

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

CONSUMER PORTFOLIO SERVICES INC

Form 10-Q

August 11, 2008

=====

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2008

Commission file number: 0-51027

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

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

16355 Laguna Canyon Road, Irvine, California 92618  
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant (1) filed all reports required to  
be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports) and (2) has been subject to such filing  
requirements for the past 90 days. Yes [X] No [ ]

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

Large Accelerated Filer [ ] Accelerated Filer [ X ]  
Non-Accelerated Filer [ ] Smaller Reporting Company [ ]

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

As of July 31, 2008 the registrant had 19,698,001 common shares outstanding.

=====

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
INDEX TO FORM 10-Q  
For the Quarterly Period Ended June 30, 2008

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

Page

----

## PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements	
	Unaudited Condensed Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007.....	3
	Unaudited Condensed Consolidated Statements of Operations for the three-month and six-month periods ended June 30, 2008 and 2007 ....	4
	Unaudited Condensed Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2008 and 2007.....	5
	Notes to Unaudited Condensed Consolidated Financial Statements.....	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	16
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.....	28
Item 4.	Controls and Procedures.....	29

## PART II. OTHER INFORMATION

Item 1.	Legal Proceedings.....	30
Item 1A.	Risk factors.....	30
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.....	31
Item 4.	Submission of Matters to a Vote of Security Holders.....	31
Item 6.	Exhibits.....	32
	Signatures.....	33

2

### Item 1. Financial Statements

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

	June 30, 2008	December 31, 2007
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 21,799	\$ 20,880
Restricted cash and equivalents	177,716	170,341
Finance receivables	1,915,351	2,068,004
Less: Allowance for finance credit losses	(88,610)	(100,138)
	-----	-----
Finance receivables, net	1,826,741	1,967,866
Furniture and equipment, net	1,319	1,500
Deferred financing costs, net	13,636	15,482
Deferred tax assets, net	58,845	58,835
Accrued interest receivable	20,053	24,099
Other assets	23,708	23,810
	-----	-----
	\$ 2,143,817	\$ 2,282,813
	=====	=====

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

## LIABILITIES AND SHAREHOLDERS' EQUITY

### Liabilities

Accounts payable and accrued expenses	\$ 24,344	\$ 18,391
Warehouse lines of credit	148,052	235,925
Income taxes payable	20,181	17,706
Residual interest financing	86,836	70,000
Securitization trust debt	1,712,164	1,798,302
Senior secured debt, related party	5,693	--
Subordinated renewable notes	28,775	28,134
	-----	-----
	2,026,045	2,168,458

## COMMITMENTS AND CONTINGENCIES

### Shareholders' Equity

Preferred stock, \$1 par value;		
authorized 5,000,000 shares; none issued	--	--
Series A preferred stock, \$1 par value;		
authorized 5,000,000 shares; none issued	--	--
Common stock, no par value; authorized		
30,000,000 shares; 19,852,266 and 19,525,042		
shares issued and outstanding at June 30, 2008 and		
December 31, 2007, respectively	55,030	55,216
Additional paid in capital, warrants	794	794
Retained earnings	64,397	60,794
Accumulated other comprehensive loss	(2,449)	(2,449)
	-----	-----
	117,772	114,355
	-----	-----
	\$ 2,143,817	\$ 2,282,813
	=====	=====

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

## CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues:				
Interest income	\$ 94,856	\$ 89,448	\$194,218	\$169,938
Servicing fees	280	113	708	395
Other income	3,645	6,239	7,156	11,961
	-----	-----	-----	-----
	98,781	95,800	202,082	182,294
	-----	-----	-----	-----
Expenses:				
Employee costs	12,886	11,335	26,368	22,139
General and administrative	7,574	6,082	14,921	12,051

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

Interest	40,955	32,992	79,989	61,637
Interest, related party	--	722	--	1,581
Provision for credit losses	30,894	32,670	65,803	62,159
Marketing	2,622	4,705	6,242	8,925
Occupancy	1,043	934	2,039	1,865
Depreciation and amortization	98	123	237	290
	-----	-----	-----	-----
	96,072	89,563	195,599	170,647
	-----	-----	-----	-----
Income before income tax expense	2,709	6,237	6,483	11,647
Income tax expense	1,220	2,749	2,880	4,928
	-----	-----	-----	-----
Net income	\$ 1,489	\$ 3,488	\$ 3,603	\$ 6,719
	=====	=====	=====	=====
Earnings per share:				
Basic	\$ 0.08	\$ 0.16	\$ 0.19	\$ 0.31
Diluted	0.08	0.15	0.18	0.29
Number of shares used in computing earnings per share:				
Basic	18,830	21,539	19,063	21,533
Diluted	19,411	23,405	19,692	23,562

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

4

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

	Six Months Ended June 30,	
	2008	2007
	-----	-----
Cash flows from operating activities:		
Net income	\$ 3,603	\$ 6,719
Adjustments to reconcile net income to net cash provided by operating activities:		
Write up on residual asset	(125)	(3,620)
Amortization of deferred acquisition fees	(8,572)	(7,002)
Amortization of discount on Class B Notes	5,845	2,218
Depreciation and amortization	237	290
Amortization of deferred financing costs	5,047	4,378
Provision for credit losses	65,803	62,159
Stock-based compensation expense	654	488
Interest income on residual assets	(358)	(1,686)
Changes in assets and liabilities:		
Accrued interest receivable	4,046	(2,694)
Other assets	586	2,814
Tax assets	(10)	(1,207)
Accounts payable and accrued expenses	4,846	2,029
Tax liabilities	2,474	2,839
	-----	-----
Net cash provided by operating activities	84,076	67,725

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

Cash flows from investing activities:		
Purchases of finance receivables held for investment	(255,924)	(676,303)
Proceeds received on finance receivables held for investment	339,818	278,655
Increases in restricted cash and equivalents	(7,375)	(54,326)
Purchase of furniture and equipment	(57)	(479)
Net cash provided by (used in) investing activities	76,462	(452,453)
Cash flows from financing activities:		
Proceeds from issuance of securitization trust debt	285,389	709,171
Proceeds from issuance of subordinated renewable notes	2,982	7,271
Proceeds from issuance of senior secured debt, related party	10,000	
Payments on subordinated renewable notes	(2,341)	(1,079)
Net proceeds from warehouse lines of credit	(87,872)	6,773
Proceeds (repayment) of residual interest financing debt	16,836	(3,504)
Repayment of securitization trust debt	(377,370)	(316,750)
Repayment of senior secured debt, related party	--	(10,000)
Payment of financing costs	(4,602)	(7,270)
Repurchase of common stock	(2,719)	(1,549)
Tax benefit from exercise of stock options	--	167
Exercise of options and warrants	78	720
Net cash provided by (used in) financing activities	(159,619)	383,950
Increase (decrease) in cash and cash equivalents	919	(778)
Cash and cash equivalents at beginning of period	20,880	14,215
Cash and cash equivalents at end of period	\$ 21,799	\$ 13,437
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 69,104	\$ 55,558
Income taxes	\$ 416	\$ 3,129
Non cash financing activities:		
Common stock issued in connection with new senior secured debt, related party	\$ 1,801	\$ --
Warrants issued in connection with new senior secured debt, related party	\$ 1,107	\$ --

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### DESCRIPTION OF BUSINESS

We were formed in California on March 8, 1991. We specialize in purchasing and servicing retail automobile installment sale contracts ("automobile contracts" or "finance receivables") originated by licensed motor vehicle dealers located throughout the United States ("dealers") in the sale of new and used automobiles, light trucks and passenger vans. Through our purchases, we provide indirect financing to dealer customers for borrowers with limited credit

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

histories, low incomes or past credit problems ("sub-prime customers"). We serve as an alternative source of financing for dealers, allowing sales to customers who otherwise might not be able to obtain financing. In addition to purchasing installment purchase contracts directly from dealers, we have also (i) acquired installment purchase contracts in three merger and acquisition transactions, (ii) purchased immaterial amounts of vehicle purchase money loans from non-affiliated lenders, and (iii) began lending money directly to consumers for an immaterial amount of vehicle purchase money loans. In this report, we refer to all of such contracts and loans as "automobile contracts."

