.23 )	(0.32 )	(0.57 )	(0.14 )
<b>Number of shares used in computing earnings (loss) per share:</b>				
Basic	18,583	19,693	18,776	19,275
Diluted	18,583	19,693	18,776	19,275

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.



CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)

	Nine Months Ended	
	September 30,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$(10,769 )	\$(2,723 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of deferred acquisition fees	(5,825 )	(12,583 )
Amortization of discount on securitization notes	9,327	10,117
Amortization of discount on senior secured debt, related party	737	-
Depreciation and amortization	526	364
Amortization of deferred financing costs	2,199	8,367
Provision for credit losses	49,836	91,764
Stock-based compensation expense	1,027	953
Interest income on residual assets	(1,211 )	(493 )
Loss on sale of receivables	-	13,963
Change in market value of warrants	77	555
Changes in assets and liabilities:		
Accrued interest receivable	4,711	7,257
Other assets	24,669	(2,541 )
Tax assets	-	4,968
Accounts payable and accrued expenses	2,694	(2,471 )
Tax liabilities	-	(8,860 )
Net cash provided by operating activities	77,998	108,637
Cash flows from investing activities:		
Purchases of finance receivables held for investment	(2,539 )	(289,760 )
Proceeds received on finance receivables held for investment	321,821	487,396
Proceeds received on sale of receivables	-	159,855
Increases (decreases) in restricted cash and equivalents	21,243	2,567
Purchase of furniture and equipment	(532 )	(147 )
Net cash provided by investing activities	339,993	359,911
Cash flows from financing activities:		
Proceeds from issuance of securitization trust debt	-	285,389
Proceeds from issuance of subordinated renewable notes	527	3,808
Proceeds from issuance of senior secured debt	-	25,000
Payments on subordinated renewable notes	(5,016 )	(3,759 )
Net proceeds from (repayments to) warehouse lines of credit	(4,748 )	(227,232 )
Proceeds from (repayments of) residual interest financing debt	(7,450 )	2,321
Repayment of securitization trust debt	(400,751 )	(543,091 )
Payment of financing costs	(1,722 )	(5,408 )
Repurchase of common stock	(519 )	(3,370 )
Exercise of options and warrants	-	144
Net cash used in financing activities	(419,679 )	(466,198 )



Increase (decrease) in cash and cash equivalents	(1,688 )	2,350
Cash and cash equivalents at beginning of period	22,084	20,880
Cash and cash equivalents at end of period	\$20,396	\$23,230
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Interest	\$76,840	\$98,997
Income taxes	\$(12,374 )	\$460
Non-cash financing activities:		
Common stock issued in connection with new senior secured debt	\$-	\$1,801
Warrants issued in connection with new senior secured debt	\$-	\$6,122
Warrants issued in connection with new warehouse line of credit	\$822	\$-
Non-cash investing and operating activities:		
Residual interest in structured sale of receivables	\$-	\$2,452
Notes received upon structured sale of receivables	\$-	\$8,542

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands)

(1) Summary of Significant Accounting Policies

Description of Business

We were formed in California on March 8, 1991. We specialize in purchasing and servicing retail automobile installment sale contracts ("automobile contracts" or "finance receivables") originated by licensed motor vehicle dealers located throughout the United States ("dealers") in the sale of new and used automobiles, light trucks and passenger vans. Through our purchases, we provide indirect financing to dealer customers for borrowers with limited credit histories, low incomes or past credit problems ("sub-prime customers"). We serve as an alternative source of financing for dealers, allowing sales to customers who otherwise might not be able to obtain financing. In addition to purchasing installment purchase contracts directly from dealers, we have also (i) acquired installment purchase contracts in three merger and acquisition transactions, (ii) purchased immaterial amounts of vehicle purchase money loans from non-affiliated lenders, and (iii) lent money directly to consumers for an immaterial amount of vehicle purchase money loans. In this report, we refer to all of such contracts and loans as "automobile contracts."

Basis of Presentation

Our Unaudited Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America, with the instructions to Form 10-Q and with Article 8 of Regulation S-X of the Securities and Exchange Commission, and include all adjustments that are, in our opinion, necessary for a fair presentation of the results for the interim period presented. All such adjustments are, in the opinion of management, of a normal recurring nature. In addition, certain items in prior period financial statements may have been reclassified for comparability to current period presentation. Results for the nine-month period ended September 30, 2009 are not necessarily indicative of the operating results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from these Unaudited Condensed Consolidated Financial Statements. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of income and expenses during the reported periods. Specifically, a number of estimates were made in connection with determining an appropriate allowance for finance credit losses, valuing residual interest in securitizations, accreting net acquisition fees, amortizing deferred costs, the recording of deferred tax assets and reserves for uncertain tax positions. These are material estimates that could be susceptible to changes in the near term and, accordingly, actual results could differ from those estimates.

Other Income

Other income consists primarily of gains recognized on our residual interest in securitizations, recoveries on previously charged off contracts from previously unconsolidated trusts, convenience fees charged to obligors for certain types of payment transaction methods and fees paid to us by dealers for certain direct mail services we provide. The gain recognized related to the residual interest was \$635,000 and \$178,000 for the nine months ended September 30, 2009 and 2008, respectively. The recoveries on the charged-off contracts relate to contracts from previously unconsolidated trusts were \$1.2 million and \$1.7 million for the nine months ended

6

---

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009 and 2008, respectively. The convenience fees charged to obligors, which can be expected to increase or decrease in rough proportion to increases or decreases in our managed portfolio, were \$3.5 million and \$4.3 million for the same periods, respectively. The direct mail revenues were \$2.1 million and \$4.2 million for the nine months ended September 30, 2009 and 2008, respectively.

#### Stock-based Compensation

We recognize compensation costs in the financial statements for all share-based payments granted subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with the provisions of FASB ASC 718 "Accounting for Stock Based Compensation".

For the nine months ended September 30, 2009 and 2008, we recorded stock-based compensation costs in the amount of \$1.0 million and \$953,000, respectively. As of September 30, 2009, unrecognized stock-based compensation costs to be recognized over future periods equaled \$3.7 million. This amount will be recognized as expense over a weighted-average period of 3.4 years.

The following represents stock option activity for the nine months ended September 30, 2009:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
	(in thousands)		
Options outstanding at the beginning of period	6,320	\$ 4.35	N/A
Granted	1,395	0.77	N/A
Exercised	-	-	N/A
Forfeited	(520)	4.45	N/A
Options outstanding at the end of period	7,195	\$ 3.65	5.82 years
Options exercisable at the end of period	4,576	\$ 4.01	4.35 years

At September 30, 2009, the aggregate intrinsic value of options outstanding and exercisable was \$6,000 and \$600,000, respectively. The total intrinsic value of options exercised was \$50,000 for the nine months ended September 30, 2008. New shares were issued for all options exercised during the nine-month period ended September 30, 2008. There were no options exercised for the nine months ended September 30, 2009. There were 1.3 million shares available for future stock option grants under existing plans as of September 30, 2009.

At the annual shareholders meeting in July 2009, our shareholders approved an amendment of the 2006 Long-term Equity Incentive Plan which will permit an exchange and repricing of eligible outstanding options to purchase approximately 3.96 million shares with exercise prices ranging from \$2.50 to \$7.18 per share. Under this Option Exchange Program, eligible employees would be able to elect to exchange outstanding eligible options for new options with an exercise price of \$1.50. This transaction will result in some additional compensation expense. Assuming a market price for our stock of \$1.00 per share on the date of the exchange, if all the options

eligible for the Option Exchange Program are exchanged, we will incur additional compensation expense, in accordance with applicable accounting rules, of approximately \$457,000 at the time of the exchange and approximately \$232,000 over the remaining vesting periods of the exchanged options. The actual amounts of additional compensation expense will vary to the extent the market price for our stock is more or less than \$1.00 per share at the time of the exchange.

We use the Black-Scholes option valuation model to estimate the fair value of each option on the date of grant, using the assumptions noted in the following table. The expected term of options granted is computed as the mid-point between the vesting date and the end of the contractual term. The risk-free rate is based on U.S. Treasury instruments in effect at the time of grant whose terms are consistent with the expected term of our stock options. Expected volatility is based on historical volatility of our stock. The dividend yield is based on historical experience and the lack of any expected future changes.

7

---

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Nine Months Ended	
	September, 30	
	2009	
Risk-free interest rate	\$ 1.98	%
Expected term, in years	\$ 5.4	
Expected volatility	\$ 79.28	%
Dividend yield	\$ 0	%

#### Purchases of Company Stock

During the nine-month periods ended September 30, 2009 and 2008, we purchased 695,350 and 1,244,098 shares, respectively, of our common stock, at average prices of \$0.75 and \$2.71, respectively.

#### New Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140, (“SFAS 166”) (ASC 860 10 65-2). SFAS 166 (ASC 860 10 65-2) limits the circumstances in which a financial asset should be derecognized when the transferor has not transferred the entire financial asset by taking into consideration the transferor’s continuing involvement. The standard requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor’s beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The concept of a qualifying special-purpose entity is removed from SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities along with the exception from applying Financial Accounting Standards Board Interpretation (“FIN”) 46(R) Consolidation of Variable Interest Entities (“FIN 46(R)”) (ASC 810 10 25-20). The standard is effective for us beginning with the first quarter in 2010. We are currently evaluating the impact that SFAS 166 (ASC 860 10 65-2) will have on our consolidated financial position, results of operations or cash flows.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), (“SFAS 167”) (ASC 810 10 25-20). The standard amends FIN 46(R) (ASC 810 10 25-20) to require a company to analyze whether its interest in a variable interest entity (“VIE”) gives it a controlling financial interest. A company must assess whether it has an implicit financial responsibility to ensure that the VIE operates as designed when determining whether it has the power to direct the activities of the VIE that significantly impact its economic performance. Ongoing reassessment of whether a company is the primary beneficiary is also required by the standard. SFAS 167 (ASC 810 10 25-20) amends the criteria to qualify as a primary beneficiary as well as how to determine the existence of a VIE. The standard also eliminates certain exceptions that were available under FIN 46(R) (810 10 25-20). SFAS 167 (ASC 810 10 25-20) is effective for us beginning with the first quarter in 2010. Comparative disclosures will be required for periods after the effective date. We are currently evaluating the impact that SFAS 167 (ASC 810 10 25-20) will have on our consolidated financial position, results of operations or cash flows.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162 (“SFAS 168”) (ASC 105 10 65-1) as the source of authoritative generally accepted accounting principles for nongovernmental entities. SFAS 168 (ASC 105 10 65-1) is effective for interim and annual periods ending after September 15, 2009 and did not have any impact on our consolidated financial statements.

Recent Developments

Uncertainty of Capital Markets and General Economic Conditions

Historically, we have depended upon the availability of warehouse credit facilities and access to long-term financing through the issuance of asset-backed securities collateralized by our automobile contracts. Since

8

---

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1994, we have completed 49 term securitizations of approximately \$6.6 billion in contracts. We conducted four term securitizations in 2006, four in 2007, and two in 2008. From July 2003 through April 2008 all of our securitizations were structured as secured financings. The second of our two securitization transactions in 2008 (completed in September 2008) was in substance a sale of the related contracts, and is treated as a sale for financial accounting purposes.

Since the fourth quarter of 2007, we have observed unprecedented adverse changes in the market for securitized pools of automobile contracts. These changes include reduced liquidity, and reduced demand for asset-backed securities, particularly for securities carrying a financial guaranty and for securities backed by sub-prime automobile receivables. Moreover, many of the firms that previously provided financial guarantees, which were an integral part of our securitization program, are no longer offering such guarantees. From December 2008 until September 25, 2009 we had no available warehouse credit facilities. On September 25, 2009 we entered into a \$50 million two-year credit facility. Unlike our recent former credit facilities, which limited the timeframe for eligible collateral to 180 days, collateral can remain eligible in this facility for the entire two-year term. Consequently, we have no immediate plans to complete a term securitization. The adverse changes that have taken place in the market have caused us to seek to conserve liquidity by reducing our purchases of automobile contracts to nominal levels. If the current adverse circumstances that have affected the capital markets should continue or worsen, we may curtail further or cease our purchases of new automobile contracts, which could lead to a material adverse effect on our operations.

