

**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-K**

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

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

Commission File Number: 1-14116

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

<b>CALIFORNIA</b> (State or other jurisdiction of incorporation or organization)	<b>33-0459135</b> (I.R.S. Employer Identification No.)
<b>16355 LAGUNA CANYON ROAD, IRVINE, CALIFORNIA</b> (Address of principal executive offices)	<b>92618</b> (Zip Code)

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

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

Title of each class:  
**RISING INTEREST SUBORDINATED REDEEMABLE SECURITIES DUE 2006**  
**10.50% PARTICIPATING EQUITY NOTES DUE 2004**

Name of each exchange on which registered: New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:  
**COMMON STOCK, NO PAR VALUE**

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

Indicate by check mark if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-K contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. //

The aggregate market value on April 14, 1999 (based on the \$3.50 closing price on the Nasdaq Stock Market on that date) of the voting stock beneficially held by non-affiliates of the registrant was \$29,506,281. The number of shares of the registrant's Common Stock outstanding on April 14, 1999 was 15,658,501.

**DOCUMENTS INCORPORATED BY REFERENCE**

The registrant's proxy statement for its 1999 annual meeting of shareholders is incorporated by reference into Part III of this report.



## PART I

### ITEM 1. BUSINESS

#### General

Consumer Portfolio Services, Inc. ("CPS," and together with its subsidiaries, the "Company") is a consumer finance company specializing in the business of purchasing, selling and servicing retail automobile installment contracts ("Contracts") originated by licensed motor vehicle dealers ("Dealers") in the sale of new and used automobiles, light trucks and passenger vans. Through its purchases, the Company provides indirect financing to Dealer customers with limited credit histories, low incomes or past credit problems ("Sub-Prime Customers"). The Company serves as an alternative source of financing for Dealers, allowing sales to customers who otherwise might not be able to obtain financing. The Company does not lend money directly to consumers. Rather, it purchases installment Contracts from Dealers.

The Company has various wholly owned and partially owned subsidiaries. The wholly owned subsidiaries include CPS Marketing, Inc., Alton Receivables Corp. ("Alton"), CPS Receivables Corp. ("CPSRC"), CPS Funding Corp. ("CPSFC") and CPS Warehouse Corp. ("CPSWC"). Alton, CPSRC, CPSFC and CPSWC are limited purpose corporations formed to accommodate the structures under which the Company purchases and sells its Contracts. CPS Marketing, Inc. employs marketing representatives who solicit business from Dealers. The Company's partially owned subsidiaries include Samco Acceptance Corp., Linc Acceptance Company, LLC, and CPS Leasing, Inc., each of which is 80% owned by the Company.

CPS was incorporated and began its operations in 1991. From inception through December 31, 1998 the Company has purchased approximately \$2.4 billion of Contracts, and as of December 31, 1998, had an outstanding servicing portfolio of approximately \$1.5 billion. The Company makes the decision to purchase Contracts exclusively from its headquarters location. It obtains the funds for such purchases primarily by reselling the Contracts in securitization transactions. The Company services the Contracts from two regional centers, one in its California headquarters, and the other in Virginia.

Prior to December 11, 1995, the Company was a majority-owned subsidiary of CPS Holdings, Inc., a Delaware corporation ("Holdings"). In September 1995, the shareholders of the Company approved the merger of Holdings into the Company. The merger was completed on December 11, 1995, and had no effect on the Company's consolidated financial statements. Prior to the merger, Charles E. Bradley, Sr., the Company's Chairman of the Board, was the principal shareholder of Holdings.

#### The Market We Serve

The Company's automobile financing programs are designed to serve customers who generally would not qualify for automobile financing from traditional sources, such as commercial banks, credit unions and the captive finance companies affiliated with major automobile manufacturers. Such customers ("Sub-Prime Customers") generally have limited credit histories, low incomes or past credit problems, and are therefore often unable to obtain credit from traditional sources of automobile financing. (The terms "prime" and "sub-prime" reflect the Company's categorization of customers and bear no relationship to the prime rate of interest or persons who are able to borrow at that rate.) Because the Company serves customers who are unable to meet the credit standards imposed by most traditional automobile financing sources, the Company generally receives interest at rates higher than those charged by traditional automobile financing sources. The Company also expects to sustain a higher level of credit losses than traditional automobile financing sources since the Company provides financing in a relatively high risk market.

## Marketing

The Company directs its marketing efforts to Dealers, rather than to consumers. As of December 31, 1998, the Company was a party to its standard form dealer agreements ("Dealer Agreements") with 4,547 Dealers. Approximately 93.0% of these Dealers are franchised new car dealers that sell both new and used cars and the remainder are independent used car dealers. For the year ended December 31, 1998, approximately 92.0% of the Contracts purchased by the Company consisted of financing for used cars and the remaining 8.0% for new cars.

The Company establishes relationships with Dealers through Company representatives who contact a prospective Dealer to explain the Company's Contract purchase programs, and who and thereafter provide Dealer training and support services. As of December 31, 1998, the Company had 72 representatives, 69 of whom are employees and 3 of whom are independent. The representatives are contractually obligated to represent the Company's financing program exclusively. The Company's representatives present the Dealer with a marketing package, which includes the Company's promotional material containing the terms offered by the Company for the purchase of Contracts, a copy of the Company's standard-form Dealer Agreement, examples of monthly reports and required documentation relating to Contracts. Marketing representatives have no authority relating to the decision to purchase Contracts from Dealers. The Company's acceptance of a Dealer is subject to its analysis of, among other things, the Dealer's operating history.

Most of the Dealers under contract with CPS regularly submit Contracts to the Company for purchase, although they are under no obligation to submit any Contracts to the Company, nor is the Company obligated to purchase any Contracts. During the year ended December 31, 1998, no Dealer accounted for more than 1.0% of the total number of Contracts purchased by the Company. The following table sets forth the geographical sources of the Contracts purchased by the Company (based on the addresses of the customers as stated on the Company's records) during the years ended December 31, 1998 and December 31, 1997:

	Contracts Purchased During Year Ended			
	December 31, 1998		December 31, 1997	
	Number	Percent	Number	Percent
California	13,960	16.7%	9,035	18.1%
Florida	5,832	7.0%	3,404	6.8%
North Carolina	5,304	6.3%	1,613	3.2%
Texas	5,193	6.2%	3,649	7.3%
Alabama	4,707	5.6%	2,070	4.1%
Louisiana	4,355	5.2%	3,142	6.3%
Pennsylvania	4,239	5.1%	3,622	7.2%
Michigan	4,119	4.9%	1,954	3.9%
Illinois	3,808	4.6%	2,413	4.8%
Tennessee	2,997	3.6%	2,012	4.0%
Georgia	2,738	3.3%	1,503	3.0%
New York	2,690	3.2%	2,941	5.9%
South Carolina	2,152	2.6%	715	1.4%
Maryland	1,859	2.2%	1,586	3.2%
Ohio	1,768	2.1%	992	2.0%
Hawaii	1,585	1.9%	867	1.7%
Other States	16,261	19.5%	8,545	17.1%
Total	83,567		50,063	

As discussed in greater detail below (see "Management's Discussion and Analysis of Financial Condition and Results of Operation - Liquidity and Capital Resources"), the Company has recently elected to conserve capital by materially reducing its Contract purchase activities. In connection with this decision, the Company has reduced the number of its marketing representatives to 48, as of April 10, 1999, and as of that

date was purchasing Contracts in 23 states. Dealers in such states under contract with the Company totaled 2,837 as of April 10, 1999.

### Origination of Contracts

**Dealer Origination.** When a retail automobile buyer elects to obtain financing from a Dealer, the Dealer takes a credit application to submit to its financing sources. Typically, a Dealer will submit the buyer's application to more than one financing source for review. The Company believes the Dealer's decision to finance the automobile purchase with the Company, rather than other financing sources, is based primarily upon an analysis of the monthly payment that will be offered to the automobile buyer, the discounted purchase price offered for the Contract, the timeliness, consistency and predictability of response, the cash resources of the financing source, and any conditions to purchase.

Upon receipt of an application from a Dealer, the Company's administrative personnel order a credit report to document the buyer's credit history. If, upon review by a Company loan officer, it is determined that the application meets the Company's underwriting criteria, or would meet such criteria with modification, the Company requests and reviews further information and supporting documentation and, ultimately, decides whether to purchase the Contract. When presented with an application, the Company attempts to notify the Dealer within four hours as to whether it intends to purchase such Contract.

The actual agreement for purchase of the vehicle ("Contract") is prepared by the Dealer. The Dealer also arranges for recording the Company's lien on the vehicle. After the appropriate documents are signed by the Dealer and the customer, the Dealer sells the Contract to the Company. The customer then receives monthly billing statements.

Through December 1996, the Company had purchased Contracts from Dealers at percentage discounts ranging from 0% to 10% of the total amount financed under the Contracts, depending on the perceived credit risk of the Contract, plus a flat acquisition fee, generally \$200, for each Contract purchased. Percentage discounts averaged 4.1% and 2.8% for the years ended December 31, 1995 and 1996, respectively. The Company believes that the level of discounts and fees are a significant factor in the Dealer's decision to submit a Contract to the Company for purchase, and will continue to play such a role in the future. Effective January 10, 1997, the Company began purchasing Contracts in general without a percentage discount, charging Dealers only an acquisition fee ranging from zero to \$1,195 for each Contract purchased. The fees vary based on the perceived credit risk and, in some cases, the interest rate on the Contract. The acquisition fees instituted in January 1997 are larger, on average, than the acquisition fees previously charged in conjunction with percentage discounts, so as to result in a similar net purchase price on a typical Contract. For the years ended December 31, 1998 and 1997, the average amount charged per Contract purchased was \$418 and \$438, respectively, or 3.2% and 3.5%, respectively, of the amount financed. In addition, during 1998 the Company began purchasing certain Contracts of higher credit quality for which the Company pays a fee to the Dealer. During 1998, the Company purchased 1,583 of these Contracts representing approximately 1.9% of all Contracts purchased. The average fee paid to Dealers on these Contracts was \$531.

The Company attempts to control misrepresentation regarding the customer's credit worthiness by carefully screening the Contracts it purchases, by establishing and maintaining professional business relationships with Dealers, and by including certain representations and warranties by the Dealer in the Dealer Agreement. Pursuant to the Dealer Agreement, the Company may require the Dealer to repurchase any Contract in the event that the Dealer breaches its representations or warranties. There can be no assurance, however, that any Dealer will have the financial resources to satisfy its repurchase obligations to the Company.

**Objective Contract Purchase Criteria.** To be eligible for purchase by the Company, a Contract must have been originated by a Dealer that has entered into a Dealer Agreement to sell Contracts to the Company. The Contracts must be secured by a first priority lien on a new or used automobile, light truck or passenger van and must meet the Company's underwriting criteria. In addition, each Contract requires the customer to maintain physical damage insurance covering the financed vehicle and naming the Company as a loss payee. The Company or any purchaser of the Contract from the Company may, nonetheless, suffer a loss upon theft or physical damage of any financed vehicle if the customer fails to maintain insurance as required by the Contract and is unable to pay for repairs to or replacement of the vehicle or is otherwise unable to fulfill his or her obligations under the Contract.

The Company believes that its objective underwriting criteria enable it to evaluate effectively the creditworthiness of Sub-Prime Customers and the adequacy of the financed vehicle as security for a Contract. These criteria include standards for price; term; amount of down payment, installment payment and add-on interest rate; mileage, age and type of vehicle; principal amount of the Contract in relation to the value of the vehicle; customer income level, job and residence stability, credit history and debt serviceability; and other factors. Specifically, the Company's guidelines limit the maximum principal amount of a purchased Contract to 115% of wholesale book value in the case of used vehicles or to 110% of the manufacturer's invoice in the case of new vehicles, plus, in each case, sales tax, licensing and, when the customer purchases such additional items, a service contract or a credit life or disability policy. The Company does not finance vehicles that are more than eight model years old or have in excess of 85,000 miles. Under most CPS programs, the maximum term of a purchased Contract is 60 months; a shorter maximum term may be applied based on the year and mileage of the vehicle, and contracts with terms up to 72 months may be purchased if the customer is among the more creditworthy of CPS' obligors. Contract purchase criteria are subject to change from time to time as circumstances may warrant. Upon receiving this information with the customer's application, the Company's underwriters verify the customer's employment, residency, insurance and credit information provided by the customer by contacting various parties noted on the customer's application, credit information bureaus and other sources.

**Credit Scoring.** In November 1996, the Company implemented a proprietary scoring model that assigns each Contract a numeric value, (a "credit score") at the time the application is received from the Dealer and the customer's credit information is retrieved from the credit reporting agencies. The credit score is based on a variety of parameters, such as the customer's job and residence stability, the amount of the down payment, and the age and mileage of the vehicle. The Company has developed the credit score as a means of identifying Contracts where a review by a supervisor or manager, prior to approval, is warranted. Regardless of the credit score a Contract originally receives, the Company's underwriters perform the same extensive review and verification procedures on all Contracts that are purchased. During 1998, the Company made significant enhancements to its scoring model. These enhancements included incorporating more of the obligor's past credit history.

**Characteristics of Contracts.** All of the Contracts purchased by the Company are fully amortizing and provide for level payments over the term of the Contract. The average original principal amount financed under Contracts purchased in the year ended December 31, 1998 was approximately \$12,903 with an average original term of approximately 57 months and an average down payment of 14.6%. Based on information contained in customer applications, for this twelve-month period, the retail purchase price of the related automobiles averaged \$13,202 (which excludes tax and license fees, and any additional costs such as a maintenance contract), the average age of the vehicle at the time the Contract was purchased was 3.5 years, and the Company's average customer at the time of purchase was approximately 36 years old, with approximately \$35,227 in average annual household income and an average of 4.4 years' history with his or her current employer.

All Contracts may be prepaid at any time without penalty. In the event a customer elects to prepay a Contract in full, the payoff amount is calculated by deducting the unearned interest from the Contract balance, in the case of a pre-computed Contract, or by adding accrued interest to the Contract balance, in the case of a simple interest Contract.

Each Contract purchased by the Company prohibits the sale or transfer of the financed vehicle without the Company's consent and allows for the acceleration of the maturity of a Contract upon a sale or transfer without such consent. In most circumstances, the Company will not consent to a sale or transfer of a financed vehicle unless the related Contract is prepaid in full.

**Dealer Compliance.** The Dealer Agreement and related assignment contain representations and warranties by the Dealer that an application for state registration of each financed vehicle, naming the Company as secured party with respect to the vehicle, was effected at the time of sale of the related Contract to the Company, and that all necessary steps have been taken to obtain a perfected first priority security interest in each financed vehicle in favor of the Company under the laws of the state in which the financed vehicle is registered. If a Dealer or the Company, because of clerical error or otherwise, has failed to take such action in a timely manner, or to maintain such interest with respect to a financed vehicle, neither the Company nor any purchaser of the related Contract from the Company would have a perfected security interest in the financed vehicle and its security interest may be subordinate to the interest of, among others, subsequent purchasers of the financed vehicle, holders of perfected security interests and a trustee in bankruptcy of the customer. The security interest of the Company or the purchaser of a Contract may also be subordinate to the interests of third parties if the interest is not perfected due to administrative error by state recording officials. Moreover, fraud or forgery by the customer could render a Contract unenforceable against third parties. In such events, the Company could suffer a loss with respect to the related Contract. In the event the Company suffers such a loss, it will generally have recourse against the Dealer from which it purchased the Contract. This recourse will be unsecured, and there can be no assurance that any Dealer will have the financial resources to satisfy its repurchase obligations to the Company.

#### Servicing of Contracts

**General.** The Company's servicing activities consist of collecting, accounting for and posting of all payments received; responding to customer inquiries; taking all necessary action to maintain the security interest granted in the financed vehicle or other collateral; investigating delinquencies; communicating with the customer to obtain timely payments; repossessing and reselling the collateral when necessary; and generally monitoring each Contract and any related collateral.

**Collection Procedures.** The Company believes that its ability to monitor performance and collect payments owed from Sub-Prime Customers is primarily a function of its collection approach and support systems. The Company believes that if payment problems are identified early and the Company's collection staff works closely with customers to address these problems, it is possible to correct many of them before they deteriorate further. To this end, the Company utilizes pro-active collection procedures, which include making early and frequent contact with delinquent customers; educating customers as to the importance of maintaining good credit; and employing a consultative and customer service approach to assist the customer in meeting his or her obligations, which includes attempting to identify the underlying causes of delinquency and cure them whenever possible. In support of its collection activities, the Company maintains a computerized collection system specifically designed to service automobile installment sale contracts with Sub-Prime Customers and similar consumer obligations.

With the aid of its high penetration auto dialer, the Company typically attempts to make telephonic contact with delinquent customers on the sixth day after their monthly payment due date. Using coded instructions from a collection supervisor, the automatic dialer will attempt to contact customers based on their physical

location, state of delinquency, size of balance or other parameters. If the automatic dialer obtains a "no-answer" or a busy signal, it records the attempt on the customer's record and moves on to the next call. If a live voice answers the automatic dialer's call, the call is transferred to a waiting collector at the same time that the customer's pertinent information is simultaneously displayed on the collector's workstation. The collector then inquires of the customer the reason for the delinquency and when the Company can expect to receive the payment. The collector will attempt to get the customer to make a promise for the delinquent payment for a time generally not to exceed one week from the date of the call. If the customer makes such a promise, the account is routed to a pending queue and is not contacted until the outcome of the promise is known. If the payment is made by the promise date and the account is no longer delinquent, the account is routed out of the collection system. If the payment is not made, or if the payment is made, but the account remains delinquent, the account is returned to the automatic dialing queue for subsequent contacts.

If a customer fails to make or keep promises for payments, or if the customer is uncooperative or attempts to evade contact or hide the vehicle, a supervisor will review the collection activity relating to the account to determine if repossession of the vehicle is warranted. Generally, such a decision will occur between the 45th and 90th day past the customer's payment due date, but could occur sooner or later, depending on the specific circumstances.

If CPS elects to repossess the vehicle, it assigns the task to an independent local repossession service. Such services are licensed and/or bonded as required by law. When the vehicle is recovered, the reposessor delivers it to a wholesale auto auction, where it is kept until sold, usually within 30 days of the repossession. The UCC and other state laws regulate repossession sales by requiring that the secured party provide the customer with reasonable notice of the date, time and place of any public sale of the collateral, the date after which any private sale of the collateral may be held and of the customer's right to redeem the financed vehicle prior to any such sale and by providing that any such sale be conducted in a commercially reasonable manner. Financed vehicles repossessed generally are resold by the Company through unaffiliated wholesale automobile networks or auctions, which are attended principally by used car dealers. Net liquidation proceeds are applied to the customer's outstanding obligation under the Contract.

Under the UCC and other laws applicable in most states (including California), a creditor is entitled to obtain a deficiency judgment from a customer for any deficiency on repossession and resale of the motor vehicle securing the unpaid balance of such customer's Contract. However, some states impose prohibitions or limitations on deficiency judgments. When obtained, deficiency judgements are entered against defaulting individuals who may have little capital or income. Therefore, in many cases, it may not be useful to seek a deficiency judgment against a customer or, if one is obtained, it may be settled at a significant discount.



## Credit Experience

The Company's financial results are dependent on the performance of the Contracts it has purchased. The tables below document the delinquency, repossession and net credit loss experience of all Contracts purchased by the Company:

### DELINQUENCY EXPERIENCE (1)

	As of December 31,					
	1998		1997		1996	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
Gross servicing portfolio.....	141,396	\$1,674,417	83,414	\$1,031,573	47,187	\$604,092
Period of delinquency (2)						
31-60 days.....	4,202	48,324	3,092	36,609	1,801	22,099
61-90 days.....	1,869	22,335	1,243	15,303	724	9,068
91+ days.....	1,694	20,096	1,393	17,869	768	9,906
Total delinquencies(2).....	7,765	90,755	5,728	69,781	3,293	41,073
Amount in repossession (3).....	2,961	32,772	1,977	24,463	1,168	14,563
Total delinquencies and amount in repossession (2).....	10,726	\$123,527	7,705	\$94,244	4,461	\$55,636
Delinquencies as a percent of gross servicing portfolio.....	5.5%	5.4%	6.9%	6.8%	7.0%	6.8%
Total delinquencies and amount in repossession as a percent of gross servicing portfolio.....	7.6%	7.4%	9.2%	9.1%	9.5%	9.2%

(1) All amounts and percentages are based on the full amount remaining to be repaid on each Contract, including, for pre-computed Contracts, any unearned finance charges. The information in the table represents the principal amount of all Contracts purchased by the Company, including Contracts subsequently sold by the Company, which it continues to service.

(2) The Company considers a 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. 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)

	Year Ended December 31,		
	----- (Dollars in thousands) -----		
	1998	1997	1996
Average servicing portfolio outstanding....	\$1,300,519	\$703,100	\$397,430
Net charge-offs as a percent of average servicing portfolio (2).....	6.5%	5.9%	5.1%

(1) All amounts and percentages are based on the principal amount scheduled to be paid on each Contract. The information in the table represents all Contracts purchased by the Company including Contracts subsequently sold by the Company that it continues to service.

(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).

### Securitization and Sale of Contracts to Institutional Investors

The Company purchases Contracts with the primary intention of reselling them to investors as asset-backed securities through securitizations. In connection with the sale of the Contracts, the Company is required to make certain representations and warranties, which are generally similar to the representations and warranties made by Dealers in connection with the Company's purchase of the Contracts. If the Company breaches any of its representations or warranties to a purchaser of the Contracts, the Company will be obligated to repurchase the Contract from such purchaser at a price equal to such purchaser's purchase price less the related cash securitization reserve and any payments received by such purchaser on the Contract. The Company may then be entitled under the terms of its Dealer Agreement to require the selling Dealer to repurchase the Contract at a price equal to the Company's purchase price, less any payments made by the customer. Subject to any recourse against Dealers, the Company will bear the risk of loss on repossession and resale of vehicles under Contracts repurchased by it.

Upon the sale of a portfolio of Contracts, to an investor or a trust, the Company mails to obligors monthly billing statements directing them to mail payments on the Contracts to a lock-box account. The Company engages an independent lock-box processing agent to retrieve and process payments received in the lock-box account. This results in a daily deposit to the investor's or the Trust's bank account of the entire amount of each day's lock-box receipts and the simultaneous electronic data transfer to the Company of customer payment data records. Pursuant to the Servicing Agreements, the Company is required to deliver monthly reports to the investor or the Trust reflecting all transaction activity with respect to the Contracts. The reports contain, among other information, a reconciliation of the change in the aggregate principal balance of the Contracts in the portfolio to the amounts deposited into the investor's or the Trust's bank account as reflected in the daily reports of the lock-box processing agent.

Pursuant to its securitization purchase commitments, the Company generally warrants that, to the best of the Company's knowledge, no such liens or claims are pending or threatened with respect to a financed vehicle, which may be or become prior to or equal with the lien of the related Contracts. In the event that any of the Company's representations or warranties proves to be incorrect, the Trust or the investor would be entitled to require the Company to repurchase the Contract relating to such financed vehicle.

## The Servicing Portfolio

The Company currently services all Contracts that it owns, as well as those Contracts included in portfolios that it has sold to investors or securitization trusts. Pursuant to the Company's usual form of servicing agreement (the Company's servicing agreements with purchasers of portfolios of Contracts are collectively referred to as the "Servicing Agreements"), CPS is obligated to service all Contracts sold to the investors or Trusts in accordance with the Company's standard procedures. The Servicing Agreements generally provide that the Company will bear all costs and expenses incurred in connection with the management, administration and collection of the Contracts serviced. The Servicing Agreements also provide that the Company will take all actions necessary or reasonably requested by the investor to maintain perfection and priority of the investor's or the Trust's security interest in the financed vehicles. CPS may in the future sell Contracts "servicing - released," that is, with the purchaser assuming the future servicing of the purchased Contracts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

The Company is entitled under most of the Servicing Agreements to receive a base monthly servicing fee of 2.0% per annum computed as a percentage of the declining outstanding principal balance of the non-defaulted Contracts in the portfolio. Each month, after payment of the Company's base monthly servicing fee and certain other fees, the investor or trust receives the paid principal reduction of the Contracts in its portfolios and interest thereon at the fixed rate that was agreed when the Contracts were sold to the Trust. If, in any month, collections on the Contracts are insufficient to pay such amounts and any principal reduction due to charge-offs, the shortfall is satisfied from the "Spread Account" established in connection with the sale of the portfolio. The "Spread Account" is an account established at the time the Company sells a portfolio of Contracts, to provide security to the purchaser of the portfolio. If collections on the Contracts exceed such amounts, the excess is utilized, first, to build up or replenish the Spread Account to the extent required, next, to cover deficiencies in Spread Accounts for other portfolios, and the balance, if any, constitutes excess cash flows, which are distributed to the Company. The Company has not received any such distributions since June 1998. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources." The Servicing Agreements also provide that the Company is entitled to receive certain late fees collected from customers.

Pursuant to the Servicing Agreements, the Company is generally required to charge off the balance of any Contract by the earlier of the end of the month in which the Contract becomes five scheduled installments past due or, in the case of repossessions, the month that the proceeds from the liquidation of the financed vehicle are received by the Company. In the case of a repossession, the amount of the charge-off is the difference between the outstanding principal balance of the defaulted Contract and the net repossession sale proceeds. In the event collections on the Contracts are not sufficient to pay to the investors the entire principal balance of Contracts charged off during the month, the trustee draws on the related Spread Account to pay the investors. The amount drawn would then have to be restored to the Spread Account from future collections on the Contracts remaining in the portfolio before the Company would again be entitled to receive excess cash. In addition, the Company would not be entitled to receive any further monthly servicing fees with respect to the defaulted Contracts. Subject to any recourse against the Company in the event of a breach of the Company's representations and warranties with respect to any Contracts and after any recourse to any insurer guarantees backing the Certificates, the investor bears the risk of all charge-offs on the Contracts in excess of the Spread Account. The investors' rights with respect to distributions from the Trusts are senior to the Company's rights. Accordingly, variation in performance of pools of Contracts affects the Company's ultimate realization of value derived from such Contracts.

The Servicing Agreements are terminable by the trust (or by the insurer of certificates issued by the trust) in the event of certain defaults by the Company and under certain other circumstances. As of December 31, 1998, 7 of the Company's 22 securitized pools had incurred cumulative losses exceeding certain predetermined levels, which in turn has

given the insurer the right to terminate the Servicing Agreements. To date, the insurer has waived its right to terminate the Servicing Agreements.

## Competition

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

The Company believes that the principal competitive factors affecting a Dealer's decision to offer Contracts for sale to a particular financing source are the monthly payments made available to the vehicle purchaser, the purchase price offered for the Contracts, the reasonableness of the financing source's underwriting guidelines and documentation requests, the predictability and timeliness of purchases and the financial stability of the funding source. The Company believes that it can obtain from Dealers sufficient Contracts for purchase at attractive prices by consistently applying reasonable underwriting criteria and making timely purchases of qualifying Contracts.

## Government Regulation

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

Although the Company believes that it is currently in material compliance with applicable statutes and regulations, there can be no assurance that the Company will be able to maintain such compliance. The

failure to comply with such statutes and regulations could have a material adverse effect upon the Company. Furthermore, the adoption of additional statutes and regulations, changes in the interpretation and enforcement of current statutes and regulations or the expansion of the Company's business into jurisdictions that have adopted more stringent regulatory requirements than those in which the Company currently conducts business could have a material adverse effect upon the Company. In addition, due to the consumer-oriented nature of the industry in which the Company operates and the application of certain laws and regulations, industry participants are regularly named as defendants in litigation involving alleged violations of Federal and state laws and regulations and consumer law torts, including fraud. Many of these actions involve alleged violations of consumer protection laws. A significant judgment against the Company or within the industry in connection with any such litigation could have a material adverse effect on the Company's financial condition, results of operations or liquidity. See "Legal Proceedings."

#### Alternative Marketing Programs

From 1996 through 1998, the Company invested in an 80 percent-owned subsidiary, Samco Acceptance Corporation ("Samco"), which pursued a business strategy of purchasing Contracts from independent finance companies that had in turn purchased the Contracts from Dealers. The Contracts purchased from Samco showed consistently higher losses than Contracts purchased by CPS directly from Dealers. In December 1998, the Company ceased further investments in Samco, and terminated all operations during the first quarter of 1999. The Company believes that any credit losses related to Samco-originated Contracts have been adequately reserved for, and that no material losses will result from Samco's terminated operations.

For the year ended December 31, 1998, Samco purchased 5,337 Contracts with original balances aggregating \$64.3 million. During the first quarter of 1999, the Company terminated all operations of Samco in conjunction with the Company's plan to reduce the level of Contract purchases and thus to decrease future capital requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

In May 1996, CPS formed LINC Acceptance Corp. ("LINC"), an 80 percent-owned subsidiary based in Norwalk, Connecticut. LINC provides the Company's sub-prime auto finance products to credit unions, banks and savings and loans ("Depository Institutions"). The Company believes that Depository Institutions do not generally make loans to Sub-Prime Customers, even though they may have relationships with Dealers and have Sub-Prime Customers.

LINC calls on various Depository Institutions and presents them with a financing program that is similar to those that CPS markets directly to Dealers through its marketing representatives. The LINC program is intended to result in a slightly more creditworthy customer than the Company's regular programs, by requiring slightly higher income and lower debt-to-income ratios. LINC's customers may offer its financing program to customers directly or to local Dealers. Unlike Samco, which has employees who evaluate applications and make decisions to purchase Contracts, LINC applications are submitted by the Depository Institution directly to CPS, where the approval, underwriting and purchase procedures are performed by CPS staff who work with LINC as well as with CPS Dealers. Servicing and collection procedures on LINC Contracts are performed entirely by the Company's collections personnel. For the year ended December 31, 1998, LINC purchased 1,813 Contracts with original balances aggregating \$24.3 million. CPS intends to terminate the separate operations of LINC during the second quarter of 1999. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

## Employees

As of December 31, 1998, the Company had 666 full-time and 2 part-time employees, of whom 11 are senior management personnel, 316 are collections personnel, 152 are Contract origination personnel, 81 are marketing personnel (72 of whom are marketing representatives), 81 are operations and systems personnel, and 27 are accounting and human resource personnel. The Company believes that its relations with its employees are good. The Company is not a party to any collective bargaining agreement.

