CONSUMER PORTFOLIO SERVICES INC
Form 10-Q
July 31, 2012

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, 2012

Commission file number: 1-11416

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

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

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

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

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

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [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 [ ]
Non-Accelerated Filer [ ] Smaller Reporting Company [X]

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 24, 2012 the registrant had 19,537,164 common shares outstanding.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
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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, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$10,240	$10,094
Restricted cash and equivalents	127,806	159,228
Finance receivables	618,802	516,630
Less: Allowance for finance credit losses	(14,093)	(10,351)
Finance receivables, net	604,709	506,279
Finance receivables measured at fair value	102,366	160,253
Residual interest in securitizations	4,850	4,414
Furniture and equipment, net	767	875
Deferred financing costs	10,234	8,036
Deferred tax assets, net	15,000	15,000
Accrued interest receivable	7,279	6,432
Other assets	18,940	19,439
	$902,191	$890,050
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	$23,467	$27,993
Warehouse lines of credit	28,568	25,393
Residual interest financing	15,321	21,884
Debt secured by receivables measured at fair value	104,662	166,828
Securitization trust debt	666,076	583,065
Senior secured debt, related party	53,711	58,344
Subordinated renewable notes	21,100	20,750
	912,905	904,257
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	-	-
Series B convertible preferred stock, $1 par value; authorized		
1,870 shares; none issued and outstanding at June 30, 2012		
and December 31, 2011, respectively	-	-
Common stock, no par value; authorized		
75,000,000 shares; 19,293,664 and 19,526,968		
shares issued and outstanding at June 30, 2012 and		
December 31, 2011, respectively	64,108	62,466
Accumulated deficit	(66,286)	(68,138)
Accumulated other comprehensive loss	(8,536)	(8,535)

	(10,714)	(14,207)
	$902,191	$890,050

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CONSUMER PORTFOLI O 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,	
	2012	2011	2012	2011
Revenues:				
Interest income	$41,546	$27,812	$82,157	$56,396
Servicing fees	595	1,130	1,396	2,545
Other income	2,010	2,212	5,116	4,608
	44,151	31,154	88,669	63,549
Expenses:				
Employee costs	8,277	7,461	17,148	15,085
General and administrative	3,577	3,772	8,075	7,411
Interest	19,827	19,241	42,136	38,367
Provision for credit losses	7,711	4,360	12,547	8,052
Marketing	2,560	1,839	5,180	3,434
Occupancy	726	762	1,447	1,523
Depreciation and amortization	132	162	284	326
	42,810	37,597	86,817	74,198
Income (loss) before income tax expense	1,341	(6,443)	1,852	(10,649)
Income tax expense	-	-	-	-
Net income (loss)	$1,341	$(6,443)	$1,852	$(10,649)
Income (loss) per share:				
Basic	$0.07	$(0.35)	$0.10	$(0.58)
Diluted	0.05	(0.35)	0.08	(0.58)
Number of shares used in computing income (loss) per share:				
Basic	19,305	18,421	19,360	18,272
Diluted	24,636	18,421	23,283	18,272

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$ 1,341	$ (6,443)	$ 1,852	$ (10,649)
Other comprehensive income/(loss); change in funded status of pension plan	-	-	-	-
Comprehensive income/(loss)	$ 1,341	$ (6,443)	$ 1,852	$ (10,649)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	$1,852	$(10,649)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Accretion of deferred acquisition fees	(7,169)	(4,308)
Accretion of purchase discount on receivables measured at fair value	(5,049)	--
Amortization of discount on securitization notes	917	1,764
Amortization of discount on senior secured debt, related party	1,567	1,340
Accretion of premium on debt secured by receivables measured at fair value	5,108	--
Mark to fair value on debt secured by receivables measured at fair value	6,015	--
Mark to fair value of receivables measured at fair value	(5,217)	--
Depreciation and amortization	284	326
Amortization of deferred financing costs	1,865	1,398
Provision for credit losses	12,547	8,052
Stock-based compensation expense	618	824
Interest income on residual assets	(436)	(207)
Changes in assets and liabilities:		
Accrued interest receivable	(848)	801
Other assets	35	614
Accounts payable and accrued expenses	(3,169)	1,326
Net cash provided by operating activities	8,920	1,281
Cash flows from investing activities:		
Purchases of finance receivables held for investment	(257,800)	(110,850)
Proceeds received on finance receivables held for investment	222,146	172,863
Change in repossessions in inventory	464	699
Decreases (increases) in restricted cash and equivalents	31,422	(4,427)
Purchase of furniture and equipment	(176)	(143)
Net cash provided by (used in) investing activities	(3,944)	58,142
Cash flows from financing activities:		
Proceeds from issuance of securitization trust debt	296,500	109,365
Proceeds from issuance of subordinated renewable notes	1,576	1,976
Proceeds from issuance of senior secured debt, related party	-	7,545
Payments on subordinated renewable notes	(1,226)	(1,575)
Net proceeds from (repayments to) warehouse lines of credit	3,175	(1,717)
Proceeds from (repayments of) residual interest financing debt	(6,563)	(8,979)
Repayment of securitization trust debt	(214,405)	(162,596)
Repayment of portfolio acquisition facility	(73,289)	-
Repayment of senior secured debt, related party	(6,200)	(400)
Payment of financing costs	(4,064)	(2,743)

Repurchase of common stock	(435)	(85)
Exercises of options and warrants	101	2
Net cash used in financing activities	(4,830)	(59,207)
Increase (decrease) in cash and cash equivalents	146	216
Cash and cash equivalents at beginning of period	10,094	16,252
Cash and cash equivalents at end of period	$10,240	$16,468
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Interest	$43,288	$32,936
Income taxes	$745	$145
Non-cash financing activities:		
Derivative warrants reclassified from liabilities to common stock upon amendment	$1,358	$--

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

(1) Summary of Significant Accounting Policies

Description of Business

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

Basis of Presentation

Our Unaudited Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America, with the instructions to Form 10-Q and with Article 8 of Regulation S-X of the Securities and Exchange Commission, and include all adjustments that are, in management’s opinion, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are, in the opinion of management, of a normal recurring nature. In addition, certain items in prior period financial statements may have been reclassified for comparability to current period presentation. Results for the six-month period ended June 30, 2012 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, 2011.

Use of Estimates

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

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

Other Income

The following table presents the primary components of Other Income for the three-month and six-month periods ending June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)		(In thousands)	
Direct mail revenues	$1,232	$1,187	$2,851	$2,355
Convenience fee revenue	690	676	1,522	1,390
Recoveries on previously charged-off contracts	148	162	245	349
Sales tax refunds	55	98	127	247
Other	(115)	89	371	267
Other income for the period	$2,010	$2,212	$5,116	$4,608

Stock-based Compensation

We recognize compensation costs in the financial statements for all share-based payments based on the grant date fair value estimated in accordance with the provisions of ASC 718 “Accounting for Stock Based Compensation”.

For the six months ended June 30, 2012 and 2011, we recorded stock-based compensation costs in the amount of $618,000 and $824,000, respectively. As of June 30, 2012, unrecognized stock-based compensation costs to be recognized over future periods equaled $2.0 million. This amount will be recognized as expense over a weighted-average period of 3.4 years.

The following represents stock option activity for the six months ended June 30, 2012:

	Number of Shares	Weighted Average	Weighted Average Remaining Contractual
	(in thousands)	Exercise Price	Term
Options outstanding at the beginning of period	8,431	$ 1.53	N/A
Granted	797	1.20	N/A
Exercised	(87)	1.16	N/A
Forfeited	(283)	1.35	N/A
Options outstanding at the end of period	8,858	$ 1.51	5.97 years
Options exercisable at the end of period	6,181	$ 1.67	4.84 years

At June 30, 2012, the aggregate intrinsic value of options outstanding and exercisable was $5.0 million and $2.9 million, respectively. There were 87,000 options exercised for the six months ended June 30, 2012 compared to 3,000

for the comparable period in 2011. There were 2.3 million shares available for future stock option grants under existing plans as of June 30, 2012.

Purchases of Company Stock

During the six-month period ended June 30, 2012 and 2011, we purchased 320,154 and 74,292 shares, respectively, of our common stock, at average prices of $1.36 and $1.15, respectively.

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

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or total shareholders' equity.

Derivative Financial Instruments

We do not use derivative financial instruments to hedge exposures to cash-flow or market risks. However, from 2008 to 2010, we issued warrants to purchase the Company's common stock in conjunction with various debt financing transactions. At the time of issuance, five of these warrants issued contained "down round" or reset features that are subject to classification as liabilities for financial statement purposes. These liabilities are measured at fair value, with the changes in fair value at the end of each period reflected as current period income or loss. Accordingly, changes to the market price per share of our common stock underlying these warrants with "down round" or price reset features directly affect the fair value computations for these derivative financial instruments. The effect is that any increase in the market price per share of our common stock would also increase the related liability, which in turn would result in a current period loss. Conversely, any decrease in the market price per share of our common stock would also decrease the related liability, which in turn would result in a current period gain. We use a binomial pricing model to compute the fair value of the liabilities associated with the outstanding warrants. In computing the fair value of the warrant liabilities at the end of each period, we use significant judgments with respect to the risk free interest rate, the volatility of our stock price, and the estimated life of the warrants. The effects of these judgments, if proven incorrect, could have a significant effect on our financial statements. The warrant liabilities are included in Accounts payable and accrued expenses on our consolidated balance sheets. On March 29, 2012 we agreed with the holders to amend three of the five warrants that contained the "down round" features, removing those specific price reset terms. On the date of the amendment, we valued each of the three warrants using a binomial pricing model as described above. The aggregate value of the three amended warrants of $1.1 million was then reclassified from Accounts payable to Common Stock. On June 25, 2012 we agreed with the holder to amended one other warrant that contained the "down round" features, removing those specific price reset terms. The $250,000 aggregate value of this amended warrant was reclassified from Accounts payable to Common Stock on the date of the amendment. The remaining warrant with the "down round" feature was not amended and was valued and recorded at June 30, 2012 using a binomial pricing model to compute the fair value, which is included in Accounts payable and accrued expenses, and will continue to be subject to quarterly valuations.

Financial Covenants

Certain of our securitization transactions, our warehouse credit facilities and our residual interest financing contain various financial covenants requiring minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels. In addition, certain securitization and non-securitization related debt agreements contain cross-default provisions that would allow certain creditors to declare a default if a default occurred under a different facility. As of June 30, 2012, we were in compliance with all such covenants.

Finance Receivables and Related Debt Measured at Fair Value

In September 2011 we purchased approximately $217.8 million of finance receivables from Fireside Bank. These receivables and the related acquisition debt are recorded on our balance sheet at fair value. There are no level 1 or level 2 inputs (as described by ASC 820) available to us for measurement of such receivables, or for the related debt. Our level 3, unobservable inputs reflect our own assumptions about the factors that market participants use in

pricing similar receivables and debt, and are based on the best information available in the circumstances. The valuation method used to estimate fair value may produce a fair value measurement that may not be indicative of ultimate realizable value. Furthermore, while we believe our valuation methods are appropriate and consistent with those used by other market participants, the use of different methods or assumptions to estimate the fair value of certain financial instruments could result in different estimates of fair value. Those estimated values may differ significantly from the values that would have been used had a readily available market for such receivables or debt existed, or had such receivables or debt been liquidated, and those differences could be material to the financial statements.

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

(2) Finance Receivables

Our portfolio of finance receivables consists of small-balance homogeneous contracts comprising a single segment and class that is collectively evaluated for impairment on a portfolio basis according to delinquency status. Our contract purchase guidelines are designed to produce a homogenous portfolio. For key terms such as interest rate, length of contract, monthly payment and amount financed, there is relatively little variation from the average for the portfolio. We report delinquency on a contractual basis. Once a contract becomes greater than 90 days delinquent, we do not recognize additional interest income until the obligor under the contract makes sufficient payments to be less than 90 days delinquent. Any payments received on a contract that is greater than 90 days delinquent are first applied to accrued interest and then to principal reduction.

The following table presents the components of Finance Receivables, net of unearned interest:

	June 30, 2012	December 31, 2011
Finance Receivables	(In thousands)	
Automobile finance receivables, net of unearned interest	$ 646,172	$ 536,773
Less: Unearned acquisition fees and originations costs	(27,370)	(20,143)
Finance Receivables	$ 618,802	$ 516,630

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, as extended where applicable. Automobile contracts less than 31 days delinquent are not included. In certain circumstances we will grant obligors one-month payment extensions to assist them with temporary cash flow problems. The only modification of terms is to advance the obligor's next due date by one month and extend the maturity date of the receivable by one month. In some cases, a two-month extension may be granted. There are no other concessions such as a reduction in interest rate, forgiveness of principal or of accrued interest. Accordingly, we consider such extensions to be insignificant delays in payments rather than troubled debt restructurings. The following table summarizes the delinquency status of finance receivables as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
	(In thousands)	
Current	$ 629,700	$ 512,802
31 - 60 days	9,786	9,344
61 - 90 days	4,377	6,034
91 + days	2,309	8,593
	$ 646,172	$ 536,773

Finance receivables totaling $2.3 million and $13.0 million at June 30, 2012 and December 31, 2011, respectively, including all receivables greater than 90 days delinquent, have been placed on non-accrual status as a result of their delinquency status.

