

CONSUMER PORTFOLIO SERVICES INC
Form 10-Q
May 15, 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 March 31, 2009

Commission file number: 1-11416

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

| | |
|---|--|
| California (State or other jurisdiction of incorporation or organization) | 33-0459135 (IRS Employer Identification No.) |
|---|--|

| | |
|---|---------------------|
| 19500 Jamboree Road, Irvine, California (Address of principal executive offices) | 92612 (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

As of May 5, 2009 the registrant had 18,776,987 common shares outstanding.

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CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
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For the Quarterly Period Ended March 31, 2009

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Item 1. Financial Statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

| | March 31, 2009 | December 31, 2008 |
|--|-------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 20,766 | \$ 22,084 |
| Restricted cash and equivalents | 151,668 | 153,479 |
| Finance receivables | 1,260,032 | 1,417,343 |
| Less: Allowance for finance credit losses | (52,641) | (78,036) |
| Finance receivables, net | 1,207,391 | 1,339,307 |
| Residual interest in securitizations | 3,966 | 3,582 |
| Furniture and equipment, net | 1,750 | 1,404 |
| Deferred financing costs | 7,193 | 8,954 |
| Deferred tax assets, net | 52,727 | 52,727 |
| Accrued interest receivable | 12,334 | 14,903 |
| Other assets | 36,412 | 42,367 |
| | \$ 1,494,207 | \$ 1,638,807 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 21,712 | \$ 21,702 |
| Warehouse lines of credit | 7,519 | 9,919 |
| Residual interest financing | 65,250 | 67,300 |
| Securitization trust debt | 1,265,353 | 1,404,211 |
| Senior secured debt, related party | 20,376 | 20,105 |
| Subordinated renewable notes | 24,479 | 25,721 |
| | 1,404,689 | 1,548,958 |
| COMMITMENTS AND CONTINGENCIES | | |
| Shareholders' Equity | | |
| 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; 18,866,099 and 19,110,077 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively | 54,880 | 54,702 |
| Additional paid in capital, warrants | 7,471 | 7,471 |
| Retained earnings | 34,194 | 34,703 |
| Accumulated other comprehensive loss | (7,027) | (7,027) |
| | 89,518 | 89,849 |
| | \$ 1,494,207 | \$ 1,638,807 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2009 | 2008 |
| Revenues: | | |
| Interest income | \$ 61,179 | \$ 99,362 |
| Servicing fees | 1,029 | 428 |
| Other income | 3,842 | 3,511 |
| | 66,050 | 103,301 |
| Expenses: | | |
| Employee costs | 9,263 | 13,482 |
| General and administrative | 6,611 | 7,346 |
| Interest | 32,131 | 39,034 |
| Provision for credit losses | 16,089 | 34,909 |
| Marketing | 1,172 | 3,621 |
| Occupancy | 1,145 | 996 |
| Depreciation and amortization | 148 | 139 |
| | 66,559 | 99,527 |
| Income (loss) before income tax expense (benefit) | (509) | 3,774 |
| Income tax expense (benefit) | - | 1,660 |
| Net income (loss) | \$ (509) | \$ 2,114 |
| Earnings (loss) per share: | | |
| Basic | \$ (0.03) | \$ 0.11 |
| Diluted | \$ (0.03) | \$ 0.11 |
| Number of shares used in computing earnings (loss) per share: | | |
| Basic | 19,005 | 19,297 |
| Diluted | 19,005 | 19,973 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Three Months Ended | |
|--|--------------------|-----------|
| | March 31, | |
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (509) | \$ 2,114 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Gain on residual asset | (500) | (40) |
| Amortization of deferred acquisition fees | (2,222) | (4,304) |
| Amortization of discount on securitization notes | 3,484 | 1,661 |
| Amortization of discount on senior secured debt, related party | 271 | - |
| Depreciation and amortization | 148 | 139 |
| Amortization of deferred financing costs | 1,772 | 2,478 |
| Provision for credit losses | 16,089 | 34,909 |
| Stock-based compensation expense | 302 | 342 |
| Interest income on residual assets | (625) | (197) |
| Changes in assets and liabilities: | | |
| Accrued interest receivable | 2,569 | 2,699 |
| Other assets | 6,695 | (1,226) |
| Tax assets | - | (10) |
| Accounts payable and accrued expenses | 10 | (2,563) |
| Tax liabilities | - | 1,326 |
| Net cash provided by operating activities | 27,484 | 37,328 |
| Cash flows from investing activities: | | |
| Purchases of finance receivables held for investment | (1,096) | (176,090) |
| Proceeds received on finance receivables held for investment | 119,145 | 181,458 |
| Increases (decreases) in restricted cash and equivalents | 1,811 | (6,306) |
| Purchase of furniture and equipment | (494) | (143) |
| Net cash provided by (used in) investing activities | 119,366 | (1,081) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of subordinated renewable notes | 715 | 1,457 |
| Payments on subordinated renewable notes | (1,956) | (1,186) |
| Net proceeds from (repayments to) warehouse lines of credit | (2,400) | 132,030 |
| Proceeds from (repayments of) residual interest financing debt | (2,050) | 20,000 |
| Repayment of securitization trust debt | (142,342) | (189,313) |
| Payment of financing costs | (11) | (163) |
| Repurchase of common stock | (124) | (1,519) |
| Exercise of options and warrants | - | 75 |
| Net cash provided by (used in) financing activities | (148,168) | (38,619) |
| Decrease in cash and cash equivalents | (1,318) | (2,372) |
| Cash and cash equivalents at beginning of period | 22,084 | 20,880 |
| Cash and cash equivalents at end of period | \$ 20,766 | \$ 18,508 |