## **ITEM 2. PROPERTY**

The Company's headquarters are located in Irvine, California, where it leases approximately 115,000 square feet of general office space from an unaffiliated lessor. The annual rent is approximately \$1.9 million for the first five years of the lease term, and increases to \$2.1 million for years six through ten. The Company has the option to cancel the lease after five years without penalty. In addition to the foregoing base rent, the Company has agreed to pay the property taxes, maintenance and other expenses of the premises. Prior to November 1998, the Company's headquarters were located in a different facility of approximately 51,400 square feet, also in Irvine, California. The Company has subleased its former headquarters location, on terms that should yield immaterial sublease income through the remainder of that lease.

The Company in March 1997 established a branch collection facility in Chesapeake, Virginia. The Company leases approximately 27,988 square feet of general office space in Chesapeake, Virginia at a base rent that is currently \$401,628 per year, increasing to \$504,545 over a ten-year term.

## **ITEM 3. LEGAL PROCEEDINGS**

CPS is party to litigation in the ordinary course of business, generally involving actions against automobile purchasers to collect amounts due on purchased Contracts or to recover vehicles. In one such case, relating to the Chapter 13 bankruptcy of obligors Madeline and Darryl Brownlee, of Chicago, Illinois, the obligors counterclaimed against CPS on June 30, 1997 in the bankruptcy court for the Northern District of Illinois. The obligors seek class-action treatment of their allegation that the cost of an extended service contract on the automobile they purchased was inadequately disclosed by the automobile dealer, Joe Cotton Ford of Carol Stream, Illinois. The disclosure allegedly violated the federal Truth in Lending Act and Illinois consumer protection statutes. The plaintiffs amended their complaint in September 1998, dropping all Truth in Lending allegations against CPS. The court in February 1999, dismissed all remaining claims against CPS. The case remains pending against the dealer, and there is a remote chance that a possible appeal could result in a reinstatement of claims against the Company.

In another proceeding, arising out of efforts to collect a deficiency balance from Joseph Barrios of Chicago, Illinois, the debtor has brought suit against CPS alleging defects in the notice given upon repossession of the vehicle. This lawsuit was filed on February 18, 1998, in the circuit court of Cook County, Illinois and sought relief for a punitive class of persons who have received such notice. A settlement of this litigation has been reached on a class basis, which does not involve material expense.

It is management's opinion that all litigation of which it is aware, including the matters discussed above, will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

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

Not applicable.

#### **ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT**

Information regarding the Company's executive officers follows:

Charles E. Bradley, Jr., 39, has been the President and a director of the Company since its formation in March 1991. In January 1992, Mr. Bradley was appointed Chief Executive Officer of the Company. From March 1991 until December 1995 he served as Vice President and a director of CPS Holdings, Inc. From April 1989 to November 1990, he served as Chief Operating Officer of Barnard and Company, a private investment firm. From September 1987 to March 1989, Mr. Bradley, Jr. was an associate of The Harding Group, a private investment banking firm. Mr. Bradley, Jr. is currently serving as a director of NAB Asset Corporation, Chatwins Group, Inc., Texon Energy Corporation, and Thomas Nix Distributor, Inc. Charles E. Bradley, Sr., Chairman of the board of directors of the Company, is his father.

Jeffrey P. Fritz, 39, has been Senior Vice President - Chief Financial Officer and Secretary of the Company since March 1991. From December 1988 to March 1991, Mr. Fritz was Vice President and Chief Financial Officer of Far Western Bank. From 1985 to December 1988, Mr. Fritz was a management consultant for Price Waterhouse in St. Louis, Missouri.

William L. Brummund, Jr., 46, has been Senior Vice President - Systems Administration since March 1991. From 1986 to March 1991, Mr. Brummund was Vice President and Systems Administrator for Far Western Bank.

Nicholas P. Brockman, 54, has been Senior Vice President - Asset Recovery & Liquidation since January 1996. He was Senior Vice President of Contract Originations from April 1991 to January 1996. From 1986 to March 1991, Mr. Brockman served as a Vice President and Branch Manager of Far Western Bank.

Richard P. Trotter, 55, has been Senior Vice President-Contract Origination since January 1996. He was Senior Vice President of Administration from April 1995 to December 1995. From January 1994 to April 1995 he was Senior Vice President-Marketing of the Company. From December 1992 to January 1994, Mr. Trotter was Executive Vice President of Lange Financial Corporation, Newport Beach, California. From May 1992 to December 1992, he was Executive Director of Fabozzi, Prenovost & Normandin, Santa Ana, California. From December 1990 to May 1992 he was Executive Vice President/Chief Operating Officer of R. Thomas Ashley, Newport Beach, California. From April 1984 to December 1990, he was President/Chief Executive Officer of Far Western Bank, Tustin, California.

Curtis K. Powell, 42, has been Senior Vice President - Marketing of the Company since April 1995. He joined the Company in January 1993 as an independent marketing representative until being appointed Regional Vice President of Marketing for Southern California in November 1994. From June 1985 through January 1993, Mr. Powell was in the retail automobile sales and leasing business.

Mark A. Creatura, 39, has been Senior Vice President - General Counsel since October 1996. From October 1993 through October 1996, he was Vice President and General Counsel at Urethane Technologies, Inc., a polyurethane chemicals formulator. Mr. Creatura was previously engaged in the private practice of law with the Los Angeles law firm of Troy & Gould Professional Corporation, from October 1985 through October 1993.

Thurman Blizzard, 56, has been Senior Vice President - Collections since January 1998. The Company had previously engaged Mr. Blizzard as a consultant from October 1997 to December 1997 to provide recommendations to the Company concerning its collections operation. Prior thereto, Mr. Blizzard served as Chief Operations Officer of Monaco Finance from May 1994 to March 1997. Mr. Blizzard was previously an Asset Liquidation Manager with the Resolution Trust Corporation, from November 1991 to May 1994.

## PART II

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the Nasdaq National Market System, under the symbol "CPSS." The following table sets forth the high and low closing prices reported for the Common Stock for the periods. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission.

	High	Low
	-----	-----
January 1 - March 31, 1997.....	\$ 13.875	\$ 7.375
April 1 - June 30, 1997.....	12.375	7.000
July 1 - September 30, 1997.....	18.250	10.500
October 1 - December 31, 1997.....	17.750	7.500
January 1-March 31, 1998.....	12.750	9.000
April 1-June 30, 1998.....	15.063	10.000
July 1-September 30, 1998.....	12.875	1.813
October 1-December 31, 1998.....	5.125	2.000

As of April 13, 1999, there were 69 holders of record of the Company's Common Stock. To date, the Company has not declared or paid any dividends on its Common Stock. The payment of future dividends, if any, on the Company's Common Stock is within the discretion of the Board of Directors and will depend upon the Company's earnings, its capital requirements and financial condition, and other relevant factors. The instruments governing the Company's outstanding debt place certain restrictions on the payment of dividends. The Company does not intend to declare any dividends on its Common Stock in the foreseeable future, but instead intends to retain any earnings for use in the Company's operations.



## ITEM 6. SELECTED FINANCIAL DATA

	Year ended December 31,			Nine-Month Period Ended December 31,	Fiscal Year Ended March 31,
	1998	1997	1996	1995	1995
	(in thousands, except per share data)				
STATEMENT OF INCOME DATA:					
Gain on sale of Contracts, net ....	\$ 58,306	\$ 35,045	\$ 20,565	\$ 10,721	\$ 8,922
Interest income.....	41,841	23,526	19,980	9,220	10,561
Servicing fees.....	25,156	14,487	7,893	3,485	2,489
Total revenue.....	126,280	75,251	48,438	23,426	21,972
Operating expenses .....	81,960	43,292	24,746	10,769	10,825
Net income.....	\$ 25,703	\$ 18,532	\$ 14,097	\$ 7,575	\$ 6,666
Basic earnings per share (1).....	\$ 1.67	\$ 1.29	\$ 1.05	\$ 0.65	\$ 0.75
Diluted net earnings per share (1).	\$ 1.50	\$ 1.17	\$ 0.93	\$ 0.52	\$ 0.61

	December 31,				March 31,	
	1998	1997	1996	1995	1995	1994
	(in thousands)					
BALANCE SHEET DATA:						
Contracts held for sale.....	\$ 165,582	\$ 68,271	\$ 21,657	\$ 19,549	\$ 21,896	\$ 647
Residual interest in securitizations.....	217,848	124,616	67,252	41,586	5,154	2,294
Total assets.....	431,962	225,895	101,946	77,878	57,975	16,538
Total liabilities.....	312,881	143,288	44,989	36,397	30,981	6,337
Total shareholders' equity.....	\$ 119,081	\$ 82,607	\$ 56,957	\$ 41,481	\$ 26,994	\$ 10,201

(1) All prior periods have been restated in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share."

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following analysis of the financial condition of the Company should be read in conjunction with "Selected Financial Data" and the Company's Consolidated Financial Statements and the Notes thereto and the other financial data included elsewhere in this report.

### **Overview**

Consumer Portfolio Services, Inc. (the "Company") and its subsidiaries primarily engage in the business of purchasing, selling and servicing retail automobile installment sale contracts ("Contracts") originated by automobile dealers ("Dealers") located throughout the United States. Through its purchase of Contracts, the Company provides indirect financing to Dealer customers with limited credit histories, low incomes or past credit problems, who generally would not be expected to qualify for financing provided by banks or by automobile manufacturers' captive finance companies.

The Company generates revenue primarily from the gains recognized on the sale or securitization of its Contracts, servicing fees earned on Contracts sold, and interest earned on Residuals (as defined below) and on Contracts held for sale. Revenues from gains on sale, interest and servicing fees for the year ended December 31, 1998, were \$58.3 million, \$41.8 million, and \$25.2 million, respectively. Such revenues for the year ended December 31, 1997, were \$35.0 million, \$23.5 million, and \$14.5 million, respectively, and for the year ended December 31, 1996, such revenues were \$20.6 million, \$20.0 million and \$7.9 million, respectively. The Company's income is affected by losses incurred on Contracts, whether such Contracts are held for sale or have been sold in securitizations. The Company's cash requirements have been and will continue to be significant. Net cash used in operating activities for the years ended December 31, 1998, 1997 and 1996, were \$71.1 million, \$26.1 million and \$8.4 million, respectively. See "Liquidity and Capital Resources."

The Company purchases Contracts with the primary intention of reselling them in securitization transactions as asset-backed securities. The securitizations are generally structured as follows: First, the Company sells a portfolio of Contracts to a wholly owned subsidiary ("SPS"), which has been established for the limited purpose of buying and reselling the Company's Contracts. The SPS then transfers the same Contracts to either a grantor trust or an owner trust (the "Trust"). The Trust in turn issues interest-bearing asset-backed securities (the "Certificates"), generally in an amount equal to the aggregate principal balance of the Contracts. The Company typically sells these Contracts to the Trust at face value and without recourse, except that representations and warranties similar to those provided by the Dealer to the Company are provided by the Company to the Trust. One or more investors purchase the Certificates issued by the Trust; the proceeds from the sale of the Certificates are then used to purchase the Contracts from the Company. The Company purchases a financial guaranty insurance policy, guaranteeing timely payment of principal and interest on the senior Certificates, from an insurance company (the "Certificate Insurer"). In addition, the Company provides a credit enhancement for the benefit of the Certificate Insurer and the investors in the form of an initial cash deposit to an account ("Spread Account") held by the Trust. The agreements governing the securitization transactions (collectively referred to as the "Servicing Agreements") require that the initial deposits to the Spread Accounts be supplemented by a portion of collections from the Contracts until the Spread Accounts reach specified levels, and then maintained at those levels. The specified levels are generally computed as a percentage of the principal amount remaining unpaid under the related Certificates. The specified levels at which the Spread Accounts are to be maintained will vary depending on the performance of the portfolios of Contracts held by the Trusts and on other conditions, and may also be varied by agreement among the Company, the SPS, the Certificate Insurer and the trustee. Such levels have increased and decreased from time to time based on performance of the portfolios, and have also been varied by agreement. The specified levels applicable to the Company's sold pools increased materially in 1998, and have recently been decreased, as is discussed under the heading "Liquidity and Capital Resources."

At the closing of each securitization, the Company removes from its consolidated balance sheet the Contracts held for sale and adds to its consolidated balance sheet (i) the cash received and (ii) the estimated

fair value of the ownership interest that the Company retains in the Contracts sold in the securitization. That retained interest (the "Residual") consists of (a) the cash held in the Spread Account and (b) the net interest receivables ("NIRs"). NIRs represent the estimated discounted cash flows to be received by the Trust in the future, net of principal and interest payable with respect to the Certificates, and certain expenses. The excess of the cash received and the assets retained by the Company over the carrying value of the Contracts sold, less transaction costs, equals the net gain on sale of Contracts recorded by the Company.

The Company allocates its basis in the Contracts between the Certificates and the Residuals retained based on the relative fair values of those portions on the date of the sale. The Company recognizes gains or losses attributable to the change in the fair value of the Residuals, which are recorded at estimated fair value and accounted for as "held-for-trading" securities. The Company is not aware of an active market for the purchase or sale of interests such as the Residuals, and accordingly, the Company determines the estimated fair value of the Residuals by discounting the amount and timing of anticipated cash flows released from the Spread Account (the cash out method), using a discount rate that the Company believes is appropriate for the risks involved. For that valuation, the Company has used an effective discount rate of approximately 14% per annum.

The Company receives periodic base servicing fees for the servicing and collection of the Contracts. In addition, the Company is entitled to the cash flows from the Residuals that represent collections on the Contracts in excess of the amounts required to pay principal and interest on the Certificates, the base servicing fees, and certain other fees (such as trustee and custodial fees). At the end of each collection period, the aggregate cash collections from the Contracts are allocated first to the base servicing fees and certain other fees such as trustee and custodial fees for the period, then to the Certificateholders for interest at the pass-through rate on the Certificates plus principal as defined in the Servicing Agreements. If the amount of cash required for the above allocations exceeds the amount collected during the collection period, the shortfall is drawn from the Spread Account. If the cash collected during the period exceeds the amount necessary for the above allocations, and there is no shortfall in the related Spread Account, the excess is released to the Company or in certain cases is transferred to other Spread Accounts that may be below their required levels. Pursuant to certain Servicing Agreements, excess cash collected during the period is used to make accelerated principal paydowns on certain Certificates to create excess collateral (over-collateralization or OC account). If the Spread Account balance is not at the required credit enhancement level, then the excess cash collected is retained in the Spread Account until the specified level is achieved. The cash in the Spread Accounts is restricted from use by the Company. Cash held in the various Spread Accounts is invested in high quality, liquid investment securities, as specified in the Servicing Agreements. Spread Account balances are held by the Trusts on behalf of the Company as the owner of the Residuals. Such balances are generally defined as percentages of the principal amount remaining unpaid on the balance.

The annual percentage rate ("APR") payable on the Contracts is significantly greater than the interest rate payable on the Certificates. Accordingly, the Residuals described above are a significant asset of the Company. In determining the value of the Residuals described above, the Company must estimate the future rates of prepayments, delinquencies, defaults and default loss severity as they affect the amount and timing of the estimated cash flows. The Company estimates prepayments by evaluating historical prepayment performance of comparable Contracts and the effect of trends in the industry. The Company has used a constant prepayment estimate of approximately 4% per annum. The Company estimates defaults and default loss severity using available historical loss data for comparable Contracts and the specific characteristics of the Contracts purchased by the Company. In valuing the residuals, the Company estimates that losses as a percentage of the original principal balance will total approximately 14% cumulatively over the lives of the related Contracts.

In future periods, the Company would recognize additional revenue from the Residuals if the actual performance of the Contracts were to be better than the original estimate, or the Company would increase the estimated fair value of the Residuals. If the actual performance of the Contracts were to be worse than the original estimate, then a downward adjustment to the carrying value of the Residuals would be required. Due

to the inherent uncertainty of the future performance of the underlying Contracts, the Company during 1998 established a provision for future losses on the Residuals.

## RESULTS OF OPERATIONS

### The Year Ended December 31, 1998 Compared to the Year Ended December 31, 1997

**Revenue.** During the year ended December 31, 1998, revenue increased \$51.0 million, or 67.8%, compared to the year ended December 31, 1997. Gain on sale of Contracts, net, increased by \$23.3 million, or 66.4%, and represented 46.2% of total revenue for the year ended December 31, 1998. The increase in gain on sale is largely due to the volume of Contracts which were sold in the period. During the year ended December 31, 1998, the Company sold \$948.3 million in Contracts, compared to \$573.3 million in the year ended December 31, 1997. For the years ended December 31, 1998 and 1997, \$3.5 million and \$4.1 million, respectively, of provision for losses on Contracts held for sale was charged against gain on sale. Due to the inherent uncertainty of the future performance of the underlying Contracts, the Company during 1998 established a provision for future losses on the Residuals in the amount of \$7.8 million that was charged against gain on sale.

Interest income increased by \$18.3 million, or 77.8%, representing 33.1% of total revenues for the year ended December 31, 1998. The increase is due to the increase in the volume of contracts purchased and held for sale. During the year ended December 31, 1998, the Company purchased \$1,076.5 million in Contracts from Dealers, compared to \$632.1 million in the year ended December 31, 1997. The Company expects that Contract purchases in the near future will be significantly reduced. Such a reduction in Contract purchases are expected to cause a reduction in revenues (both interest and gain on sale) in future periods. (See "Liquidity and Capital Resources").

Servicing fees increased by \$10.7 million, or 73.6%, and represented 19.9% of total revenue. The increase in servicing fees is due to the increase in Contract purchase, sale and servicing activities. As of December 31, 1998, the Company was earning servicing fees on 128,025 Contracts approximating \$1,362.8 million compared to 77,731 Contracts approximating \$830.9 million as of December 31, 1997. In addition to the \$1,362.8 million in sold Contracts on which servicing fees were earned, the Company was holding for sale and servicing an additional \$176.1 million in Contracts for an aggregate servicing portfolio of \$1,538.9 million. Amortization of NIRs increased by \$22.2 million and represented 104.9% of residual interest income for the year ended December 31, 1998, versus 59.0% for year ended December 31, 1997. The increase is due to higher losses on the servicing portfolio and the increase in the NIRs from 1997 to 1998.

**Expenses.** During the year ended December 31, 1998, operating expenses increased \$38.7 million, or 89.3%, compared to the year ended December 31, 1997. Employee costs increased by \$12.9 million, or 81.5%, and represented 35.2% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the Company's growth and certain increases in salaries of existing staff. In light of the Company's decision to reduce its level of Contract purchases, it anticipates reducing certain expenses in the immediate future, and maintaining such expenses at levels appropriate for the Company's level of activity in future periods. General and administrative expenses increased by \$6.5 million, or 45.7% and represented 25.2% of total operating expenses. Increases in general and administrative expenses included increases in telecommunications, stationary, credit reports and other related items as a result of increases in the volume of purchasing and servicing of Contracts.

Interest expense increased \$12.8 million, or 139.7%, and represented 26.9% of total operating expenses. The increase is due in part to the interest paid on an additional \$30.0 million in subordinated debt securities issued by the Company during 1998 as well as interest paid on the outstanding balance on a revolving line of credit (the "Residual Line"). Interest expense was also affected by the volume of Contracts held for sale as well as by the Company's cost of borrowed funds. (See "Liquidity and Capital Resources").

Marketing expenses increased by \$5.0 million or 272.7%, and represented 8.4% of total expenses. The increase is primarily due to the increase in printing, travel, promotion and convention expenses. Fees paid to

marketing representatives for their role in the submission of Contracts ultimately purchased by the Company are included as a component in gain on sale of Contracts, net.

Occupancy expenses increased by \$863,000 or 61.5%, and represented 2.8% of total expenses. Depreciation and amortization expenses increased by \$498,000 or 65.8%, and represented 1.5% of total expenses. In November 1998, the Company moved its headquarters to a new 115,000 square foot facility. The Company has agreed to lease the new headquarters facility for a ten-year term, with base rent of \$1.9 million for the first five years, and \$2.1 million for years six through ten. In addition to base rent, the Company has agreed to pay property taxes, maintenance, and other expenses of the property. Occupancy of the new building can be expected to increase the Company's overall occupancy expenses in the future beginning with commencement of the lease. The Company has subleased its former headquarters location.

The result for the year ended December 31, 1998, includes a net operating loss of \$1.1 million from the Company's subsidiary Samco. For the year ended December 31, 1997, Samco had net income of \$1.2 million. The Company terminated all operations of Samco during the first quarter of 1999.

The result for the year ended December 31, 1998, includes net income of \$1.2 million from the Company's subsidiary LINC. For the year ended December 31, 1997, LINC had a net operating loss of \$11,000. The Company intends to terminate the operations of LINC during the second quarter of 1999.

The result for the year ended December 31, 1998, includes net income of \$298,000 from the Company's subsidiary CPS Leasing, Inc. For the year ended December 31, 1997, CPS Leasing, Inc. had a net operating loss of \$88,000. The Company intends to sell CPS Leasing, Inc. during the second quarter of 1999.

The results for the years ended December 31, 1998 and 1997, include \$52,000 and \$849,000, respectively, in net income from the Company's investment in 38% of NAB Asset Corp.

The Company's effective tax rate was 42.0% for the years ended December 31, 1998 and 1997.

#### The Year Ended December 31, 1997 Compared to the Year Ended December 31, 1996

Revenue. During the year ended December 31, 1997, revenue increased \$26.8 million, or 55.4%, compared to the year ended December 31, 1996. Gain on sale of Contracts, net, increased by \$14.5 million, or 70.4%, and represented 46.6% of total revenue for the year ended December 31, 1997. The increase in gain on sale is largely due to the volume of Contracts which were sold in the period. During the year ended December 31, 1997, the Company sold \$573.3 million in Contracts, compared to \$341.0 million in the year ended December 31, 1996. For the years ended December 31, 1997 and 1996, \$4.1 million and \$2.8 million, respectively, of provision for losses on Contracts held for sale was charged against gain on sale.

Interest income increased by \$3.5 million, or 17.7%, representing 31.3% of total revenues for the year ended December 31, 1997. The increase is due to the increase in the volume of contracts purchased and held for sale. During the year ended December 31, 1997, the Company purchased \$632.1 million in Contracts from Dealers, compared to \$351.4 million in the year ended December 31, 1996.

Servicing fees increased by \$6.6 million, or 83.5%, and represented 19.3% of total revenue. The increase in servicing fees is due to the Company's continued expansion of its Contract purchase, sale and servicing activities. As of December 31, 1997, the Company was earning servicing fees on 77,731 Contracts approximating \$830.9 million compared to 45,363 Contracts approximating \$483.1 million as of December 31, 1996. In addition to the \$830.9 million in sold Contracts on which servicing fees were earned, the Company was holding for sale and servicing an additional \$71.8 million in Contracts for an aggregate servicing portfolio of \$902.7 million. Amortization of NIRs increased by \$7.2 million and represented 59.0% of residual interest income for the year ended December 31, 1997 versus 38.0% for year ended December 31, 1996. The increase is primarily due to the increase in the average age of the Contracts making up the Company's servicing portfolio and consequently the increase in charge-offs and corresponding reduction of residual interest income. The Company expects these increases in the ratio of amortization of NIRs to Residual interest income to continue until the size and average age of the servicing portfolio stabilizes.



Expenses. During the year ended December 31, 1997, operating expenses increased \$18.5 million, or 75.0%, compared to the year ended December 31, 1996. Employee costs increased by \$7.0 million, or 78.0%, and represented 36.7% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the Company's growth and certain increases in salaries of existing staff. General and administrative expenses increased by \$6.9 million, or 95.2% and represented 32.7% of total operating expenses. Increases in general and administrative expenses included increases in telecommunications, stationery, credit reports and other related items as a result of increases in the volume of purchasing and servicing of Contracts.

Interest expense increased \$3.4 million, or 58.9%, and represented 21.2% of total operating expenses. The increase is due in part to the interest paid on an additional \$35.0 million in subordinated debt securities issued by the Company during 1997. Interest expense was also impacted by the volume of Contracts held for sale as well as by the Company's cost of borrowed funds.

Marketing expenses increased by \$170,789 or 10.2%, and represented 4.3% of total expenses. The increase is primarily due to the increase in printing, travel, promotion and convention expenses. Fees paid to marketing representatives for their role in the submission of Contracts ultimately purchased by the Company are included as a component in gain on sale of Contracts, net.

Occupancy expenses increased by \$635,506 or 82.7%, and represented 3.2% of total expenses. Depreciation and amortization expenses increased by \$481,548 or 174.9%, and represented 1.8% of total expenses. During 1997, the Company established a satellite collection branch in Chesapeake, Virginia and leased additional office space near its headquarters in Irvine, California. This resulted in an increase in base rent expense of \$906,066 for the year ended December 31, 1997. The increase in occupancy, depreciation and amortization is due primarily to the establishment of this additional office space and the related furniture, fixtures and equipment. The Company has agreed to lease a new headquarters facility, which is currently under construction. The lease will be for a ten-year term, with base rent of \$1.9 million for the first five years, and \$2.1 million for years six through ten. In addition to base rent, the Company has agreed to pay property taxes, maintenance, and other expenses of the property. Occupancy of the new building can be expected to increase the Company's overall occupancy expenses in the future beginning with commencement of the lease, which will commence upon completion of the building, currently scheduled for September 1998.

The results for the year ended December 31, 1997 include net income of \$1.2 million from the Company's subsidiary Samco. For the year ended December 31, 1996, Samco incurred a net operating loss of \$491,000.

The results for the year ended December 31, 1997 also include net operating losses of \$11,000 from the Company's subsidiary LINC. For the year ended December 31, 1996, LINC incurred a net operating loss of \$324,000.

In addition, the Company's results for the year ended December 31, 1997, include \$88,000 in net operating losses from the Company's subsidiary, CPS Leasing, Inc., which was acquired in January 1997, and \$849,000 in net income from the Company's investment in 38% of NAB Asset Corp.

The Company's effective tax rate was 42.0% for the year ended December 31, 1997 and 40.5% for the year ended December 31, 1996. See note 12 to the Notes to Consolidated Financial Statements.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

The Company's business requires substantial cash to support its operating activities. The Company's primary sources of cash from operating activities are amounts borrowed under its various warehouse lines, servicing fees on portfolios of Contracts previously sold, proceeds from the sales of Contracts, customer payments on Contracts held for sale, interest earned on Contracts held for sale, and releases of cash from Spread Accounts. The Company's primary uses of cash are the purchases of Contracts, repayment of amounts borrowed under its various warehouse lines, operating expenses such as employee, interest, and occupancy expenses, the establishment of and further contributions to Spread Accounts and income taxes. As a result, the Company is dependent on its warehouse lines of credit and its residual financing facility in order to finance its continued operations. If the Company's principal lenders decided to terminate or not to renew any of these credit facilities with the Company, the loss of borrowing capacity would have a material adverse effect on the Company's results of operations unless the Company found a suitable alternative source.

Net cash used in operating activities was \$71.1 million during the year ended December 31, 1998, compared to net cash used of \$26.1 million during the year ended December 31, 1997. Cash used for purchasing Contracts was \$1,076.5 million, an increase of \$444.4 million, or 70.3%, over cash used for purchasing Contracts in the year ended December 31, 1997. Cash provided from the liquidation of Contracts was \$975.6 million, an increase of \$394.2 million, or 67.8%, over cash provided from liquidation of Contracts in the year ended December 31, 1997.

On a day-to-day basis, the Company funds its purchases of Contracts from Dealers by drawing on either of two warehouse lines of credit (collectively referred to as the "Warehouse Lines"), and pledges the purchased Contracts to one or the other warehouse lender. The amount borrowed under the Warehouse Lines increases until the Company sells the pledged Contracts in a securitization transaction, at which time the majority of the proceeds of the sale are used to pay down the related balance of the Warehouse Lines. Securitization transactions are typically completed on a quarterly basis. The amount of Contracts that the Company can hold for sale prior to a securitization is limited by its available cash and the Warehouse Lines, which permit borrowings of up to a maximum total of \$300.0 million.

The Company's cash requirements have been and will continue to be significant. The Company may borrow under the Warehouse Lines no more than an amount generally defined as a percentage ("advance rate") of the principal amount of the Contracts pledged to the respective warehouse lenders. The difference between what the Company may borrow and what it pays Dealers for Contracts must come from the Company's working capital.

Under one of the Company's two Warehouse Lines, an affiliate of First Union National Bank lends to the Company, with the loans funded by commercial paper issued by that affiliate, and secured by Contracts pledged periodically by the Company. The First Union line has a maximum lending amount of \$200.0 million. Under the Company's second warehouse line of credit, the Company borrows from General Electric Capital Corporation ("GECC"). The GECC line was entered into in November 1998, and replaced a prior line of credit arrangement under which an affiliate of GECC lent money to the Company in a structure similar to that of the First Union line. The GECC line has an aggregate maximum lending amount of \$100.0 million. The maximum amount outstanding under the GECC line or its predecessor line in 1998 was \$100.0 million and the average was \$51.3 million. Interest under the First Union line is at a variable rate, indexed to prevailing rates for commercial paper. Interest under the GECC line is payable at a rate of 3.75% per annum over LIBOR. The two lines together had an outstanding balance of \$151.9 million at December 31, 1998, as compared to \$61.7 million at December 31, 1997. The Company uses the two Warehouse Lines in tandem, pledging specific Contracts to each lender alternatively.



The amount of cash that the Company needs for daily operations is most heavily dependent on (i) its level of Contract purchases, and (ii) the amount that the Company may borrow under its Warehouse Lines, secured by the Contracts purchased. Over the three-year period 1996 through 1998, the Company's annual Contract purchases increased from \$351.4 million in 1996 to \$1,076.5 million in 1998. From January 1996 through November 1997, the Company was able to borrow, under the predecessor to the GECC Line, 97% of the principal amount of the Contracts purchased. The First Union Line allows the Company to borrow a varying percentage (not in excess of 95%) of Contract balances, depending on the performance of Contracts pledged to that lender. The advance rate under the First Union Line decreased during 1998 to an average of approximately 91% in the fourth quarter, and the Company has no expectation that it will be able to borrow a higher percentage with respect to Contracts pledged to the First Union Line in the immediate future. The GECC Line (entered into in November 1998) allows the Company to borrow no more than 88% of the principal amount of the pledged Contracts. The reduction in the relative advance rates under the Warehouse Lines, combined with the Company's increased Contract purchase activity in 1998 as compared with previous years, has materially increased the Company's working capital requirements.