### BASIS OF PRESENTATION

Our Unaudited Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America, with the instructions to Form 10-Q and with Article 10 of Regulation S-X of the Securities and Exchange Commission, and include all adjustments that are, in our opinion, necessary for a fair presentation of the results for the interim period presented. All such adjustments are, in our opinion, of a normal recurring nature. In addition, certain items in prior period financial statements may have been reclassified for comparability to current period presentation. Results for the six-month period ended June 30, 2008 are not necessarily indicative of the operating results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from these Unaudited Condensed Consolidated Financial Statements. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

### OTHER INCOME

Other income consists primarily of gains recognized on our Residual interest in securitizations, recoveries on previously charged off CPS and MFN contracts, convenience fees charged to obligors for certain types of payment transaction methods and fees paid to us by dealers for certain direct mail services we provide. The gain recognized related to the residual interest was \$125,000 and \$3.6 million for the six months ended June 30, 2008 and 2007, respectively. The recoveries on the charged-off CPS and MFN contracts were \$1.2 million and \$1.7 million for the six months ended June 30, 2008 and 2007, respectively. The convenience fees charged to obligors, which can be expected to increase or decrease in conjunction with increases or decreases in our managed portfolio, were \$2.8 million and \$1.4 million for the same periods, respectively. The direct mail revenues were \$2.7 million and \$2.6 million for the six months ended June 30, 2008 and 2007, respectively. In addition, other income for the six months ended June 30, 2007 included \$1.7 million in proceeds from the sale of previously charged-off receivables to independent third parties. There were no similar sales of charged-off receivables in 2008.

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

### STOCK-BASED COMPENSATION

We recognize compensation costs in the financial statements for all share-based payments granted subsequent to January 1, 2006 based on the grant date fair

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

value estimated in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment, revised 2004" ("SFAS 123R").

For the six months ended June 30, 2008, we recorded stock-based compensation costs in the amount of \$654,000. As of June 30, 2008, unrecognized stock-based compensation costs to be recognized over future periods equaled \$4.3 million. This amount will be recognized as expense over a weighted-average period of 3.8 years.

The following represents stock option activity for the six months ended June 30, 2008:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Options outstanding at the beginning of period ...	6,196	\$ 4.47	N/A
Granted .....	565	3.18	N/A
Exercised .....	(27)	1.50	N/A
Forefeited .....	(104)	5.59	N/A
Options outstanding at the end of period .....	6,630	\$ 4.36	6.64 years
Options exercisable at the end of period .....	4,466	\$ 3.84	5.91 years

At June 30, 2008, the aggregate intrinsic value of in-the-money options outstanding and exercisable was \$10,000. The total intrinsic value of options exercised was \$32,000 and \$746,000 for the six months ended June 30, 2008 and 2007, respectively. New shares were issued for all options exercised during the six-month periods ended June 30, 2008 and 2007. At our annual meeting of shareholders held on June 4, 2008, the shareholders approved an amendment to our 2006 Long-Term Equity Incentive Plan that increased the number of shares issuable from 3,000,000 to 5,000,000. There were 2,255,000 shares available for future stock option grants under existing plans as of June 30, 2008.

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

	Six Months Ended June 30, 2008
Risk-free interest rate .....	3.22%
Expected term, in years .....	6.0
Expected volatility .....	48.92%
Dividend yield .....	0%

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

### PURCHASES OF COMPANY STOCK

During the six-month periods ended June 30, 2008 and 2007, we purchased 925,276 and 247,605 shares, respectively, of our common stock, at average prices of \$2.94 and \$6.26, respectively.

7

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

### NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157", to partially defer FASB Statement No. 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 is effective for us on January 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value on a recurring basis for which our effective date is January 1, 2009. The adoption of this statement did not have a material effect on our financial position or results of operations.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115. SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS 159 are elective, however, the amendment to SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available for sale or trading securities. SFAS 159 is elective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We are currently assessing this Statement to determine whether or not we would elect to measure any financial instruments acquired upon adoption of this statement at their fair value.

### RECENT DEVELOPMENTS

### UNCERTAINTY OF CAPITAL MARKETS

We are dependent upon the continued 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 48 term securitizations comprising approximately \$6.4 billion in contracts. We conducted four term securitizations in 2006, four in 2007, and one in 2008. However, since the fourth quarter of 2007, we have observed unprecedented adverse changes in the market for securitized pools of automobile contracts. These changes include reduced liquidity, increased financial guaranty premiums and reduced demand for asset-backed securities, including for securities carrying a financial guaranty and for securities backed by sub-prime automobile receivables. We believe that these adverse changes in the capital markets are primarily the result of widespread defaults of sub-prime mortgages securing a variety of term securitizations and related financial instruments,



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

including instruments carrying financial guarantees similar to those we typically obtain for our own term securitizations.

The terms of our most recent securitization, completed in April 2008, required substantially greater credit enhancement than recent past securitizations, including a larger spread account and a greater portion of subordinated bonds. Greater credit enhancement requirements reduce the amount of cash available to us, both at inception of the securitization, and over the life of the transaction. Moreover, the recently completed securitization resulted in significantly higher costs to us in the form of higher premiums for financial guaranty insurance, higher interest rates paid on bonds sold by the securitization trust and greater discounts given to purchasers of such bonds. Due to current conditions in the capital markets, we believe that any additional securitization transactions that we may execute during 2008 are likely to be structured to include similar credit enhancement levels and result in similar costs to the recently completed transaction.

The adverse changes that have taken place in the market to date have caused us to curtail our purchases of automobile contracts in order to extend the time when our warehousing financing capacity would require us to conduct a term securitization. If the current adverse circumstances that have affected the capital markets should worsen such that we are precluded from completing a future securitization of our receivables, we may exhaust the capacity of our warehouse credit facilities which would cause us to further curtail or cease our purchases of new automobile contracts. Further adverse changes in the capital markets might result in our inability to securitize automobile contracts, which could lead to a material adverse effect on our operations.

8

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

Although we believe that such reductions in contract purchases would allow us to continue operations, such reductions have resulted in a decrease in the size of our portfolio of automobile contracts. A continuing decrease in portfolio size could have a material adverse effect on our cash flows and results of operations. However, continuing cashflows otherwise available to us would be sufficient to meet our remaining operating needs in the near term.

#### (2) FINANCE RECEIVABLES

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

	June 30, 2008	December 31, 2007
	-----	-----
Finance Receivables	(In thousands)	
Automobile finance receivables, net of unearned interest ....	1,940,013	2,091,892
Less: Unearned acquisition fees and originations costs ...	(24,662)	(23,888)
	-----	-----
Finance Receivables .....	\$ 1,915,351	\$ 2,068,004
	=====	=====

The following table presents a summary of the activity for the allowance for

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

credit losses for the six-month periods ended June 30, 2008 and 2007:

	June 30, 2008	June 30, 2007
	-----	-----
	(In thousands)	
Balance at beginning of period .....	\$ 100,138	\$ 79,380
Provision for credit losses on finance receivables ...	65,803	62,159
Charge offs .....	(93,671)	(56,339)
Recoveries .....	16,340	10,397
	-----	-----
Balance at end of period .....	\$ 88,610	\$ 95,597
	=====	=====

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

	June 30, 2008	June 30, 2007
	-----	-----
	(In thousands)	
Gross balance of repossessions in inventory .....	\$ 39,350	\$ 24,606
Adjustment for losses on repossessed inventory .....	(26,903)	(15,383)
	-----	-----
Net repossessed inventory included in other assets .....	\$ 12,447	\$ 9,223
	=====	=====

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

### (3) SECURITIZATION TRUST DEBT

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

Series	Final Scheduled Payment Date (1)	Receivables Pledged at June 30, 2008	Initial Principal	Outstanding Principal at June 30, 2008	Outstanding Principal at December 31, 2007	Co Int at
-----	-----	-----	-----	-----	-----	-----
(Dollars in thousands)						

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

CPS 2003-C	March 2010	\$ 2,699	\$ 87,500	\$ 2,822	\$ 5,683
CPS 2003-D	October 2010	3,737	75,000	3,758	6,695
CPS 2004-A	October 2010	5,882	82,094	6,071	9,849
CPS 2004-B	February 2011	9,521	96,369	9,814	14,937
CPS 2004-C	April 2011	12,396	100,000	12,644	18,763
CPS 2004-D	December 2011	18,142	120,000	18,199	25,994
CPS 2005-A	October 2011	26,276	137,500	24,633	34,154
CPS 2005-B	February 2012	31,604	130,625	29,674	39,008
CPS 2005-C	March 2012	54,216	183,300	50,955	67,834
CPS 2005-TFC	July 2012	17,994	72,525	17,426	24,654
CPS 2005-D	July 2012	48,132	145,000	47,430	61,857
CPS 2006-A	November 2012	95,634	245,000	94,292	120,667
CPS 2006-B	January 2013	117,033	257,500	114,540	144,941
CPS 2006-C	June 2013	128,848	247,500	126,771	159,308
CPS 2006-D	August 2013	131,947	220,000	128,958	159,384
CPS 2007-A	November 2013	197,849	290,000	191,973	233,092
CPS 2007-TFC	December 2013	65,760	113,293	64,813	84,685
CPS 2007-B	January 2014	238,345	314,999	232,649	277,878
CPS 2007-C	May 2014	275,070	327,498	267,988	308,919
CPS 2008-A	October 1, 2014	293,193	310,359	266,754	n/a
		-----	-----	-----	-----
		\$ 1,774,278	\$ 3,556,062	\$ 1,712,164	\$ 1,798,302
		=====	=====	=====	=====

