

CONSUMER PORTFOLIO SERVICES INC
Form 10-K
March 06, 2012

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

FORM 10-K

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011
Commission file number: 001-14116

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

California 33-0459135
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)
organization)

19500 Jamboree Road, Irvine, California 92618
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (949) 753-6800

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|----------------------------|---|
| Common Stock, no par value | The Nasdaq Stock Market LLC (Global Market) |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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 the definitions of "large accelerated filer", "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

The aggregate market value of the 15,881,580 shares of the registrant's common stock held by non-affiliates as of the date of filing of this report, based upon the closing price of the registrant's common stock of \$1.18 per share reported by Nasdaq as of June 30, 2011, was approximately \$18,740,264. For purposes of this computation, a registrant sponsored pension plan and all directors and executive officers are deemed to be affiliates. Such determination is not an admission that such plan, directors and executive officers are, in fact, affiliates of the registrant. The number of shares of the registrant's Common Stock outstanding on February 28, 2012 was 19,380,097.

DOCUMENTS INCORPORATED BY REFERENCE

The proxy statement for registrant's 2012 annual shareholders meeting is incorporated by reference into Part III hereof.

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PART I

Item 1. Business

Overview

We are a specialty finance company. Our business is to purchase and service retail automobile contracts originated primarily by franchised automobile dealers and, to a lesser extent, by select independent dealers in the United States in the sale of new and used automobiles, light trucks and passenger vans. Through our automobile contract purchases, we provide indirect financing to the customers of dealers who have limited credit histories, low incomes or past credit problems, who we refer to as sub-prime customers. We serve as an alternative source of financing for dealers, facilitating sales to customers who otherwise might not be able to obtain financing from traditional sources, such as commercial banks, credit unions and the captive finance companies affiliated with major automobile manufacturers. In addition to purchasing installment purchase contracts directly from dealers, we have also (i) acquired installment purchase contracts in four merger and acquisition transactions, (ii) purchased immaterial amounts of vehicle purchase money loans from non-affiliated lenders, and (iii) directly originated 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 December 31, 2011, we have purchased a total of approximately \$9.1 billion of automobile contracts from dealers. In addition, we obtained a total of approximately \$822.3 million of automobile contracts in mergers and acquisitions in 2002, 2003, 2004 and, most recently in September 2011. The September 2011 acquisition consisted of approximately \$217.8 million of finance receivables that we purchased from Fireside Bank of Pleasanton, California. In 2004 and 2009, we were appointed as a third-party servicer for certain portfolios of automobile receivables originated and owned by entities not affiliated with us. From 2008 through 2010, our managed portfolio decreased each year due to our strategy of limiting contract purchases to conserve our liquidity in response to adverse economic conditions, as discussed further below. However, since October 2009, we have gradually increased contract purchases resulting in aggregate purchases of \$284.2 million in 2011, compared to \$113.0 million in 2010, and \$8.6 million in 2009. Our total managed portfolio was \$794.6 million at December 31, 2011, compared to \$756.2 million at December 31, 2010, \$1,194.7 million at December 31, 2009, \$1,664.1 million at December 31, 2008 and \$2,162.2 million at December 31, 2007.

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 direct our marketing efforts primarily to dealers, rather than to consumers. We establish relationships with dealers through our employee marketing representatives who contact a prospective dealer to explain our automobile contract purchase programs, and thereafter provide dealer training and support services. Our marketing representatives represent us exclusively. They may be located either in our Irvine headquarters, or in the field, in which case they work from their homes and support dealers in their geographic area. Our marketing representatives present dealers with a marketing package, which includes our promotional material containing the terms offered by us for the purchase of automobile contracts, a copy of our standard-form dealer agreement, and required documentation relating to automobile contracts. As of December 31, 2011, we had 50 marketing representatives and we were actively receiving applications from 8,969 dealers in 44 states. Current levels of marketing representatives and dealers are a significant reduction from December 31, 2007, when we had 134 marketing representatives and were actively receiving applications from 10,255 dealers. From 2008 through approximately September 2009, we significantly reduced our presence in the marketplace in response to economic conditions as discussed further below. As of

December 31, 2011, approximately 84% of our dealers were franchised new car dealers that sell both new and used vehicles, and the remainder were independent used car dealers. For the year ended December 31, 2011, approximately 89% of the automobile contracts purchased under our programs consisted of financing for used cars and 11% consisted of financing for new cars, as compared to 87% financing for used cars and 13% for new cars in the year ended December 31, 2010. We purchase contracts in our own name ("CPS") and, until July 2008, also purchased contracts in the name of our wholly-owned subsidiary, The Finance Company ("TFC"). Programs marketed under the CPS name 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 ceased to purchase contracts 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.

We depend upon the availability of short-term 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 53 term securitizations of approximately \$7.1 billion in contracts. We conducted four term securitizations in 2006, four in 2007, two in 2008, none in 2009, one in 2010 and three in 2011. 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. The remaining receivables from that September 2008 securitization were re-securitized in September 2010 in a structure that maintained sale treatment for accounting purposes. During 2011, we completed three securitizations of approximately \$335.6 million in newly originated contracts. These securitizations were all structured as secured financings and represented our first securitizations of new contracts since 2008.

From the fourth quarter of 2007 through the end of 2009, we observed unprecedented adverse changes in the market for securitized pools of automobile contracts. These changes included 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, suspended offering such guarantees. The adverse changes that took place in the market from the fourth quarter of 2007 through the end of 2009 caused us to conserve liquidity by significantly reducing our purchases of automobile contracts. However, since October 2009 we have gradually increased our contract purchases by utilizing one \$50 million credit facility established in September 2009 and another \$50 million term funding facility established in March 2010. In September 2010 we took advantage of the improvement in the market for asset-backed securities by re-securitizing the remaining underlying receivables from our unrated September 2008 securitization. By doing so we were able to pay off the bonds associated with the September 2008 transaction and issue rated bonds with a significantly lower weighted average coupon. The September 2010 transaction was our first rated term securitization since 1993 that did not utilize a financial guaranty. Similarly, the three securitizations we completed in 2011 were also structured without financial guarantees. We significantly increased our short-term contract financing resources by entering into a \$100 million credit facility in December 2010 and another \$100 million credit facility in February 2011. Despite the improvements we have seen in the capital markets, if the trend of improvement in the markets for asset-backed securities should reverse, or should we be unable to complete term securitization(s) of automobile contracts that we now hold or those we will seek to purchase in the future, we might be required to curtail or cease our purchases of new automobile contracts, which in turn could have a material adverse effect on our operations.

Sub-Prime Auto Finance Industry

Automobile financing is the second largest consumer finance market in the United States. The automobile finance industry can be divided into two principal segments: a prime credit market and a sub-prime credit market. Traditional automobile finance companies, such as commercial banks, savings institutions, credit unions and captive finance companies of automobile manufacturers, generally lend to the most creditworthy, or so-called prime, borrowers. The sub-prime automobile credit market, in which we operate, provides financing to less creditworthy borrowers, at higher interest rates.

Historically, traditional lenders have not served the sub-prime market or have done so through programs that were not consistently available. Independent companies specializing in sub-prime automobile financing and subsidiaries of larger financial services companies currently compete in this segment of the automobile finance market, which we believe remains highly fragmented, with no single company having a dominant position in the market.

Recent past economic conditions have negatively affected many aspects of our industry. First, as stated above, throughout 2008 and 2009 there was 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 were 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 withdrew from the industry, or in some cases, ceased to do business. Finally, broad economic weakness and high levels of unemployment during 2008, 2009 and 2010 made many of the obligors under our receivables less willing or able to pay, resulting in higher delinquencies, charge-offs and losses. Each of these factors has adversely affected our results of operations. However, as stated above, since October 2009, improvements in the capital markets have allowed us to enter into a total of \$300 million in new financing commitments, and to regularly access long term financing as evidenced by the four rated term securitization we have completed since September 2010. Nevertheless, 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.

Our Operations

Our automobile financing programs are designed to serve sub-prime customers, who generally have limited credit histories, low incomes or past credit problems. Because we serve customers who are unable to meet certain credit standards, we incur greater risks, and generally receive interest rates higher than those charged in the prime credit market. We also sustain a higher level of credit losses because of the higher risk customers we serve.

Originations

When a retail automobile buyer elects to obtain financing from a dealer, the dealer takes a credit application to submit to its financing sources. Typically, a dealer will submit the buyer's application to more than one financing source for review. We believe the dealer's decision to choose a financing source is based primarily on: (i) the monthly payment made available to the dealer's customer; (ii) the purchase price offered to the dealer for the contract; (iii) the timeliness, consistency and predictability of response; (iv) funding turnaround time; (v) any conditions to purchase; and (vi) the financial stability of the financing source. Dealers can send credit applications to us by entering the necessary data on our website or through one of several third-party application aggregators. For the year ended December 31, 2011, we received approximately 84% of all applications through DealerTrack (the industry leading dealership application aggregator), 2% via our website and 14% via other aggregators. Our automated application decisioning system produced our response within minutes to about 94% of those applications.

Upon receipt of information from a dealer, we immediately order a credit report to document the buyer's credit history. If, upon review by our proprietary automated decisioning system, or in some cases, one of our credit analysts, we determine that the automobile contract meets our underwriting criteria, or would meet such criteria with modification, we request and review further information and, ultimately, decide whether to approve the automobile contract for purchase.

Dealers with which we do business are under no obligation to submit any automobile contracts to us, nor are we obligated to purchase any automobile contracts from them. During the year ended December 31, 2011, no dealer accounted for more than 1.3% of the total number of automobile contracts we purchased. The following table sets forth the geographical sources of the automobile contracts purchased by us (based on the addresses of the customers as stated on our records) during the years ended December 31, 2011 and 2010. See "Management's Discussion and Analysis."

| | Contracts Purchased During the Year Ended | | | |
|--------------|---|-------------|-------------------|-------------|
| | December 31, 2011 | | December 31, 2010 | |
| | Number | Percent (1) | Number | Percent (1) |
| California | 2,594 | 14.3 % | 1,199 | 15.9 % |
| Texas | 1,838 | 10.1 % | 646 | 8.6 % |
| Pennsylvania | 1,449 | 8.0 % | 565 | 7.5 % |
| Georgia | 980 | 5.4 % | 389 | 5.2 % |
| Other States | 11,249 | 62.1 % | 4,734 | 62.8 % |
| Total | 18,110 | 100.0 % | 7,533 | 100.0 % |

(1) Percentages may not total to 100.0% due to rounding.

The following table sets forth the geographic concentrations of our outstanding managed portfolio as of December 31, 2011 and 2010.

| State based on obligor's residence | December 31, 2011 | | December 31, 2010 | |
|------------------------------------|-------------------|-------------|-------------------|-------------|
| | Amount | Percent (1) | Amount | Percent (1) |
| | (\$ in millions) | | | |
| California | \$ 197.7 | 24.9 % | \$ 100.2 | 13.3 % |
| Texas | 64.6 | 8.1 % | 76.2 | 10.1 % |
| Pennsylvania | 38.4 | 4.8 % | 42.8 | 5.7 % |
| Florida | 38.1 | 4.8 % | 54.8 | 7.2 % |
| Ohio | 31.9 | 4.0 % | 39.6 | 5.2 % |
| All others | 423.9 | 53.3 % | 442.6 | 58.5 % |
| | | | | 0.0 % |
| Total | \$ 794.6 | 100.0 % | \$ 756.2 | 100.0 % |

(1) Percentages may not total to 100.0% due to rounding.

We purchase automobile contracts from dealers at a price generally computed as the total amount financed under the automobile contracts, adjusted for an acquisition fee, which may either increase or decrease the automobile contract purchase price paid by us. The amount of the acquisition fee, and whether it results in an increase or decrease to the automobile contract purchase price, is based on the perceived credit risk of and, in some cases, the interest rate on the automobile contract. For the years ended December 31, 2011, 2010, 2009 and 2008, the average acquisition fee charged per automobile contract purchased under our CPS programs was \$1,155, \$1,382, \$1,508 and \$592, respectively, or 7.4%, 9.2%, 11.7% and 3.9%, respectively, of the amount financed. We believe that the significant increase in acquisition fees since 2008 is a result of less competition in the marketplace for the types of sub-prime contracts that we typically purchase.

We offer seven different financing programs to our dealership customers, and price each program according to the relative credit risk. Our programs cover a wide band of the credit spectrum and are labeled as follows:

First Time Buyer – This program accommodates an applicant who has limited significant past credit history, such as a previous auto loan. Since the applicant has limited credit history, the contract interest rate and dealer acquisition fees tend to be higher, and the loan amount, loan-to-value ratio, down payment and payment-to-income ratio requirements tend to be more restrictive compared to our other programs.

Mercury / Delta – This program accommodates an applicant who may have had significant past non-performing credit including recent derogatory credit. As a result, the contract interest rate and dealer acquisition fees tend to be higher, and the loan amount, loan-to-value ratio, down payment, payment-to-income ratio and income requirements tend to be more restrictive compared to our other programs.

Standard – This program accommodates an applicant who may have significant past non-performing credit, but who has also exhibited some performing credit in their history. The contract interest rate and dealer acquisition fees are comparable to the First Time Buyer and Mercury/Delta programs, but the loan amount, loan-to-value ratio, down payment, payment-to-income ratio and income requirements are somewhat less restrictive.

Alpha – This program accommodates applicants who may have a discharged bankruptcy, but who have also exhibited performing credit. In addition, the program allows for homeowners who may have had other significant non-performing credit in the past. The contract interest rate and dealer acquisition fees are lower than the Standard program, and the loan-to-value ratio, down payment, payment-to-income ratio and income requirements are somewhat less restrictive.

Alpha Plus – This program accommodates applicants with past non-performing credit, but with a stronger history of recent performing credit, including auto related credit, and higher incomes than the Alpha program. Contract interest rates and dealer acquisition fees are lower than the Alpha program.

Super Alpha – This program accommodates applicants with past non-performing credit, but with a somewhat stronger history of recent performing credit, including auto related credit, and higher incomes than the Alpha Plus program. Contract interest rates and dealer acquisition fees are lower, and the maximum loan amount is somewhat higher, than the Alpha Plus program.

Preferred - This program accommodates applicants with past non-performing credit, but who meet a certain minimum FICO score threshold. Other requirements include a somewhat stronger history of recent performing credit than the Super Alpha program. Contract interest rates and dealer acquisition fees are lower than the Super Alpha program.

Our upper credit tier products, which are our Preferred, Super Alpha, Alpha Plus and Alpha programs, accounted for approximately 77% of our new contract originations in 2011, 77% in 2010 and 76% in 2009, measured by aggregate amount financed.

The following table identifies the credit program, sorted from highest to lowest credit quality, under which we purchased automobile contracts during the years ended December 31, 2011, 2010 and 2009.

| | Contracts Purchased During the Year Ended (1) | | | | | |
|------------------|---|-------------|-------------------|-------------|-------------------|-------------|
| | December 31, 2011 | | December 31, 2010 | | December 31, 2009 | |
| | Amount Financed | Percent (1) | Amount Financed | Percent (1) | Amount Financed | Percent (1) |
| Preferred | \$ 9,979 | 3.5 % | \$ 3,208 | 2.8 % | \$ 204 | 2.4 % |
| Super Alpha | 52,610 | 18.5 % | 15,018 | 13.3 % | 1,158 | 13.5 % |
| Alpha Plus | 40,944 | 14.4 % | 17,824 | 15.8 % | 1,527 | 17.8 % |
| Alpha | 114,322 | 40.2 % | 47,341 | 41.9 % | 3,738 | 43.5 % |
| Standard | 34,508 | 12.1 % | 13,726 | 12.1 % | 830 | 9.7 % |
| Mercury / Delta | 15,578 | 5.5 % | 8,244 | 7.3 % | 560 | 6.5 % |
| First Time Buyer | 16,295 | 5.7 % | 7,662 | 6.8 % | 582 | 6.8 % |
| | \$ 284,236 | 100.0 % | \$ 113,023 | 100.0 % | \$ 8,599 | 100.0 % |

(1) Percentages may not total to 100.0% due to rounding.

We attempt to control misrepresentation regarding the customer's credit worthiness by carefully screening the automobile contracts we purchase, by establishing and maintaining professional business relationships with dealers, and by including certain representations and warranties by the dealer in the dealer agreement. Pursuant to the dealer agreement, we may require the dealer to repurchase any automobile contract in the event that the dealer breaches its representations or warranties. There can be no assurance, however, that any dealer will have the willingness or the financial resources to satisfy its repurchase obligations to us.

In addition to our purchases of installment contracts from dealers, we purchased from 2006 through 2008 an immaterial number of vehicle purchase money loans, evidenced by promissory notes and security agreements. A non-affiliated lender originated all such loans directly to vehicle purchasers, and sold the loans to us. We began financing vehicle purchases by lending money directly to consumers in January 2008, on terms similar to those that we offered through dealers, though without a down payment requirement and with more restrictive loan-to-value and credit score requirements. In October 2008 we suspended purchases of loans from other lenders and direct lending to consumers. There can be no assurance as to whether or not we will recommence these programs, the extent to which we may make such loans, or as to their future performance.

Underwriting

To be eligible for purchase by us, an automobile contract must have been originated by a dealer that has entered into a dealer agreement to sell automobile contracts to us. The automobile contract must be secured by a first priority lien on a new or used automobile, light truck or passenger van and must meet our underwriting criteria. In addition, each automobile contract requires the customer to maintain physical damage insurance covering the financed vehicle and naming us as a loss payee. We may, nonetheless, suffer a loss upon theft or physical damage of any financed vehicle if the customer fails to maintain insurance as required by the automobile contract and is unable to pay for repairs to or

replacement of the vehicle or is otherwise unable to fulfill his or her obligations under the automobile contract.

We believe that our underwriting criteria enable us to evaluate effectively the creditworthiness of sub-prime customers and the adequacy of the financed vehicle as security for an automobile contract. The underwriting criteria include standards for price, term, amount of down payment, installment payment and interest rate; mileage, age and type of vehicle; principal amount of the automobile contract in relation to the value of the vehicle; customer income level, employment and residence stability, credit history and debt service ability, as well as other factors. Specifically, the underwriting guidelines for our CPS programs generally limit the maximum principal amount of a purchased automobile contract to 115% of wholesale book value in the case of used vehicles or to 115% of the manufacturer's invoice in the case of new vehicles, plus, in each case, sales tax, licensing and, when the customer purchases such additional items, a service contract or a credit life or disability policy. We generally do not finance vehicles that are more than 11 model years old or have in excess of 120,000 miles. Under most of our programs, the maximum term of a purchased contract is 72 months; a shorter maximum term may be applicable based on the program, mileage and age of the vehicle. Automobile contracts with the maximum term of up to 72 months may be purchased if the customer is among the more creditworthy of our obligors and the vehicle generally has less than 50,000 miles. Automobile contract purchase criteria are subject to change from time to time as circumstances may warrant. In 2008 we made our contract purchase criteria more restrictive as part of our strategy to decrease new contract purchases in order to conserve liquidity. Prior to purchasing an automobile contract, our underwriters verify the customer's employment, income, residency, and credit information by contacting various parties noted on the customer's application, credit information bureaus and other sources. In addition, we contact each customer by telephone to confirm that the customer understands and agrees to the terms of the related automobile contract. During this "welcome call," we also ask the customer a series of open ended questions about his application and the contract, which may uncover potential misrepresentations.

Credit Scoring. We use proprietary scoring models to assign each automobile contract several "credit scores" at the time the application is received from the dealer and the customer's credit information is retrieved from the credit reporting agencies. These proprietary scores are used to help determine whether or not we want to approve the application and, if so, the program and pricing we will offer to the dealer. The credit scores are based on a variety of parameters including the customer's credit history, employment and residence stability, income, and the specific dealer. Once a vehicle is selected by the customer and a proposed deal structure is provided to us by the dealer, our scores will then consider the loan-to-value ratio, payment-to-income ratio, down payment amount, sales price and the make of the vehicle. We have developed the credit scores utilizing statistical risk management techniques and historical performance data from our managed portfolio. We believe this improves our allocation of credit evaluation resources, enhances our competitiveness in the marketplace and manages the risk inherent in the sub-prime market.