When the Company subsequently sells the warehoused Contracts in securitization transactions, the Servicing Agreements require the Company to make a significant initial cash deposit, for purposes of credit enhancement, to the Spread Accounts. Excess cash flows from the securitized Contracts are also deposited into the Spread Accounts until such time as the Spread Account balance reaches its requisite level, which is computed as a specified percent of the outstanding balance of the related asset-backed securities or collateral.

During the year ended December 31, 1998, cash used for initial deposits to Spread Accounts was \$45.6 million, an increase of \$25.6 million, or 127.4%, from the amount of cash used for initial deposits to Spread Accounts in the year ended December 31, 1997. The cash used increased because (i) the Company sold more Contracts in 1998 than in 1997, and (ii) in order to achieve the desired ratings for the Certificates, the required percentage initial deposit was raised from 3.5% in the prior year's transactions to 8.0% in the transaction completed in the third quarter, with an additional credit enhancement of 2.0% over-collateralization. The Company subsequently reached an agreement, discussed below, that allowed a reduced initial cash deposit of 3.0% in the Company's fourth quarter 1998 securitization transaction. Cash used for subsequent deposits to Spread Accounts for the year ended December 31, 1998, was \$54.0 million, an increase of \$22.3 million, or 70.4%, over cash used for subsequent deposits to Spread Accounts in the year ended December 31, 1997. Such subsequent deposits into Spread Accounts in 1998 include \$22.2 million of cash used to pay down certain senior series of Certificates to create excess collateral in an over-collateralization account. Cash released from Spread Accounts for the year ended December 31, 1998, was \$16.1 million, an increase of \$229,000, or 1.5%, over cash released from Spread Accounts in the year ended December 31, 1997. Changes in deposits to and releases from Spread Accounts are affected by the relative size, seasoning and performance of the various pools of sold Contracts that make up the Company's Servicing Portfolio.

During 1998, 13 of the 22 Trusts incurred cumulative net losses as a percentage of the original contract balance in excess of the predetermined levels specified in the respective Servicing Agreements. Accordingly, pursuant to the Servicing Agreements, the specified credit enhancement levels were increased. As a result of this and certain cross collateralization arrangements, excess cash flows that would otherwise have been released to the Company were retained in the Spread Accounts to bring the balance of those Spread Accounts up to a higher level. In addition to requiring higher Spread Account levels, the Servicing Agreements provide the Certificate Insurer with certain other rights and remedies which have been waived on a monthly basis by the Certificate Insurer. Approximately \$24.3 million of cash flows were delayed and retained in the Spread Accounts as of December 31, 1998. The higher requisite Spread Account levels ranged from 30% to 100% of the related outstanding balance of the securitized pools. In April 1999, the Company entered into an amendment with the Certificate Insurer of the Company's asset-backed securities to cap the amount of cash retained in the Spread Accounts at 21% of the outstanding securities balance for 19 of the Company's 22 securitized pools. The agreement is subject to certain performance measures that may

result in an increase in the maximum level to 25% of the outstanding principal balance of the securities. The effectiveness of the amendment is contingent upon approval by holders of certain subordinated interests in several of the Trusts. As of March 31, 1999, the aggregate Spread Account balance of the related 19 securitized pools was 15.9% of the outstanding principal balance of the securities.

The Servicing Agreements call for the requisite levels of the various Spread Accounts to increase if the related receivables experience delinquencies, repossessions or net losses in excess of certain predetermined levels. During the Company's history, the predetermined levels have frequently been reached or exceeded, causing the requisite levels of certain Spread Accounts to be raised. During 1998, the requisite levels of the Spread Accounts were raised to the extent that the Company did not receive any releases of cash from the Spread Accounts subsequent to June 1998. The requisite levels of the Spread Accounts may be returned to the original lower levels if the delinquency, repossession and net loss performance of the related receivables is reduced below the pre-determined levels. In addition, on two occasions, the parties to the pertinent agreements have made modifications that effectively raised the permissible delinquency, repossession and net loss levels, thus resulting in Spread Accounts reverting to their original requisite levels. As of December 31, 1998, the Spread Accounts for 18 of the Company's 22 securitized pools had greater cash balances than original requisite levels would require due to delinquency, repossession or net loss performance of 13 of the 22 securitized pools. Such Spread Account balances therefore included approximately \$24.3 million more than would have been required at the original requisite levels. Funding such increased balances has materially increased the Company's capital requirements.

The Company did not sell any Contracts in the first quarter of 1999, and is currently evaluating alternative structures for selling its Contracts during the second quarter of 1999. Due to the absence of any gain on sale in the first quarter, the Company expects to report a loss for such quarter. Alternatives being considered by the Company include various securitization structures, unsecuritized sale of Contracts, or perhaps, some combination of those structures for future Contract sales. The Company expects that if an unsecuritized sale of Contracts is completed on a servicing released basis, a loss on sale of such Contracts would be incurred, which may result in the Company's reporting a loss for the second quarter. The Company has entered into a letter of intent regarding a proposed sale in the second quarter of up to \$300.0 million of Contracts on an unsecuritized basis, servicing-released. Such a sale would be at a price in excess of the blended warehouse line advance rates applicable to the Contracts to be sold, but slightly less than the Company's cost basis in such Contracts. Accordingly, such a transaction (as to which there can be no assurance) would result in the Company's (i) recording a loss on such sale, and (ii) receiving net cash. Recording such a loss may result in the Company reporting a loss for the second quarter. Cash received in such a transaction would be applied to meet in part the Company's liquidity and capital requirements identified herein. If the Company were to incur a loss for the second quarter of 1999 it would be in default under its agreements regarding the Residual Line. Unless waived by the lender, the default could result in acceleration of the indebtedness under the Residual Line and a cross default on the Warehouse Lines. The lender would receive any releases from Spread Accounts to retire outstanding principal and interest. The Company believes that the lender would waive such a default. In the event the lender does not waive the default, the Company believes that cash flows from operations would be sufficient to fund its obligations as they become due and payable. There can be no assurance, however, that the lender would waive the default or that other cash flows would be sufficient to fund the Company's operations.

The Company is also exploring additional financing possibilities, focusing on issuance of additional secured debt. Although such explorations have involved discussions with, and expressions of interest from, various investment banks, there can be no assurance that any such transactions will take place.

#### Capital Resources

The Company funds the increase in its servicing portfolio through off balance sheet securitization transactions, as discussed above, and funds its other capital needs with cash from operations and with the proceeds from the issuance of long-term debt and/or equity. During the year ended December 31, 1998, the Company completed four securitization transactions, borrowed \$33.0 million under a new revolving line of credit, issued \$25.0 million of subordinated debt, sold common stock to an affiliated party for \$5.0 million, and received \$5.0 million in loans from affiliated parties. The interest rate payable on the senior Certificates issued in the Company's 1998 securitization transactions ranged from 5.47% - 6.09%, as compared with 6.07% - 6.65% payable on the similar securities issued in 1997. The reduction in the rates payable is primarily due to reductions in rates payable on U.S. Treasuries of similar maturity.

The table below documents the Company's history of Contract securitizations, comprising sales to 25 securitization trusts.

Period Funded	Securitized Dollar Amount	Ratings(1)	Rating Agency	Pool Name
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	(In thousands)			
April 1993	\$4,990	A	Duff & Phelps	Alton Grantor Trust 1993-1
May 1993	3,933	A	Duff & Phelps	Alton Grantor Trust 1993-1
June 1993	3,467	A	Duff & Phelps	Alton Grantor Trust 1993-1
July 1993	5,575	A	Duff & Phelps	Alton Grantor Trust 1993-2
August 1993	3,336	A	Duff & Phelps	Alton Grantor Trust 1993-2
September 1993	3,578	A	Duff & Phelps	Alton Grantor Trust 1993-2
October 1993	1,921	A	Duff & Phelps	Alton Grantor Trust 1993-2
November 1993	1,816	A	Duff & Phelps	Alton Grantor Trust 1993-3
December 1993	6,694	A	Duff & Phelps	Alton Grantor Trust 1993-3
January 1994	1,998	A	Duff & Phelps	Alton Grantor Trust 1993-3
March 1994	20,787	A	Duff & Phelps	Alton Grantor Trust 1993-4
June 1994	24,592	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-1
September 1994	28,916	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-2
October 1994	13,136	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-3
December 1994	28,893	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-4
February 1995	20,084	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-1
June 1995	49,290	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-2
September 1995	45,009	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-3
September 1995	2,369	BB	S&P	CPS Auto Grantor Trust 1995-3
December 1995	53,634	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-4
December 1995	2,823	BB	S&P	CPS Auto Grantor Trust 1995-4
March 1996	63,747	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1996-1
March 1996	3,355	BB	S&P	CPS Auto Grantor Trust 1996-1
June 1996 (2)	84,456	Aaa/AAA	Moody's/S&P	Fasco Auto Grantor Trust 1996-1
June 1996	4,445	BB	S&P	Fasco Auto Grantor Trust 1996-1
September 1996	87,523	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1996-2
September 1996	4,606	BB	S&P	CPS Auto Grantor Trust 1996-2
December 1996	88,215	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1996-3
December 1996	4,643	BB	S&P	CPS Auto Grantor Trust 1996-3
March 1997	97,211	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1997-1
March 1997	5,116	BB	S&P	CPS Auto Grantor Trust 1997-1
May 1997	113,394	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1997-2
May 1997	5,968	BB	S&P	CPS Auto Grantor Trust 1997-2
August 1997	142,500	Aaa/AAA	Moody's/S&P	CPS Auto Receivables Trust 1997-3 (3)
August 1997	7,499	BB	S&P	CPS Auto Receivables Trust 1997-3 (3)
October 1997	100,568	Aaa/AAA	Moody's/S&P	CPS Auto Receivables Trust 1997-4 (3)
October 1997	5,293	BB	S&P	CPS Auto Receivables Trust 1997-4 (3)
December 1997	90,925	Aaa/AAA	Moody's/S&P	CPS Auto Receivables Trust 1997-5 (3)
December 1997	4,781	BB	S&P	CPS Auto Receivables Trust 1997-5 (3)
March 1998	177,607	Aaa/AAA	Moody's/S&P	CPS Grantor Trust 1998-1
March 1998	9,348	BB	S&P	CPS Grantor Trust 1998-1
May 1998	200,490	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1998-2
May 1998	10,552	BB	S&P	CPS Auto Grantor Trust 1998-2
July 1998 (4)	36,000	P-1/A-1+	Moody's/S&P	CPS Auto Receivables Trust 1998-3 (3)
July 1998	199,532	Aaa/AAA	Moody's/S&P	CPS Auto Receivables Trust 1998-3 (3)
December 1998	32,500	P-1/A-1+	Moody's/S&P	CPS Auto Receivables Trust 1998-4 (3)
December 1998	277,500	Aaa/AAA	Moody's/S&P	CPS Auto Receivables Trust 1998-4 (3)
TOTAL	2,184,615			

- (1) Commencing with the securitization completed on June 28, 1994, the principal and interest due on the asset-backed securities issued by the various trusts have been guaranteed by Financial Security Assurance Inc. ("FSA"), enabling the issuer to obtain Aaa/AAA or P-1/A-1+ ratings for the asset-backed securities issued in such transactions. See "Business -- Purchase and Sale of Contracts -- Securitization and Sale of Contracts to Institutional Investors."
- (2) Commencing with the securitization completed on June 27, 1996, asset-backed securities with Aaa/AAA or P-1/A-1+ ratings have been sold through public offerings pursuant to registration statements filed with the Securities and Exchange Commission.
- (3) These Trusts are structured as "owner trusts" rather than as "grantor trusts".
- (4) Commencing with the securitization completed on July 28, 1998, the Company began using a structure that included a guaranteed money market tranche of

asset-backed securities, rated P-1/A-1+.

In April 1998, the Company established a \$33.3 million Residual Line with State Street Bank and Trust Company, Prudential Insurance and an affiliate of Prudential. Borrowings under the Residual Line bear

interest at LIBOR + 4.0%, and are secured by all of the Company's assets, including its residual interest in securitizations. The Residual Line is a revolving facility for one year, after which it converts into a loan with a maximum term of four years, due and payable earlier if and to the extent that the Company has "available cash," as defined in the Residual Line.

Due to the Company's continuing purchases of Contracts and the need to fund Spread Accounts when those Contracts are sold in securitization transactions, the Company has a continuing need for capital. The amount of capital required is most heavily dependent on the rate of the Company's Contract purchases, the required level of initial Spread Account deposits, and the extent to which the Spread Accounts either release cash to the Company or capture cash from collections on sold Contracts. As noted above, the absence of any releases of cash from Spread Accounts since June 1998, together with the reduction in advance rates available to the Company under its Warehouse Lines, has materially increased the Company's capital requirements. To reduce its capital requirements and to meet those requirements, the Company has begun to implement a three-part plan: the plan includes (i) issuance of debt and equity securities, (ii) agreements with the Certificate Insurer to reduce the level of initial Spread Account deposits, and to reduce the maximum levels of the Spread Accounts, and (iii) a reduction in the rate of Contract purchases.

As the first step in the plan, the Company in November 1998 issued \$25.0 million of subordinated promissory notes due November 30, 2003, to an affiliate of Levine Leichtman Capital Partners, Inc. ("LLCP"), and received the proceeds (net of fees and expenses) of approximately \$23.7 million. The Company also issued warrants to purchase up to 3,450,000 shares of common stock at \$3.00 per share, exercisable through November 30, 2005. The debt bears interest at 13.5% per annum, and may not be prepaid without penalty prior to November 1, 2002. Simultaneously with the consummation of that transaction, certain affiliates of the Company, who had lent the Company an aggregate of \$5.0 million on a short-term basis in August and September 1998, agreed to subordinate their indebtedness to the indebtedness in favor of LLCP, to extend the maturity of their debt until June 2004, and to reduce their interest rate from 15% to 12.5%. Such affiliates received in return the option to convert such debt into an aggregate of 1,666,667 shares of common stock at the rate of \$3.00 per share through maturity at June 30, 2004. The effective cost of this new capital is affected by the valuation of the warrant and the conversion option, but in all events represents a material increase in the cost of capital resources as compared with the Company's previous issuances of senior or subordinated debt, which are reviewed below. Additional capital will be required and the Company is exploring its alternatives to raise such capital of approximately \$15.0 million, which could include sale of debt or equity instruments. Any debt issued may involve some equity participation. The sale of any equity or convertible debt could be dilutive to existing stockholders. The terms of any such additional issuance have not been determined as of the date of this report, and there can be no assurance that any such transaction will occur.

Also in November 1998, as the second step in its plan, the Company reached an agreement with the Certificate Insurer regarding initial cash deposits. In this agreement, the Certificate Insurer has committed to insure asset-backed securities issued by the Trusts with respect to at least \$560.0 million of Contracts, while requiring an initial cash deposit of 3% of principal. The commitment is subject to underwriting criteria and

market conditions. Of the \$560.0 million committed, \$310.0 million was used in the Company's December 1998 securitization transaction. The Company expects to use the balance of that commitment in its next securitization transaction. The Company's agreement with the Certificate Insurer also required that the Company issue to the Certificate Insurer or its designee warrants to purchase common stock at \$3.00 per share, exercisable through the fifth anniversary of the warrant's issuance. Such warrants are exercisable with respect to 2,525,114 of the Company's common shares, subject to standard anti-dilution adjustments. In April 1999, the Company entered into an amendment with the Certificate Insurer to reduce and limit the maximum levels for the Spread Accounts of certain pools to 21% of the outstanding principal balance of the securities. The agreement is subject to certain performance measures that may result in an increase in the maximum level to 25% of the outstanding principal balance of the securities. The effectiveness of the amendment is contingent upon approval of certain subordinated Certificateholders.

As the third part of its plan, the Company reduced its planned level of Contract purchases initially to not more than \$200.0 million per quarter beginning in November 1998. In the first quarter of 1999, the Company purchased \$158.0 million of Contracts. Since such time, the Company has further reduced Contract purchases and expects to purchase less than \$100.0 million for the second quarter of 1999. Such reductions in Contract purchases will reduce materially the Company's capital requirements.

Over the three-year period ended December 31, 1998, the Company has increased its capitalization by issuing \$33.0 million of senior debt, an aggregate of \$65.0 million of subordinated debt (which is convertible into, or was issued with warrants to purchase, common stock), \$20.0 million of related party debt (\$15.0 million of which is partially convertible and \$5.0 million which is entirely convertible) and \$5.0 million of capital stock. The following review of the terms of such issuances shows that the cost of such capital increased materially in 1998:

In April 1997 the Company issued, in a public offering, \$20.0 million of subordinated partially convertible notes due 2004, which bear an interest rate of 10.50% per annum. These notes are convertible as to 25% of their principal amount into common stock of CPS at \$10.15 per share. In June 1997 the Company issued to a related party \$15.0 million of partially convertible notes due 2004. These notes are convertible as to 20% of their principal amount into common stock of CPS at \$11.25 per share. In April 1998, the Company borrowed \$33.0 million as a senior secured loan, which may commence amortization in April 1999. This loan bears interest at a rate equal to 4% of per annum over LIBOR (9.54% at December 31, 1998). CPS borrowed \$5.0 million from related parties in August and September 1998, the terms of which were renegotiated in November 1998, in connection with the issuance of \$25.0 million of subordinated notes to LLCPC, now restructured as described below. A related party also purchased \$5.0 million of Company common stock in July 1998, at \$11.275 per share.

The cost of capital has increased further in 1999. To meet a portion of its capital requirements, the Company on April 15, 1999, issued \$5.0 million in subordinated notes to LLCPC (the "New LLCPC Notes"). The notes bear interest at 14.5% per annum and include warrants to purchase 1,335,000 shares of the Company's common stock at \$0.01 per share. As part of the agreement to issue the New LLCPC Notes, the Company was required to restructure the terms of the \$25.0 subordinated promissory notes discussed above. Such restructuring included an increase in the interest rate from 13.5% to 14.5%, a reduction in the number of warrants issued to purchase the Company's common stock from 3,450,000 to 3,115,000, a waiver by LLCPC of certain defaults under the notes sold to LLCPC in November 1998, and a reduction in the exercise price of the warrants from \$3.00 per share to \$0.01 per share. Among the agreements entered into in connection with the issuance of the New LLCPC Notes are agreements by Stanwich Financial Services Corp. ("SFSC"), an affiliate of the chairman of the Company's board of directors, to purchase an additional \$15.0 million of notes, and of the Company to sell such notes. The terms of such notes are to be not less favorable to the Company than (i) those that would be available in a transaction with a non-affiliate, and (ii) those applicable to the New LLCPC Notes. Sale of such notes would likely therefore involve some degree of equity participation, which could be dilutive to other holders of the Company's common stock. SFSC's commitment in turn has been collateralized by certain assets pledged by the chairman of the Company's board of directors and the president of the Company. Additionally, the New LLCPC Notes have been personally guaranteed by the chairman of the Company's board of directors and the president of the Company.

## Forward-Looking Statements

The descriptions of the Company's business and activities set forth in this report and in other past and future reports and announcements by the Company may contain forward-looking statements and assumptions regarding the future activities and results of operations of the Company. Actual results may be adversely affected by various factors including the following: increases in unemployment or other changes in domestic economic conditions which adversely affect the sales of new and used automobiles and may result in increased delinquencies, foreclosures and losses on Contracts; adverse economic conditions in geographic areas in which the Company's business is concentrated; changes in interest rates, adverse changes in the market for securitized receivables pools, or a substantial lengthening of the Company's warehousing period, each of which could restrict the Company's ability to obtain cash for new Contract originations and purchases; increases in the amounts required to be set aside in Spread Accounts or to be expended for other forms of credit enhancement to support future securitizations; the reduction or unavailability of warehouse lines of credit which the Company uses to accumulate Contracts for securitization transactions; increased competition from other automobile finance sources; reduction in the number and amount of acceptable Contracts submitted to the Company by its automobile Dealer network; changes in government regulations affecting consumer credit; and other economic, financial and regulatory factors beyond the Company's control. A further discussion of factors that may cause actual results to differ, or may otherwise have an adverse effect on the Company's financial condition or results of operations, is contained in the exhibit to this report titled "cautionary statement," incorporated herein by this reference.

## New Accounting Pronouncements

The Company has adopted in 1998 and will adopt in future periods new accounting pronouncements. For information on how adoption has affected and will affect the Financial Statements, see Note 1 of Notes to Consolidated Financial Statements.

## Year 2000

Overview. The Year 2000 issue is predicated on the concept that some database files may contain date fields that will not support century functions and that some programs may not support century functions even if the date fields are present. With the change of millennium, the inability to properly process century functions may create halts or sort/calculation errors within programs that use century information in calculation and functions.

The Company predominantly uses accounting and installment loan application processing software against defined relational database files. Most financial software has long ago been forced to deal with a four byte date field due to long term maturity dates, bond yield calculations and mortgage amortization schedules. The



Company has been cognizant of Year 2000 considerations since late 1994, when contracts with maturity dates in the year 2000 were first purchased.

**Plan.** The Company's plan to assess the Year 2000 issue consists of a three-phase process. The first phase of the process, which has been completed, consisted of assessing all user programs of the Company's mainframe computer. Those user programs that were not compliant were either corrected or the necessary software patches have been identified and ordered. There were no critical user programs identified that could not be modified to be compliant. In addition, the Company's mainframe computer's operating system was also tested and was deemed to be compliant as well.

The second phase of the Company's testing will consist of testing all personal computers for compliance. The Company has engaged an outside specialist to facilitate testing and administering corrective procedures where needed. The Company estimates that phase two will be completed by June 30, 1999.

The third and final stage of testing consists of identifying key vendors of the Company's operations and requesting that those vendors complete a Year 2000 compliance questionnaire. Any vendors found to be non-compliant will be continuously monitored for progress towards compliance. The Company estimates this phase of testing will also be completed by June 30, 1999.

**Costs.** As the majority of the testing was performed internally by the Company's information systems department, the Company estimates the costs to complete all phases of testing, including any necessary modifications, to be insignificant to the results of operations.

At this time, the risks associated with the Company's Year 2000 issues, both internally and as related to third party business partners and suppliers are not completely known. Through the Company's plan of analysis and identification, it expects to identify substantially all of its Year 2000 related risks. Although the risks have not been completely identified, the Company believes that the most realistic worst case scenario would be that the Company would suffer from full or intermittent power outages at some or all of its locations. Depending upon the locations affected and estimated duration, this would entail recovery of the main application systems at other locations and or move to manual processes. Manual processes have been developed as part of the overall contingency plan. In relation to this, system data dumps are scheduled to take place prior to the millennium date change to ensure access to all Company mission critical data should any system not be accessible for any reason.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

### **Interest Rate Risk**

The Company's funding strategy is largely dependent upon issuing interest bearing asset-backed securities and incurring debt. Therefore, upward fluctuations in interest rates may adversely impact the Company's profitability, while downward fluctuations may improve the Company's profitability. The Company uses several strategies to minimize the risk of interest rate fluctuations, including offering only fixed rate contracts to obligors, regular sales of auto Contracts to the Trusts, and pre-funding securitizations, whereby the amount of asset-backed securities issued in a securitization exceeds the amount of Contracts initially sold to the Trusts. The proceeds from the pre-funded portion are held in an escrow account until the Company sells the additional Contracts to the Trust in amounts up to the balance of the pre-funded escrow account. In pre-funded securitizations, the Company locks in the borrowing costs with respect to the loans it subsequently delivers to the Trust. However, the Company incurs 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 asset-backed securities outstanding.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

This report includes Consolidated Financial Statements, Notes thereto and an Independent Auditors' Report, at the pages indicated below. Certain unaudited quarterly financial information is included in the Notes to Consolidated Financial Statements, as Note 18.

## **INDEX TO FINANCIAL STATEMENTS**

Independent Auditors' Report.....F-1  
Consolidated Balance Sheets as of December 31, 1998, and 1997.....F-2  
Consolidated Statements of Income for the years ended December 31, 1998, 1997, and 1996.....F-3  
Consolidated Statements of Shareholders' Equity for the years ended December 31,  
1998, 1997, and 1996.....F-4  
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997, and 1996.....F-5  
Notes to Consolidated Financial Statements for the years ended December 31, 1998, 1997, and 1996.....F-6

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS**

Information regarding directors of the registrant is incorporated by reference to the registrant's definitive proxy statement for its annual meeting of shareholders to be held in 1999 (the "1999 Proxy Statement"). The 1999 Proxy Statement will be filed not later than April 30, 1999. Information regarding executive officers of the registrant appears in Part I of this report, and is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

Incorporated by reference to the 1999 Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Incorporated by reference to the 1999 Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Incorporated by reference to the 1999 Proxy Statement.

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

The following exhibits are filed as part of this report:

- 3.1 Restated Articles of Incorporation (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated December 31, 1995)
- 3.2 Amended and Restated Bylaws. (incorporated by reference to exhibit filed with registrant's report on Form 10-K dated December 31, 1997)
- 4.1 Indenture re Rising Interest Subordinated Redeemable Securities ("RISRs") (incorporated by reference to exhibit filed with registrant's report on Form 8-K filed December 26, 1995)
- 4.2 First Supplemental Indenture re RISRs (incorporated by reference to exhibit filed with registrant's report on Form 8-K filed December 26, **1995**)
- 4.3 Form of Indenture re 10.50% Participating Equity Notes ("PENs") (incorporated by reference to exhibit filed with registrant's registration statement on Form S-3, no. 333-21289)
- 4.4 Form of First Supplemental Indenture re PENs (incorporated by reference to exhibit filed with registrant's registration statement on Form S-3, no. 333-21289)
- 10.1 1991 Stock Option Plan & forms of Option Agreements thereunder (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated March 31, 1994)
- 10.2 1997 Long-Term Incentive Stock Plan (incorporated by reference to exhibit filed with registrant's report on Form 10-K dated December 31, 1997)
- 10.3 Purchase Agreement relating to PENs. (incorporated by reference to exhibit filed with registrant's registration statement on Form S-3 no. **333-21289**)
- 10.4 Lease Agreement, First Amendment to Lease, Assignment and Assumption of Lease (incorporated by reference to exhibit filed with registrant's registration statement on Form S-1, no. 33-49770)
- 10.5 Amendment #2 to Lease Agreement, First Amendment to Lease and Assignment and Assumption of Lease. (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB, dated March 31, 1995)

- 10.6 Lease Agreement re Chesapeake Collection Facility. (incorporated by reference to exhibit filed with registrant's report on Form 10-K dated December 31, 1996)
- 10.7 Consulting Agreement. (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated December 31, 1995)
- 10.8 Agreement to Build and Lease Headquarters Building. (incorporated by reference to exhibit filed with registrant's report on Form 10-Q dated September 30, 1997)
- 10.9 Lease of Headquarters Building. (incorporated by reference to exhibit filed with registrant's report on Form 10-Q dated September 30, 1997)

- 10.10 Amended and Restated Motor Vehicle Installment Contract Loan and Security Agreement re Redwood Warehouse Line. (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated December 31, **1995**)
- 10.11 The Receivables Funding and Servicing Agreement re Redwood Warehouse Line. (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated December 31, 1995)
- 10.12 Partially Convertible Subordinated Note. (incorporated by reference to exhibit filed with registrant's report on Form 10-Q dated September 30, **1997**)
- 10.13 Registration Rights Agreement. (incorporated by reference to exhibit filed with registrant's report on Form 10-Q dated September 30, 1997)
- 10.14 Receivables Funding and Servicing Agreement relating to First Union Warehouse Line (incorporated by reference to exhibit filed with registrant's report on Form 10-K dated December 31, 1997)
- 10.14a Amendment dated July 17, 1998 to the Receivables Funding and Servicing Agreement relating to First Union Warehouse Line (incorporated by reference to exhibit filed with registrant's report on Form 10-Q filed August 14, 1998)
- 10.15 Receivables Transfer Agreement relating to First Union Warehouse Line (incorporated by reference to exhibit filed with registrant's report on Form 10-K dated December 31, 1997)
- 10.16 Residual Interest in Securitizations Revolving Credit and Term Loan Agreement dated as of April 30, 1998, between registrant and State Street Bank and Trust Company (incorporated by reference to exhibit filed with registrant's report on 10-Q filed 5/15/98)
- 10.16a Second Amendment Agreement dated November 17, 1998 re: State Street residual interest in Securitizations Revolving Credit and Term Loan Agreement (filed herewith)
- 10.17 Pledge and Security Agreement dated as of April 30, 1998, between the Company and State Street Bank and Trust Company (incorporated by reference to exhibit filed with registrant's report on Form 10-Q filed May 15, 1998)
- 10.18 Revolving Credit and Term Note dated April 30, 1998, (the "State Street Note") (incorporated by reference to exhibit filed with registrant's report on Form 10-Q filed May 15, 1998)
- 10.19 Subscription Agreement regarding shares issued in July 1998 (incorporated by reference to exhibit filed with registrant's report on Form 10-Q filed August 14, 1998)
- 10.20 Registration Rights Agreement regarding shares issued in July 1998 (incorporated by reference to exhibit filed with registrant's report on

Form 10-Q filed August 14, 1998)

- 10.21 Line of Credit Note Issued to Stanwich Financial Services Corp. (the "1998 Stanwich Note") (incorporated by reference to exhibit filed with registrant's report on Form 10-K filed March 3, 1998)
- 10.22 Amended and Restated Motor Vehicle Installment Contract Loan and Security Agreement (filed herewith)
- 10.23 FSA Warrant Agreement dated November 30, 1998 (filed herewith)
- 10.24 Securities Purchase Agreement dated November 17, 1998 (incorporated by reference to exhibit filed with the statement on Schedule 13D filed with respect to the registrant on November 25, 1988, by Levine Leichtman Capital Partners II L.P. and others (the "LLCP report"))

- 10.25 Senior Subordinated Primary Note dated November 17, 1998 (incorporated by reference to exhibit filed with the LLCP report)
- 10.26 Primary Warrant to purchase 3,450,000 shares of common stock dated November 17, 1998 (incorporated by reference to exhibit filed with the LLCP report)
- 10.27 Investor Rights Agreement dated November 17, 1998 (incorporated by reference to exhibit filed with the LLCP report)
- 10.28 Registration Rights Agreement dated as of November 17, 1998 (incorporated by reference to exhibit filed with the LLCP report)
- 10.29 Subordination Agreement dated as of November 17, 1998 re: Stanwich Note and Poole Note (filed herewith)
- 10.30 Consolidated Registration Rights Agreement dated November 17, 1998 re: 1997 Stanwich Notes (filed herewith)
- 23.1 Consent of independent auditors. (filed herewith)
- 27 Financial Data Schedule. (filed herewith)
- 99.1 Cautionary Statements.\*

\* To be filed by amendment

(b) REPORTS ON FORM 8-K

During the last quarter of the fiscal year ended December 1998, the Company filed ten reports on Form 8-K.