- 
- (1) THE FINAL SCHEDULED PAYMENT DATE REPRESENTS FINAL LEGAL MATURITY OF THE SECURITIZATION TRUST DEBT. SECURITIZATION TRUST DEBT IS EXPECTED TO BECOME DUE AND TO BE PAID PRIOR TO THOSE DATES, BASED ON AMORTIZATION OF THE FINANCE RECEIVABLES PLEDGED TO THE TRUSTS. EXPECTED PAYMENTS, WHICH WILL DEPEND ON THE PERFORMANCE OF SUCH RECEIVABLES, AS TO WHICH THERE CAN BE NO ASSURANCE, ARE \$374.2 MILLION IN 2008, \$626.4 MILLION IN 2009, \$396.3 MILLION IN 2010, \$220.7 MILLION IN 2011, \$83.5 MILLION IN 2012 AND \$11.1 MILLION IN 2013.

All of the securitization trust debt was sold in private placement transactions to qualified institutional buyers. The debt was issued through our wholly-owned bankruptcy remote subsidiaries and is secured by the assets of such subsidiaries, but not by our other assets. Principal of \$1.5 billion, and the related interest payments, are guaranteed by financial guaranty insurance policies issued by third party financial institutions.

The terms of the various securitization agreements related to the issuance of the securitization trust debt and the warehouse credit facilities require that certain delinquency and credit loss criteria be met with respect to the collateral pool, and require that we maintain minimum levels of liquidity and net worth and not exceed maximum leverage levels and maximum financial losses. In addition, certain securitization and non-securitization related debt contain cross-default provisions, which would allow certain creditors to declare a default if a default were declared under a different facility. As of June 30, 2008, we were in compliance with all such financial covenants.

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

restricted cash accounts to provide additional collateral for the borrowings or to be applied to make payments on the securitization trust debt. As of June 30, 2008, restricted cash under the various agreements totaled approximately \$177.7 million. Interest expense on the securitization trust debt is composed of the stated rate of interest plus amortization of additional costs of borrowing. Additional costs of borrowing include facility fees, insurance and amortization of deferred financing costs and discounts on notes sold. Deferred financing costs and discounts on notes sold related to the securitization trust debt are amortized using a level yield method. Accordingly, the effective cost of borrowing of the securitization trust debt is greater than the stated rate of interest.

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

### (4) INTEREST INCOME

The following table presents the components of interest income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	-----	-----	-----	-----
(In thousands)				
Interest on Finance Receivables ....	\$ 93,732	\$ 86,560	\$191,474	\$163,768
Residual interest income .....	162	740	359	1,686
Other interest income .....	962	2,148	2,385	4,484
	-----	-----	-----	-----
Net interest income .....	\$ 94,856	\$ 89,448	\$194,218	\$169,938
	=====	=====	=====	=====

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

### (5) EARNINGS PER SHARE

Earnings per share for the six-month periods ended June 30, 2008 and 2007 were calculated using the weighted average number of shares outstanding for the related period. The following table reconciles the number of shares used in the computations of basic and diluted earnings per share for the three-month and six-month periods ended June 30, 2008 and 2007:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Weighted average number of common shares outstanding during the period used to compute basic earnings per share .....	18,830	21,539	19,063	21,539
Incremental common shares attributable to exercise of outstanding options and warrants .....	581	1,866	629	2,000
Weighted average number of common shares used to compute diluted earnings per share .....	19,411	23,405	19,692	23,539

## (6) INCOME TAXES

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

We file numerous consolidated and separate income tax returns in the United States Federal jurisdiction and in many state jurisdictions. With few exceptions, we are no longer subject to US Federal income tax examinations for years before 2003 and are no longer subject to state and local income tax examinations by tax authorities for years before 2002.

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

We recognize potential interest and penalties related to unrecognized tax benefits in income tax expense. In conjunction with the adoption of FIN 48 on January 1, 2007, we recognized approximately \$230,000 for interest and penalties which is included as a component of the \$11.6 million gross unrecognized tax benefits noted above. During the six months ended June 30, 2008, we did not recognize a significant amount of potential interest and penalties. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

We do not anticipate that total unrecognized tax benefits will significantly change due to the settlement of audits and the expiration of statute of limitations prior to September 30, 2008.

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

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

#### (7) LEGAL PROCEEDINGS

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

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

We have reached an agreement in principle with the representative of creditors in the Stanwich bankruptcy to resolve the adversary action. Under the agreement in principle, we would pay the bankruptcy estate \$625,000 and abandon our claims against the estate, while the estate would abandon its adversary action against Mr. Pardee. The bankruptcy court has rejected that proposed settlement, and the representative of creditors has appealed that rejection. If the agreement in principle were to be approved upon appeal, we would expect that the agreement would result in (i) limitation of our exposure to Mr. Pardee to no more than some portion of his attorneys fees incurred and (ii) the stays in Rhode Island being lifted, causing those cases to become active again. We are unable to predict whether the ruling of the bankruptcy court will be sustained or reversed on appeal. There can be no assurance as to the ultimate outcome of these matters.

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

OTHER LITIGATION. In December 2006 an individual resident of Ohio, Agborebot Bate-Eya, filed a purported class counterclaim to a collection lawsuit brought by SeaWest Financial Corp. ("SeaWest") in Ohio state court. The counterclaim alleged that a form notice sent by SeaWest to counterplaintiff in December 2000, and used then and at other times, was not compliant with Ohio law. In August 2007, the counterplaintiff added us as an additional defendant, noting that we in April 2004 had purchased from SeaWest a number of consumer receivables, including that of the counterplaintiff. We filed a motion to dismiss the counterclaim, which has been granted. All claims against us have been dismissed with prejudice.

We have recorded a liability as of June 30, 2008 that we believe represents a sufficient allowance for legal contingencies, including those described above. Any adverse judgment against us, if in an amount materially in excess of the recorded liability, could have a material adverse effect on our financial

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

position.

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

13

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

### (8) EMPLOYEE BENEFITS

We sponsor the MFN Financial Corporation Benefit Plan (the "Plan"). Plan benefits were frozen September 30, 2001. The table below sets forth the Plan's net periodic benefit cost for the three-month and six-month periods ended June 30, 2008 and 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Components of net periodic cost (benefit)				
Service cost .....	\$ --	\$ --	\$ --	\$ --
Interest Cost .....	236	223	473	446
Expected return on assets .....	(305)	(327)	(610)	(654)
Amortization of transition (asset)/obligation ...	--	(3)	--	(5)
Amortization of net (gain) / loss .....	41	20	82	39
Net periodic cost (benefit) .....	\$ (28)	\$ (87)	\$ (55)	\$ (174)

We did not make any contributions to the Plan during the six-month period ended June 30, 2008 and we do not anticipate making any contributions for the remainder of 2008.

### (9) COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	(In thousands)	(In thousands)	(In thousands)	(In thousands)
	2008	2007	2008	2007
Net income .....	\$ 1,489	3,488	\$ 3,603	\$ 6,719
Minimum pension liability, net of tax .....	--	--	--	--
Comprehensive income .....	\$ 1,489	\$ 3,488	\$ 3,603	\$ 6,719

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

### (10) SUBSEQUENT EVENT

In July 2007, we established a combination term and revolving residual credit facility and used a portion of our initial draw under that facility to repay our remaining outstanding debt under the December 2006 \$35 million residual facility.

Under the combination term and revolving residual credit facility, we have used and intend to use eligible residual interests in securitizations as collateral for floating rate borrowings. The amount that we were able to borrow was computed using an agreed valuation methodology of the residuals, subject to an overall maximum principal amount of \$120 million, represented by (i) a \$60 million Class A-1 variable funding note (the "revolving note"), and (ii) a \$60 million Class A-2 term note (the "term note"). The term note was fully drawn in July 2007 and was due in July 2009. As of June 30, 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

14

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

an extension, at our option if certain conditions are met, of the Class A-2 note maturity from June 2009 to June 2010. In conjunction with the amendment, we reduced the principal amount outstanding to \$70,000,000, 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.