Current economic conditions have negatively affected many aspects of our industry. First, as stated above, there is reduced demand for asset-backed securities secured by consumer finance receivables, including sub-prime automobile receivables. Second, lenders who previously provided short-term warehouse financing for sub-prime automobile finance companies such as ours are reluctant to provide such short-term financing due to the uncertainty regarding the prospects of obtaining long-term financing through the issuance of asset-backed securities. In addition, many capital market participants such as investment banks, financial guaranty providers and institutional investors who previously played a role in the sub-prime auto finance industry have withdrawn from the industry, or in some cases, have ceased to do business. Finally, the broad economic weakness and increasing unemployment has made many of the obligors under our receivables less willing or able to pay, resulting in higher delinquency, charge-offs and losses. Each of these factors has adversely affected our results of operations. Should existing economic conditions worsen, both our ability to purchase new contracts and the performance of our existing managed portfolio may be impaired, which, in turn, could have a further material adverse effect on our results of operations.

#### Financial Covenants

Certain of our securitization transactions and our warehouse credit facility contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels and maximum financial losses. In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare a default if a default occurred under a different facility.

The agreements under which we receive periodic fees for servicing automobile contracts in securitizations are terminable by the respective financial guaranty insurance companies (also referred to as note insurers) upon defined events of default, and, in some cases, at the will of the insurance company. Without the waivers we have received from the related note insurers, we would have been in violation of certain financial and operating covenants relating to minimum net worth and maintenance of active warehouse facilities with respect to eight of our 17 currently outstanding securitization transactions with this filing. Upon such an event of default, and subject to the right of the related note insurers to waive such terms, the agreements governing the securitizations call for payment of a default



insurance premium, ranging from 25 to 100 basis points per annum on the aggregate outstanding balance of the related insured senior notes, and for the diversion of all excess cash generated by the assets of the respective securitization pools into the related spread accounts to increase the credit enhancement associated with those transactions. The cash so diverted into the spread accounts would otherwise be used to make principal payments on the subordinated notes in each related

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

securitization or would be released to us. In addition, upon an event of default, the note insurers have the right to terminate us as servicer. Although the diversion of such cash and our termination as servicer have been waived, we are paying default premiums, or their equivalent, with respect to insured notes representing \$593.6 million of the \$1,012.8 million of securitization trust debt outstanding at September 30, 2009. It should be noted that the principal amount of such securitization trust debt is not increased, but that the increased insurance premium is reflected as increased interest expense. Furthermore, such waivers are temporary, and there can be no assurance as to their future extension. We do, however, believe that we will obtain such future extensions of our servicing agreements because it is generally not in the interest of any party to the securitization transaction to transfer servicing. Nevertheless, there can be no assurance as to our belief being correct. Were an insurance company in the future to exercise its option to terminate such agreements or to pursue other remedies, such remedies could have a material adverse effect on our liquidity and results of operations, depending on the number and value of the affected transactions. Our note insurers continue to extend our term as servicer on a monthly and/or quarterly basis, pursuant to the servicing agreements.

(2) Finance Receivables

The following table presents the components of Finance Receivables, net of unearned interest and deferred acquisition fees and originations costs:

	September 30, 2009	December 31, 2008
Finance Receivables	(In thousands)	
Automobile finance receivables, net of unearned interest	\$ 1,016,398	\$ 1,430,227
Less: Unearned acquisition fees and originations costs	(7,319 )	(12,884 )
Finance Receivables	\$ 1,009,079	\$ 1,417,343

The following table presents a summary of the activity for the allowance for credit losses for the nine-month periods ended September 30, 2009 and 2008:

	September 30, 2009	September 30, 2008
	(In thousands)	
Balance at beginning of period	\$ 78,036	\$ 100,138
Provision for credit losses on finance receivables	49,836	91,764
Charge offs	(116,949)	(142,702 )
Recoveries	22,143	23,590
Allowance attributable to receivables sold	-	(5,871 )
Balance at end of period	\$ 33,066	\$ 66,919

We have excluded from finance receivables those contracts that we previously classified as finance receivables, but which we reclassified as other assets because we have repossessed the vehicle securing the contract. The following table presents a summary of such repossessed inventory, together with the valuation adjustment for losses in repossessed inventory that is not included in the allowance for credit losses. This valuation adjustment results in the repossessed inventory being valued at the estimated fair value less selling costs.



CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	September 30, 2009	December 31, 2008
(In thousands)		
Gross balance of repossessions in inventory	\$ 32,841	\$ 47,452
Adjustment for losses on repossessed inventory	(25,009 )	(32,690 )
Net repossessed inventory included in other assets	\$ 7,832	\$ 14,762

## (3) Securitization Trust Debt

We have completed a number of securitization transactions that are structured as secured borrowings for financial accounting purposes. The debt issued in these transactions is shown on our Unaudited Condensed Consolidated Balance Sheets as "Securitization trust debt," and the components of such debt are summarized in the following table:

Series	Final Scheduled Payment Date (1)	Receivables Pledged at		Outstanding Principal at		Weighted Average Contractual Interest Rate at September 30, 2009
		September 30, 2009	Initial Principal	September 30, 2009	December 31, 2008	
(Dollars in thousands)						
CPS 2003-C	March 2010	\$ -	\$ 87,500	\$ -	\$ 1,023	-
CPS 2003-D	October 2010	-	75,000	-	1,704	-
CPS 2004-A	October 2010	700	82,094	791	3,277	4.32 %
CPS 2004-B	February 2011	1,753	96,369	1,950	6,192	4.17 %
CPS 2004-C	April 2011	2,830	100,000	3,151	8,223	4.24 %
CPS 2004-D	December 2011	-	120,000	-	12,395	-
CPS 2005-A	October 2011	9,489	137,500	9,225	17,586	5.30 %
CPS 2005-B	February 2012	13,116	130,625	12,570	21,991	4.67 %
CPS 2005-C	March 2012	24,642	183,300	23,908	39,478	5.13 %
CPS 2005-TFC	July 2012	6,686	72,525	6,686	12,333	5.76 %
CPS 2005-D	July 2012	22,973	145,000	23,073	36,548	5.73 %
CPS 2006-A		48,529	245,000	48,346	73,257	5.33 %

Edgar Filing: CONSUMER PORTFOLIO SERVICES INC - Form 10-Q

	November 2012						
	January						
CPS 2006-B	2013	62,978	257,500	64,413	92,106	6.46	%
CPS 2006-C	June 2013	70,376	247,500	72,653	101,716	5.76	%
CPS 2006-D	August 2013	76,958	220,000	77,663	105,687	5.65	%
	November						
CPS 2007-A	2013	120,008	290,000	119,033	160,122	5.58	%
	December						
CPS 2007-TFC	2013	35,228	113,293	35,221	51,115	5.77	%
	January						
CPS 2007-B	2014	149,344	314,999	149,414	195,800	6.10	%
CPS 2007-C	May 2014	173,789	327,499	175,967	228,478	6.20	%
	October 1,						
CPS 2008-A	2014	195,712	310,359	188,723	235,180	7.09	%
		\$ 1,015,111	\$ 3,556,063	\$ 1,012,787	\$ 1,404,211		

(1) The Final Scheduled Payment Date represents final legal maturity of the securitization trust debt. Securitization trust debt is expected to become due and to be paid prior to those dates, based on amortization of the finance receivables pledged to the Trusts. Expected payments, which will depend on the performance of such receivables, as to which there can be no assurance, are \$158.1 million in 2009, \$470.3 million in 2010, \$262.6 million in 2011, \$103.1 million in 2012 and \$18.7 million in 2013.

All of the securitization trust debt was sold in private placement transactions to qualified institutional buyers. The debt was issued through our wholly-owned bankruptcy remote subsidiaries and is secured by the assets of

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS







such subsidiaries, but not by our other assets. Principal of \$874.3 million, and the related interest payments, are guaranteed by financial guaranty insurance policies issued by third party financial institutions.

The terms of the various securitization agreements related to the issuance of the securitization trust debt and the warehouse credit facilities require that we meet certain delinquency and credit loss criteria with respect to the collateral pool, and require that we maintain minimum levels of liquidity and net worth and not exceed maximum leverage levels and maximum financial losses. In addition, certain securitization and non-securitization related debt contain cross-default provisions, which would allow certain creditors to declare a default if a default were declared under a different facility. We have received waivers regarding the potential breach of certain such covenants relating to minimum net worth and maintenance of active warehouse credit facilities.

We are responsible for the administration and collection of the automobile contracts. The securitization agreements also require certain funds be held in restricted cash accounts to provide additional collateral for the borrowings or to be applied to make payments on the securitization trust debt. As of September 30, 2009, restricted cash under the various agreements totaled approximately \$132.2 million. Interest expense on the securitization trust debt consists of the stated rate of interest plus amortization of additional costs of borrowing. Additional costs of borrowing include facility fees, insurance and amortization of deferred financing costs and discounts on notes sold. Deferred financing costs and discounts on notes sold related to the securitization trust debt are amortized using a level yield method. Accordingly, the effective cost of the securitization trust debt is greater than the contractual rate of interest disclosed above.

Our wholly-owned bankruptcy remote subsidiaries were formed to facilitate the above asset-backed financing transactions. Similar bankruptcy remote subsidiaries issue the debt outstanding under our warehouse line of credit. Bankruptcy remote refers to a legal structure in which it is expected that the applicable entity would not be included in any bankruptcy filing by its parent or affiliates. All of the assets of these subsidiaries have been pledged as collateral for the related debt. All such transactions, treated as secured financings for accounting and tax purposes, are treated as sales for all other purposes, including legal and bankruptcy purposes. None of the assets of these subsidiaries are available to pay other creditors of ours.

#### (4) Interest Income

The following table presents the components of interest income:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Interest on Finance Receivables	\$48,813	\$86,628	\$163,737	\$278,102
Residual interest income	346	134	1,012	493
Other interest income	161	944	710	3,329
Interest income	\$49,320	\$87,706	\$165,459	\$281,924

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSINIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(5) Earnings (Loss) Per Share

Earnings (loss) per share for the three and nine-month periods ended September 30, 2009 and 2008 were calculated using the weighted average number of shares outstanding for the related period. The following table reconciles the number of shares used in the computations of basic and diluted earnings (loss) per share for the three-month and nine-month periods ended September 30, 2009 and 2008:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Weighted average number of common shares outstanding during				
the period used to compute basic earnings (loss) per share	18,583	19,693	18,776	19,275
Incremental common shares attributable to exercise of				
outstanding options and warrants	-	-	-	-
Weighted average number of common shares used to compute				
diluted earnings (loss) per share	18,583	19,693	18,776	19,275

If the anti-dilutive effects of common stock equivalents were considered, shares included in the diluted earnings (loss) per share calculation for the three-month and nine-month periods ended September 30, 2009 would have included an additional 2.8 million shares attributable to the exercise of outstanding options and warrants. For the three- and nine-month periods ended September 30, 2008, an additional 1.6 million and 949,000 shares, respectively, would have been included that are attributable to outstanding options and warrants.

#### (6) Income Taxes

We file numerous consolidated and separate income tax returns with the United States and with many states. With few exceptions, we are no longer subject to United States federal income tax examinations for years before 2005 and are no longer subject to state and local income tax examinations by tax authorities for years before 2003.

We have subsidiaries in various states that are currently under audit for years ranging from 1998 through 2005. To date, no material adjustments have been proposed as a result of these audits.

We recognize potential interest and penalties related to unrecognized tax benefits in income tax expense. During the nine months ended September 30, 2009, we recognized \$53,000 of potential interest and penalties, net of a reversal of interest and penalties previously accrued relating to periods no longer subject to examination by taxing authorities. To the extent interest and penalties are not assessed with respect to uncertain tax positions, portions of the amounts accrued will be reversed, and reflected as a reduction of the overall income tax provision.

We do not anticipate that total unrecognized tax benefits will significantly change due to any settlements of audits or expirations of statutes of limitations prior to December 31, 2009.