Five of the ten reports on Form 8-K were monthly servicing reports for several of the Company's trusts. The following five reports were monthly servicing reports for several securitization trusts sponsored by the Company: (i) report dated March 15, 1996 and filed October 1, 1998; (ii) report dated October 15, 1998 and filed October 30, 1998; (iii) report dated November 16, 1998 and filed November 17; (iv) report dated November 15 and filed November 25, 1998; and (v) report dated December 15, 1998 and filed December 28, 1998. These reports include monthly performance statements (which are not financial statements) of certain of the Company's securitization trusts.

Each of the remaining five reports on Form 8-K related to the Company's December 1998 securitization transaction. Three of these six reports were made pursuant to Item 7, as follows: (i) report dated November 16, 1998 and filed November 17, 1998; (ii) report dated and filed November 25, 1998; and (iii) report dated and filed December 1, 1998. The remaining two reports on Form 8-K were made pursuant to Items 5 and 7, as follows: (i) report dated December 4, 1998 and filed December 18, 1998; and (ii) report dated December 18, 1998 and filed December 31, 1998. None of the reports included financial statements.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONSUMER PORTFOLIO SERVICES, INC. April 15, 1999  
(Registrant)

By: /s/ Charles E. Bradley, Jr.

Charles E. Bradley, Jr.,  
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Charles E. Bradley, Sr. April 15, 1999

Charles E. Bradley, Sr.  
Chairman of the Board

By: /s/ Charles E. Bradley, Jr. April 15, 1999

Charles E. Bradley, Jr., Director,  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ William B. Roberts April 15, 1999

William B. Roberts, Director

By: /s/ John G. Poole April 15, 1999

John G. Poole, Director

By: /s/ Thomas L. Chrystie April 15, 1999

Thomas L. Chrystie, Director

By: /s/ Robert A. Simms April 15, 1999

Robert A. Simms, Director

By: /s/ Jeffrey P. Fritz April 15, 1999

Jeffrey P. Fritz, Chief Financial Officer  
(Principal Financial Officer)

By: /s/ James L. Stock April 15, 1999

James L. Stock, Controller  
(Principal Accounting Officer)



## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Consumer Portfolio Services, Inc.:

We have audited the accompanying consolidated balance sheets of Consumer Portfolio Services, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Consumer Portfolio Services, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

**KPMG LLP**

Orange County, California  
March 3, 1999, except as to  
notes 13, 16 and 17 to the  
consolidated financial statements,  
which are as of April 15, 1999.

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**PART I - FINANCIAL INFORMATION**

**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

	December 31, 1998	December 31, 1997
	-----	-----
<b>ASSETS</b>		
Cash	\$ 1,940	\$ 1,745
Restricted cash (note 2)	1,619	--
Contracts held for sale (note 3)	165,582	68,271
Servicing fees receivable	11,148	5,425
Residual interest in securitizations (note 4)	217,848	124,616
Furniture and equipment, net (note 8)	4,272	3,128
Taxes receivable (note 12)	--	1,528
Deferred financing costs (note 13)	2,817	1,840
Investment in unconsolidated affiliates (note 9)	4,145	3,892
Related party receivables (note 9)	3,268	7,295
Other assets (notes 9 and 10)	19,323	8,155
	-----	-----
	\$ 431,962	\$ 225,895
	=====	=====
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Accounts payable & accrued expenses	\$ 9,267	\$ 10,426
Warehouse lines of credit (note 13)	151,857	61,666
Taxes payable (note 12)	1,821	--
Deferred tax liability (note 12)	27,247	13,143
Capital lease obligations (note 11)	2,132	1,492
Notes payable (note 13)	2,557	1,506
Residual financing (note 13)	33,000	--
Subordinated debt (note 13)	65,000	40,000
Related party debt (note 9)	20,000	15,055
	-----	-----
	312,881	143,288
 <b>Shareholders' Equity (notes 10 and 13)</b>		
Preferred stock, \$1 par value; authorized 5,000,000 shares; none issued	--	--
Series A preferred stock, \$1 par value; authorized 5,000,000 shares; 3,415,000 shares issued; none outstanding	--	--
Common stock, no par value; authorized 30,000,000 shares; 15,658,501 and 15,210,042 shares issued and outstanding at December 31, 1998 and December 31, 1997, respectively	52,533	42,262
Notes receivable from exercise of options	--	(500)
Retained earnings	66,548	40,845
	-----	-----
	119,081	82,607
	-----	-----
Commitments and contingencies (notes 3,4,6,11 12,13,and 14)	\$ 431,962	\$ 225,895
	=====	=====

See accompanying notes to consolidated financial statements

**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(IN THOUSANDS, EXCEPT PER SHARE DATA)**

	Year Ended December 31,		
	1998	1997	1996
<b>Revenues:</b>			
Gain on sale of contracts, net (notes 3, 4 and 5)	\$ 58,306	\$ 35,045	\$ 20,565
Interest income (note 6)	41,841	23,526	19,980
Servicing fees	25,156	14,487	7,893
Other (note 9)	977	2,193	--
	-----	-----	-----
	126,280	75,251	48,438
	-----	-----	-----
<b>Expenses:</b>			
Employee costs	28,812	15,875	8,921
General and administrative (note 9)	20,618	14,147	7,247
Interest	22,019	9,185	5,780
Marketing	6,891	1,849	1,679
Occupancy	2,267	1,404	769
Depreciation and amortization	1,255	757	275
Related party consulting fees (note 9)	98	75	75
	-----	-----	-----
	81,960	43,292	24,746
	-----	-----	-----
Income before income taxes	44,320	31,959	23,692
Income taxes (note 12)	18,617	13,427	9,595
	-----	-----	-----
Net income	\$ 25,703	\$ 18,532	\$ 14,097
	=====	=====	=====
<b>Earnings per share (note 1):</b>			
Basic	\$ 1.67	\$ 1.29	\$ 1.05
Diluted	\$ 1.50	\$ 1.17	\$ 0.93
<b>Number of shares used in computing earnings per share (note 1):</b>			
Basic	15,412	14,332	13,489
Diluted	17,500	16,053	15,330

See accompanying notes to consolidated financial statements

**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**(IN THOUSANDS)**

	Series A Preferred Stock		Common Stock		Notes Receivable From Exercise of Options	Retained Earnings	Total
	Shares	Amount	Shares	Amount			
Balance at December 31, 1995	--	\$ --	13,299	\$ 33,265	\$ --	\$ 8,216	\$ 41,481
Common stock issued upon exercise of warrants (note 10)	--	--	86	259	--	--	259
Common stock issued upon exercise of options (note 10)	--	--	395	1,121	--	--	1,121
Net income	--	--	--	--	--	14,097	14,097
Balance at December 31, 1996	--	\$ --	13,780	\$ 34,645	\$ --	\$ 22,313	\$ 56,958
Common stock issued upon exercise of warrants (note 10)	--	--	14	42	--	--	42
Common stock issued upon exercise of options (note 10)	--	--	937	2,464	(500)	--	1,964
Common stock issued upon conversion of debt (note 13)	--	--	480	3,000	--	--	3,000
Income tax benefit from exercise of options (note 12)	--	--	--	2,111	--	--	2,111
Net income	--	--	--	--	--	18,532	18,532
Balance at December 31, 1997	--	\$ --	15,211	\$ 42,262	\$ (500)	\$ 40,845	\$ 82,607
Common stock issued upon exercise of options (note 10)	--	--	5	43	500	--	543
Common stock issued (note 9)	--	--	443	5,000	--	--	5,000
Valuation of warrants issued (note 13)	--	--	--	5,228	--	--	5,228
Net income	--	--	--	--	--	25,703	25,703
Balance at December 31, 1998	--	\$ --	15,659	\$ 52,533	\$ --	\$ 66,548	\$119,081

See accompanying notes to consolidated financial statements

**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(IN THOUSANDS)**

	Year Ended December 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net income	\$ 25,703	\$ 18,532	\$ 14,097
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	1,255	757	275
Amortization of NIRs	35,540	13,310	6,119
Amortization of deferred financing costs	356	268	157
Provision for credit losses	3,544	4,088	2,756
Provision for loss on NIRs	7,762	--	--
NIR gains recognized	(52,990)	(34,767)	(18,665)
Loss on sale of fixed asset	--	13	--
Gain on sale of subsidiary	(56)	--	--
(Gain) loss on investment in unconsolidated affiliates	(187)	(912)	595
Gain on redemption of related party preferred stock	--	(145)	--
Changes in operating assets and liabilities:			
Restricted cash	(1,619)	--	--
Purchases of contracts held for sale	(1,076,457)	(632,096)	(351,350)
Liquidation of contracts held for sale	975,602	581,394	346,486
Servicing fees receivable	(5,723)	(2,338)	(1,631)
Initial deposits to spread accounts	(45,623)	(20,064)	(12,270)
Deposits to spread accounts and overcollateralization accounts	(53,996)	(31,689)	(18,790)
Release of cash from spread accounts	16,075	15,846	17,941
Deferred tax liability	14,104	6,116	5,384
Other assets	(7,163)	(2,146)	(2,053)
Accounts payable and accrued expenses	(962)	8,269	355
Warehouse lines of credit	90,191	48,401	5,765
Taxes payable/receivable	3,509	1,032	(3,523)
Net cash used in operating activities	(71,135)	(26,131)	(8,352)
Cash flows from investing activities:			
Proceeds from sale of subordinated certificates	--	--	2,022
Related party receivables	(3,239)	(9,987)	(1,308)
Repayment of related party receivables	7,266	4,000	--
Purchase of related party preferred stock	--	(14,500)	--
Proceeds from sale of related party preferred stock	--	14,645	--
Investment in unconsolidated affiliate	(65)	(716)	(4,277)
Purchases of furniture and equipment	(1,308)	(1,032)	(358)
Payments received on subordinated certificates	--	--	152
Net cash from sale of subsidiary	382	--	--
Purchase of subsidiary, net of cash acquired	--	92	--
Net cash provided by (used in) investing activities	3,036	(7,498)	(3,769)
Cash flows from financing activities:			
Increase in residual financing	33,000	--	--
Issuance of related party debt	5,000	54,500	--
Issuance of subordinated debt	25,000	20,000	--
Issuance of notes payable	2,461	--	--
Repayment of capital lease obligations	(553)	(166)	--
Repayment of notes payable	(824)	(10)	--
Repayment of related party debt	--	(39,945)	--
Payment of financing costs	(1,333)	(1,165)	--
Issuance of common stock	5,000	--	--
Exercise of options and warrants	543	2,006	1,380
Net cash provided by financing activities	68,294	35,220	1,380
Increase (decrease) in cash	195	1,591	(10,741)
Cash at beginning of year	1,745	154	10,895
Cash at end of year	\$ 1,940	\$ 1,745	\$ 154
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ 21,542	\$ 8,476	\$ 5,214
Income taxes	\$ 1,013	\$ 6,204	\$ 6,679
Supplemental disclosure of non-cash investing and financing activities:			

Issuance of common stock upon conversion of debt	\$	--	\$	3,000	\$	--
Note receivable from exercise of options	\$	--	\$	500	\$	--
Income tax benefit from exercise of options	\$	--	\$	2,111	\$	--
Furniture and equipment acquired through capital leases	\$	1,193	\$	1,658	\$	--
Issuance of common stock warrants	\$	5,228	\$	--	\$	--
Purchase of CPS Leasing, Inc.						
Assets acquired	\$	--	\$	2,718	\$	--
Liabilities assumed		--		(2,638)		--
		-----		-----		-----
Cash paid to acquire business		--		80		--
Less: cash acquired		--		(172)		--
		-----		-----		-----
Net cash received upon acquisition	\$	--	\$	(92)	\$	--
		=====		=====		=====
Sale of PIC Leasing, Inc.						
Net assets sold	\$	706	\$	--	\$	--
Net assets retained		(155)		--		--
Gain on sale of subsidiary		56		--		--
		-----		-----		-----
Cash received from sale of subsidiary		607		--		--
Less: cash relinquished upon disposition		(225)		--		--
		-----		-----		-----
Net cash received from sale of subsidiary	\$	382	\$	--	\$	--
		=====		=====		=====

See accompanying notes to consolidated financial statements



**CONSUMER PORTFOLIO SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Business

Consumer Portfolio Services, Inc. ("CPS") was incorporated in California on March 8, 1991. CPS and its subsidiaries (collectively, the "Company") engage primarily in the business of purchasing, selling and servicing retail automobile installment sale contracts ("Contracts") originated by dealers located throughout the United States. The Company specializes in Contracts with obligors who generally would not be expected to qualify for traditional financing, such as that provided by commercial banks or automobile manufacturers' captive finance companies. The Company's headquarters and principal collection facilities are located in Irvine, California and a satellite collection facility is located in Chesapeake, Virginia. The Company has purchased Contracts from dealers in California since its inception. During the year ended December 31, 1998, Contract purchases relating to obligors who resided in California totaled 16.7% of all Contract purchases. Moreover, at December 31, 1998, obligors who resided in California made up 20.0% of the servicing portfolio of Contracts serviced by the Company. A significant adverse change in the economic climate in California or other states could result in fewer Contracts available for sale and potentially less revenue.

Principles of Consolidation

The consolidated financial statements include the accounts of Consumer Portfolio Services, Inc. and its wholly-owned subsidiaries, CPS Marketing, Inc., Alton Receivables Corp. ("Alton"), CPS Receivables Corp. ("CPSRC"), CPS Funding Corp. ("CPSFC") and CPS Warehouse Corp. ("CPSWC"). Alton, CPSRC, CPSFC and CPSWC are limited purpose corporations formed to accommodate the structures under which the Company purchases and sells its Contracts. CPS Marketing, Inc. employs marketing representatives who solicit business from dealers. The consolidated financial statements also include the accounts of Samco Acceptance Corp., LINC Acceptance Company, LLC, and CPS Leasing, Inc., which are 80% owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in unconsolidated affiliates that are not majority owned are reported using the equity method. The excess of the cost of the stock over the Company's share of the net assets at the acquisition date ("goodwill") is being amortized over a period of up to fifteen years.

Contracts Held for Sale

Contracts held for sale include automobile installment sales contracts on which interest is precomputed and added to the face of the loan. The interest on such contracts is included in unearned financed charges. Unearned financed charges are amortized using the interest method over the remaining period to contractual maturity. Contracts held for sale are stated at the lower of cost or market value. Market value is determined by purchase commitments from investors and prevailing market prices. Gains and losses are recorded as appropriate when Contracts are sold. The Company considers a transfer of Contracts where the Company surrenders control over the Contracts to be a sale to the extent that consideration other than beneficial interests in the transferred Contracts is received in exchange for the Contracts.

Allowance for Credit Losses

The Company estimates an allowance for credit losses, which management believes provides adequately for known and inherent losses that may develop in the Contracts held for sale. Provision for losses are charged to gain on sale of Contracts. Charge-offs, net of recoveries, are charged to the allowance. Management evaluates the adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio, the value of underlying collateral and general economic conditions and trends.

Contract Acquisition Fees and Discounts

Upon purchase of a Contract from a dealer, the Company generally charges the dealer an acquisition fee or purchases the Contract at a discount from its face value. The acquisition fees and discounts associated with Contract purchases are



**CONSUMER PORTFOLIO SERVICES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

deferred until the Contracts are sold, at which time the deferred acquisition fees or discounts are recognized as a component of the gain on sale.

#### Investments

The Company determines the appropriate classification of its investments in debt securities at the time of purchase or creation. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available for sale. Securities available for sale are carried at fair value, with unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity as accumulated other comprehensive income.

The amortized cost of debt securities classified as available for sale is adjusted for amortization of premiums and accretion of discounts, over the estimated life of the security. Such amortization and interest earned on the debt securities are included in interest income.

#### Residual Interest in Securitizations and Gain on Sale of Contracts

The Company purchases Contracts with the primary intention of reselling them in securitization transactions as asset-backed securities. The securitizations are generally structured as follows: First, the Company sells a portfolio of Contracts to a wholly owned subsidiary ("SPS"), which has been established for the limited purpose of buying and reselling the Company's Contracts. The SPS then transfers the same Contracts to either a grantor trust or an owner trust (the "Trust"). The Trust in turn issues interest-bearing asset-backed securities (the "Certificates"), generally in an amount equal to the aggregate principal balance of the Contracts. The Company typically sells these Contracts to the Trust at face value and without recourse, except that representations and warranties similar to those provided by the Dealer to the Company are provided by the Company to the Trust. One or more investors purchase the Certificates issued by the Trust; the proceeds from the sale of the Certificates are then used to purchase the Contracts from the Company. The Company purchases a financial guaranty insurance policy, guaranteeing timely payment of principal and interest on the senior Certificates, from an insurance company (the "Certificate Insurer"). In addition, the Company provides a credit enhancement for the benefit of the Certificate Insurer and the investors in the form of an initial cash deposit to an account ("Spread Account") held by the Trust. The agreements governing the securitization transactions (collectively referred to as the "Servicing Agreements") require that the initial deposits to the Spread Accounts be supplemented by a portion of collections from the Contracts until the Spread Accounts reach specified levels, and then maintained at those levels. The specified levels are generally computed as a percentage of the principal amount remaining unpaid under the related Certificates. The specified levels at which the Spread Accounts are to be maintained will vary depending on the performance of the portfolios of Contracts held by the Trusts and on other conditions, and may also be varied by agreement among the Company, the SPS, the Certificate Insurer and the trustee. Such levels have increased and decreased from time to time based on performance of the portfolios, and have also been varied by agreement. The specified levels applicable to the Company's sold pools increased materially in 1998 and have recently been decreased. See note 16 - "Liquidity".

At the closing of each securitization, the Company removes from its consolidated balance sheet the Contracts held for sale and adds to its consolidated balance sheet (i) the cash received and (ii) the estimated fair value of the ownership interest that the Company retains in Contracts sold in securitization. That retained interest (the "Residual") consists of (a) the cash held in the Spread Account and (b) the net interest receivables ("NIRs"). NIRs represent the estimated discounted cash flows to be received from the Trust in the future, net of principal and interest payable with respect to the Certificates, and certain expenses. The excess of the cash received and the assets retained by the Company over the carrying value of the Contracts sold, less transaction costs, equals the net gain on sale of Contracts recorded by the Company.

The Company allocates its basis in the Contracts between the Certificates and the Residuals retained based on the relative fair values of those portions on the date of the sale. The Company recognizes gains or losses attributable to the change in the fair value of the Residuals, which are recorded at estimated fair value and accounted for as "held-for-trading" securities. The Company is not aware of an active market for the purchase or sale of interests such as the



**CONSUMER PORTFOLIO SERVICES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Residuals, and accordingly, the Company determines the estimated fair value of the Residuals by discounting the amount and timing of anticipated cash flows released from the Spread Account (the cash out method), using a discount rate that the Company believes is appropriate for the risks involved. For that valuation, the Company has used an effective discount rate of approximately 14% per annum.

The Company receives periodic base servicing fees for the servicing and collection of the Contracts. In addition, the Company is entitled to the cash flows from the Residuals that represent collections on the Contracts in excess of the amounts required to pay principal and interest on the Certificates, the base servicing fees, and certain other fees (such as trustee and custodial fees). At the end of each collection period, the aggregate cash collections from the Contracts are allocated first to the base servicing fees and certain other fees such as trustee and custodial fees for the period, then to the Certificateholders for interest at the pass-through rate on the Certificates plus principal as defined in the Servicing Agreements. If the amount of cash required for the above allocations exceeds the amount collected during the collection period, the shortfall is drawn from the Spread Account. If the cash collected during the period exceeds the amount necessary for the above allocations, and there is no shortfall in the related Spread Account, the excess is released to the Company or in certain cases is transferred to other Spread Accounts that may be below their required levels. Pursuant to certain Servicing Agreements, excess cash collected during the period is used to make accelerated principal paydowns on certain Certificates to create excess collateral (over-collateralization or OC account). If the Spread Account balance is not at the required credit enhancement level, then the excess cash collected is retained in the Spread Account until the specified level is achieved. The cash in the Spread Accounts is restricted from use by the Company. Cash held in the various Spread Accounts is invested in high quality, liquid investment securities, as specified in the Servicing Agreements. Spread Account balances are held by the Trusts on behalf of the Company as the owner of the Residuals. Such balances are generally defined as percentages of the principal amount remaining unpaid on the balance.

The annual percentage rate ("APR") payable on the Contracts is significantly greater than the pass through rate on the Certificates. Accordingly, the Residuals described above are a significant asset of the Company. In determining the value of the Residuals described above, the Company must estimate the future rates of prepayments, delinquencies, defaults and default loss severity as they affect the amount and timing of the estimated cash flows. The Company estimates prepayments by evaluating historical prepayment performance of comparable Contracts and the effects of trends in the industry. The Company has used a constant prepayment estimate of approximately 4% per annum. The Company estimates defaults and default loss severity using available historical loss data for comparable Contracts and the specific characteristics of the Contracts purchased by the Company. In valuing the residuals, the Company estimates that losses as a percentage of the original principal balance will total approximately 14% cumulatively over the lives of the related Contracts.

In future periods, the Company would recognize additional revenue from the Residuals if the actual performance of the Contracts were to be better than the original estimate, or the Company would increase the estimated fair value of the Residuals. If the actual performance of the Contracts were to be worse than the original estimate, then a downward adjustment to the carrying value of the Residuals would be required. Due to the inherent uncertainty of the future performance of the underlying Contracts, the Company during 1998, established a provision for losses on the Residuals.

#### Servicing

Servicing fees are reported as income when earned. Servicing costs are charged to expense as incurred. Servicing fees receivable represent fees earned but not yet remitted to the Company by the trustee.

#### Furniture and Equipment

Furniture and equipment are stated at cost net of accumulated depreciation. The Company calculates depreciation using the straight-line method over the estimated useful lives of the assets which range from three to five years. Assets held under capital leases and leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the related lease terms.



**CONSUMER PORTFOLIO SERVICES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Earnings per Share

The following table illustrates the computation of basic and diluted earnings per share:

	Year ended December 31,		
	1998	1997	1996
	(in thousands, except per share data)		
Numerator:			
-----			
Numerator for basic earnings per share --			
net income .....	\$25,703	\$18,532	\$14,097
Interest on borrowings, net of tax effect on			
conversion of convertible subordinated debt ....	590	313	170
	-----	-----	-----
Numerator for diluted earnings per share .....	\$26,293	\$18,845	\$14,267
	=====	=====	=====
Denominator:			
-----			
Denominator for basic earnings per share --			
weighted average number of common shares			
outstanding during the year .....	15,412	14,332	13,489
Incremental common shares attributable to			
exercise of outstanding options and warrants .	881	1,212	1,361
Incremental common shares attributable to			
conversion of subordinated debt .....	1,207	509	480
	-----	-----	-----
Denominator for diluted earnings per share .....	17,500	16,053	15,330
	=====	=====	=====
Basic earnings per share .....	\$ 1.67	\$ 1.29	\$ 1.05
	=====	=====	=====
Diluted earnings per share .....	\$ 1.50	\$ 1.17	\$ 0.93
	=====	=====	=====

Income Taxes

The Company and its subsidiaries file a consolidated Federal income and combined state franchise tax returns. The Company utilizes the asset and liability method of accounting for income taxes, under which deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts 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.

Stock Split

Effective March 7, 1996, all outstanding shares of common stock were split two-for-one. All references in the consolidated financial statements to number of shares, per share amounts and market prices of the Company's common stock have been retroactively restated to reflect the increased number of common shares outstanding.

Stock Option Plan

As permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company accounts for stock-based employee compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. The Company provides the pro forma net income, pro forma earnings per share, and stock based compensation plan disclosure requirements set forth in SFAS No. 123.

#### Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company reviews identifiable intangibles, goodwill and other long-lived assets for impairment whenever events or circumstances indicate the carrying amounts may not be recoverable. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of an asset, an impairment loss is recognized.



**CONSUMER PORTFOLIO SERVICES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### Segment Reporting

The Company adopted, effective December 31, 1997, Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," ("SFAS No. 131"). SFAS No. 131 establishes standards for reporting financial and descriptive information about an enterprise's operating segments in its annual financial statements and selected segment information in interim financial reporting.

Operations are managed and financial performance is evaluated on a Company wide basis by chief decision makers. Accordingly, all of the Company's operations are considered by management to be aggregated in one reportable operating segment.

### New Accounting Pronouncements

In June 1998, the FASB issued Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in foreign operation, an unrecognized firm commitment, an available for sale security, or a foreign-currency-denominated forecasted transaction.

Under SFAS No. 133, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Management is in the process of assessing the effect of implementing SFAS No. 133, which is effective for all fiscal quarters of fiscal years beginning after June 15, 1999.

In October 1998, the FASB issued Statement of Financial Accounting Standards No. 134 ("SFAS No. 134"), "Accounting for Mortgage-Backed Securities after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise." SFAS No. 134 amends SFAS No. 65 to require that, after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities, classify, in accordance with the provisions of SFAS No. 115, the resulting mortgage-backed securities or other retained interests, based on its ability and intent to sell or hold those investments. However, a mortgage banking enterprise must classify as held for trading any retained mortgage-backed securities that it commits to sell before or during the securitization process. This Statement is effective for the first fiscal quarter beginning after December 15, 1998. Management does not anticipate the adoption of this statement will have a material affect on the Company's financial condition and results of operations.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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 credit losses, valuing the Residuals and computing the related gain on sale on the transactions that created the Residuals. Actual results could differ from those estimates depending on the future performance of the related Contracts.

### Reclassification

Certain amounts for the prior years have been reclassified to conform to the current year's presentation.

**CONSUMER PORTFOLIO SERVICES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**(2) RESTRICTED CASH**

Restricted cash in the amount of \$1.6 million is required as part of the agreement related to a \$33.3 million revolving line of credit established by the Company in April 1998 (see note 13). The agreement requires the Company to post a cash reserve equal to the greater of \$1.0 million or six months of interest based on the outstanding balance of the line at the end of the month. Borrowings under the revolving line bear interest at LIBOR + 4% (9.54% at December 31, 1998).

**(3) CONTRACTS HELD FOR SALE**

The following table presents the components of Contracts held for sale:

	December 31,	
	1998	1997
	(in thousands)	
Gross receivable balance .....	\$ 183,876	\$ 81,645
Unearned finance charges .....	(10,949)	(10,078)
Deferred acquisition fees and discounts .....	(4,594)	(1,092)
Allowance for credit losses .....	(2,751)	(2,204)
	-----	-----
	\$ 165,582	\$ 68,271
	=====	=====

The following table presents the activity in the allowance for credit losses:

	Year ended December 31,		
	1998	1997	1996
	(in thousands)		
Balance, beginning of year .....	\$ 2,204	\$ 723	\$ 330
Provisions .....	3,544	4,088	2,756
Charge-offs .....	(2,535)	(2,935)	(2,755)
Allowance allocated to repossessed inventory .....	(1,349)	(261)	--
Recoveries .....	887	589	392
	-----	-----	-----
Balance, end of year .....	\$ 2,751	\$ 2,204	\$ 723
	=====	=====	=====

The Company is required to represent and warrant certain matters with respect to the Contracts sold to investors, which generally duplicate the substance of the representations and warranties made by the dealers in connection with the Company's purchase of the Contracts. In the event of a breach by the Company of any representation or warranty, the Company is obligated to repurchase the Contracts from the investors at a price equal to the investors' purchase price less the related credit enhancement and any principal payments received from the obligor. In most cases, the Company would then be entitled under the terms of its agreements with dealers to require the selling dealer to repurchase the Contracts at the Company's purchase price less any principal payments received from the obligor.

As of December 31, 1998 and 1997, the Company had commitments to purchase \$2.3 million and \$3.8 million, respectively, of Contracts from Dealers in the ordinary course of business.