Characteristics of Contracts. All of the automobile contracts purchased by us are fully amortizing and provide for level payments over the term of the automobile contract. All automobile contracts may be prepaid at any time without penalty. The average original principal amount financed, under the CPS programs and in the year ended December 31, 2011, was \$15,695, with an average original term of 61 months and an average down payment amount of 13.4%. Based on information contained in customer applications for this 12-month period, the retail purchase price of the related automobiles averaged \$16,078 (which excludes tax, license fees and any additional costs such as a maintenance contract) and the average age of the vehicle at the time the automobile contract was purchased was four years. The average age of our customers is approximately 42, with approximately \$55,000 in average annual household income and an average of six years tenure with his or her current employer.

Dealer Compliance. The dealer agreement and related assignment contain representations and warranties by the dealer that an application for state registration of each financed vehicle, naming us as secured party with respect to the vehicle, was effected by the time of sale of the related automobile contract to us, and that all necessary steps have been taken to obtain a perfected first priority security interest in each financed vehicle in favor of us under the laws of the state in which the financed vehicle is registered. To the extent that we do not receive such state registration within three months of purchasing the automobile contract, our dealer compliance group will work with the dealer in an attempt to rectify the situation. If these efforts are unsuccessful, we generally will require the dealer to repurchase the automobile contract.

Servicing and Collection

We currently service all automobile contracts that we own as well as those automobile contracts that are included in portfolios that we have sold in securitizations or service for third parties. We organize our servicing activities based on the tasks performed by our personnel. Our servicing activities consist of mailing monthly billing statements; collecting, accounting for and posting of all payments received; responding to customer inquiries; taking all necessary action to maintain the security interest granted in the financed vehicle or other collateral; investigating delinquencies; communicating with the customer to obtain timely payments; repossessing and liquidating the collateral when necessary; collecting deficiency balances; and generally monitoring each automobile contract and the related collateral. We are typically entitled to receive a base monthly servicing fee equal to 2.5% per annum computed as a percentage of the declining outstanding principal balance of the non-charged-off automobile contracts in the securitization pools. The servicing fee is included in interest income for those securitization transactions that are treated as financings.

Collection Procedures. We believe that our ability to monitor performance and collect payments owed from sub-prime customers is primarily a function of our collection approach and support systems. We believe that if payment problems are identified early and our collection staff works closely with customers to address these problems, it is possible to correct many problems before they deteriorate further. To this end, we utilize pro-active

collection procedures, which include making early and frequent contact with delinquent customers; educating customers as to the importance of maintaining good credit; and employing a consultative and customer service approach to assist the customer in meeting his or her obligations, which includes attempting to identify the underlying causes of delinquency and cure them whenever possible. In support of our collection activities, we maintain a computerized collection system specifically designed to service automobile contracts with sub-prime customers and similar consumer obligations.

We attempt to make telephonic contact with delinquent customers from one to 29 days after their monthly payment due date, depending on our proprietary behavioral scorecards which assess the customer's likelihood of payment during early stages of delinquency. Our contact priorities may be based on the customers' physical location, stage of delinquency, size of balance or other parameters. Our collectors inquire of the customer the reason for the delinquency and when we can expect to receive the payment. The collector will attempt to get the customer to make an electronic payment over the phone or a promise for the payment for a time generally not to exceed one week from the date of the call. If the customer makes such a promise, the account is routed to a promise queue and is not contacted until the outcome of the promise is known. If the payment is made by the promise date and the account is no longer delinquent, the account is routed out of the collection system. If the payment is not made, or if the payment is made, but the account remains delinquent, the account is returned to the queue for subsequent contacts.

If a customer fails to make or keep promises for payments, or if the customer is uncooperative or attempts to evade contact or hide the vehicle, a supervisor will review the collection activity relating to the account to determine if repossession of the vehicle is warranted. Generally, such a decision will occur between the 45th and 90th day past the customer's payment due date, but could occur sooner or later, depending on the specific circumstances. At the time the vehicle is repossessed we will stop accruing interest on this automobile contract, and reclassify the remaining automobile contract balance to other assets. In addition we will apply a specific reserve to this automobile contract so that the net balance represents the estimated fair value less costs to sell.

If we elect to repossess the vehicle, we assign the task to an independent local repossession service. Such services are licensed and/or bonded as required by law. When the vehicle is recovered, the reposessor delivers it to a wholesale automobile auction, where it is kept until sold. Financed vehicles that have been repossessed are generally resold by us through unaffiliated automobile auctions, which are attended principally by car dealers. Net liquidation proceeds are applied to the customer's outstanding obligation under the automobile contract. Such proceeds usually are insufficient to pay the customer's obligation in full, resulting in a deficiency. In most cases we will continue to contact our customers to recover all or a portion of this deficiency for up to several years after charge-off.

Once an automobile contract becomes greater than 90 days delinquent, we do not recognize additional interest income until the borrower under the automobile contract makes sufficient payments to be less than 90 days delinquent. Any payments received by a borrower that are greater than 90 days delinquent are first applied to accrued interest and then to principal reduction.

We generally charge off the balance of any contract by the earlier of the end of the month in which the automobile contract becomes five scheduled installments past due or, in the case of repossessions, the month that the proceeds from the liquidation of the financed vehicle are received by us or if the vehicle has been in repossession inventory for more than three months. In the case of repossession, the amount of the charge-off is the difference between the outstanding principal balance of the defaulted automobile contract and the net repossession sale proceeds.

Credit Experience

Our financial results are dependent on the performance of the automobile contracts in which we retain an ownership interest. Broad economic factors such as recession and significant changes in unemployment levels influence the credit performance of our portfolio, as does the weighted average age of the receivables at any given time. Our internal credit performance data consistently show that new receivables have lower levels of delinquency and losses early in their lives, with delinquencies increasing throughout their lives and losses gradually increasing to a peak between 36 and 42 months, after which they gradually decrease. The weighted average seasoning of our total owned portfolio excluding Fireside, represented in the tables below, was 27 months, 37 months and 33 months as of December 31, 2011, December 31, 2010, and December 31, 2009, respectively. Our primary method of monitoring

ongoing credit quality of our portfolio is to closely review monthly delinquency, default and net charge off activity and the related trends. The tables below document the delinquency, repossession and net credit loss experience of all such automobile contracts that we were servicing as of the respective dates shown. The tables do not include the experience of third party servicing portfolios.

7

Delinquency, Repossession and Extension Experience

Delinquency and Extension Experience (1)
Total Owned Portfolio Excluding Fireside

| | December 31, 2011 | | December 31, 2010 | | December 31, 2009 | |
|--|---------------------------|-----------|---------------------------|-----------|---------------------------|-------------|
| | Number of Contracts | Amount | Number of Contracts | Amount | Number of Contracts | Amount |
| Delinquency Experience (Dollars in thousands) | | | | | | |
| Gross servicing portfolio (1) | 69,765 | \$588,993 | 84,601 | \$681,157 | 111,105 | \$1,057,348 |
| Period of delinquency (2) | | | | | | |
| 31-60 days | 2,051 | 10,709 | 2,856 | 19,168 | 2,787 | 24,628 |
| 61-90 days | 1,038 | 6,572 | 1,537 | 10,872 | 1,824 | 16,840 |
| 91+ days | 1,601 | 8,909 | 1,233 | 9,067 | 1,205 | 10,358 |
| Total delinquencies (2) | 4,690 | 26,190 | 5,626 | 39,107 | 5,816 | 51,826 |
| Amount in repossession (3) | 2,218 | 10,097 | 3,263 | 23,290 | 4,305 | 40,815 |
| Total delinquencies and amount in repossession (2) | 6,908 | \$36,287 | 8,889 | \$62,397 | 10,121 | \$92,641 |
| Delinquencies as a percentage of gross servicing portfolio | | | | | | |
| | 6.7 | % 4.4 | % 6.7 | % 5.7 | % 5.2 | % 4.9 |
| Total delinquencies and amount in repossession as a percentage of gross servicing portfolio | | | | | | |
| | 9.9 | % 6.2 | % 10.5 | % 9.2 | % 9.1 | % 8.8 |
| Extension Experience | | | | | | |
| Contracts with one extension, accruing (4) | 12,183 | \$75,155 | 16,151 | \$124,066 | 24,193 | \$244,179 |
| Contracts with two or more extensions, accruing (4) | 10,515 | 67,987 | 11,307 | 91,310 | 11,138 | 109,328 |
| | 22,698 | 143,142 | 27,458 | 215,376 | 35,331 | 353,507 |
| Contracts with one extension, non-accrual (4) | 1,211 | 5,918 | 1,598 | 11,138 | 2,335 | 21,902 |
| Contracts with two or more extensions, non-accrual (4) | 2,054 | 10,737 | 1,919 | 14,327 | 1,746 | 17,525 |
| | 3,265 | 16,655 | 3,517 | 25,465 | 4,081 | 39,427 |
| Total accounts with extensions | 25,963 | \$159,797 | 30,975 | \$240,841 | 39,412 | \$392,934 |

Delinquency and Extension Experience (1)
 Fireside Portfolio

December 31, 2011

| | Number of Contracts | | Amount | |
|--|------------------------|---|--------|---------|
| | (Dollars in thousands) | | | |
| Delinquency Experience | | | | |
| Gross servicing portfolio (1) | 33,256 | | \$ | 172,248 |
| Period of delinquency (2) | | | | |
| 31-60 days | 1,088 | | | 4,872 |
| 61-90 days | 420 | | | 1,767 |
| 91+ days | 261 | | | 903 |
| Total delinquencies (2) | 1,769 | | | 7,542 |
| Amount in repossession (3) | 226 | | | 1,481 |
| Total delinquencies and amount in repossession (2) | 1,995 | | \$ | 9,023 |
| Delinquencies as a percentage of gross servicing portfolio | 5.3 | % | | 4.4 % |
| Total delinquencies and amount in repossession as a percentage of gross servicing portfolio | 6.0 | % | | 5.2 % |
| Extension Experience | | | | |
| Contracts with one extension, accruing (4) | 724 | | \$ | 4,462 |
| Contracts with two or more extensions, accruing (4) | 2 | | | 8 |
| | 726 | | | 4,470 |
| Contracts with one extension, non-accrual (4) | 3 | | | 25 |
| Contracts with two or more extensions, non-accrual (4) | 0 | | | 0 |
| | 3 | | | 25 |
| Total accounts with extensions | 729 | | \$ | 4,495 |

Delinquency and Extension Experience (1)
Total Owned Portfolio

| | December 31, 2011 | | December 31, 2010 | | December 31, 2009 | | | | | | | |
|--|---------------------------|-----------|---------------------------|-----------|---------------------------|-------------|-----|---|-----|---|-----|---|
| | Number of Contracts | Amount | Number of Contracts | Amount | Number of Contracts | Amount | | | | | | |
| Delinquency Experience (Dollars in thousands) | | | | | | | | | | | | |
| Gross servicing portfolio (1) | 103,021 | \$761,241 | 84,601 | \$681,157 | 111,105 | \$1,057,348 | | | | | | |
| Period of delinquency (2) | | | | | | | | | | | | |
| 31-60 days | 3,139 | 15,581 | 2,856 | 19,168 | 2,787 | 24,628 | | | | | | |
| 61-90 days | 1,458 | 8,338 | 1,537 | 10,872 | 1,824 | 16,840 | | | | | | |
| 91+ days | 1,862 | 9,811 | 1,233 | 9,067 | 1,205 | 10,358 | | | | | | |
| Total delinquencies (2) | 6,459 | 33,730 | 5,626 | 39,107 | 5,816 | 51,826 | | | | | | |
| Amount in repossession (3) | 2,444 | 11,578 | 3,263 | 23,290 | 4,305 | 40,815 | | | | | | |
| Total delinquencies and amount in repossession (2) | 8,903 | \$45,308 | 8,889 | \$62,397 | 10,121 | \$92,641 | | | | | | |
| Delinquencies as a percentage of gross servicing portfolio | 6.3 | % | 4.4 | % | 6.7 | % | 5.7 | % | 5.2 | % | 4.9 | % |
| Total delinquencies and amount in repossession as a percentage of gross servicing portfolio | 8.6 | % | 6.0 | % | 10.5 | % | 9.2 | % | 9.1 | % | 8.8 | % |
| Extension Experience | | | | | | | | | | | | |
| Contracts with one extension, accruing (4) | 12,907 | \$79,617 | 16,151 | \$124,066 | 24,193 | \$244,179 | | | | | | |
| Contracts with two or more extensions, accruing (4) | 10,517 | 67,995 | 11,307 | 91,310 | 11,138 | 109,328 | | | | | | |
| | 23,424 | 147,612 | 27,458 | 215,376 | 35,331 | 353,507 | | | | | | |
| Contracts with one extension, non-accrual (4) | 1,214 | 5,943 | 1,598 | 11,138 | 2,335 | 21,902 | | | | | | |
| Contracts with two or more extensions, non-accrual (4) | 2,054 | 10,737 | 1,919 | 14,327 | 1,746 | 17,525 | | | | | | |
| | 3,268 | 16,680 | 3,517 | 25,465 | 4,081 | 39,427 | | | | | | |
| Total accounts with extensions | 26,692 | \$164,292 | 30,975 | \$240,841 | 39,412 | \$392,934 | | | | | | |

(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 we purchased, including automobile contracts we subsequently sold in securitization transactions that we continue to service. The table does not include certain contracts we have serviced for third-parties on which we earn servicing fees only, and have no credit risk.

- (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. The delinquency aging categories shown in the tables reflect the effect of extensions.
- (3) Amount in repossession represents the contract balance on financed vehicles that have been repossessed but not yet liquidated.
- (4) Accounts past due more than 90 days are on non-accrual.

Net Credit Loss Experience (1)
Total Owned Portfolio Excluding Fireside

| | Year Ended December 31, | | | | | |
|--|-------------------------|---|-----------|---|-------------|---|
| | 2011 | | 2010 | | 2009 | |
| | (Dollars in thousands) | | | | | |
| Average servicing portfolio outstanding | \$597,546 | | \$827,176 | | \$1,319,106 | |
| Net charge-offs as a percentage of average servicing portfolio (2) | 5.8 | % | 9.0 | % | 11.0 | % |

Net Credit Loss Experience (1)
Fireside Portfolio (3)

| | Year Ended December 31, | | |
|--|----------------------------|---------|---|
| | 2011 | | |
| | (Dollars in thousands) | | |
| Average servicing portfolio outstanding | \$ | 191,289 | |
| Net charge-offs as a percentage of average servicing portfolio (2) | | 5.1 | % |

Net Credit Loss Experience (1)
Total Owned Portfolio (3)

| | Year Ended December 31, | | | | | |
|--|-------------------------|---|-----------|---|-------------|---|
| | 2011 | | 2010 | | 2009 | |
| | (Dollars in thousands) | | | | | |
| Average servicing portfolio outstanding | \$661,315 | | \$827,176 | | \$1,319,106 | |
| Net charge-offs as a percentage of average servicing portfolio (2) | 5.2 | % | 9.0 | % | 11.0 | % |

(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. The information in the table represents all automobile contracts serviced by us, excluding certain contracts we have serviced for third-parties on which we earn servicing fees only, and have no credit risk.

(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 financial statements.

(3) Amounts and percentages associated with the Fireside portfolio reflect only the period subsequent to the acquisition of the portfolio in September 2011.

Extensions

In certain circumstances we will grant obligors one-month payment extensions to assist them with temporary cash flow problems. In general, an obligor would not be entitled to more than two such extensions in any 12-month period and no more than six over the life of the contract. The only modification of terms is to advance the obligor's next due date by one month and extend the maturity date of the receivable by one month. In some cases, a two-month extension may be granted. There are no other concessions such as a reduction in interest rate, forgiveness of principal or of accrued interest. Accordingly, we consider such extensions to be insignificant delays in payments rather than troubled debt restructurings.

The basic question in deciding to grant an extension is whether or not we will (a) be delaying an inevitable repossession and liquidation or (b) risk losing the vehicle as a result of not being able to locate the obligor and vehicle. In both of those situations, the loss would likely be higher than if the vehicle had been repossessed without the extension. The benefits of granting an extension include minimizing current losses and delinquencies, minimizing lifetime losses, getting the obligor's account current (or close to it) and building goodwill with the obligor so that he might prioritize us over other creditors on future payments. Our servicing staff are trained to identify when a past due obligor is facing a temporary problem that may be resolved with an extension. In most cases, the extension will be granted in conjunction with our receiving a past due payment (and where allowed by law, a nominal fee) from the obligor, thereby indicating an additional monetary and psychological commitment to the contract on the obligor's part. Fees collected in conjunction with an extension are credited to obligors' outstanding accrued interest.

The credit assessment for granting an extension is initially made by our collector, who bases the recommendation on the collector's discussions with the obligor. In such assessments the collector will consider, among other things, the following factors: (1) the reason the obligor has fallen behind in their payments; (2) whether or not the reason for the delinquency is temporary, and if it is, have conditions changed such that the obligor can begin making regular monthly payments again after the extension; (3) the obligor's past payment history, including past extensions if applicable; and (4) the obligor's willingness to communicate and cooperate on resolving the delinquency. If the collector believes the obligor is a good candidate for an extension, he must obtain approval from his supervisor, who will review the same factors stated above prior to offering the extension to the obligor. After receiving an extension, an account remains subject to our normal policies and procedures for interest accrual, reporting delinquency and recognizing charge-offs.

We believe that a prudent extension program is an integral component to mitigating losses in our portfolio of sub-prime automobile receivables. The table below summarizes the status, as of December 31, 2011, for accounts that received extensions during 2008, 2009 and 2010:

| Period of Extension | # Extensions Granted | Active or Paid Off at December 31, 2011 | % Active or Paid Off at December 31, 2011 | Charged Off > 6 Months After Extension | % Charged Off > 6 Months After Extension | Charged Off <= 6 Months After Extension | % Charged Off <= 6 Months After Extension | Avg Months to Charge Off Post Extension |
|---------------------|----------------------|---|---|--|--|---|---|---|
| 2008 | 35,588 | 13,528 | 38.0 % | 17,241 | 48.4 % | 4,819 | 13.5 % | 14 |
| 2009 | 32,004 | 14,169 | 44.3 % | 12,071 | 37.7 % | 5,764 | 18.0 % | 10 |
| 2010 | 22,593 | 15,789 | 69.9 % | 5,161 | 22.8 % | 1,643 | 7.3 % | 9 |

Table excludes extensions on portfolios serviced for third parties

We view these results as a confirmation of the effectiveness of our extension program. For the accounts receiving extensions in 2008, 2009 and 2010, 38.0%, 44.3% and 69.9%, respectively, were either paid in full or active and performing at December 31, 2011. With each of these successful extensions we received continued payments of interest and principal (including payment in full in many cases). Without the extension, however, we would have likely incurred a substantial loss and no additional interest revenue .

For extension accounts that ultimately charged off, we consider accounts that charged off more than six months after the extension to be at least partially successful. For the 2008, 2009 and 2010 extensions that charged off, the charge off was incurred, on average, 14, 10 and 9 months, respectively, after the extension. This indicates that even in the cases of an ultimate loss, we received additional payments of principal and interest that otherwise we would not have received.

Additional information about our extensions is provided in the tables below:

| | Year Ended December 31, 2011 | Year Ended December 31, 2010 | Year Ended December 31, 2009 |
|---|--|--|--|
| Average number of extensions granted per month | 1,417 | 1,883 | 2,667 |
| Average number of outstanding accounts | 86,282 | 95,294 | 126,267 |
| Average monthly extensions as % of average outstandings | 1.6 | % 2.0 | % 2.1 |

Table excludes extensions on Fireside and portfolios serviced for third parties

| | December 31, 2011 | | December 31, 2010 | | December 31, 2009 | |
|---------------------------------|------------------------|-----------|--|-----------|------------------------|-------------|
| | Number of Contracts | Amount | Number of Contracts (Dollars in thousands) | Amount | Number of Contracts | Amount |
| Contracts with one extension | 14,121 | \$85,560 | 17,749 | \$135,204 | 26,528 | \$266,081 |
| Contracts with two extensions | 7,720 | 48,619 | 9,142 | 73,945 | 10,190 | 102,606 |
| Contracts with three extensions | 3,653 | 22,713 | 3,420 | 27,071 | 2,400 | 22,193 |
| Contracts with four extensions | 1,082 | 6,618 | 650 | 4,539 | 281 | 1,947 |
| Contracts with five extensions | 101 | 665 | 12 | 74 | 12 | 104 |
| Contracts with six extensions | 15 | 117 | 2 | 8 | 1 | 3 |
| | 26,692 | \$164,292 | 30,975 | \$240,841 | 39,412 | \$392,934 |
| Gross servicing portfolio | 69,765 | \$588,993 | 84,601 | \$681,157 | 111,105 | \$1,057,348 |

Table excludes extensions on Fireside and portfolios serviced for third parties

Non-Accrual Receivables

It is not uncommon for our obligors to fall behind in their payments. However, with the diligent efforts of our servicing staff and systems for managing our collection efforts, we regularly work with our customers to resolve delinquencies. Our staff is trained to employ a counseling approach to assist our customers with their cash flow management skills and help them to prioritize their payment obligations in order to avoid losing their vehicle to repossession. Through our experience, we have learned that once a contract ages to the point where it becomes greater than 90 days past due, it is more likely than not that the delinquency will not be resolved and will ultimately result in a charge-off. As a result, we do not recognize any interest income or retain on our balance sheet any accrued interest for contracts that are greater than 90 days past due.