On June 30, 2008, we entered into a series of agreements pursuant to which a lender purchased a \$10 million five-year, fixed rate, senior secured note issued by the Company. The indebtedness is secured by substantially all of the Company's assets, though not by the assets of the Company's 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, upon the approval of our shareholders, would become exercisable for up to 1,500,000 shares of our common stock, at a then-exercise price of \$2.573 per share, and (ii) warrants that we refer to as the N Warrants, exercisable upon the approval of our shareholders for up to 275,000 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, to the extent permitted by applicable law and regulation. We valued the warrants using the Black-Scholes valuation model and have recorded their value as a liability on our balance sheet since the terms of the warrants also include a provision whereby the lender may require us to purchase the warrants for cash.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW

We are a specialty finance company engaged in purchasing and servicing new and used retail automobile contracts originated primarily by franchised automobile dealerships and, to a lesser extent, by select independent dealers of used automobiles in the United States. We serve as an alternative source of financing for dealers, facilitating sales to sub-prime customers, who have limited credit history, low income or past credit problems and who otherwise might not be able to obtain financing from traditional sources. In addition to purchasing installment purchase contracts directly from dealers, we have also (i) acquired installment purchase contracts in three merger and acquisition transactions described below, (ii) purchased immaterial amounts of vehicle purchase money loans from non-affiliated lenders, and (iii) began lending money directly to consumers for an immaterial amount of vehicle purchase money loans. In this report, we refer to all of such contracts and loans as "automobile contracts." We are headquartered in Irvine, California and have three additional strategically located servicing branches in Virginia, Florida and Illinois.

On March 8, 2002, we acquired MFN Financial Corporation and its subsidiaries in a merger. On May 20, 2003, we acquired TFC Enterprises, Inc. and its subsidiaries in a second merger. Each merger was accounted for as a purchase. MFN Financial Corporation and its subsidiaries and TFC Enterprises, Inc. and its subsidiaries were engaged in businesses similar to ours: buying automobile contracts from dealers and servicing those automobile contracts. MFN Financial Corporation and its subsidiaries ceased acquiring automobile contracts in May 2002; we suspended purchases of automobile contracts under our "TFC programs" in July 2008.

On April 2, 2004, we purchased a portfolio of automobile contracts and certain other assets from SeaWest Financial Corporation and its subsidiaries. In addition, we were named the successor servicer of three term securitization transactions originally sponsored by SeaWest. We do not intend to offer financing programs similar to those previously offered by SeaWest.

### SECURITIZATION AND WAREHOUSE CREDIT FACILITIES

Throughout the period for which information is presented in this report, we have purchased automobile contracts with the intention of financing them on a long-term basis through securitizations, and on an interim basis through our warehouse credit facilities. All such financings have involved identification of specific automobile contracts, sale of those automobile contracts (and associated rights) to one of our special-purpose subsidiaries, and issuance of asset-backed securities to fund the transactions. Depending on the structure, these transactions may properly be accounted for under generally accepted accounting principles as sales of the automobile contracts or as secured financings.

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

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

credit losses on the contracts.

Since the third quarter 2003 through June 2008, we have conducted 23 term securitizations. Of these 23, 18 were 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. In September 2004, we completed a securitization of automobile contracts purchased in the SeaWest asset acquisition and under our TFC programs. In December 2005 and again in 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. All such securitizations since the third quarter of 2003 have been structured as secured financings.

16

### UNCERTAINTY OF CAPITAL MARKETS

We are dependent upon the continued 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 48 term securitizations comprising approximately \$6.4 billion in contracts. We conducted four term securitizations in 2006, four in 2007, and one in 2008. However, since the fourth quarter of 2007, we have observed unprecedented adverse changes in the market for securitized pools of automobile contracts. These changes include reduced liquidity, increased financial guaranty premiums and reduced demand for asset-backed securities, including for securities carrying a financial guaranty and for securities backed by sub-prime automobile receivables. We believe that these adverse changes in the capital markets are primarily the result of widespread defaults of sub-prime mortgages securing a variety of term securitizations and related financial instruments, including instruments carrying financial guarantees similar to those we typically obtain for our own term securitizations.

The terms of our most recent securitization, completed in April 2008, required substantially greater credit enhancement than recent past securitizations, including a larger spread account and a greater portion of subordinated bonds. Greater credit enhancement requirements reduce the amount of cash available to us, both at inception of the securitization, and over the life of the transaction. Moreover, the recently completed securitization resulted in significantly higher costs to us in the form of higher premiums for financial guaranty insurance, higher interest rates paid on bonds sold by the securitization trust and greater discounts given to purchasers of such bonds. Due to current conditions in the capital markets, we believe that any additional securitization transactions that we may execute during 2008 are likely to be structured to include similar credit enhancement levels and result in similar costs to the recently completed transaction.

The adverse changes that have taken place in the market to date have caused us to curtail our purchases of automobile contracts in order to extend the time when our warehousing financing capacity would require us to conduct a term securitization. If the current adverse circumstances that have affected the capital markets should worsen such that we are precluded from completing a future securitization of our receivables, we may exhaust the capacity of our warehouse credit facilities which would cause us to further curtail or cease our purchases of new automobile contracts. Further adverse changes in the capital markets might result in our inability to securitize automobile contracts, which could lead to a material adverse effect on our operations.

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

Although we believe that such reductions in contract purchases would allow us to continue operations, such reductions have resulted in a decrease in the size of our portfolio of automobile contracts. A continuing decrease in portfolio size could have a material adverse effect on our cash flows and results of operations. However, continuing cashflows otherwise available to us would be sufficient to meet our remaining operating needs in the near term.

### RESULTS OF OPERATIONS

#### COMPARISON OF OPERATING RESULTS FOR THE THREE-MONTHS ENDED JUNE 30, 2008 WITH THE THREE-MONTHS ENDED JUNE 30, 2007

REVENUES. During the three months ended June 30, 2008, revenues were \$98.8 million, an increase of \$3.0 million, or 3.1%, from the prior year revenue of \$95.8 million. The primary reason for the increase in revenues is an increase in interest income. Interest income for the three months ended June 30, 2008 increased \$5.4 million, or 6.0%, to \$94.9 million from \$89.5 million in the prior year. The primary reason for the increase in interest income is the increase in finance receivables held by consolidated subsidiaries (resulting in an increase of \$7.2 million in interest income). This increase was partially offset by decreased interest earned on restricted cash balances and a decrease in interest earned on our residual interest in securitizations.

17

Servicing fees totaling \$280,000 in the three months ended June 30, 2008 increased \$167,000, or 148.1%, from \$113,000 in the prior year. The increase in servicing fees is the result of recoveries on the SeaWest Third Party portfolio. Such recoveries have been treated as servicing fees since September 2007; prior to that time they were applied to an outstanding note obligation of SeaWest to CPS, in accordance with the terms of the related agreements. We expect servicing fees generally to decrease as the SeaWest Third Party portfolio and related recoveries decline.

As of June 30, 2008 and 2007, our managed portfolio owned by consolidated vs. non-consolidated subsidiaries and other third parties was as follows:

	June 30, 2008		June 30, 2007	
	Amount	%	Amount	%
TOTAL MANAGED PORTFOLIO				
	(\$ in millions)			
Owned by Consolidated Subsidiaries .....	\$ 1,979.4	100.0%	\$ 1,889.4	99.4%
Owned by Non-Consolidated Subsidiaries ...	--	0.0%	9.6	0.5%
SeaWest Third Party Portfolio .....	0.1	0.0%	1.3	0.1%
Total .....	\$ 1,979.5	100.0%	\$ 1,900.3	100.0%

At June 30, 2008, we were generating income and fees on a managed portfolio with an outstanding principal balance of \$1,979.5 million (this amount includes \$128,000 of automobile contracts securitized by SeaWest, on which we earn only servicing fees), compared to a managed portfolio with an outstanding principal balance of \$1,900.3 million as of June 30, 2007. At June 30, 2008 and 2007, the managed portfolio composition was as follows:

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

	June 30, 2008		June 30, 2007	
	Amount	%	Amount	%
ORIGINATING ENTITY	(\$ in millions)			
CPS .....	\$ 1,920.1	97.0%	\$ 1,834.6	96.5%
TFC .....	59.0	3.0%	62.1	3.3%
MFN .....	0.0	0.0%	0.2	0.0%
SeaWest .....	0.3	0.0%	2.1	0.1%
SeaWest Third Party Portfolio .....	0.1	0.0%	1.3	0.1%
Total .....	\$ 1,979.5	100.0%	\$ 1,900.3	100.0%

Other income decreased \$2.6 million, or 41.6%, to \$3.6 million in the three months ended June 30, 2008 from \$6.2 million during the prior year. The year over year decrease is the result of a variety of factors. In the prior year period, we sold a portfolio of charged off receivables for a gain of \$1.7 million. In addition, prior year other income includes \$1.1 million resulting from an increase in the carrying value of our residual interest in securitizations. The carrying value was increased primarily as a result of the underlying receivables having incurred fewer losses than we had previously estimated, which in turn resulted in actual cash flows exceeding cash flows that were estimated in our valuation of the residual asset at March 31, 2007. We do not expect that future cash flows will significantly exceed the estimates we are currently using for the valuation of our residual interest. In addition, recoveries on MFN and certain other automobile contracts decreased by \$265,000 compared to the 2007 period. Partially offsetting these declines in other income, in 2008 we experienced increases in convenience fees charged to obligors for certain transaction types (an increase of \$662,000). The level of convenience fees we earn is closely related to the size of our managed portfolio. Consequently, increases or decreases in convenience fees will result from increases or decreases in our managed portfolio.