The Company and its subsidiaries file a consolidated federal income tax return and combined or stand-alone state franchise tax returns for certain states. We utilize the asset and liability method of accounting for income taxes, under which deferred income taxes are recognized for the future tax consequences attributable to the differences between the financial statement values of existing assets and liabilities and their respective tax bases. Deferred tax assets and

liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. We have estimated a valuation allowance against that portion of the deferred tax asset whose utilization in

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

future periods is not more than likely. Our net deferred tax asset of \$52.7 million as of September 30, 2009 is net of a valuation allowance of \$4.5 million as of September 30, 2009.

On a quarterly basis, we determine whether a valuation allowance is necessary for our deferred tax asset. In performing this analysis, we consider all evidence currently available, both positive and negative, in determining whether, based on the weight of that evidence, the deferred tax asset will be realized. We establish a valuation allowance when it is more likely than not that a recorded tax benefit will not be realized. The expense to create the valuation allowance is recorded as additional income tax expense in the period the valuation allowance is established. During the first nine months of 2009, we increased our valuation allowance by \$3.5 million.

Our estimate of the required valuation allowance is highly dependent upon our estimate of projected levels of future taxable income. Projections carry a degree of uncertainty, particularly for longer-term forecasts. In our case, the amount of uncertainty is increased due to the effects of the economic downturn and estimates for the timing and magnitude of economic recovery, as well as the level of provision for loan losses we have experienced during the economic downturn. Should the actual amount of taxable income be less than what is projected, it may be necessary for us to increase our valuation allowance, either by not reflecting additional deferred tax benefits or by reducing the existing asset. Given the risk of additional deterioration in our loan portfolios not included in our projections, we stress tested those projections and considered the results of those tests in establishing our federal income tax valuation allowance.

Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. Although realization is not assured, we believe that the realization of the recognized net deferred tax asset of \$52.7 million is more likely than not, based on expectations as to future taxable income in the jurisdictions in which we operate and available tax planning strategies that could be implemented if necessary to prevent a carryforward from expiring. Our net deferred tax asset of \$52.7 million is net of a valuation allowance of \$4.5 million and consists of approximately \$48.8 million of net U.S. federal deferred tax assets and \$3.9 million of net state deferred tax assets. The major components of the deferred tax asset are \$27.4 million in net operating loss carryforwards and built in losses, and \$22.2 million in net deductions that have not yet been taken on a tax return. We estimate that we would need to generate approximately \$127.5 million of taxable income during the applicable carryforward periods to realize fully our federal and state deferred tax assets. The federal net operating losses begin to expire in 2028. The state net operating losses begin to expire in 2013.

As a result of the losses incurred in 2008 and 2009, we are in a three-year cumulative pretax loss position as of September 30, 2009. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset. However, we have concluded that there is sufficient positive evidence to overcome this negative evidence. First, relatively recently, from 2003 through 2007, we generated approximately \$107.0 million in taxable income. In addition, we recognized a \$14.0 million loss on the September 2008 securitization that was structured as a sale for financial accounting purposes. Since our inception in 1991, we have completed 49 securitizations of approximately \$6.6 billion in contracts and had never recognized a loss until the September 2008 securitization. We view this securitization as an anomaly created by the unusual and adverse market conditions at the time. Furthermore, our managed portfolio at September 30, 2009 includes approximately \$1.0 billion of finance receivables, virtually all of which are financed with fixed-rate, full term structured securitizations. As such, we believe our managed portfolio can be considered a backlog of future interest income revenue.

Our core business has produced earnings in the past, even with intermittent loss periods resulting from economic cycles not unlike, although not as severe as, the current economic downturn. We believe that our recent losses are largely attributable to the current recessionary economy and heightened unemployment together with temporary

disruptions in the capital markets, rather than to a fundamental flaw in our business model. We forecast sufficient taxable income in the carryforward period to realize fully our deferred tax assets, exclusive of tax planning strategies, even under stressed scenarios. Regarding the estimate of future taxable income, we have projected pretax earnings based upon our core business that we intend to conduct going forward. We have taken steps to reduce our cost structure and have adjusted the contract interest rates and purchase prices applicable to our purchases of automobile contracts from dealers. We appear to be able to

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

increase our acquisition fees and reduce our purchase prices because of lessened competition for our services. Our forecasts do assume, however, that we are able to obtain warehouse and long-term financing so that we may again originate significant volumes of new receivables. Since December 2008, we have seen a significant recovery in the asset-backed securitization market, which has been stimulated by the government's Term Asset-Backed Securities Loan Facility ("TALF"). There can be no assurance, however, that we will in fact be able to obtain such financing. Taking these items into account, we project generating sufficient pretax earnings within the carryforward period to realize our deferred tax assets.

Nevertheless, the amount of the deferred tax asset considered realizable, however, could be significantly reduced in the future if adverse developments cause us to lower our estimates of future taxable income during the carryforward period. Based upon the foregoing discussion, as well as tax planning opportunities and other factors discussed below, we have concluded that the U.S. and state net operating loss carryforward periods provide enough time to utilize the deferred tax assets pertaining to the existing net operating loss carryforwards and any net operating loss that would be created by the reversal of the future net deductions which have not yet been taken on a tax return. We have also examined tax planning strategies available to us in accordance with FASB ASC 740 which would be employed, if necessary, to prevent a carryforward from expiring. Our projection of sufficient earnings is a forward-looking statement, and there can be no assurance that our projections of such earnings will be correct.

(7) Legal Proceedings

Stanwich Litigation. We were for some time a defendant in a class action (the "Stanwich Case") brought in the California Superior Court, Los Angeles County. The original plaintiffs in that case were persons entitled to receive regular payments (the "Settlement Payments") under out-of-court settlements reached with third party defendants. Stanwich Financial Services Corp. ("Stanwich"), then an affiliate of our former chairman of the board of directors, is the entity that was obligated to pay the Settlement Payments. Stanwich had defaulted on its payment obligations to the plaintiffs and in September 2001 filed for reorganization under the Bankruptcy Code, in the federal Bankruptcy Court of Connecticut. By February 2005, we had settled all claims brought against us in the Stanwich Case.

In November 2001, one of the defendants in the Stanwich Case, Jonathan Pardee, asserted claims for indemnity against us in a separate action, which is now pending in federal district court in Rhode Island. We have filed counterclaims in the Rhode Island federal court against Mr. Pardee, and have filed a separate action against Mr. Pardee's Rhode Island attorneys, in the same court. Each of these actions in the court in Rhode Island is stayed, awaiting resolution of an adversary action brought against Mr. Pardee in the bankruptcy court, which is hearing the bankruptcy of Stanwich.

We had reached an agreement in principle with the representative of creditors in the Stanwich bankruptcy to resolve the adversary action. Under the agreement in principle, we were to pay the bankruptcy estate \$625,000 and abandon our claims against the estate, while the estate would abandon its adversary action against Mr. Pardee. The bankruptcy court has rejected that proposed settlement, the representative of creditors has appealed that rejection, and the appeal was denied on April 8, 2009. There can be no assurance as to the ultimate outcome of these matters.

The reader should consider that any adverse judgment against us in these cases for indemnification, in an amount materially in excess of any liability already recorded in respect thereof, could have a material adverse effect on our financial position.



Other Litigation.

We are routinely involved in various legal proceedings resulting from our consumer finance activities and practices, both continuing and discontinued. We believe that there are substantive legal defenses to such claims, and intend to defend them vigorously. There can be no assurance, however, as to the outcome.

COSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We have recorded a liability as of September 30, 2009 that we believe represents a sufficient allowance for legal contingencies, including those described above. Any adverse judgment against us, if in an amount materially in excess of the recorded liability, could have a material adverse effect on our financial position.



## (8) Employee Benefits

We sponsor the MFN Financial Corporation Benefit Plan (the "Plan"). Plan benefits were frozen September 30, 2001. The table below sets forth the Plan's net periodic benefit cost for the three-month and nine-month periods ended September 30, 2009 and 2008.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Components of net periodic cost (benefit)				
Service cost	\$ -	\$ -	\$ -	\$ -
Interest Cost	237	237	711	710
Expected return on assets	(175 )	(305 )	(525 )	(915 )
Amortization of transition (asset)/obligation	-	-	-	-
Amortization of net (gain) / loss	169	41	507	123
Net periodic cost (benefit)	\$ 231	\$ (27 )	\$ 693	\$ (82 )

We did not make any contributions to the Plan during the nine-month period ended September 30, 2009 and we do not anticipate making any contributions for the remainder of 2009.

## (9) Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157") (ASC 820 10 65). SFAS No. 157 (ASC 820 10 65) clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy.

SFAS No. 157 (ASC 820 10 65) defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The three levels are defined as follows: level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets; level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

In September 2008 we sold automobile contracts in a securitization that was structured as a sale for financial accounting purposes. In that sale, we retained certain assets that are measured at fair value. We describe below the valuation methodologies we use for the securities retained and the residual interest in the cash flows of the transaction, as well as the general classification of such instruments pursuant to the valuation hierarchy. The securities retained are \$8.5 million of notes, which are classified as level 2 because we sold similar assets in the transaction. We use the price at which those similar notes were sold to value the securities retained. The residual interest in such securitization is \$2.5 million and is classified as level 3. We determine the value of that residual interest using a discounted cash flow model that includes estimates for prepayments and losses. We use a discount rate of 33% per annum. The assumptions we use are based on historical performance of automobile contracts we have originated and serviced in the past, adjusted for current market conditions.



CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Edgar Filing: CONSUMER PORTFOLIO SERVICES INC - Form 10-Q

Reposessed vehicle inventory, which is included in Other Assets on our balance sheet, is measured at fair value using Level 2 assumptions based on our actual loss experience on sale of reposessed vehicles. At September 30, 2009, the finance receivables related to the reposessed vehicles in inventory totaled \$32.8 million. We have applied a valuation adjustment of \$25.0 million, resulting in an estimated fair value and carrying amount of \$7.8 million.

The table below presents a reconciliation for Level 3 assets measured at fair value on a recurring basis using significant inputs::

	Residual Interest in Securitizations
Balance at January 1, 2009	\$ 3,582
Transfers into Level 3	-
Included in earnings	562
Balance at September 30, 2009	\$ 4,144

The following summary presents a description of the methodologies and assumptions used to estimate the fair value of our financial instruments. Much of the information used to determine fair value is highly subjective. When applicable, readily available market information has been utilized. However, for a significant portion of our financial instruments, active markets do not exist. Therefore, considerable judgments were required in estimating fair value for certain items. The subjective factors include, among other things, the estimated timing and amount of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of September 30, 2009 and December 31, 2008, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different. The estimated fair values of financial assets and liabilities at September 30, 2009 and December 31, 2008, were as follows:

Financial Instrument	September 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(In thousands)				
Cash and cash equivalents	\$ 20,396	\$ 20,396	\$ 22,084	\$ 22,084
Restricted cash and equivalents	132,236	132,236	153,479	153,479
Finance receivables, net	976,013	937,872	1,339,307	1,312,148
Residual interest in securitizations	4,144	4,144	3,582	3,582
Accrued interest receivable	10,193	10,193	14,903	14,903
Warehouse lines of credit	5,171	5,171	9,919	9,919
Accrued interest payable	4,517	4,517	5,605	5,605
	59,850	59,850	67,300	67,300

Residual interest financing				
Securitization trust debt	1,012,787	1,006,632	1,404,211	1,378,271
Senior secured debt	20,842	20,842	20,105	20,105
Subordinated renewable notes	21,232	21,232	25,721	25,721

#### Cash, Cash Equivalents and Restricted Cash

The carrying value equals fair value.

#### Finance Receivables, net

The fair value of finance receivables is estimated by discounting future cash flows expected to be collected using current rates at which similar receivables could be originated.



CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
Residual Interest in Securitizations

The fair value is estimated by discounting future cash flows using credit and discount rates that we believe reflect the estimated credit, interest rate and prepayment risks associated with similar types of instruments.

#### Accrued Interest Receivable and Payable

The carrying value approximates fair value because the related interest rates are estimated to reflect current market conditions for similar types of instruments.

#### Warehouse Lines of Credit, Residual Interest Financing, and Senior Secured Debt and Subordinated Renewable Notes

The carrying value approximates fair value because the related interest rates are estimated to reflect current market conditions for similar types of secured instruments.