**CONSUMER PORTFOLIO SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(4) RESIDUAL INTEREST IN SECURITIZATIONS**

The following table presents the components of the residual interest in securitizations:

	December 31,	
	1998	1997
	-----	-----
	(in thousands)	
Cash, commercial paper, US government securities and other qualifying investments (Spread Account) .....	\$130,394	\$ 68,513
NIRs .....	54,800	45,112
OC accounts .....	31,836	9,621
Funds held by investor .....	480	579
Investment in subordinated certificates	338	791
	-----	-----
	\$217,848	\$124,616
	=====	=====

The following table presents the activity of the NIRs :

	Year ended December 31,		
	1998	1997	1996
	-----	-----	-----
	(in thousands)		
Balance, beginning of year ..	\$ 45,112	\$ 23,655	\$ 11,109
NIR gains recognized (note 5)	52,990	34,767	18,665
Amortization of NIRs (note 6)	(35,540)	(13,310)	(6,119)
Provision for loss on NIRs ..	(7,762)	--	--
	-----	-----	-----
Balance, end of year .....	\$ 54,800	\$ 45,112	\$ 23,655
	=====	=====	=====

The following table presents the estimated remaining undiscounted credit losses included in the fair value estimate of the Residuals as a percentage of the Company's servicing portfolio subject to recourse provisions:

	December 31,		
	1998	1997	1996
	-----	-----	-----
	(in thousands)		
Undiscounted estimated credit losses ...	\$ 169,110	\$ 90,814	\$ 45,881
Servicing subject to recourse provisions	\$1,362,801	\$ 830,918	\$ 483,106
	=====	=====	=====
Undiscounted estimated credit losses as percentage of servicing subject to recourse provisions .....	12.41%	10.93%	9.50%
	=====	=====	=====

**CONSUMER PORTFOLIO SERVICES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**(5) GAIN ON SALE OF CONTRACTS**

The following table presents the components of the net gain on sale of Contracts:

	Year ended December 31,		
	1998	1997	1996
	-----	-----	-----
		(in thousands)	
NIR gains recognized .....	\$ 52,990	\$ 34,767	\$ 18,665
Deferred acquisition fees and discounts .....	23,330	8,925	6,890
Provision for loss on NIRs ..	(7,762)	--	--
Expenses related to sales ...	(6,708)	(4,559)	(2,234)
Provision for credit losses .	(3,544)	(4,088)	(2,756)
	-----	-----	-----
	\$ 58,306	\$ 35,045	\$ 20,565
	=====	=====	=====

**(6) INTEREST INCOME**

The following table presents the components of interest income:

	Year ended December 31,		
	1998	1997	1996
	-----	-----	-----
		(in thousands)	
Interest on Contracts held for sale	\$ 43,493	\$ 14,279	\$ 9,981
Residual interest income .....	33,888	22,557	16,118
Amortization of NIRs .....	(35,540)	(13,310)	(6,119)
	-----	-----	-----
	\$ 41,841	\$ 23,526	\$ 19,980
	=====	=====	=====

**(7) SERVICING**

The following table presents the components of the Company's servicing portfolio:

	December 31,		
	1998	1997	1996
	-----	-----	-----
		(in thousands)	
Contracts held for sale .....	\$ 176,108	\$ 71,829	\$ 22,827
Servicing subject to recourse provisions:			
Whole loan portfolios .....	1,463	4,839	11,212
Alton Receivables Corp. ....	259	3,073	10,241
CPS Receivables Corp. ....	1,361,079	823,006	461,653
	-----	-----	-----
	\$1,538,909	\$ 902,747	\$ 505,933
	=====	=====	=====

**(8) FURNITURE AND EQUIPMENT**

The following table presents the components of furniture and equipment:

	December 31,	
	1998	1997
	(in thousands)	
Furniture and fixtures .....	\$ 2,973	\$ 1,869
Computer equipment .....	2,365	1,895
Leasing assets .....	882	916
Leasehold improvements .....	644	127
Other fixed assets .....	34	55
	6,898	4,862
Less accumulated depreciation and amortization	(2,626)	(1,734)
	\$ 4,272	\$ 3,128
	=====	=====

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**CONSUMER PORTFOLIO SERVICES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**(9) RELATED PARTY TRANSACTIONS**

Investment in Unconsolidated Affiliates

Investment in unconsolidated affiliates primarily consists of a 38% interest in NAB Asset Corporation ("NAB") that was acquired by the Company on June 6, 1996, for approximately \$4.3 million. At the time of the acquisition, NAB had approximately \$3.5 million in cash and no significant operations. The Company's investment in NAB exceeded the Company's share of the net assets of NAB at the acquisition date by approximately \$1.4 million. This amount, which is included in other assets in the accompanying balance sheet, has been recorded by the Company as goodwill. Based on the closing price on the Nasdaq, the market value of the investment in NAB was approximately \$2.9 million and \$4.0 million at December 31, 1998 and 1997, respectively. Charles E. Bradley, Sr., Chairman of the Company's Board of Directors and principal shareholder and Charles E. Bradley, Jr., President, Chief Executive Officer and a member of the Company's Board of Directors are both on the Board of Directors of NAB. Included in general and administrative expenses for the year ended December 31, 1996, is \$595,352, which represents the Company's share of NAB's loss from June 6, through December 31, 1996.

Subsequent to the Company's investment in NAB, NAB purchased Mortgage Portfolio Services, Inc. ("MPS") from the Company for \$300,000. MPS, formed by the Company in April 1996, is a mortgage broker-dealer based in Texas. In July 1996, NAB formed CARSUSA, Inc. ("CARSUSA"), which purchased, and now owns and operates, a Mitsubishi automobile dealership in Southern California. On June 27, 1997, NAB sold CARSUSA to Charles E. Bradley, Sr. and Charles E. Bradley, Jr., for \$1.5 million. Included in other income for the years ended December 31, 1998 and 1997, is \$51,593 and \$848,920, respectively, which represents the Company's share of NAB's net income.

Related Party Receivables

The following table presents the components of related party receivables:

Related Party -----	December 31,	
	1998	1997
	(in thousands)	
NAB Asset Corporation	\$2,100	\$5,602
CARSUSA, Inc.	904	1,351
Service and Management Cooperative, Inc.	139	128
Loan to Subsidiary Officer	125	--
Global Equipment Leasing, LLC	--	114
Stanwich Partners, Inc.	--	100
	\$3,268	\$7,295
	=====	=====

Included in the receivable from CARSUSA at December 31, 1998 and 1997, is \$329,500 and \$790,000, respectively, related to a flooring line of credit provided to CARSUSA. The remainder relates to amounts owed by CARSUSA for other borrowings.

During fiscal 1998 and 1997, respectively, the Company sold 51 and 107 automobiles to CARSUSA and received proceeds of \$432,790 and \$749,800, respectively. Additionally, the Company purchased 296 and 183 Contracts from CARSUSA, with an aggregate principal balance of approximately \$4.2 million and \$2.4 million, respectively.

Included in the receivable from NAB at December 31, 1997, is \$5.5 million arising from the issuance of two promissory notes totaling \$9.5 million, bearing interest at 13% annually. On December 31, 1997, one of the promissory notes for \$4.0 million was sold to Stanwich Financial Services Corp. ("SFSC") for \$4.0 million, the proceeds of which were received on December 31, 1997. Charles E. Bradley, Sr., Charles E. Bradley, Jr., and John G. Poole, who are officers and directors of the Company, collectively



own 92.5% of the common stock of Stanwich Holdings, Inc. ("Stanwich Holdings"), and Mr. Bradley, Sr., is the president and a director of Stanwich Holdings. SFSC is a wholly-owned subsidiary of Stanwich Holdings. During 1998, NAB repaid approximately \$3.4 million of the \$5.5 million promissory note, leaving a balance of approximately \$2.1 million at December 31, 1998. The remaining unpaid balance of the note is due April 30, 1999.

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**CONSUMER PORTFOLIO SERVICES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In June 1998, the Company issued an additional promissory note to NAB for \$3.0 million, bearing interest at 14% annually. During 1998, the note was repaid in full.

On March 2, 1998, NAB acquired Stanwich Holdings. At that time the Company received a note from NAB for \$530,835 in exchange for an option it had held to acquire 100% of the outstanding common stock of Stanwich Holdings. In June 1998, NAB rescinded the transaction to acquire Stanwich Holdings, with an effective date of March 2, 1998.

At December 31, 1998 and 1997, respectively, \$139,229 and \$128,421 is due from Service and Management Cooperative, Inc. These amounts represent liabilities incurred by Service and Management Cooperative, Inc., which were paid for by the Company. Certain officers of the Company's subsidiary Samco were officers of Service and Management Cooperative, Inc.

In July 1998, the president of Samco issued to the Company a promissory note in the amount of \$125,000. The loan bears interest at the rate of 10% per annum and is due July 2001.

At December 31, 1997, \$114,275 is due from Global Equipment Leasing, LLC. These amounts represent payments by the Company's subsidiary CPS Leasing, Inc., of certain debt obligations of Global Equipment Leasing, LLC., which is 50% owned by CPS Leasing, Inc. In January 1998, the amount due from Global Equipment Leasing, LLC, was repaid in full.

The amount due from Stanwich Partners, Inc. ("SPI") at December 31, 1997, is related to investment banking services performed by the Company in connection with the Company's January 2, 1997 acquisition of CPS Leasing, Inc. The Chairman of the Board of Directors of the Company is a principal shareholder of SPI.

The Company is a party to a consulting agreement with SPI that calls for monthly payments of \$6,250 through December 31, 1999. Included in the accompanying consolidated statements of income for the year ended December 31, 1998, 1997 and 1996, is \$75,000, \$75,000 and \$75,000, respectively, of consulting expense related to this consulting agreement.

In November 1998, the Company issued \$25.0 million of subordinated promissory notes due November 30, 2003, to an affiliate of Levine Leichtman Capital Partners, Inc. ("LLCP") (see note 13). As part of the transaction, the Company entered into a consulting agreement with LLCP, calling for monthly consulting fees of \$22,917 through November 2003. Included in the accompanying consolidated statements of income for the year ended December 31, 1998, are \$22,917 of consulting fees related to this consulting agreement.

#### Related Party Debt

In May 1997, the Company entered into two transactions with a related party: (i) the Company purchased \$14.5 million of preferred stock of Stanwich Holdings with dividends cumulative at the rate of 9% per annum and redeemable at an aggregate price of \$14.6 million, plus accrued dividends, and (ii) the Company borrowed \$14.5 million with an interest rate of 8% per annum under a 60-day related party loan from SFSC. In August 1997, the Company received \$14.9 million in redemption of its preferred stock of Stanwich Holdings and repaid the 60-day related party loan in its entirety. In August 1997, the Company entered into a line of credit agreement with SFSC ("Stanwich Line"), to supplement its working capital resources. Under the Stanwich Line, SFSC agreed to lend up to \$25.0 million to the Company from time to time upon request, through December 19, 1997. Any amount outstanding at December 31, 1997 would be due at that time. Borrowings under the Stanwich Line bear interest at the rate of 10% per annum, and the Company paid a \$250,000 (one percent) commitment fee to SFSC in connection with opening the line of credit. The Company drew the full amount of the line at its inception, none of which remained outstanding at December 31, 1997.

The Company has also received long-term financing from SFSC. In June 1997 the Company borrowed \$15.0 million on an unsecured and subordinated basis from SFSC. This loan ("RPL") is due 2004, and has a fixed rate of interest of 9% per



**CONSUMER PORTFOLIO SERVICES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

annum, payable monthly beginning July 1997. The Company may pre-pay the RPL without penalty at any time after three years. At maturity or repayment of the RPL, the holder thereof will have an option to convert 20% of the principal amount into common stock of the Company, at a conversion rate of \$11.86 per share. The balance of the RPL at December 31, 1998 and 1997, was \$15.0 million.

During 1998, the Company borrowed an additional \$4.0 million on an unsecured basis from SFSC. This loan ("RPL2") is due 2004, has a fixed rate of interest of 12.5% per annum payable monthly beginning December 1998. The Company may pre-pay the RPL2, without penalty, anytime after June 12, 2000. At maturity or repayment of the RPL2, the holder thereof will have the option to convert the entire principal balance of the note, or a portion thereof, into common stock of the Company, at a conversion rate of \$3.00 per share. The balance of the RPL2 at December 31, 1998, was \$4.0 million.

During 1998, the Company borrowed \$1.0 million on an unsecured basis from John G. Poole, a director of the Company. The terms of this note ("RPL3") are the same as RPL2. The balance of the RPL3 at December 31, 1998, was \$1.0 million.

#### Related Party Stock Sale

In July 1998, the Company sold 443,459 shares of common stock in a private placement to SFSC for \$5.0 million. As of December 31, 1998, the above shares of common stock had not been registered for public sale.

### **(10) SHAREHOLDERS' EQUITY**

#### Common Stock

Holders of the common stock are entitled to such dividends as the Company's Board of Directors, in its discretion, may declare out of funds available, subject to the terms of any outstanding shares of preferred stock and other restrictions. In the event of liquidation of the Company, holders of common stock are entitled to receive, pro rata, all of the assets of the Company available for distribution, after payment of any liquidation preference to the holders of outstanding shares of preferred stock. Holders of the shares of common stock have no conversion or preemptive or other subscription rights and there are no redemption or sinking fund provisions applicable to the common stock.

The Company is required to comply with various operating and financial covenants defined in the agreements governing the warehouse lines, residual financing, subordinated debt, and related party debt. The covenants restrict the payment of certain distributions, including dividends.

#### Options and Warrants

In 1991, the Company adopted and gained sole shareholder approval of the 1991 Stock Option Plan (the "1991 Plan") pursuant to which the Company's Board of Directors may grant stock options to officers and key employees. The Plan, as amended, authorizes grants of options to purchase up to 2,700,000 shares of authorized but unissued common stock. Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant. Stock options have terms that range from 7 to 10 years and vest over a range of 0 to 7 years. In addition to the 1991 Plan, in fiscal 1995, the Company granted 60,000 options to certain directors of the Company that vest over three years and expire nine years from the grant date.

In July 1997, the Company adopted and gained shareholder approval of the 1997 Long-Term Incentive Plan (the "1997 Plan") pursuant to which the Company's Board of Directors may grant stock options, restricted stock and stock appreciation rights to employees, directors or employees of entities in which the Company has a controlling or significant equity interest. Options that have been granted under the 1997 Plan have in all cases been granted at an exercise price equal to the stock's fair market value at the date of the grant, with terms of 10 years and vesting over 5 years. The 1997



**CONSUMER PORTFOLIO SERVICES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Plan provides that an aggregate maximum of 1,500,000 shares of the Company's common shares may be subject to awards under the 1997 Plan.

In October 1998, the Company's Board of Directors approved a plan to cancel and reissue certain stock options previously granted to key employees of the Company. All options granted prior to October 22, 1998, with an option price greater than \$3.25, were repriced to \$3.25. In conjunction with the repricing, a one year period of non-exercisability was placed on all repriced options, which expires October 21, 1999.

At December 31, 1998, there were 341,000 additional shares available for grant under the 1991 Plan and 1997 Plan. Of the options outstanding at December 31, 1998, 1997 and 1996, 194,040, 584,920 and 1,319,420, respectively, were exercisable with weighted-average exercise prices of \$2.68, \$6.77 and \$4.02, respectively. The per share weighted-average fair value of stock options granted during the years ended December 31, 1998, 1997 and 1996, was \$1.87, \$5.79, and \$4.99, respectively, at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year ended December 31,		
	1998	1997	1996
Expected life (years) .....	6.41	6.50	5.86
Risk-free interest rate ....	4.95%	6.48%	6.23%
Volatility .....	20.00%	52.04%	46.20%
Expected dividend yield ....	--	--	--

The Company applies APB Opinion No. 25 in accounting for its plans and, accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation", the Company's net income and net earnings per share would have been reduced to the pro forma amounts indicated below.

	Year ended December 31,		
	1998	1997	1996
	(in thousands, except per share data)		
Net income			
As reported.....	\$25,703	\$18,532	\$14,097
Pro forma.....	\$24,639	\$18,182	\$13,550
Net earnings per share - basic			
As reported.....	\$ 1.67	\$ 1.29	\$ 1.05
Pro forma.....	\$ 1.60	\$ 1.27	\$ 1.00
Net earnings per share - diluted			
As reported.....	\$ 1.50	\$ 1.17	\$ 0.93
Pro forma.....	\$ 1.48	\$ 1.17	\$ 0.90

Pro forma net income and net earnings per share reflect only options granted in the year ended December 31, 1998, 1997, and 1996. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net income amounts presented above because compensation cost is reflected over the options' vesting period and compensation cost for options granted prior to April 1, 1995 is not considered.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock options activity during the periods indicated is as follows:

	Number of Shares	Weighted-Average Exercise Price
(in thousands, except per share data)		
Balance at December 31, 1995.....	2,161	\$ 3.56
Granted.....	513	9.60
Exercised.....	395	2.82
Canceled.....	125	5.23
-----		
Balance at December 31, 1996.....	2,154	5.04
Granted.....	321	9.76
Exercised.....	937	2.64
Canceled.....	145	11.69
-----		
Balance at December 31, 1997.....	1,393	7.05
Granted.....	3,515	5.42
Exercised.....	5	8.50
Canceled.....	2,412	8.64
-----		
Balance at December 31, 1998.....	2,491	\$ 3.22
	=====	=====

At December 31, 1998, the range of exercise prices, the number, weighted- average exercise price and weighted-average remaining term of options outstanding and the number and weighted-average price of options currently exercisable are as follows:

Range of Exercise Prices	Number Outstanding	Weighted- Average Remaining Term	Weighted Average Exercise Price	Number Exercisable	Weighted- Average Exercise Price
(in thousands, except per share data)					
\$2.50 - \$2.88.....	224	3.99	\$2.64	192	\$2.62
\$3.00 - \$3.00.....	47	8.16	\$3.00	--	\$ --
\$3.25 - \$3.25.....	2,194	7.87	\$3.25	--	\$ --
\$4.13 - \$4.56.....	24	9.86	\$4.45	--	\$ --
\$7.75 - \$8.50.....	2	8.05	\$8.30	2	\$8.30

In connection with the Company's initial public offering, the Company sold to the underwriter of the offering, for an aggregate price of \$120, warrants to purchase up to 240,000 shares of the Company's common stock at an exercise price of \$3.00 per share. The warrants were exercisable during the four year period commencing one year from the date of the offering. The shares represented by the warrants have been registered for public sale. During the year ended December 31, 1997 and 1996, the underwriter exercised 14,000 and 86,000 warrants, respectively. At December 31, 1997 all warrants had been exercised.

On November 17, 1998, in conjunction with issuance of the \$25.0 million subordinated promissory note from an affiliate of LLCPC, the Company issued warrants to purchase up to 3,450,000 of common stock at \$3.00 per share, exercisable through November 30, 2005. The value of the warrants, \$3.0 million, is included in other assets as deferred interest expense to be amortized over the expected life of the related debt, five years. As of December 31, 1998, the warrants had not been registered for public sale. However, the holder of the warrants has the right to require the Company register the warrants for public sale in the future.

Also in November 1998, the Company entered into an agreement with the Certificate Insurer of its asset-backed securities. The agreement commits the Certificate Insurer to provide insurance for the securitization of \$560.0 million in asset-backed securities, of which \$250.0 million remained at December 31, 1998. The agreement provides for a 3% initial Spread Account deposit. As

consideration for the agreement, the Company issued warrants to purchase up to 2,525,114 shares of common stock at \$3.00 per share. The warrants are fully exercisable on the date of grant and expire in November 2003. The value of the warrants, \$2.2 million, is included in other assets as deferred securitization expense to be amortized over five years. As of December 31, 1998, the warrants had not been registered for public sale. However, the holder of the warrants has the right to require the Company register the warrants for public sale in the future.



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**(11) COMMITMENTS AND CONTINGENCIES**

Leases

The Company leases its facilities and certain computer equipment under non-cancelable operating and capital leases, which expire through 2008. Future minimum lease payments at December 31, 1998, under these leases are as follows:

	Capital -----	Operating -----
	(in thousands)	
1999 .....	\$ 858	\$ 3,113
2000 .....	678	3,001
2001 .....	579	2,452
2002 .....	400	2,376
2003 .....	53	2,394
Thereafter .....	--	11,935
	-----	-----
Total minimum lease payments ...	2,568	\$25,271
		=====
Less: amount representing interest .....	436	
	-----	
Present value of net minimum lease payments .....	\$ 2,132	
	=====	

Included in furniture and equipment in the accompanying consolidated balance sheets are the following assets held under capital leases at December 31, 1998:

Computer equipment .....	\$ 811
Furniture and fixtures .....	2,044
	-----
	2,855
Less: accumulated depreciation .....	669
	-----
	\$ 2,186
	=====

Rent expense for the years then ended December 31, 1998, 1997 and 1996, was \$1,973,304, \$1,036,677 and \$463,592, respectively. The Company's facility lease contains certain rental concessions and escalating rental payments, which are recognized as adjustments to rental expense and are amortized on a straight-line basis over the term of the lease.

In November 1998, the Company entered into a sublease agreement for the space which served as the Company's former headquarters in Irvine, California. The sublease agreement extends beyond the term of the lease and provides for the tenant to pay a base rent in excess of the lease payment required by the Company, plus all common area maintenance charges and property taxes. During 1998, the Company received \$64,289 of sublease income, which is included in occupancy expenses. Future minimum sublease payments totaled \$1,511,858 at December 31, 1998.

Litigation

The Company is party to litigation in the ordinary course of business, generally involving actions against automobile purchasers to collect amounts due on purchased Contracts or to recover vehicles. In one such case, relating to the Chapter 13 bankruptcy of obligors Madeline and Darryl Brownlee, of Chicago, Illinois, the obligors counterclaimed against the Company on June 30, 1997 in the bankruptcy court for the Northern District of Illinois. The obligors seek class-action treatment of their allegation that the cost of an extended service contract on the automobile they purchased was inadequately disclosed by the automobile dealer, Joe Cotton Ford of Carol Stream, Illinois. The disclosure allegedly violated the federal Truth in Lending Act and Illinois consumer protection statutes. The plaintiffs amended their complaint in September 1998, dropping all Truth in Lending allegations against the Company. The court in February 1999 dismissed all remaining claims against the Company. The case remains pending against the dealer, and there is a remote chance that a possible appeal could result in a reinstatement of claims against the Company.

In another proceeding, arising out of efforts to collect a deficiency balance from Joseph Barrios of Chicago, Illinois, the debtor has brought suit against the Company alleging defects in the notice given upon repossession of the vehicle. This

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

lawsuit was filed on February 18, 1998 in the circuit court of Cook County, Illinois. A settlement of this litigation has been reached on a class basis, which does not involve material expense.

It is management's opinion that all litigation of which it is aware, including the matters discussed above, will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

**(12) INCOME TAXES**

Income taxes consist of the following:

	Year ended December 31,		
	1998	1997	1996
	----- (in thousands) -----		
Current			
Federal .....	\$ 3,318	\$ 4,278	\$ 3,060
State .....	1,195	922	1,151
	-----	-----	-----
	4,513	5,200	4,211
Deferred			
Federal .....	10,451	4,505	4,565
State .....	3,653	1,611	819
	-----	-----	-----
	14,104	6,116	5,384
Income tax benefit from exercise of options Credited to shareholders' equity .....	--	2,111	--
	-----	-----	-----
Income taxes .....	\$18,617	\$13,427	\$ 9,595
	=====	=====	=====

The Company's effective tax expense for the years ended December 31, 1998, 1997 and 1996, differs from the amount determined by applying the statutory federal rate of 35% to income before income taxes as follows:

	Year ended December 31,		
	1998	1997	1996
	----- (in thousands) -----		
Expense at federal tax rate .....	\$ 15,512	\$ 11,186	\$ 8,292
California franchise tax, net of federal income tax benefit .....	3,151	1,672	1,280
State tax benefit from exercise of options, net of federal income tax benefit, credited to shareholders' equity .....	--	586	--
Other .....	(46)	(17)	23
	-----	-----	-----
	\$ 18,617	\$ 13,427	\$ 9,595
	=====	=====	=====

The tax affected cumulative temporary differences that give rise to deferred tax assets and liabilities as of December 31, 1998 and 1997, are as follows:

	December 31,	
	----- 1998	1997 -----
	(in thousands)	
Deferred Tax Assets:		
Accrued liabilities .....	\$ 1,296	\$ 559
Furniture and equipment .....	212	27
Provision for credit losses..	--	1,106
State taxes .....	403	1,851
Other .....	--	289
	-----	-----
	1,911	3,832
Deferred Tax Liabilities:		
NIRs .....	21,054	16,409
Provision for credit losses..	7,511	--
Equity investments .....	593	566
	-----	-----
	29,158	16,975
	-----	-----
Net deferred tax liability...	\$27,247	\$13,143
	=====	=====

**CONSUMER PORTFOLIO SERVICES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In determining the possible future realization of deferred tax assets, future taxable income from the following sources is taken into account: (a) the reversal of taxable temporary differences, and (b) future operations exclusive of reversing temporary differences.

The Company believes that the deferred tax asset will more likely than not be realized due to the reversal of the deferred tax liability and expected future taxable income.

The Company files its tax returns on a fiscal March 31, year end. During 1998, the Company's federal income tax return for the tax year ended March 31, 1995, was audited by the Internal Revenue Service. As a result of the audit, the Company was required to pay approximately \$150,000 in payroll taxes and interest. The audit was concluded and closed during 1998.

**(13) DEBT**

In June 1995, the Company entered into two warehouse line of credit agreements (collectively the "Redwood Line"). The Redwood Line provided the Company with an interim financing facility to hold Contracts for sale prior to being sold. The primary agreement provided for loans by Redwood Receivables Corporation ("Redwood") to the Company, funded by commercial paper issued by Redwood and secured by Contracts pledged periodically by the Company. The Redwood Line provided for a maximum of \$100.0 million of advances to the Company, with interest at a variable rate indexed to prevailing commercial paper rates. The second agreement was a standby line of credit with General Electric Capital Corporation ("GECC"), also with a \$100.0 million maximum, which the Company would have been entitled to use only if and to the extent that Redwood did not provide funding as described above. The GECC line was secured by Contracts and substantially all the other assets of the Company. Both agreements expired November 30, 1998.

In November 1998, the Company entered into a new warehouse line of credit agreement with GECC directly ("the GECC Line"). The GECC Line provides for warehouse facility advances up to a maximum of \$100.0 million at a variable interest rate of LIBOR + 3.75% (8.87% at December 31, 1998). The GECC Line expires November 30, 1999.

The Company is charged a non-utilization fee of .25% per annum on the unused portion of the GECC Line. The balance outstanding at December 31, 1998 and 1997 under the GECC and Redwood warehouse lines of credit was \$21.7 million and \$30.8 million, respectively.

In November 1997, the Company entered into a warehouse line of credit agreement with First Union Capital Markets ("First Union Line"). The First Union Line provides for a maximum of \$150.0 million of advances to the Company, with interest at a variable rate (5.05% at December 31, 1998) indexed to prevailing commercial paper rates. In July 1998, the advance amount was increased to \$200.0 million. In conjunction with the increase in maximum advance amount under the agreement, the expiration date was changed to July 31, 1999, and is renewable for one year with the mutual consent of the Company and First Union Capital Markets. The balance outstanding under the First Union Line at December 31, 1998 and 1997 was \$130.2 million and \$30.9 million, respectively.

When the Company wishes to securitize Contracts, a majority of the proceeds received from investors is paid to the providers of the warehouse lines, simultaneously with their release of the pledged Contracts for transfer to a pass-through securitization trust.

In December 1996, the Company entered into an overdraft financing facility, with a bank, that provides for maximum borrowings of \$2.0 million. Interest is charged on the outstanding balance at the bank's reference rate (7.75% at December 31, 1998) plus 1.75%. During 1997, the overdraft facility was increased to \$4.0 million. There were no borrowings outstanding under this facility at December 31, 1998. The facility expires on June 1, 1999.

In April 1998, the Company established a \$33.3 million revolving credit line (the "Residual Line") with State Street Bank and Trust Company, Prudential Insurance and an affiliate of Prudential. Borrowings under the Residual Line bear

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interest at LIBOR + 4.0% (9.54% at December 31, 1998), and are secured by all the Company's assets, including its residual interest in securitizations. The Residual Line is a revolving facility for one year, after which it converts into a loan with a maximum term of four years. At December 31, 1998, the balance outstanding under the Residual Line was \$33.0 million.

In November 1998, the Company issued \$25.0 million of subordinated promissory notes due November 30, 2003, to an affiliate of Levine Leichtman Capital Partners, Inc. ("LLCP"), and received the proceeds (net of \$1.3 million of capitalized issuance costs), of approximately \$23.7 million. The Company also issued warrants to purchase up to 3,450,000 shares of common stock at \$3.00 per share, exercisable through November 30, 2005 (see note 10). The debt bears interest at 13.5% per annum, and may not be prepaid without penalty prior to November 1, 2002. Simultaneously with the consummation of that transaction, certain affiliates of the Company, who had lent the Company an aggregate of \$5.0 million on a short-term basis in August and September 1998, agreed to subordinate their indebtedness to the indebtedness in favor of LLCP, to extend the maturity of their debt until June 2004, and to reduce their interest rate from 15% to 12.5%. Such affiliates received in return the option to convert such debt into an aggregate of 1,666,667 shares of common stock at the rate of \$3.00 per share through maturity at June 30, 2004. Additionally, SFSC also agreed to subordinate \$6.0 million, or 40%, of its RPL in favor of LLCP.

On April 15, 1997, the Company issued \$20.0 million in subordinated participating equity notes ("PENs") due April 15, 2004. The PENs are unsecured general obligations of the Company. Interest on the PENs is payable on the fifteenth of each month, commencing May 15, 1997, at an interest rate of 10.5% per annum. In connection with the issuance of the PENs, the Company incurred and capitalized issuance costs of \$1.2 million. The Company recognizes interest and amortization expense related to the PENs using the effective interest method over the expected redemption period. The PENs are subordinated to certain existing and future indebtedness of the Company as defined in the indenture agreement. The Company may at its option elect to redeem the PENs from the registered holders, in whole but not in part, at any time on or after April 15, 2000, at 100% of their principal amount, subject to limited conversion rights, plus accrued interest to and including the date of redemption. At maturity, upon the exercise by the Company of an optional redemption, or upon the occurrence of a "Special Redemption Event," each holder will have the right to convert into common stock of the Company ("Common Stock"), 25% of the aggregate principal amount of the PENs held by such holder at the conversion price of \$10.15 per share of Common Stock. "Special Redemption Events" are certain events related to a change in control of the Company.

On December 20, 1995, the Company issued \$20.0 million in rising interest subordinated redeemable securities due January 1, 2006 (the "Notes"). The Notes are unsecured general obligations of the Company. Interest on the Notes is payable on the first day of each month, commencing February 1, 1996, at an interest rate of 10.0% per annum. The interest rate increases 0.25% on each January 1 for the first nine years and 0.50% in the last year. In connection with the issuance of the Notes, the Company incurred and capitalized issuance costs of \$1.1 million. The Company recognizes interest and amortization expense related to the Notes using the effective interest method over the expected redemption period. The Notes are subordinated to certain existing and future indebtedness of the Company as defined in the indenture agreement. The Company is required to redeem, subject to certain adjustments, \$1.0 million of the aggregate principal amount of the Notes through the operation of a sinking fund on each of January 1, 2000, 2001, 2002, 2003, 2004 and 2005. The Notes are not redeemable at the option of the Company prior to January 1, 1998. The Company may at its option elect to redeem the Notes from the registered holders of the Notes, in whole or in part, at any time, on or after January 1, 1998, and prior to January 1, 1999, at 102% of their principal amount, on or after January 1, 1999, and prior to January 1, 2000, at 101% of their principal amount, and on or after January 1, 2000, at 100% of their principal amount, in each case plus accrued interest to and including the date of redemption.