We use a loss allowance methodology commonly referred to as "static pooling," which stratifies our finance receivable portfolio into separately identified pools based on the period of origination. Using analytical and formula driven techniques, we estimate an allowance for finance credit losses, which we believe is adequate for probable credit losses that can be reasonably estimated in our portfolio of automobile contracts. The

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

estimate for probable credit losses is reduced by our estimate for future recoveries on previously incurred losses. Provision for losses is charged to our consolidated statement of operations. Net losses incurred on finance receivables are charged to the allowance. For finance receivables originated through December 31, 2010 we established the allowance at the time of the acquisition of the receivable. Beginning January 1, 2011, we establish the allowance for new receivables over the 12-month period following their acquisition.

The following table presents a summary of the activity for the allowance for credit losses for the three-month and six-month periods ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)		(In thousands)	
Balance at beginning of period	$11,251	$11,599	$10,351	$13,168
Provision for credit losses on finance receivables	7,711	4,360	12,547	8,052
Charge-offs	(8,278)	(9,894)	(16,580)	(19,796)
Recoveries	3,409	4,219	7,775	8,860
Balance at end of period	$14,093	$10,284	$14,093	$10,284

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 allowance for losses in repossessed inventory that is not included in the allowance for credit losses:

	June 30, 2012	December 31, 2011
	(In thousands)	
Gross balance of repossessions in inventory	$ 8,011	$ 9,246
Allowance for losses on repossessed inventory	(3,994)	(4,765)
Net repossessed inventory included in other assets	$ 4,017	$ 4,481

(3) Finance Receivables Measured at Fair Value

In September 2011 we purchased approximately $217.8 million of finance receivables from Fireside Bank. These receivables are recorded on our balance sheet at fair value.

The following table presents the components of Finance Receivables measured at fair value:

	June 30, 2012	December 31, 2011

Finance Receivables Measured at Fair Value	(In thousands)	
Finance receivables and accrued interest, net of unearned interest	$ 104,015	$ 172,167
Less: Fair value adjustment	(1,649)	(11,914)
Finance receivables measured at fair value	$ 102,366	$ 160,253

The following table summarizes the delinquency status of finance receivables measured at fair value as of June 30, 2012 and December 31, 2011:

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

	June 30, 2012	December 31, 2011
	(In thousands)	
Deliquency Status		
Current	$ 100,926	$ 164,625
31 - 60 days	1,878	4,872
61 - 90 days	872	1,767
91 + days	339	903
	$ 104,015	$ 172,167

(4) 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, 2012	Initial Principal	Outstanding Principal at June 30, 2012	Outstanding Principal at December 31, 2011	Weighted Average Contractual Interest Rate at June 30, 2012
			(Dollars in thousands)			
CPS 2006-B	January 2013	$ -	$ 257,500	$ -	$ 6,604	-
CPS 2006-C	June 2013	-	247,500	-	14,873	-
CPS 2006-D	August 2013	-	220,000	-	15,716	-
CPS 2007-A	November 2013	-	290,000	-	34,312	-
CPS 2007-TFC	December 2013	-	113,293	-	7,771	-
CPS 2007-B	January 2014	17,633	314,999	25,059	40,916	6.99%
CPS 2007-C	May 2014	25,279	327,499	33,808	52,723	7.07%
CPS 2008-A	October 2014	34,400	310,359	53,985	77,284	8.46%
Page Five Funding	January 2018	29,748	9,174	28,761	36,701	9.46%
CPS 2011-A	April 2018	65,846	100,364	62,426	75,625	4.05%

CPS 2011-B	September 2018	89,550	109,936	83,041	101,268	4.48%
CPS 2011-C	March 2019	106,707	119,400	101,787	119,272	4.91%
CPS 2012-A	June 2019	134,998	155,000	135,709	-	3.41%
CPS 2012-B	September 2019	92,102	141,500	141,500	-	3.01%
		$ 596,263	$ 2,716,524	$ 666,076	$ 583,065	

(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 $145.8 million in 2012, $221.4 million in 2013, $135.5 million in 2014, $97.8 million in 2015, $51.2 million in 2016 and $14.4 million in 2017.

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 $90.8 million, and the related interest payments, are guaranteed by financial guaranty insurance policies issued by third party financial institutions.

The terms of the securitization agreements related to the issuance of the securitization trust debt and the warehouse credit facilities require that we meet certain delinquency and credit loss criteria with respect to the pool of receivables, and certain of the agreements require that we maintain minimum levels of liquidity and not

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exceed maximum leverage levels. In addition, certain securitization and non-securitization related debt contain cross-default provisions, which would allow certain creditors to declare a default if a default were declared under a different facility.

We are responsible for the administration and collection of the automobile contracts. The securitization agreements also require certain funds be held in restricted cash accounts to provide additional collateral for the borrowings or to be applied to make payments on the securitization trust debt. As of June 30, 2012, restricted cash under the various agreements totaled approximately $127.8 million. Interest expense on the securitization trust debt consists of the stated rate of interest plus amortization of additional costs of borrowing. Additional costs of borrowing include facility fees, insurance and amortization of deferred financing costs and discounts on notes sold. Deferred financing costs and discounts on notes sold related to the securitization trust debt are amortized using a level yield method. Accordingly, the effective cost of the securitization trust debt is greater than the contractual rate of interest disclosed above.

Our wholly-owned bankruptcy remote subsidiaries were formed to facilitate the above asset-backed financing transactions. Similar bankruptcy remote subsidiaries issue the debt outstanding under our credit facilities. 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.

(5) Debt

The terms and amounts of our other debt outstanding at June 30, 2012 and December 31, 2011 are summarized below:

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			Amount Outstanding at	
			June 30, 2012	December 31, 2011
			(In thousands)	
Description	Interest Rate	Maturity		
Residual interest financing	12.875% over one month Libor	February 2013	$ 15,321	$ 21,884
Senior secured debt, related party	14.00%	February 2012	-	5,000
	14.00%	June 2012	-	1,200
	14.00%	October 2012	5,000	5,000
	16.00%	December 2013	48,711	47,144
Subordinated renewable notes	Weighted average rate of 14.6% and 14.6% at June 30, 2012 and December 31, 2011, respectively	Weighted average maturity of December 2014 and August 2014 at June 30, 2012 and December 31, 2011, respectively	21,100	20,750
Debt secured by receivables measured at fair value	8.00%	Repayment is based on payments from underlying receivables. Final payment is expected in July 2013	104,662	166,828
			$ 194,794	$ 267,806

(6) Interest Income and Interest Expense

The following table presents the components of interest income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)		(In thousands)	
Interest on Finance Receivables	$41,076	$27,380	$81,221	$55,544
Residual interest income	234	200	458	395
Other interest income	236	232	478	457
Interest income	$41,546	$27,812	$82,157	$56,396

The following table presents the components of interest expense:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)		(In thousands)	
Securitization trust debt	$9,139	$11,337	$19,159	$23,341
Warehouse debt	1,668	2,753	3,064	5,097
Senior secured debt, related party	3,259	3,181	6,796	5,848
Debt secured by receivables at fair value	4,297	-	10,087	-
Residual interest debt	646	1,182	1,394	2,524
Subordinated debt	818	788	1,636	1,557
	$19,827	$19,241	$42,136	$38,367

(7) Earnings (Loss) Per Share

Earnings (loss) per share for the three-month and six-month periods ended June 30, 2012 and 2011 were calculated using the weighted average number of shares outstanding for the related period. The following table reconciles the number of shares used in the computations of basic and diluted earnings (loss) per share for the three-month and six-month periods ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)		(In thousands)	
Weighted average number of common shares outstanding during				
the period used to compute basic earnings (loss) per share	19,305	18,421	19,360	18,272
Incremental common shares attributable to exercise of				
outstanding options and warrants	5,331	-	3,923	-
Weighted average number of common shares used to compute				
diluted earnings (loss) per share	24,636	18,421	23,283	18,272

If the anti-dilutive effects of common stock equivalents were considered, shares included in the diluted earnings (loss) per share calculation for the three-month and six-month periods ended June 30, 2011 would have included an additional 2.9 million and 3.0 million shares, respectively, attributable to the exercise of outstanding options and warrants.

(8) Income Taxes

We file numerous consolidated and separate income tax returns with the United States and with many states. With few exceptions, we are no longer subject to U.S. federal, state, or local examinations by tax authorities for years before 2007.

We have subsidiaries in various states that are currently under audit for years ranging from 2003 through 2006. To date, no material adjustments have been proposed as a result of these audits.

We do not anticipate that total unrecognized tax benefits will significantly change due to any settlements of audits or expirations of statutes of limitations over the next 12 months.

The Company and its subsidiaries file a consolidated federal income tax return and combined or stand-alone state franchise tax returns for certain states. We utilize the asset and liability method of accounting for income taxes, under which deferred income taxes are recognized for the future tax consequences attributable to the

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differences between the financial statement values of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. We have estimated a valuation allowance against that portion of the deferred tax asset whose utilization in future periods is not more than likely. Our net deferred tax asset of $15.0 million as of June 30, 2012 is net of a valuation allowance of $61.0 million.

On a quarterly basis, we determine whether a valuation allowance is necessary for our deferred tax asset. In performing this analysis, we consider all evidence currently available, both positive and negative, in determining whether, based on the weight of that evidence, the deferred tax asset will be realized. We establish a valuation allowance when it is more likely than not that a recorded tax benefit will not be realized. The expense to create the valuation allowance is recorded as additional income tax expense in the period the valuation allowance is established. During the first six months of 2012, we decreased our valuation allowance by $700,000, which was offset by the decrease in our gross deferred tax assets, resulting in no change to the deferred tax assets and no income tax expense for the period.

In determining the possible future realization of deferred tax assets, we have considered the taxes paid in the current and prior years that may be available to recapture, as well as future taxable income from the following sources: (a) reversal of taxable temporary differences; and (b) tax planning strategies that, if necessary, would be implemented to accelerate taxable income into years in which net operating losses might otherwise expire. Our tax planning strategies include the prospective sale of certain assets such as finance receivables, residual interests in securitized finance receivables, charged off receivables and base servicing rights. The expected proceeds for such asset sales have been estimated based on our expectation of what buyers of the assets would consider to be reasonable assumptions for net cash flows and required rates of return for each of the various asset types. Our estimates for net cash flows and required rates of return are subjective and inherently subject to future events that may significantly affect actual net proceeds we may receive from executing our tax planning strategies.

We believe such asset sales can produce at least $37.5 million in taxable income within the relevant carryforward period. Such strategies could be implemented without significant effect on our core business or our ability to generate future growth. The costs related to the implementation of these tax strategies were considered in evaluating the amount of taxable income that could be generated in order to realize our deferred tax assets.

(9) Legal Proceedings

Griffith Litigation. We are named as defendant in a putative class action brought in federal district court in Chicago, Illinois. In June 2012 the court gave final approval to a settlement agreed to between us and the plaintiffs, pursuant to which (i) a class was certified for settlement purposes only, and (ii) we agreed to pay a fixed amount of plaintiff attorney fees and also make payments against claims made by members of the class, the amount of which would depend on class members' responses to our notice of the settlement. Our legal contingency accrual at June 30, 2012 includes our estimate for the amount that is probable.

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

plaintiffs and in September 2001 filed for reorganization under the Bankruptcy Code, in the federal Bankruptcy Court of Connecticut. By February 2005, we had settled all claims brought against us in the Stanwich Case.

In November 2001, one of the defendants in the Stanwich Case, Jonathan Pardee, asserted claims for indemnity against us in a separate action, which is now pending in federal district court in Rhode Island. We

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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. As of December 31, 2010, these actions in the court in Rhode Island had been stayed, awaiting resolution of an adversary action brought against Mr. Pardee in the bankruptcy court, which is hearing the bankruptcy of Stanwich.

On April 6, 2011, that adversary action was dismissed, pursuant to an agreement between us and the representative of creditors in the Stanwich bankruptcy. Under that agreement, CPS has paid the bankruptcy estate $800,000 and abandoned its claims against the estate, and the estate has abandoned its adversary action against Mr. Pardee. The entire payment in this matter was included in our legal contingency liability as of December 31, 2010. With the dismissal of the adversary action, all known claims asserted against Mr. Pardee have been resolved, without his incurring any liability. Accordingly, we believe that this resolution of the adversary action will result in limitation of our exposure to Mr. Pardee to no more than some portion of his attorneys fees incurred. The stay in the action against us in Rhode Island has been lifted, and we expect that the Court, at a trial setting hearing scheduled for November 2012, will set a trial date in 2013.

The reader should consider that any adverse judgment against us in this case 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. There can be no assurance as to the ultimate outcome of this matter.

Other Litigation.

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

We have recorded a liability as of June 30, 2012 that we believe represents an appropriate allowance for legal contingencies, including those described above. Any adverse judgment against us, if in an amount materially in excess of the recorded liability, could have a material adverse effect on our financial position.