#### Securitization Trust Debt

The fair value is estimated by discounting future cash flows using interest rates that we believe reflects the current market rates.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

We are a specialty finance company. Our business is to purchase and service retail automobile contracts originated primarily by franchised automobile dealers and, to a lesser extent, by select independent dealers in the United States in the sale of new and used automobiles, light trucks and passenger vans. Through our automobile contract purchases, we provide indirect financing to the customers of dealers who have limited credit histories, low incomes or past credit problems, who we refer to as sub-prime customers. We serve as an alternative source of financing for dealers, facilitating sales to customers who otherwise might not be able to obtain financing from traditional sources, such as commercial banks, credit unions and the captive finance companies affiliated with major automobile manufacturers. In addition to purchasing installment purchase contracts directly from dealers, we have also (i) acquired installment purchase contracts in three merger and acquisition transactions, (ii) purchased immaterial amounts of vehicle purchase money loans from non-affiliated lenders, and (iii) originated ourselves an immaterial amount of vehicle purchase money loans by lending money directly to consumers. In this report, we refer to all of such contracts and loans as "automobile contracts."

We were incorporated and began our operations in March 1991. From inception through September 30, 2009, we have purchased a total of approximately \$8.7 billion of automobile contracts from dealers. In addition, we obtained a total of approximately \$605.0 million of automobile contracts in mergers and acquisitions we made in 2002, 2003 and 2004. Unlike recent prior years, our managed portfolio decreased in 2009 from the previous year due to our strategy of decreasing contract purchases to conserve our liquidity in response to adverse economic conditions as discussed further below. Our total managed portfolio, net of unearned interest on pre-computed automobile contracts, was approximately \$1,197.3 million at September 30, 2009 compared to \$1,829.5 million at September 30, 2008.

We are headquartered in Irvine, California, where most operational and administrative functions are centralized. All credit and underwriting functions are performed in our California headquarters, and we service our automobile contracts from our California headquarters and from three servicing branches in Virginia, Florida and Illinois.

We purchase contracts in our own name ("CPS") and, until July 2008, also in the name of our wholly-owned subsidiary, TFC. Programs marketed under the CPS name are intended to serve a wide range of sub-prime customers, primarily through franchised new car dealers. Our TFC program served vehicle purchasers enlisted in the U.S. Armed Forces, primarily through independent used car dealers. In July 2008, we suspended contract purchases under our TFC program.

We purchase automobile contracts with the intention of financing them on a long-term basis through securitizations. Securitizations are transactions in which we sell a specified pool of contracts to a special purpose entity of ours, which in turn issues asset-backed securities to fund the purchase of the pool of contracts from us. Depending on the structure of the securitization, the transaction may be treated, for financial accounting purposes, as a sale of the contracts or as a secured financing.

### Securitization and Warehouse Credit Facilities

Throughout the period for which information is presented in this report, we have purchased automobile contracts with the intention of financing them on a long-term basis through securitizations, and on an interim basis through our warehouse credit facilities. All such financings have involved identification of specific automobile contracts, sale of those automobile contracts (and associated rights) to one of our special-purpose subsidiaries, and issuance of

asset-backed securities to fund the transactions. Depending on the structure, these transactions may properly be accounted for under generally accepted accounting principles as sales of the automobile contracts or as secured financings.

When structured to be treated as a secured financing for accounting purposes, the subsidiary is consolidated with us. Accordingly, the sold automobile contracts and the related debt appear as assets and liabilities, respectively, on our consolidated balance sheet. We then periodically (i) recognize interest and fee income on

the contracts, (ii) recognize interest expense on the securities issued in the transaction and (iii) record as expense a provision for credit losses on the contracts.

Since the third quarter of 2003, we have conducted 24 term securitizations. Of these 24, 19 were periodic (generally quarterly) securitizations of automobile contracts that we purchased from automobile dealers under our regular programs. In addition, in March 2004 and November 2005, we completed securitizations of our retained interests in other securitizations that we and our affiliates previously sponsored. The debt from the March 2004 transaction was repaid in August 2005, and the debt from the November 2005 transaction was repaid in May 2007. Also, in June 2004, we completed a securitization of automobile contracts purchased in the SeaWest asset acquisition and under our TFC programs. Further, in December 2005 and May 2007 we completed securitizations that included automobile contracts purchased under the TFC programs, automobile contracts purchased under the CPS programs and automobile contracts we repurchased upon termination of prior securitizations of our MFN and TFC subsidiaries. Since July 2003 all such securitizations have been structured as secured financings, except that our September 2008 securitization was in substance a sale of the underlying receivables, and is treated as a sale for financial accounting purposes.

#### Uncertainty of Capital Markets and General Economic Conditions

Historically, we have depended upon the availability of warehouse credit facilities and access to long-term financing through the issuance of asset-backed securities collateralized by our automobile contracts. Since 1994, we have completed 49 term securitizations of approximately \$6.6 billion in contracts. We conducted four term securitizations in 2006, four in 2007, and two in 2008. From July 2003 through April 2008 all of our securitizations were structured as secured financings. The second of our two securitization transactions in 2008 (completed in September 2008) was in substance a sale of the related contracts, and is treated as a sale for financial accounting purposes.

Since the fourth quarter of 2007, we have observed unprecedented adverse changes in the market for securitized pools of automobile contracts. These changes include reduced liquidity, and reduced demand for asset-backed securities, particularly for securities carrying a financial guaranty and for securities backed by sub-prime automobile receivables. Moreover, many of the firms that previously provided financial guarantees, which were an integral part of our securitization program, are no longer offering such guarantees. From December 2008 until September 25, 2009 we had no available funding facilities. On September 25, 2009 we entered into a \$50 million two-year credit facility. Unlike our recent former credit facilities which limited the timeframe for eligible collateral to 180 days, collateral can remain eligible in this facility for the entire two-year term. Consequently, we have no immediate plans to complete a term securitization. The adverse changes that have taken place in the market have caused us to seek to conserve liquidity by reducing our purchases of automobile contracts to nominal levels. If the current adverse circumstances that have affected the capital markets should continue or worsen, we may curtail further or cease our purchases of new automobile contracts, which could lead to a material adverse effect on our operations.

Current economic conditions have negatively affected many aspects of our industry. First, as stated above, there is reduced demand for asset-backed securities secured by consumer finance receivables, including sub-prime automobile receivables. Second, lenders who previously provided short-term warehouse financing for sub-prime automobile finance companies such as ours are reluctant to provide such short-term financing due to the uncertainty regarding the prospects of obtaining long-term financing through the issuance of asset-backed securities. In addition, many capital market participants such as investment banks, financial guaranty providers and institutional investors who previously played a role in the sub-prime auto finance industry have withdrawn from the industry, or in some cases, have ceased to do business. Finally, the broad economic weakness and increasing unemployment has made many of the obligors under our receivables less willing or able to pay, resulting in higher delinquency, charge-offs and losses. Each of these factors has adversely affected our results of operations. Should existing economic conditions worsen, both our ability to purchase new contracts and the performance of our existing managed portfolio may be impaired, which, in turn, could have a further material adverse effect on our results of operations.



## Financial Covenants

Certain of our securitization transactions and our warehouse credit facility contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels and maximum financial losses. In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare a default if a default occurred under a different facility.

The agreements under which we receive periodic fees for servicing automobile contracts in securitizations are terminable by the respective financial guaranty insurance companies (also referred to as note insurers) upon defined events of default, and, in some cases, at the will of the insurance company. Without the waivers we have received from the related note insurers, we would have been in violation of certain financial and operating covenants relating to minimum net worth and maintenance of active warehouse facilities with respect to eight of our 17 currently outstanding securitization transactions. Upon such an event of default, and subject to the right of the related note insurers to waive such terms, the agreements governing the securitizations call for payment of a default insurance premium, ranging from 25 to 100 basis points per annum on the aggregate outstanding balance of the related insured senior notes, and for the diversion of all excess cash generated by the assets of the respective securitization pools into the related spread accounts to increase the credit enhancement associated with those transactions. The cash so diverted into the spread accounts would otherwise be used to make principal payments on the subordinated notes in each related securitization or would be released to us. In addition, upon an event of default, the note insurers have the right to terminate us as servicer. Although the diversion of such cash and our termination as servicer have been waived, we are paying default premiums, or their equivalent, with respect to insured notes representing \$593.6 million of the \$1,012.8 million of securitization trust debt outstanding at September 30, 2009. It should be noted that the principal amount of such securitization trust debt is not increased, but that the increased insurance premium is reflected as increased interest expense. Furthermore, such waivers are temporary, and there can be no assurance as to their future extension. We do, however, believe that we will obtain such future extensions of our servicing agreements because it is generally not in the interest of any party to the securitization transaction to transfer servicing. Nevertheless, there can be no assurance as to our belief being correct. Were an insurance company in the future to exercise its option to terminate such agreements or to pursue other remedies, such remedies could have a material adverse effect on our liquidity and results of operations, depending on the number and value of the affected transactions. Our note insurers continue to extend our term as servicer on a monthly and/or quarterly basis, pursuant to the servicing agreements.

## Results of Operations

Comparison of Operating Results for the three months ended September 30, 2009 with the three months ended September 30, 2008

Revenues. During the three months ended September 30, 2009, revenues were \$52.8 million, a decrease of \$38.9 million, or 42.4%, from the prior year revenue of \$91.7 million. The primary reason for the decrease in revenues is a decrease in interest income. Interest income for the three months ended September 30, 2009 decreased \$38.4 million, or 43.8%, to \$49.3 million from \$87.7 million in the prior year. The primary reason for the decrease in interest income is the decrease in finance receivables held by consolidated subsidiaries.

Servicing fees totaling \$839,000 in the three months ended September 30, 2009 increased \$604,000, or 257.0%, from \$235,000 in the prior year. The increase in servicing fees is the result of our September 2008 securitization that was structured as a sale for financial accounting purposes and on which we earn a base servicing fee. During 2008 we also earned base servicing fees on a portfolio which we have serviced for SeaWest Financial Corporation since April 2004, which has declined to an immaterial amount as of September 30, 2009. As of September 30, 2009 and 2008, our managed portfolio owned by consolidated vs. non-consolidated subsidiaries and other third parties was as follows:



	September 30, 2009		September 30, 2008	
	Amount	%	Amount	%
Total Managed Portfolio	(\$ in millions)			
Owned by Consolidated Subsidiaries	\$ 1,049.3	87.6 %	\$ 1,633.8	89.3 %
Owned by Non-Consolidated Subsidiaries	148.0	12.4 %	195.6	10.7 %
Third Party Portfolio	-	0.0 %	0.1	0.0 %
Total	\$ 1,197.3	100.0 %	\$ 1,829.5	100.0 %

At September 30, 2009, we were generating income and fees on a managed portfolio with an outstanding principal balance of \$1,197.3 million (this amount includes \$148.0 million of automobile contracts on which we earn servicing fees, own 5.0% of the asset-backed notes issued by the related trust, and own a residual interest), compared to a managed portfolio with an outstanding principal balance of \$1,829.5 million as of September 30, 2008. At September 30, 2009 and 2008, the managed portfolio composition was as follows:

	September 30, 2009		September 30, 2008	
	Amount	%	Amount	%
Originating Entity	(\$ in millions)			
CPS	\$ 1,169.4	97.7 %	\$ 1,777.1	97.1 %
TFC	27.9	2.3 %	52.1	2.8 %
MFN	-	0.0 %	-	0.0 %
SeaWest	-	0.0 %	0.2	0.0 %
Third Party Portfolio	-	0.0 %	0.1	0.0 %
Total	\$ 1,197.3	100.0 %	\$ 1,829.5	100.0 %

Other income decreased by \$1.1 million, or 29.5%, to \$2.7 million in the three months ended September 30, 2009 from \$6.8 million during the prior year. Other income consists primarily of convenience fees charged to our borrowers for certain electronic payments, fees paid to us by dealers for training, potential customer targeting and certain direct mail products that we offer, and recoveries on portfolios that we previously acquired through acquisitions.