Supplemental disclosure of cash flow information:

Cash paid during the period for:

| | | | | |
|--------------|----|--------|----|--------|
| Interest | \$ | 27,194 | \$ | 34,886 |
| Income taxes | \$ | 56 | \$ | 344 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(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 10 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 three-month period ended March 31, 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 the Residuals, accreting discounts and 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, 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 \$500,000 and \$40,000 for the three months ended March 31, 2009 and 2008, respectively. The recoveries on the charged-off contracts relate to contracts from previously unconsolidated trusts were \$460,000 and \$640,000 for the three months ended March 31, 2009 and 2008, respectively. The

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

convenience fees charged to obligors, which can be expected to increase or decrease in conjunction with increases or decreases in our managed portfolio, were \$1.6 million and \$1.5 million for the same periods, respectively. The direct mail revenues were \$1.0 million and \$1.3 million for the three months ended March 31, 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 Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment, revised 2004" ("SFAS 123R").

For the three months ended March 31, 2009 and 2008, we recorded stock-based compensation costs in the amount of \$302,000 and \$342,000, respectively. As of March 31, 2009, unrecognized stock-based compensation costs to be recognized over future periods equaled \$3.9 million. This amount will be recognized as expense over a weighted-average period of 3.0 years.

The following represents stock option activity for the three months ended March 31, 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 | - | - | N/A |
| Exercised | - | - | N/A |
| Forfeited | (108) | 3.51 | N/A |
| Options outstanding at the end of period | 6,212 | \$ 4.37 | 5.87 years |
| Options exercisable at the end of period | 4,694 | \$ 4.01 | 5.13 years |

At March 31, 2009, the aggregate intrinsic value of in-the-money options outstanding and exercisable was zero. The total intrinsic value of options exercised was \$28,000 for the three months ended March 31, 2008. New shares were issued for all options exercised during the three-month periods ended March 31, 2008. There were no options exercised for the three months ended March 31, 2009. There were 2.4 million shares available for future stock option grants under existing plans as of March 31, 2009.

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.

| | Three Months Ended March 30, 2008 |
|-------------------------|--|
| Risk-free interest rate | 3.22% |
| Expected term, in years | 6.0 |
| Expected volatility | 48.92% |
| Dividend yield | 0% |

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CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Purchases of Company Stock

During the three-month periods ended March 31, 2009 and 2008, we purchased 244,678 and 514,238 shares, respectively, of our common stock, at average prices of \$0.51 and \$2.95, respectively.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 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. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157", to partially defer FASB Statement No. 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 is effective for us on January 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value on a recurring basis. For those excepted assets and liabilities our effective date is January 1, 2009. The adoption of this statement did not have a material effect on our financial position or results of operations. In October 2008, the FASB issued Staff Position (FSP) No. 157-3, "Determining the Fair Value of a Financial Asset when the Market for that Asset is not Active". This FSP clarifies the application of FAS 157 in a market that is not active. The effect of adoption was not material.