If a contract exceeds the 90 days past due threshold at the end of one period, and then makes the necessary payments such that it becomes equal to or below 90 days delinquent at the end of a subsequent period, it would be restored to full accrual status for our financial reporting purposes. At the time a contract is restored to full accrual in this manner,

there can be no assurance that full repayment of interest and principal will ultimately be made. However, we monitor each obligor's payment performance and are aware of the severity of his delinquency at any time. The fact that the delinquency has been reduced below the 90-day threshold is a positive indicator. Should the contract again exceed the 90-day delinquency level at the end of any reporting period, it would again be reflected as a non-accrual account.

Our policy for placing a contract on non-accrual status is independent of our policy to grant an extension. In practice, it would be in the rarest of circumstances where an extension was granted and the account remained in a non-accrual status, since the goal of the extension is to bring the contract current (or nearly current).

Securitization of Automobile Contracts

We purchase automobile contracts with the intention of financing them on a long-term basis through securitizations. All such securitizations have involved identification of specific automobile contracts, sale of those automobile contracts (and associated rights) to a special purpose subsidiary, and issuance of asset-backed securities to fund the transactions. Upon the securitization of a portfolio of automobile contracts, we retain the obligation to service the contracts, and receive a monthly fee for doing so. We have been a regular issuer of asset-backed securities since 1994, completing 53 securitizations totaling over \$7.0 billion through December 31, 2011. Depending on the structure of the securitization, the transaction may be treated as a sale of the automobile contracts or as a secured financing for financial accounting purposes. From July 2003 through April 2008, we structured our securitizations as secured financings rather than as sales of contracts. The second of our two securitizations completed in 2008 (September 2008) was in substance a sale of the related contracts, and is treated as a sale for financial accounting purposes. In September 2010 we took advantage of improvement in the market for asset-backed securities by re-securitizing the underlying receivables from our unrated September 2008 securitization. By doing so we were able to pay off the bonds associated with the September 2008 transaction and issue rated bonds with a significantly lower weighted average coupon. The September 2010 transaction was our first rated term securitization since 1993 that did not utilize a financial guaranty. During 2011, we completed three securitizations of approximately \$335.6 million in newly originated contracts. These securitizations were all structured as secured financings and represented our first securitizations of new contracts since 2008.

When structured to be treated as a secured financing, the subsidiary is consolidated and, accordingly, the automobile contracts and the related securitization trust debt appear as assets and liabilities, respectively, on our consolidated balance sheet. We then recognize interest income on the contracts and interest expense on the securities issued in the securitization and record as expense a provision for probable credit losses on the contracts.

When structured to be treated as a sale, the subsidiary is not consolidated. Accordingly, the securitization removes the sold automobile contracts from our consolidated balance sheet, the related debt does not appear as our debt, and our consolidated balance sheet shows, as an asset, a retained residual interest in the sold automobile contracts. The residual interest represents the discounted value of what we expect will be the excess of future collections on the automobile contracts over principal and interest due on the asset-backed securities. That residual interest appears on our consolidated balance sheet as "residual interest in securitizations," and the determination of its value is dependent on our estimates of the future performance of the sold automobile contracts.

Historically, prior to a securitization transaction, we funded our automobile contract purchases primarily with proceeds from warehouse credit facilities. As of December 31, 2007, we had \$425 million in warehouse credit capacity, in the form of two \$200 million senior facilities and one \$25 million subordinated facility. Both warehouse credit facilities provided funding for automobile contracts purchased under the CPS programs, while one facility also provided funding for automobile contracts purchased under the TFC programs. Up to 93% of the principal balance of the automobile contracts was advanced to us under these facilities, subject to collateral tests and certain other conditions and covenants. In April 2008, the subordinated facility expired and the subordinated lenders were fully repaid. In November 2008, one of the two senior facilities expired and the lender was fully repaid. The remaining warehouse facility was amended in December 2008 to eliminate further advances and to provide for repayment from proceeds collected under the related pledged receivables, and certain other scheduled principal reductions until its lenders were fully repaid in September 2009. Since October 2009, we have gradually increased our contract purchases by utilizing one \$50 million credit facility and another \$50 million term funding facility. More recently, we significantly increased our short-term contract financing resources by entering into agreements for one new \$100 million credit facility in December 2010 and for another \$100 million credit facility in February 2011. In February 2012, we amended the February 2011 facility to extend the revolving period from February 2012 to May 2012 and reduced the maximum advance from \$100 million to \$35 million. We have in the past secured long-term financing for our automobile contract purchases through securitization transactions. We have used the proceeds from such securitization transactions primarily to repay the warehouse credit facilities. As described above, we completed three securitizations in 2011 totaling approximately \$335.6 million in contracts and expect to complete similar securitizations during 2012.

In a securitization and in our warehouse credit facilities, we are required to make certain representations and warranties, which are generally similar to the representations and warranties made by dealers in connection with our purchase of the automobile contracts. If we breach any of our representations or warranties, we will be obligated to repurchase the automobile contract at a price equal to the principal balance plus accrued and unpaid interest. We may then be entitled under the terms of our dealer agreement to require the selling dealer to repurchase the contract at a price equal to our purchase price, less any principal payments made by the customer. Subject to any recourse against dealers, we will bear the risk of loss on repossession and resale of vehicles under automobile contracts that we repurchase.

Whether a securitization is treated as a secured financing or as a sale for financial accounting purposes, the related special purpose subsidiary may be unable to release excess cash to us if the credit performance of the securitized automobile contracts falls short of pre-determined standards. Such releases represent a material portion of the cash that we use to fund our operations. An unexpected deterioration in the performance of securitized automobile contracts could therefore have a material adverse effect on both our liquidity and results of operations, regardless of

whether such automobile contracts are treated as having been sold or as having been financed. For estimation of the magnitude of such risk, it may be appropriate to look to the size of our "managed portfolio," which represents both financed and sold automobile contracts as to which such credit risk is retained. Our managed portfolio as of December 31, 2011 was approximately \$794.6 million, including \$33.5 million of receivables on which we earn only servicing fees.

Competition

The automobile financing business is highly competitive. We compete with a number of national, regional and local finance companies with operations similar to ours. In addition, competitors or potential competitors include other types of financial services companies, such as commercial banks, savings and loan associations, leasing companies, credit unions providing retail loan financing and lease financing for new and used vehicles, and captive finance companies affiliated with major automobile manufacturers. Many of our competitors and potential competitors possess substantially greater financial, marketing, technical, personnel and other resources than we do. Moreover, our future profitability will be directly related to the availability and cost of our capital in relation to the availability and cost of capital to our competitors. Our competitors and potential competitors include far larger, more established companies that have access to capital markets for unsecured commercial paper and investment grade-rated debt instruments and to other funding sources that may be unavailable to us. Many of these companies also have long-standing relationships with dealers and may provide other financing to dealers, including floor plan financing for the dealers' purchase of automobiles from manufacturers, which we do not offer.

We believe that the principal competitive factors affecting a dealer's decision to offer automobile contracts for sale to a particular financing source are the monthly payment amount made available to the dealer's customer, the purchase price offered for the automobile contracts, the timeliness of the response to the dealer upon submission of the initial application, the reasonableness of the financing source's documentation requests, the predictability and timeliness of purchases and the financial stability of the funding source. While we believe that we can obtain from dealers sufficient automobile contracts for purchase at attractive prices by consistently applying reasonable underwriting criteria and making timely purchases of qualifying automobile contracts, there can be no assurance that we will do so.

Regulation

Several federal and state consumer protection laws, including the federal Truth-In-Lending Act, the federal Equal Credit Opportunity Act, the federal Fair Debt Collection Practices Act and the Federal Trade Commission Act, regulate the extension of credit in consumer credit transactions. These laws mandate certain disclosures with respect to finance charges on automobile contracts and impose certain other restrictions on dealers. In many states, a license is required to engage in the business of purchasing automobile contracts from dealers. In addition, laws in a number of states impose limitations on the amount of finance charges that may be charged by dealers on credit sales. The so-called Lemon Laws enacted by various states provide certain rights to purchasers with respect to automobiles that fail to satisfy express warranties. The application of Lemon Laws or violation of such other federal and state laws may give rise to a claim or defense of a customer against a dealer and its assignees, including us and purchasers of automobile contracts from us. The dealer agreement contains representations by the dealer that, as of the date of assignment of automobile contracts, no such claims or defenses have been asserted or threatened with respect to the automobile contracts and that all requirements of such federal and state laws have been complied with in all material respects. Although a dealer would be obligated to repurchase automobile contracts that involve a breach of such warranty, there can be no assurance that the dealer will have the financial resources to satisfy its repurchase obligations. Certain of these laws also regulate our servicing activities, including our methods of collection.

Although we believe that we are currently in material compliance with applicable statutes and regulations, there can be no assurance that we will be able to maintain such compliance. The past or future failure to comply with such statutes and regulations could have a material adverse effect upon us. Furthermore, the adoption of additional statutes and regulations, changes in the interpretation and enforcement of current statutes and regulations or the expansion of our business into jurisdictions that have adopted more stringent regulatory requirements than those in which we currently conduct business could have a material adverse effect upon us. In addition, due to the consumer-oriented nature of the industry in which we operate and the application of certain laws and regulations, industry participants are

regularly named as defendants in litigation involving alleged violations of federal and state laws and regulations and consumer law torts, including fraud. Many of these actions involve alleged violations of consumer protection laws. A significant judgment against us or within the industry in connection with any such litigation could have a material adverse effect on our financial condition, results of operations or liquidity.

Employees

As of December 31, 2011, we had 530 employees. The breakdown of the employees is as follows: seven were senior management personnel; 323 were servicing personnel; 91 were automobile contract origination personnel; 58 were marketing personnel (50 of whom were marketing representatives); 18 were operations and systems personnel; and 33 were administrative personnel. We believe that our relations with our employees are good. We are not a party to any collective bargaining agreement.

Item 1A. RISK FACTORS

Our business, operating results and financial condition could be adversely affected by any of the following specific risks. The trading price of our common stock could decline due to any of these risks and other industry risks. In addition to the risks described below, we may encounter risks that are not currently known to us or that we currently deem immaterial, which may also impair our business operations and the value of our common stock.

Risks Related to Our Business

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. Over the last few years the credit performance of our automobile contracts has been adversely affected by general economic conditions, and adverse effects on performance of our automobile contracts held in securitization pools result in an adverse effect on performance of residual interests. Such factors may result in our being unable to pay our debts timely or as agreed. If we were unable to pay our debts, we would be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring our indebtedness or selling additional equity capital. These alternative strategies might not be feasible at the time, might prove inadequate or could require the prior consent of our lenders.

We Need Substantial Liquidity to Operate Our Business.

We have historically funded our operations principally through internally generated cash flows, sales of debt and equity securities, including through securitizations and warehouse credit facilities, borrowings under senior secured debt agreements and sales of subordinated notes. However, we may not be able to obtain sufficient funding for our

future operations from such sources. During 2008, 2009 and much of 2010, our access to the capital markets was impaired with respect to both short-term and long-term funding. While our access to such funding has improved since then, 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 use 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.

We have to date matched our liquidity needs to our available sources of funding by reducing our acquisition of new automobile contracts, at times to merely nominal levels. There can be no assurance that we will continue to be successful with that strategy.

Recent History of Significant Losses.

Until the fourth quarter of 2011, we had incurred net losses every quarter subsequent to the quarter ended June 30, 2008. We have been adversely affected by the economic recession affecting the United States as a whole, by increased financing costs and decreased availability of capital to fund our purchases of automobile contracts, and by a decrease in the overall level of sales of automobiles and light trucks. We expect to earn quarterly profits during 2012; however, there can be no assurance as to that expectation. Our expectation of profitability is a forward-looking statement. We discuss the assumptions underlying that expectation under the caption "Forward-Looking Statements" in this report. We identify important factors that could cause actual results to differ, generally in the "Risk Factors" section of this report, and also under the caption "Forward-Looking Statements."

Our Results of Operations Will Depend on Our Ability to Secure and Maintain Adequate Credit and Warehouse Financing on Favorable Terms.

Our business strategy requires that warehouse credit facilities be available in order to purchase significant volumes of receivables.

Historically, our primary sources of day-to-day liquidity have been our warehouse credit facilities, in which we sold and contributed automobile contracts, as often as twice a week, to special-purpose subsidiaries, where they were "warehoused" until they were securitized, at which time funds advanced under one or more warehouse credit facilities were repaid from the proceeds of the securitizations. In December 2010 and February 2011, we entered into separate agreements for two new \$100 million revolving warehouse facilities. In February 2012, we amended the February 2011 Facility to extend the revolving period from February 2012 to May 2012 and reduced the maximum advance from \$100 million to \$35 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Liquidity".

If we are unable to maintain warehouse financing on acceptable terms, our results of operations, financial condition and cash flows could be materially and adversely affected.

Our Results of Operations Will Depend on Our Ability to Securitizate Our Portfolio of Automobile Contracts.

Historically we have depended upon our ability to obtain permanent financing for pools of automobile contracts by conducting term securitization transactions. By "permanent financing" we mean financing that extends to cover the full term during which the underlying contracts are outstanding and requires repayment as the underlying contracts are repaid or charged off. By contrast, our warehouse credit facilities permit us to borrow against the value of such receivables only for limited periods of time. Our past practice and future plan has been and is to repay loans made to us under our warehouse credit facilities with the proceeds of securitizations. During 2011, we completed three securitizations of approximately \$335.6 million in contracts. We plan to complete similar securitizations during 2012. There can be no assurance that securitization transactions will continue to be available on terms acceptable to us, or at all. The timing of any securitization transaction is affected by a number of factors beyond our control, any of which could cause substantial delays, including, without limitation:

- market conditions;
- the approval by all parties of the terms of the securitization;

- the availability of credit enhancement on acceptable terms; and
- our ability to acquire a sufficient number of automobile contracts for securitization.

As stated elsewhere in this report, during 2008 and 2009 adverse changes in the market for securitized pools of automobile contracts made permanent financing in the form of securitization transactions difficult to obtain and more costly than in prior periods. These changes included reduced liquidity and reduced demand for asset-backed securities, particularly for securities carrying a financial guaranty or for securities backed by sub-prime automobile receivables. During 2011, we completed three securitizations of approximately \$335.6 million under terms that were substantially better than those available from 2008 through 2010. Should the terms of future securitizations revert to more costly levels prevalent from 2008 through 2010, we could expect a further material adverse effect on our results of operations.

Our Results of Operations Will Depend on Cash Flows from Our Residual Interests in Our Securitization Program and Our Warehouse Credit Facilities.

When we finance our automobile contracts through securitizations and warehouse credit facilities, we receive cash and a residual interest in the assets financed. This residual interest represents the right to receive the future cash flows to be generated by the automobile contracts in excess of (i) the interest and principal paid to investors on the asset-backed notes issued in connection with the financing, (ii) the costs of servicing the contracts and (iii) certain other costs incurred in connection with completing and maintaining the securitization or warehouse credit facility. We sometimes refer to these future cash flows as "excess spread cash flows."

Under the financial structures we have used to date in our securitizations and warehouse credit facilities, excess spread cash flows that would otherwise be paid to the holder of the residual interest are first used to increase overcollateralization or are retained in a spread account within the securitization trusts or the warehouse facility to provide liquidity and credit enhancement for the related securities.

While the specific terms and mechanics vary among transactions, our securitization and warehousing agreements generally provide that we will receive excess spread cash flows only if the amount of overcollateralization and spread account balances have reached specified levels and/or the delinquency, defaults or net losses related to the contracts in the automobile contract pools are below certain predetermined levels. In the event delinquencies, defaults or net losses on contracts exceed these levels, the terms of the securitization or warehouse credit facility:

- may require increased credit enhancement, including an increase in the amount required to be on deposit in the spread account to be accumulated for the particular pool;
- may restrict the distribution to us of excess spread cash flows associated with other securitized or warehoused pools; and
- in certain circumstances, may permit affected parties to require the transfer of servicing on some or all of the securitized or warehoused contracts from us to an unaffiliated servicer.

We typically retain residual interests or use them as collateral to borrow cash. In any case, the future excess spread cash flow received in respect of the residual interests is integral to the financing of our operations. The amount of cash received from residual interests depends in large part on how well our portfolio of securitized and warehoused automobile contracts performs. If our portfolio of securitized and warehoused automobile contracts has higher delinquency and loss ratios than expected, then the amount of money realized from our retained residual interests, or the amount of money we could obtain from the sale or other financing of our residual interests, would be reduced. Such higher than expected losses occurred from 2008 through 2010, which has had an adverse effect on our operations, financial condition and cash flows. Should losses continue to rise, we would expect further material adverse effects on our results of operations, financial condition and cash flows.

If We Are Unable to Obtain Credit Enhancement for Our Securitizations Upon Favorable Terms, Our Results of Operations Would Be Impaired.

In our securitizations from 1994 through 2008, we utilized credit enhancement in the form of one or more financial guaranty insurance policies issued by financial guaranty insurance companies. Each of these policies unconditionally and irrevocably guarantees certain interest and principal payments on the senior classes of the securities issued in those securitizations. These guarantees enabled these securities to achieve the highest credit rating available. This form of credit enhancement reduced the costs of our securitizations relative to alternative forms of credit enhancement available to us at the time. Due to significantly reduced investor demand for securities carrying such a financial guaranty, this form of credit enhancement may not be economic for us in the future. The three securitization transactions we executed in 2011 did not utilize financial guaranty insurance policies, and none of the securities issued in those transactions received the highest possible credit ratings. As we pursue future securitizations, we may not be able to obtain:

- credit enhancement in any form on terms acceptable to us, or at all; or
- similar highest available credit ratings for senior classes of securities to be issued in future securitizations.

We expect to pay a greater credit spread than we have seen in the past between our securitization trust debt and risk-free investments. If this occurs then we will experience increased interest expense. As of the date of this report, interest rates on risk-free debt are close to historical lows, which has offset much of the adverse effect on us of greater

credit spreads. When interest rates on risk-free debt increase, we would expect increased interest expense, which could adversely affect our results of operations.

If We Are Unable to Compete Successfully, Our Results of Operations May Be Impaired.

The automobile financing business is highly competitive. We compete with a number of national, regional and local finance companies. In addition, competitors or potential competitors include other types of financial services companies, such as commercial banks, savings and loan associations, leasing companies, credit unions providing retail loan financing and lease financing for new and used vehicles and captive finance companies affiliated with major automobile manufacturers. Many of our competitors and potential competitors possess substantially greater financial, marketing, technical, personnel and other resources than we do, including greater access to capital markets for unsecured commercial paper and investment grade rated debt instruments, and to other funding sources which may be unavailable to us. Moreover, our future profitability will be directly related to the availability and cost of capital relative to our competitors. Many of these companies also have long-standing relationships with automobile dealers and may provide other financing to dealers, including floor plan financing for the dealers' purchases of automobiles from manufacturers, which we do not offer. There can be no assurance that we will be able to continue to compete successfully and, as a result, we may not be able to purchase contracts from dealers at a price acceptable to us, which could result in reductions in our revenues or the cash flows available to us.

If Our Dealers Do Not Submit a Sufficient Number of Suitable Automobile Contracts to Us for Purchase, Our Results of Operations May Be Impaired.

We are dependent upon establishing and maintaining relationships with a large number of unaffiliated automobile dealers to supply us with automobile contracts. During the years ended December 31, 2010 and 2011, no dealer accounted for more than 2.0% or 1.3%, respectively, of the contracts we purchased. The agreements we have with dealers to purchase contracts do not require dealers to submit a minimum number of contracts for purchase. The failure of dealers to submit contracts that meet our underwriting criteria could result in reductions in our revenues or the cash flows available to us, and, therefore, could have an adverse effect on our results of operations.