Expenses. Our operating expenses consist largely of provision for credit losses, interest expense, employee costs and general and administrative expenses. Provision for credit losses and interest expense are significantly affected by the volume of automobile contracts we purchased during a period and by the outstanding balance of finance receivables held by consolidated subsidiaries. Employee costs and general and administrative expenses are incurred as applications and automobile contracts are received, processed and serviced. Factors that affect margins and net income (loss) include changes in the automobile and automobile finance market environments, and macroeconomic factors such as interest rates and the unemployment level.

Employee costs include base salaries, commissions and bonuses paid to employees, and certain expenses related to the accounting treatment of outstanding stock options, and are one of our most significant operating expenses. These costs (other than those relating to stock options) generally fluctuate with the level of applications and automobile contracts processed and serviced.

Other operating expenses consist largely of facilities expenses, telephone and other communication services, credit services, computer services, marketing and advertising expenses, and depreciation and amortization.

Total operating expenses were \$57.1 million for the three months ended September 30, 2009, compared to \$104.4 million for the prior year, a decrease of \$47.2 million, or 45.3%. The decrease is primarily due to the continued

decline in the balance of our outstanding managed portfolio and the related costs to service it, plus reduced expenses associated with significantly lower volumes of new contract purchases compared to the prior period. Operating expenses for the three-month period ended September 30, 2008 included a loss of \$14.0 million resulting from the sale of \$198.7 million of our receivables to a third party.

Employee costs decreased by \$4.2 million, or 34.0%, to \$8.2 million during the three months ended September 30, 2009, representing 14.4% of total operating expenses, from \$12.5 million for the prior year, or 11.9% of total operating expenses. Since January 2008, we have reduced staff through attrition and reductions in force as a result of the uncertainty in capital markets and the related limited access to financing for new purchases of automobile contracts. At September 30, 2009 we had 489 employees compared to 753 employees at September 30, 2008.

General and administrative expenses include costs associated with purchasing and servicing our portfolio of finance receivables including expenses for facilities, credit services, and telecommunications. General and administrative expenses were \$5.6 million, a decrease of 25.7%, compared to the previous year and represented 9.7% of total operating expenses.

Interest expense for the three months ended September 30, 2009 decreased \$14.8 million, or 36.1%, to \$26.2 million, compared to \$41.0 million in the previous year. The decrease is primarily the result of changes in the amount and composition of securitization trust debt carried on our consolidated balance sheet. Interest on securitization trust debt decreased by \$11.1 million in the three months ended September 30, 2009 compared to the prior year. Interest expense on senior secured and subordinated debt decreased by \$124,000. Interest expense on residual interest financing decreased \$893,000 in the three months ended September 30, 2009 compared to the prior year. The outstanding balances of our aggregate subordinated debt and our residual interest debt have been decreased through repayments since the prior year period. Interest expense on warehouse debt decreased by \$2.6 million for the three months ended September 30, 2009 compared to the prior year. In the prior year period, we had access to two warehouse credit facilities totaling \$400 million in financing capacity. During that period we were actively purchasing new contracts and financing such purchases with these facilities that had, in the aggregate significant outstanding balances during the three-month period ended September 30, 2008. As of September 30, 2009, our newly established credit facility had an outstanding balance of \$5.2 million.

Provision for credit losses was \$15.3 million for the three months ended September 30, 2009, a decrease of \$10.7 million, or 70.1% compared to the prior year and represented 26.7% of total operating expenses. The provision for credit losses maintains the allowance for loan losses at levels that we feel are adequate for probable credit losses that can be reasonable estimated. The decrease in provision expense is the result of the decrease in the size of the portfolio and the smaller volumes of new contract purchases in the current period compared to the prior period.

Marketing expenses consist primarily of commission-based compensation paid to our employee marketing representatives. Our marketing representatives earn salary and commissions based on our volume of contract purchases and also on sales of training programs, potential customer targeting, and direct mail products that we offer our dealers. Marketing expenses decreased by \$1.5 million, or 63.0%, to \$895,000, compared to \$2.4 million in the previous year, and represented 1.6% of total operating expenses. The decrease is primarily due to the decrease in automobile contracts we purchased during the three months ended September 30, 2009 as compared to the prior year. During the three months ended September 30, 2009, we purchased 37 automobile contracts aggregating \$506,000, compared to 2,227 automobile contracts aggregating \$33.6 million in the prior year. The adverse changes that have taken place in the securitization market since the fourth quarter of 2007 have caused us to curtail our purchases of automobile contracts in order to preserve liquidity.

Occupancy expenses decreased by \$147,000 or 15.1%, to \$825,000 compared to \$972,000 in the previous year and represented 1.5% of total operating expenses.

Depreciation and amortization expenses increased \$55,000, or 43.9%, to \$182,000 from \$126,000 in the previous year.

For the three months ended September 30, 2009, we recorded no tax provision or benefit. As of September 30, 2009, our net deferred tax asset of \$52.7 million is net of a valuation allowance of \$4.5 million and consists of

approximately \$48.8 million of net U.S. federal deferred tax assets and \$3.9 million of net state deferred tax assets. The major components of the deferred tax asset are \$27.4 million in net operating loss carryforwards and built in losses and \$22.2 million in net deductions which have not yet been taken on a tax return. We have considered the circumstances that may affect the ultimate realization of our deferred tax assets and have

concluded that the valuation allowance is appropriate at this time. However, if future events change our expected realization of our deferred tax assets, we may be required to increase the valuation allowance against that asset in the future.

#### Comparison of Operating Results for the nine months ended September 30, 2009 with the nine months ended September 30, 2008

**Revenues.** During the nine months ended September 30, 2009, revenues were \$177.2 million, a decrease of \$116.6 million, or 39.7%, from the prior year revenue of \$293.8 million. The primary reason for the decrease in revenues is a decrease in interest income. Interest income for the nine months ended September 30, 2009 decreased \$116.5 million, or 41.3%, to \$165.5 million from \$281.9 million in the prior year. The primary reason for the decrease in interest income is the decrease in finance receivables held by consolidated subsidiaries.

Servicing fees totaling \$2.8 million in the nine months ended September 30, 2009 increased \$1.9 million, or 197.9%, from \$943,000 in the prior year. The increase in servicing fees is the result of our September 2008 securitization that was structured as a sale for financial accounting purposes and on which we earn a base servicing fee. During 2008 we also earned base servicing fees on a portfolio which we have serviced for SeaWest Financial Corporation since April 2004, which has declined to an immaterial amount as of September 30, 2009. As of September 30, 2009 and 2008, our managed portfolio owned by consolidated vs. non-consolidated subsidiaries and other third parties was as follows:

	September 30, 2009		September 30, 2008	
	Amount	%	Amount	%
Total Managed Portfolio	(\$ in millions)			
Owned by Consolidated Subsidiaries	\$ 1,049.3	87.6 %	\$ 1,633.8	89.3 %
Owned by Non-Consolidated Subsidiaries	148.0	12.4 %	195.6	10.7 %
Third Party Portfolio	-	0.0 %	0.1	0.0 %
Total	\$ 1,197.3	100.0 %	\$ 1,829.5	100.0 %

At September 30, 2009, we were generating income and fees on a managed portfolio with an outstanding principal balance of \$1,197.3 million (this amount includes \$148.0 million of automobile contracts on which we earn servicing fees, own 5.0% of the asset-backed notes issued by the related trust, and own a residual interest), compared to a managed portfolio with an outstanding principal balance of \$1,979.5 million as of September 30, 2008. At September 30,

	September 30, 2009		September 30, 2008	
	Amount	%	Amount	%
Originating Entity	(\$ in millions)			
CPS	\$ 1,169.4	97.7 %	\$ 1,777.1	97.1 %
TFC	27.9	2.3 %	52.1	2.8 %
MFN	-	0.0 %	-	0.0 %
SeaWest	-	0.0 %	0.2	0.0 %
Total	\$ 1,197.3	100.0 %	\$ 1,829.5	100.0 %

Other income decreased by \$2.0 million, or 18.4%, to \$8.9 million in the nine months ended September 30, 2009 from \$10.9 million during the prior year. Other income consists primarily of convenience fees charged to our borrowers for

certain electronic payments, fees paid to us by dealers for training, potential customer targeting and certain direct mail products that we offer, and recoveries on portfolios that we previously acquired through acquisitions.

Expenses. Our operating expenses consist largely of provision for credit losses, interest expense, employee costs and general and administrative expenses. Provision for credit losses and interest expense are significantly affected by the volume of automobile contracts we purchased during a period and by the outstanding balance of finance receivables held by consolidated subsidiaries. Employee costs and general and administrative expenses are incurred as applications and automobile contracts are received, processed and serviced. Factors that affect margins and net income (loss) include changes in the automobile and automobile finance market environments, and macroeconomic factors such as interest rates and the unemployment level.

Employee costs include base salaries, commissions and bonuses paid to employees, and certain expenses related to the accounting treatment of outstanding stock options, and are one of our most significant operating expenses. These costs (other than those relating to stock options) generally fluctuate with the level of applications and automobile contracts processed and serviced.

Other operating expenses consist largely of facilities expenses, telephone and other communication services, credit services, computer services, marketing and advertising expenses, and depreciation and amortization.

Total operating expenses were \$188.0 million for the nine months ended September 30, 2009, compared to \$300.0 million for the prior year, a decrease of \$112.0 million, or 37.3%. The decrease is primarily due to the continued decline in the balance of our outstanding managed portfolio and the related costs to service it, plus reduced expenses associated with significantly lower volumes of new contract purchases compared to the prior period.

Employee costs decreased by \$12.4 million, or 31.8%, to \$26.5 million during the nine months ended September 30, 2009, representing 14.1% of total operating expenses, from \$38.8 million for the prior year, or 12.9% of total operating expenses. Since January 2008, we have reduced staff through attrition and reductions in force as a result of the uncertainty in capital markets and the related limited access to financing for new purchases of automobile contracts. At September 30, 2009 we had 489 employees compared to 753 employees at September 30, 2008.

General and administrative expenses include costs associated with purchasing and servicing our portfolio of finance receivables including expenses for facilities, credit services, and telecommunications. General and administrative expenses were \$18.0 million, a decrease of 19.6%, compared to the previous year and represented 9.6% of total operating expenses.

Interest expense for the nine months ended September 30, 2009 decreased \$33.7 million, or 27.8%, to \$87.3 million, compared to \$121.0 million in the previous year. The decrease is primarily the result of changes in the amount and composition of securitization trust debt carried on our consolidated balance sheet. Interest on securitization trust debt decreased by \$25.3 million in the nine months ended September 30, 2009 compared to the prior year. Interest expense on senior secured and subordinated debt increased by \$2.5 million as a result of our issuance in June 2008 and July 2008 of senior secured notes of \$10.0 million \$15.0 million, respectively. Interest expense on residual interest financing decreased \$1.2 million in the nine months ended September 30, 2009 compared to the prior year. Interest expense on warehouse debt decreased by \$9.6 million for the nine months ended September 30, 2009 compared to the prior year. In the prior year period, we had access to two warehouse credit facilities totaling \$400 million in financing capacity. During that period we were actively purchasing new contracts and financing such purchases with these facilities that had, in the aggregate, significant outstanding balances during the nine-month period ended September 30, 2008. As of September 30, 2009, our newly established credit facility had an outstanding balance of \$5.2 million.

As stated above, we have issued \$25.0 million in new senior secured debt since June 2008. In addition, in July 2008 we amended our existing residual financing facility resulting in a higher interest rate. As a result, we can expect that our interest expense on these components of debt will increase in future periods although such increases may be somewhat offset by decreases in our securitization trust and warehouse debt should our level of contract purchases and our portfolio of managed receivables continue to decline.

Provision for credit losses was \$49.8 million for the nine months ended September 30, 2009, a decrease of \$41.9 million, or 45.7% compared to the prior year and represented 26.5% of total operating expenses. The provision for credit losses maintains the allowance for loan losses at levels that we feel are adequate for



probable credit losses that can be reasonably estimated. The decrease in provision expense is the result of the decrease in the size of the portfolio and the smaller volumes of new contract purchases in the current period compared to the prior period.