SFAS No. 157 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. In that sale, we retained certain assets that are measured at fair value. Following is a description of the valuation methodologies used 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 total \$8.5 million of notes and are classified as level 2 because there were similar assets sold in the transaction. We used the price at which those similar notes were sold to value the securities retained. The residual interest in the cash flows totals \$2.5 million and is classified as level 3. We determined the value of that residual interest using a discounted cash flow model that included estimates for prepayments and losses. We used a discount rate of 33% per annum. The assumptions we used were based on historical performance of automobile contracts we had originated and serviced in the past, adjusted for current market conditions. In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. Effective January 1, 2008, the standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Company did not elect the fair value option on any of its financial assets or liabilities on January 1, 2008.

Repossessed vehicle inventory is measured at fair value using Level III assumptions based on our actual loss experience on sale of repossessed vehicles. At March 31, 2009, the loans related to the repossessed vehicles in inventory totaled \$44.0 million and a valuation adjustment was provided totaling \$31.1 million, resulting in an

estimated fair value and carrying amount of \$12.9 million.

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CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED 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 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 securitizations, are no longer offering such guarantees. As of March 31, 2009, we have no available warehouse credit facilities and 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 insurance companies upon defined events of default, and, in some cases, at the will of the insurance company. 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

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

an insurance company 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.

(2) Finance Receivables

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

| | March 31, 2009 | December 31, 2008 |
|--|-------------------|-------------------------|
| | (In thousands) | |
| Finance Receivables | | |
| Automobile finance receivables, net of unearned interest | \$ 1,270,776 | \$ 1,430,227 |
| Less: Unearned acquisition fees and originations costs | (10,744) | (12,884) |
| Finance Receivables | \$ 1,260,032 | \$ 1,417,343 |

The following table presents a summary of the activity for the allowance for credit losses for the three-month periods ended March 31, 2009 and 2008:

| | March 31, 2009 | March 31, 2008 |
|--|-------------------|-------------------|
| | (In thousands) | |
| Balance at beginning of period | \$ 78,036 | \$ 100,138 |
| Provision for credit losses on finance receivables | 16,089 | 34,909 |
| Charge offs | (49,487) | (48,708) |
| Recoveries | 8,003 | 8,494 |
| Balance at end of period | \$ 52,641 | \$ 94,833 |

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 adjustment for losses in repossessed inventory that is not included in the allowance for credit losses. This adjustment results in the repossessed inventory being valued at the estimated fair value less selling costs.

| | March 31, 2009 | December 31, 2008 |
|--|-------------------|----------------------|
| | (In thousands) | |
| Gross balance of repossessions in inventory | \$ 43,993 | \$ 47,452 |
| Adjustment for losses on repossessed inventory | (31,107) | (32,690) |
| Net repossessed inventory included in other assets | \$ 12,886 | \$ 14,762 |

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

(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 March 31, 2009 | Initial Principal | Outstanding Principal at March 31, 2009 | Outstanding Principal at December 31, 2008 | Weighted Average Contractual Interest Rate at |
|------------------------|----------------------------------|---------------------------------------|-------------------|---|--|---|
| | | | | | | March 31, 2009 |
| (Dollars in thousands) | | | | | | |
| CPS 2003-C | March 2010 | \$ - | \$ 87,500 | \$ - | \$ 1,023 | - |
| CPS 2003-D | October 2010 | 916 | 75,000 | 986 | 1,704 | 3.91% |
| CPS 2004-A | October 2010 | 1,768 | 82,094 | 2,059 | 3,277 | 4.32% |
| CPS 2004-B | February 2011 | 4,112 | 96,369 | 4,444 | 6,192 | 4.17% |
| CPS 2004-C | April 2011 | 5,959 | 100,000 | 6,332 | 8,223 | 4.24% |
| CPS 2004-D | December 2011 | 9,593 | 120,000 | 9,846 | 12,395 | 4.44% |
| CPS 2005-A | October 2011 | 14,962 | 137,500 | 14,444 | 17,586 | 5.30% |
| CPS 2005-B | February 2012 | 19,517 | 130,625 | 18,681 | 21,991 | 4.67% |
| CPS 2005-C | March 2012 | 34,722 | 183,300 | 33,686 | 39,478 | 5.13% |
| CPS 2005-TFC | July 2012 | 10,194 | 72,525 | 10,215 | 12,333 | 5.76% |
| CPS 2005-D | July 2012 | 31,498 | 145,000 | 31,619 | 36,548 | 5.71% |
| CPS 2006-A | November 2012 | 64,396 | 245,000 | 64,270 | 73,257 | 5.33% |
| CPS 2006-B | January 2013 | 81,643 | 257,500 | 82,123 | 92,106 | 6.38% |
| CPS 2006-C | June 2013 | 90,677 | 247,500 | 91,535 | 101,716 | 5.66% |
| CPS 2006-D | August 2013 | 95,964 | 220,000 | 95,896 | 105,687 | 5.59% |
| CPS 2007-A | November 2013 | 147,190 | 290,000 | 145,378 | 160,122 | 5.54% |
| | | 44,819 | 113,293 | 45,264 | 51,115 | 5.81% |