(10) Employee Benefits

On March 8, 2002 we acquired MFN Financial Corporation and its subsidiaries in a merger. We sponsor the MFN Financial Corporation Benefit Plan (the “Plan”). Plan benefits were frozen June 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, 2012 and 2011.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)		(In thousands)	
Components of net periodic cost (benefit)				
Service cost	$ -	$ -	$ -	$ -
Interest Cost	220	241	440	456
Expected return on assets	(234)	(222)	(468)	(474)
Amortization of transition (asset)/obligation	-	-	-	-
Amortization of net (gain) / loss	157	127	314	224

Net periodic cost (benefit)	$ 143	$ 146	$ 286	$ 206

We contributed $395,000 to the Plan during the three-month and six-month period ended June 30, 2012 and we anticipate making contributions in the amount of $517,000 for the remainder of 2012.

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(11) Fair Value Measurements

ASC 820, "Fair Value Measurements" 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.

ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The three levels are defined as follows: level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets; level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

At the time of issuance, five warrants issued between 2008 and 2010 in conjunction with various debt financing transactions contained features that make them subject to derivative accounting. We valued these warrants using a binomial valuation model using a weighted average volatility assumption of 41%, weighted average term of 8 years and a risk free rate of 3.3%. On March 29, 2012 we agreed with the holders to amend three of the five warrants to remove the features that resulted in derivative accounting. On the date of the amendment, we valued each of the three warrants using a binomial pricing model as described above. The aggregate value of the three amended warrants of $1.1 million was then reclassified from Accounts payable to Common stock. On June 25, 2012 we agreed with the holder to amend one other warrant that contained the “down round” features to remove those specific price reset terms. The $250,000 aggregate value of this amended warrant was reclassified from Accounts payable to Common Stock on the date of the amendment. The remaining warrant subject to derivative accounting has not been amended, was valued at June 30, 2012 at $51,000, and is classified as a liability on our consolidated balance sheet as of June 30, 2012.

In September 2008 we sold automobile contracts in a securitization that was structured as a sale for financial accounting purposes. In that sale, we retained both securities and a residual interest in the transaction that are measured at fair value. We describe below the valuation methodologies we use for the securities retained and the residual interest in the cash flows of the transaction, as well as the general classification of such instruments pursuant to the valuation hierarchy. The securities retained were sold in September 2010 in the re-securitization transaction described in Note 1. In the same transaction, the residual interest was reduced by $1.5 million. The residual interest in such securitization is $4.8 million as of June 30, 2012 and is classified as level 3 in the three-level valuation hierarchy. We determine the value of that residual interest using a discounted cash flow model that includes estimates for prepayments and losses. We use a discount rate of 20% per annum and a cumulative net loss rate of 13%. The assumptions we use are based on historical performance of automobile contracts we have originated and serviced in the past, adjusted for current market conditions. No gain or loss was recorded as a result of the re-securitization transaction described above.

Repossessed vehicle inventory, which is included in Other assets on our balance sheet, is measured at fair value using level 2 assumptions based on our actual loss experience on sale of repossessed vehicles. At June 30, 2012, the finance receivables related to the repossessed vehicles in inventory totaled $8.0 million. We have applied a valuation adjustment of $4.0 million, which is based on a recovery rate of 49%, resulting in an estimated fair value and carrying amount of $4.0 million.

We have no level 3 assets that are measured at fair value on a non-recurring basis. The table below presents a reconciliation for level 3 assets measured at fair value on a recurring basis using significant unobservable inputs:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Residual Interest in Securitizations:				
Balance at beginning of period	$4,612	$3,985	$4,414	$3,841
Cash received during period	4	-	(22)	-
Included in earnings	234	63	458	207
Balance at end of period	$4,850	$4,048	$4,850	$4,048
Warrant Derivative Liability:				
Balance at beginning of period	$114	$1,535	$967	$1,639
Included in earnings	188	60	391	(44)
Reclassification to equity	(251)	-	(1,307)	-
Balance at end of period	$51	$1,595	$51	$1,595

In September 2011, we acquired $217.8 million of finance receivables from Fireside Bank for a purchase price of $201.3 million. The receivables were acquired by our wholly-owned special purpose subsidiary, CPS Fender Receivables, LLC, which issued a note for $197.3 million, with a fair value of $196.5 million. Since the Fireside receivables were originated by another entity with its own underwriting guidelines and procedures, we have elected to account for the Fireside receivables and the related debt secured by those receivables at their estimated fair values so that changes in fair value will be reflected in our results of operations as they occur. Interest income from the receivables and interest expense on the note are included in interest income and interest expense, respectively. Changes to the fair value of the receivables and debt are also to be included in interest income and interest expense, respectively. Our level 3, unobservable inputs reflect our own assumptions about the factors that market participants use in pricing similar receivables and debt, and are based on the best information available in the circumstances. They include such inputs as estimated net charge-offs and timing of the amortization of the portfolio of finance receivables. The table below presents a reconciliation of the acquired finance receivables and related debt measured at fair value on a recurring basis using significant unobservable inputs:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Finance Receivables Measured at Fair Value:				
Balance at beginning of period	$126,923	$-	$160,253	$-
Payments on finance receivables at fair value	(27,607)	-	(64,107)	-
Charge-offs on finance receivables at fair value	(1,547)	-	(4,050)	-
Discount accretion	1,239	-	5,402	-
Mark to fair value	3,358	-	4,868	-
Balance at end of period	$102,366	$-	$102,366	$-
Debt Secured by Finance Receivables Measured at Fair Value:				
Balance at beginning of period	$133,017	$-	$166,828	$-
Principal payments on debt at fair value	(34,091)	-	(73,282)	-
Premium accretion	2,126	-	5,106	-
Mark to fair value	3,610	-	6,010	-
Balance at end of period	104,662	-	104,662	-
Reduction for principal payments collected and payable	(9,452)	-	(9,452)	-
Adjusted balance at end of period	$95,210	$-	$95,210	$-

The table below compares the fair values of the Fireside receivables and the related secured debt to their contractual balances for the periods shown:

	June 30, 2012		December 31, 2011	
	Contractual Balance	Fair Value	Contractual Balance	Fair Value
	(In thousands)			
Fireside receivables portfolio	$ 104,015	$ 102,366	$ 172,167	$ 160,253
Debt secured by Fireside receivables portfolio	89,523	104,662	162,812	166,828

The following summary presents a description of the methodologies and assumptions used to estimate the fair value of our financial instruments. Much of the information used to determine fair value is highly subjective. When applicable, readily available market information has been utilized. However, for a significant portion of our financial instruments, active markets do not exist. Therefore, significant elements of judgment were required in estimating fair value for certain items. The subjective factors include, among other things, the estimated timing and amount of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of June 30, 2012 and December 31, 2011, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different. The estimated fair values of financial assets and liabilities at June 30, 2012 and December 31, 2011, were as follows:

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Financial Instrument	As of June 30, 2012 (In thousands)				
	Carrying	Fair Value Measurements Using:			
	Value	Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$ 10,240	$ 10,240	$ -	$ -	$ 10,240
Restricted cash and equivalents	127,806	127,806	-	-	127,806
Finance receivables, net	604,709	-	-	602,074	602,074
Finance receivables measured at fair value	102,366	-	-	102,366	102,366
Residual interest in securitizations	4,850	-	-	4,850	4,850
Accrued interest receivable	7,279	-	-	7,279	7,279
Liabilities:					
Warrant derivative liability	$ 51	$ -	$ -	$ 51	$ 51
Warehouse lines of credit	28,568	-	-	28,568	28,568
Accrued interest payable	4,792	-	-	4,792	4,792
Residual interest financing	15,321	-	-	15,321	15,321
Securitization trust debt	666,076	-	-	683,699	683,699
Debt secured by receivables measured at fair value	104,662	-	-	104,662	104,662
Senior secured debt	53,711	-	-	53,711	53,711
Subordinated renewable notes	21,100	-	-	21,100	21,100

Financial Instrument	As of December 31, 2011 (In thousands)				
	Carrying	Fair Value Measurements Using:			
	Value	Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$ 10,094	$ 10,094	$ -	$ -	$ 10,094
Restricted cash and equivalents	159,228	159,228	-	-	159,228
Finance receivables, net	506,279	-	-	506,647	506,647
Finance receivables measured at fair value	160,253	-	-	160,253	160,253
Residual interest in securitizations	4,414	-	-	4,414	4,414
Accrued interest receivable	6,432	-	-	6,432	6,432
Liabilities:					

Warrant derivative liability	$ 967	$ -	$ -	$ 967	$ 967
Warehouse lines of credit	25,393	-	-	25,393	25,393
Accrued interest payable	1,239	-	-	1,239	1,239
Residual interest financing	21,884	-	-	21,884	21,884
Securitization trust debt	583,065	-	-	594,224	594,224
Debt secured by receivables measured at fair value	166,828	-	-	166,828	166,828
Senior secured debt	58,344	-	-	58,344	58,344
Subordinated renewable notes	20,750	-	-	20,750	20,750

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The following table provides certain qualitative information about our level 3 fair value measurements:

Financial Instrument	Fair Values as of				Inputs as of	
	June 30, 2012	December 31, 2011	Valuation Techniques	Unobservable Inputs	June 30, 2012	December 31, 2011
	(In thousands)					
Assets:						
Finance receivables measured at fair value	$ 102,366	$ 160,253	Discounted cash flows	Discount rate	20.4%	20.4%
				Cumulative net losses	5.5%	5.5%
				Monthly average prepayments	0.5%	0.5%
Residual interest in securitizations	4,850	4,414	Discounted cash flows	Discount rate	20.0%	20.0%
				Cumulative net losses	13.2%	13.0%
				Monthly average prepayments	0.5%	0.5%
Liabilities:						
Warrant derivative liability	51	967	Binomial	Stock price	$1.92 / sh	$.89 / sh
				Volatility	40.0%	38.9%
				Risk free rate	1.3%	1.3% -- 1.7%
Debt secured by receivables measured at fair value	104,662	166,828	Discounted cash flows	Discount rate	16.2%	16.2%

Cash, Cash Equivalents and Restricted Cash

The carrying value equals fair value.

Finance Receivables, net

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

Fair Value Receivables and Receivable Financing Debt at Fair Value

The carrying value equals fair value.

Accrued Interest Receivable and Payable

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

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

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

Securitization Trust Debt

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

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(12) Liquidity, Results of Operations and Management's Plans

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 term securitization transactions and other 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, fees for origination of automobile contracts, and releases of cash from securitized pools of automobile contracts in which we have retained a residual ownership interest and from the spread accounts associated with such pools. Our primary uses of cash have been the purchases of automobile contracts, repayment of amounts borrowed under 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, if any, and the increase of credit enhancement to required levels in securitization transactions, and income taxes. There can be no assurance that internally generated cash will be sufficient to meet our cash demands. The sufficiency of internally generated cash will depend on the performance of securitized pools (which determines the level of releases from those pools and their related spread accounts), the rate of expansion or contraction in our managed portfolio, and the terms upon which we are able to acquire, sell, and borrow against automobile contracts.

We purchase automobile contracts from dealers for a cash price approximating their principal amount, adjusted for an acquisition fee which may either increase or decrease the automobile contract purchase price. Those automobile contracts generate cash flow, however, over a period of years. As a result, we have been dependent on warehouse credit facilities to purchase automobile contracts, and on the availability of cash from outside sources in order to finance our continuing operations, as well as to fund the portion of automobile contract purchase prices not financed under revolving warehouse credit facilities.

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

We are and may in the future be limited in our ability to purchase automobile contracts due to limits on our capital. As of June 30, 2012, we had unrestricted cash of $10.2 million. We had $91.6 million available under the Page Six Funding facility and $79.9 million available under the Page Eight Funding facility (in all facilities advances are subject to our having purchased available eligible collateral). Our plans to manage our liquidity include maintaining our rate of automobile contract purchases at a level that matches our available capital, and, wherever appropriate, reducing our operating costs. If we are unable to complete such securitizations, we may be unable to increase our rate of automobile contract purchases, in which case our interest income and other portfolio related income would decrease.

Our liquidity will also be affected by releases of cash from the trusts established with our securitizations. While the specific terms and mechanics of each spread account vary among transactions, our securitization agreements generally provide that we will receive excess cash flows, if any, only if the amount of credit enhancement has reached specified levels and/or the delinquency, defaults or net losses related to the automobile contracts in the pool are below certain

predetermined levels. In the event delinquencies, defaults or net losses on the automobile contracts exceed such levels, the terms of the securitization: (i) may require increased credit enhancement to be accumulated for the particular pool; (ii) may restrict the distribution to us of excess cash flows associated with other pools; or (iii) in certain circumstances, may permit the insurers or noteholders to require the transfer of servicing on some or all of the automobile contracts to another servicer. There can be no assurance that collections from the related trusts will continue to generate sufficient cash. Moreover, most of our spread account balances are pledged as collateral to our residual interest financing. As

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a result, most of the current releases of cash from our securitization trusts are directed to pay the obligations of our residual interest financing.