During the year ended December 31, 1997 the Company acquired CPS Leasing, Inc. At December 31, 1998 and 1997, CPS Leasing, Inc. had borrowings to banks of \$2.6 million and \$1.5 million, respectively

On November 16, 1993, the Company issued a \$3.0 million five year convertible subordinated note ("Note 1") to an institutional investor in conjunction with an agreement by that investor to commit to purchase an additional \$50.0 million





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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of the Company's Contracts. Interest accrued at 9.5% and was payable semi-annually. On January 17, 1997, the holder converted Note 1 into 480,000 shares of the Company's common stock.

The GECC Line, First Union Line, Residual Line, PENs, Notes, LLCP notes, and the overdraft financing facility contain various restrictive and financial covenants. With respect to the Residual Line, certain of the pools' performance resulted in the right for the lender of that facility to accelerate the repayment of the outstanding borrowings. On a monthly basis to date and as of December 31, 1998, the lender has waived their right to accelerate repayment. With respect to the LLCP notes, as of December 31, 1998, the Company was in violation of certain covenants. As of April 15, 1999, the holder of such notes has waived such violations. With respect to all other borrowings listed above, the Company is in compliance with all related financial covenants as of December 31, 1998.

**(14) EMPLOYEE BENEFITS**

The Company sponsors a pretax savings and profit sharing plan (the "401(k) Plan") qualified under section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, eligible employees are able to contribute up to 15% of their compensation (subject to stricter limitation in the case of highly compensated employees). The Company matches 100% of employees' contributions up to \$600 per employee per calendar year. The Company's contributions to the 401(k) Plan were \$250,428, \$115,684, and \$63,801 for the years ended December 31, 1998, 1997 and 1996, respectively.

**(15) FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following summary presents a description of the methodologies and assumptions used to estimate the fair value of the Company's 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 the Company's financial instruments, active market values do not exist. Therefore, considerable judgments were required in estimating fair value for certain items. The subjective factors include, among other things, the estimated timing and amount of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of December 31, 1998 and 1997, 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 December 31, 1998 and 1997, were as follows:

Financial Instrument	December 31,			
	1998		1997	
	Carrying Value or Notional Amount	Fair Value	Carrying Value or Notional Amount	Fair Value
		(in thousands)		
Cash .....	\$ 1,940	\$ 1,940	\$ 1,745	\$ 1,745
Restricted cash .....	1,619	1,619	--	--
Contracts held for sale .....	165,582	169,958	68,271	70,900
Residual interest in securitizations	217,848	217,848	124,616	124,616
Related party receivables .....	3,268	3,268	7,295	7,295
Commitments .....	2,313	61	3,774	145
Warehouse lines of credit .....	151,857	151,857	61,666	61,666
Notes payable .....	2,557	2,557	1,506	1,506
Residual financing .....	33,000	33,000	--	--
Subordinated debt .....	65,000	65,000	40,000	40,000
Related party debt .....	20,000	20,000	15,055	15,055

Cash and Restricted Cash

The carrying value equals fair value.

**CONSUMER PORTFOLIO SERVICES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Contracts Held for Sale

The fair value of the Company's contracts held for sale is determined by purchase commitments from investors and prevailing market rates.

Residual Interest in Securitizations

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

Related Party Receivables

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

Commitments

The fair value of commitments to purchase contracts from Dealers is determined by purchase commitments from investors and prevailing market rates.

Warehouse Line of Credit

The carrying value approximates fair value because the warehouse line of credit is short-term in nature and the related interest rates are estimated to reflect current market conditions for similar types of instruments.

Notes Payable, Residual Financing, Subordinated and Related Party Debt

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

**(16) LIQUIDITY**

The Company's business requires substantial cash to support its operating activities. The Company's primary sources of cash from operating activities are amounts borrowed under its various warehouse lines, servicing fees on portfolios of Contracts previously sold, proceeds from the sales of Contracts, customer payments on Contracts held for sale, interest earned on Contracts held for sale, and releases of cash from Spread Accounts. The Company's primary uses of cash are the purchases of Contracts, repayment of amounts borrowed under its various warehouse lines, operating expenses such as employee, interest, and occupancy expenses, the establishment of and further contributions to Spread Accounts and income taxes. As a result, the Company is dependent on its warehouse lines of credit and its residual financing facility in order to finance its continued operations. If the Company's principal lenders decided to terminate or not to renew any of these credit facilities with the Company, the loss of borrowing capacity would have a material adverse effect on the Company's results of operations unless the Company found a suitable alternative source.

The Servicing Agreements call for the requisite levels of the various Spread Accounts to increase if the related receivables experience delinquencies, repossessions or net losses in excess of certain predetermined levels. At December 31, 1998, 18 of the Company's 22 securitized pools were at higher than original requisite levels due to the delinquency, repossession or net loss performance of 13 of the 22 securitized pools. Such Spread Account balances therefore included approximately \$24.3 million more than would have been required at the original requisite levels. The higher requisite Spread Account levels ranged from 30% to 100% of the related outstanding balance of the securitized pools. In April 1999, the Company entered into an amendment with

the Certificate Insurer of the Company's asset-backed securities to cap the amount of cash retained in the Spread Accounts at 21% of the outstanding securities balance for 19 of the Company's 22 securitized pools. The effectiveness of the amendment is contingent upon approval of certain subordinated

**CONSUMER PORTFOLIO SERVICES, INC.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Certificateholders. This new cap on the Spread Accounts described above is expected to provide cash flows to the Company during 1999. The amendment is subject to certain performance measures that may result in an increase in the cap from 21% to 25%. There can be no assurance that such cash flows will occur. In addition to requiring higher Spread Account levels, the Servicing Agreements provide the Certificate Insurer with certain other rights and remedies, which have been waived on a monthly basis by the Certificate Insurer.

On April 15, 1999, the Company issued \$5.0 million of subordinated promissory notes to LLCPC and received proceeds (net of \$250,000 of capitalized issuance costs) of approximately \$4.75 million. The debt includes certain covenants one of which is the infusion of \$15.0 million of debt during 1999 by SFSC. SFSC's commitment in turn has been collateralized by certain assets pledged by the chairman of the Company's board of directors and the president of the Company. Additionally, the \$5.0 million has been personally guaranteed by the chairman of the Company's board of directors and the president of the Company.

The Company did not sell any Contracts in the first quarter of 1999, and is currently evaluating alternatives for selling its Contracts during the second quarter of 1999. Alternatives being considered by the Company include various securitization structures, unsecuritized sale of Contracts, or perhaps, some combination of both alternatives. The Company has received a letter of intent from an investor to purchase up to \$300.0 million of the Company's Contracts on an unsecured basis in the second quarter. There can be no assurance that such a sale will take place.

In the event the Company incurs a net loss in two consecutive quarters it would be in default of its agreements for the Residual Line. Unless waived by the lender, the default could result in acceleration of the Residual Line and a cross default on the Warehouse Lines. The lender would receive any releases from Spread Accounts to retire outstanding principal and interest. The Company believes that the lender would waive the default. In the event the lender does not waive the default, the Company believes that cash flows from operations would be sufficient to fund its obligations as they become due and payable. There can be no assurance, however, that the lender would waive the default or that other cash flows will be sufficient to fund the Company's operations.

**(17) SUBSEQUENT EVENTS**

In an effort to conserve capital, the Company intends to dispose of and/or terminate the operations of three of its subsidiaries; Samco, LINC and CPS Leasing, Inc. During the first quarter of 1999, all operations of Samco were terminated and all personnel were laid off. The Company is utilizing the building and equipment that is owned and/or leased as an asset recovery facility.

On April 15, 1999, the Company issued \$5.0 million of subordinated promissory notes bearing interest at 14.50% per annum, to LLCPC and received proceeds (net of \$250,000 of capitalized issuance costs) of approximately \$4.75 million. The Company also issued warrants to purchase 1,335,000 shares of the Company's common stock at \$0.01 per share to LLCPC. The warrants are subject to shareholder approval and if approved, will be exercisable through April 2009. As part of the purchase agreement, the interest rate on the previous LLCPC notes will increase to 14.50% and the 3,450,000 warrants to purchase shares of the Company's common stock at \$3.00 per share were reduced to 3,115,000 at a price of \$0.01 per share.

**CONSUMER PORTFOLIO SERVICES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(18) SELECTED QUARTERLY DATA (UNAUDITED)**

	QUARTER ENDED MARCH 31, -----	QUARTER ENDED JUNE 30, -----	QUARTER ENDED SEPTEMBER 30, -----	QUARTER ENDED DECEMBER 31, -----
	(in thousands, except per share data)			
1998				
Revenues .....	\$24,782	\$29,724	\$34,577	\$37,197
Income before income taxes	9,658	10,240	10,744	13,678
Net income .....	5,603	5,925	6,238	7,937
Earnings per share:				
Basic .....	\$ 0.37	\$ 0.39	\$ 0.40	\$ 0.51
Diluted .....	\$ 0.34	\$ 0.36	\$ 0.38	\$ 0.44
1997				
Revenues .....	\$15,230	\$17,542	\$20,231	\$22,248
Income before income taxes	7,143	7,549	8,309	8,958
Net income .....	4,145	4,386	4,816	5,185
Earnings per share:				
Basic .....	\$ 0.29	\$ 0.31	\$ 0.34	\$ 0.36
Diluted .....	\$ 0.27	\$ 0.28	\$ 0.30	\$ 0.32
1996				
Revenues .....	\$ 9,699	\$11,763	\$12,910	\$14,066
Income before income taxes	5,101	5,517	6,451	6,623
Net income .....	3,051	3,271	3,834	3,941
Earnings per share:				
Basic .....	\$ 0.23	\$ 0.24	\$ 0.28	\$ 0.29
Diluted .....	\$ 0.20	\$ 0.22	\$ 0.25	\$ 0.26

## EXHIBIT INDEX

Exhibit Number -----	Description -----
3.1	Restated Articles of Incorporation (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated December 31, 1995)
3.2	Amended and Restated Bylaws. (incorporated by reference to exhibit filed with registrant's report on Form 10-K dated December 31, 1997) 4.Indenture re Rising Interest Subordinated Redeemable Securities ("RISRs") (incorporated by reference to exhibit filed with registrant's report on Form 8-K filed December 26, 1995)
4.2	First Supplemental Indenture re RISRs (incorporated by reference to exhibit filed with registrant's report on Form 8-K filed December 26, 1995)
4.3	Form of Indenture re 10.50% Participating Equity Notes ("PENs") (incorporated by reference to exhibit filed with registrant's registration statement on Form S-3, no. 333-21289)
4.4	Form of First Supplemental Indenture re PENs (incorporated by reference to exhibit filed with registrant's registration statement on Form S-3, no. 333-21289)
10.1	1991 Stock Option Plan & forms of Option Agreements thereunder (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated March 31, 1994)
10.2	1997 Long-Term Incentive Stock Plan (incorporated by reference to exhibit filed with registrant's report on Form 10-K dated December 31, 1997)
10.3	Purchase Agreement relating to PENs. (incorporated by reference to exhibit filed with registrant's registration statement on Form S-3 no. 333-21289)
10.4	Lease Agreement, First Amendment to Lease, Assignment and Assumption of Lease (incorporated by reference to exhibit filed with registrant's registration statement on Form S-1, no. 33-49770)
10.5	Amendment #2 to Lease Agreement, First Amendment to Lease and Assignment and Assumption of Lease. (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB, dated March 31, 1995)
10.6	Lease Agreement re Chesapeake Collection Facility. (incorporated by reference to exhibit filed with registrant's report on Form 10-K dated December 31, 1996)
10.7	Consulting Agreement. (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated December 31, 1995)
10.8	Agreement to Build and Lease Headquarters Building. (incorporated by reference to exhibit filed with registrant's report on Form 10-Q dated September 30, 1997)
10.9	Lease of Headquarters Building. (incorporated by reference to exhibit filed with registrant's report on Form 10-Q dated September 30, 1997)

- 10.10 Amended and Restated Motor Vehicle Installment Contract Loan and Security Agreement re Redwood Warehouse Line. (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated December 31, 1995)
- 10.11 The Receivables Funding and Servicing Agreement re Redwood Warehouse Line. (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated December 31, 1995)
- 10.12 Partially Convertible Subordinated Note. (incorporated by reference to exhibit filed with registrant's report on Form 10-Q dated September 30, 1997)
- 10.13 Registration Rights Agreement. (incorporated by reference to exhibit filed with registrant's report on Form 10-Q dated September 30, 1997)
- 10.14 Receivables Funding and Servicing Agreement relating to First Union Warehouse Line (incorporated by reference to exhibit filed with registrant's report on Form 10-K dated December 31, 1997)
- 10.14a Amendment dated July 17, 1998 to the Receivables Funding and Servicing Agreement relating to First Union Warehouse Line (incorporated by reference to exhibit filed with registrant's report on Form 10-Q filed August 14, 1998)
- 10.15 Receivables Transfer Agreement relating to First Union Warehouse Line (incorporated by reference to exhibit filed with registrant's report on Form 10-K dated December 31, 1997)
- 10.16 Residual Interest in Securitizations Revolving Credit and Term Loan Agreement dated as of April 30, 1998, between registrant and State Street Bank and Trust Company (incorporated by reference to exhibit filed with registrant's report on 10-Q filed 5/15/98)
- 10.16a Second Amendment Agreement dated November 17, 1998 re: State Street residual interest in Securitizations Revolving Credit and Term Loan Agreement (filed herewith)
- 10.17 Pledge and Security Agreement dated as of April 30, 1998, between the Company and State Street Bank and Trust Company (incorporated by reference to exhibit filed with registrant's report on Form 10-Q filed May 15, 1998)
- 10.18 Revolving Credit and Term Note dated April 30, 1998, (the "State Street Note") (incorporated by reference to exhibit filed with registrant's report on Form 10-Q filed May 15, 1998)
- 10.19 Subscription Agreement regarding shares issued in July 1998 (incorporated by reference to exhibit filed with registrant's report on Form 10-Q filed August 14, 1998)
- 10.20 Registration Rights Agreement regarding shares issued in July 1998 (incorporated by reference to exhibit filed with registrant's report on Form 10-Q filed August 14, 1998)
- 10.21 Line of Credit Note Issued to Stanwich Financial Services Corp. (the "1998 Stanwich Note") (incorporated by reference to exhibit filed with registrant's report on Form 10-K filed March 3, 1998)
- 10.22 Amended and Restated Motor Vehicle Installment Contract Loan and Security Agreement (filed herewith)
- 10.23 FSA Warrant Agreement dated November 30, 1998 (filed herewith)



10.24 Securities Purchase Agreement dated November 17, 1998 (incorporated by reference to exhibit filed with the statement on Schedule 13D filed with respect to the registrant on November 25, 1988, by Levine Leichtman Capital Partners II L.P. and others (the "LLCP report"))

- 10.25 Senior Subordinated Primary Note dated November 17, 1998 (incorporated by reference to exhibit filed with the LLCP report)
  - 10.26 Primary Warrant to purchase 3,450,000 shares of common stock dated November 17, 1998 (incorporated by reference to exhibit filed with the LLCP report)
  - 10.27 Investor Rights Agreement dated November 17, 1998 (incorporated by reference to exhibit filed with the LLCP report)
  - 10.28 Registration Rights Agreement dated as of November 17, 1998 (incorporated by reference to exhibit filed with the LLCP report)
  - 10.29 Subordination Agreement dated as of November 17, 1998 re: Stanwich Note and Poole Note (filed herewith)
  - 10.30 Consolidated Registration Rights Agreement dated November 17, 1998 re: 1997 Stanwich Notes (filed herewith)
  - 23.1 Consent of independent auditors. (filed herewith)
  - 27 Financial Data Schedule. (filed herewith)
  - 99.1 Cautionary Statement.\*  
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- \* To be filed by amendment

EXHIBIT 10.16a  
**SECOND AMENDMENT AGREEMENT**

**THIS SECOND AMENDMENT TO RESIDUAL INTEREST IN SECURITIZATIONS REVOLVING CREDIT AND TERM LOAN AGREEMENT** (this "Second Amendment") is dated as of November 17, 1998, by and among Consumer Portfolio Services, Inc., a California corporation (the "Company"), and State Street Bank and Trust Company as agent and lender ("State Street"), The Structured Finance High Yield Fund, LLC, as lender and The Prudential Insurance Company of America, as lender. Said lenders are sometimes herein collectively referred to as the "Lenders" and each individually a "Lender". State Street in its capacity as agent for the Lenders hereunder is sometimes herein referred to as the "Agent". This Second Amendment (i) amends certain provisions of that certain Residual Interest in Securitizations Revolving Credit and Term Loan Agreement dated as of April 30, 1998 by and among the Company, State Street, for itself and as Agent, and the Lenders from time to time party thereto (as amended by a letter agreement dated November 2, 1998 relating to the so-called "Bridge Loan" from Levine, and as further amended by this Second Amendment, the "Loan Agreement") and (ii) ratifies and confirms that certain Pledge and Security Agreement dated as of April 30, 1998 by and among the Company, State Street, for itself and as Agent, and the Lenders (as amended by and through to the date of the First Amendment, the "Pledge and Security Agreement"), together with all other Loan Documents heretofore executed in connection with the Loan Agreement. Certain capitalized terms relating to the transactions contemplated by this Second Amendment are defined in section 1(h) below. Other capitalized terms used herein and not otherwise defined shall have the same meanings herein as in the Loan Agreement.

**PREAMBLE**

The Company has advised the Agent and the Lenders that it desires to enter into a Securities Purchase Agreement dated as of the date hereof (the "Levine Subordinated Agreement") with Levine Leichtman Capital Partners II, L.P., a California limited partnership ("Levine") and incur Subordinated Debt thereunder in a principal amount of up to \$25,000,000 (the "Levine Subordinated Debt"), subject to the terms and conditions (including the subordination provisions) hereof and of the Levine Subordinated Agreement. The Company's execution of the Levine Subordinated Agreement and incurrence of the Levine Subordinated Debt requires the consent of the Lenders pursuant to certain provisions of the Loan Agreement. The Company has requested, and the Agent and the Lenders have agreed, subject to the terms and conditions set forth herein, that the Loan Agreement and the other Loan Documents be amended to the extent necessary to permit the Company to execute the Levine Subordinated Agreement and incur the Levine Subordinated Debt in accordance with the terms hereof.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company, the Agent, and the Lenders hereby agree as follows:

1. Amendments to Loan Agreement.

(a) Amendment to Section 4. Section 4 (Conditions Precedent to Closing Date and all Subsequent Loans; Conditions to Lending) is hereby amended by adding the following subsection 4.11 thereto:

"4.11 Levine Subordinated Agreement. The Company and Levine shall have executed the Levine Subordinated Agreement on terms (including subordination terms) satisfactory in the sole discretion of the Lenders.

(b) Amendment to Section 5. Section 5 (Affirmative Covenants) of the Loan Agreement is hereby amended by adding the following subsection 5.13 thereto:

"5.13 Notice of Default Under Levine Subordinated Documents. The Company shall immediately notify the Agent and the Lenders of its receipt of any notice of a default or event or default under the Levine Subordinated Agreement."

(c) Amendment to Subsection 6.1 of the Loan Agreement. Subsection 6.1 of the Loan Agreement is hereby amended by adding the following subsection (k) thereto:

"(k) Indebtedness of the Company under the Levine Subordinated Debt in a maximum principal amount at any one time outstanding not to exceed **\$25,000,000.**"

(d) Amendment to Subsection 6.5. Subsection 6.5 of the Loan Agreement is hereby amended by deleting such subsection in its entirety, and inserting in lieu thereof the following:

"6.5 Restricted Payments. The Company will not, and will not permit any Subsidiary to, directly or indirectly declare, order, pay or make any Restricted Payment or set aside any sum or property therefor if at the time of such proposed action or immediately after giving effect thereto, any Default or Event of Default exists, and unless expressly permitted by this subsection 6.5.

As used herein, the term "Restricted Payments" means (i) any dividend or other distribution, direct or indirect, on or on account of any shares of any class of stock of the Company now or hereafter outstanding (other than dividends payable exclusively in shares of the Company's preferred stock); (ii) any redemption, purchase or other acquisition, direct or indirect, of any shares of any class of stock of the Company now or hereafter outstanding or of any warrants or rights to purchase any such stock (including, without limitation, the repurchase of any such stock or warrant or any refund of the purchase price thereof in connection with the exercise by the holder thereof of any right of rescission or similar remedies with respect thereto) provided, that payment of the Warrant Purchase Price (as defined in the Levine Subordinated Documents) by Levine in accordance with the provisions of section 2.2 of the Levine Warrant shall not constitute a Restricted

Payment; and (iii) any payment in respect of Subordinated Debt (including, without limitation, the Levine Subordinated Documents).

Subject to the foregoing, the Company may: (a) make Restricted Payments in the amount of scheduled (but not accelerated) payments due the Subordinated Lenders under the Subordinated Agreements, (b) make scheduled (but not accelerated) monthly payments of interest to Levine in respect of the Levine Subordinated Debt, (c) make payment in an amount not to exceed \$10,000,000 from proceeds of the key man life insurance policy obtained by the Company pursuant to section 8.8 of the Levine Subordinated Agreement, provided that proceeds are applied by Levine in reduction of the outstanding balance of principal of and accrued but unpaid interest on the Levine Note, (d) make scheduled (but not accelerated) "Extension Payments" under and as defined in section 8.21(b) of the Levine Subordinated Agreement, (e) make a payment in an amount not to exceed \$3,000,000 to fund the escrow account provided for in section 5(a) of the Levine Note or in section 8.21 of the Levine Subordinated Agreement, provided, that such escrow funds shall not be paid over to Levine prior to payment in full of all obligations of the Company to the Lenders under this Agreement, (f) make scheduled (but not accelerated) payments in an aggregate amount not to exceed \$275,000 to pay the "consulting fee" referred to in section 1.4 of the Investor Rights Agreement, together with payments to reimburse Levine for reasonable out-of-pocket expenses incurred in connection with Levine's representative serving on the Company's Board of Directors or any committee thereof, (g) make payments of fees and expenses payable pursuant to section 12.15 of the Levine Subordinated Agreement or section 14 of the Levine Note and (h) make payments (not to exceed \$700,000) of the "closing fee" under section 6.8 of the Levine Subordinated Agreement.

Notwithstanding anything to the contrary in the Levine Subordinated Debt Documents, the Company agrees that, except as expressly set forth above, it will not at any time make any payment of any kind or nature (or set aside any sums therefor), in respect of the Levine Subordinated Debt. For the avoidance of doubt, the Company shall not make any voluntary or involuntary prepayments of the Indebtedness under the Levine Subordinated Documents except (i) from proceeds of the key man life insurance policy in accordance with clause (c) above and the other provisions of this subsection 6.5, and (ii) simultaneously with the final repayment in full in cash of all obligations of the Company to the Lenders under the Loan Agreement and the other Loan Documents, with proceeds of loans under the New Senior Credit Facility (as such term is defined in the Levine Subordinated Agreement)."

The provisions of this subsection 6.5 are solely for the purpose of defining the relative rights of the Agent and the Lenders on the one hand, and the holders of Subordinated Debt on the other hand, and none of such provisions shall impair, as between the Company and any holder of the Subordinated Debt, the obligations of the Company, which are unconditional and absolute, to pay to such holder all of the Subordinated Debt in accordance with the terms thereof, subject in each instance to the rights of the Agent

and the Lenders under the provisions of this Agreement and under the subordination provisions of such Subordinated Debt.

(e) Additional Amendments to Section 6. (i) Section 6 (Negative Covenants) of the Loan Agreement is hereby amended by adding the following subsection 6.17 thereto:

"6.17 Amendment to Levine Subordinated Documents. The Company will not amend, modify or change (or consent to any such amendment, modification or change) in any of the provisions of the Levine Subordinated Documents if such amendment would: (i) increase the principal amount of any Levine Subordinated Debt, (ii) increase the rate of interest accruing on the Levine Subordinated Debt, (iii) change in any manner the dates upon which any principal or interest payments on the Levine Subordinated Debt are due, (iv) grant any lien or other encumbrance on its assets to secure the Levine Subordinated Debt, or (v) change in any manner, or add, any affirmative or negative covenants, events of default, redemption provisions or subordination provisions of any Levine Subordinated Debt that would adversely affect the rights of the Lenders or otherwise have a material adverse effect on the Company. Solely with respect to the Levine Subordinated Debt, the provisions of this subsection 6.17 shall supersede the provisions of subsection 6.11 above."

(ii) Section 6.6 (Capital Expenditures) is hereby amended by replacing the number "\$3,000,000" appearing therein with the number "\$3,250,000" solely for the fiscal year of the Company ending December 31, 1998. The \$3,000,000 limitation on Capital Expenditures shall be reinstated commencing with the fiscal year of the Company beginning January 1, 1999, and shall be effective for each fiscal year thereafter during the term of this Agreement.

(f) Amendment to Subsection 3.30. Subsection 3.30 of the Loan Agreement (Year 2000) is hereby amended by adding the following at the end of such subsection:

"The Company shall be "Year 2000 Compliant" by December 31, 1999 and at all times thereafter. As used herein, the term "Year 2000 Compliant" means that all software utilized by and material to the business operations and financial condition of the Company are able to interpret and manipulate data on and involving all calendar dates correctly and without causing any abnormal ending scenario, including in relation to dates ending in and after the year 2000."

(g) Amendment to Subsection 8.1. Subsection 8.1 (Events of Default; Acceleration) of the Loan Agreement is hereby amended by adding the following clause (m) thereto:

"(m) If there shall occur any default or event of default under and as from time to time defined in the Levine Subordinated Documents."

(h) Amendments to Section 9. Section 9 of the Loan Agreement is hereby amended by adding the following definitions alphabetically therein:

"Investor Rights Agreement: shall have the meaning set forth in the definition of Levine Subordinated Documents.

Levine: means Levine Leichtman Capital Partners II, L.P., a California limited partnership.

Levine Note: shall have the same meaning set forth in the definition of Levine Subordinated Documents.

Levine Subordinated Debt: shall mean all Indebtedness of the Company to Levine under the Levine Note (as originally executed) in a principal amount not to exceed \$25,000,000.

Levine Subordinated Agreement: shall mean that certain Securities Purchase Agreement dated as of the date hereof by and between the Company and Levine, as originally executed.

Levine Subordinated Documents: shall mean, collectively, the Levine Subordinated Agreement, the Senior Subordinated Primary Note of the Company in favor of Levine in the principal amount of \$25,000,000 (the "Levine Note"), the Investor Rights Agreement (the "Investor Rights Agreement"), and all other agreements, documents, certificates and instruments executed and delivered in connection with the Levine Subordinated Agreement, in each instance as originally executed."

In addition, the definition of "Subordinated Debt" appearing in section 9 of the Loan Agreement is amended so as to expressly include all Indebtedness of the Company under the Levine Subordinated Documents.

## 2. Confirmation of Representations, Warranties, Exhibits and Schedules to the Loan Agreement.

The Company, by execution of this Second Amendment, certifies to the Agent and each of the Lenders that, after giving effect to the substitution of the Schedules to the Loan Agreement referred to in the last sentence of this section 2, each of the representations and warranties set forth in the Loan Agreement, the Security Documents and the other Loan Documents is true and correct as of the date hereof, except to the extent such representations and warranties expressly relate to an earlier date, as if fully set forth in this Second Amendment and that, as of the date hereof, no Default or Event of Default has occurred and is continuing under the Loan Agreement, any Security Documents, any other Loan Document or any Eligible Securitization Transaction Document. The Company acknowledges and agrees that this Second Amendment shall become a part of the Loan Agreement and shall be a Loan Document. In connection with the execution of this Second Amendment, the Company has delivered to the Agent certain revised Schedules to the Loan Agreement. The Company hereby requests and authorizes the Agent to substitute such revised Schedules for the corresponding Schedules currently attached to the Loan Agreement.

3. Conditions Precedent and (in the case of clause (c) below only) Subsequent.

Prior to or concurrently with the execution by the Agent and the Lenders of this Second Amendment, and as a condition to the effectiveness hereof and of the Lenders to make Loans for the account of the Company on and after the date hereof:

(a) The Company shall have delivered to the Agent and each of the Lenders copies of the fully executed Levine Subordinated Documents, together with such schedules and other information delivered in connection therewith as may be designated by the Lenders;

(b) This Agreement and all other agreements, instruments and certificates reasonably required by the Lenders in connection herewith and therewith shall have been executed and delivered by each of the parties thereto;

(c) The Company shall pay all fees and expenses (including attorney's fees) incurred by the Agent in connection with the Loan Agreement and the negotiation, structuring and documentation of the transactions contemplated by this Agreement and the Levine Subordinated Agreement immediately upon receipt of a bill therefor; and

(d) The Company shall have paid to the Agent (for the ratable benefit of the Lenders, a closing fee in the amount of \$200,000 (the "Closing Fee"). The Closing Fee shall be fully earned on the Closing Date, and will not be refunded to the Borrower, in whole in or part, under any circumstances.

4. Conditions to Lending; Compliance with Loan Documents, etc.

The Company hereby represents and warrants to the Agent and the Lenders that all of the conditions precedent to lending specified in Section 4 of the Loan Agreement have been and continue to be satisfied as of the date hereof. Without limiting the generality of the foregoing, the Company hereby confirms that (a) the Company is in compliance with all of the terms and provisions set forth in the Loan Agreement, the Security Documents each of the other Loan Documents, as amended hereby, and each of the Eligible Securitization Transaction Documents, on its part to be observed or performed on or prior to the date hereof; (b) without limiting the foregoing, no Default or Event of Default has occurred and is continuing; and (c) since December 31, 1997 there has been no material adverse change in the assets or liabilities or in the financial or other condition of the Company, except as disclosed in the Company's periodic filings with the SEC.