| | | | | | | |
|-----------------|--------------------|--------------|--------------|--------------|--------------|-------|
| CPS 2007-TFC | December 2013 | | | | | |
| CPS 2007-B | January 2014 | 181,083 | 314,999 | 179,458 | 195,800 | 6.03% |
| CPS 2007-C | May 2014 | 210,680 | 327,499 | 209,779 | 228,478 | 6.10% |
| CPS 2008-A | October 1, 2014 | 233,573 | 310,359 | 219,338 | 235,180 | 6.88% |
| | | \$ 1,283,266 | \$ 3,556,063 | \$ 1,265,353 | \$ 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 \$476.4 million in 2009, \$435.9 million in 2010, \$242.0 million in 2011, \$94.7 million in 2012 and \$16.2 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 such subsidiaries, but not by our other assets. Principal of \$1.1 billion, 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.

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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 March 31, 2009, restricted cash under the various agreements totaled approximately \$151.7 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 lines 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 | |
|---------------------------------|--------------------|-----------|
| | March 31, | |
| | 2009 | 2008 |
| | (In thousands) | |
| Interest on Finance Receivables | \$ 60,535 | \$ 97,742 |
| Residual interest income | 314 | 197 |
| Other interest income | 330 | 1,423 |
| Net interest income | \$ 61,179 | \$ 99,362 |

(5) Earnings (Loss) Per Share

Earnings (loss) per share for the three-month periods ended March 31, 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 periods ended March 31, 2009 and 2008:

| | Three Months Ended | |
|--|--------------------|--------|
| | March 31, | |
| | 2009 | 2008 |
| | (In thousands) | |
| Weighted average number of common shares outstanding during the period used to compute basic earnings (loss) per share | 19,005 | 19,297 |

| | | |
|---|--------|--------|
| | | 676 |
| Incremental common shares attributable to exercise of outstanding options and warrants | - | 676 |
| Weighted average number of common shares used to compute diluted earnings (loss) per share | 19,005 | 19,973 |

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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 period ended March 31, 2009 would have included an additional 2.8 million shares attributable to the exercise of outstanding options and warrants.

(6) Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. We have been subject to the provisions of FIN 48 since January 1, 2007, and have analyzed our filing positions in all applicable taxing jurisdictions. As a result of adoption, we recognized a charge of approximately \$1.1 million to the January 1, 2007 retained earnings balance. As of the date of adoption and after the effect of recognizing the increase in liability noted above, our gross unrecognized tax benefits totaled \$11.6 million. Included in the balance at January 1, 2007, are \$1.3 million of unrecognized tax benefits, the disallowance of which would not affect the annual effective income tax rate.

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. In conjunction with the adoption of FIN 48 on January 1, 2007, we recognized approximately \$230,000 for interest and penalties, which is included as a component of the \$11.6 million gross unrecognized tax benefits noted above. During the three months ended March 31, 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, amounts accrued will be reduced 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 the settlement of audits and the expiration of statute of limitations prior to September 30, 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 future periods is not more than likely. Our net deferred tax asset of \$52.7 million as of March 31, 2009 is net of a valuation allowance of \$1.0 million.

(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

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its payment obligations to the plaintiffs and in June 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.