Marketing expenses consist primarily of commission-based compensation paid to our employee marketing representatives. Our marketing representatives earn salary and commissions based on our volume of contract purchases and also on sales of training programs, potential customer targeting, and direct mail products that we offer our dealers. Marketing expenses decreased by \$5.7 million, or 65.6%, to \$3.0 million, compared to \$8.7 million in the previous year, and represented 1.6% of total operating expenses. The decrease is primarily due to the decrease in automobile contracts we purchased during the nine months ended September 30, 2009 as compared to the prior year. During the nine months ended September 30, 2009, we purchased 191 automobile contracts aggregating \$2.5 million, compared to 19,278 automobile contracts aggregating \$289.6 million in the prior year. The adverse changes that have taken place in the securitization market since the fourth quarter of 2007 have caused us to curtail our purchases of automobile contracts in order to preserve liquidity.

Occupancy expenses were \$2.8 million for the nine months ended September 30, 2009 and were basically unchanged from the prior period.

Depreciation and amortization expenses increased \$162,000, or 44.6%, to \$526,000 from \$364,000 in the previous year.

For the nine months ended September 30, 2009, we recorded no tax provision or benefit. As of September 30, 2009, our net deferred tax asset of \$52.7 million is net of a valuation allowance of \$4.5 million and consists of approximately \$48.8 million of net U.S. federal deferred tax assets and \$3.9 million of net state deferred tax assets. The major components of the deferred tax asset are \$27.4 million in net operating loss carryforwards and built-in losses and \$22.2 million in net deductions which have not yet been taken on a tax return. We have considered the circumstances that may affect the ultimate realization of our deferred tax assets and have concluded that the valuation allowance is appropriate at this time. However, if future events change our expected realization of our deferred tax assets, we may be required to increase the valuation allowance against that asset in the future.

#### Credit Experience

Our financial results are dependent on the performance of the automobile contracts in which we retain an ownership interest. The table below documents the delinquency, repossession and net credit loss experience of all automobile contracts that we were servicing as of the respective dates shown. Credit experience for CPS, MFN, TFC and SeaWest (the three acquisitions described above involved MFN Financial Corporation, TFC Enterprises, Inc. and SeaWest Financial Corporation and were completed in 2002, 2003 and 2004, respectively) is shown on a combined basis in the table below. While the broad economic weakness and increasing unemployment over the last year has resulted in higher delinquencies and net charge-offs compared to the same period last year, the increase in the percentage levels for 2009 is also partially attributable to the decrease in the size and the increase in the average age of our managed portfolio.

Delinquency Experience (1)  
CPS, MFN, TFC and SeaWest Combined

	September 30, 2009		September 30, 2008		December 31, 2008	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
	(Dollars in thousands)					
<b>Delinquency Experience</b>						
Gross servicing portfolio (1)	119,721	\$ 1,197,706	154,516	\$ 1,830,727	145,564	\$ 1,665,036
<b>Period of delinquency (2)</b>						
31-60 days	3,266	30,347	4,971	55,373	3,733	39,798
61-90 days	2,102	20,860	2,127	23,379	2,376	26,549
91+ days	1,754	18,301	1,558	16,521	2,424	27,243
<b>Total delinquencies (2)</b>	<b>7,122</b>	<b>69,508</b>	<b>8,656</b>	<b>95,273</b>	<b>8,533</b>	<b>93,590</b>
<b>Amount in repossession (3)</b>	<b>4,062</b>	<b>36,204</b>	<b>3,963</b>	<b>45,312</b>	<b>4,262</b>	<b>49,357</b>
<b>Total delinquencies and amount in repossession (2)</b>	<b>11,184</b>	<b>\$ 105,712</b>	<b>12,619</b>	<b>\$ 140,585</b>	<b>12,795</b>	<b>\$ 142,947</b>
<b>Delinquencies as a percentage of gross servicing portfolio</b>	<b>5.9%</b>	<b>5.8%</b>	<b>5.6%</b>	<b>5.2%</b>	<b>5.9%</b>	<b>5.6%</b>
<b>Total delinquencies and amount in repossession as a percentage of gross servicing</b>	<b>9.3%</b>	<b>8.8%</b>	<b>8.2%</b>	<b>7.7%</b>	<b>8.8%</b>	<b>8.6%</b>

portfolio

(1) All amounts and percentages are based on the amount remaining to be repaid on each automobile contract, including, for pre-computed automobile contracts, any unearned interest. The information in the table represents the gross principal amount of all automobile contracts purchased by us, including automobile contracts subsequently sold by us in securitization transactions that we continue to service. The table does not include automobile contracts from the portfolio we have serviced for SeaWest Financial Corporation since 2004.

(2) We consider an automobile contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date, which date may have been extended within limits specified in the Servicing Agreements. The period of delinquency is based on the number of days payments are contractually past due. Automobile contracts less than 31 days delinquent are not included.

(3) Amount in repossession represents financed vehicles that have been repossessed but not yet liquidated.

Net Charge-Off Experience (1)  
CPS, MFN, TFC and SeaWest Combined

	September 30, 2009	September 30, 2008	December 31, 2008
(Dollars in thousands)			
Average servicing portfolio outstanding \$	1,390,959	2,005,504	\$ 1,934,003
Annualized net charge-offs as a percentage of average servicing portfolio (2)	\$ 10.4%	7.1%	7.7%

(1) All amounts and percentages are based on the principal amount scheduled to be paid on each automobile contract, net of unearned income on pre-computed automobile contracts.

(2) Net charge-offs include the remaining principal balance, after the application of the net proceeds from the liquidation of the vehicle (excluding accrued and unpaid interest) and amounts collected subsequent to the date of charge-off, including some recoveries which have been classified as other income in the accompanying interim financial statements. September 30, 2009 and September 30, 2008 percentage represents nine months ended September 30, 2009 and September 30, 2008 annualized. December 31, 2008 represents 12 months ended December 31, 2008.

## Liquidity and Capital Resources

Our business requires substantial cash to support our purchases of automobile contracts and other operating activities. Our primary sources of cash have been cash flows from operating activities, including proceeds from sales of automobile contracts, amounts borrowed under various revolving credit facilities (also sometimes known as warehouse credit facilities), servicing fees on portfolios of automobile contracts previously sold in securitization transactions or serviced for third parties, customer payments of principal and interest on finance receivables, and releases of cash from securitized pools of automobile contracts in which we have retained a residual ownership interest and from the spread account associated with such pools. Our primary uses of cash have been the purchases of automobile contracts, repayment of amounts borrowed under lines of credit and otherwise, operating expenses such as employee, interest, occupancy expenses and other general and administrative expenses, the establishment of spread account and initial overcollateralization, and the increase of credit enhancement to required levels in securitization transactions, and income taxes. There can be no assurance that internally generated cash will be sufficient to meet our cash demands. The sufficiency of internally generated cash will depend on the performance of securitized pools (which determines the level of releases from those pools and their related spread accounts), the rate of expansion or contraction in our managed portfolio, and the terms upon which we are able to acquire, sell, and borrow against automobile contracts.

Net cash provided by operating activities for the nine-month period ended September 30, 2009 was \$78.0 million compared to net cash provided by operating activities for the nine-month period ended September 30, 2008 of \$108.6 million. Cash provided by operating activities is affected by our net earnings, or loss, before provisions for credit losses.

Net cash provided by investing activities for the nine-month period ended September 30, 2009 was \$340.0 million compared to net cash provided by investing activities of \$359.9 million in the prior year period. Cash flows from investing activities has primarily related to purchases of automobile contracts less principal amortization on our consolidated portfolio of automobile contracts. The adverse changes that have taken place in the securitization market since the fourth quarter of 2007 have caused us to curtail our purchases of automobile contracts in order to preserve liquidity.

Net cash used by financing activities for the nine months ended September 30, 2009 was \$419.7 million compared to net cash used by financing activities of \$466.2 million in the prior year period. Cash used by financing activities is generally related to the repayment of securitization trust debt net of any new issuances of securitization trust debt. We repaid \$400.8 million in securitization trust debt in the nine months ended September 30, 2009 compared to \$543.1 million in the prior year period. However, our securitization trust debt repayments during the nine months ended September 30, 2008 were offset by proceeds of \$285.4 million from the issuance of new securitization trust debt. We have not issued any new securitization trust debt thus far in 2009.

We purchase automobile contracts from dealers for a cash price computed by reference to their principal amounts, reduced by an acquisition fee. Those automobile contracts generate cash flow, however, over a period of years. As a result, we have been dependent on warehouse credit facilities to purchase automobile contracts, and on the availability of cash from outside sources in order to finance our continuing operations, as well as to fund the portion of automobile contract purchase prices not financed under revolving warehouse credit facilities. At January 1, 2008, we had \$425 million in warehouse credit capacity, in the form of two \$200 million senior facilities, and one \$25 million subordinated facility. One \$200 million facility provided funding for automobile contracts purchased under the TFC programs while both warehouse facilities provided funding for automobile contracts purchased under the CPS programs. The subordinated facility was established on January 12, 2007 and expired by its terms in April 2008. From December 2008 until September 25, 2009 we had no available funding facilities and reduced our volume of contract purchases to nominal levels. On September 25, 2009, we entered into a \$50 million, two-year revolving

credit agreement with Fortress Credit Corp. ("Fortress"). The Fortress agreement allows advances to us of up to 75% of the principal balance of eligible collateral that are secured by automobile receivables that we now hold or may purchase in the future from dealers.

Loans under the Fortress agreement bear interest at a floating rate equal to one-month LIBOR plus 12.00%, but in all events no less than 14.00% per year. As of September 30, 2009, \$5.2 million was outstanding under this facility. As part of the consideration given to Fortress for committing to make loans under this facility, we issued a 10-year warrant to purchase up to 1,158,087 of our common shares, at an exercise price of \$0.879 per share (we refer to this as the Fortress Warrant). Issuance of the Fortress Warrant required an adjustment to the terms of an existing outstanding warrant regarding 1,564,324 shares, reducing the exercise price of that other warrant from \$1.44 per share to \$1.407 per share and increasing the number of shares available for purchase to 1,600,991.

The first of two warehouse facilities in place at January 1, 2008 as mentioned above was provided by an affiliate of Bear, Stearns and was structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated subsidiary Page Three Funding, LLC. This facility was established on November 15, 2005, and expired on November 6, 2008. On November 8, 2006 the facility was increased from \$150 million to \$200 million and the maximum advance rate was increased to 83% from 80% of eligible contracts, subject to collateral tests and certain other conditions and covenants. On January 12, 2007 the facility was amended to allow for the issuance of subordinated notes resulting in an increase of the maximum advance rate to 93%. The advance rate was subject to the lender's valuation of the collateral which, in turn, was affected by factors such as the credit performance of our managed portfolio and the terms and conditions of our term securitizations, including the expected yields required for bonds issued in our term securitizations. Senior notes under this facility accrued interest at a rate of one-month LIBOR plus 2.50% per annum while the subordinated notes accrued interest at a rate of one-month LIBOR plus 5.50% per annum.

The second of two warehouse facilities in place at January 1, 2008 was provided by an affiliate of UBS AG and was similarly structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated subsidiary Page Funding LLC. This facility was entered into on June 30, 2004. On June 30, 2005 the facility was increased from \$100 million to \$125 million and further amended to provide for funding for automobile contracts purchased under the TFC programs, in addition to our CPS programs. The available credit under the facility was increased again to \$200 million on August 31, 2005. In April 2006, the terms of this facility were amended to allow advances to us of up to 80% of the principal balance of automobile contracts that we purchase under our CPS programs, and of up to 70% of the principal balance of automobile contracts that we purchase under our TFC programs, in all events subject to collateral tests and certain other conditions and covenants. On June 30, 2006, the terms of this facility were amended to allow advances to us of up to 83% of the principal balance of automobile contracts that we purchase under our CPS programs, in all events subject to collateral tests and certain other conditions and covenants. In February 2007 the facility was amended to allow for the issuance of subordinated notes resulting in an increase of the maximum advance rate to 93%. The advance rate was subject to the lender's valuation of the collateral which, in turn, was affected by factors such as the credit performance of our managed portfolio and the terms and conditions of our term securitizations, including the expected yields for bonds issued in our term securitizations. Senior notes under this facility accrue interest at a rate of one-month LIBOR plus 9.85% per annum. The facility was amended in December 2008 to eliminate future advances and provide for repayment of the notes from proceeds collected on the underlying pledged receivables, plus certain future scheduled principal reductions until its maturity in September 2009, at which time we intend to pay any amounts then outstanding from our available cash. As of September 30, 2009, all amounts due under this facility had been repaid.