Our plan for future operations and meeting the obligations of our financing arrangements includes returning to profitability (which we accomplished in the fourth quarter of 2011 and through the first six months of 2012) and eliminating our shareholders' deficit by gradually increasing the amount of our contract purchases with the goal of increasing the balance of our outstanding managed portfolio. Our plans also include financing future contract purchases with credit facilities and term securitizations that offer a lower overall cost of funds compared to the facilities we used in 2009 and 2010. To illustrate, in the last six months of 2009 we purchased $6.1 million in contracts and our sole credit facility had a minimum interest rate of 14.00% per annum. By comparison, in 2010, we purchased $113.0 million in contracts and, in March 2010, entered into the $50 million term funding facility which had an interest rate of 11.00% per annum and the ability to decrease such rate to 9.00% per annum if certain conditions were met. During 2011, we used our Page Six Funding $100 million credit facility (interest rate of one-month LIBOR plus 5.73% per annum with a minimum rate of 7.23% per annum), and our Page Seven Funding $100 million credit facility (interest rate of one-month LIBOR plus 6.00% per annum) to purchase $284.2 million in new contracts. During the first six months of 2012, we purchased $257.8 million in new contracts primarily with our Page Six Funding facility and our Page Eight Funding $100 million facility (interest rate of one-month Libor plus 6.0% with a minimum rate of 6.75%).

More importantly, the weighted average effective coupons of our last five term securitizations were 3.77%, 4.51%, 4.93%, 3.47% and 3.15%, respectively, and did not include financial guaranty policies. These transactions demonstrate our ability to access the lower cost of long-term funding available in the current market environment without the financial guaranties we historically incorporated into our term securitization structures. We expect to complete more term securitizations in 2012. In addition, less competition in the auto financing marketplace has resulted in better terms for our recent contract purchases compared to years before 2008. The following table summarizes the average acquisition fees we charged dealers and the weighted average annual percentage rate on our purchased contracts for the periods shown:

	6 Months Ended June 30, 2012	2011	2010	2009	2008
Average acquisition fee amount	$ 935	$ 1,155	$ 1,382	$ 1,508	$ 592
Average acquisition fee as % of amount financed	6.1 %	7.4 %	9.2 %	11.7 %	3.9 %
Weighted average annual percentage interest rate	20.2 %	20.1 %	20.1 %	19.9 %	18.5 %

We have and will continue to have a substantial amount of indebtedness. At June 30, 2012, we had approximately $889.4 million of debt outstanding. Such debt consisted primarily of $666.1 million of securitization trust debt, $104.7 in portfolio acquisition debt, $28.6 million of warehouse line of credit, $15.3 million of residual interest financing, $53.7 million of senior secured related party debt and $21.1 million in subordinated notes. We are currently offering the subordinated notes to the public on a continuous basis, and such notes have maturities that range from three months to 10 years.

As of June 30, 2012 we have a shareholders' deficit of $10.7 million and our recent operating results include net losses of $14.5 million and $33.8 million in 2011 and 2010, respectively. We believe that our results have been materially

and adversely affected by the disruption in the capital markets that began in the fourth quarter of 2007, by the recession that began in December 2007, and by related high levels of unemployment. Our ability to repay or refinance maturing debt may be adversely affected by prospective lenders' consideration of our recent operating losses.

Although we believe we are able to service and repay our debt, there can be no assurance that we will be able to do so. If our plans for future operations do not generate sufficient cash flows and operating profits, our ability to make required payments on our debt would be impaired. Failure to pay our indebtedness when due could have a material adverse effect and may require us to issue additional debt or equity securities.

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

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

Overview

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

We were incorporated and began our operations in March 1991. From inception through June 30, 2012, we have purchased a total of approximately $9.3 billion of automobile contracts from dealers. In addition, we obtained a total of approximately $842.0 million of automobile contracts in mergers and acquisitions in 2002, 2003, 2004 and 2011. In 2004 and 2009, we were appointed as a third-party servicer for certain portfolios of automobile receivables originated and owned by non-affiliated entities. Beginning in 2008 through the third quarter of 2011, our managed portfolio decreased each year due to our strategy of limiting contract purchases in 2008 and 2009 to conserve our liquidity, as discussed further below. However, since October 2009, we have gradually increased contract purchases resulting in aggregate purchases of $284.2 million in 2011, compared to $113.0 million in 2010 and $8.6 million in 2009. During the six months ended June 30, 2012 we purchased $257.8 million contracts compared to $110.8 million in the six months ended June 30, 2011. Our total managed portfolio was $806.1 million at June 30, 2012, compared to $635.0 million at June 30, 2011. The increase between June 30, 2011 and 2012 reflects both our purchases of contracts from dealers and our purchase in September 2011 of a portfolio of $217.8 million of automobile contracts from Fireside Bank, a subsidiary of Kemper Corporation.

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

We purchase contracts in our own name ("CPS") and, until July 2008, also in the name of our wholly-owned subsidiary, TFC. Programs marketed under the CPS name are intended to serve a wide range of sub-prime customers, primarily through franchised new car dealers. Our TFC program served vehicle purchasers enlisted in the U.S. Armed Forces, primarily through independent used car dealers. In July 2008, we suspended contract purchases under our TFC program. We purchase automobile contracts with the intention of financing them on a long-term basis through securitizations. Securitizations are transactions in which we sell a specified pool of contracts to a special purpose entity of ours, which in turn issues asset-backed securities to fund the purchase of the pool of contracts from us.

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 warehouse credit facilities. All such financings have involved identification of specific automobile contracts, sale of those automobile contracts (and associated rights) to one of our special-purpose subsidiaries, and issuance of asset-backed securities to fund the transactions. Depending on the structure, these

transactions may properly be accounted for under generally accepted accounting principles as sales of the automobile contracts or as secured financings.

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

Since the third quarter of 2003, we have conducted 29 term securitizations. Of these 29, 23 were periodic (generally quarterly) securitizations of automobile contracts that we purchased from automobile dealers under our regular programs. In addition, in March 2004 and November 2005, we completed securitizations of our retained interests in other securitizations that we and our affiliates previously sponsored. The debt from the March 2004 transaction was repaid in August 2005, and the debt from the November 2005 transaction was repaid in May 2007. Also, in June 2004, we completed a securitization of automobile contracts purchased under our TFC program and acquired in a bulk purchase. Further, in December 2005 and May 2007 we completed securitizations that included automobile contracts purchased under the TFC programs, automobile contracts purchased under the CPS programs and automobile contracts we repurchased upon termination of prior securitizations. Since July 2003 all such securitizations have been structured as secured financings, except our September 2008 and September 2010 securitizations. These transactions were in substance sales of the underlying receivables and were treated as sales for financial accounting purposes.

Our June 2012 securitization included a pre-funding feature in which a portion of the receivables to be pledged to the securitization trust were not scheduled to be delivered to the trust until after the initial closing. As a result, our restricted cash balance at June 30, 2012 included $49.4 million from the proceeds of the sale of the securitization notes that were held by the trustee pending delivery of the remaining receivables. In July 2012, the requisite additional receivables were delivered to the trust and we received the related restricted cash, most of which was used to repay amounts owed under our warehouse credit facilities.

Portfolio Acquisitions

As stated above, we have acquired approximately $822.8 million in finance receivables through four acquisitions. These transactions took place in 2002, 2003, 2004 and September 2011. The September 2011 acquisition consisted of approximately $217.8 million of finance receivables that we purchased from Fireside Bank of Pleasanton, California.

Uncertainty of Capital Markets and General Economic Conditions

We depend upon the availability of warehouse credit facilities and access to long-term financing through the issuance of asset-backed securities collateralized by our automobile contracts. Since 1994, we have completed 55 term securitizations of approximately $7.4 billion in contracts. We conducted four term securitizations in 2006, four in 2007, two in 2008, one in 2010, three in 2011and two so far in 2012. From July 2003 through April 2008 all of our securitizations were structured as secured financings. The second of our two securitization transactions in 2008 (completed in September 2008) and our securitization in September 2010 (a re-securitization of the remaining receivables from the September 2008 transaction) were each in substance a sale of the related contracts, and have been treated as sales for financial accounting purposes. During 2011, we completed three securitizations of approximately $335.6 million, representing our first securitizations of newly originated contracts since April 2008. In March 2012, we completed a $155.0 million securitization that included $117.8 million in newly originated contracts and $37.2 million in seasoned contracts that were called from earlier securitizations. In June 2012 we completed a securitization

of $141.5 million in newly originated contracts. All of the 2011 and 2012 securitizations were structured as secured financings.

From the fourth quarter of 2007 through the end of 2009, we observed unprecedented adverse changes in the market for securitized pools of automobile contracts. These changes included reduced liquidity, and reduced demand for asset-backed securities, particularly for securities carrying a financial guaranty and for securities backed by sub-prime automobile receivables. Moreover, many of the firms that previously provided financial

guarantees, which were an integral part of our securitizations, suspended offering such guarantees. The adverse changes that took place in the market from the fourth quarter of 2007 through the end of 2009 caused us to conserve liquidity by significantly reducing our purchases of automobile contracts. However, since October 2009, we have gradually increased our contract purchases by utilizing one $50 million revolving credit facility that we established in September 2009 and another $50 million term funding facility that we established in March 2010. In September 2010 we took advantage of improvement in the market for asset-backed securities by re-securitizing the remaining underlying receivables from our unrated September 2008 securitization. By doing so we were able to pay off the bonds associated with the September 2008 transaction and issue rated bonds with a significantly lower weighted average coupon. The September 2010 transaction was our first rated term securitization since 1993 that did not utilize a financial guaranty. More recently, we increased our short-term funding capacity by $200 million with the establishment of a new $100 million credit facility in December 2010 and an additional $100 million credit facility in February 2011. The September 2009 revolving facility terminated in September 2011, and the March 2010 term facility was fully utilized by December 2010. In February 2012, we amended the February 2011 facility to extend the revolving period from February 2012 to May 2012 and reduced the maximum advance from $100 million to $35 million. In May 2012, the revolving period of the February 2011 facility expired by its terms and we entered into a new $100 million credit facility with a different lender. Our current maximum revolving warehouse financing capacity is $200 million. Since the beginning of 2011, we have completed five securitizations of approximately $632.1 million in receivables. In spite of the improvements we have seen in the capital markets, if the trend of improvement in the markets for asset-backed securities should reverse, or if we should be unable to obtain additional credit facilities or to complete additional term securitizations, we may curtail or cease our purchases of new automobile contracts, which could lead to a material adverse effect on our operations.

The downturn in economic conditions and the capital markets that began in the fourth quarter of 2007 has negatively affected many aspects of our industry. First, throughout 2008 and 2009 there was reduced demand for asset-backed securities secured by consumer finance receivables, including sub-prime automobile receivables, as compared to 2007 and earlier. During 2010, however, we observed that yield requirements for investors that purchase securities backed by consumer finance receivables, including sub-prime automobile receivables, decreased significantly and approached pre-2008 levels, albeit with significantly fewer transactions in the market. Second, there have been fewer lenders who provide short-term warehouse credit facilities for sub-prime automobile finance companies due to more uncertainty regarding the prospects of obtaining long-term financing through the issuance of asset-backed securities than before 2008. Many capital market participants such as investment banks, financial guaranty providers and institutional investors who previously played a role in the sub-prime auto finance industry have withdrawn from the industry, or in some cases, have ceased to do business. These developments resulted in our incurring higher interest costs for receivables we financed in 2009 and 2010 compared to pre-2008 levels. However, since December 2010 we have had access to warehouse credit lines with a significantly lower cost of funds than the facilities we used in 2009 and 2010. Finally, broad economic weakness and high levels of unemployment from 2008 onward have made many of our customers less willing or able to pay, resulting in higher than expected delinquencies, charge-offs and losses for contracts we purchased prior to 2009. Each of these factors has adversely affected our results of operations. Should existing economic conditions worsen, both our ability to purchase new contracts and the performance of our existing managed portfolio may be impaired, which, in turn, could have a further material adverse effect on our results of operations.

Financial Covenants

Certain of our securitization transactions, our warehouse credit facilities and our residual interest financing contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels. As of June 30, 2012 we were in compliance with all such covenants. In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare a default if a default occurred under a different facility.

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Results of Operations

Comparison of Operating Results for the three months ended June 30, 2012 with the three months ended June 30, 2011

Revenues. During the three months ended June 30, 2012, revenues were $44.2 million, an increase of $13.0 million, or 41.7%, from the prior year revenue of $31.2 million. The primary reason for the increase in revenues is an increase in interest income. Interest income for the three months ended June 30, 2012 increased $13.7 million, or 49.4%, to $41.5 million from $27.8 million in the prior year. The primary reason for the increase in interest income is the increase in finance receivables held by consolidated subsidiaries, which increased from $522.1 at June 30, 2011 to $758.2 at June 30, 2012.