We have recorded a liability as of March 31, 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 periods ended March 31, 2009 and 2008.

| | Three Months Ended | |
|---|--------------------|-------|
| | March 31, | |
| | 2009 | 2008 |
| | (In thousands) | |
| Components of net periodic cost (benefit) | | |
| Service cost | \$ - | \$ - |
| Interest Cost | 237 | 237 |
| Expected return on assets | (175) | (305) |
| Amortization of transition (asset)/obligation | - | - |
| Amortization of net (gain) / loss | 169 | 41 |

| | | | | |
|-----------------------------|----|-----|----|------|
| Net periodic cost (benefit) | \$ | 231 | \$ | (27) |
|-----------------------------|----|-----|----|------|

We did not make any contributions to the Plan during the three-month period ended March 31, 2009 and we do not anticipate making any contributions for the remainder of 2009.

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(9) Comprehensive Income (Loss)

The components of comprehensive income (loss) are as follows:

| | Three Months Ended | |
|---------------------------------------|--------------------|----------|
| | March 31, | |
| | 2009 | 2008 |
| | (In thousands) | |
| Net income (loss) | \$ (509) | 2,114 |
| Minimum pension liability, net of tax | - | - |
| Comprehensive income (loss) | \$ (509) | \$ 2,114 |

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

Overview

We are a specialty finance company engaged in purchasing and servicing 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 March 31, 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 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 \$1,488.4 million at March 31, 2009 compared to \$2,092.1 million at March 31, 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 securitizations, are no longer offering such guarantees. As of March 31, 2009, we have no available warehouse credit facilities and 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.

Results of Operations

Comparison of Operating Results for the three-months ended March 31, 2009 with the three-months ended March 31, 2008

Revenues. During the three months ended March 31, 2009, revenues were \$66.0 million, a decrease of \$37.3 million, or 36.1%, from the prior year revenue of \$103.3 million. The primary reason for the decrease in revenues is a decrease in interest income. Interest income for the three months ended March 31, 2009 decreased \$38.2 million, or 38.4%, to \$61.2 million from \$99.4 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 \$1.0 million in the three months ended March 31, 2009 increased \$601,000, or 140.4%, from \$428,000 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 the SeaWest Third Party Portfolio, which has declined to an immaterial amount as of March 31, 2009. As of March 31, 2009 and 2008, our managed portfolio owned by consolidated vs. non-consolidated subsidiaries and other third parties was as follows:

| | March 31, 2009 | | March 31, 2008 | |
|--|------------------|--------|----------------|--------|
| | Amount | % | Amount | % |
| Total Managed Portfolio | (\$ in millions) | | | |
| Owned by Consolidated Subsidiaries | \$ 1,314.9 | 88.3% | \$ 2,091.9 | 100.0% |
| Owned by Non-Consolidated Subsidiaries | 173.4 | 11.7% | - | 0.0% |
| Third Party Portfolio | 0.1 | 0.0% | 0.2 | 0.0% |
| Total | \$ 1,488.4 | 100.0% | \$ 2,092.1 | 100.0% |

At March 31, 2009, we were generating income and fees on a managed portfolio with an outstanding principal balance of \$1,488.4 million (this amount includes \$173.4 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 \$2,092.1 million as of March 31, 2008. At March 31, 2009 and 2008, the managed portfolio composition was as follows:

| | March 31, 2009 | | March 31, 2008 | |
|-----------------------|------------------|--------|----------------|--------|
| | Amount | % | Amount | % |
| Originating Entity | (\$ in millions) | | | |
| CPS | \$ 1,450.3 | 97.4% | \$ 2,028.8 | 97.0% |
| TFC | 37.9 | 2.6% | 62.6 | 3.0% |
| MFN | - | 0.0% | - | 0.0% |
| SeaWest | 0.1 | 0.0% | 0.5 | 0.0% |
| Third Party Portfolio | 0.1 | 0.0% | 0.2 | 0.0% |
| Total | \$ 1,488.4 | 100.0% | \$ 2,092.1 | 100.0% |

Other income increased by \$331,000, or 9.4%, to \$3.8 million in the three months ended March 31, 2009 from \$3.5 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 provisions for credit losses, interest expense, employee costs and general and administrative expenses. Provisions 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 \$66.6 million for the three months ended March 31, 2009, compared to \$99.5 million for the prior year, a decrease of \$33.0 million, or 33.1%. The decrease is primarily due to the continued decline in the balance of our outstanding managed portfolio.