If a Significant Number of Our Automobile Contracts Experience Defaults, Our Results of Operations May Be Impaired.

We specialize in the purchase and servicing of contracts to finance automobile purchases by sub-prime customers, those who have limited credit history, low income, or past credit problems. Such contracts entail a higher risk of non-performance, higher delinquencies and higher losses than contracts with more creditworthy customers. While we believe that our pricing of the automobile contracts and the underwriting criteria and collection methods we employ enable us to control, to a degree, the higher risks inherent in contracts with sub-prime customers, no assurance can be given that such pricing, criteria and methods will afford adequate protection against such risks. We have experienced increases in the delinquency of, and credit losses on, our contracts.

If automobile contracts that we purchase and hold experience defaults to a greater extent than we have anticipated, this could materially and adversely affect our results of operations, financial condition, cash flows and liquidity. Our results of operations, financial condition, cash flows and liquidity, depend, to a material extent, on the performance of automobile contracts that we purchase, warehouse and securitize. A portion of the automobile contracts acquired by us will default or prepay. In the event of payment default, the collateral value of the vehicle securing an automobile contract realized by us in a repossession will most likely not cover the outstanding principal balance on that contract and the related costs of recovery. We maintain an allowance for credit losses on automobile contracts held on our balance sheet, which reflects our estimates of probable credit losses that can be reasonably estimated for securitizations that are accounted for as financings and warehoused contracts. If the allowance is inadequate, then we would recognize the losses in excess of the allowance as an expense and our results of operations could be adversely affected. In addition, under the terms of our warehouse credit facilities, we are not able to borrow against defaulted automobile contracts, including contracts that are, at the time of default, funded under our warehouse credit facilities, which will reduce the overcollateralization of those warehouse credit facilities and possibly reduce the amount of cash flows available to us.

If We Lose Servicing Rights on Our Portfolio of Automobile Contracts, Our Results of Operations Would Be Impaired.

We are entitled to receive servicing fees only while we act as servicer under the applicable sale and servicing agreements governing our warehouse facilities and securitizations. Under such agreements, we may be terminated as servicer upon the occurrence of certain events, including:

- our failure generally to observe and perform covenants and agreements applicable to us;
- certain bankruptcy events involving us; or
- the occurrence of certain events of default under the documents governing the facilities.

During 2011 we received waivers regarding the potential breach of certain 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 outstanding securitization pools. In February 2012, the remaining notes associated with the securitization transactions for which we received waivers in 2011 were paid in full. In the event we are required to seek similar waivers in the future, we believe we can do so because it is generally not in the interest of any party to the securitization transaction to transfer servicing. Since our inception in 1991, we have continuously refined our systems and procedures to maximize our effectiveness in the servicing and collection of our sub-prime automobile portfolio. Successful servicing requires diligent telephonic contact, multiple payment alternatives, explicit and accurate record keeping of interactions with obligors, and efficient workload allocation. When we enter into securitizations and other financing arrangements that call for us to service specific portfolios of receivables, the parties expect that we will continuously service those portfolios because they believe that we are effective in minimizing the losses that are inherent in sub-prime portfolios.

We believe there are many servicers of prime credit mortgage or credit card portfolios, and that prime credit portfolios may be transferred between servicers without significant risk of credit degradation. However, there are fewer servicers who specialize in sub-prime automobile portfolios. In addition, it is generally acknowledged that third party servicers typically do not have as much incentive to maximize portfolio performance as does the entity that holds the credit risk of the portfolio. Moreover, it is our opinion that credit enhancement providers recognize that diligent telephonic contact and continuity of the relationship between servicer and obligor are critical and that a transfer of servicing to an entity with sub-prime experience could still cause interruptions in servicing that would result in substantially greater losses than would have occurred without the transfer.

We feel that the credit enhancement providers who have repeatedly granted us waivers in lieu of transferring servicing recognize these factors and base their decision on whether or not to maintain us as servicer on their own best interests.

Nevertheless, there can be no assurance as to our belief being correct. The loss of our servicing rights could materially and adversely affect our results of operations, financial condition and cash flows. Our results of operations, financial condition and cash flows, would be materially and adversely affected if we were to be terminated as servicer with respect to a material portion of the automobile contracts for which we are receiving servicing fees.

If We Lose Key Personnel, Our Results of Operations May Be Impaired.

Our senior management team averages thirteen years of service with us. Charles E. Bradley, Jr., our President and CEO, has been our President since our formation in 1991. Our future operating results depend in significant part upon the continued service of our key senior management personnel, none of whom is bound by an employment agreement. Our future operating results also depend in part upon our ability to attract and retain qualified management, technical, sales and support personnel for our operations. Competition for such personnel is intense. We cannot assure you that we will be successful in attracting or retaining such personnel. Layoffs since 2008 may have reduced employee loyalty, which may in turn result in decreased employee performance. Conversely, adverse general economic conditions may have had a countervailing effect. The loss of any key employee, the failure of any key employee to perform in his or her current position or our inability to attract and retain skilled employees, as needed, could materially and adversely affect our results of operations, financial condition and cash flows.

If We Fail to Comply with Regulations, Our Results of Operations May Be Impaired.

Failure to materially comply with all laws and regulations applicable to us could materially and adversely affect our ability to operate our business. Our business is subject to numerous federal and state consumer protection laws and regulations, which, among other things:

- require us to obtain and maintain certain licenses and qualifications;
- limit the interest rates, fees and other charges we are allowed to charge;
- limit or prescribe certain other terms of our automobile contracts;
- require specific disclosures to our customers;
- define our rights to repossess and sell collateral; and
- maintain safeguards designed to protect the security and confidentiality of customer information.

We believe that we are in compliance in all material respects with all such laws and regulations, and that such laws and regulations have had no material adverse effect on our ability to operate our business. However, we may be materially and adversely affected if we fail to comply with:

- applicable laws and regulations;
- changes in existing laws or regulations;
- changes in the interpretation of existing laws or regulations; or
- any additional laws or regulations that may be enacted in the future.

Recent Legislation and Proposed Regulations May Have an Adverse Effect on Our Business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") mandates the most wide-ranging overhaul of financial industry regulation in decades. Dodd-Frank was signed into law on July 21, 2010, and is now in the implementation stage. The law provides a regulatory framework and requires that regulators, some of which are new regulatory bodies created by Dodd-Frank, draft, review and approve more than 200 implementing regulations and conduct numerous studies that are likely to lead to more regulations. In addition, the Commission has recently proposed amendments to regulations first adopted in 2005 known as Regulation AB. The amendments to Regulation AB have yet to be adopted and are expected to be significantly modified from the form initially proposed, however, the final form of the amendments to Regulation AB when adopted are likely to increase the expenses that we will incur in securitization transactions.

Compliance with these new laws and regulations may be or likely will be costly and can affect operating results. Compliance requires forms, processes, procedures, controls and the infrastructure to support these requirements. Compliance may create operational constraints and place limits on pricing. Laws in the financial services industry are designed primarily for the protection of consumers. The failure to comply could result in significant statutory civil and criminal penalties, monetary damages, attorneys' fees and costs, possible revocation of licenses and damage to reputation, brand and valued customer relationships.

At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting regulations or the Regulation AB amendments will affect our business. However, compliance with these new laws and regulations may result in additional cost and expenses, which may adversely affect our results of operations, financial condition or liquidity.

If We Experience Unfavorable Litigation Results, Our Results of Operations May Be Impaired.

Unfavorable outcomes in any of our current or future litigation proceedings could materially and adversely affect our results of operations, financial conditions and cash flows. As a consumer finance company, we are subject to various consumer claims and litigation seeking damages and statutory penalties based upon, among other things, disclosure inaccuracies and wrongful repossession, which could take the form of a plaintiff's class action complaint. We, as the assignee of finance contracts originated by dealers, may also be named as a co-defendant in lawsuits filed by consumers principally against dealers. We are also subject to other litigation common to the automobile industry and businesses in general. The damages and penalties claimed by consumers and others in these types of matters can be substantial. The relief requested by the plaintiffs varies but includes requests for compensatory, statutory and punitive damages.

While we intend to vigorously defend ourselves against such proceedings, there is a chance that our results of operations, financial condition and cash flows could be materially and adversely affected by unfavorable outcomes.

If We Experience Problems with Our Originations, Accounting or Collection Systems, Our Results of Operations May Be Impaired.

We are dependent on our receivables originations, accounting and collection systems to service our portfolio of automobile contracts. Such systems are vulnerable to damage or interruption from natural disasters, power loss, telecommunication failures, terrorist attacks, computer viruses and other events. A significant number of our systems are not redundant, and our disaster recovery planning is not sufficient for every eventuality. Our systems are also subject to break-ins, sabotage and intentional acts of vandalism by internal employees and contractors as well as third parties. Despite any precautions we may take, such problems could result in interruptions in our services, which could harm our reputation and financial condition. We do not carry business interruption insurance sufficient to compensate

us for losses that may result from interruptions in our service as a result of system failures. Such systems problems could materially and adversely affect our results of operations, financial conditions and cash flows.

We Have Substantial Indebtedness.

We have and will continue to have a substantial amount of indebtedness. At December 31, 2011, we had approximately \$876.2 million of debt outstanding. Such debt consisted primarily of \$583.1 million of securitization trust debt, and also included \$166.8 million of acquired portfolio financing, \$25.4 million of warehouse lines of credit, \$21.9 million of residual interest financing, \$58.3 million of senior secured related party debt and \$20.8 million in subordinated notes. We are also 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 to payments on our indebtedness, thereby reducing amounts available for working capital, capital expenditures and other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a competitive disadvantage compared to 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.

Because We Are Subject to Many Restrictions in Our Existing Credit Facilities and Securitization Transactions, Our Ability to Pay Dividends or Engage in Specified Transactions May Be Impaired.

The terms of our existing credit facilities, term securitizations and our other outstanding debt impose significant operating and financial restrictions on us and our subsidiaries and require us to meet certain financial tests. These restrictions may have an adverse effect on our business activities, results of operations and financial condition. These restrictions may also significantly limit or prohibit us from engaging in certain transactions, including the following:

- incurring or guaranteeing additional indebtedness;
- making capital expenditures in excess of agreed upon amounts;
- paying dividends or other distributions to our stockholders or redeeming, repurchasing or retiring our capital stock or subordinated obligations;
- making investments;
- creating or permitting liens on our assets or the assets of our subsidiaries;
- issuing or selling capital stock of our subsidiaries;
- transferring or selling our assets;
- engaging in mergers or consolidations;
- permitting a change of control of our company;
- liquidating, winding up or dissolving our company;
- changing our name or the nature of our business, or the names or nature of the business of our subsidiaries; and
- engaging in transactions with our affiliates outside the normal course of business.

These restrictions may limit our ability to obtain additional sources of capital, which may limit our ability to generate earnings. In addition, the failure to comply with any of the covenants of one or more of our debt agreements could cause a default under other debt agreements that may be outstanding from time to time. A default, if not waived, could result in acceleration of the related indebtedness, in which case such debt would become immediately due and payable. A continuing default or acceleration of one or more of our credit facilities or any other debt agreement, would likely cause a default under other debt agreements that otherwise would not be in default, in which case all such related indebtedness could be accelerated. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance our indebtedness. Even if any new financing is available, it may not be on terms that are acceptable to us or it may not be sufficient to refinance all of our indebtedness as it becomes due.

In addition, the transaction documents for our securitizations restrict our securitization subsidiaries from declaring or making payment to us of (i) any dividend or other distribution on or in respect of any shares of their capital stock, or (ii) any payment on account of the purchase, redemption, retirement or acquisition of any option, warrant or other

right to acquire shares of their capital stock unless (in each case) at the time of such declaration or payment (and after giving effect thereto) no amount payable under any transaction document with respect to the related securitization is then due and owing, but unpaid. These restrictions may limit our ability to receive distributions in respect of the residual interests from our securitization facilities, which may limit our ability to generate earnings.

Risks Related to General Factors

If The Economy of All or Certain Regions of the United States Continues to Slow Down or the Current Recession Worsens, Our Results of Operations May Be Impaired.

Our business is directly related to sales of new and used automobiles, which are sensitive to employment rates, prevailing interest rates and other domestic economic conditions. Delinquencies, repossessions and losses generally increase during economic slowdowns or recessions. Because of our focus on sub-prime customers, the actual rates of delinquencies, repossessions and losses on our automobile contracts could be higher under adverse economic conditions than those experienced in the automobile finance industry in general, particularly in the states of Texas, California, Ohio, Florida, Pennsylvania and Louisiana, states in which our automobile contracts are geographically concentrated. Any sustained period of economic slowdown or recession could adversely affect our ability to acquire suitable contracts, or to securitize pools of such contracts. The timing of any economic changes is uncertain, and weakness in the economy could have an adverse effect on our business and that of the dealers from which we purchase contracts and result in reductions in our revenues or the cash flows available to us.

Our Results Of Operations May Be Impaired As a Result of Natural Disasters.

Our automobile contracts are geographically concentrated in the states of California, Texas, and Florida. Such states may be particularly susceptible to natural disasters: earthquake in the case of California, and hurricanes and flooding in the states of Florida and Texas. Natural disasters, in those states or others, could cause a material number of our vehicle purchasers to lose their jobs, or could damage or destroy vehicles that secure our automobile contracts. In either case, such events could result in our receiving reduced collections on our automobile contracts, and could thus result in reductions in our revenues or the cash flows available to us.

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 the effective interest rate received by us on the automobile contracts that we acquire and the interest rates payable under warehouse credit facilities and on the asset-backed securities issued in our securitizations. Recent disruptions in the market for asset-backed securities are likely to result in an increase in the interest rates we would pay on asset-backed securities that we may issue in future securitizations. Although we have the ability to partially offset increases in our cost of funds by increasing fees we charge to dealers when purchasing contracts, or by demanding higher interest rates on contracts we purchase, there is no assurance that such actions will materially offset increases in interest we pay to finance our managed portfolio.

Several factors 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. Interest rates on warehouse credit facilities are typically 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 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 historically held automobile contracts in the warehouse credit facilities for less than four months. 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.

Risks Related to Our Common Stock

Our Common Stock Is Thinly-Traded.

Our stock is thinly-traded, which means investors will have limited opportunities to sell their shares of common stock in the open market. Limited trading of our common stock also contributes to more volatile price fluctuations. Because there historically has been low trading volume in our common stock, there can be no assurance that our stock price will not decline as additional shares are sold in the public market. As of December 31, 2011, all of our directors and executive officers beneficially owned 3,034,710 shares of our common stock, or approximately 15.5%.

Our Common Stock May Be Delisted.

The aggregate value of our common stock held by persons other than affiliates has been, since the third quarter of 2011, less than the minimum, \$15 million, required for continued listing on the Nasdaq Stock Market. If we continue to fail to meet that minimum, our common shares may suffer delisting from the Nasdaq Stock Market. If our shares were delisted, holders of such shares may find it more difficult to sell such shares.

On February 28, 2012, we received from The Nasdaq Stock Market a staff deficiency letter indicating (i) that we had failed to regain compliance with the \$15 million standard, and (ii) that our stock was now subject to delisting. On March 5, 2012 we requested a formal hearing before the Nasdaq Hearings Department, which ordinarily results in our stock remaining listed pending a decision from a hearings panel. According to Nasdaq, such formal hearings are typically scheduled 30 to 45 days following a company's request. We are considering multiple courses of action that could be taken to maintain a listing of our common stock, and will present one or more of such plans to the Nasdaq panel at the formal hearing. There can be no assurance that any such plan will be acceptable to the Nasdaq panel. It is also possible that we will regain compliance simply as a result of our common stock maintaining the requisite price for a period of at least ten consecutive trading days prior to the formal hearing, in which case we expect that our common stock will remain listed on that basis.

We Do Not Intend to Pay Dividends on Our Common Stock.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. See "Dividend Policy".

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;
- changes in performance of our automobile contracts;

- increases in interest rates;
- adverse decisions by courts or regulators;
- our ability to generate sufficient operating and financing cash flows;
- competition;
- level of losses incurred on receivables in our portfolio; and
- adverse decisions by courts or regulators.

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 1B. Unresolved Staff Comments

Not applicable.

Item 2. Property

Our headquarters are located in Irvine, California, where we lease approximately 60,000 square feet of general office space from an unaffiliated lessor. The annual base rent is approximately \$1.65 million, increasing to approximately \$1.75 million through 2016.

In March 1997, we established a branch collection facility in Chesapeake, Virginia. We lease approximately 27,000 square feet of general office space in Chesapeake, Virginia, at a base rent that is approximately \$540,000 per year, increasing to approximately \$572,000 through 2013.

The remaining two regional servicing centers occupy a total of approximately 41,000 square feet of leased space in Maitland, Florida; and Westchester, Illinois. The termination dates of such leases range from 2011 to 2018.

Item 3. 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") pursuant to earlier settlements of claims, generally personal injury claims, against unrelated defendants. Stanwich Financial Services Corp. ("Stanwich"), which was an affiliate of our former chairman of the board of directors, is the entity that was obligated to pay the Settlement Payments. Stanwich defaulted on its payment obligations to the plaintiffs and in June 2001 filed for reorganization under the Bankruptcy Code, in the federal bankruptcy court in 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 remains 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. The litigation between Mr. Pardee and us was stayed for several years through September 2011, awaiting resolution of an adversary action brought against Mr. Pardee in the bankruptcy court, which is hearing the bankruptcy of Stanwich.

Pursuant to an agreement with the representative of creditors in the Stanwich bankruptcy, that adversary action has been dismissed. Under that agreement, we paid the bankruptcy estate \$800,000 and abandoned our claims against the estate, and the estate has abandoned its adversary action against Mr. Pardee. With the dismissal of the adversary action, all known claims asserted against Mr. Pardee have been resolved without his incurring any liability. Accordingly, we believe that this resolution of the adversary action will result in limitation of our exposure to Mr. Pardee to no more than some portion of his attorneys fees incurred. The stay in the action against us in Rhode Island has been lifted, and a trial is scheduled for November 2012.

The reader should consider that an adverse judgment against us in the Rhode Island case for indemnification, if in an amount materially in excess of any liability already recorded in respect thereof, could have a material adverse effect on our financial condition.

Other Litigation.

In April 2010, Rosalyn Griffith and Jerret Cain filed a lawsuit against us asserting claims, purportedly on behalf of a class, under various provisions of the Telephone Consumer Protection Act (47 U.S.C. 227). In December 2011, mediation was held and a tentative settlement was agreed to. The settlement must be approved by the U.S. District Court, Northern District of Illinois for the terms to become effective. A court ruling on the settlement is expected by

September 2012 and until such time there can be no assurance as to the outcome of this matter.

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 their outcomes. We have recorded a liability as of December 31, 2011 that we believe represents a sufficient allowance for legal contingencies. The amount of losses that are at least reasonably possible above what has already been accrued for cannot be estimated. 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 or results of operations.

Executive Officers of the Registrant

Charles E. Bradley, Jr., 52, has been our President and a director since our formation in March 1991, and was elected Chairman of the Board of Directors in July 2001. In January 1992, Mr. Bradley was appointed Chief Executive Officer. From April 1989 to November 1990, he served as Chief Operating Officer of Barnard and Company, a private investment firm. From September 1987 to March 1989, Mr. Bradley, Jr. was an associate of The Harding Group, a private investment banking firm. Mr. Bradley does not currently serve on the board of directors of any other publicly-traded companies.

Mark A. Creatura, 52, has been Senior Vice President – General Counsel since October 1996. From October 1993 through October 1996, he was Vice President and General Counsel at Urethane Technologies, Inc., a polyurethane chemicals formulator. Mr. Creatura was previously engaged in the private practice of law with the Los Angeles law firm of Troy & Gould Professional Corporation, from October 1985 through October 1993.

Jeffrey P. Fritz, 52, has been Senior Vice President - Chief Financial Officer since April 2006. He was Senior Vice President - Accounting from August 2004 through March 2006. He served as a consultant to us from May 2004 to August 2004. Previously, he was the Chief Financial Officer of SeaWest Financial Corp. from February 2003 to May 2004, and the Chief Financial Officer of AFCO Auto Finance from April 2002 to February 2003. He practiced public accounting with Glenn M. Gelman & Associates from March 2001 to April 2002 and was Chief Financial Officer of Credit Services Group, Inc. from May 1999 to November 2000. He previously served as our Chief Financial Officer from our inception through May 1999.