The adverse changes that have taken place in the market to date have caused us to curtail our purchases of automobile contracts in order to extend the time when our warehousing financing capacity would require us to conduct a term securitization. As a result, our managed portfolio has decreased from \$2,126.2 million at December 31, 2007 to \$1,979.5 at June 30, 2008. If the adverse conditions continue and our managed portfolio continues to decline, our revenues will decline proportionately.

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

Employee costs include base salaries, commissions and bonuses paid to employees, and certain expenses related to the accounting treatment of outstanding stock options, and are one of our most significant operating expenses. These costs

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

(other than those relating to stock options) generally fluctuate with the level of applications and automobile contracts processed and serviced.

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

Total operating expenses were \$96.1 million for the three months ended June 30, 2008, compared to \$89.6 million for the prior year, an increase of \$6.5 million, or 7.3%. The increase is primarily due to an increase in interest expense of \$7.2 million, or 21.5%.

Employee costs increased by 13.7% to \$12.9 million during the three months ended June 30, 2008, representing 13.4% of total operating expenses, from \$11.3 million for the prior year, or 12.7% of total operating expenses. During and through the end of 2007, we gradually increased our number of employees, generally throughout all areas of the Company, to accommodate greater volumes of contract purchases and the resulting higher balance of our managed portfolio. For the three-month period ended June 30, 2008 we averaged 872 employees compared to 858 employees for the same period of the prior year.

General and administrative expenses increased by 24.5% to \$7.6 million and represented 7.9% of total operating expenses in the three months ending June 30, 2008. General and administrative expenses include costs associated with purchasing and servicing our portfolio of finance receivables including expenses for facilities, credit services, telecommunications and marketing.

Interest expense for the three months ended June 30, 2008 increased \$7.2 million, or 21.5%, to \$41.0 million, compared to \$33.7 million in the previous year. The increase is primarily the result of changes in the amount and composition of securitization trust debt carried on our consolidated balance sheet. Interest on securitization trust debt increased by \$7.2 million in the three months ended June 30, 2008 compared to the prior year. We also experienced increases in residual interest financing interest expenses of \$1.6 million. A portion of the increase in interest expense can also be attributed to a gradual increase in market interest rates during 2007 during which time new securitization trust debt was added at fixed rates that were generally higher than the fixed rates on older securitization trust debt that was fully or partially repaid. Moreover, due to the securitization market disruption discussed above, the interest rates and discounts on the securitization trust debt from our April 2008 securitization transaction were significantly higher than those on our September 2007 transaction, which also contributed to the increase. Increases in interest expense for securitization trust debt and residual interest financing were somewhat offset by a decrease of \$333,000 in interest expense for subordinated debt and a decrease of \$1.3 million for warehouse debt interest expense. The decrease in the warehouse debt interest expense can be attributed to our lower level of new contract purchases in 2008 as compared to 2007.

At June 30, 2008 we borrowed \$10 million in new senior secured debt. Subsequently, and prior to this filing, we borrowed an additional \$15 million in senior secured debt and amended our existing residual financing indebtedness resulting in a higher interest rate on that indebtedness. As a result, we can expect that our interest expense on these components of debt will increase in future periods although such increases may be somewhat offset by decreases in our securitization trust debt should our portfolio of managed receivables continue to decline.

Marketing expenses consist primarily of commission-based compensation paid to

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

our employee marketing representatives and decreased by \$2.1 million, or 44.3%, to \$2.6 million, compared to \$4.7 million in the previous year. These expenses represented 2.7% of total operating expenses. The decrease is primarily due to the decrease in automobile contracts we purchased during the three months ended June 30, 2008 as compared to the prior year. During the three months ended June 30, 2008, we purchased 5,268 automobile contracts aggregating \$79.8 million, compared to 22,327 automobile contracts aggregating \$346.0 million in the prior year. The adverse changes that have taken place in the securitization market since the fourth quarter of 2007 have caused us to curtail our purchases of automobile contracts in order to preserve liquidity.

Occupancy expenses increased slightly by \$109,000 or 11.6%, to \$1.0 million compared to \$934,000 in the previous year and represented 1.2% of total operating expenses.

Depreciation and amortization expenses decreased by \$25,000, or 20.0%, to \$98,000 from \$123,000 in the previous year.

For the three months ended June 30, 2008, we recorded tax expense of \$1.2 million or 45.0% of income before income taxes. For the three months ended June 30, 2007, we recorded income taxes of \$2.7 million or 44.1% of income before income taxes. The increased effective tax rate is primarily related to the impact of 2008 projected permanent differences from various items including stock based compensation. As of June 30, 2008, we had net deferred tax assets of \$58.8 million.

### COMPARISON OF OPERATING RESULTS FOR THE SIX-MONTHS ENDED JUNE 30, 2008 WITH THE SIX-MONTHS ENDED JUNE 30, 2007

REVENUES. During the six months ended June 30, 2008, revenues were \$202.1 million, an increase of \$19.8 million, or 10.9%, from the prior year revenue of \$182.3 million. The primary reason for the increase in revenues is an increase in interest income. Interest income for the six months ended June 30, 2008 increased \$24.3 million, or 14.3%, to \$194.2 million from \$169.9 million in the prior year. The primary reason for the increase in interest income is the increase in finance receivables held by consolidated subsidiaries (resulting in an increase of \$27.7 million in interest income). This increase was partially offset by decreased interest earned on restricted cash balances and a decrease in interest earned on our residual interest in securitizations.

Servicing fees totaling \$708,000 in the six months ended June 30, 2008 increased \$313,000, or 79.3%, from \$395,000 in the prior year. The increase in servicing fees is the result of recoveries on the SeaWest Third Party portfolio. Such recoveries have been treated as servicing fees since September 2007; prior to that time they were applied to an outstanding note obligation of SeaWest to CPS, in accordance with the terms of the related agreements. We expect servicing fees generally to decrease as the SeaWest Third Party portfolio and related recoveries decline.

At June 30, 2008, we were generating income and fees on a managed portfolio with an outstanding principal balance of \$1,979.5 million (this amount includes \$128,000 of automobile contracts securitized by SeaWest, on which we earn only servicing fees), compared to a managed portfolio with an outstanding principal balance of \$1,900.3 million as of June 30, 2007.

Other income decreased \$4.8 million, or 40.2%, to \$7.2 million in the six months ended June 30, 2008 from \$12.0 million during the prior year. The year over year decrease is the result of a variety of factors. In the prior year period, we sold a portfolio of charged off receivables for a gain of \$1.7 million. In addition, prior year other income includes \$3.6 million resulting from an increase in the carrying value of our residual interest in securitizations. The

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

carrying value was increased primarily as a result of the underlying receivables having incurred fewer losses than we had previously estimated, which in turn resulted in actual cash flows exceeding cash flows that were estimated in our valuation of the residual asset at December 31, 2006. We do not expect that future cash flows will significantly exceed the estimates we are currently using for the valuation of our residual interest. In addition, recoveries on MFN and certain other automobile contracts decreased by \$515,000 compared to the 2007 period. Partially offsetting these declines in other income, in 2008 we experienced increases in convenience fees charged to obligors for certain transaction types (an increase of \$1.4 million). The level of convenience fees we earn is closely related to the size of our managed portfolio. Consequently, increases or decreases in convenience fees will result from increases or decreases in our managed portfolio.

20

The adverse changes that have taken place in the securitization market since the fourth quarter of 2007 have caused us to curtail our purchases of automobile contracts in order to preserve liquidity. As a result, our managed portfolio has decreased from \$2,126.2 million at December 31, 2007 to \$1,979.5 at June 30, 2008. If the adverse conditions continue and our managed portfolio continues to decline, our revenues will decline proportionately.