Servicing fees totaling $595,000 in the three months ended June 30, 2012 decreased $535,000, or 47.4%, from $1.1 million in the prior year. The decrease in servicing fees is due to the amortization and resulting decrease in the principal balance of the two portfolios on which we earn base servicing fees. We earned base servicing fees on our September 2010 term securitization transaction (a re-securitization of the remaining receivables from the September 2008 securitization, treated as a sale for financial accounting purposes) and on a portfolio of sub-prime automobile receivables owned by a bankruptcy remote subsidiary of CompuCredit Corporation. As of June 30, 2012 and 2011, our managed portfolio owned by consolidated vs. non-consolidated subsidiaries and other third parties was as follows:

	June 30, 2012		June 30, 2011	
	Amount	% (1)	Amount	% (1)
Total Managed Portfolio	($ in millions)			
Owned by Consolidated Subsidiaries				
CPS Originated Receivables	$654.2	81.2 %	$522.1	82.2 %
Fireside	104.0	12.9 %	-	0.0 %
Owned by Non-Consolidated Subsidiaries	27.9	3.5 %	61.7	9.7 %
Third-Party Servicing Portfolios	20.0	2.5 %	51.2	8.1 %
Total	$806.1	100.0 %	$635.0	100.0 %

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

At June 30, 2012, we were generating income and fees on a managed portfolio with an outstanding principal balance of $806.1 million (this amount includes $27.9 million of automobile contracts on which we earn servicing fees and own a residual interest and also includes another $20.0 million of automobile contracts on which we earn servicing fees and own a note collateralized by such contracts), compared to a managed portfolio with an outstanding principal balance of $635.0 million as of June 30, 2011. At June 30, 2012 and 2011, the managed portfolio composition was as follows:

	June 30, 2012		June 30, 2011	
	Amount	%	Amount	%
Originating Entity	($ in millions)			
CPS	$ 681.5	84.5 %	$ 578.7	91.1 %
Fireside	104.0	12.9 %	-	0.0 %
TFC	0.6	0.1 %	5.1	0.8 %

Third Party Portfolio		20.0	2.5	%	51.2	8.1	%
Total	$	806.1	100.0	%	$ 635.0	100.0	%

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

Other income decreased by $202,000, or 9.2%, to $2.0 million in the three months ended June 30, 2012 from $2.2 million during the prior year. The year-over-year decrease is the combination of the recognition of $257,000 related to a mark down of the fair value of the receivables and debt associated with the Fireside acquisition, decreases in sales tax refunds of $43,000, and a decrease of $14,000 in recoveries on receivables from the 2002 acquisition of MFN Financial Corporation.. These decreases in other income were partially offset by an increase of $97,000 in income from direct mail and related products and services that we offer to our dealers, and an increase of $14,000 in remittances from third-party providers of convenience fees paid by our customers for web based and other electronic payments.

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

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

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

Total operating expenses were $42.8 million for the three months ended June 30, 2012, compared to $37.6 million for the prior year, an increase of $5.2 million, or 13.9%. The increase is primarily due to the increase in the amount of new contracts we purchased and the increased costs to service our growing total managed portfolio.

Employee costs increased by $816,000 or 10.9%, to $8.3 million during the three months ended June 30, 2012, representing 19.3% of total operating expenses, from $7.5 million for the prior year, or 19.8% of total operating expenses. During 2008 and most of 2009, we reduced staff through attrition and reductions in force as a result of the uncertainty in capital markets and the related limited access to financing for new contract purchases. Since October 2009, however, as we have gradually acquired new financing facilities and increased our new contract purchases, we have added employees in our Originations and Marketing departments. These additions have offset reductions in our Servicing department staff that have been necessary as our total managed portfolio decreased until September 2011. In September 2011, we hired approximately 65 new Servicing department employees in connection with our acquisition of the Fireside portfolio. At June 30, 2012 we had 538 employees, compared to 445 employees as of June 30, 2011.

General and administrative expenses include costs associated with purchasing and servicing our portfolio of finance receivables, including expenses for facilities, credit services, and telecommunications. General and administrative expenses were $3.6 million, a decrease of 5.2%, compared to the previous year and represented 8.4% of total operating expenses.

Interest expense for the three months ended June 30, 2012 increased by $587,000 to $19.8 million, or 3.0%, compared to $19.2 million in the previous year. In September 2011 we established a credit facility exclusively for the acquisition of the Fireside portfolio. For the three months ended June 30, 2012 we incurred $4.3 million in interest expense on the Fireside related debt. Interest on securitization trust debt decreased by $2.2 million in the three months

ended June 30, 2012 compared to the prior year. Interest expense on senior secured and subordinated debt decreased by $23,000. Interest expense on residual interest financing decreased $535,000 in the three months ended June 30, 2012 compared to the prior year as a result of continued principal amortization. Interest expense on warehouse debt decreased by $1.1 million for the three months ended June 30, 2012

compared to the prior year. Since December 2011 our securitizations have included a pre-funding mechanism which has allowed us to reduce our borrowings under our warehouse facilities in the current period compared to the prior year. The interest expense related to the value of outstanding derivative warrants resulted in an increase of $194,000 in interest expense.

Provision for credit losses was $7.7 million for the three months ended June 30, 2012, an increase of $3.4 million, or 76.8% compared to the prior year and represented 18.0% of total operating expenses. The provision for credit losses maintains the allowance for loan losses at levels that we feel are adequate for probable incurred credit losses that can be reasonably estimated. The increase in provision expense is the result of the increase in our contract purchase volumes and the size of the portfolio owned by our consolidated subsidiaries.

Marketing expenses consist primarily of commission-based compensation paid to our employee marketing representatives. Our marketing representatives earn a salary plus commissions based on our volume of contract purchases and sales of training programs, internet lead sales, and direct mail products that we offer our dealers. Marketing expenses increased by $720,000, or 39.1%, to $2.6 million, compared to $1.8 million in the previous year, and represented 6.0% of total operating expenses. We purchased 8,871 contracts representing $137.9 million in receivables in the current period compared to 3,902 contracts representing $60.8 million in receivables in the prior year.

Occupancy expenses decreased by $36,000 or 4.7%, to $726,000 compared to $762,000 in the previous year and represented 1.7% of total operating expenses.

Depreciation and amortization expenses decreased by $30,000 or 18.4%, to $132,000 compared to $162,000 in the previous year and represented 0.3% of total operating expenses.

For the three months ended June 30, 2012, we recorded no net tax expense and reduced our valuation allowance for our deferred tax assets by $400,000. As of June 30, 2012, our net deferred tax asset of $15.0 million is net of a valuation allowance of $61.0 million. We have considered the circumstances that may affect the ultimate realization of our deferred tax assets and have concluded that the valuation allowance is appropriate at this time. However, if future events change our expected realization of our deferred tax assets, we may be required to increase the valuation allowance against that asset in the future.

Comparison of Operating Results for the six months ended June 30, 2012 with the six months ended June 30, 2011

Revenues. During the six months ended June 30, 2012, revenues were $88.7 million, an increase of $25.1 million, or 39.5%, from the prior year revenue of $63.6 million. The primary reason for the increase in revenues is an increase in interest income. Interest income for the six months ended June 30, 2012 increased $25.8 million, or 45.7%, to $82.2 million from $56.4 million in the prior year. The primary reason for the increase in interest income is the increase in finance receivables held by consolidated subsidiaries, which increased from $522.1 at June 30, 2011 to $758.2 at June 30, 2012.

Servicing fees totaling $1.4 million in the six months ended June 30, 2012 decreased $1.2 million, or 45.2%, from $2.5 million in the prior year. The decrease in servicing fees is due to the amortization and resulting decrease in the principal balance of the two portfolios on which we earn base servicing fees. We earned base servicing fees on our September 2010 term securitization transaction (a re-securitization of the remaining receivables from the September 2008 securitization, treated as a sale for financial accounting purposes) and on a portfolio of sub-prime automobile receivables owned by a bankruptcy remote subsidiary of CompuCredit Corporation. As of June 30, 2012 and 2011, our managed portfolio owned by consolidated vs. non-consolidated subsidiaries and other third parties was as follows:

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	June 30, 2012		June 30, 2011	
	Amount	% (1)	Amount	% (1)
Total Managed Portfolio	($ in millions)			
Owned by Consolidated Subsidiaries				
CPS Originated Receivables	$ 654.2	81.2 %	$ 522.1	82.2 %
Fireside	104.0	12.9 %	-	0.0 %
Owned by Non-Consolidated Subsidiaries	27.9	3.5 %	61.7	9.7 %
Third-Party Servicing Portfolios	20.0	2.5 %	51.2	8.1 %
Total	$ 806.1	100.0 %	$ 635.0	100.0 %

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

At June 30, 2012, we were generating income and fees on a managed portfolio with an outstanding principal balance of $806.1 million (this amount includes $27.9 million of automobile contracts on which we earn servicing fees and own a residual interest and also includes another $20.0 million of automobile contracts on which we earn servicing fees and own a note collateralized by such contracts), compared to a managed portfolio with an outstanding principal balance of $635.0 million as of June 30, 2011. At June 30, 2012 and 2011, the managed portfolio composition was as follows:

	June 30, 2012		June 30, 2011	
	Amount	%	Amount	%
Originating Entity	($ in millions)			
CPS	$681.5	84.5 %	$578.7	91.1 %
Fireside	104.0	12.9 %	-	0.0 %
TFC	0.6	0.1 %	5.1	0.8 %
Third Party Portfolio	20.0	2.5 %	51.2	8.1 %
Total	$806.1	100.0 %	$635.0	100.0 %

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

Other income increased by $508,000, or 11.0%, to $5.1 million in the six months ended June 30, 2012 from $4.6 million during the prior year. The year-over-year increase is the combination of an increase of $492,000 in income from direct mail and related products and services that we offer to our dealers, an increase of $132,000 in remittances from third-party providers of convenience fees paid by our customers for web based and other electronic payments and the recognition of $98,000 related to a mark up of the fair value of the receivables and debt associated with the Fireside acquisition. The increases in other income were partially offset by decreases in sales tax refunds of $112,000 and a decrease of $104,000 in recoveries on receivables from the 2002 acquisition of MFN Financial Corporation.

Expenses. Our operating expenses consist largely of provision for credit losses, interest expense, employee costs and general and administrative expenses. Provision for credit losses and interest expense are significantly affected by the volume of automobile contracts we purchased during a period and by the outstanding balance of finance receivables held by consolidated subsidiaries. Employee costs and general and administrative expenses are incurred as applications and automobile contracts are received, processed and serviced. Factors that affect margins and net income

(loss) include changes in the automobile and automobile finance market environments, and macroeconomic factors such as interest rates and the unemployment level.

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

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

Total operating expenses were $86.8 million for the six months ended June 30, 2012, compared to $74.2 million for the prior year, an increase of $12.6 million, or 17.0%. The increase is primarily due to the increase in the amount of new contracts we purchased and the increased costs to service our growing total managed portfolio.

Employee costs increased by $2.1 million or 13.7%, to $17.1 million during the six months ended June 30, 2012, representing 19.8% of total operating expenses, from $15.1 million for the prior year, or 20.3% of total operating expenses. During 2008 and most of 2009, we reduced staff through attrition and reductions in force as a result of the uncertainty in capital markets and the related limited access to financing for new contract purchases. Since October 2009, however, as we have gradually acquired new financing facilities and increased our new contract purchases, we have added employees in our Originations and Marketing departments. These additions have offset reductions in our Servicing department staff that have been necessary as our total managed portfolio decreased until September 2011. In September 2011, we hired approximately 65 new Servicing department employees in connection with our acquisition of the Fireside portfolio. At June 30, 2012 we had 538 employees, compared to 445 employees as of June 30, 2011.

General and administrative expenses include costs associated with purchasing and servicing our portfolio of finance receivables, including expenses for facilities, credit services, and telecommunications. General and administrative expenses were $8.1 million, an increase of 9.0%, compared to the previous year and represented 9.3% of total operating expenses.

Interest expense for the six months ended June 30, 2012 increased by $3.8 million to $42.1 million, or 9.8%, compared to $38.4 million in the previous year. In September 2011 we established a credit facility exclusively for the acquisition of the Fireside portfolio. For the six months ended June 30, 2012 we incurred $10.1 million in interest expense on the Fireside related debt. Interest on securitization trust debt decreased by $4.2 million in the six months ended June 30, 2012 compared to the prior year. Interest expense on senior secured and subordinated debt increased by $589,000. Interest expense on residual interest financing decreased $1.1 million in the six months ended June 30, 2012 compared to the prior year as a result of continued principal amortization. Interest expense on warehouse debt decreased by $2.0 million for the six months ended June 30, 2012 compared to the prior year. Since December 2011 our securitizations have included a pre-funding mechanism which has allowed us to reduce our borrowings under our warehouse facilities in the current period compared to the prior year. The interest expense related to the value of outstanding derivative warrants resulted in an increase of $442,000 in interest expense.

Provision for credit losses was $12.5 million for the six months ended June 30, 2012, an increase of $4.5 million, or 55.8% compared to the prior year and represented 14.5% of total operating expenses. The provision for credit losses maintains the allowance for loan losses at levels that we feel are adequate for probable incurred credit losses that can be reasonably estimated. The increase in provision expense is the result of the increase in our contract purchase volumes and the size of the portfolio owned by our consolidated subsidiaries.

Marketing expenses consist primarily of commission-based compensation paid to our employee marketing representatives. Our marketing representatives earn a salary plus commissions based on our volume of contract purchases and sales of training programs, internet lead sales, and direct mail products that we offer our dealers. Marketing expenses increased by $1.8 million, or 50.8%, to $5.2 million, compared to $3.4 million in the previous year, and represented 6.0% of total operating expenses. We purchased 16,813 contracts representing $257.8 million in receivables in the current period compared to 7,198 contracts representing $110.8 million in receivables in the prior year.