5. No Novation; Effect; Ratification and Acknowledgment of Security Documents; Counterparts; Governing Law.

Except to the extent specifically amended hereby, the Loan Agreement, the Notes, each of the Security Documents and all other Loan Documents shall be unaffected hereby and shall remain in full force and effect. The Company hereby acknowledges, confirms and ratifies its obligations under the Loan Agreement, the Notes, each of the Security Documents and all other Loan



Documents. This Second Amendment may be executed in any number of counterparts, and by the different parties on separate counterparts, each of which, when so executed and delivered, shall be an original, but all the counterparts shall together constitute one instrument. This Second Amendment shall be governed by the internal laws of The Commonwealth of Massachusetts (without reference to conflicts of law principals) and shall be binding upon and inure to the benefit of the parties hereto and the respective successors and assigns. The Company shall pay all reasonable out-of-pocket expenses of the Agent in connection with the preparation, execution and delivery of this Second Amendment.

IN WITNESS WHEREOF, the parties hereto have executed this Second Amendment Agreement as a sealed instrument as of the date first above written.

CONSUMER PORTFOLIO SERVICES, INC.

By:

(Title)

STATE STREET BANK AND TRUST COMPANY,  
INDIVIDUALLY AND AS AGENT

By:

(Title)

THE STRUCTURED FINANCE HIGH YIELD  
FUND, LLC

By:

(Title)

THE PRUDENTIAL INSURANCE  
COMPANY OF AMERICA

By:

(Title)

EXHIBIT 10.22  
**AMENDED AND RESTATED  
MOTOR VEHICLE INSTALLMENT  
CONTRACT LOAN AND SECURITY AGREEMENT**

Dated as of November 30,1998

by and between

**CPS FUNDING CORPORATION**

as Borrower

and

**GENERAL ELECTRIC CAPITAL CORPORATION,**

as Lender

**AMENDED AND RESTATED MOTOR VEHICLE  
INSTALLMENT CONTRACT LOAN AND SECURITY AGREEMENT**

This Amended and Restated Motor Vehicle Installment Contract Loan and Security Agreement ("Agreement") is entered into by and between CPS Funding Corporation, a California corporation (together with its successors and assigns, "Borrower"), and GENERAL ELECTRIC CAPITAL CORPORATION, a New York corporation (together with its successors and assigns hereinafter referred to as "Lender").

**RECITALS**

WHEREAS, Borrower is a financial organization primarily engaged in the business of acquiring installment sale contracts for motor vehicles;

WHEREAS, Lender has agreed to provide the loan on the terms and conditions set forth in this Agreement to Borrower; and

WHEREAS, Borrower and Lender desire to amend and restate the Receivables Funding And Servicing Agreement ("Prior Agreement") dated as of June 1, 1995 which was entered into by Borrower and Redwood Receivables Corporation and later assigned by Redwood Receivables Corporation to Lender. Borrower and Lender agree that (1) this Agreement is not a novation, refinancing or satisfaction of any existing loan under the Prior Agreement, nor is it a release or substitution of collateral thereunder, (2) the existing loan and security interest continue uninterrupted and are not diminished in any manner by the execution of this Agreement, and (3) this Agreement modifies the terms and conditions contained in the Prior Agreement to the terms and conditions contained in this Agreement.

NOW, THEREFORE, for good and valuable consideration, receipt of which is hereby acknowledged, Borrower and Lender agree as follows:

**ARTICLE I - DEFINITIONS**

Section 1.0 Defined Terms. Whenever used in this Agreement with such upper case letters as are shown below, the following terms shall have the respective meanings set forth below. When the terms are used in the plural, the plural forms of the meanings shall apply.

Accounting Period: means a calendar month, beginning with the month during which this Agreement is executed and ending with the calendar month during which the Indebtedness has been paid in full following termination of this Agreement.

Actual Payment: means, with respect to any Contracts all payments received by, from or for the account of the related Contract Debtor on such Contract.

Advance: means each of the Loan advances described in Article III of this Agreement.

Affiliate: means CPS and any Person, now or in the future (i) directly or indirectly owned or controlled in whole or in part by Borrower or CPS, or (ii) under common ownership or control with Borrower. For the purpose of this definition, "control" shall mean the power to direct, or cause the direction of, management or policies, whether through the ownership of voting securities, by contract or otherwise. For the purpose of this definition, "owned" shall mean at least 10% ownership.

Average Charged-Off Losses: means the Accounting Period average of the Charged-Off Losses for any three consecutive Accounting Periods for Pledged Contracts; provided that, until the first three Accounting Periods have expired, the Average Charged-Off Losses shall be the Accounting Period average of the Charged-Off Losses for the Accounting Periods which have expired.



**Bankruptcy Code:** means the Bankruptcy Reform Act of 1978, as amended, as the same may be further amended, and any other applicable state or federal law with respect to bankruptcy liquidation, insolvency or reorganization.

**Borrowing Base:** As of the date of its computation, an amount equal to the lesser of (a) 88% of the aggregate Gross Balance of Eligible Contracts minus the Unearned Interest Amount with respect to such Contracts, and (b) 91% of Borrower's aggregate net investment in Eligible Contracts. For the purpose of this calculation, Borrower's net investment in a Contract shall be equal to the net amount Borrower paid to purchase the Contract, which shall in no event be more than the Gross Balance minus the sum of (a) the Unearned Interest Amount, (b) any discounts, (c) any refundable reserves, (d) any boarding fees, and (e) any other fees or amounts Borrower is entitled to in connection with the purchase of the Contract.

**Business Day:** means any day other than (i) a Saturday or Sunday, or (ii) a day on which banking institutions in the State of New York are required by law to be closed.

**Certificate of Title:** means with respect to each Financed Vehicle, the certificate of title (or other evidence of ownership) issued by the department of motor vehicles, or other appropriate governmental body, of the state in which the Financed Vehicle is to be registered showing the Contract Debtor as owner, with either notation of Borrower's first lien or such other status indicated thereon which is necessary to perfect Borrower's security interest in the Financed Vehicle as a first priority interest, and showing no other actual or possible lien interest in the Financed Vehicle.

**Charged-Off Contract:** means a Contract for which (i) all or part of more than five (5) Scheduled Payments are due and unpaid, (ii) the Financed Vehicle has been surrendered, or repossessed, and any proceeds from the sale thereof have been received, (iii) a settlement has been made for less than the Gross Balance minus the Unearned Interest Amount, or (iv) a Skip Loss Investigation has been pending for more than one hundred and fifty (150) days.

**Charged-Off Losses:** means as of the end of an Accounting Period, the Gross Balance minus the Unearned Interest Amount of Charged-Off Contracts which become Charged-Off Contracts during the Accounting Period minus amounts received by Borrower during the Accounting Period and applied to Charged-Off Contracts which became Charged-Off Contracts during a previous Accounting Period, divided by the Gross Balance minus the Unearned Interest Amount of all Contracts owned by Borrower which are not Charged-Off Contracts; expressed as a percentage.

**Closing Date:** means the date on which the first Advance is made.

**Collateral:** means any and all real and personal, tangible and intangible, property in which Lender is granted a security interest now or hereafter, in this Agreement or otherwise, to secure Borrower's obligations to Lender.

**Collection Account:** means a bank account in the name of the Lender at a bank designated by the Lender.

**Collections:** means, with respect to any Receivable, all cash collections and other Proceeds of such Receivable (including late charges, fees and interest arising thereon and all recoveries with respect to Receivables that have been written off as uncollectible).

**Commitment Termination Date:** means the earlier of (a) the date so designated pursuant to Article 15 as a result of an Event of Default, and (b) the Final Maturity Date.

**Contract:** means an installment or conditional sale contract, with any amendments, owned or acquired by Borrower pursuant to which a Contract Debtor has: (i) purchased a new or used Motor Vehicle, (ii) granted a security interest in the Motor Vehicle to secure the Contract Debtor's payment obligations, and (iii) agreed to pay the unpaid purchase price and a finance charge in periodic installments no less frequently than monthly.

Contract Debtor: means the Person that has executed a Contract as a purchaser, and any guarantor, co-signer or other Person obligated to make payments under the Contract.

Contract Debtor Documents: means, with respect to each Contract Debtor:

(a) the original Certificate of Title or equivalent title documents issued by the relevant state motor vehicle authority, if applicable;

(b) the original executed Contract;

(c) hereafter, on new Financed Vehicles a copy of the Dealer Invoice and invoices for any additional equipment included in the Contract;

(d) a copy of the original credit application;

(e) copies of, but with respect to portfolio purchase of Contracts, only if such are available to Borrower from the seller of the portfolio purchase Contracts:

(i) the credit bureau reports,

(ii) the completed credit investigation form,

(iii) the completed verification of employment and income forms, and

(iv) the Contract Debtor's references;

(f) verification of Required Contract Debtor Insurance showing Borrower as loss payee, additional insured, or lienholder at the time of Borrower's purchase of the Contract, but with respect to portfolio purchases of Contracts, only if such are available to Borrower from the seller of the Contracts;

(g) a certificate for each type of Optional Contract Debtor Insurance purchased by the Contract Debtor; and

(h) Borrower's loan process or "deal structure" sheet.

Contract Delivery Documents: means the original Certificate of Title, if available, or a copy of the application for the Certificate of Title, and the original executed Contract with original Contract Debtor and Dealer signatures.

Contract Rights: means with respect to Pledged Contracts, (i) Borrower's interest in the Financed Vehicle; (ii) all rights of Borrower regarding the Contract and Financed Vehicle, including, but not limited to, rights to electronic funds transfers and rights under all dealer agreements and purchase agreements pursuant to which the Contract was acquired by Borrower; (iii) all rights of Borrower with respect to Optional Contract Debtor Insurance, Required Contract Debtor Insurance, VSI Insurance and any other policies of fire, theft or comprehensive insurance, collision insurance, public liability insurance or property damage insurance maintained with respect to the Financed Vehicle, the Contract, or the Contract Debtor; (iv) all rights of Borrower, if any, to prepaid dealer rate participation in connection with the Contract; (v) Remittances; and (vi) all rights of Borrower to the originals of all books, records (including electronic data), reports, files and documents relating to the Contracts, including, but not limited

to, Contract Debtor Documents, financial statements of Contract Debtors, and all payment reports or records relating to the Contracts.

Contract Rights Payors: means Persons, other than Contract Debtors, against whom Contract Rights can be asserted.

CPS: means Consumer Portfolio Services, Inc., a California corporation.



Credit and Collection Policies: means the credit, collection, customer relations and service policies of CPS and Borrower in effect as of the date hereof, as set forth in writing and delivered to Lender, and, as such policies may hereafter be amended, modified or supplemented from time to time with the written consent of Lender.

Dealer: means the seller of the Financed Vehicle to the Contract Debtor.

Dealer Invoice: means as to new Financed Vehicles, the Invoice prepared by the manufacturer showing the net cost; and, as to used Financed Vehicles, the NADA Used Car Guide trade-in value, or for the West Coast, the Kelley Wholesale Blue Book Wholesale Value, or for the Northeast, the Black Book Average Value.

Delinquency Measurement: means as of the end of an Accounting Period, the sum of the Gross Balance of all Delinquency Measurement Contracts for which at least two (2) due Scheduled Payments are less than ninety percent (90%) paid, divided by the monetary sum of all Scheduled Payments, whether or not due which have not been paid in full for all Delinquency Measurement Contracts, expressed as a percentage.

Delinquency Measurement Contracts: means all Pledged Contracts which are not Charged-Off Contracts, not paid in full or for which the Motor Vehicle has been secured in a repossession.

Eligible Contract: means each Contract which is listed on a List of Contracts delivered to Lender at the same time, and which in Lender's sole determination satisfies each of the following requirements (at the time of delivery and thereafter except to the extent expressly stated below to apply only at delivery or only thereafter):

(A) All of the representations and warranties in Section 10.0 are true with respect to, and all conditions precedent in Section 9.1 have been and continue to be met with respect to, the Contract, Financed Vehicle, Contract Debtor, Required Contract Debtor Insurance, and Optional Contract Debtor Insurance.

(B) The first Scheduled Payment is due within forty five (45) days after the date of the Contract and the Contract Date is within one (1) day of the delivery of the Financed Vehicle.

(C) The Contract has a fixed APR and the Finance Charge was computed using a fixed rate.

(D) The initial term of the Contract does not exceed sixty (60) months (except for the Super Alpha program Contracts) and the Schedule of Payments has equal monthly payments except for the final payment which may be less than the other equal payments, the payment obligation is in Dollars, and at the time the Contract was delivered to the Lender, there were at least twenty (20) remaining Scheduled Payments.

(E) The Contract is for the absolute sale of the Financed Vehicle to the Contract Debtor, and the Financed Vehicle is not on approval or subject to any agreement between the Contract Debtor and the Dealer for the repurchase or return of the Financed Vehicle.

(F) The Contract does not present a credit, collateral or documentation risk which is material and unacceptable to the Lender.

(G) The Dealer has been paid all amounts due for the purchase of the Contract from the Dealer.

(H) The Contract Debtor is an Eligible Contract Debtor.

(I) The Contract contains the original signature of the Contract Debtor and the Dealer.

(J) The Contract is the only unsatisfied original executed Contract for the purchase of the Financed Vehicle and accurately reflects all of the actual terms and conditions of the Contract Debtor's purchase of the Financed Vehicle.

(K) Neither Borrower nor an Affiliate has made any agreement with the Contract Debtor to reduce the amount owed on the Contract.

(L) Neither Borrower nor an Affiliate is required to perform any additional service for, or perform or incur any additional obligation to, the Contract Debtor in order for Borrower to enforce the Contract.

(M) The Contract, at the time Borrower purchased it, materially complied with the Credit and Collection Policies; or the Lender approved any material deviation from the Credit and Collection Policies for that Contract in writing.

(N) The Contract Debtor's obligations under the Contract are secured by a validly perfected first priority security interest in the Financed Vehicle in favor of Borrower or Lender as secured party.

(O) The Contract has not been, nor is it designated to be, terminated, satisfied, canceled, subordinated or rescinded in whole or in part; nor has the Financed Vehicle been released, or designated for release, from the security interest granted by the Contract; and all of the holder's obligations under the Contract have been performed except those which arise subsequent to the delivery to Lender.

(P) No provision of the Contract has been waived, extended, altered or modified in any respect except in accordance with the Credit and Collection Policies.

(Q) The day of the month that Scheduled Payments are due has not been changed from the original Schedule of Payments except for no more than one change which did not change the due date in a manner such that there was more than a thirty (30) day period for which no Scheduled Payment was due.

(R) No claims of rescission, setoff, counterclaim, defense or other material disputes have been asserted with respect to the Contract or Financed Vehicle.

(S) There are no unsatisfied liens or claims for taxes, labor, materials, fines, confiscation, or replevin relating to the Contract or Financed Vehicle. There is no unsatisfied claim against the Contract Debtor based on the operation or use of the Financed Vehicle. All taxes due for the purchase, use and ownership of the Financed Vehicle have been paid. All taxes due on the transfer of the Contract to Borrower and Lender have been paid.

(T) The Contract requires Required Contract Debtor Insurance and Borrower or CPS is a loss payee or insured under the Required Contract Debtor Insurance.

(U) The Company has not repossessed the Vehicle or commenced a replevin action or other lawsuit against the Contract Debtor or Financed Vehicle.

(V) The model year of the Financed Vehicle is not more than seven (7) years earlier than the model year in effect at the time the Contract is delivered to Lender.

(W) The obligation of the original Contract Debtor has not been released or assumed by another Person unless the release or assumption was properly documented and the Lender consents in writing to it for purposes of the Contract being an Eligible Contract.

(X) The Contract Debtor Documents exist.

(Y) Not more than two (2) Scheduled Payments are due and unpaid in whole or in part.

(Z) The cash down payment has been paid in full by the Contract Debtor and not loaned to the Contract Debtor by Borrower or an Affiliate, and any trade-in has been delivered to the Dealer with an endorsed Certificate of Title.

(AA) The Contract was purchased from a Dealer in the ordinary course of the Dealer's business within 60 days after the Contract Date.

(BB) The first or second Scheduled Payments are not paid more than forty-five (45) days past the scheduled due date.

(CC) The Amount Financed does not exceed one hundred fifty percent (150%) of the net cost or value if applicable, shown on the Dealer Invoice.

(DD) The Amount Financed on the Contract Date does not exceed \$30,000 and the Vehicle has no more than 85,000 miles on its odometer on the Contract Date.

(EE) Not more than 360 days have elapsed since the date the Contract was pledged to Lender hereunder.

(FF) On or before the date which is 120 days after the Contract Date, the original Certificate of Title or equivalent title documents issued by the relevant state motor vehicle authority, if applicable, shall have been delivered to the Lender.

(GG) The inclusion of the Contract as an Eligible Contract will not cause (1) the average of the down payment ratios (down payment as % of the sales price of the Financed Vehicle) for the Pledged Contracts to be less than 10%, (2) the average of the income ratios (Scheduled Payment as % of the Contract Debtor's monthly income) for the Pledged Contracts to exceed 20%, (3) the average of the debt ratios (total monthly debt, including the Contract, as a % of the Contract Debtor's monthly income) for the Pledged Contracts to exceed 45%, or (4) the number of Pledged Contracts approved under Borrower's Delta program plus the number of Pledged Contracts approved under Borrower's First Time Buyer program to exceed 15 % of the total number of Pledged Contracts.

Event of Default: has the meaning provided in Section 15.0 of this Agreement.

Final Maturity Date: means December 31, 1998 unless Borrower activates Article IV in the CPS Secured Guaranty Agreement before December 31, 1998 in which case the Final Maturity Date means November 30, 1999.

Financed Vehicle: means the new or used Motor Vehicle purchased by a Contract Debtor pursuant to a Contract, or any substituted vehicle which is properly documented and approved by Lender.

Governmental Authority: means the United States of America, any state, local or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions thereof or pertaining thereto.

Gross Balance: means, with respect to any Contract, an amount equal to the number of remaining Scheduled Payments multiplied by the amount of each Scheduled Payment minus any Prepayments or other payments applied to reduce the unpaid principal balance of such Contract.

Indebtedness: means the Loan and all other amounts, including but not limited to interest, that Borrower owes Lender in connection with this Agreement.

Interest Coverage: means the sum of Borrower's year-to-date pre-tax income plus Borrower's year to date interest expense, compared to Borrower's year-do-date interest expense.

LIBOR Rate: means the average of the "three month" London Interbank Offered Rates ("LIBOR") published in the Money Rates column of the Wall Street Journal during the calendar month immediately preceding the calendar month for which interest is being calculated, or published in such other publication as Lender may designate.

List of Contracts: means the list delivered to Lender by Borrower with each Contract or group of Contracts which: (i) identifies each Contract being delivered by account number, the name of the Contract Debtor, the Gross Balance, and the year, make, model, and VIN of the Financed Vehicle, and (ii) shows the total number of Contracts and the total of the Gross Balances.

Loan: means the outstanding principal amount of the Advances, plus all other amounts advanced, expended or applied by Lender under this Agreement to or for the benefit of Borrower or to perform or enforce Borrower's covenants in this Agreement.

Loan Availability: means the amount by which the Borrowing Base exceeds the Loan.

Loan Documents: means this Agreement, the Note, and the Supplemental Documentation.

Lockbox: means the arrangement established by the Lender at a bank or financial institution for the receipt and identification of Remittances.

Motor Vehicle: means a passenger motor vehicle, van, or light duty truck which is not manufactured for a particular commercial purpose and which can be registered for use on public highways and is not a "grey market" vehicle.

Non-Utilization Fee: means the fee calculated by multiplying the Non-Utilization Rate times the amount by which \$100,000,000 (one hundred million and no/100) exceeds the average balance of the Loan for the appropriate Accounting Period. If the Loan balance for any day is less than zero, such Loan balance shall be assumed to be positive for purposes of the average balance calculation.

Non-Utilization Rate: means a monthly percentage rate equal to .02083% or an annual percentage rate equal to one quarter of one percent (.25%).

Note: means the promissory note issued by Borrower to Lender substantially in the form of Exhibit A hereto.

Optional Contract Debtor Insurance: any insurance, other than Required Contract Debtor Insurance which insures a Financed Vehicle or a Contract Debtor's obligations under a Contract, including but not limited to credit life, credit health, credit disability, unemployment insurance; and any service contract, mechanical breakdown coverage, warranty, or extended warranty for a Financed Vehicle.

Person: means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, institution, entity, party, or government (including, any instrumentality or division thereof).

Pledged Contract: means any Contract owned on the Closing Date or in the future by Borrower unless it has been, to the extent allowed by this Agreement, pledged to a Person other than Lender or sold.

Pre-Default Event: means an event which with the passage of time, the giving of notice, or both, would constitute an Event of Default if Lender gave any notice required by this Agreement for the event to be an Event of Default, or if the event continued past the end of any period specifically allowed by this Agreement for the event to continue before it becomes an Event of Default.

**Prepayment:** means, with respect to a Contract on any day of determination, the amount, if any, by which the Actual Payment exceeds the Scheduled Payment.

**Proceeds:** means, with respect to any Collateral, whatever is receivable or received when such Collateral is sold, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes all rights to payment, including returned premiums, with respect to any insurance relating to such Collateral.

**Records:** means all Contracts and other documents, books, records and other information (including, without limitation, computer programs, tapes, disks, data processing software and related property and rights) prepared and maintained by Borrower with respect to Receivables and the related Contract Debtors.

**Remittances:** means all payments made with respect to Pledged Contracts, including, but not limited to, Scheduled Payments, full and partial prepayments, liquidation proceeds, insurance proceeds and refunds, late charges, fees (including but not limited to NSF fees and extension fees), and payments from Contract Rights Payors.

**Required Contract Debtor Insurance:** means insurance for physical damage to, and theft or loss of, the Financed Vehicle, having a deductible no higher than \$500 and providing coverage at least equal to the actual cash value of the Financed Vehicle.

**Rolling Average Delinquency:** means the average of the Delinquency Measurements for any three consecutive Accounting Periods for Pledged Contracts; provided that, until the first three Accounting Periods have expired, the Rolling Average Delinquency shall be the average of the Delinquency Measurements for the Accounting Periods which have expired.

**Schedule of Payments:** means the schedule of payments disclosed on a Contract.

**Scheduled Payment:** means the periodic installment payment amount disclosed in the Schedule of Payments for the Contract.

**Skip Loss Investigation:** means an investigation initiated by Borrower of the whereabouts of a Financed Vehicle or a Contract Debtor.

**Statement of Borrowing Base:** means a statement issued by lender which contains the amount of the Borrowing Base, the amount of the Loan or Indebtedness, and either the amount available for Advances or the amount by which the Loan or Indebtedness exceeds the Borrowing Base.

**Supplemental Documentation:** means all agreements, instruments, documents, certificates of title, financing statements, notices of assignment, Lists of Contracts, chattel mortgages, powers of attorney, subordination agreements, and other written matter necessary or reasonably requested by Lender to perfect and maintain perfected Lender's security interest in the Collateral or to consummate the transactions contemplated by this Agreement.

**UCC:** means the Uniform Commercial Code of the applicable state.

**Unearned Interest Amount:** means, with respect to any Contract, the aggregate amount of the unearned interest on such Contract calculated in accordance with the constant yield method, as shown on the books of the Borrower.

**Year 2000 Compliant:** means:

(A) The operating systems for Borrower's computers, all software applications that run on Borrower's computers, all Borrower's facilities, machinery and equipment and Borrower's products and services (collectively, "Products and Services) accurately process, provide and or receive date/time data

(including without limitation events and data in the twentieth and twenty-first centuries and the years 1999 and 2000) including leap year calculations, and

(B) Neither the performance nor the functionality of Borrower, nor Borrower's supply of Products and Services will be affected adversely by dates/times prior to, on, after, or spanning January 1, 2000. In particular, but without limitations, the design and performance of the Products and Services shall include, without limitations, proper date/time data century recognition, proper recognition of April 9, 1999, September 9, 1999, December 31, 1999, January 1, 2000, January 3, 2000, January 10, 2000, January 31, 2000, February 29, 2000, March 31, 2000, October 31, 2000, January 1, 2001 and December 31, 2001, and proper recognition of Leap Years calculation, proper same century and multi-century formulae and date/time values before, on, after, and spanning January 1, 2000, and date/time data interface values that properly reflect the century, 1999 and 2000; and

(C) No value for date/time will cause any error, interpretation, or decreased performance in or for such Products and Services; and

(D) All manipulations of date and time related data (including but not limited to, calculating, comparing, sequencing, processing, and outputting) will produce correct results for all valid dates and times, including when used in combination with other products, services, and/or items; and

(E) Date /time elements in interfaces and data storage will specify the century and date/time data so as to eliminate date ambiguity without human intervention, including Leap Year calculations/date, where any date is represented without a century, the correct century will be unambiguous for all manipulations involving that element; and

(F) Authorizations codes, passwords, and purge functions shall operate normally and in the same manner in which they function with respect to expiration dates and CPU serial numbers; and

(G) Neither Borrower's supply of Products and Services, Borrower's business, Borrower's operations nor Borrower's financial condition will be interrupted, delayed, decreased, or otherwise adversely affected by dates prior too, on, after, or spanning January 1, 2000."

Section 1.1 Other Terms: All terms not defined in this Agreement shall, unless the context indicates otherwise, have the meanings provided in the UCC to the extent the same are defined therein.

Section 1.2 Accounting Terms. Any accounting terms used in this Agreement which are not specifically defined shall have the meanings customarily given them in accordance with generally accepted accounting principles.

## **ARTICLE II - LOAN; GENERAL TERMS**

Section 2.0 Revolving Credit; Loan Amount. Subject to all of the terms and conditions of this Agreement, the Lender agrees to loan funds to Borrower against Eligible Contracts from time to time in a series of Advances during the term of this Agreement. Funds may be borrowed, repaid and reborrowed on a revolving basis subject to the terms and conditions set forth in this Agreement, provided that the Loan shall not at any time exceed the lesser of the Borrowing Base or \$100,000,000. Borrower's obligation to pay the Loan is evidenced by this Agreement and the Note. Borrower is obligated to pay Lender as provided in this Agreement whether or not Borrower has executed a promissory note. Any promissory note executed by Borrower is adequate, but not required, proof of the Indebtedness when so used by Lender. The actual amount Borrower is obligated to pay Lender shall be determined by this Agreement and the records of Lender, regardless of the terms of any promissory note. Any promissory notes executed in connection with the Indebtedness need not be amended to reflect changes made to this Agreement. The records of Lender shall, absent manifest error, be conclusive evidence at any time as to the amount of the Loan, the interest due thereon, and all other amounts owed in connection with this Agreement.

Section 2.1 Loan Purpose. Borrower shall use the Advances for the legal and proper corporate working capital needs of Borrower.

Section 2.2 Single Loan. All Advances by Lender to Borrower shall constitute one loan and all indebtedness and obligations of Borrower to Lender under the Loan Documents shall constitute an obligation secured by Lender's security interest in all of the Collateral.

Section 2.3 General Interest Rate. Except as modified by Sections 2.5 and 15.1, the Loan shall bear interest, calculated daily on the basis of a 365-day year, at a per annum rate equal to three and one-half percent (3.50%) plus the LIBOR Rate.

Section 2.4 Loan Term; Right to Terminate. Unless sooner terminated as hereinafter provided, this Agreement shall expire on the Commitment Termination Date. The prepayment in full of all Advances is a termination of this Agreement. In addition, if an Event of Default has occurred, Lender may without prior notice to Borrower, immediately terminate this Agreement. Notwithstanding termination of this Agreement, the Indebtedness shall be payable in accordance with this Agreement, and all rights and remedies granted to Lender hereunder or pursuant to applicable law shall continue until all obligations of Borrower to Lender have been fully paid and performed.

#### Section 2.5 Maximum Lawful Rate.

(A) Interest Rate. Notwithstanding any provision in this Agreement, or in any other document, if at any time before the payment in full of the Indebtedness, any of the rates of interest specified in this Agreement (the "Stated Rates") exceeds the highest rate of interest permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto (the "Maximum Lawful Rate"), then in such event and so long as the Maximum Lawful Rate would be so exceeded, the rate of interest payable shall be equal to the Maximum Lawful Rate; provided, however, that if at any time thereafter the Stated Rates shall be less than the Maximum Lawful Rate, then, subject to (B) below, Borrower shall continue to pay interest at the Maximum Lawful Rate until such time as the total interest received by Lender is equal to the total interest which Lender would have received had the Stated Rates been (but for the operation of this Section 2.5(A)) the interest rates payable; thereafter, the interest rates payable shall be the Stated Rates unless and until any of the Stated Rates shall again exceed the Maximum Lawful Rate, in which event this Section 2.5(A) shall again apply. In the event interest payable hereunder is calculated at the Maximum Lawful Rate, such interest shall be calculated at a daily rate equal to the Maximum Lawful Rate divided by the number of days in the year in which such calculation is made.

(B) Amount of Interest. In no event shall the total interest contracted for, charged, received or owed pursuant to the terms of this Agreement exceed the amount which Lender may lawfully receive. In the event that a court of competent jurisdiction, notwithstanding the provisions of this Section 2.5, shall make a final determination that Lender has received, charged, collected, or contracted for interest hereunder in excess of the amount which Lender could lawfully have, Lender shall, to the extent permitted by law, promptly apply such excess first to any interest due (calculated at the Maximum Lawful Rate if applicable) and not yet paid, then to the prepayment of principal, and any excess remaining thereafter and after application to any other amounts Borrower owes Lender shall be refunded to Borrower. In determining whether the interest exceeds the Maximum Lawful Rate or the maximum amount which Lender could lawfully have received, the total amount of interest shall, to the extent allowed by law, be spread over the term of the Loan. Any provisions of this Agreement regarding the time during which interest accrues on Advances are only elements of the formula for calculating interest on the total Loan and are not intended to cause interest to be applied to specific Advances for usury determination purposes.

### **ARTICLE III - LOAN DISBURSEMENTS**

Section 3.0 Loan - Borrowing Base. Provided that (i) there does not then exist an Event of Default or a Pre-Default Event, and (ii) Lender has not taken over all or some of the administration of the Contracts, Lender shall, upon written request of Borrower and subject to all of the terms and conditions of this Agreement, make Advances to Borrower pursuant to Section 3.2.