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

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

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

Total operating expenses were \$195.6 million for the six months ended June 30, 2008, compared to \$170.6 million for the prior year, an increase of \$25.0 million, or 14.6%. The increase is primarily due to an increase in interest expense of \$16.8 million, or 26.5%.

Employee costs increased by 19.1% to \$26.4 million during the six months ended June 30, 2008, representing 13.5% of total operating expenses, from \$22.1 million for the prior year, or 13.0% of total operating expenses. The increase in employee costs is the result of additions to our staff, generally throughout all areas of the Company, to accommodate greater volumes of contract purchases and the resulting higher balance of our managed portfolio. For the six-month period ended June 30, 2008 we averaged 911 employees compared to 835 employees for the same period of the prior year.

General and administrative expenses increased by 23.8% to \$14.9 million and represented 7.6% of total operating expenses in the six months ending June 30, 2008. General and administrative expenses include costs associated with

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

purchasing and servicing our portfolio of finance receivables including expenses for facilities, credit services, telecommunications and marketing.

Interest expense for the six months ended June 30, 2008 increased \$16.8 million, or 26.5%, to \$80.0 million, compared to \$63.2 million in the previous year. The increase is primarily the result of changes in the amount and composition of securitization trust debt carried on our consolidated balance sheet. Interest on securitization trust debt increased by \$13.8 million in the six months ended June 30, 2008 compared to the prior year. We also experienced increases in warehouse interest expense and residual interest financing interest expenses of \$710,000 and \$3.0 million, respectively. A portion of the increase in interest expense can also be attributed to a gradual increase in market interest rates during 2007 during which time new securitization trust debt was added at fixed rates that were generally higher than the fixed rates on older securitization trust debt that was fully or partially repaid. Moreover, due to the securitization market disruption discussed above, the interest rates and discounts on the securitization trust debt from our April 2008 securitization transaction were higher than those on our September 2007 transaction, which also contributed to the increase. Increases in interest expense for securitization trust debt, warehouse and residual interest financing were somewhat offset by a decrease of \$711,000 in interest expense for subordinated debt.

21

At June 30, 2008 we borrowed \$10 million in new senior secured debt. Subsequently, and prior to this filing, we borrowed an additional \$15 million in senior secured debt and amended our existing residual financing indebtedness resulting in a higher interest rate on that indebtedness. As a result, we can expect that our interest expense on these components of debt will increase in future periods although such increases may be somewhat offset by decreases in our securitization trust debt should our portfolio of managed receivables continue to decline.

Marketing expenses consist primarily of commission-based compensation paid to our employee marketing representatives and decreased by \$2.7 million, or 30.1%, to \$6.2 million, compared to \$8.9 million in the previous year and represented 3.2% of total operating expenses. The decrease is primarily due to the decrease in automobile contracts we purchased during the six months ended June 30, 2008 as compared to the prior year. During the six months ended June 30, 2008, we purchased 17,051 automobile contracts aggregating \$255.9 million, compared to 43,897 automobile contracts aggregating \$676.3 million in the prior year. The adverse changes that have taken place in the securitization market since the fourth quarter of 2007 have caused us to curtail our purchases of automobile contracts in order to preserve liquidity.

Occupancy expenses increased slightly by \$174,000 or 9.3%, to \$2.0 million compared to \$1.9 million in the previous year and represented 1.0% of total operating expenses.

Depreciation and amortization expenses decreased by \$53,000, or 18.2%, to \$237,000 from \$290,000 in the previous year.

For the six months ended June 30, 2008, we recorded tax expense of \$2.9 million or 44.4% of income before income taxes. For the six months ended June 30, 2007, we recorded income taxes of \$4.9 million or 42.3% of income before income taxes. The increased effective tax rate is primarily related to the impact of 2008 projected permanent differences from various items including stock based compensation. As of June 30, 2008, we had net deferred tax assets of \$58.8 million.

22



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

## CREDIT EXPERIENCE

Our financial results are dependent on the performance of the automobile contracts in which we retain an ownership interest. The table below documents the delinquency, repossession and net credit loss experience of all automobile contracts that we were servicing (excluding automobile contracts from the SeaWest Third Party Portfolio) as of the respective dates shown. Credit experience for CPS, MFN (since the date of the MFN transaction), TFC (since the date of the TFC transaction) and SeaWest (since the date of the SeaWest transaction) is shown on a combined basis in the table below.

### DELINQUENCY EXPERIENCE (1) CPS, MFN, TFC AND SEAWEST COMBINED

	June 30, 2007		June 30,
	Number of Contracts	Amount	Number of Contracts
			(Dollars in th
Delinquency Experience			
Gross servicing portfolio (1) .....	162,673	\$1,981,134	150,900
Period of delinquency (2)			
31-60 days .....	3,950	44,740	3,495
61-90 days .....	2,122	24,408	1,511
91+ days .....	1,203	12,754	909
Total delinquencies (2) .....	7,275	81,902	5,915
Amount in repossession (3) .....	3,410	39,346	2,228
Total delinquencies and amount in repossession (2) ...	10,685	\$ 121,248	8,143
Delinquencies as a percentage of gross servicing portfolio .....	4.5%	4.1 %	3.9 %
Total delinquencies and amount in repossession as a percentage of gross servicing portfolio .....	6.6 %	6.1 %	5.4 %

(1) ALL AMOUNTS AND PERCENTAGES ARE BASED ON THE AMOUNT REMAINING TO BE REPAYED ON EACH AUTOMOBILE CONTRACT, INCLUDING, FOR PRE-COMPUTED AUTOMOBILE CONTRACTS, ANY UNEARNED INTEREST. THE INFORMATION IN THE TABLE REPRESENTS THE GROSS PRINCIPAL AMOUNT OF ALL AUTOMOBILE CONTRACTS PURCHASED BY US, INCLUDING AUTOMOBILE CONTRACTS SUBSEQUENTLY SOLD BY US IN SECURITIZATION TRANSACTIONS THAT WE CONTINUE TO SERVICE. THE TABLE DOES NOT INCLUDE AUTOMOBILE CONTRACTS FROM THE SEAWEST THIRD PARTY PORTFOLIO.

(2) WE CONSIDER AN AUTOMOBILE CONTRACT DELINQUENT WHEN AN OBLIGOR FAILS TO MAKE AT LEAST 90% OF A CONTRACTUALLY DUE PAYMENT BY THE FOLLOWING DUE DATE, WHICH DATE MAY HAVE BEEN EXTENDED WITHIN LIMITS SPECIFIED IN THE SERVICING AGREEMENTS. THE PERIOD OF DELINQUENCY IS BASED ON THE NUMBER OF DAYS PAYMENTS ARE CONTRACTUALLY PAST DUE. AUTOMOBILE CONTRACTS LESS THAN 31 DAYS DELINQUENT ARE NOT INCLUDED.

(3) AMOUNT IN REPOSSESSION REPRESENTS FINANCED VEHICLES THAT HAVE BEEN REPOSSESSED BUT NOT YET LIQUIDATED.

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

### NET CHARGE-OFF EXPERIENCE (1) CPS, MFN, TFC AND SEAWEST COMBINED

	June 30, 2008	June 30, 2007	December 31, 2007
	-----	-----	-----
	(Dollars in thousands)		
Average servicing portfolio outstanding .....	\$2,067,917	\$1,752,458	\$1,905,162
Annualized net charge-offs as a percentage of average servicing portfolio (2) .....	6.8 %	4.6 %	5.3 %

-----

(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 AUTOMOBILE CONTRACTS FROM THE SEAWEST THIRD PARTY PORTFOLIO).

(2) NET CHARGE-OFFS INCLUDE THE REMAINING PRINCIPAL BALANCE, AFTER THE APPLICATION OF THE NET PROCEEDS FROM THE LIQUIDATION OF THE VEHICLE (EXCLUDING ACCRUED AND UNPAID INTEREST) AND AMOUNTS COLLECTED SUBSEQUENT TO THE DATE OF CHARGE-OFF, INCLUDING SOME RECOVERIES WHICH HAVE BEEN CLASSIFIED AS OTHER INCOME IN THE ACCOMPANYING INTERIM FINANCIAL STATEMENTS. JUNE 30, 2008 AND JUNE 30, 2007 PERCENTAGE REPRESENTS SIX MONTHS ENDED JUNE 30, 2008 AND JUNE 30, 2007 ANNUALIZED. DECEMBER 31, 2007 REPRESENTS 12 MONTHS ENDED DECEMBER 31, 2007.