We securitized \$509.0 million in auto contracts in two private placement transactions in 2008. Our April 2008 transaction was structured as a secured financing and, therefore, resulted in no gain or loss on sale. The September 2008 transaction was structured as a sale for financial accounting purposes and resulted in a loss on sale of \$14.0 million. We did not securitize any contracts during the nine-month period ended September 30, 2009.

In July 2007, we established a combination term and revolving residual credit facility, and have used eligible residual interests in securitizations as collateral for floating rate borrowings. The amount that we were able to borrow was

computed using an agreed valuation methodology of the residuals, subject to an overall maximum

principal amount of \$120 million, represented by (i) a \$60 million Class A-1 variable funding note (the “revolving note”), and (ii) a \$60 million Class A-2 term note (the “term note”). The term note was fully drawn in July 2007 and was due in July 2009. As of July 2008, we had drawn \$26.8 million on the revolving note. The facility’s revolving feature expired in July 2008. On July 10, 2008 we amended the terms of the combination term and revolving residual credit facility, (i) eliminating the revolving feature and increasing the interest rate, (ii) consolidating the amounts then owing on the Class A-1 note with the Class A-2 note, (iii) establishing an amortization schedule for principal reductions on the Class A-2 note, and (iv) providing for an extension, at our option if certain conditions were met, of the Class A-2 note maturity from June 2009 to June 2010. In June 2009 we met all the conditions and extended the maturity of the term note. In conjunction with the July 2008 amendment, we reduced the principal amount outstanding to \$70 million by delivering to the lender (i) warrants valued as being equivalent to 2,500,000 common shares, or \$4,071,429 and (ii) cash of \$12,765,244. The warrants represent the right to purchase 2,500,000 CPS common shares at a nominal exercise price, at any time prior to July 10, 2018. As of September 30, 2009 the aggregate indebtedness under this facility was \$59.9 million.

On June 30, 2008, we entered into a series of agreements pursuant to which a lender purchased a \$10 million five-year, fixed rate, senior secured note from us. The indebtedness is secured by substantially all of our assets, though not by the assets of our special-purpose financing subsidiaries. In July 2008, in conjunction with the amendment of the combination term and revolving residual credit facility as discussed above, the lender purchased an additional \$15 million note with substantially the same terms as the \$10 million note. Pursuant to the June 30, 2008 securities purchase agreement, we issued to the lender 1,225,000 shares of common stock. In addition, we issued the lender two warrants: (i) warrants that we refer to as the FMV Warrants, which are exercisable for 1,600,991 shares of our common stock, at an exercise price of \$1.407 per share; and (ii) warrants that we refer to as the N Warrants, which are exercisable for 283,985 shares of our common stock, at a nominal exercise price. Both the FMV Warrants and the N Warrants are exercisable in whole or in part and at any time up to and including June 30, 2018. We valued the warrants using the Black-Scholes valuation model and recorded their value as a liability on our balance sheet because the terms of the warrants also included a provision whereby the lender could require us to purchase the warrants for cash. That provision was eliminated by mutual agreement in September 2008. The FMV Warrants were initially exercisable to purchase 1,500,000 shares for \$2.573 per share, were adjusted in connection with the July 2008 issuance of other warrants to become exercisable to purchase 1,564,324 shares at \$2.4672 per share, and were further adjusted in connection with a July 2009 amendment of our option plan to become exercisable at \$1.44 per share. Upon issuance in September 2009 of the Fortress Warrant, the the FMV Warrant was further adjusted to become exercisable to purchase 1,600,991 shares at an exercise price of \$1.407 per share.

The acquisition of automobile contracts for subsequent sale in securitization transactions, and the need to fund spread accounts and initial overcollateralization, if any, and increase credit enhancement levels when those transactions take place, results in a continuing need for capital. The amount of capital required is most heavily dependent on the rate of our automobile contract purchases, the required level of initial credit enhancement in securitizations, and the extent to which the previously established trusts and their related spread accounts either release cash to us or capture cash from collections on securitized automobile contracts. Of those, the factor most subject to our control is the rate at which we purchase automobile contracts.

We are and may in the future be limited in our ability to purchase automobile contracts due to limits on our capital. As of September 30, 2009, we had unrestricted cash of \$20.4 million. We have \$44.8 million available under our Fortress facility (subject to available eligible collateral) and no immediate plans to complete a securitization. Our plans to manage our liquidity include maintaining our rate of automobile contract purchases at a merely nominal level, and, wherever appropriate, reducing our operating costs. There can be no assurance that we will be able to obtain additional future funding facilities or to complete securitizations on favorable economic terms or that we will be able to complete securitizations at all. If we are unable to complete such securitizations, we may be unable to increase our rate of automobile contract purchases, in which case our interest income and other portfolio related income would continue to decrease.



Our liquidity will also be affected by releases of cash from the trusts established with our securitizations. While the specific terms and mechanics of each spread account vary among transactions, our securitization

agreements generally provide that we will receive excess cash flows, if any, only if the amount of credit enhancement has reached specified levels and/or the delinquency, defaults or net losses related to the automobile contracts in the pool are below certain predetermined levels. In the event delinquencies, defaults or net losses on the automobile contracts exceed such levels, the terms of the securitization: (i) may require increased credit enhancement to be accumulated for the particular pool; (ii) may restrict the distribution to us of excess cash flows associated with other pools; or (iii) in certain circumstances, may permit the insurers to require the transfer of servicing on some or all of the automobile contracts to another servicer. There can be no assurance that collections from the related trusts will continue to generate sufficient cash. Moreover, most of our spread account balances are pledged as collateral to our residual interest financing. As such, most of the current releases of cash from our securitization trusts are directed to pay the obligations of our residual interest financing.

Certain of our securitization transactions and our warehouse credit facility contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels and maximum financial losses. In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare a default if a default occurred under a different facility.

The agreements under which we receive periodic fees for servicing automobile contracts in securitizations are terminable by the respective note insurers upon defined events of default, and, in some cases, at the will of the insurer. We have received waivers regarding the potential breach of certain such covenants relating to minimum net worth and maintenance of active warehouse credit facilities. Without such waivers, certain credit enhancement providers would have had the right to terminate us as servicer with respect to certain of our outstanding securitization pools. Although such rights have been waived, such waivers are temporary, and there can be no assurance as to their future extension. We do, however, believe that we will obtain such future extensions because it is generally not in the interest of any party to the securitization transaction to transfer servicing. Nevertheless, there can be no assurance as to our belief being correct. Were a note insurer in the future to exercise its option to terminate such agreements, such a termination could have a material adverse effect on our liquidity and results of operations, depending on the number and value of the terminated agreements. Our note insurers continue to extend our term as servicer on a monthly and/or quarterly basis, pursuant to the servicing agreements.

## Critical Accounting Policies

### (a) Allowance for Finance Credit Losses

In order to estimate an appropriate allowance for losses incurred on finance receivables held on our Unaudited Condensed Consolidated Balance Sheet, we use a loss allowance methodology commonly referred to as “static pooling,” which stratifies our finance receivable portfolio into separately identified pools. Using analytical and formula-driven techniques, we estimate an allowance for finance credit losses, which management believes is adequate for probable credit losses that can be reasonably estimated in our portfolio of finance receivable automobile contracts. Provision for losses is charged to our Unaudited Consolidated Statement of Operations. Net losses incurred on finance receivables are charged to the allowance. Management evaluates the adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio and the value of the underlying collateral. As conditions change, our level of provisioning and/or allowance may change as well.

### (b) Contract acquisition fees and originations costs

Upon purchase of a contract from a dealer, we generally charge or advance the dealer an acquisition fee. For contracts securitized in pools which were structured as sales for financial accounting purposes, the acquisition fees associated with contract purchases were deferred until the contracts were securitized, at which time the deferred acquisition fees were recognized as a component of the gain on sale.

For contracts purchased and securitized in pools which are structured as secured financings for financial accounting purposes, dealer acquisition fees and deferred originations costs are applied against the carrying value of finance receivables and are accreted into earnings as an adjustment to the yield over the estimated life of the contract using the interest method, in accordance with Statement of Financial Accounting Standard No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases.

(c) Income taxes

We and our subsidiaries file consolidated federal income and combined state franchise tax returns. We utilize the asset and liability method of accounting for income taxes, under which deferred income taxes are recognized for the future tax consequences attributable to the differences between the financial statement values of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded against that portion of the deferred tax asset whose utilization in future period is not more than likely.

In determining the possible realization of deferred tax assets, future taxable income from the following sources are considered: (a) the reversal of taxable temporary differences; (b) future operations exclusive of reversing temporary differences; and (c) tax planning strategies that, if necessary, would be implemented to accelerate taxable income into a period in which net operating losses might otherwise expire.

(d) Stock-based compensation

For the nine months ended September 30, 2009 and 2008, we recorded \$1.0 million and \$953,000 respectively, in stock-based compensation costs, resulting from grants of options during the period and vesting of previously granted options. As of September 30, 2009, there were \$3.7 million in unrecognized stock-based compensation costs to be recognized over future periods.

Forward Looking Statements

This report on Form 10-Q includes certain “forward-looking statements.” Forward-looking statements may be identified by the use of words such as “anticipates,” “expects,” “plans,” “estimates,” or words of like meaning. Our provision for credit losses is a forward-looking statement, as it is dependent on our estimates as to future chargeoffs and recovery rates. Factors that could affect charge-offs and recovery rates include changes in the general economic climate, which could affect the willingness or ability of obligors to pay pursuant to the terms of automobile contracts, changes in laws respecting consumer finance, which could affect our ability to enforce rights under automobile contracts, and changes in the market for used vehicles, which could affect the levels of recoveries upon sale of repossessed vehicles. Factors that could affect our revenues in the current year include the levels of cash releases from existing pools of automobile contracts, which would affect our ability to purchase automobile contracts, the terms on which we are able to finance such purchases, the willingness of dealers to sell automobile contracts to us on the terms that we offer, and the terms on which we are able to complete term securitizations once automobile contracts are acquired. Factors that could affect our expenses in the current year include competitive conditions in the market for qualified personnel and interest rates (which affect the rates that we pay on notes issued in our securitizations).



### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### Interest Rate Risk

During periods where we purchase significant automobile contracts and pledge them for borrowings under warehouse credit facilities, we are subject to interest rate risk during the period between when the contracts are purchased from dealers and when they become part of a term securitization. Specifically, the interest rates on the warehouse facilities are adjustable while the interest rates on the automobile contracts are fixed. Historically, our term securitization facilities have had fixed rates of interest. To mitigate some of this risk, we have in the past, and intend to continue to, structure certain of our securitization transactions to include pre-funding structures, in which the amount of notes issued exceeds the amount of automobile contracts initially sold to the trusts. In pre-funding, the proceeds from the pre-funded portion are held in an escrow account until we sell the additional automobile contracts to the trust in amounts up to the balance of the pre-funded escrow account. In pre-funded securitizations, we lock in the borrowing costs with respect to the automobile contracts it subsequently delivers to the trust. However, we incur an expense in pre-funded securitizations equal to the difference between the money market yields earned on the proceeds held in escrow prior to subsequent delivery of automobile contracts and the interest rate paid on the notes outstanding, as to the amount of which there can be no assurance.

During 2009, we have not purchased a significant volume of automobile contracts and neither have we pledged any new contracts for borrowings under any warehouse facilities.

#### Item 4T. Controls and Procedures

We maintain a system of internal controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in this report. As of the end of the period covered by this report, we evaluated the effectiveness of the design and operation of such disclosure controls and procedures. Based upon that evaluation, the principal executive officer (Charles E. Bradley, Jr.) and the principal financial officer (Jeffrey P. Fritz) concluded that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, material information relating to us that is required to be included in our reports filed under the Securities Exchange Act of 1934. There have been no changes in our internal controls over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

The information provided under the caption “Legal Proceedings,” Note 7 to the Unaudited Condensed Consolidated Financial Statements, included in Part I of this report, is incorporated herein by reference.