Employee costs decreased by \$4.2 million, or 31.3%, to \$9.3 million during the three months ended March 31, 2009, representing 13.9% of total operating expenses, from \$13.5 million for the prior year, or 13.5% of total operating expenses. Since January 2008, we have reduced staff through attrition and other means as a result of the uncertainty in capital markets and the related limited access to financing for new purchases of automobile contracts.

General and administrative expenses include costs associated with purchasing and servicing our portfolio of finance receivables including expenses for facilities, credit services, telecommunications and marketing. General and administrative expenses were \$6.6 million, a decrease of 10.0%, compared to the previous year and represented 9.9% of total operating expenses.

Interest expense for the three months ended March 31, 2009 decreased \$6.9 million, or 17.7%, to \$32.1 million, compared to \$39.0 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 \$3.4 million in the three months ended March 31, 2009 compared to the prior year. Interest expense on subordinated debt increased by \$1.4 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 warehouse debt decreased by \$4.8 million for the three months ended March 31, 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 such period we were actively purchasing new contracts and financing such purchases with these facilities that had, in the aggregate, an outstanding balance of \$368.0 million. As of March 31, 2009, our remaining warehouse facility has an outstanding balance of \$7.5 million and has been amended to provide for no further advances.

As stated above, we have issued \$25.0 million in new subordinated debt since June 2008. In addition, in July 2008 we amended our existing residual financing indebtedness 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.

Marketing expenses consist primarily of commission-based compensation paid to our employee marketing representatives who earn salary and commissions based on our volume of contract purchases and also based on sales of training programs, marketing leads, and direct mail products that we offer our dealers. Marketing expenses decreased by \$2.5 million, or 67.6%, to \$1.2 million, compared to \$3.6 million in the previous year, and represented 1.8% of total operating expenses. The decrease is primarily due to the decrease in automobile contracts we purchased during the three months ended March 31, 2009 as compared to the prior year. During the three months ended March 31, 2009, we purchased 83 automobile contracts aggregating \$1.1 million, compared to 11,093 automobile contracts

aggregating \$176.1 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 increased by \$149,000 or 14.9%, to \$1.1 million compared to \$996,000 in the previous year and represented 1.7% of total operating expenses.

Depreciation and amortization expenses increased \$9,000, or 6.5%, to \$148,000 from \$139,000 in the previous year.

For the three months ended March 31, 2009, we recorded no tax provision or benefit. As of March 31, 2009, our net deferred tax asset of \$52.7 million is net of a valuation allowance of \$1.0 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 (since the date of the MFN transaction), TFC (since the date of the TFC transaction) and SeaWest (since the date of the SeaWest transaction) 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, 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

| | March 31, 2009 | | March 31, 2008 | | December 31, 2008 | |
|--|---------------------|--------------|---------------------|--------------|---------------------|--------------|
| | Number of Contracts | Amount | Number of Contracts | Amount | Number of Contracts | Amount |
| (Dollars in thousands) | | | | | | |
| Delinquency Experience | | | | | | |
| Gross servicing portfolio (1) | 135,830 | \$ 1,489,024 | 168,346 | \$ 2,094,174 | 145,564 | \$ 1,665,036 |
| Period of delinquency (2) | | | | | | |
| 31-60 days | 2,296 | 23,946 | 2,588 | 29,045 | 3,733 | 39,798 |
| 61-90 days | 1,299 | 13,717 | 1,255 | 14,423 | 2,376 | 26,549 |
| 91+ days | 1,473 | 15,763 | 1,453 | 17,624 | 2,424 | 27,243 |
| Total delinquencies (2) | 5,068 | 53,426 | 5,296 | 61,092 | 8,533 | 93,590 |
| Amount in repossession (3) | 4,299 | 46,740 | 3,563 | 39,789 | 4,262 | 49,357 |
| Total delinquencies and amount in repossession (2) | 9,367 | \$ 100,166 | 8,859 | \$ 100,881 | 12,795 | \$ 142,947 |

| | | | | | | |
|---|------|-------|------|------|------|------|
| Delinquencies as a percentage of gross servicing portfolio | 3.7% | 3.6 % | 3.1% | 2.9% | 5.9% | 5.6% |
| Total delinquencies and amount in repossession as a percentage of gross servicing portfolio | 6.9% | 6.7 % | 5.3% | 4.8% | 8.8% | 8.6% |

(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 SeaWest Third Party Portfolio.