23

### LIQUIDITY AND CAPITAL RESOURCES

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

Net cash provided by operating activities for the six-month period ended June 30, 2008 was \$84.1 million compared to net cash provided by operating activities for the six-month period ended June 30, 2007 of \$67.7 million. Cash provided by operating activities is affected by our increased net earnings before the significant increase in the provision for credit losses.

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

Net cash provided by investing activities for the six-month period ended June 30, 2008 was \$76.5 million compared to net cash used in investing activities of 452.5 million in the prior year period. Cash flows from investing activities has primarily related to purchases of automobile contracts less principal amortization on our consolidated portfolio of automobile contracts. The adverse changes that have taken place in the securitization market since the fourth quarter of 2007 have caused us to curtail our purchases of automobile contracts in order to preserve liquidity.

Net cash used by financing activities for the six months ended June 30, 2008 was \$159.6 million compared to net cash provided by financing activities of \$384.0 million in the prior year period. Cash provided by financing activities is generally related to the issuance of new securitization trust debt. We issued \$285.4 million in new securitization trust debt in the six months ended June 30, 2008 compared to \$709.2 million in the prior year period. Cash used in financing activities also includes the repayment of securitization trust debt of \$377.4 million and \$316.8 million for the six-month periods ended June 30, 2008 and 2007, respectively.

We purchase automobile contracts from dealers for cash prices approximating their principal amounts, adjusted for acquisition fees that 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. As of June 30, 2008, we had \$400 million in warehouse credit capacity, in the form of two \$200 million senior facilities. One \$200 million senior facility provides funding for automobile contracts purchased under the TFC programs while both senior facilities provide funding for automobile contracts purchased under the CPS programs.

The first of two warehouse facilities mentioned above is provided by Bear, Stearns International Limited and 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 Three Funding, LLC. This facility was established on November 15, 2005, and expires on November 6, 2008, although it is renewable with the mutual agreement of the parties. On November 8, 2006 the facility was increased from \$150 million to \$200 million and the maximum advance rate was increased to 83% from 80% of eligible contracts, subject to collateral tests and certain other conditions and covenants. The advance rate is subject to the lender's valuation of the

24

collateral, which in turn is affected by factors such as the credit performance of our managed portfolio and the terms and conditions of our term securitizations, including the expected yields required for bonds issued in our term securitizations, and is currently at less than the maximum advance rate. Notes under this facility accrue interest at a rate of one-month LIBOR plus 2.50% per annum. At June 30, 2008, \$77.2 million was outstanding under this facility.

The second of two warehouse facilities is provided by UBS Real Estate Securities Inc. and is similarly structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated subsidiary Page Funding LLC. This facility was entered into on June 30, 2004. On June 29, 2005 the facility was increased from \$100 million to \$125 million and further amended to provide for

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

funding for automobile contracts purchased under the TFC programs, in addition to our CPS programs. The available credit under the facility was increased again to \$200 million on August 31, 2005. In April 2006, the terms of this facility were amended to allow advances to us of up to 80% of the principal balance of automobile contracts that we purchase under our CPS programs, and of up to 70% of the principal balance of automobile contracts that we purchase under our TFC programs, in all events subject to collateral tests and certain other conditions and covenants. On June 30, 2006, the terms of this facility were amended to allow advances to us of up to 83% of the principal balance of automobile contracts that we purchase under our CPS programs, in all events subject to collateral tests and certain other conditions and covenants. The advance rate is subject to the lender's valuation of the collateral which, in turn, is affected by factors such as the credit performance of our managed portfolio and the terms and conditions of our term securitizations, including the expected yields for bonds issued in our term securitizations, and is currently at less than the maximum advance rate. Notes under this facility accrue interest at a rate of one-month LIBOR plus 2.00% per annum. The facility expires on September 30, 2008, unless renewed by us and the lender before that time. At June 30, 2008, \$70.9 million was outstanding under this facility.

The balance under these warehouse facilities generally will increase as we purchase additional automobile contracts, until we effect a securitization utilizing automobile contracts pledged to the warehouse facilities. Proceeds from the securitization are then used to pay down the outstanding balance of the warehouse facilities.

The acquisition of automobile contracts for subsequent sale in securitization transactions, and the need to fund the 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 advance rate on the warehouse facilities, the required level of initial credit enhancement in securitizations, and the extent to which the previously established trusts and their related spread account either release cash to us or capture cash from collections on securitized automobile contracts. We are limited in our ability to purchase automobile contracts by our available cash and the capacity of our warehouse facilities. As of June 30, 2008, we had unrestricted cash on hand of \$21.8 million and available capacity from our warehouse credit facilities of \$251.9 million, subject to the availability of suitable automobile contracts to serve as collateral and of sufficient cash to fund the portion of such automobile contracts purchase price not advanced under the warehouse facilities. Our plans to manage our liquidity include the completion of additional term securitizations that may result in additional unrestricted cash through repayment of the warehouse facilities, and matching our levels of automobile contract purchases to our availability of cash. There can be no assurance that we will be able to complete term securitizations on favorable economic terms or that we will be able to complete term securitizations at all. If we were unable to complete such securitizations, interest income and other portfolio related income would decrease.

Our primary means of ensuring that our cash demands do not exceed our cash resources is to match our levels of automobile contract purchases to our availability of cash. Our ability to adjust the quantity of automobile contracts that we purchase and securitize will be subject to general competitive conditions and the continued availability of warehouse credit facilities. There can be no assurance that the desired level of automobile contract acquisition can be maintained or increased. While the specific terms of our securitization transactions vary, our securitization agreements generally provide that we will receive excess cash flows 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 note 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.

In November 2005, we completed a securitization in which a wholly-owned bankruptcy remote consolidated subsidiary of ours issued \$45.8 million of asset-backed notes secured by its retained interest in ten term securitization transactions. At December 31, 2006 there was \$19.6 million outstanding on this facility and in May 2007 the notes were fully repaid. In December 2006 we entered into a \$35 million residual credit facility that was secured by our retained interests in additional term securitizations. At December 31, 2006, there was \$12.2 million outstanding under this facility. In July 2007, we established a combination term and revolving residual credit facility and used a portion of our initial draw under that facility to repay our remaining outstanding debt under the December 2006 \$35 million residual facility.

Under the combination term and revolving residual credit facility, we have used and intend to use eligible residual interests in securitizations as collateral for floating rate borrowings. The amount that were able to borrow was computed using an agreed valuation methodology of the residuals, subject to an overall maximum principal amount of \$120 million, represented by (i) a \$60 million Class A-1 variable funding note (the "revolving note"), and (ii) a \$60 million Class A-2 term note (the "term note"). The term note was fully drawn in July 2007 and was due in July 2009. As of June 30, 2008, we had drawn \$26.8 million on the revolving note. The facility's revolving feature expired in July 2008. On July 10, 2008 we amended the terms of the combination term and revolving residual credit facility, (i) eliminating the revolving feature and increasing the interest rate, (ii) consolidating the amounts then owing on the Class A-1 note with the Class A-2 note, (iii) establishing an amortization schedule for principal reductions on the Class A-2 note, and (iv) providing for an extension, at our option if certain conditions are met, of the Class A-2 note maturity from June 2009 to June 2010. At the time of the amendment the aggregate indebtedness under this facility was \$70.0 million.

On June 30, 2008, we entered into a series of agreements pursuant to which a lender purchased a \$10 million five-year, fixed rate, senior secured note issued by the Company. The indebtedness is secured by substantially all of the Company's assets, though not by the assets of the Company's special-purpose financing subsidiaries. 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.

The terms of the various securitization agreements related to the issuance of the securitization trust debt and the warehouse credit facilities require that certain delinquency and credit loss criteria be met with respect to the collateral pool, and require that we maintain minimum levels of liquidity and net worth and not exceed maximum leverage levels and maximum financial losses. In addition, certain securitization and non-securitization related debt contain cross-default provisions, which would allow certain creditors to declare a default if a default were declared under a different facility. As of June 30, 2008, we were in compliance with all such financial covenants.

The securitization agreements of our term securitization transactions are terminable by the note insurers in the event of certain defaults by us and under certain other circumstances. Similar termination rights are held by the lenders in the warehouse credit facilities. Were a note insurer (or the lenders in such warehouse facilities) in the future to exercise its option to terminate the securitization agreements, such a termination would have a material adverse effect on our liquidity and results of operations. We continue to receive servicer extensions on a monthly and/or quarterly basis, pursuant to the securitization agreements.

26

#### CRITICAL ACCOUNTING POLICIES

##### (a) ALLOWANCE FOR FINANCE CREDIT LOSSES

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

##### (b) CONTRACT ACQUISITION FEES AND ORIGINATIONS COSTS

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

For contracts purchased and securitized in pools which are structured as secured financings for financial accounting purposes, dealer acquisition fees and deferred originations costs are reduced against the carrying value of finance receivables and are accreted into earnings as an adjustment to the yield over the estimated life of the contract using the interest method.