Robert E. Riedl, 48, has been Senior Vice President - Chief Investment Officer since April 2006. Mr. Riedl was Senior Vice President - Chief Financial Officer from August 2003 until assuming his current position. Mr. Riedl joined the Company as Senior Vice President - Risk Management in January 2003. Previously, Mr. Riedl was a Principal at Northwest Capital Appreciation ("NCA"), a middle market private equity firm, from 2000 to 2002. For a year prior to joining Northwest Capital, Mr. Riedl served as Senior Vice President for one of NCA's portfolio companies, SLP Capital. Mr. Riedl was an investment banker for ContiFinancial Services, Jefferies & Company and PaineWebber from 1986 to 1999.

Christopher Terry, 44, has been Senior Vice President - Servicing since May 2005, and prior to that was Senior Vice President - Asset Recovery since January 2003. He joined us in January 1995 as a loan officer, held a series of successively more responsible positions, and was promoted to Vice President - Asset Recovery in June 1999. Mr. Terry was previously a branch manager with Norwest Financial from 1990 to October 1994.

Teri L. Robinson, 49, has been the Senior Vice President of Originations since April 2007. Prior to that, she held the position of Vice President of Originations since August 1998. She joined the Company in June 1991 as an Operations Specialist. Previously, Ms. Robinson held an administrative position at Greco & Associates.

Michael L. Lavin, 39, has been Senior Vice President - Legal since May 2009. Prior to that, he was our Vice President - Legal since joining the Company in November 2001. Mr. Lavin was previously engaged as a law clerk and an associate with the San Diego law firm (now defunct) of Edwards, Sooy & Byron from 1996 through 2000 and then as an associate with the Orange County firm of Trachtman & Trachman from 2000 through 2001. Mr. Lavin also clerked for the San Diego District Attorney's office and Orange County Public Defender's office.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

The Company's Common Stock is traded on the Nasdaq Global Market, under the symbol "CPSS." The following table sets forth the high and low sale prices as reported by Nasdaq for our Common Stock for the periods shown.

| | High | Low |
|-------------------------------|---------|------|
| January 1 - March 31, 2010 | \$ 2.25 | 1.00 |
| April 1 - June 30, 2010 | 2.27 | 1.25 |
| July 1 - September 30, 2010 | 1.37 | 0.59 |
| October 1 - December 31, 2010 | 1.34 | 0.56 |
| January 1 - March 31, 2011 | 1.48 | 1.00 |
| April 1 - June 30, 2011 | 1.28 | 0.94 |
| July 1 - September 30, 2011 | 1.36 | 0.86 |
| October 1 - December 31, 2011 | 1.04 | 0.86 |

As of March 1, 2012, there were 56 holders of record of the Company's Common Stock. To date, we have not declared or paid any dividends on our Common Stock. The payment of future dividends, if any, on our Common Stock is within the discretion of the Board of Directors and will depend upon our income, capital requirements and financial condition, and other relevant factors. The instruments governing our outstanding debt place certain restrictions on the payment of dividends. We do not intend to declare any dividends on our Common Stock in the foreseeable future, but instead intend to retain any cash flow for use in our operations.

The table below presents information regarding outstanding options to purchase our Common Stock as of December 31, 2011:

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans |
|--|---|---|--|
| Equity compensation plans approved by security holders | 13,986,131 | \$1.23 | 577,381 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 13,986,131 | \$1.23 | 577,381 |

Issuer Purchases of Equity Securities in the Fourth Quarter

| 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(2) | Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs |
|---------------|----------------------------------|------------------------------|---|--|
| October 2011 | 70,503 | \$ 1.03 | 70,503 | \$ 1,722,630 |
| November 2011 | 85,236 | 1.02 | 85,236 | 1,635,906 |
| December 2011 | 91,805 | 1.04 | 91,805 | 1,540,560 |
| Total | 247,544 | \$ 1.04 | 247,544 | |

(1) Each monthly period is the calendar month.

(2) Through December 31, 2011, our board of directors had authorized the purchase of up to \$34.5 million of our outstanding securities, which program was first announced in our annual report for the year 2002, filed on March 26, 2003. All purchases described in the table above were under the plan announced in March 2003, which has no fixed expiration date.

Item 6. Selected Financial Data

The following table presents our selected consolidated financial data and operating data as of and for the dates indicated. The data under the captions "Statement of Operations Data" and "Balance Sheet Data" have been derived from our audited and unaudited consolidated financial statements. The remainder is derived from other records of ours.

You should read the selected consolidated financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited and unaudited financial statements and notes thereto that are included in this report.

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| (dollars in thousands, except per share data) | As of and | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Statement of Operations Data | | | | | |
| Revenues: | | | | | |
| Interest income | \$127,856 | \$137,090 | \$208,196 | \$351,551 | \$370,265 |
| Servicing fees | 4,348 | 7,657 | 4,640 | 2,064 | 1,218 |
| Other income | 10,927 | 10,438 | 11,059 | 14,796 | 23,067 |
| Total revenues | 143,131 | 155,185 | 223,895 | 368,411 | 394,550 |
| Expenses: | | | | | |
| Employee costs | 32,270 | 33,814 | 37,306 | 48,874 | 46,716 |
| General and administrative | 26,759 | 26,068 | 32,220 | 44,368 | 47,416 |
| Interest expense | 83,054 | 81,577 | 112,639 | 156,253 | 139,189 |
| Provision for credit losses | 15,508 | 29,921 | 92,011 | 148,408 | 137,272 |
| Loss on sale of receivables | - | - | - | 13,963 | - |
| Total expenses | 157,591 | 171,380 | 274,176 | 411,866 | 370,593 |
| Income (loss) before income tax expense (benefit) | (14,460) | (16,195) | (50,281) | (43,455) | 23,957 |
| Income tax expense (benefit) | - | 16,982 | 7,800 | (17,364) | 10,099 |
| Net income (loss) | \$(14,460) | \$(33,177) | \$(58,081) | \$(26,091) | \$13,858 |
| Earnings (loss) per share-basic | \$(0.76) | \$(1.90) | \$(3.12) | \$(1.36) | \$0.66 |
| Earnings (loss) per share-diluted | \$(0.76) | \$(1.90) | \$(3.12) | \$(1.36) | \$0.61 |
| Pre-tax income (loss) per share-basic (1) | \$(0.76) | \$(0.93) | \$(2.70) | \$(2.26) | \$1.15 |
| Pre-tax income (loss) per share-diluted (2) | \$(0.76) | \$(0.93) | \$(2.70) | \$(2.26) | \$1.06 |
| Weighted average shares outstanding-basic | 19,013 | 17,477 | 18,643 | 19,230 | 20,880 |
| Weighted average shares outstanding-diluted | 19,013 | 17,477 | 18,643 | 19,230 | 22,595 |
| Balance Sheet Data | | | | | |
| Total assets | \$890,050 | \$742,390 | \$1,068,261 | \$1,638,807 | \$2,282,813 |
| Cash and cash equivalents | 10,094 | 16,252 | 12,433 | 22,084 | 20,880 |
| Restricted cash and equivalents | 159,228 | 123,958 | 128,511 | 153,479 | 170,341 |
| Finance receivables, net | 506,279 | 552,453 | 840,092 | 1,339,307 | 1,967,866 |
| Finance receivables measured at fair value | 160,253 | - | - | - | - |
| Residual interest in securitizations | 4,414 | 3,841 | 4,316 | 3,582 | 2,274 |
| Warehouse lines of credit | 25,393 | 45,564 | 4,932 | 9,919 | 235,925 |
| Residual interest financing | 21,884 | 39,440 | 56,930 | 67,300 | 70,000 |
| Debt secured by receivables measured at fair value | 166,828 | - | - | - | - |
| Securitization trust debt | 583,065 | 567,722 | 904,833 | 1,404,211 | 1,798,302 |
| Long-term debt | 79,094 | 65,210 | 48,083 | 45,826 | 28,134 |
| Shareholders' equity | (14,207) | 2,421 | 35,577 | 89,849 | 114,355 |

(1)Income (loss) before income tax benefit divided by weighted average shares outstanding-basic. Included for illustrative purposes because some of the periods presented include significant income tax benefits while other periods have neither income tax benefit nor expense.

(2) Income (loss) before income tax benefit divided by weighted average shares outstanding-diluted. Included for illustrative purposes because some of the periods presented include significant income tax benefits while other periods have neither income tax benefit nor expense.

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As of and
For the Year Ended December 31,

| (dollars in thousands, except per share data) | 2011 | 2010 | 2009 | 2008 | 2007 | | | | | |
|---|-----------|-----------|-------------|-------------|-------------|---|----------|---|-----------|---|
| Contract Purchases/Securitizations | | | | | | | | | | |
| Automobile contract purchases | \$284,237 | \$113,023 | \$8,599 | \$296,817 | \$1,282,311 | | | | | |
| Automobile contracts securitized - structured as sales | - | 103,772 | - | 198,662 | - | | | | | |
| Automobile contracts securitized - structured as secured financings | 335,593 | - | - | 310,360 | 1,118,097 | | | | | |
| Managed Portfolio Data | | | | | | | | | | |
| Contracts held by consolidated subsidiaries | | | | | | | | | | |
| Fireside portfolio | \$546,018 | \$597,142 | \$922,681 | \$1,477,810 | \$2,125,755 | | | | | |
| | 172,167 | - | 1 | - | - | | | | | |
| Contracts held by non-consolidated subsidiaries | | | | | | | | | | |
| Third party portfolios (1) | 42,971 | 83,964 | 134,894 | 186,233 | - | | | | | |
| | 33,493 | 75,097 | 137,146 | 79 | 422 | | | | | |
| Total managed portfolio | \$794,649 | \$756,203 | \$1,194,722 | \$1,664,122 | \$2,126,177 | | | | | |
| Average managed portfolio | 711,725 | 928,977 | 1,342,410 | 1,934,003 | 1,906,605 | | | | | |
| Weighted average fixed effective interest rate (total managed portfolio) (2) | | | | | | | | | | |
| | 18.5 | % | 16.2 | % | 15.8 | % | 18.0 | % | 18.2 | % |
| Core operating expense (% of average managed portfolio) (3) | | | | | | | | | | |
| | 8.3 | % | 6.4 | % | 5.2 | % | 4.8 | % | 4.9 | % |
| Allowance for loan losses | \$10,351 | | \$13,168 | | \$38,274 | | \$78,036 | | \$100,138 | |
| Allowance for loan losses (% of total contracts held by consolidated subsidiaries) | | | | | | | | | | |
| | 1.9 | % | 2.3 | % | 4.4 | % | 5.5 | % | 4.8 | % |
| Total delinquencies (2) (4) | | | | | | | | | | |
| | 4.4 | % | 5.7 | % | 4.9 | % | 5.6 | % | 4.7 | % |
| Total delinquencies and repossessions (2) (4) | | | | | | | | | | |
| | 6.0 | % | 9.2 | % | 8.8 | % | 8.6 | % | 6.3 | % |
| Net charge-offs (2) (5) | | | | | | | | | | |
| | 5.2 | % | 9.0 | % | 11.0 | % | 7.7 | % | 5.3 | % |

- (1) Receivables related to the third party portfolios, on which we earn only a servicing fee.
- (2) Excludes receivables related to the third party portfolios.
- (3) Total expenses excluding provision for credit losses, interest expense, loss on sale of receivables and impairment loss on residual assets.
- (4) For further information regarding delinquencies and the managed portfolio, see the table captioned "Delinquency Experience," in Item 1, Part I of this report and the notes to that table.
- (5) 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 the charge-off, including some recoveries which have been classified as other income in the accompanying financial statements. For further information regarding charge-offs, see the table captioned "Net Charge-Off Experience," in Item I, Part I of this report and the notes to that table.

Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto and other information included or incorporated by reference herein.

Overview

We are a specialty finance company. Our business is to purchase and service retail automobile contracts originated primarily by franchised automobile dealers and, to a lesser extent, by select independent dealers in the United States in the sale of new and used automobiles, light trucks and passenger vans. Through our automobile contract purchases, we provide indirect financing to the customers of dealers who have limited credit histories, low incomes or past credit problems, who we refer to as sub-prime customers. We serve as an alternative source of financing for dealers, facilitating sales to customers who otherwise might not be able to obtain financing from traditional sources, such as commercial banks, credit unions and the captive finance companies affiliated with major automobile manufacturers. In addition to purchasing installment purchase contracts directly from dealers, we have also (i) acquired installment purchase contracts in four merger and acquisition transactions, (ii) purchased immaterial amounts of vehicle purchase money loans from non-affiliated lenders, and (iii) directly originated 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 December 31, 2011, we have purchased a total of approximately \$9.1 billion of automobile contracts from dealers. In addition, we obtained a total of approximately \$842.0 million of automobile contracts in mergers and acquisitions in 2002, 2003, 2004 and 2011. In 2004 and 2009, we were appointed as a third-party servicer for certain portfolios of automobile receivables originated and owned by entities not affiliated with us. Beginning in 2008, our managed portfolio has decreased each year due to our strategy of limiting contract purchases to conserve our liquidity in response to adverse economic conditions, as discussed further below. However, since October 2009, we have gradually increased contract purchases resulting in aggregate purchases of \$284.2 million in 2011, compared to \$113.0 million in 2010 and \$8.6 million in 2009. Our total managed portfolio was \$794.6 million at December 31, 2011, compared to \$756.2 million at December 31, 2010, \$1,194.7 million at December 31, 2009, \$1,664.1 million at December 31, 2008 and \$2,162.2 million at December 31, 2007. The increase between December 31, 2010 and 2011 reflects both our daily purchases of automobile contracts from dealers and our purchase in September 2011 of a portfolio of \$217.8 million of automobile contracts from a non-affiliate, Fireside Bank.

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 ended 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 periods 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 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 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. From July 2003 through April 2008, all of our securitizations were structured in this manner. In September 2008, we securitized automobile contracts in a transaction that was in substance a sale, that was treated as a sale for accounting purposes, and in which we retained a residual interest in the automobile contracts. The remaining receivables from that September 2008 securitization were re-securitized in September 2010 in a structure that maintained sale treatment for accounting purposes. During 2011, we completed three securitizations of approximately \$335.6 million in newly originated contracts. These securitizations were all structured as secured financings and represented our first securitizations of new contracts since 2008.

When structured to be treated as a sale for accounting purposes, the assets and liabilities of the special-purpose subsidiary are not consolidated with us. Accordingly, the transaction removes the sold automobile contracts from our consolidated balance sheet, the related debt does not appear as our debt, and our consolidated balance sheet shows, as an asset, a retained residual interest in the sold automobile contracts. The residual interest represents the discounted value of what we expect will be the excess of future collections on the automobile contracts over principal and interest due on the asset-backed securities. That residual interest appears on our consolidated balance sheet as "residual interest in securitizations," and the determination of its value is dependent on our estimates of the future performance of the sold automobile contracts. Of our managed portfolio outstanding at December 31, 2011, only our September 2010 securitization was structured to be treated as a sale for accounting purposes.

Credit Risk Retained

Whether a sale of automobile contracts in connection with a securitization or warehouse credit facility is treated as a secured financing or as a sale for financial accounting purposes, the related special-purpose subsidiary may be unable to release excess cash to us if the credit performance of the related automobile contracts falls short of pre-determined standards. Such releases represent a material portion of the cash that we use to fund our operations. An unexpected deterioration in the performance of such automobile contracts could therefore have a material adverse effect on both our liquidity and our results of operations, regardless of whether such automobile contracts are treated for financial accounting purposes as having been sold or as having been financed. For estimation of the magnitude of such risk, it may be appropriate to look to the size of our "managed portfolio," which represents both financed and sold automobile contracts as to which such credit risk is retained. Our managed portfolio as of December 31, 2011 was approximately \$794.6 million, which includes a third party servicing portfolio of \$33.5 million on which we earn only servicing fees and have no credit risk.

Critical Accounting Policies

We believe that our accounting policies related to (a) Allowance for Finance Credit Losses, (b) Amortization of Deferred Originations Costs and Acquisition Fees, (c) Term Securitizations, (d) Finance Receivables and Related Debt Measured at Fair Value and (e) Income Taxes are the most critical to understanding and evaluating our reported financial results. Such policies are described below.

Allowance for Finance Credit Losses

In order to estimate an appropriate allowance for losses to be incurred on finance receivables, we use a loss allowance methodology commonly referred to as "static pooling," which stratifies our finance receivable portfolio into separately identified pools based on the period of origination. Using analytical and formula driven techniques, we estimate an allowance for finance credit losses, which we believe is adequate for probable credit losses that can be reasonably estimated in our portfolio of automobile contracts. For each monthly pool of contracts that we purchase, we begin establishing the allowance in the month of acquisition and increase it over the subsequent eleven months, through a provision for losses charged to our consolidated statement of operations. Net losses incurred on finance receivables are charged to the allowance. We evaluate the adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio, prospective liquidation values of the underlying collateral and general economic and market conditions. As circumstances change, our level of provisioning and/or allowance may change as well. We observed deterioration in performance of automobile contracts held in our portfolio since 2008, which we attribute to a general recession that began in December 2007. Accordingly, we increased our provision for credit losses in the fourth quarter of 2009.

Our allowance as a percentage of finance receivables has decreased in recent years due primarily to the continued seasoning of our portfolio. Broad economic factors such as recession and significant changes in unemployment levels influence the credit performance of our portfolio, as does the weighted average age of the receivables at any given time. Our internal credit performance data consistently show that new receivables have lower levels of delinquency and losses early in their lives, with delinquencies increasing throughout their lives and losses gradually increasing to a peak between 36 and 42 months, after which they gradually decrease. The weighted average seasoning of our total owned portfolio excluding Fireside, was 27 months, 37 months and 33 months as of December 31, 2011, December 31, 2010, and December 31, 2009 respectively. In addition, for receivables originated beginning with the third quarter of 2008, we have found the early credit performance of those static portfolios to be significantly better than earlier portfolios at similar vintage time frames.

Amortization of Deferred Originations Costs and Acquisition Fees

Upon purchase of a contract from a dealer, we generally either charge or advance the dealer an acquisition fee. In addition, we incur certain direct costs associated with originations of our contracts. All such acquisition fees and direct costs are applied to 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.

Term Securitizations

Our term securitization structure has generally been as follows:

We sell automobile contracts we acquire to a wholly-owned special purpose subsidiary, which has been established for the limited purpose of buying and reselling our automobile contracts. The special-purpose subsidiary then transfers the same automobile contracts to another entity, typically a statutory trust. The trust issues interest-bearing asset-backed securities, in a principal amount equal to or less than the aggregate principal balance of the automobile contracts. We typically sell these automobile contracts to the trust at face value and without recourse, except that representations and warranties similar to those provided by the dealer to us are provided by us to the trust. One or more investors purchase the asset-backed securities issued by the trust; the proceeds from the sale of the asset-backed securities are then used to purchase the automobile contracts from us. We may retain or sell subordinated asset-backed securities issued by the trust or by a related entity. Historically we have purchased external credit enhancement for most of our term securitizations in the form of a financial guaranty insurance policy, guaranteeing timely payment of interest and ultimate payment of principal on the senior asset-backed securities, from an insurance company. In addition, we structure our securitizations to include internal credit enhancement for the benefit of the insurance company and the investors (i) in the form of an initial cash deposit to an account ("spread account") held by the trust, (ii) in the form of overcollateralization of the senior asset-backed securities, where the principal balance of the senior asset-backed securities issued is less than the principal balance of the automobile contracts, (iii) in the form of subordinated asset-backed securities, or (iv) some combination of such internal credit enhancements. The agreements governing the securitization transactions require that the initial level of internal credit enhancement be supplemented by a portion of collections from the automobile contracts until the level of internal credit enhancement reaches specified levels, which are then maintained. The specified levels are generally computed as a percentage of the principal amount remaining unpaid under the related automobile contracts. The specified levels at which the internal credit enhancement is to be maintained will vary depending on the performance of the portfolios of automobile contracts held by the trusts and on other conditions, and may also be varied by agreement among us, our special purpose subsidiary, the insurance company and the trustee. Such levels have increased and decreased from time to time based on performance of the various portfolios, and have also varied from one transaction to another. The agreements governing the securitizations generally grant us the option to repurchase the sold automobile contracts from the trust when the aggregate outstanding balance of the automobile contracts has amortized to a specified percentage of the initial aggregate balance.