(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

| | March 31 2009 | March 31 2008 | December 31, 2008 |
|---|------------------------|------------------|----------------------|
| | (Dollars in thousands) | | |
| Average servicing portfolio outstanding | \$ 1,548,392 | \$ 2,112,414 | \$ 1,934,003 |
| Annualized net charge-offs as a percentage of average servicing portfolio (2) | 11.6% | 6.7% | 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. March 31, 2009 and March 31, 2008 percentage represents three months ended March 31, 2009 and March 31, 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 account), 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 three-month period ended March 31, 2009 was \$27.5 million compared to net cash provided by operating activities for the three-month period ended March 31, 2008 of \$37.3 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 three-month period ended March 31, 2009 was \$119.4 million compared to net cash used in investing activities of \$1.1 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 three months ended March 31, 2009 was \$148.2 million compared to net cash used by financing activities of \$38.6 million in the prior year period. Cash used by financing activities is generally related to the repayment of securitization trust debt. We repaid \$142.3 million in securitization trust debt in the three months ended March 31, 2009 compared to \$189.3 million in the prior year period.

We purchase automobile contracts from dealers for a cash price approximating their principal amount, adjusted for an acquisition fee which may either increase or decrease the automobile contract purchase price. 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.

The first of two warehouse facilities 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 is 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 29, 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 March 31, 2009, \$7.5 million was outstanding under this facility.

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 first quarter of 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 are met, of the Class A-2 note maturity from June 2009 to June 2010. In conjunction with the 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 March 31, 2009 the aggregate indebtedness under this facility was \$65.3 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 1,564,324 shares of our common stock, at an exercise price of \$2.4672 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 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 March 31, 2009, we had unrestricted cash of \$20.8 million, no available capacity under any warehouse financing facilities 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 future warehouse financing 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

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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 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

We recognize compensation costs in the financial statements for all share-based payments granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment, revised 2004" ("SFAS 123R").

In December 2005, the Compensation Committee of the Board of Directors approved accelerated vesting of all the outstanding stock options issued by us. Options to purchase 2,113,998 shares of our common stock, which would otherwise have vested from time to time through 2010, became immediately exercisable as a result of the acceleration of vesting. The decision to accelerate the vesting of the options was made primarily to reduce non-cash compensation expenses that would have been recorded in our income statement in future period upon the adoption of Financial Accounting Standards Board Statement No. 123(R) in January 2006.

For the three months ended March 31, 2009 and 2008, we recorded \$302,000 and \$342,000, respectively, in stock-based compensation costs, resulting from grants of options during the period and vesting of previously granted options. As of March 31, 2009, there were \$3.9 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

We are subject to interest rate risk during the period between when automobile contracts are purchased from dealers and when such automobile contracts 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.

There have been no material changes in market risks since December 31, 2008.

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 change 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, to such an extent

that we do not consider that market to be available to us at present. 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 subordinated 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 March 31, 2009 and December 31, 2008, we had approximately \$1,383.0 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, and \$20.1 million owed under a subordinated notes program. At March 31, 2009, such debt consisted primarily of \$1,265.4 million of securitization trust debt, and also included \$7.5 million of warehouse indebtedness, \$65.3 million of residual interest financing, \$20.4 million of senior secured debt, and \$24.5 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 ten 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 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, or in some cases, by demanding 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.
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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 March 31, 2009, we purchased a total of 244,678 shares of our common stock, as described in the following table:

Issuer Purchases of Equity Securities

| Period(1) | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs |
|--------------|---|------------------------------------|--|--|
| January 2009 | 62,365 | \$ 0.59 | 62,365 | \$ 2,247,971 |

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| | | | | |
|---------------|------------|------|---------|-----------|
| February 2009 | 80,241 | 0.51 | 80,241 | 2,207,413 |
| March 2009 | 102,072 | 0.46 | 102,072 | 2,160,787 |
| Total | 244,678 \$ | 0.51 | 244,678 | |

(1) Each monthly period is the calendar month.

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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.
- 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: May 15, 2009

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

Charles E. Bradley, Jr.

President and Chief Executive Officer

(Principal Executive Officer)

Date: May 15, 2009

By: /s/ JEFFREY P. FRITZ

Jeffrey P. Fritz

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