### Item 1A. Risk Factors

We remind the reader that risk factors are set forth in Item 1A of our report on Form 10-K, filed with the U.S. Securities and Exchange Commission on March 31, 2009. Where we are aware of material changes to such risk factors as previously disclosed, we set forth below an updated discussion of such risks. The reader should note that the other risks identified in our report on Form 10-K remain applicable to us.

We require a substantial amount of cash to service our substantial debt.

To service our existing substantial indebtedness, we require a significant amount of cash. Our ability to generate cash depends on many factors, including our successful financial and operating performance. Our financial and operational performance depends upon a number of factors, many of which are beyond our control. These factors include, without limitation:

- the economic and competitive conditions in the asset-backed securities market;
  - the performance of our current and future automobile contracts;
- the performance of our residual interests from our securitizations and warehouse credit facilities;
  - any operating difficulties or pricing pressures we may experience;
  - our ability to obtain credit enhancement for our securitizations;
    - our ability to establish and maintain dealer relationships;
  - the passage of laws or regulations that affect us adversely;
    - our ability to compete with our competitors; and
  - our ability to acquire and finance automobile contracts.

Depending upon the outcome of one or more of these factors, we may not be able to generate sufficient cash flow from operations or obtain sufficient funding to satisfy all of our obligations. We note in particular that the market for asset-backed securities is, as of the date of this report, severely adverse to issuers such as ourselves. We also note that

credit enhancement in the form of financial guaranty insurance policies does not appear to be available. There can be no assurance as to when, whether or on what terms we may be able to securitize pools of automobile contracts in the future. If the unavailability of securitization transactions were to cause us to be unable to pay our debts, we would be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring our indebtedness or selling additional equity capital. These alternative strategies might not be feasible at the time, might prove inadequate or could require the prior consent of our lenders.

We need substantial liquidity to operate our business.

We have historically funded our operations principally through internally generated cash flows, sales of debt and equity securities, including through securitizations and warehouse credit facilities, borrowings



under senior secured debt agreements and sales of subordinated notes. However, we may not be able to obtain sufficient funding for our future operations from such sources. As of the date of this report, our access to the capital markets is impaired, with respect to both short-term and long-term debt. As a result, our results of operations, financial condition and cash flows have been and may continue to be materially and adversely affected. We require a substantial amount of cash liquidity to operate our business. Among other things, we have used such cash liquidity to:

- acquire automobile contracts;
- fund overcollateralization in warehouse credit facilities and securitizations;
  - pay securitization fees and expenses;
  - fund spread accounts in connection with securitizations;
- satisfy working capital requirements and pay operating expenses;
  - pay taxes; and
  - pay interest expense.

To mitigate the effects of our difficulties in obtaining financing on acceptable terms, we have materially reduced our acquisitions of automobile contracts, and have refrained from attempting to conduct securitization transactions on terms that we believe would be too burdensome to be prudent. We continue to pay our operating expenses, taxes and interest expense, and to satisfy our working capital requirements. However, there can be no assurance of our continued ability to do so.

We have substantial indebtedness.

We have and will continue to have a substantial amount of indebtedness. At September 30, 2009 and December 31, 2008, we had approximately \$1,119.9 million and \$1,527.3 million, respectively, of debt outstanding. Such debt consisted, as of December 31, 2008, primarily of \$1,404.2 million of securitization trust debt, and also included \$9.9 million of warehouse indebtedness, \$67.3 million of residual interest financing, \$20.1 million of senior secured debt and \$25.7 million owed under a subordinated notes program. At September 30, 2009, such debt consisted primarily of \$1,012.8 million of securitization trust debt, and also included \$5.2 million of warehouse indebtedness, \$59.9 million of residual interest financing, \$20.8 million of senior secured debt, and \$21.2 million owed under a subordinated notes program. We are currently offering the subordinated notes to the public on a continuous basis, and such notes have maturities that range from three months to 10 years.

Our substantial indebtedness could adversely affect our financial condition by, among other things:

- increasing our vulnerability to general adverse economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing amounts available for working capital, capital expenditures and other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
  - placing us at a competitive disadvantage compared our competitors that have less debt; and

- limiting our ability to borrow additional funds.

Although we believe we are able to service and repay such debt, there is no assurance that we will be able to do so. If we do not generate sufficient operating profits, our ability to make required payments on our debt would be impaired. Failure to pay our indebtedness when due could have a material adverse effect.

If an increase in interest rates results in a decrease in our cash flow from excess spread, our results of operations may be impaired.

Our profitability is largely determined by the difference, or "spread," between (i) the interest rates payable under our warehouse credit facilities and on the asset-backed securities issued in our securitizations, or payable in any alternate permanent financing transactions, and (ii) the effective interest rate received by us on the automobile contracts that we acquire. Disruptions in the market for asset-backed securities observed over the past year have resulted in an increase in the interest rates we paid on the asset-backed securities that we issued in our most recent securitization, as compared with prior transactions, and may result in any future transactions involving comparably high (or higher) interest rates payable by us. Although we have attempted to offset increases in our cost of funds by increasing fees we charge to dealers when purchasing contracts and by requiring higher interest rates on contracts we purchase, there can be no assurance that such price increases on our part will fully offset increases in interest we pay to finance our managed portfolio.

In addition to the interest rates payable in our financing transactions, there are other factors that affect our ability to manage interest rate risk. Specifically, we are subject to interest rate risk during the period between when automobile contracts are purchased from dealers and when such contracts are sold and financed in a securitization or any alternate permanent financing transaction. Interest rates on our warehouse credit facilities are adjustable while the interest rates on the automobile contracts are fixed. Therefore, if interest rates increase, the interest we must pay to the lenders under our warehouse credit facilities is likely to increase while the interest realized by us from those warehoused automobile contracts remains the same, and thus, during the warehousing period, the excess spread cash flow received by us would likely decrease. Additionally, contracts warehoused and then securitized during a rising interest rate environment may result in less excess spread cash flow realized by us under those securitizations as, historically, our securitization facilities pay interest to security holders on a fixed rate basis set at prevailing interest rates at the time of the closing of the securitization, which may be several months after the securitized contracts were originated and entered the warehouse, while our customers pay fixed rates of interest on the contracts, set at the time they purchase the underlying vehicles. A decrease in excess spread cash flow could adversely affect our earnings and cash flow.

To mitigate, but not eliminate, the short-term risk relating to interest rates payable by us under the warehouse facilities, we have generally held automobile contracts in the warehouse credit facilities for less than four months. The disruptions in the market for asset-backed securities issued in securitizations have caused us to lengthen that period, which has reduced the effectiveness of this mitigation strategy. To mitigate, but not eliminate, the long-term risk relating to interest rates payable by us in securitizations, we have in the past, and intend to continue to, structure some of our securitization transactions to include pre-funding structures, whereby the amount of securities issued exceeds the amount of contracts initially sold into the securitization. In pre-funding, the proceeds from the pre-funded portion are held in an escrow account until we sell the additional contracts into the securitization in amounts up to the balance of the pre-funded escrow account. In pre-funded securitizations, we effectively lock in our borrowing costs with respect to the contracts we subsequently sell into the securitization. However, we incur an expense in pre-funded securitizations equal to the difference between the money market yields earned on the proceeds held in escrow prior to subsequent delivery of contracts and the interest rate paid on the securities issued in the securitization. The amount of such expense may vary. Despite these mitigation strategies, an increase in prevailing interest rates would cause us to receive less excess spread cash flows on automobile contracts, and thus could adversely affect our earnings and cash flows.



## Forward-Looking Statements

Discussions of certain matters contained in this report may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Exchange Act, and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the business environment in which we operate, projections of future performance, perceived opportunities in the market and statements regarding our mission and vision. You can generally identify forward-looking statements as statements containing the words "will," "would," "believe," "may," "could," "expect," "anticipate," "intend," "estimate," "assume" or other similar expressions. Our actual results, performance and achievements may differ materially from the results, performance and achievements expressed or implied in such forward-looking statements. The discussion under "Risk Factors" identifies some of the factors that might cause such a difference, including the following:

- changes in general economic conditions;
- our ability or inability to obtain necessary financing
  - changes in interest rates;
- our ability to generate sufficient operating and financing cash flows;
  - competition;
- level of future provisioning for receivables losses; and
- regulatory requirements.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Actual results may differ from expectations due to many factors beyond our ability to control or predict, including those described herein, and in documents incorporated by reference in this report. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

We undertake no obligation to publicly update any forward-looking information. You are advised to consult any additional disclosure we make in our periodic reports filed with the SEC. See "Where You Can Find More Information" and "Documents Incorporated by Reference."

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended September 30, 2009, we purchased a total of 234,807 shares of our common stock, as described in the following table:

### Issuer Purchases of Equity Securities

Total		Total Number of Shares Purchased as	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or
Number of Shares	Average Price Paid	Part of Publicly Announced Plans or	

Edgar Filing: CONSUMER PORTFOLIO SERVICES INC - Form 10-Q

Period(1)	Purchased	per Share	Programs	Programs
July 2009	-	\$ -	-	\$ 1,980,373
August 2009	108,812	0.91	108,812	\$ 1,881,210
September 2009	125,995	0.92	125,995	\$ 1,765,147
<b>Total</b>	<b>234,807</b>	<b>\$ 0.92</b>	<b>234,807</b>	

---

(1) Each monthly period is the calendar month.

## Item 4. Submission of Matters to a Vote of Security Holders

Our annual meeting of shareholders was held on July 17, 2009. At the meeting, each of the six nominees to the Board of Directors was elected for a one-year term by the shareholders, with votes cast as follows:

Nominee	Votes For	Votes Withheld
Charles E. Bradley, Jr.	16,181,115	378,279
Chris A. Adams	16,203,311	356,080
Brian J. Rayhill	16,191,163	368,228
William B. Roberts	15,929,663	629,728
Gregory S. Washer	15,931,235	628,156
Daniel S. Wood	15,930,335	629,056

The shareholders also approved the two other proposals placed before the annual meeting. Those proposals were (i) to ratify the appointment of Crowe Horwath, LLP as independent auditors of the Company for the fiscal year ending December 31, 2009, and (ii) to approve an amendment to our 2006 Long-Term Equity Incentive Plan, which amendment permits an exchange and repricing of outstanding options. Votes on the proposals were cast as follows:

	Ratification of Selection of Independent Auditors	Amendment of our 2006 Long-Term Equity Incentive Plan
For	16,381,267	6,630,936
Against	156,236	3,179,603
Abstain	21,888	54,153
Broker Non-votes	0	6,694,699

## Item 5. Other Information

The discussion of partially waived events of default under insurance agreements related to our securitization pools appearing under the caption "Financial Covenants" in Note 1 to the interim unaudited financial statements included in Part I of this quarterly report is incorporated herein by reference.

## Item 6. Exhibits

The Exhibits listed below are filed with this report.

- 4.14 Instruments defining the rights of holders of long-term debt of certain consolidated subsidiaries of the registrant are omitted pursuant to the exclusion set forth in subdivisions (b)(iv)(iii)(A) and (b)(v) of Item 601 of Regulation S-K (17 CFR 229.601). The registrant agrees to provide copies of such instruments to the United States Securities and Exchange Commission upon request.
- 10.26 Revolving Loan Note dated September 25, 2009
- 10.27 Warrant dated September 25, 2009 to purchase 1,158,087 common shares.



- 10.28 Revolving Credit Agreement dated September 25, 2009
- 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer of the registrant.
- 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer of the registrant.
- 32 Section 1350 Certifications.\*

\* These Certifications shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. These Certifications shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registration statement specifically states that such Certifications are incorporated therein.

SIGNATURES

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

CONSUMER PORTFOLIO SERVICES, INC.

(Registrant)

Date: November 16, 2009

By: /s/ CHARLES E. BRADLEY, JR.

Charles E. Bradley, Jr.

President and Chief Executive Officer

(Principal Executive Officer)

Date: November 16, 2009

By: /s/ JEFFREY P. FRITZ

Jeffrey P. Fritz

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