Our September 2008 securitization and the subsequent re-securitization of the remaining receivables from such transaction in September 2010 were each in substance sales of the underlying receivables, and have been treated as sales for financial accounting purposes. They differ from those treated as secured financings in that the trust to which our special-purpose subsidiaries sold the automobile contracts met the definition of a "qualified special-purpose entity" under Statement of Financial Accounting Standards No. 140 (ASC 860 10 65-2) As a result, assets and liabilities of those trusts are not consolidated into our consolidated balance sheet.

Historically, our warehouse credit facility structures were similar to the above, except that (i) our special-purpose subsidiaries that purchased the automobile contracts pledged the automobile contracts to secure promissory notes that

they issued, (ii) no increase in the required amount of internal credit enhancement was contemplated, and (iii) we did not purchase financial guaranty insurance. Through November 2008, we depended substantially on two warehouse credit facilities: (i) a \$200 million warehouse credit facility, which we established in November 2005 and expired by its terms in November 2008; and (ii) a \$200 million warehouse credit facility, which we established in June 2004 and which was amended in December 2008 to eliminate future advances and to provide for repayment of the related notes from the cash collections on the underlying pledged contracts, and certain other principal reductions until it was fully repaid in September 2009. Since October 2009, we have gradually increased our contract purchases by utilizing a \$50 million revolving credit facility we established in September 2009 and \$50 million term funding facility that we established in March 2010. More recently, we increased our short-term contract financing resources by \$200 million by entering into agreements for a \$100 million credit facility in December 2010 and for another \$100 million credit facility in February 2011. The September 2009 revolving facility terminated in September 2011, and the March 2010 term facility was fully utilized by December 2010. In February 2012, we amended the February 2011 facility to extend the revolving period from February 2012 to May 2012 and reduced the maximum advance from \$100 million to \$35 million. Our current maximum revolving warehouse financing capacity is \$135 million.

Upon each transfer of automobile contracts in a transaction structured as a secured financing for financial accounting purposes, whether a term securitization or a warehouse financing, we retain on our consolidated balance sheet the related automobile contracts as assets and record the asset-backed notes issued in the transaction as indebtedness.

Under the September 2008 and September 2010 securitizations, and other term securitizations completed prior to July 2003 that were structured as sales for financial accounting purposes, we removed from our consolidated balance sheet the automobile contracts sold and added to our consolidated balance sheet (i) the cash received, if any, and (ii) the estimated fair value of the ownership interest that we retained in the automobile contracts sold in the transaction. That retained or residual interest consisted of (a) the cash held in the spread account, if any, (b) overcollateralization, if any, (c) asset-backed securities retained, if any, and (d) receivables from the trust, which include the net interest receivables. Net interest receivables represent the estimated discounted cash flows to be received from the trust in the future, net of principal and interest payable with respect to the asset-backed notes, the premium paid to the insurance company, if any, and certain other expenses. The excess of the cash received and the assets we retained over the carrying value of the automobile contracts sold, less transaction costs, equaled the net gain on sale of automobile contracts we recorded.

We receive periodic base servicing fees for the servicing and collection of the automobile contracts. Under our securitization structures treated as secured financings for financial accounting purposes, such servicing fees are included in interest income from the automobile contracts. In addition, we are entitled to the cash flows from the trusts that represent collections on the automobile contracts in excess of the amounts required to pay principal and interest on the asset-backed securities, base servicing fees, and certain other fees and expenses (such as trustee and custodial fees). Required principal payments on the asset-backed notes are generally defined as the payments sufficient to keep the principal balance of such notes equal to the aggregate principal balance of the related automobile contracts (excluding those automobile contracts that have been charged off), or a pre-determined percentage of such balance. Where that percentage is less than 100%, the related securitization agreements require accelerated payment of principal until the principal balance of the asset-backed securities is reduced to the specified percentage. Such accelerated principal payment is said to create overcollateralization of the asset-backed notes.

If the amount of cash required for payment of fees, expenses, interest and principal on the senior asset-backed notes exceeds the amount collected during the collection period, the shortfall is withdrawn from the spread account, if any. If the cash collected during the period exceeds the amount necessary for the above allocations plus required principal payments on the subordinated asset-backed notes, and there is no shortfall in the related spread account or the required overcollateralization level, the excess is released to us. If the spread account and overcollateralization is not at the required level, then the excess cash collected is retained in the trust until the specified level is achieved. Although spread account balances are held by the trusts on behalf of our special-purpose subsidiaries as the owner of the residual interests (in the case of securitization transactions structured as sales for financial accounting purposes) or the trusts (in the case of securitization transactions structured as secured financings for financial accounting purposes), we are restricted in use of the cash in the spread accounts. Cash held in the various spread accounts is invested in high quality, liquid investment securities, as specified in the securitization agreements. The interest rate payable on the automobile contracts is significantly greater than the interest rate on the asset-backed notes. As a result, the residual interests described above historically have been a significant asset of ours.

In all of our term securitizations and warehouse credit facilities, whether treated as secured financings or as sales, we have sold the automobile contracts (through a subsidiary) to the securitization entity. The difference between the two structures is that in securitizations that are treated as secured financings we report the assets and liabilities of the securitization trust on our consolidated balance sheet. Under both structures, recourse to us by holders of the asset-backed securities and by the trust, for failure of the automobile contract obligors to make payments on a timely basis, is limited to the automobile contracts included in the securitizations or warehouse credit facilities, the spread

accounts and our retained interests in the respective trusts.

Since the third quarter of 2003, we have conducted 28 term securitizations. Of these 28, 22 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 under our TFC program and acquired in a bulk purchase. 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. Since July 2003 all such securitizations have been structured as secured financings, except that our September 2008 and September 2010 securitizations were in substance sales of the underlying receivables, and were treated as sales for financial accounting purposes.

Our December 2011 securitization included a pre-funding feature in which a portion of the receivables to be pledged to the securitization trust were not scheduled to be delivered to the trust until after the initial closing. As a result, our restricted cash balance at December 31, 2011 included \$36.1 million from the proceeds of the sale of the securitization notes that were held by the trustee pending delivery of the remaining receivables. In January 2012, the requisite additional receivables were delivered to the trust and we received the related restricted cash, a significant portion of which was used to repay amounts owed under our warehouse credit facilities.

Finance Receivables and Related Debt Measured at Fair Value

In September 2011 we purchased finance receivables from Fireside Bank. These receivables are secured by debt that was structured specifically for the acquisition of this portfolio. Since the Fireside receivables were originated by another entity with its own underwriting guidelines and procedures, we have elected to account for the Fireside receivables and the related debt secured by those receivables at their estimated fair values so that changes in fair value will be reflected in our results of operations as they occur. There are limited observable inputs available to us for measurement of such receivables, or for the related debt. We use our own assumptions about the factors that we believe market participants would use in pricing similar receivables and debt, and are based on the best information available in the circumstances. The valuation method used to estimate fair value may produce a fair value measurement that may not be indicative of ultimate realizable value. Furthermore, while we believe our valuation methods are appropriate and consistent with those used by other market participants, the use of different methods or assumptions to estimate the fair value of certain financial instruments could result in different estimates of fair value. Those estimated values may differ significantly from the values that would have been used had a readily available market for such receivables or debt existed, or had such receivables or debt been liquidated, and those differences could be material to the financial statements.

Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. Although realization is not assured, we believe that the realization of the recognized net deferred tax asset of \$15.0 million is more likely than not based on available tax planning strategies that could be implemented if necessary to prevent a carryforward from expiring. Our net deferred tax asset of \$15.0 million is net of a valuation allowance of \$61.7 million and consists of approximately \$11.5 million of net U.S. federal deferred tax assets and \$3.5 million of net state deferred tax assets. The major components of the deferred tax asset are \$69.9 million in net operating loss carryforwards and built in losses and \$8.5 million in net deductions which have not yet been taken on a tax return. We estimate that we would need to generate approximately \$37.5 million of taxable income during the applicable carryforward periods to realize fully our federal and state net deferred tax assets.

As a result of recent net losses, we are in a three-year cumulative pretax loss position at December 31, 2011. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset. In determining the possible future realization of deferred tax assets, we have considered future taxable income from the following sources: (a) reversal of taxable temporary differences; and (b) tax planning strategies available to us in accordance with (ASC 740, "Income Taxes") that, if necessary, would be implemented to accelerate taxable income into years in which net operating losses might otherwise expire. Our tax planning strategies include the

prospective sale of certain assets such as finance receivables, residual interests in securitized finance receivables, charged off receivables and base servicing rights. The expected proceeds for such asset sales have been estimated based on our expectation of what buyers of the assets would consider to be reasonable assumptions for net cash flows and required rates of return for each of the various asset types. Our estimates for net cash flows and required rates of return are subjective and inherently subject to future events which may significantly impact actual net proceeds we may receive from executing our tax planning strategies. Nevertheless, we believe such asset sales can produce significant taxable income within the relevant carryforward period. Such strategies could be implemented without significant impact on our core business or our ability to generate future growth. The costs related to the implementation of these tax strategies were considered in evaluating the amount of taxable income that could be generated in order to realize our deferred tax assets.

Based upon the tax planning opportunities and other factors discussed below, we have concluded that the U.S. and state net operating loss carryforward periods provide enough time to utilize the deferred tax assets pertaining to the existing net operating loss carryforwards and any net operating loss that would be created by the reversal of the future net deductions which have not yet been taken on a tax return. Although our core business has produced strong earnings in the past, even with intermittent loss periods resulting from economic cycles not unlike, although not as severe as, the current economic downturn, we have not used expected future taxable income in our evaluation of the value of our net deferred tax asset. We have taken steps to reduce our cost structure and have adjusted the contract interest rates and purchase prices applicable to our purchases of automobile contracts from dealers. We have been able to increase our acquisition fees and reduce our purchase prices because of lessened competition for our services. Our estimates of taxable income that may be derived from the implementation of our tax planning strategies are forward-looking statements, and there can be no assurance that our estimates of such taxable income will be correct. Factors discussed under "Risk Factors," and in particular under the subheading "Risk Factors -- Forward-Looking Statements" may affect whether such projections prove to be correct.

We recognize interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statement of operations. Accrued interest and penalties are included within the related tax liability line in the consolidated balance sheet.

Uncertainty of Capital Markets and General Economic Conditions

We depend 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 53 term securitizations of approximately \$7.1 billion in contracts. We conducted four term securitizations in 2006, four in 2007, two 2008, one in 2010 and three in 2011. 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) and our securitization in September 2010 (a re-securitization of the remaining receivables from the September 2008 transaction) were each in substance a sale of the related contracts, and have been treated as sales for financial accounting purposes. During 2011, we completed three securitizations of approximately \$335.6 million in newly originated contracts. These securitizations were all structured as secured financings and represented our first securitizations of new contracts since 2008.

From the fourth quarter of 2007 through the end of 2009, we observed unprecedented adverse changes in the market for securitized pools of automobile contracts. These changes included 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, suspended offering such guarantees. The adverse changes that took place in the market from the fourth quarter of 2007 through the end of 2009 caused us to conserve liquidity by significantly reducing our purchases of automobile contracts. However, since October 2009, we have gradually increased our contract purchases by utilizing one \$50 million revolving credit facility that we established in September 2009 and another \$50 million term funding facility that we established in March 2010. In September 2010 we took advantage of improvement in the market for asset-backed securities by re-securitizing the remaining underlying receivables from our unrated September 2008 securitization. By doing so we were able to pay off the bonds associated with the September 2008 transaction and issue rated bonds with a significantly lower weighted average coupon. The September 2010 transaction was our first rated term securitization since 1993 that did not utilize a financial guaranty. More recently, we increased our short-term funding capacity by \$200 million with the establishment of a new \$100 million credit facility in December 2010 and an additional \$100 million credit facility in February 2011. The September 2009 revolving facility terminated in September 2011, and the March 2010 term facility was fully utilized by December 2010. In February 2012, we amended the February 2011 facility to extend the revolving

period from February 2012 to May 2012 and reduced the maximum advance from \$100 million to \$35 million. Our current maximum revolving warehouse financing capacity is \$135 million. During 2011, we completed three securitizations of approximately \$335.6 million in newly originated contracts. In spite of the improvements we have seen in the capital markets, if the trend of improvement in the markets for asset-backed securities should reverse, or if we should be unable to obtain additional contract financing facilities or to complete additional term securitizations, we may curtail or cease our purchases of new automobile contracts, which could lead to a material adverse effect on our operations.

The downturn in economic conditions and the capital markets that began in the fourth quarter of 2007 has negatively affected many aspects of our industry. First, throughout 2008 and 2009 there was reduced demand for asset-backed securities secured by consumer finance receivables, including sub-prime automobile receivables, as compared to 2007 and earlier. During 2010, however, we observed that yield requirements for investors that purchase securities backed by consumer finance receivables, including sub-prime automobile receivables, decreased significantly and approached pre-2008 levels, albeit with significantly fewer transactions in the market. Second, there have been fewer lenders who provide short term warehouse financing for sub-prime automobile finance companies due to more uncertainty regarding the prospects of obtaining long-term financing through the issuance of asset-backed securities than before 2008. 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. These developments resulted in our incurring higher interest costs for receivables we financed in 2009 and 2010 compared to pre-2008 levels. However, in December 2010 we entered into a \$100 million two-year warehouse credit line with a significantly lower cost of funds than the facilities we used in 2009 and 2010. Finally, broad economic weakness and high levels of unemployment from 2008 onward have made many of our customers less willing or able to pay, resulting in higher delinquencies, 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 facilities 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. In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare a default if a default occurred under a different facility.

The agreements under which we receive periodic fees for servicing automobile contracts in securitizations are terminable by the respective financial guaranty insurance companies (also referred to as note insurers) upon defined events of default, and, in some cases, at the will of the insurance company. In August 2010, we agreed with the note insurer for four of our twelve outstanding securitizations to amend the applicable agreements to remove the financial covenants that were contained in three of the related agreements. In return for such amendments, we agreed to increase the required credit enhancement amounts in those three deals through increased spread account requirements. The fourth transaction insured by this particular note insurer does not contain financial covenants.

Results of Operations

Comparison of Operating Results for the Year Ended December 31, 2011 with the Year Ended December 31, 2010

Revenues. During the year ended December 31, 2011, revenues were \$143.1 million, a decrease of \$12.1 million, or 7.8%, from the prior year revenue of \$155.2 million. The primary reason for the decrease in revenues is a decrease in interest income. Interest income for the year ended December 31, 2011 decreased \$9.2 million, or 6.7%, to \$127.9 million from \$137.1 million in the prior year. The primary reason for the decrease in interest income is the decrease in interest income on finance receivables held by consolidated subsidiaries of \$8.9 million. At December 31, 2011 the aggregate outstanding balance of finance receivables held by consolidated subsidiaries was \$718.2 million compared to \$597.1 million at December 31, 2010. However, the Fireside portfolio represents \$172.1 million of the December 31, 2011 balance of finance receivables held by consolidated subsidiaries. The Fireside portfolio was acquired on September 15, 2011 and did not contribute to interest income until after that time. We also experienced a decrease in

interest income on our residual interest in securitizations of \$249,000, and a decrease in interest earned on cash deposits (including restricted cash deposits) of \$90,000.

Servicing fees totaling \$4.3 million in the year ended December 31, 2011 decreased \$3.3 million, or 43.2%, from \$7.7 million in the prior year. The decrease in servicing fees is the result of the continuing amortization of our third-party servicing portfolio of sub-prime automobile receivables owned by a subsidiary of CompuCredit Corporation. As of December 31, 2011 and 2009, our managed portfolio owned by consolidated vs. non-consolidated subsidiaries and third-parties was as follows:

| | December 31, 2011 | | December 31, 2010 | | |
|---|-------------------|-------|-------------------|-------|---|
| | Amount | % (1) | Amount | % (1) | |
| Total Managed Portfolio (\$ in millions) | | | | | |
| Owned by Consolidated Subsidiaries | | | | | |
| CPS Originated Receivables | \$546.0 | 68.7 | % \$597.1 | 79.0 | % |
| Fireside | 172.2 | 21.7 | % - | 0.0 | % |
| Owned by Non-Consolidated Subsidiaries | | | | | |
| Third-Party Servicing Portfolios | 42.9 | 5.4 | % 84.0 | 11.1 | % |
| Total | \$794.6 | 100.0 | % \$756.2 | 100.0 | % |

(1) Percentages may not add up to 100% due to rounding

At December 31, 2011, we were generating income and fees on a managed portfolio with an outstanding principal balance of \$794.6 million compared to a managed portfolio with an outstanding principal balance of \$756.2 million as of December 31, 2010. At December 31, 2011 and 2010, the managed portfolio composition was as follows:

| | December 31, 2011 | | December 31, 2010 | | |
|--|-------------------|-------|-------------------|-------|---|
| | Amount | % (1) | Amount | % (1) | |
| Originating Entity (\$ in millions) | | | | | |
| CPS | \$586.9 | 73.9 | % \$672.2 | 88.9 | % |
| Fireside | 172.2 | 21.7 | % - | 0.0 | % |
| TFC | 2.0 | 0.3 | % 8.9 | 1.2 | % |
| Third-Party Servicing Portfolios | 33.5 | 4.2 | % 75.1 | 9.9 | % |
| Total | \$794.6 | 100.0 | % \$756.2 | 100.0 | % |

(1) Percentages may not add up to 100% due to rounding

Other income increased \$489,000, or 4.7%, to \$10.9 million in the year ended December 31, 2011 from \$10.4 million during the prior year. The year-over-year increase is the result of a variety of factors including an increase of \$3.6 million in income from direct mail and related products and services that we offer to our dealers and a recognition of \$626,000 in other income related to a mark up of the fair value of the receivables associated with the Fireside acquisition. The increases in other income were offset by a decrease of \$2.8 million in sales tax refunds, a decrease of \$880,000 in recoveries on receivables from the 2002 acquisition, and a decrease of \$68,000 in remittances from third-party providers of convenience fees paid by our customers for web based and other electronic payments.

Expenses. Our operating expenses consist primarily 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 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 warrants and 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 primarily of facilities expenses, telephone and other communication services, credit services, computer services, marketing and advertising expenses, and depreciation and amortization.

Total operating expenses were \$157.6 million for the year ended December 31, 2011, compared to \$171.4 million for the prior year, a decrease of \$13.8 million, or 8.0%. The decrease is primarily due to decreases in provision for credit losses and general and administrative expenses, which decreased by \$14.4 million and \$3.9 million, or 48.2% and 21.2%, respectively.

Employee costs decreased by 4.6% to \$32.3 million during the year ended December 31, 2011, representing 20.5% of total operating expenses, from \$33.8 million for the prior year when they represented 19.7% of total operating expenses. Our employee costs have decreased gradually from December 2007 when we had 997 employees through December 2010 when we had 435 employees. Since January 2008, we have reduced staff through attrition and reductions in force as a result of the uncertainty in capital markets and the related limited access to financing for new contract purchases. Since December 2009, however, as we have gradually acquired additional financing resources and increased our contract purchase volumes, we have added employees in our Originations and Marketing departments. These additions have offset reductions in our Servicing department staff that have been necessary as our total managed portfolio has decreased. In addition, we hired approximately 65 new Servicing department employees in September 2011 in connection with our acquisition of the Fireside portfolio. As of December 31, 2011 we had 530 employees, compared to 435 employees at December 31, 2010.

General and administrative expenses decreased by 21.2% to \$14.6 million and represented 9.3% of total operating expenses in the year ending December 31, 2011, as compared to the prior year when such expenses represented 10.8% of total operating expenses. General and administrative expenses include telecommunications costs, postage and delivery costs and other costs associated with servicing our managed portfolio.

Provision for credit losses was \$15.5 million for the year ended December 31, 2011, a decrease of \$14.4 million, or 48.2%, compared to the prior year and represented 9.8% of total operating expenses. The provision for credit losses maintains the allowance for loan losses at levels that we feel are adequate for the probable credit losses that can be reasonably estimated. The decrease in provision expense compared to the prior year is caused by the decrease in the size, and also the vintage composition, of our portfolio of finance receivables. Since January 2009 we have continuously modified our contract purchase guidelines with the intent of reducing credit losses. As a result, we believe that the expected credit losses on contract purchases subsequent to January 2009 will be substantially less than the actual losses we have experienced on receivables purchased in 2008 and before. During 2011, the relative mix of pre-2009 and post-2009 receivables shifted significantly contributing to lower provision expense in 2011 compared to the prior year. At December 31, 2011, the percentage of our finance receivables that represented pre-2009 purchases was 36.9%, compared to 81.1% at December 31, 2010.