##### (c) INCOME TAXES

We and our subsidiaries file consolidated federal income and combined state franchise tax returns. We utilize the asset and liability method of accounting for income taxes, under which deferred income taxes are recognized for the future tax consequences attributable to the differences between the financial statement values of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that

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

includes the enactment date. A valuation allowance is recorded against that portion of the deferred tax asset whose utilization in future period is not more than likely.

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

### (d) STOCK-BASED COMPENSATION

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

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

27

For the six months ended June 30, 2008, we recorded \$654,079 in stock-based compensation costs, resulting from grants of options during the period and vesting of previously granted options. As of June 30, 2008, there were \$4.3 million in unrecognized stock-based compensation costs to be recognized over future periods.

### FORWARD LOOKING STATEMENTS

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

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

effects of such structures on financial items and on our 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 automobile contracts, any changes in that rate, the credit performance of such automobile contracts, the financial terms of future securitizations, any changes in such terms over time, and other factors that generally affect our profitability.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### INTEREST RATE RISK

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

We have historically mitigated, but not eliminated, interest rate risk by generally holding such contracts for less than four months before obtaining permanent fixed rate financing. The reader should note that extraordinary events in the market for securitized receivables have materially increased the cost of obtaining permanent financing through securitization. To minimize the extent to which we incur such increased costs, we have chosen to accept increased interest rate risk, and we are holding fixed rate automobile contracts in floating rate warehouse credit facilities beyond four months, approaching the 180-day maximums that apply to each of our two warehouse credit facilities.

28

### ITEM 4. CONTROLS AND PROCEDURES

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



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

control over financial reporting.

29

### PART II -- OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

The information provided under the caption "Legal Proceedings" in our Annual Report on Form 10-K for the year ended December 31, 2007, is incorporated herein by reference.

Such information included a reference to an individual resident of Ohio, Agborebot Bate-Eya, having filed against us a purported class counterclaim to a collection lawsuit. The claims against us have since been dismissed with prejudice.

#### ITEM 1A. RISK FACTORS

We remind the reader that risk factors are set forth in Item 1A of our report on Form 10-K, filed with the U.S. Securities and Exchange Commission on March 9, 2007. Material changes from such risk factors as previously disclosed are set forth below.

One of the risk factors discussed in our annual report on Form 10-K advised that our financial and operational performance depends upon a number of factors, many of which are beyond our control. The reader should note that among such factors is the ability to execute securitization transactions on acceptable terms, as to which there can be no assurance.

Another of the risk factors discussed in our annual report on Form 10-K noted that we are dependent on warehouse financing facilities, pointed out that the lender in one of our two warehouse financing facilities is an affiliate of Bear Stearns, and noted that liquidity issues or changes in business strategy on the part of that lender could affect whether that lender may continue to do business with us. Subsequent to filing of our annual report, Bear Stearns has been acquired by JPMorgan Chase. We cannot predict whether JPMorgan Chase will agree to a renewal of that warehouse facility, which will expire in November 2008 unless earlier renewed or terminated upon the occurrence of certain events, nor the terms on which any renewal may be available.

The same risk factor included in our annual report on Form 10-K described the issuance of subordinated debt under each of our two warehouse credit facilities, noted that the obligation of subordinated lenders to purchase such debt was to expire by its terms on January 15, 2008, noted that we had entered into a series of short-term extensions, and warned that there could be no assurance as to our ability to come to terms regarding further extensions. In April 2008, we paid all outstanding subordinated debt issued under such warehouse facilities. We were not able to come to terms that would allow us to continue to issue subordinated debt under the warehouse facilities, and we no longer have the ability to issue subordinated debt under either warehouse credit facility.

Another of the risk factors discussed in our annual report on Form 10-K noted that we are subject to interest rate risk related to our holding fixed rate automobile contracts, from the time that we acquire such contracts to the time that we obtain fixed rate permanent financing for such contracts, historically in securitizations. We stated there that we have mitigated, but not eliminated, that interest rate risk by generally holding such contracts for less than four months before obtaining permanent fixed rate financing. The reader should note

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

that extraordinary events in the market for securitized receivables have materially increased the cost of obtaining permanent financing through securitization. To minimize the extent to which we incur such increased costs, we have chosen to accept increased interest rate risk, and we are holding fixed rate automobile contracts in floating rate warehouse credit facilities beyond four months, approaching the 180-day maximums that apply to each of our two warehouse credit facilities.

30

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended June 30, 2008, we purchased a total of 411,038 shares of our common stock, as described in the following table:

#### ISSUER PURCHASES OF EQUITY SECURITIES

Period(1)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
-----	-----	-----	-----	-----
April 2008 .....	137,539	\$ 2.98	137,539	\$ 4,071,771
May 2008 .....	140,136	2.95	140,136	3,657,953
June 2008 .....	133,363	2.82	133,363	3,282,403
	-----	-----	-----	
Total .....	411,038	\$ 2.92	411,038	--
	=====	=====	=====	

(1) EACH MONTHLY PERIOD IS THE CALENDAR MONTH.

(2) OUR BOARD OF DIRECTORS IN JANUARY 2008 AUTHORIZED THE PURCHASE OF UP TO AN ADDITIONAL \$5 MILLION OF OUR OUTSTANDING SECURITIES.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our annual meeting of shareholders was held on June 4, 2008. At the meeting, each of the eight nominees to the Board of Directors was elected for a one-year term by the shareholders, with votes cast as follows:

NOMINEE	VOTES FOR	VOTES WITHHELD
-----	-----	-----
Charles E. Bradley, Jr.	15,173,753	741,661
Chris A. Adams	14,807,737	1,107,677
E. Bruce Fredrikson	15,170,993	744,421
Brian J. Rayhill	14,807,737	1,107,677
William B. Roberts	15,014,649	900,765
John C. Warner	15,160,283	755,131
Gregory S. Washer	14,650,158	1,265,256
Daniel S. Wood	15,014,899	900,515

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

The shareholders also approved the three other proposals placed before the annual meeting. Those proposals were (i) to ratify the appointment of McGladrey & Pullen LLP as independent auditors of the Company for the fiscal year ending December 31, 2008, (ii) to approve an amendment to our 2006 Long-Term Equity Incentive Plan that increased by from 3,000,000 to 5,000,000 the number of shares of common stock that may be made the subject of plan awards, and (iii) to approve the material terms of the Company's Executive Management Bonus Plan, including an amendment that increased the maximum bonuses that may be paid under such Plan. Votes on the proposals were cast as follows:

31

	Ratification of Selection of Independent Auditors	Amendment of our 2006 Long-Term Equity Incentive Plan	Approval of the material of the Company's Execut Management Bonus Pla
	-----	-----	-----
For	15,678,953	5,221,652	14,683
Against	54,640	3,874,799	1,048
Abstain	181,821	142,882	183
Broker Non-votes	0	6,676,081	

### ITEM 6. EXHIBITS

The Exhibits listed below are filed with this report.

- 4.14 Instruments defining the rights of holders of long-term debt of certain consolidated subsidiaries of the registrant are omitted pursuant to the exclusion set forth in subdivisions (b)(iv)(iii)(A) and (b)(v) of Item 601 of Regulation S-K (17 CFR 229.601). The registrant agrees to provide copies of such instruments to the United States Securities and Exchange Commission upon request.
- 4.27 Indenture dated as of March 1, 2008, respecting notes issued by CPS Auto Receivables Trust 2008-A (Incorporated by reference to 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, re CPS Auto Receivables Trust 2008-A (Incorporated by reference to exhibit 4.28 to Form 8-K filed by the registrant on April 15, 2008)
- 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 Am. No. 1 dated July 10, 2008 to Securities Purchase Agreement dated June 30, 2008 between the registrant and LLCP
- 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)

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

- 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.
- 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.
- 10.22 Performance Guaranty dated July 10, 2008 issued by the registrant in favor of Citigroup Financial Products Inc.
- 10.23 Warrant dated July 10, 2008, issued to Citigroup Global Markets Inc.
- 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer of the registrant.
- 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer of the registrant.
- 32 Section 1350 Certifications.\*

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

32

### SIGNATURES

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

CONSUMER PORTFOLIO SERVICES, INC.  
(Registrant)

Date: August 8, 2008

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

-----  
Charles E. Bradley, Jr.  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
(Principal Executive Officer)

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

Date: August 8, 2008

By: /s/ JEFFREY P. FRITZ

-----

Jeffrey P. Fritz  
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER  
(Principal Financial Officer)