Occupancy expenses decreased by $76,000 or 5.0%, to $1.4 million compared to $1.5 million in the previous year and represented 1.7% of total operating expenses.

Depreciation and amortization expenses decreased by $42,000 or 13.0%, to $284,000 compared to $326,000 in the previous year and represented 0.2% of total operating expenses.

For the six months ended June 30, 2012, we recorded no net tax expense and reduced our valuation allowance for our deferred tax assets by $700,000. As of June 30, 2012, our net deferred tax asset of $15.0

million is net of a valuation allowance of $61.0 million. We have considered the circumstances that may affect the ultimate realization of our deferred tax assets and have concluded that the valuation allowance is appropriate at this time. However, if future events change our expected realization of our deferred tax assets, we may be required to increase the valuation allowance against that asset in the future.

Credit Experience

Our financial results are dependent on the performance of the automobile contracts in which we retain an ownership interest. Broad economic factors such as recession and significant changes in unemployment levels influence the credit performance of our portfolio, as does the weighted average age of the receivables at any given time. Our internal credit performance data consistently show that new receivables have lower levels of delinquency and losses early in their lives, with delinquencies increasing throughout their lives and losses gradually increasing to a peak between 36 and 42 months, after which they gradually decrease. The weighted average seasoning of our portfolio represented in the tables below (excluding the Fireside portfolio) was 19 months, 34 months and 27 months as of June 30, 2012, June 30, 2011, and December 31, 2011, respectively. The tables below document the delinquency, repossession and net credit loss experience of all such automobile contracts that we were servicing and owned as of the respective dates shown. The tables do not include the experience of third party servicing portfolios.

Delinquency Experience (1)
Total Owned Portfolio Excluding Fireside

	June 30, 2012		June 30, 2011		December 31, 2011	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
		(Dollars in thousands)				
Delinquency Experience						
Gross servicing portfolio (1)	69,916	$ 682,110	73,858	$ 583,778	69,765	$ 588,993
Period of delinquency (2)						
31-60 days	1,790	10,553	1,942	10,952	2,051	10,709
61-90 days	771	4,625	1,027	6,846	1,038	6,572
91+ days	404	2,486	804	5,298	1,601	8,908
Total delinquencies (2)	2,965	17,664	3,773	23,096	4,690	26,189
Amount in repossession (3)	1,633	8,449	2,157	11,450	2,218	10,097
Total delinquencies and amount in repossession (2)	4,598	$ 26,113	5,930	$ 34,546	6,908	$ 36,286
Delinquencies as a percentage of gross	4.2%	2.6%	5.1%	4.0%	6.7%	4.4%

servicing portfolio						
Total delinquencies and amount in repossession as a percentage of gross servicing portfolio	6.6%	3.8%	8.0%	5.9%	9.9%	6.2%
Extension Experience						
Contracts with one extension, accruing	10,100	$ 61,208	15,233	$ 105,786	12,183	$ 75,155
Contracts with two or more extensions, accruing	20,177	53,805	12,036	88,790	10,515	67,987
	30,277	115,013	27,269	194,576	22,698	143,142
Contracts with one extension, non-accrual	464	2,191	881	4,706	1,211	5,918
Contracts with two or more extensions, non-accrual	780	3,944	1,320	8,216	2,054	10,737
	1,244	6,135	2,201	12,922	3,265	16,655
Total contracts with extensions	31,521	$ 121,148	29,470	$ 207,498	25,963	$ 159,797

Delinquency Experience (1)
Fireside Portfolio

	June 30, 2012		December 31, 2011	
	Number of Contracts	Amount	Number of Contracts	Amount
Delinquency Experience				
Gross servicing portfolio (1)	22,594	$ 104,033	33,256	$ 172,248
Period of delinquency (2)				
31-60 days	496	1,878	1,088	4,872
61-90 days	231	872	420	1,767
91+ days	84	339	261	903
Total delinquencies (2)	811	3,089	1,769	7,542
Amount in repossession (3)	146	714	226	1,481
Total delinquencies and amount in repossession (2)	957	$ 3,803	1,995	$ 9,023
Delinquencies as a percentage of gross servicing portfolio	3.6%	3.0%	5.3%	4.4%
Total delinquencies and amount in repossession as a percentage of gross servicing portfolio	4.2%	3.7%	6.0%	5.2%
Extension Experience				
Contracts with one extension, accruing	2,589	$ 14,887	724	$ 4,462
Contracts with two or more extensions, accruing	18	282	2	8
	2,607	15,169	726	4,470
Contracts with one extension, non-accrual	53	282	3	25
Contracts with two or more extensions, non-accrual	1	6	-	-
	54	288	3	25
Total contracts with extensions	2,661	$ 15,457	729	$ 4,495

Delinquency Experience (1)
Total Owned Portfolio

	June 30, 2012		June 30, 2011		December 31, 2011	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
				(Dollars in thousands)		
Delinquency Experience						
Gross servicing portfolio (1)	92,510	$ 786,144	73,858	$ 583,778	103,021	$ 761,241
Period of delinquency (2)						
31-60 days	2,286	12,431	1,942	10,952	3,139	15,581
61-90 days	1,002	5,497	1,027	6,846	1,458	8,338
91+ days	488	2,825	804	5,298	1,862	9,811
Total delinquencies (2)	3,776	20,753	3,773	23,096	6,459	33,730
Amount in repossession (3)	1,779	9,164	2,157	11,450	2,444	11,578
Total delinquencies and amount in repossession (2)	5,555	$ 29,917	5,930	$ 34,546	8,903	$ 45,308
Delinquencies as a percentage of gross servicing portfolio	4.1%	2.6%	5.1%	4.0%	6.3%	4.4%
Total delinquencies and amount in repossession as a percentage of gross servicing portfolio	6.0%	3.8%	8.0%	5.9%	8.6%	6.0%
Extension Experience						

Contracts with one extension, accruing	12,689	$ 76,095	15,233	$ 105,786	16,151	$ 124,066
Contracts with two or more extensions, accruing	10,095	53,887	12,036	88,790	11,307	91,310
	22,784	129,982	27,269	194,576	27,458	215,376
Contracts with one extension, non-accrual	517	2,473	881	4,706	1,598	11,138
Contracts with two or more extensions, non-accrual	781	3,947	1,320	8,216	1,919	14,327
	1,298	6,420	2,201	12,922	3,517	25,465
	24,082	$ 136,402	29,470	$ 207,498	30,975	$ 240,841

(1) All amounts and percentages are based on the amount remaining to be repaid on each automobile contract, including, for pre-computed automobile contracts, any unearned interest. The information in the table represents the gross principal amount of all automobile contracts purchased by us, including automobile contracts subsequently sold by us in securitization transactions that we continue to service.

(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, as extended where applicable. Automobile contracts less than 31 days delinquent are not included.

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

	Net Charge-Off Experience (1) (3)		
	Total Owned Portfolio Excluding Fireside		
	June 30 2012	June 30 2011	December 31, 2011
	(Dollars in thousands)		
Average servicing portfolio outstanding	$ 634,209	$ 614,949	$ 597,546
Annualized net charge-offs as a percentage of average servicing portfolio (2)	3.4%	7.8%	5.8%

Net Charge-Off Experience (1) (3) Fireside Portfolio			
	June 30 2012	June 30 2011	December 31, 2011
	(Dollars in thousands)		
Average servicing portfolio outstanding	$ 129,910	n/a	$ 191,289
Annualized net charge-offs as a percentage of average servicing portfolio (2)	4.3%	n/a	5.1%

Net Charge-Off Experience (1) (3) Total Owned Portfolio Including Fireside			
	June 30 2012	June 30 2011	December 31, 2011
	(Dollars in thousands)		
Average servicing portfolio outstanding	$ 764,118	$ 614,949	$ 661,315
Annualized net charge-offs as a percentage of average servicing portfolio (2)	3.5%	7.8%	5.2%

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

(2) Net charge-offs include the remaining principal balance, after the application of the net proceeds from the liquidation of the vehicle (excluding accrued and unpaid interest) and amounts collected subsequent to the date of charge-off, including some recoveries which have been classified as other income in the accompanying interim financial statements. June 30, 2012 and June 30, 2011 percentage represents six months ended June 30, 2012 and June 30, 2011 annualized. December 31, 2011 represents 12 months ended December 31, 2011.

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

Extensions

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

The basic question in deciding to grant an extension is whether or not we will (a) be delaying the inevitable repossession and liquidation or (b) risk losing the vehicle as a result of not being able to locate the obligor and

vehicle. In both of those situations, the loss would likely be higher than if the vehicle had been repossessed without the extension. The benefits of granting an extension include minimizing current losses and delinquencies, minimizing lifetime losses, getting the obligor's account current (or close to it) and building goodwill with the obligor so that he might prioritize us over other creditors on future payments. Our servicing staff are trained to identify when a past due obligor is facing a temporary problem that may be resolved with an extension. In most cases, the extension will be granted in conjunction with our receiving a past due payment (and where allowed by law, a nominal fee) from the obligor, thereby indicating an additional monetary and psychological commitment to the contract on the obligor's part.

The credit assessment for granting an extension is initially made by our collector, who bases the recommendation on the collector's discussions with the obligor. In such assessments the collector will consider, among other things, the following factors: (1) the reason the obligor has fallen behind in payment;

(2) whether or not the reason for the delinquency is temporary, and if it is, have conditions changed such that the obligor can begin making regular monthly payments again after the extension; (3) the obligor's past payment history, including past extensions if applicable; and (4) the obligor's willingness to communicate and cooperate on resolving the delinquency. If the collector believes the obligor is a good candidate for an extension, he must obtain approval from his supervisor, who will review the same factors stated above prior to offering the extension to the obligor. After receiving an extension, an account remains subject to our normal policies and procedures for interest accrual, reporting delinquency and recognizing charge-offs.

We believe that a prudent extension program is an integral component to mitigating losses in our portfolio of sub-prime automobile receivables. The table below summarizes the status, as of June 30, 2012, for accounts that received extensions during 2008, 2009 and 2010 (2011 data are not included at this time due to insufficient passage of time for meaningful evaluation of results of 2011 extensions):

Period of Extension	# Extensions Granted	Active or Paid Off at June 30, 2012	% Active or Paid Off at June 30, 2012	Charged Off > 6 Months After Extension	% Charged Off > 6 Months After Extension	Charged Off <= 6 Months After Extension	% Charged Off <= 6 Months After Extension	Avg Months to Charge Off Post Extension
2008	35,588	12,821	36.0%	17,948	50.4%	4,819	13.5%	16
2009	32,004	13,114	41.0%	13,126	41.0%	5,764	18.0%	12
2010	22,593	14,376	63.6%	6,574	29.1%	1,643	7.3%	12

We view these results as a confirmation of the effectiveness of our extension program. For the accounts receiving extensions in 2008, 2009 and 2010, 36.0%, 41.0% and 63.6%, respectively, were either paid in full or active and performing at June 30, 2012. Each of these successful accounts represent continued payments of interest and principal (including payment in full in many cases), where without the extension we likely would have incurred a substantial loss and no interest revenue subsequent to the extension.

For the extension accounts that ultimately charge off, we consider any that charged off more than six months after the extension to be at least partially successful. For the 2008, 2009 and 2010 extensions, of the accounts that charged off, the charge off was incurred, on average, 16, 12 and 12 months, respectively, after the extension, indicating that even in the cases of an ultimate loss, the obligor serviced the account with additional payments of principal and interest.

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

	Six Months Ended June 30,		Year Ended December 31,
	2012	2011	2011
Average number of extensions granted per month	1,451	1,388	1,417
Average number of outstanding accounts	96,027	77,789	86,282

Average monthly extensions as % of average outstandings	1.5%	1.8%	1.6%

	June 30, 2012		June 30, 2011		December 31, 2011	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
	(Dollars in thousands)					
Contracts with one extension	13,206	$ 78,568	16,114	$ 110,491	14,121	$ 85,560
Contracts with two extensions	6,226	32,701	8,738	64,006	7,720	48,619
Contracts with three extensions	3,309	17,714	3,679	26,763	3,653	22,713
Contracts with four extensions	1,177	6,425	916	6,075	1,082	6,618
Contracts with five extensions	144	868	23	163	101	665
Contracts with six extensions	20	127	-	-	15	117
	24,082	$ 136,403	29,470	$ 207,498	26,692	$ 164,292
Managed portfolio (excluding 3rd party)	92,510	$ 786,144	73,858	$ 583,778	103,021	$ 761,241

Non-Accrual Receivables

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

If a contract exceeds the 90 days past due threshold at the end of one period, and then makes the necessary payments such that it becomes equal to or below 90 days delinquent at the end of a subsequent period, it would be restored to full accrual status for our financial reporting purposes. At the time a contract is restored to full accrual in this manner, there can be no assurance that full repayment of interest and principal will ultimately be made. However, we monitor each obligor's payment performance and are aware of the severity of his delinquency at any time. The fact that the delinquency has been reduced below the 90-day threshold is a positive indicator. Should the contract again exceed the 90-day delinquency level at the end of any reporting period, it would again be reflected as a non-accrual account.