Interest expense for the year ended December 31, 2011 increased \$1.5 million, or 1.8%, to \$83.1 million, compared to \$81.6 million in the previous year. The increase is a combination of interest expense on the facility established to finance the acquisition of the Fireside portfolio as well as increases in interest expense for warehouse debt and subordinated debt. Those increases were somewhat offset by significant reductions in interest expense for securitization trust debt and also by reductions in interest expense on residual interest financing.

In September 2011 we established a credit facility exclusively for the acquisition of the Fireside portfolio. From the date of the acquisition through December 2011 we incurred \$9.3 million in interest expense on the Fireside related debt. Interest expense on warehouse debt increased by \$3.3 million in 2011 compared to the prior year as a result of our significant increase in contract purchases in 2011, most of which would have been financed for some period of time through one of our two warehouse facilities. In 2011 we purchased \$284.2 million in new contracts compared to \$113.0 million in 2010. Interest expense on subordinated debt increased by \$5.3 million in 2011 compared to the prior year primarily due to the issuance of new senior secured related party debt of \$2.8 million in April 2011 (of which \$1.2 million was outstanding at December 31, 2011), and \$5 million in each of March 2011 and November 2011.

Interest on securitization trust debt decreased by \$14.4 million in 2011 compared to the prior year. This was caused by several factors including the decline in the portion of our portfolio that is financed by such securitizations and to a lower overall cost of funds on securitizations completed during 2011 compared to the older securitizations that were completed in 2008 and before. Interest expense on our residual interest financing decreased by \$2.0 million as the

balance outstanding has dropped from \$39.4 million at the end of 2010 to \$21.9 million at the end of 2011.

Marketing expenses consist primarily of commission-based compensation paid to our employee marketing representatives. These expenses increased by \$4.7 million, or 121.9%, to \$8.5 million, compared to \$3.8 million in the previous year and represented 25.4% of total operating expenses. We purchased 18,110 contracts in 2011 compared to 7,507 in 2010.

Occupancy expenses decreased by \$61,000 or 2.0%, to \$3.0 million compared to \$3.1 million in the previous year, and represented 1.9% of total operating expenses. .

Depreciation and amortization expenses increased by \$23,000, or 3.6%, to \$672,000 from \$649,000 in the previous year.

For the year ended December 31, 2011, we recorded a tax benefit of \$5.1 million resulting from operating losses. The benefit was offset by an increase of \$5.1 million to our valuation allowance for deferred taxes. For the year ended December 31, 2010, we recorded a tax benefit of \$11.0 million, which was offset by an increase to our valuation allowance for deferred taxes.

Liquidity and Capital Resources

Liquidity

Our business requires substantial cash to support purchases of automobile contracts and other operating activities. Our primary sources of cash have been cash flows from operating activities, including proceeds from term securitization transactions and other sales of automobile contracts, amounts borrowed under 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, fees for origination of automobile contracts, and releases of cash from securitized portfolios of automobile contracts in which we have retained a residual ownership interest and from the spread accounts associated with such pools. Our primary uses of cash have been the purchases of automobile contracts, repayment of amounts borrowed under warehouse credit facilities and otherwise, operating expenses such as employee, interest, occupancy expenses and other general and administrative expenses, the establishment of spread accounts and initial overcollateralization, if any, 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 portfolios and their related spread accounts), the rate of expansion or contraction in our managed portfolio, and the terms upon which we are able to purchase, sell, and borrow against automobile contracts.

Net cash provided by operating activities for the years ended December 31, 2011 and 2010 was \$10.8 million and \$42.9 million, respectively.

Net cash used in investing activities for the year ended December 31, 2011 was \$155.0 million compared to net cash provided by investing activities of \$272.9 million in 2010. Cash provided by investing activities primarily results from principal payments and other proceeds received on finance receivables held for investment. Cash used in investing activities generally relates to purchases of automobile contracts. Purchases of finance receivables held for investment were \$284.2 million and \$113.3 million in 2011 and 2010, respectively. The significant increase in contract purchases in 2011 was facilitated by the establishment of a \$100 million secured revolving credit facility in December 2010 and an additional \$100 million secured revolving credit facility in February 2011.

Net cash provided by financing activities for the year ended December 31, 2011 was \$138.0 million compared with net cash used by financing activities of \$312.0 million in 2010. Cash used or provided by financing activities is primarily attributable to the issuance or repayment of debt, and in particular, securitization trust debt. We issued \$339.5 million in new securitization trust debt in 2011 compared to \$42.5 million of new securitization trust debt in 2010. We also issued \$197.3 million in new debt in conjunction with the acquisition of the Fireside portfolio in 2011. Repayments of securitization debt were \$330.0 million and \$385.2 million in 2011 and 2010, respectively.

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.

On September 25, 2009 we established a \$50 million secured revolving credit facility with Fortress Credit Corp., which matured on September 25, 2011. The facility 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 Four Funding LLC. The facility provided for advances up to 75% of eligible finance receivables and the notes under it accrued interest at a rate of one-month LIBOR plus 12.00% per annum, with a minimum rate of 14.00% per annum. As part of the consideration given to Fortress for committing to make loans under this facility, we issued a 10-year warrant to purchase up to 1,158,087 of our common shares, at an exercise price of \$0.879 per share (we refer to this as the Fortress Warrant). Issuance of the Fortress Warrant required an adjustment to the terms of an existing outstanding warrant regarding 1,564,324 shares, reducing the exercise price of that other warrant from \$1.44 per share to \$1.40702 per share and increasing the number of shares available for purchase to 1,600,991.

In December 2010 we entered into a \$100 million two-year warehouse credit line with affiliates of Goldman, Sachs & Co. and Fortress Investment Group. The facility is 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 Six Funding LLC. The facility provides for advances up to 82% of eligible finance receivables and the notes under it accrue interest at a rate of one-month LIBOR plus 5.73% per annum, with a minimum rate of 7.23% per annum. There was \$25.4 million outstanding under this facility at December 31, 2011.

On February 24, 2011, we entered into an additional \$100 million two-year warehouse credit line with UBS Real Estate Securities, Inc. The facility revolved during the first year and amortizes during the second year. The facility is 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 Seven Funding, LLC. The facility provides for advances up to 76.5% of eligible finance receivables and the notes under it accrue interest at one-month LIBOR plus 6.00% per annum. There were no amounts outstanding under this facility at December 31, 2011. In February 2012, we amended this facility to extend the revolving period from February 2012 to May 2012 and reduced the maximum advance from \$100 million to \$35 million.

In March 2010, we entered into a \$50 million term funding facility with a syndicate of note purchasers including affiliates of Angelo, Gordon & Co., L.P. and an affiliate of Cohen & Company Securities. Under the term funding facility, the note purchasers agreed to purchase up to \$50 million in asset-backed notes through December 31, 2010, subject to collateral eligibility and other terms and conditions, through the end of 2010. Amounts outstanding bear interest at a fixed rate of 11.00%, which may be decreased to 9.00% should the notes receive investment grade ratings from at least two of the following three credit rating agencies: Moody's, Standard & Poor's, or Fitch. Principal payments on the notes are due as the underlying receivables are paid or charged off, and the final maturity is July 17, 2017. In connection with the establishment of this term funding facility, we paid a closing fee of \$750,000 and issued to certain of the note purchasers or their designees warrants to purchase 500,000 shares of our common stock at an exercise price of \$1.41 per share (we refer to this as the Page Five Warrant). Issuance of the Page Five Warrant required adjustments to the terms of two existing outstanding warrants. The first warrant related to 1,600,991 shares, on which the exercise price was decreased from \$1.407 per share to \$1.398 per share and the number of shares available for purchase was increased to 1,611,114. The second affected warrant related to 283,985 shares, which was increased to 285,781 shares. In June 2011, we restructured the facility to get the senior notes rated investment grade and issued an additional \$9.8 million in three tranches of new subordinated notes. The interest rate on the senior notes was reduced to 9.25% as a result of getting the investment grade rating. As of December 31, 2011, there was \$36.7 million outstanding under the facility and no additional advances are expected to be made.

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 originally due in July 2009. As of July 2008, we had drawn \$26.8 million on the revolving note. The facility's revolving feature expired in July 2008. On July 10, 2008 we amended the terms of the combination term and revolving residual credit facility, (i) eliminating the revolving feature and increasing the interest rate, (ii) consolidating the amounts then owing on the Class A-1 note with the Class A-2 note, (iii) establishing an amortization schedule for principal reductions on the Class A-2 note, and (iv) providing for an extension, at our option if certain conditions were met, of the Class A-2 note maturity from June 2009 to June 2010. In June 2009 we met all such conditions and extended the maturity. 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. In May 2010, we extended the maturity date from June 2010 to May 2011. In May 2011, we extended the maturity date of the facility from May 2011 to May 2012. As of December 31, 2011 the aggregate indebtedness under this facility was \$21.9 million. In February 2012, we exchanged certain previously pledged residual interests with new, previously unpledged, residual interests and extended the maturity date to February 2013.

On June 30, 2008, we entered into a series of agreements pursuant to which an affiliate of Levine Leichtman Capital Partners 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 1,611,114 shares of our common stock, at an exercise price of \$1.39818 per share, and (ii) warrants that we refer to as the N Warrants, which are exercisable for 285,781 shares of our common stock, at a nominal exercise price. Both the FMV Warrants and the N Warrants are exercisable in whole or in part and at any time up to and including June 30, 2018. We valued the warrants using the Black-Scholes valuation model and recorded their value as a liability on our balance sheet because the terms of the warrants also included a provision whereby the lender could require us to purchase the warrants for cash. That provision was eliminated by mutual agreement in September 2008. The FMV Warrants were initially exercisable to purchase 1,500,000 shares for \$2.573 per share, were adjusted in connection with the July 2008 issuance of other warrants to become exercisable to purchase 1,564,324 shares at \$2.4672 per share, and were further adjusted in connection with a July 2009 amendment of our option plan to become exercisable at \$1.44 per share. Upon issuance in September 2009 of the Fortress Warrant, the FMV Warrant was further adjusted to become exercisable to purchase 1,600,991 shares at an exercise price of \$1.407 per share. Upon issuance in March 2010 of the Page Five Warrant, the FMV Warrant was further adjusted to become exercisable to purchase 1,611,114 shares at an exercise price of \$1.39818 per share. In November 2009 we entered into an additional agreement with this lender whereby they purchased an additional \$5 million note. The note accrued interest at 15.0% and was repaid in December 2010 at which time the lender purchased a new \$27.8 million note under substantially the same terms as the \$10 million and \$15 million notes already outstanding. The \$27.8 million note accrues interest at 16.0% and matures in December 2013. Concurrent with the issuance of the \$27.8 million note, the term \$10 and \$15 million notes were amended to change their maturity dates to December 2013. In conjunction with the issuance of the \$27.8 million note, we issued to the lender 880,000 shares of common stock and 1,870 shares of Series B convertible preferred stock. Each share of the Series B convertible preferred stock was exchanged for 1,000 shares of our common stock on June 15, 2011, upon shareholder approval of such exchange. At the time of issuance, the value of the common stock and Series B preferred stock was \$753,000 and \$1.6 million, respectively. On March 31, 2011, we sold an additional \$5 million note due February 29, 2012 to LLC. In April 2011 we purchased from LLC a portion of an outstanding subordinated note issued by our CPS Cayman Residual Trust 2008-A, and financed that purchase by issuing to LLC a new \$3 million note due June 30, 2012. In November 2011, we sold an additional \$5 million note due October 2012. All such notes bear interest at 14% per annum. In February 2012, we extended the maturity of the \$5 million note that was originally due in February 2012 to March 2012.

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 December 31, 2011, we had unrestricted cash of \$10.1 million. We had \$74.6 million available under one warehouse credit facility and \$100 million available under our other warehouse credit facility (in both facilities advances are subject to available eligible collateral). During 2011 we completed three securitizations aggregating \$335.6 million of newly originated receivables, and we intend to complete securitizations regularly during in 2012,

although there can be no assurance that we will be able to do so. Our plans to manage our liquidity include maintaining our rate of automobile contract purchases at a level that matches our available capital, and, wherever appropriate, reducing our operating costs. 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 decrease.

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

Certain of our securitization transactions, our warehouse credit facilities and our residual interest financing 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. 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. During 2011 we received waivers regarding the potential breach of certain such covenants relating to minimum net worth, financial loss in any one period 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. In February 2012, the remaining notes associated with the securitization transactions for which we received waivers in 2011 were paid in full.

The agreements for our residual interest financing, revolving credit facility and term funding facility include financial covenants which, if breached, would be an event of default. We have entered into an amendment that avoided the potential breach of a minimum net worth covenant on the revolving credit facility. Without such amendment, the lender could have, among other things, ceased providing funding to us for new contract purchases, terminated us as servicer of the pledged receivables and sold the pledged contracts to satisfy the debt.

Our plan for future operations and meeting the obligations of our financing arrangements includes returning to profitability and eliminating our shareholders' deficit by gradually increasing the amount of our contract purchases with the goal of increasing the balance of our outstanding managed portfolio. Our plans also include financing future contract purchases with credit facilities and term securitizations that offer a lower overall cost of funds compared to the facilities we used in 2009 and 2010. To illustrate, in the last six months of 2009 we purchased \$6.1 million in contracts and our sole credit facility had a minimum interest rate of 14.00% per annum. By comparison, in 2010, we purchased \$113.0 million in contracts and, in March 2010, entered into the \$50 million term funding facility which has an interest rate of 11.00% per annum and the ability to decrease such rate to 9.00% per annum if certain conditions are met. In December 2010 we entered into a \$100 million credit facility with an interest rate of one-month LIBOR plus 5.00% per annum, with a minimum rate of 6.5% per annum, and in February 2011 we added another \$100 million credit facility with an interest rate of one-month LIBOR plus 6.00% per annum. During 2011, we used the two \$100 million credit facilities to purchase \$284.2 million in new contracts.

Moreover, the weighted average effective coupons of our April 2011, September 2011 and December 2011 term securitizations were 3.77%, 4.51% and 4.93%, respectively and did not include financial guaranty policies. These transactions demonstrate our ability to access the lower cost of funds available in the current market environment without the financial guaranties we historically incorporated into our term securitization structures. We expect to complete more term securitizations in 2012. In addition, less competition in the auto financing marketplace has resulted in better terms for our recent contract purchases compared to years before 2009. For the years ended December 31, 2011, 2010 and 2009, the average acquisition fee we charged per automobile contract purchased under our CPS programs was \$1,155, \$1,382 and \$1,508, respectively, or 7.4%, 9.2%, and 11.7%, respectively, of the amount financed. For the year ended December 31, 2008, the average acquisition fee was \$592 and represented 3.9% of the amount financed. Similarly, the weighted average annual percentage rate of interest payable by our customers on newly purchased contracts has increased to 20.07%, 20.05%, and 19.9% in 2011, 2010 and 2009, respectively, compared to 18.5% in 2008.

We have and will continue to have a substantial amount of indebtedness. At December 31, 2011, we had approximately \$876.3 million of debt outstanding. Such debt consisted primarily of \$583.1 million of securitization

trust debt, and also included \$166.8 million in debt for the acquisition of the Fireside portfolio, \$25.4 million of a warehouse line of credit, \$21.9 million of residual interest financing, \$58.3 million of senior secured related party debt and \$20.8 million in subordinated notes. We are also currently offering the subordinated notes to the public on a continuous basis, and such notes have maturities that range from three months to 10 years.

As of December 31, 2011 we have a shareholders' deficit of \$14.2 million and our recent operating results include net losses of \$14.5 million and \$33.8 million in 2011 and 2010, respectively. We believe that our results have been materially and adversely affected by the disruption in the capital markets that began in the fourth quarter of 2007, by the recession that began in December 2007, and by related high levels of unemployment. Our ability to repay or refinance maturing debt may be adversely affected by prospective lenders' consideration of our recent operating losses.

Although we believe we are able to service and repay our debt, there is no assurance that we will be able to do so. If our plans for future operations do not generate sufficient cash flows and 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 and may require us to issue additional debt or equity securities.

Contractual Obligations

The following table summarizes our material contractual obligations as of December 31, 2011 (dollars in thousands):

| | Payment Due by Period (1) | | | | |
|-----------------------|---------------------------|---------------------|-----------------|-----------------|----------------------|
| | Total | Less than 1 Year | 1 to 3 Years | 4 to 5 Years | More than 5 Years |
| Long Term Debt (2) | \$ 100,978 | \$ 20,941 | \$ 77,154 | \$ 1,706 | \$ 1,177 |
| Operating Leases | \$ 12,192 | \$ 2,902 | \$ 4,966 | \$ 3,830 | \$ 494 |

(1) Securitization trust debt, in the aggregate amount of \$583.1 million as of December 31, 2011, is omitted from this table because it becomes due as and when the related receivables balance is reduced by payments and charge-offs. Expected payments, which will depend on the performance of such receivables, as to which there can be no assurance, are \$272.6 million in 2012, \$136.9 million in 2013, \$83.5 million in 2014, \$59.3 million in 2015, \$24.8 million in 2016 and \$5.9 million in 2017. Similarly, the debt associated with the Fireside acquisition is estimated to be repaid by \$117.7 million in 2012 and \$49.1 million in 2013.

(2) Long-term debt includes residual interest debt, senior secured debt and subordinated renewable notes.

Warehouse Credit Facilities

The terms on which credit has been available to us for purchase of automobile contracts have varied in recent years, as shown in the following summary of our warehouse credit facilities:

Facility Established in September 2009. On September 25, 2009 we established a \$50 million secured revolving credit facility with Fortress Credit Corp. that matured on September 25, 2011. The facility 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 Four Funding LLC. The facility provided for advances up to 75% of eligible finance receivables and the notes under it accrued interest at a rate of one-month LIBOR plus 12.00% per annum, with a minimum rate of 14.00% per annum.

Facility Established in December 2010. On December 23, 2010 we entered into a \$100 million two-year warehouse credit line with affiliates of Goldman, Sachs & Co. and Fortress Investment Group. The facility is 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 Six Funding, LLC. The facility provides for advances up to 82% of eligible finance receivables and the notes under it accrue interest at a rate of one-month LIBOR plus 5.73% per annum, with a minimum rate of 7.23% per annum. There was \$25.4 million outstanding under this facility at December 31, 2011.

Facility Established in February 2011. On February 24, 2011, we entered into an additional \$100 million two-year warehouse credit line with UBS Real Estate Securities, Inc. The facility revolved during the first year and amortizes during the second year. The facility is 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 Seven Funding, LLC. The facility provides for advances up to 76.5% of eligible finance receivables and the notes under it accrue interest at one-month LIBOR plus 6.00% per annum. There were no amounts outstanding under this facility at December 31, 2011. In February 2012, we amended this facility to extend the revolving period from February 2012 to May 2012 and reduced the maximum advance from \$100 million to \$35 million.

Capital Resources

Securitization trust debt is repaid from collections on the related receivables, and becomes due in accordance with its terms as the principal amount of the related receivables is reduced. Although the securitization trust debt also has alternative final maturity dates, those dates are significantly later than the dates at which repayment of the related receivables is anticipated, and at no time in our history have any of our sponsored asset-backed securities reached those alternative final maturities.

The acquisition of automobile contracts for subsequent transfer in securitization transactions, and the need to fund spread accounts and initial overcollateralization, if any, 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 trusts and related spread accounts either release cash to us or capture cash from collections on securitized automobile contracts. We plan to adjust our levels of automobile contract purchases and the related capital requirements to match anticipated releases of cash from the trusts and related spread accounts.

Capitalization

Over the period from January 1, 2010 through December 31, 2011 we have managed our capitalization by issuing and refinancing debt as summarized in the following table:

| | Year Ended December 31, | |
|--|-------------------------|------------|
| | 2011 | 2010 |
| | (Dollars in thousands) | |
| RESIDUAL INTEREST FINANCING: | | |
| Beginning balance | \$ 39,440 | \$ 56,930 |
| Issuances | - | - |
| Payments | (17,556) | (17,490) |
| Ending balance | \$ 21,884 | \$ 39,440 |
| SECURITIZATION TRUST DEBT: | | |
| Beginning balance | \$ 567,722 | \$ 904,833 |
| Issuances | 339,524 | 42,465 |
| Payments | (324,181) | (379,576) |
| Ending balance | \$ 583,065 | \$ 567,722 |
| SENIOR SECURED DEBT, RELATED PARTY: | | |
| Beginning balance | \$ 44,873 | \$ 26,118 |
| Issuances | 12,800 | 27,750 |
| Payments | (1,600) | (5,000) |
| Debt discount net of amortization | 2,271 | (3,995) |
| Ending balance | \$ 58,344 | \$ 44,873 |
| SUBORDINATED RENEWABLE NOTES: | | |
| Beginning balance | \$ 20,337 | \$ 21,965 |
| Issuances | 3,646 | 2,685 |
| Payments | (3,233) | (4,313) |
| Ending balance | \$ 20,750 | \$ 20,337 |
| DEBT SECURED BY RECEIVABLES MEASURED AT FAIR VALUE: | | |
| Beginning balance | \$ - | |
| Issuances | 196,473 | |
| Payments | (34,450) | |
| Accretion of premium | 5,606 | |
| Mark to fair value | (801) | |

| | |
|----------------|------------|
| Ending balance | \$ 166,828 |
|----------------|------------|

Residual Interest Financing.