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

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 term securitization transactions and other 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, fees for origination of automobile contracts, 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, if any, and the increase of credit

enhancement to required levels in securitization transactions, and income taxes. There can be no assurance that internally generated cash will be sufficient to meet our cash demands. The sufficiency of internally generated cash will depend on the performance of securitized pools (which determines the level of releases from those pools and their related spread accounts), the rate of expansion or contraction in our managed portfolio, and the terms upon which we are able to acquire, sell, and borrow against automobile contracts.

Net cash provided by operating activities for the six-month period ended June 30, 2012 was $8.9 million compared to net cash provided by operating activities for the six-month period ended June 30, 2011 of $1.3 million. Cash provided by operating activities is significantly affected by our net income, or loss, before provisions for credit losses.

Net cash used in investing activities for the six-month period ended June 30, 2012 was $3.9 million compared to net cash provided by investing activities of $58.2 million in the prior year period. Cash provided by investing activities primarily results from principal payments and other proceeds received on finance receivables held for investment and reductions in restricted cash. At December 31, 2011, our restricted cash balance included $39.7 million in spread accounts associated with three securitizations from 2006 and two from 2007. In February 2012, we exercised our rights to purchase the outstanding receivables associated those securitizations, resulting in a release of the related spread account balances, a portion of which was used to repay the associated bonds in full. Cash used in investing activities generally relates to purchases of automobile contracts. Purchases of finance receivables held for investment were $257.8 million and $110.1 million during the first six months of 2012 and 2011, respectively.

Net cash used in financing activities for the six months ended June 30, 2012 was $4.8 million compared to $59.2 million in the prior year period. Cash provided by financing activities is primarily related to the issuance of securitization trust debt, reduced by the amount of repayment of securitization trust debt and net proceeds or repayments from our warehouse lines of credit. In the first six months of 2012, we issued $296.5 million in new securitization trust debt compared to $110.9 million in new issuances in the same period of 2011. In addition, we repaid $214.4 million in securitization trust debt and $73.3 million in debt associated with the Fireside portfolio in the six months ended June 30, 2012 compared to repayments of securitization trust debt of $162.6 million in the prior year period. In the six months ended June 30, 2012, we received net proceeds from our warehouse lines of credit of $3.2 million, compared to a net paydown to our warehouse facilities of $1.7 million in the prior year’s period.

We purchase automobile contracts from dealers for a cash price approximating their principal amount, adjusted for an acquisition fee which may either increase or decrease the automobile contract purchase price. Those automobile contracts generate cash flow, however, over a period of years. As a result, we have been dependent on warehouse credit facilities to purchase automobile contracts, and on the availability of cash from outside sources in order to finance our continuing operations, as well as to fund the portion of automobile contract purchase prices not financed under revolving warehouse credit facilities.

On September 25, 2009 we established a $50 million secured revolving credit facility with Fortress Credit Corp., which matured on September 25, 2011. The facility was structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated

subsidiary Page Four Funding LLC. The facility provided for advances up to 75% of eligible finance receivables and the notes under it accrued interest at a rate of one-month LIBOR plus 12.00% per annum, with a minimum rate of 14.00% per annum. As part of the consideration given to Fortress for committing to make loans under this facility, we issued a 10-year warrant to purchase up to 1,158,087 of our common shares, at an exercise price of $0.879 per share (we refer to this as the Fortress Warrant). Issuance of the Fortress Warrant required an adjustment to the terms of an existing outstanding warrant regarding 1,564,324 shares, reducing the exercise price of such warrant from $1.44 per share to $1.40702 per share and increasing the number of shares available for purchase to 1,600,991. In September 2011 the notes were repaid in full and the facility expired by its terms.

In December 2010 we entered into a $100 million two-year warehouse credit line with affiliates of Goldman, Sachs & Co. and Fortress Investment Group. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by borrowing from a floating rate credit facility to our consolidated subsidiary Page Six Funding, LLC. The facility provided for advances up to 75% of eligible finance receivables and the notes under it accrued interest at a rate of one-month LIBOR plus 5.00% per annum, with a minimum one-month LIBOR rate of 1.5% per annum. In September 2011 this facility was amended to increase the maximum advance rate to 82% of eligible finance receivables and the interest rate to one-month LIBOR plus 5.73%. At June 30, 2012, $8.4 million was outstanding under this facility.

On February 24, 2011, we entered into an additional $100 million two-year warehouse credit line with UBS Real Estate Securities, Inc. The facility revolved during the first year and amortizes during the second year. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated subsidiary Page Seven Funding, LLC. The facility provided for effective advances up to 76.5% of eligible finance receivables and the notes under it accrue interest at one-month LIBOR plus 6.00% per annum. In February 2012, we amended this facility to extend the revolving period from February 2012 to May 2012 and reduced the maximum advance from $100 million to $35 million. Once the revolving period ended in May 2012, the interest rate increased to one-month LIBOR plus 7.00% per annum. At June 30, 2012 there was $54,000 outstanding under this facility.

On May 11, 2012, we entered into an additional $100 million one-year warehouse credit line with Citibank, N.A. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by borrowing from a floating rate credit facility to our consolidated subsidiary Page Eight Funding, LLC. The facility provides for effective advances up to 88.4% of eligible finance receivables. The notes under the facility accrue interest at one-month LIBOR plus 6.00% per annum, with a minimum rate of 6.75% per annum. At June 30, 2012 there was $20.1 million outstanding under this facility.

In March 2010, we entered into a $50 million term funding facility with a syndicate of note purchasers including affiliates of Angelo, Gordon & Co., L.P. and an affiliate of Cohen & Company Securities. Under the term funding facility, the note purchasers agreed to purchase up to $50 million in asset-backed notes through December 31, 2010, subject to collateral eligibility and other terms and conditions, through the end of 2010. The interest rate on notes outstanding was 11.00%, which could be decreased to 9.00% should the notes receive investment grade ratings from at two credit rating agencies. Principal payments on the notes are due as the underlying receivables are paid or charged off, and the final maturity is July 17, 2017. In connection with the establishment of this term funding facility, we paid a closing fee of $750,000 and issued to certain of the note purchasers or their designees warrants to purchase 500,000 shares of our common stock at an exercise price of $1.41 per share (we refer to this as the Page Five Warrant). Issuance of the Page Five Warrant required adjustments to the terms of two existing outstanding warrants. The first warrant related to 1,600,991 shares, on which the exercise price was decreased from $1.407 per share to $1.398 per share and the number of shares available for purchase was increased to 1,611,114. The second affected warrant related to 283,985 shares, which was increased to 285,781 shares. In June 2011, we restructured the facility to get the senior notes rated investment grade and issued an additional $9.8 million in three tranches of new subordinated notes. The interest rate on the senior notes was reduced to 9.25% as a result of getting the investment

grade rating. As of June 30, 2012, there was $28.8 million outstanding under the facility and no additional advances are expected to be made.

In July 2007, we established a combination term and revolving residual credit facility and have used eligible residual interests in securitizations as collateral for floating rate borrowings. The amount that we were able to borrow was computed using an agreed valuation methodology of the residuals, subject to an overall maximum principal amount of $120 million, represented by (i) a $60 million Class A-1 variable funding note (the "revolving note"), and (ii) a $60 million Class A-2 term note (the "term note"). The term note was fully drawn in July 2007 and was originally due in July 2009. As of July 2008, we had drawn $26.8 million on the revolving note. The facility's revolving feature expired in July 2008. On July 10, 2008 we amended the terms of the combination term and revolving residual credit facility, (i) eliminating the revolving feature and increasing the interest rate, (ii) consolidating the amounts then owing on the Class A-1 note with the Class A-2 note, (iii) establishing an amortization schedule for principal reductions on the Class A-2 note, and (iv) providing for an extension, at our option if certain conditions were met, of the Class A-2 note maturity from June 2009 to June 2010. In June 2009 we met all such conditions and extended the maturity. In conjunction with the amendment, we reduced the principal amount outstanding to $70 million by delivering to the lender

(i) warrants valued as being equivalent to 2,500,000 common shares, or $4,071,429, and (ii) cash of $12,765,244. The warrants represent the right to purchase 2,500,000 CPS common shares at a nominal exercise price, at any time prior to July 10, 2018. In March 2010, we paid $979,855 to repurchase the warrants to purchase 500,000 of such 2,500,000 shares. In May 2010, we extended the maturity date from June 2010 to May 2011. In May 2011, we extended the maturity date of the facility from May 2011 to May 2012. In February 2012, we exchanged certain previously pledged residual interests with new, previously unpledged, residual interests and extended the maturity date to February 2013. As of June 30, 2012 the aggregate indebtedness under this facility was $15.3 million.

On June 30, 2008, we entered into a series of agreements pursuant to which an affiliate of Levine Leichtman Capital Partners purchased a $10 million five-year, fixed rate, senior secured note from us. The indebtedness is secured by substantially all of our assets, though not by the assets of our special-purpose financing subsidiaries. In July 2008, in conjunction with the amendment of the combination term and revolving residual credit facility as discussed above, the lender purchased an additional $15 million note with substantially the same terms as the $10 million note. Pursuant to the June 30, 2008 securities purchase agreement, we issued to the lender 1,225,000 shares of common stock. In addition, we issued the lender two warrants: (i) warrants that we refer to as the FMV Warrants, which are exercisable for 1,611,114 shares of our common stock, at an exercise price of $1.39818 per share, and (ii) warrants that we refer to as the N Warrants, which are exercisable for 285,781 shares of our common stock, at a nominal exercise price. Both the FMV Warrants and the N Warrants are exercisable in whole or in part and at any time up to and including June 30, 2018. We valued the warrants using the Black-Scholes valuation model and recorded their value as a liability on our balance sheet because the terms of the warrants also included a provision whereby the lender could require us to purchase the warrants for cash. That provision was eliminated by mutual agreement in September 2008. The FMV Warrants were initially exercisable to purchase 1,500,000 shares for $2.573 per share, were adjusted in connection with the July 2008 issuance of other warrants to become exercisable to purchase 1,564,324 shares at $2.4672 per share, and were further adjusted in connection with a July 2009 amendment of our option plan to become exercisable at $1.44 per share. Upon issuance in September 2009 of the Fortress Warrant, the FMV Warrant was further adjusted to become exercisable to purchase 1,600,991 shares at an exercise price of $1.407 per share. Upon issuance in March 2010 of the Page Five Warrant, the FMV Warrant was further adjusted to become exercisable to purchase 1,611,114 shares at an exercise price of $1.39818 per share. In November 2009 we entered into an additional agreement with this lender whereby they purchased an additional $5 million note. The note accrued interest at 15.0% and was repaid in December 2010 at which time the lender purchased a new $27.8 million note under substantially the same terms as the $10 million and $15 million notes already outstanding. The $27.8 million note accrues interest at 16.0% and matures in December 2013. Concurrent with the issuance of the $27.8 million note, the term $10 and $15 million notes were amended to change their maturity dates to December 2013. In conjunction with the issuance of the $27.8 million note, we issued to the lender 880,000 shares of common stock and 1,870 shares of Series B convertible preferred stock. Each share of the Series B convertible preferred stock was exchanged for 1,000 shares of our common stock on June 15, 2011, upon shareholder approval of such exchange. At the time of issuance, the value of the common stock and Series B preferred stock was $753,000 and $1.6 million, respectively. On March 31, 2011, we sold an additional $5 million note due February 29, 2012 to LLCP. In April 2011 we purchased from LLCP a portion of an outstanding subordinated note issued by our CPS Cayman Residual Trust 2008-A, and financed that purchase by issuing to LLCP a new $3 million note which was fully repaid in June 2012. In November 2011, we sold an additional $5 million note due October 2012. All such notes bear interest at 14% per annum. In February 2012, we extended the maturity of the $5 million note that was originally due in February 2012 to March 2012 at which time the note was repaid in full.

In August 2011 we entered into a series of agreements with affiliates of Fortress Investment Group and Goldman, Sachs & Co. to finance our acquisition of the Fireside portfolio, which we purchased on September 15, 2011. Under the agreements, our consolidated subsidiary CPS Fender Receivables, LLC issued $197.3 million of notes with a maturity date of March 14, 2014. The notes are secured by all of the finance receivables and related cash flows associated with the Fireside portfolio and accrue interest at a rate of one-month LIBOR plus 7.00% per annum, with a minimum rate of 8.0% per annum. All excess cash flow on the receivables after the payment of servicing fees,

interest expense, preferred dividend and other administrative

fees shall be used to repay the notes until paid in full and then to return our initial investment. Thereafter all excess cash flow shall be split; the lenders will receive 80% and we will receive 20%. At June 30, 2012, $89.5 million of these notes were outstanding.

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

We are and may in the future be limited in our ability to purchase automobile contracts due to limits on our capital. As of June 30, 2012, we had unrestricted cash of $10.2 million. We had $91.6 million available under the Page Six Funding facility and $79.9 million available under the Page Eight Funding facility (in all facilities advances are subject to our having purchased available eligible collateral). Our plans to manage our liquidity include maintaining our rate of automobile contract purchases at a level that matches our available capital, and, wherever appropriate, reducing our operating costs. If we are unable to complete such securitizations, we may be unable to increase our rate of automobile contract purchases, in which case our interest income and other portfolio related income would decrease.