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 originally due in July 2009. As of July 2008, we had drawn \$26.8 million on the revolving note. The facility’s revolving feature expired in July 2008. On July 10, 2008 we amended the terms of the combination term and revolving residual credit facility, (i) eliminating the revolving feature and increasing the interest rate, (ii) consolidating the amounts then owing on the Class A-1 note with the Class A-2 note, (iii) establishing an amortization schedule for principal reductions on the Class A-2 note, and (iv) providing for an extension, at our option if certain conditions were met, of the Class A-2 note maturity from June 2009 to June 2010. In June 2009 we met all such conditions and extended the maturity. 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. In May 2010, we extended the maturity date from June 2010 to May 2011. In May 2011, we extended the maturity date of the facility from May 2011 to May 2012. As of December 31, 2011 the aggregate indebtedness under this facility was \$21.9 million. In February 2012, we exchanged certain previously pledged residual interests with new, previously unpledged, residual interests and extended the maturity date to February 2013.

Securitization Trust Debt. From July 2003 through April 2008, we have, for financial accounting purposes, treated securitizations of automobile contracts as secured financings, and the asset-backed securities issued in such securitizations remain on our balance sheet as securitization trust debt. Our September 2008 and the re-securitization of the remaining receivables from such transaction in September 2010, were each structured as a sale for financial accounting purposes and the asset-backed securities issued in those transactions have not been and are not on our balance sheet. Our three 2011 securitizations were all treated as secured financings.

Senior Secured Debt. From 1998 to 2005, we entered into a series of financing transactions with Levine Leichtman Capital Partners II, L.P. In July 2007 we repaid the final amounts due under these financing transactions. On June 30, 2008, we entered into a series of agreements pursuant to which a different but related lender Levine Leichtman Capital Partners IV, L.P., 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 1,611,114 shares of our common stock, at an exercise price of \$1.39818 per share, and (ii) warrants that we refer to as the N Warrants, which are exercisable for 285,781 shares of our common stock, at a nominal exercise price. Both the FMV Warrants and the N Warrants are exercisable in whole or in part and at any time up to and including June 30, 2018. We valued the warrants using the Black-Scholes valuation model and recorded their value as a liability on our balance sheet because the terms of the warrants also included a provision whereby the lender could require us to purchase the warrants for cash. That provision was eliminated by mutual agreement in September 2008. The FMV Warrants were initially exercisable to purchase 1,500,000 shares for \$2.573 per share, were adjusted in connection with the July 2008 issuance of other warrants to become exercisable to purchase 1,564,324 shares at \$2.4672 per share, and were further adjusted in connection with a July 2009 amendment of our option plan to become exercisable at \$1.44 per share. Upon issuance in September 2009 of the Fortress Warrant, the FMV Warrant was further adjusted to become exercisable to purchase 1,600,991 shares at an exercise price of \$1.407 per share. Upon issuance in March 2010 of the Page Five Warrant, the FMV Warrant was further adjusted to become exercisable to purchase 1,611,114 shares at an exercise price of \$1.39818 per share.

In November 2009 we entered into an additional agreement with this lender under which they purchased an additional \$5 million note. The note accrued interest at 15.0% and was repaid in December 2010, at which time the lender purchased a new \$27.8 million note under substantially the same terms as the \$10 million and \$15 million notes already outstanding. The \$27.8 million note accrues interest at 16.0% and matures in December 2013. Concurrent with the issuance of the \$27.8 million note, the term of the \$10 and \$15 million notes were amended to change their maturity dates to December 2013. In conjunction with the issuance of the \$27.8 million note, we issued to the lender 880,000 shares of common stock and 1,870 shares of Series B convertible preferred stock. Each share of the Series B convertible preferred stock may become exchangeable for 1,000 shares of our common stock, upon shareholder approval of such exchange, but not without shareholder approval. At the time of issuance, the value of the common stock and Series B preferred stock was \$753,000 and \$1.6 million, respectively. On March 31, 2011, we sold an additional \$5 million note due February 29, 2012 to LLC. In April 2011 we purchased from LLC a portion of an outstanding subordinated note issued by our CPS Cayman Residual Trust 2008-A, and financed that purchase by issuing to LLC a new \$3 million note due June 30, 2012. In November 2011, we sold an additional \$5 million note due October 2012. All such notes bear interest at 14% per annum. In February 2012, we extended the maturity of the \$5 million note that was originally due in February 2012 to March 2012

Subordinated Renewable Notes Debt. In June 2005, we began issuing registered subordinated renewable notes in an ongoing offering to the public. Upon maturity, the notes are automatically renewed for the same term as the maturing

notes, unless we elect not to have the notes renewed or unless the investor notifies us within 15 days after the maturity date for his notes that he wants his notes repaid. Renewed notes bear interest at the rate we are offering at that time to other investors with similar note maturities. Based on the terms of the individual notes, interest payments may be required monthly, quarterly, annually or upon maturity.

We must comply with certain affirmative and negative covenants related to debt facilities, which require, among other things, that we maintain certain financial ratios related to liquidity, net worth, capitalization, investments, acquisitions, restricted payments and certain dividend restrictions. In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare default if a default occurred under a different facility. We have received an amendment regarding the potential breach of a minimum net worth financial covenant for our residual financing facility.

Forward-looking Statements

This report on Form 10-K 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. As to the specifically identified forward-looking statements, 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 contracts, changes in laws respecting consumer finance, which could affect our ability to enforce rights under 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 contracts, which would affect our ability to purchase contracts, the terms on which we are able to finance such purchases, the willingness of dealers to sell contracts to us on the terms that it offers, and the terms on which we are able to complete term securitizations once contracts are acquired. Factors that could affect our expenses in the current year include competitive conditions in the market for qualified personnel, investor demand for asset-backed securities and interest rates (which affect the rates that we pay on asset-backed securities issued in our securitizations). The statements concerning structuring securitization transactions as secured financings and the effects of such structures on financial items and on future profitability also are forward-looking statements. Any change to the structure of our securitization transaction could cause such forward-looking statements not to be accurate. Both the amount of the effect of the change in structure on our profitability and the duration of the period in which our profitability would be affected by the change in securitization structure are estimates. The accuracy of such estimates will be affected by the rate at which we purchase and sell contracts, any changes in that rate, the credit performance of such contracts, the financial terms of future securitizations, any changes in such terms over time, and other factors that generally affect our profitability.

New Accounting Pronouncements

In September 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholder's equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in a two separate consecutive statement approach and changes the presentation of reclassification items out of other comprehensive income to net income. In December 2011, the FASB deferred certain provisions related to the reclassifications of items out of accumulated other comprehensive income and the presentation of the reclassification items. Since we already take the two separate consecutive statement approach in presenting other comprehensive income, the adoption of this amendment will not change our presentation of the components of comprehensive income. The other provisions of the amendment are effective for fiscal and interim periods beginning after December 15, 2011.

Off-Balance Sheet Arrangements

From July 2003 through April 2008 all of our securitizations were structured as secured financings for financial accounting purposes. In September 2008, we securitized \$198.7 million of our automobile contracts in a structure that is treated as a sale of the receivables for financial accounting purposes. The terms of the September 2008 securitization provide for us (1) to continue servicing the sold portfolio, (2) to retain a 5.0% interest in the bonds

issued by the trust to which we sold the automobile contracts and (3) to earn additional compensation contingent upon (a) the return to the holders of the senior bonds issued by the trust reaching certain targets or (b) "lifetime" cumulative net charge-offs on the automobile contracts being below a pre-determined level. In September 2010 we re-securitized the remaining receivables from the September 2008 transaction in a similar "off balance sheet" structure. The September 2010 transaction is treated as a sale of the receivables for financial accounting purposes. See "Critical Accounting Policies" for a detailed discussion of our securitization structure.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are subject to interest rate risk during the period between when contracts are purchased from dealers and when such contracts become part of a term securitization. Specifically, the interest rate due on our warehouse credit facilities are adjustable while the interest rates on the contracts are fixed. Historically, our term securitizations have had fixed rates of interest. To mitigate some of this risk, we have in the past, and generally intend to continue to structure our term securitization transactions to include pre-funding structures, whereby the amount of notes issued exceeds the amount of 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 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 contracts we subsequently deliver 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 contracts and the interest rate paid on the notes outstanding, the amount as to which there can be no assurance.

Item 8. Financial Statements and Supplementary Data

This report includes Consolidated Financial Statements, notes thereto and an Independent Auditors' Report, at the pages indicated below, in the "Index to Financial Statements."

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures. Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") as of December 31, 2011 (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by us in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission; and (ii) to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to our management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. December 31, 2011 December 31, 2011

The certifications of our chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act have been filed as Exhibits 31.1 and 31.2 to this report.

Internal Control. Management's Report on Internal Control over Financial Reporting is included in this Annual Report, immediately below. During the fiscal quarter ended December 31, 2011, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting. We are responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

Management, with the participation of the chief executive and chief financial officers, assessed the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on this assessment, management, with the participation of the chief executive and chief financial officers, believes that, as of December 31, 2011, our internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Item 9B. Other Information

Not Applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding directors of the registrant is incorporated by reference to the registrant's definitive proxy statement for its annual meeting of shareholders to be held in 2012 (the "2012 Proxy Statement"). The 2012 Proxy Statement will be filed not later than April 30, 2012. Information regarding executive officers of the registrant appears in Part I of this report, and is incorporated herein by reference.

Item 11. Executive Compensation

Incorporated by reference to the 2012 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated by reference to the 2012 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated by reference to the 2012 Proxy Statement.

Item 14. Principal Accountant Fees and Services

Incorporated by reference to the 2012 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

The financial statements listed below under the caption "Index to Financial Statements" are filed as a part of this report. No financial statement schedules are filed as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or the related notes. Separate financial statements of the Company have been omitted as the Company is primarily an operating company and its subsidiaries are wholly owned and do not have minority equity interests held by any person other than the Company in amounts that together exceed 5% of the total consolidated assets as shown by the most recent year-end Consolidated Balance Sheet.

The exhibits listed below are filed as part of this report, whether filed herewith or incorporated by reference to an exhibit filed with the report identified in the parentheses following the description of such exhibit. Unless otherwise indicated, each such identified report was filed by or with respect to the registrant.

Exhibit

| Number | Description | (“***” indicates compensatory plan or agreement.) |
|--------|--|---|
| 2.1 | Agreement and Plan of Merger, dated as of November 18, 2001, by and among the Registrant, CPS Mergersub, Inc. and MFN Financial Corporation. (Exhibit 2.1 to Form 8-K filed on November 19, 2001 by MFN Financial Corporation) | |
| 3.1 | Restated Articles of Incorporation (Exhibit 3.1 to Form 10-K filed March 31, 2009) | |
| 3.1.1 | Certificate of Designation re Series B Preferred (Exhibit 3.1.1 to Form 8-K filed by the registrant on December 30, 2010) | |
| 3.2 | Amended and Restated Bylaws (Exhibit 3.3 to Form 8-K filed July 20, 2009) | |
| 4.1 | 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. | |
| 4.2 | Form of Indenture re Renewable Unsecured Subordinated Notes (“RUS Notes”). (Exhibit 4.1 to Form S-2, no. 333-121913) | |
| 4.2.1 | Form of RUS Notes (Exhibit 4.2 to Form S-2, no. 333-121913) | |
| 4.3 | Form of Indenture re additional Renewable Unsecured Subordinated Notes (“ARUS Notes”) (Exhibit 4.1 to Form S-1, no. 333-168976) | |
| 4.3.1 | Form of ARUS Notes (Exhibit 4.2 to Form S-1, no. 333-168976) | |
| 4.4 | Supplement dated December 7, 2010 to Indenture re ARUS Notes (Exhibit 4.3 to Form S-1, no. 333-168976) | |
| 4.23 | Indenture dated as of June 1, 2007, respecting notes issued by CPS Auto Receivables Trust 2007-B (exhibit 4.23 to Form 8-K filed by the registrant on June 29, 2007) | |
| 4.24 | Sale and Servicing Agreement dated as of June 1, 2007, related to notes issued by CPS Auto Receivables Trust 2007-B (exhibit 4.24 to Form 8-K filed by the registrant on June 29, 2007.) | |
| 4.25 | Indenture dated as of September 1, 2007, respecting notes issued by CPS Auto Receivables Trust 2007-C (exhibit 4.25 to Form 8-K filed by the registrant on November 2, 2007) | |
| 4.26 | Sale and Servicing Agreement dated as of September 1, 2007, related to notes issued by CPS Auto Receivables Trust 2007-C (exhibit 4.26 to Form 8-K filed by the registrant on November 2, 2007.) | |
| 4.27 | Indenture re Notes issued by CPS Auto Receivables Trust 2008-A (exhibit 4.27 to Form 8-K filed by the registrant on April 15, 2008) | |

- 4.28 Sale and Servicing Agreement dated as of March 1, 2008, related to notes issued by CPS Auto Receivables Trust 2008-A (exhibit 4.28 to Form 8-K filed by the registrant on April 15, 2008)
- 4.29 Revolving Credit Agreement dated December 23, 2010 (Exhibit 4.29 to Form 10-K filed March 31, 2011)
- 10.1 1991 Stock Option Plan & forms of Option Agreements thereunder (Exhibit 10.19 to Form S-2, no. 333-121913) **
- 10.2 1997 Long-Term Incentive Stock Plan ("1997 Plan") (Exhibit 10.20 to Form S-2, no. 333-121913) **
- 10.2.1 Form of Option Agreement under 1997 Plan (Exhibit 10.2.1 to Form 10-K filed March 13, 2006) **
- 10.14 2006 Long-Term Equity Incentive Plan as amended to date (Exhibit 10.5 to Form S-1, post-effective amendment thereto, filed December 23, 2011)**

- 10.14.1 Form of Option Agreement under the 2006 Long-Term Equity Incentive Plan (Exhibit 10.14.1 to registrant's Form 10-K filed March 9, 2007)**
- 10.14.2 Form of Option Agreement under the 2006 Long-Term Equity Incentive Plan (Exhibit 99.(D)(2) to registrant's Schedule TO filed November 12, 2009)**
- 10.14.2 Form of Option Agreement under the 2006 Long-Term Equity Incentive Plan (Exhibit 99.(D)3) to registrant's Schedule TO filed November 12, 2009)**
- 10.15 Securities Purchase Agreement between the registrant and Levine Leichtman Capital Partners IV, L. P. ("LLCP"), relating to the sale of an aggregate of \$25 million of Notes. (Incorporated by reference to exhibit 99.2 to Schedule 13D filed by LLCP on July 10, 2008)
- 10.15.1 Amendment dated July 10, 2008 to Securities Purchase Agreement dated June 30, 2008 between the registrant and LLCP. (Exhibit 10.15.1 to registrant's Form 10-Q filed August 11, 2008)
- 10.15.2 Amendment dated December 23, 2010 to Securities Purchase Agreement dated June 30, 2008 between the registrant and LLCP. (incorporated by reference to Schedule 13D by Levine Leichtman Capital Partners IV, L.P. on January 3, 2011.
- 10.16 Registration Rights Agreement between the registrant and LLCP. (Incorporated by reference to exhibit 99.6 to Schedule 13D filed by LLCP on July 10, 2008)
- 10.17 Investor Rights Agreement between the registrant and LLCP. (Incorporated by reference to exhibit 99.7 to Schedule 13D filed by LLCP on July 10, 2008)
- 10.18 FMV Warrant dated June 30, 2008, issued to LLCP. (Incorporated by reference to the FMV warrant appearing as pages A-1 through A-13 of the preliminary proxy statement filed by the registrant on July 28, 2008.)
- 10.19 N Warrant dated June 30, 2008, issued to LLCP. (Incorporated by reference to the FMV warrant appearing as pages B-1 through B-13 of the preliminary proxy statement filed by the registrant on July 28, 2008.)
- 10.20 Amended and Restated Note Purchase Agreement dated July 10, 2008 among the registrant, its subsidiary Folio Funding II, LLC, and Citigroup Financial Products Inc. (Exhibit 10.20 to registrant's Form 10-Q filed August 11, 2008)
- 10.21 Amended and Restated Indenture dated July 10, 2008 among Folio Funding II, LLC, Citigroup Financial Products Inc. and Wells Fargo Bank, N.A. (Exhibit 10.21 to registrant's Form 10-Q filed August 11, 2008)
- 10.22 Performance Guaranty dated July 10, 2008 issued by the registrant in favor of Citigroup Financial Products Inc. (Exhibit 10.22 to registrant's Form 10-Q filed August 11, 2008)
- 10.23 Warrant dated July 10, 2008, issued to Citigroup Global Markets Inc. (Exhibit 10.23 to registrant's Form 10-Q filed August 11, 2008)
- 10.24 Purchase and Sale Agreement re Motor Vehicle Contracts dated as of September 26, 2008 (Exhibit 10.24 to Form 8-K/A filed by the registrant on November 7, 2008)
- 10.25 Transfer and Servicing Agreement dated as of September 26, 2008 (Exhibit 10.25 to Form 8-K/A filed by the registrant on November 7, 2008)
- 10.26 Revolving Credit Agreement dated September 25, 2009 among the registrant, its subsidiary Page Four Funding, LLC, and Fortress Credit Corp. ("Fortress") (Exhibit 10.1 to registrant's Form 8-K filed October 1, 2009)
- 10.27 Warrant dated September 25, 2009, issued to an affiliate of Fortress. (Exhibit 10.2 to registrant's Form 8-K filed October 1, 2009)
- 14 Registrant's Code of Ethics for Senior Financial Officers (Exhibit 14 to Form 10-K filed March 13, 2006)
- 21 List of subsidiaries of the registrant (filed herewith)

- 23.1 Consent of Crowe Horwath LLP (filed herewith)
- 31.1 Rule 13a-14(a) certification by chief executive officer (filed herewith)
- 31.2 Rule 13a-14(a) certification by chief financial officer (filed herewith)
- 32 Section 1350 certification (filed herewith)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Consumer Portfolio Services, Inc.

We have audited the accompanying consolidated balance sheets of Consumer Portfolio Services, Inc. (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Consumer Portfolio Services, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Company has incurred significant losses during the last three years. As a result, the Company has negative shareholders' equity as of December 31, 2011. Management's plans in regards to these matters are discussed in Note 16.

/s/ CROWE HORWATH LLP
Costa Mesa, California
March 5, 2012

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

| | December 31, 2011 | December 31, 2010 |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 10,094 | \$ 16,252 |
| Restricted cash and equivalents | 159,228 | 123,958 |
| Finance receivables | 516,630 | 565,621 |
| Less: Allowance for finance credit losses | (10,351) | (13,168) |
| Finance receivables, net | 506,279 | 552,453 |
| Finance receivables measured at fair value | 160,253 | - |
| Residual interest in securitizations | 4,414 | 3,841 |
| Furniture and equipment, net | 875 | 1,143 |
| Deferred financing costs | 8,036 | 5,685 |
| Deferred tax assets, net | 15,000 | 15,000 |
| Accrued interest receivable | 6,432 | 6,165 |
| Other assets | 19,439 | 17,893 |
| | \$ 890,050 | \$ 742,390 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 27,993 | \$ 22,033 |
| Warehouse lines of credit | 25,393 | 45,564 |
| Residual interest financing | 21,884 | 39,440 |
| Debt secured by receivables measured at fair value | 166,828 | - |
| Securitization trust debt | 583,065 | 567,722 |
| Senior secured debt, related party | 58,344 | 44,873 |
| Subordinated renewable notes | 20,750 | 20,337 |
| | 904,257 | 739,969 |
| Commitments and contingencies | | |
| S | | |