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

Certain of our securitization transactions, our warehouse credit facilities and our residual interest financing contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels. As of June 30, 2012, we were in compliance with all such covenants. In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare a default if a default occurred under a different facility.

Our plan for future operations and meeting the obligations of our financing arrangements includes returning to profitability (which we accomplished in the fourth quarter of 2011 and through the first six months of 2012) and eliminating our shareholders' deficit by gradually increasing the amount of our contract purchases with the goal of increasing the balance of our outstanding managed portfolio. Our plans also include financing future contract purchases with credit facilities and term securitizations that offer a lower overall cost of funds compared to the facilities we used in 2009 and 2010. To illustrate, in the last six months of 2009 we purchased $6.1 million in contracts and our sole credit facility had a minimum interest rate of 14.00% per annum. By comparison, in 2010, we purchased $113.0 million in contracts and, in March 2010, entered into the $50 million term funding facility which had an interest rate of 11.00% per annum and the ability to decrease such rate to 9.00% per annum if certain

conditions were met. During 2011, we used our Page Six Funding and Page Seven Funding credit facilities to purchase $284.2 million in new contracts. During the first six months of 2012, we purchased $257.8 million in new contracts primarily with our Page Six and Page Eight credit facilities.

More importantly, the weighted average effective coupons of our last five term securitizations were 3.77%, 4.51%, 4.93%, 3.47% and 3.15%, respectively, and did not include financial guaranty policies. These transactions demonstrate our ability to access the lower cost of long-term funding available in the current market environment without the financial guaranties we historically incorporated into our term securitization structures. We expect to complete more term securitizations in 2012. In addition, less competition in the auto financing marketplace has resulted in better terms for our recent contract purchases compared to years before 2008. The following table summarizes the average acquisition fees we charged dealers and the weighted average annual percentage rate on our purchased contracts for the periods shown:

	6 Months Ended June 30, 2012	2011	2010	2009	2008
Average acquisition fee amount	$ 935	$ 1,155	$ 1,382	$ 1,508	$ 592
Average acquisition fee as % of amount financed	6.1%	7.4%	9.2%	11.7%	3.9%
Weighted average annual percentage interest rate	20.2%	20.1%	20.1%	19.9%	18.5%

We have and will continue to have a substantial amount of indebtedness. At June 30, 2012, we had approximately $889.4 million of debt outstanding. Such debt consisted primarily of $666.1 million of securitization trust debt, $104.7 in portfolio acquisition debt, $28.6 million of warehouse line of credit, $15.3 million of residual interest financing, $53.7 million of senior secured related party debt and $21.1 million in subordinated notes. We are also currently offering the subordinated notes to the public on a continuous basis, and such notes have maturities that range from three months to 10 years.

As of June 30, 2012 we have a shareholders' deficit of $10.7 million and our recent operating results include net losses of $14.5 million and $33.8 million in 2011 and 2010, respectively. We believe that our results have been materially and adversely affected by the disruption in the capital markets that began in the fourth quarter of 2007, by the recession that began in December 2007, and by related high levels of unemployment. Our ability to repay or refinance maturing debt may be adversely affected by prospective lenders' consideration of our recent operating losses.

Although we believe we are able to service and repay our debt, there is no assurance that we will be able to do so. If our plans for future operations do not generate sufficient cash flows and operating profits, our ability to make required payments on our debt would be impaired. Failure to pay our indebtedness when due could have a material adverse effect, and might require us to issue additional debt or equity securities.

Critical Accounting Policies

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

Allowance for Finance Credit Losses

In order to estimate an appropriate allowance for losses to be incurred on finance receivables, we use a loss allowance methodology commonly referred to as "static pooling," which stratifies our finance receivable portfolio into separately identified pools based on the period of origination. Using analytical and formula driven techniques, we estimate an

allowance for finance credit losses, which we believe is adequate for probable credit losses that can be reasonably estimated in our portfolio of automobile contracts. The estimate for probable credit losses is reduced by our estimate for future recoveries on previously incurred losses. Provision for losses is charged to our consolidated statement of operations. Net losses incurred on finance receivables are charged to the allowance. We evaluate the adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio, prospective liquidation values of the underlying collateral

and general economic and market conditions. As circumstances change, our level of provisioning and/or allowance may change as well. Our allowance as a percentage of finance receivables has decreased in recent years due primarily to the continued seasoning of our portfolio. Our historical static loss data shows that, in general, incremental monthly losses increase to a peak between months 36 and 42 of the life of a static portfolio, after which such monthly incremental losses tend to decrease. As of June 30, 2012 the weighted average age of our portfolio of finance receivables was 18 months. In addition, receivables originated after the second quarter of 2008 have exhibited significantly better credit performance metrics than earlier portfolios at similar aging stages.

Amortization of Deferred Originations Costs and Acquisition Fees

Upon purchase of a contract from a dealer, we generally either charge or advance the dealer an acquisition fee. In addition, we incur certain direct costs associated with originations of our contracts. All such acquisition fees and direct costs are applied to the carrying value of finance receivables and are accreted into earnings as an adjustment to the yield over the estimated life of the contract using the interest method.

Term Securitizations

Our term securitization structure has generally been as follows:

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

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

We receive periodic base servicing fees for the servicing and collection of the automobile contracts. Under our securitization structures treated as secured financings for financial accounting purposes, such servicing fees are

included in interest income from the automobile contracts. In addition, we are entitled to the cash flows from the trusts that represent collections on the automobile contracts in excess of the amounts required to pay principal and interest on the asset-backed securities, base servicing fees, and certain other fees and expenses (such as trustee and custodial fees).

If the amount of cash required for payment of fees, expenses, interest and principal on the senior asset-backed notes exceeds the amount collected during the collection period, the shortfall is withdrawn from the spread account, if any. If the cash collected during the period exceeds the amount necessary for the above allocations plus required principal payments on the subordinated asset-backed notes, and there is no shortfall in the related spread account or the required overcollateralization level, the excess is released to us. If the spread account and overcollateralization is not at the required level, then the excess cash collected is retained in the trust until the specified level is achieved. Although spread account balances are held by the trusts on behalf of our special-purpose subsidiaries as the owner of the residual interests or the trusts, we are restricted in use of the cash in the spread accounts. Cash held in the various spread accounts is invested in high quality, liquid investment securities, as specified in the securitization agreements.

Finance Receivables and Related Debt Measured at Fair Value

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

Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. Although realization is not assured, we believe that the realization of the recognized net deferred tax asset of $15.0 million is more likely than not based on available tax planning strategies that could be implemented if necessary to prevent a carryforward from expiring. Our net deferred tax asset of $15.0 million is net of a valuation allowance of $61.0 million and consists of approximately $11.5 million of net U.S. federal deferred tax assets and $3.5 million of net state deferred tax assets. The major components of the deferred tax asset are $67.0 million in net operating loss carryforwards and built in losses and $11.5 million in net deductions which have not yet been taken on a tax return. We estimate that we would need to generate approximately $37.5 million of taxable income during the applicable carryforward periods to realize fully our federal and state net deferred tax assets.

We are in a three-year cumulative pretax loss position at June 30, 2012. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset. In determining the possible future realization of deferred tax assets, we have considered future taxable income from the following sources: (a) reversal of

taxable temporary differences; and (b) tax planning strategies available to us in accordance with ASC 740, “Income Taxes” that, if necessary, would be implemented to accelerate taxable

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

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

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

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 credi 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 and whether we are able to complete term securitizations once automobile contracts are acquired. Factors that could affect our expenses in the current year include competitive conditions in the market for qualified personnel and interest rates (which affect the rates that we pay on notes issued in our securitizations).

Item 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 changes in our internal controls over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The information provided under the caption “Legal Proceedings,” Note 9 to the Unaudited Condensed Consolidated Financial Statements, included in Part I of this report, is incorporated herein by reference.

Item 1A. Risk Factors

We remind the reader that risk factors are set forth in Item 1A of our report on Form 10-K, filed with the U.S. Securities and Exchange Commission on March 6, 2012. Where we are aware of material changes to such risk factors as previously disclosed, we set forth below an updated discussion of such risks. The reader should note that the other risks identified in our report on Form 10-K remain applicable to us.

We have substantial indebtedness.

We have and will continue to have a substantial amount of indebtedness. At June 30, 2012 and December 31, 2011, we had approximately $854.0 million and $876.2 million, respectively, of debt outstanding. Such debt consisted, as of December 31, 2011, primarily of $583.1 million of securitization trust debt, and also included $166.8 million in receivable financing debt at fair value, $25.4 million of warehouse indebtedness, $21.9 million of residual interest financing, $58.3 million of senior secured debt and $20.8 million owed under a subordinated notes program. At June 30, 2012, such debt consisted primarily of $599.7 million of securitization trust debt, and also included $133.0 million in receivable financing debt at fair value, $28.9 million of warehouse indebtedness, $18.0 million of residual interest financing, $53.6 million of senior secured debt, and $20.7 million owed under a subordinated notes program. Such subordinated notes may be offered to the public on a continuous basis, and such notes have maturities that range from three months to 10 years.

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

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

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

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

Our profitability is largely determined by the difference, or "spread," between (i) the interest rates payable under our warehouse credit facilities and on the asset-backed securities issued in our securitizations, or payable in any alternate permanent financing transactions, and (ii) the effective interest rate received by us on the automobile contracts that we acquire. Disruptions in the market for asset-backed securities in the years 2008, 2009 and 2010 resulted in our paying higher interest rates than had historically been required of us. While such disruptions appear to have eased, there can be no assurance that the interest rates that we will be required to pay in the future will not increase.

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

To mitigate, but not eliminate, the short-term risk relating to interest rates payable by us under the warehouse facilities, we have generally held automobile contracts in the warehouse credit facilities for less than four months. The disruptions in the market for asset-backed securities caused us to lengthen that period during 2008, 2009 and 2010, which has reduced the effectiveness of this mitigation strategy. With our improved access to the credit markets in 2011 and 2012, we have completed five term securitizations in the last 15 months. As a result, we have been able to re-employ this strategy. To mitigate, but not eliminate, the long-term risk relating to interest rates payable by us in securitizations, we have in the past, and we may in the future, structure some of our securitization transactions to include pre-funding structures, whereby the amount of securities issued exceeds the amount of contracts initially sold into the securitization. In pre-funding, the proceeds from the pre-funded portion are held in an escrow account until we sell the additional contracts into the securitization in amounts up to the balance of the pre-funded escrow account. In pre-funded securitizations, we effectively lock in our borrowing costs with respect to the contracts we subsequently sell into the securitization. However, we incur an expense in pre-funded securitizations equal to the difference between the money market yields earned on the proceeds held in escrow prior to subsequent delivery of contracts and the interest rate paid on the securities issued in the securitization. The amount of such expense may vary. Our three most recent securitization transactions included pre-funding features. Despite these mitigation strategies, an increase in prevailing interest rates would cause us to receive less excess spread cash flows on automobile contracts, and thus could adversely affect our earnings and cash flows.

Forward-Looking Statements

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

- changes in general economic conditions;
- our ability or inability to obtain necessary financing
- changes in interest rates;
- our ability to generate sufficient operating and financing cash flows;
- competition;

- level of future provisioning for receivables losses; and
- regulatory requirements.

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

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

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

During the three months ended June 30, 2012, we purchased a total of 109,443 shares of our common stock, as described in the following table:

Issuer Purchases of Equity Securities

Period(1)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (2)
April 2012	35,600	$ 1.61	35,600	$ 1,239,846
May 2012	58,155	1.77	58,155	$ 1,137,034
June 2012	15,688	1.98	15,688	$ 1,106,043
Total	109,443	$ 1.15	109,443	

(1) Each monthly period is the calendar month.

(2) Through June 30, 2012, our board of directors had authorized the purchase of up to $34.5 million of our outstanding securities, which program was first announced in our annual report for the year 2002, filed on March 26, 2003. All purchases described in the table above were under the plan announced in March 2003, which has no fixed expiration date.

Item 6. 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.
4.39	Indenture dated June 1, 2012 re Notes issued by CPS Auto Receivables Trust 2012-B. (incorporated by reference to exhibit 4.39 to the registrant's current report filed June 26, 2012)
4.40	Sale and Servicing Agreement dated as of June 1, 2012. (incorporated by reference to exhibit 4.40 to the registrant's current report filed June 26, 2012)
10.28	Warehouse Loan Agreement dated May 11, 2012. (incorporated by reference to exhibit 10.1 to the registrant's current report dated May 11, 2012)
10.29	Sale and Servicing Agreement dated May 11, 2012. (incorporated by reference to exhibit 10.2 to the registrant's current report dated May 11, 2012)
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer of the registrant.

31.2 Rule 13a-14(a) Certification of the Chief Financial Officer of the registrant.
32 Section 1350 Certifications.*

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

SIGNATURES

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

CONSUMER PORTFOLIO SERVICES, INC.
(Registrant)

Date: July 31, 2012

By: /s/ CHARLES E. BRADLEY, JR.
Charles E. Bradley, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

Date: July 31, 2012

By: /s/ JEFFREY P. FRITZ
Jeffrey P. Fritz
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)