Section 3.1 Eligible Contracts. No less frequently than every other Business Day, Borrower shall deliver to Lender all Eligible Contracts which Borrower owns and has not previously delivered to Lender. Along with the Contracts Borrower shall also deliver a List of Contracts. An Eligible Contract shall be included in the Borrowing Base only when and for so long as, in Lender's sole determination, each of the requirements in the definition of Eligible Contracts continues to be satisfied. If a Contract is determined by Lender to be, or is treated by Lender as, an Eligible Contract, Lender reserves the right to change its determination or treatment and to remove the Contract from the Borrowing Base if it later determines that the Contract is not or was not an Eligible Contract. A determination by Lender that a Contract is an Eligible Contract is not a waiver by Lender of, or an admission by Lender of the truth of, any of Borrower's representations and warranties in this Agreement. If Lender intentionally includes a Contract in the Borrowing Base even though the Contract does not satisfy all of the requirements for being an Eligible Contract, Lender does not waive the right to exclude any similar Contract delivered to Lender before or after the included Contract.

#### Section 3.2 Procedure for Borrowing.

(A) The first Advance shall not exceed the Borrowing Base. Subsequent Advances shall not be made more frequently than every other business day. Each subsequent Advance shall not exceed the Loan Availability determined at Lender's election either as of the day of the Advance request, the end of the most recent Accounting Period for which Lender has received the monthly reports required by Section 5.1 (C), or, as of such other date thereafter designated by Lender. Lender is not obligated to make an Advance if the amount available or requested is less than One Hundred Thousand Dollars (\$100,000.00). Lender is not obligated to make an Advance unless Borrower provides Lender with sufficient information to calculate the Loan Availability. Lenders use of the information provided by Borrower to determine the amount available for Advances is not an admission by Lender as to the accuracy of the information, and Lender reserves the right to verify the information and redetermine the amount available for Advances.

(B) Lender shall disburse each Advance requested by Borrower within one (1) Business Day after receipt of Borrower's written request for the Advance. Lender shall disburse each Advance requested by Borrower by wire transfer to Borrower.

### **ARTICLE IV - LOANS: PAYMENTS**

#### Section 4.0 Payments by Borrower.

(A) All payments by Borrower to Lender shall be in a form payable to Lender and shall be sent to: GE Capital, 540 W. Northwest Highway, Barrington, Illinois 60010 Attention: Manager - Asset Based Financing, or shall be sent to such other location that Lender notifies Borrower to send payments. Borrower shall make all payments to Lender by either an electronic fund transfer method acceptable to Lender or ACH (Automated Clearing House).

(B) Whenever Lender shall notify Borrower, with a Statement of Borrowing Base or otherwise, that the Loan exceeds the Borrowing Base, Borrower shall within one (1) Business Day after receipt of such notice, either pay down the Loan by the amount of such excess, or, if Lender consents, deliver additional Eligible Contracts to Lender which are sufficient to increase the Borrowing Base above the Loan.

(C) On the Commitment Termination Date, Borrower shall pay to Lender the entire Indebtedness. If there is an Event of Default, Borrower shall pay the entire Indebtedness on demand if the Indebtedness is accelerated pursuant to Section 15.2.

(D) Interest shall accrue on the Loan daily and be paid from the Remittances as provided in Section 4.2. If at the end of an Accounting Period there is more than one Business Day of accrued unpaid interest, Borrower shall pay the more-than-one-day accrued interest to Lender within one (1) Business Day after the end of the Accounting Period. Accrued interest shall not be added to the Loan balance and bear interest, unless the

interest is past due and paid with an Advance requested by Borrower and approved by Lender; provided that, such an approval by Lender shall not constitute a waiver of the Event of Default consisting of the failure to pay the interest except to the extent provided in Section 16.9.

(E) The payment of all elements of the Indebtedness not covered by the foregoing Subsections (B), (C), or (D) shall be payable by Borrower to Lender as and when provided in the Loan Documents, and, if not specified, then on demand.

(F) Borrower has the right to prepay the Loan in full or in part at any time without penalty.

(G) The Non-Utilization Fee shall be payable monthly in arrears within fifteen (15) days after the end of an Accounting Period for which a Non-Utilization Fee is due.

(H) Borrower shall immediately pay to Lender the balance of any Advance for any Pledged Contract upon the sale or other disposition of such Pledged Contract.

(I) Borrower shall have paid Lender a line fee of \$250,000 on or before November 30, 1998.

Section 4.1 Contract Payments. Borrower shall direct all Contract Debtors for Pledged Contracts to make, when paying by mail, all payments directly to the Lockbox. Borrower shall direct all Persons, other than Contract Debtors, who make payments to Borrower relating to Pledged Contracts, including but not limited to Contract Rights Payors, to make payment directly to the Lockbox. In the event Borrower receives any Remittances, Borrower shall, as soon as possible but no later than the next Business Day following receipt, deposit the remittances in kind in the Collection Account. Borrower shall hold Remittances in trust for Lender until delivery to Lender or deposit in the Collection Account. Borrower shall pay all expenses associated with the Lockbox.

Section 4.2 Application of Payments. All Remittances received by Lender or the Collection Account shall be applied by Lender to the Indebtedness within two (2) Business Days after the Remittance has been credited to the Collection Account. No Remittance other than cash shall be treated as a final payment to Lender unless and until such item has actually been collected by the Collection Account and such collection has been finally credited to the Collection Account; provided, further, that if a Remittance applied to the Indebtedness is charged back to the Collection Account, Lender can retroactively remove the application of the Remittance to the Indebtedness and accrue any interest not accrued because of the application of the Remittance to the Indebtedness. Each Remittance applied by Lender to the Indebtedness shall be applied by Lender first to accrued interest and, if sufficient to pay accrued interest, any excess shall be applied then to the Loan, and, if sufficient to pay the accrued interest and the Loan, any excess shall then be applied to the remaining elements of the Indebtedness, if any, or, if not, Lender shall, if there is no Event of Default or Pre-Default Event, remit the same to Borrower within two Business Days; provided that, Lender reserves the right to use a different order of application if there is an Event of Default or Pre-Default Event or Lender has given prior written notice to Borrower of a different order. All Remittances received by the Collection Account or Lender may be applied to the Indebtedness even though no portion of the Indebtedness is otherwise then due and even though Lender has not sent Borrower a demand, notice or request for payment of the Indebtedness. Payments shall be deemed to be due by Borrower when received by Lender unless they are due sooner by the terms of the Loan Documents.

## ARTICLE V - CONTRACT ADMINISTRATION

### Section 5.0 Lender Administration

(A) Lender shall have no liability to Borrower with respect to Remittances received by Lender, the Lockbox, or the Collection Account, other than to: (i) apply the Remittances pursuant to Section 4.2 of this Agreement; (ii) ensure that there is a provision in Lenders Agreement with the Lockbox Bank which requires the bank to routinely provide Borrower with a report of Remittances received by the Lockbox which itemizes the Remittances by Contract to the extent the Remittances contain sufficient identifying information; and (iii) upon termination of this Agreement and Borrowers satisfaction of all of its obligations under this Agreement, to assign the Lockbox and its contents to Borrower. Lender shall have no liability to Borrower with respect to any interest or other earnings which are earned, or could have been earned, on the Remittances while they are in the Lockbox, the Collection Account, or otherwise.

(B) Borrower shall transfer to Lender the U.S. Postal Service post office boxes used by Borrower for the receipt of Remittances processed by Borrower's service centers. Immediately after the U.S. Postal Service has recorded the post office boxes in the name of Lender, (i) the post office boxes shall be the Lockbox, and (ii) Lender shall designate Borrower (or employees of Borrower specified by Borrower) to the U.S. Postal Service as an authorized retriever of mail from the post office boxes subject to Lender's right to cancel such authorization. Lender shall not exercise its rights to cancel Borrower's authorization to retrieve mail from the Lockbox before Lender has the right (as described in Section 5.1(E)) to take over all or part of the administration that Borrower is required by this Agreement to perform. Until Lender exercises its right to take over all or part of the administration, Lender shall maintain a Collection Account near each of Borrower's service centers identified in Section 5.1(B).

### Section 5.1 Borrower Administration

(A) Borrower shall perform all aspects of servicing, administering, collecting, liquidating, accounting for and managing (collectively, administering, administer, or administration) the Pledged Contracts it customarily performs and all aspects that are customarily performed by financial institutions in the administration of their motor vehicle installment contracts. Borrower shall provide such administration in a reasonable and prudent way that does not, in Lenders determination, adversely affect the value of the Collateral to Lender. Borrower shall provide such administration with at least the same standard of care used by large financial institutions in the administration of motor vehicle installment contracts. Lender shall be the sole determine as to whether such standard of care has been met. The administration provided by Borrower shall include but not be limited to all servicing currently provided by Borrower, and Financed Vehicle titling and lien perfection, customer service, insurance claim tracking and collection, insurance maintenance, Contract enforcement, Contract billing, payment processing, portfolio and Contract accounting, portfolio management, delinquency collection, repossession, foreclosure, resale, and maintaining current Contract Debtor and Financed Vehicle location information (name, address and phone number). Borrower shall maintain current, accurate, and complete records of activity and comments regarding collection, insurance, payments, and other material events. The records regarding collection, history, payments, Contract accounting, customer service notes, Contract Debtor names and addresses and Gross Balance shall be computerized. Borrower shall require Contract Debtors to maintain Required Contract Debtor Insurance in accordance with Borrowers existing procedures. Borrower shall administer and otherwise deal with the Contracts in compliance with all applicable laws. Borrower shall conduct foreclosure sales in a commercially reasonable manner and take the steps necessary to preserve the deficiency liability of the Contract Debtors.

(B) Borrower shall administer the Pledged Contracts at its existing service centers in Irvine, California, and Chesapeake, Virginia or at such other locations that Borrower provides prior notice of to Lender and Lender approves for Contract administration.

(C) Borrower shall furnish to Lender such reports in such form that Lender determines are necessary for it to track and monitor the Pledged Contracts, Remittances, Financed Vehicles, and insurance. Such reports shall include but not be limited to:

REPORT -----	FREQUENCY -----
Cash Report	Daily
Discount Report Summary	Monthly
Trial Balance of Contracts	Monthly
Gross Delinquency Summary Report	Monthly
Loans Paid Off This Month Report	Monthly
Loans Charged-Off This Month Report	Monthly
Delinquency Detail Report	Monthly

The daily reports shall be provided to Lender no later than the next Business Day after the day covered by the report. The monthly reports shall be provided to Lender no later than fifteen (15) Business Days after the end of the month. Borrower shall deliver with the monthly reports a certificate of the chief financial officer of Borrower, in the form of Exhibit E and a covenant compliance certificate, certifying as to the completeness and accuracy of the reports provided pursuant to this Section 5.1(C). Borrower shall deliver to Lender, no later than the fifteenth (15th) Business Day following each Accounting Period, an up-to-date master file back-up tape in a form usable by Lenders computer of all Pledged Contract information for the Accounting Period relating to the Contract files which Borrower has placed on electronic media, including but not limited to, payment histories, contract accounting, Gross Balance, and Contract Debtor names and addresses.

(D) Notwithstanding anything herein to the contrary, (i) Borrower shall remain liable under all Contracts, and any other contracts and agreements with Contact Rights Payors or otherwise included in or related to the Collateral, to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed; (ii) the exercise by Lender of any rights under any of the Loan Documents shall not release Borrower from any of its duties or obligations under the Contracts, or the other contracts and agreements; and (iii) Lender shall not have any obligation or liability under the Contracts, or the other contracts and agreements, nor shall Lender be obligated to perform any of the obligations or duties of Borrower thereunder or take any action to collect or enforce any rights thereunder.

(E) Borrower shall administer the Contracts at its own expense. In the event there is an Event of Default or a Pre-Default Event, Lender may in Lenders or Borrowers name, take over all or part of the administration that Borrower is required by this Agreement to perform. If Lender takes over all or part of the administration, Borrower shall pay to Lender on demand all out-of-pocket costs incurred by Lender in the performance of Borrowers administration obligations, and Borrower shall pay Lender for the administration performed by Lender an administration fee (exclusive of out-of-pocket costs) established by Lender consistent with generally prevailing fees charged by servicers of Contracts of similar credit quality, and until so paid such costs and fee shall be part of the Loan.

Section 5.2 Servicing Agreements. Borrower shall not enter into any agreements for the servicing (including origination or administration) of the Pledged Contracts other than servicing agreements with CPS which Lender has approved. Borrower shall not make any changes to servicing agreements approved by Lender unless Lender approves the changes. Borrower hereby assigns to Lender all of Borrower's rights regarding Pledged Contracts under servicing agreements for the Pledged Contracts. Borrower can continue to exercise such rights until an Event of Default, at which time they may only be exercised by Lender or with Lender's approval. Lender assumes no liabilities to Borrower or others with regard to the servicing agreements.

## **ARTICLE VI - COLLATERAL: GENERAL TERMS**

Section 6.0 Security Interest. To secure the prompt performance and payment in full when due, whether at stated maturity, by acceleration or otherwise of the Indebtedness and all of Borrower's existing and future obligations to Lender whether arising under or related to this Agreement or otherwise, Borrower hereby

grants to Lender a continuing security interest in, and lien upon, all of Borrower's right, title and interest, whether now owned or existing or hereafter arising or acquired and regardless of where located in, and to, the following:

Contracts; Contract Debtor Documents; Contract Rights; payments from Contract Debtor bank accounts; chattel paper; leases; installment sale contracts; installment loan contracts; payments from chattel paper obligors; security deposits; motor vehicles (including but not limited to cars, trucks and motorcycles); certificates of title; contract purchase discounts; accounts; general intangibles; security interests, collateral securing chattel paper; dealer agreements; dealer reserves and rate participation; rights of Borrower related to chattel paper, installment contracts, motor vehicles, and collateral securing chattel paper; documents; instruments; deposit accounts; electronic funds transfers; equipment; inventory; parts and accessories for motor vehicles; payments from account debtor bank accounts; reserve accounts; insurance policies, and benefits and rights under insurance policies, which Borrower is solely or jointly the owner of, insured under, the lienholder or loss payee under, or the beneficiary of; and all payments and property of any kind, now or at any time or times hereafter, in the possession or under the control of Lender, or a bailee of Lender;

accessions to, substitutions for and all replacements, products and proceeds of, any of the foregoing property;

books and records (including, without limitation, financial statements, accounting records, customer lists, credit files, computer programs, print-outs and other computer materials and records) of Borrower pertaining to any of the foregoing property; and

Borrower's rights under servicing agreements for the Pledged Contracts.

Section 6.1 Disclosure of Security Interest. Borrower shall make appropriate entries upon its financial statements and its books and records disclosing Lenders security interest in the Collateral. Borrower shall inform Lender of any potentially materially adverse information it receives concerning the Collateral or Lenders rights in the Collateral.

Section 6.2 Additional Acts. Borrower shall perform all other acts requested by Lender for the purpose of perfecting, protecting, maintaining and enforcing Lenders security interest in the Collateral and the priority of such security interest. Borrower agrees that a carbon, photographic, photostatic, or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement. Borrower, upon request of Lender shall either pay and or reimburse Lender for all costs, filing fees, and taxes associated with the perfection of Lenders security interest.

Section 6.3 Inspection and Access. Lender and its agents shall have the rights, at any time, to (i) during Borrowers usual business hours, inspect the Collateral and the premises upon which any of the Collateral is located; (ii) during Borrowers usual business hours, inspect, audit and make copies or extracts from any of Borrowers records, computer systems, files, and books of account; (iii) during Borrowers usual business hours, monitor Borrowers performance of its obligations with respect to this Agreement; (iv) obtain information about Borrowers affairs and finances from any Person; and (v) verify, in Lenders name or in the name of Borrower, the validity, amount, quality, quantity, value and condition of, or any other matter relating to, the Collateral including but not limited to verifying Contract information with Contract Debtors. Borrower shall, upon Lenders request from time to time, instruct its vendors, banking and other financial institutions and its accountants to make available to Lender and discuss with Lender such information and records as Lender may request. Borrower authorizes Lender, if requested by a Person other than a credit reporting agency and without request if the Person is a credit-reporting agency, to provide that Person with information about the Indebtedness, Collateral and Borrowers performance of this Agreement. As long as there is a Pre-Default Event, and after an Event of Default has occurred, all costs, fees and expenses thereafter incurred by Lender, or for which Lender becomes obligated, in connection with any inspection, audit, monitoring, or verification shall be payable to Lender by Borrower on demand by Lender and until paid shall be part of the Loan. If Borrower maintains or stores any data with respect to Collateral on a computer system, Borrower shall upon request of Lender, at Lenders option, provide Lender with on-line access or deliver to Lender duplicate copies of the requested data in machine readable form acceptable to Lender along with a printout or other hard copy of such data. Borrower shall, on request of Lender, provide to Lender (at the location designated by Lender) the Contract Debtor Documents.



Section 6.4 Right to Notify and Endorse. Borrower hereby irrevocably authorizes Lender to, at any time and in the name of Lender or Borrower, notify any or all Contract Debtors and Contract Rights Payors that Lender has a security interest in Contracts, Contract Rights, and other items of Collateral. Any such notice shall, at Lenders election, be signed by Borrower and may be sent on Borrowers stationery.

Section 6.5 Lender Appointed Attorney-in-Fact. Borrower hereby irrevocable appoints Lender (and all Persons designated by Lender for that purpose) as Borrowers true and lawful attorney-in-fact to act in Borrowers place in Borrowers or Lenders name (i) to endorse Borrowers name on any Remittance; (ii) to sign Borrowers name on any assignment or termination of a security interest in a Financed Vehicle, on any application for a Certificate of Title for a Financed Vehicle, or on any UCC financing statement related to Collateral, and on any other public records regarding the Collateral; and (iii) to send requests for verification to Contract Debtors. Borrower ratifies and approves all acts of Lender as Borrowers attorney-in-fact. Lender shall not, when acting as attorney-in-fact, be liable for any acts or omissions as or for any error of judgment or mistake of fact or law, except for actions taken in bad faith. This power, being coupled with an interest, is irrevocable until all payment and performance obligations of Borrower to Lender have been fully satisfied. Borrower shall upon request of Lender execute powers of attorney to separately evidence the foregoing powers granted to Lender. As long as there is a Pre-Default Event, and after an Event of Default has occurred, all costs, fees and expense thereafter incurred by Lender, or for which Lender becomes obligated, in connection with exercising any of the foreign powers shall be payable to Lender by Borrower on demand by Lender and until paid shall be part of the Loan.

Section 6.6 Change of Collateral, Location, Office or Structure. Borrower shall keep the Collateral, other than Collateral delivered to Lender and Financed Vehicles, at Borrower address in Section 16.1 or, subject to Section 5.1(B), one of its service centers, and Borrower shall maintain Borrower address in Section 16.1 or, subject to Section 5.1(B), one of its service centers, as its principal place of business and chief executive office, unless Borrower gives Lender at least sixty (60) days' prior written notice of a change and before the change takes whatever action Lender requires to maintain the priority and perfection of its security interest in, and access to, the Collateral. Borrower shall not change its name, trade name, identity, corporate structure, or service center locations unless Borrower gives Lender at least sixty (60) days' prior written notice of a change and before the change takes whatever action Lender requires to maintain the priority and perfection of its security interest in, and access to the Collateral.

Section 6.7 Lenders Payment of Claims Asserted against Borrower. Lender may, at any time, in its sole discretion and without obligation to do so and without waiving or releasing any obligation, liability or duty of Borrower under the Loan Documents or any Event of Default, pay, acquire or accept an assignment of any security interest, lien, claim or encumbrance asserted by any Person against the Collateral; provided that Lender shall first give Borrower written notice of its intent to do the same, and Borrower does not, within five (5) days of such notice, pay such claim and/or obtain to Lenders reasonable satisfaction the release of the security interest, liens, claims or encumbrances to which such notice relates. All sums paid by Lender in respect thereof and all costs, fees and expenses, including reasonable attorneys fees, court costs, expenses and other charges relating thereto, which are incurred by Lender on account thereof, shall be payable by Borrower to Lender on demand by Lender and until paid shall be part of the Loan.

Section 6.8 Termination of Security Interest. Lenders security interest in the Collateral shall continue until performance and payment in full of all of Borrowers obligations to Lender in accordance with the terms of agreements creating such obligations; and if, at any time, all or part of a payment or transfer made by Borrower or any other Person and applied by Lender to Borrowers obligations to Lender is rescinded or otherwise must be returned by Lender for any reason whatsoever (including, without limitation, the insolvency, bankruptcy or reorganization of Borrower or such other Person), the security interest granted hereunder or under any other present or future agreement between Borrower and Lender, and all rights of Lender, shall be reinstated as to the obligations which were satisfied by the payment or transfer rescinded or returned, all as though such payment or transfer had not been made, and Borrower shall take the action requested by Lender to re-perfect all terminated security interests and to reinstate all satisfied obligations. Lender shall release its security interest in Contracts which are sold or pledged to other Persons in accordance with Section 14.8.

Section 6.9 Return of Contract Delivery Documents. Lender shall return to Borrower within three (3) Business Days of Borrowers request any Contract Delivery Document originals for Contracts paid in full. In addition, provided that there is no Event of Default or Pre-Default Event and the removal of the Contract will not result in the Loan exceeding the Borrowing Base, Lender shall return Contract Delivery Document originals for other Contracts requested by Borrower for the time and to the extent necessary for Borrower to make corrections or to enforce the Contracts or the obligations of the Contracts Rights Payors. Whenever Borrower is in possession or control of Contract Delivery Documents for Contracts not paid in full, Borrower shall hold them in trust for Lender.

## **ARTICLE VII - COLLATERAL: CONTRACTS**

### **Section 7.0 Notice Regarding Contracts.**

(A) In the event any amounts due and owing in excess of Five Thousand Dollars (\$5,000) on a Pledged Contract become disputed between the Contract Debtor and Borrower, or in the event a Contract Debtor for a Pledged Contract asserts a claim, offset, or defense, or in the event a Person other than Borrower or a Contract Debtor makes a claim of ownership or other interest in a Financed Vehicle or Contract, then Borrower shall provide Lender with written notice thereof within twenty (20) Business Days of learning of the same, explaining in detail the nature of the matter and the amount in controversy. Borrower shall promptly, but in no event later than forty (40) Business Days after learning thereof, inform Lender of all material adverse information relating to the financial condition of any Contract Debtor, or the value of any Pledged Contract or Financed Vehicle.

(B) After an Eligible Contract is included in the Borrowing Base, in the event that Borrower becomes aware that one of the requirements in the definition of Eligible Contracts or one of the conditions in Section 9.1 are no longer being satisfied with respect to the Contract, Borrower shall provide Lender with written notice thereof within twenty (20) Business Days of Borrower becoming aware, explaining in detail the timing and reasons why the requirement or condition is not satisfied.

(C) Upon request of Lender, Borrower shall to the extent authorized by law obtain current credit bureau reports on Contract Debtors.

## **ARTICLE VIII - COLLATERAL: REMITTANCES AND INSURANCE**

Section 8.0 Assignment of Lien in Financed Vehicles. In addition to the security interest granted in Section 6.0, Borrower hereby assigns absolutely to Lender Borrowers rights of foreclosure as lienholder of the Financed Vehicles for Contracts delivered to Lender. This assignment is solely for the purpose of Lender foreclosing on the liens following an Event of Default. Until an Event of Default, Borrower has the right to foreclose on a Financed Vehicle. In the event Lender exercises the right to foreclose, Lender shall be the owner of the foreclosure sale proceeds and shall apply them to the Indebtedness.

Section 8.1 Absolute Assignment of Remittances. In addition to the security interest granted in Section 6.0, Borrower hereby absolutely assigns to Lender Borrowers interest in and right to all Remittances arising on or after the date of this Agreement, and such Remittances shall be the property solely of Lender.

Section 8.2 Insurance. In addition to the security interest granted in Section 6.0, Borrower hereby assigns absolutely to Lender Borrowers right to refunds and benefits under Required Contract Debtor Insurance, and Optional Contract Debtor Insurance. In the event Lender uses this assignment to collect insurance benefits or refunds, Lender shall be the owner of the benefits and refunds and shall apply them to the Indebtedness.



## ARTICLE IX - CONDITIONS TO LENDING

Section 9.0 Conditions Precedent to Effectiveness of Agreement. The effectiveness of this Agreement is subject to the condition precedent that Lender shall have received on or before November 30, 1998 the following, in form and substance satisfactory to Lender:

(A) With respect to Borrower:

(i) the certificate or articles of incorporation of Borrower certified, as of a date no more than ten (10) days prior to November 30, 1998, by the Secretary of State of its state of incorporation;

(ii) a good standing certificate, dated no more than ten (10) days prior to November 30, 1998, from the respective Secretary of State of its state of incorporation and each state in which Borrower is required to qualify, or represents that it is qualified, to do business;

(iii) a certificate of the Secretary or Assistant Secretary of Borrower certifying as of November 30, 1998: (a) the names and true signatures of the officers authorized on its behalf to sign this Agreement, (b) a copy of Borrower's by-laws, and (c) a copy of the resolutions of the board of directors of Borrower approving this Agreement, the Related Documents to which it is a party and the transactions contemplated hereby and thereby;

(B) an Officer's Certificate in the form of Exhibit B hereto; and

(C) the Note shall have been duly executed in the form of Exhibit A and delivered by Borrower to Lender and shall be in full force and effect.

(D) Any necessary third party (including any Governmental Authority) consents to the closing of the transactions contemplated by this Agreement on behalf of Borrower hereby, in form and substance satisfactory to the Lender;

**(E) INTENTIONALLY LEFT BLANK**

(F) An opinion of Borrowers counsel dated as of the Closing Date in the form of Exhibit C;

(G) A copy of a letter delivered by Borrower to its independent accountants instructing them to disclose to Lender any and all financial statements and other information of any kind relating to Borrowers business, financial condition and other affairs that Lender may request;

(H) An assignment of Borrower's rights to the payments from Contract Debtor bank accounts;

(I) An executed certificate in the form of Exhibit D and in the form of Exhibit E attached hereto executed by the Chief Financial Officer of Borrower;

(J) Landlord lien waivers in the form of Exhibit F attached hereto which shall be provided to Lender within sixty (60) days following the date of this Agreement;

(K) Evidence that properly executed financing statements for the Collateral in the form of Exhibit G have been filed with all appropriate filing officers;

(L) An assignment of Insurance Interests in the form of Exhibit H duly executed by Borrower;

(M) An executed power of attorney in the form of Exhibit I attached hereto; and

(N) Such other approvals, consents, opinions, documents and instruments, as Lender may reasonably request.

(O) CPS shall have unconditionally guaranteed the obligations of Borrower to Lender and not be in default of its guaranty agreement.

Section 9.1 Conditions to Each Advance. Notwithstanding any other provision of this Agreement and without affecting in any manner the rights of Lender hereunder, Lender shall not be obligated to make any Advances (including the initial Advance) unless at the time of the Advance, all of the following conditions shall, in Lenders sole determination, be satisfied:

(A) For each Eligible Contract, Borrower shall have included the Eligible Contract on a List of Contracts delivered to Lender and shall have delivered to Lender the Contract Delivery Documents; except that, if the Contract date is less than one hundred twenty (120) days before the date the Contract is delivered to Lender and a Certificate of Title has not been issued and Borrower has provided Lender with adequate proof that a Certificate of Title has been applied for, then the Certificate of Title must be delivered to Lender within one hundred twenty (120) days of the Contract date;

(B) All of the representations and warranties of Borrower in all of the Loan Documents shall be true and correct on and as of the date of such Advance as though they were made on and as of such date and Borrower shall have performed all of its obligations contained in the Loan Documents required to be performed as of such date;

(C) The making of the advance will not constitute an Event of Default or Pre-Default Event;

(D) There shall have been no material adverse change in the condition (financial or otherwise), business, operations, results of operations or properties of Borrower since the preceding Advance;

**(E) INTENTIONALLY LEFT BLANK;**

(F) No claim has been asserted or proceeding commenced challenging this Agreement or Lenders rights under this Agreement, and no claim has been asserted which if true would be a breach of a representation and warranty in the Loan Documents;

(G) No vendor or creditor of Borrower has provided adverse credit information about Borrower to Lender;

(H) No event of Default shall have occurred, and no Pre-Default Event shall have occurred and still be in existence;

(I) Lender has a first priority perfected security interest in the Collateral except to the extent otherwise allowed by this Agreement or Lender in writing;

(J) An event has not occurred which entitles Lender pursuant to Section 5.1(E) to take over administration of the Contracts;

(K) Lenders most recent inspection of the Collateral or Borrowers records or operations has been satisfactory to Lender;

(L) The Commitment Termination Date shall not have occurred;

(M) Before and after giving effect to such borrowing and to the application of proceeds therefrom, there exists Loan Availability;

(N) Each Pledged Contract submitted by Borrower for computation of the Borrowing Base is an Eligible Contract;

(O) Borrower shall have provided such additional information and documentation as Lender may reasonably request; and

(P) None of the actions taken or documents executed to satisfy the conditions in Section 9.0 have been revoked, rescinded, terminated, or canceled without Lenders prior consent.

The acceptance by Borrower of each Advance shall be deemed to constitute a representation and warranty by Borrower that, to the best of Borrower's knowledge and belief, the conditions in this Section are satisfied.

## **ARTICLE X - REPRESENTATIONS AND WARRANTIES OF BORROWER**

Section 10.0 Representations of Borrower. Borrower hereby makes the following representations and warranties. The representations and warranties are made as of the execution and delivery of the Agreement, and each time Borrower delivers Contracts to Lender or requests an Advance the representations and warranties are deemed to be made again at that time. Lenders knowledge of any breach of the representations and warranties contained herein shall not void any of the representations or warranties or affect Lenders rights with respect to the breach.

(A) Organization, Good Standing, Name, and Location. Borrower is duly organized and is validly existing as a corporation in good standing under the laws of the State of California, with power and authority to own its properties and to conduct its business, and, at all relevant times, has the power, authority and legal right to acquire, own, and pledge the Pledged Contracts. Borrower has, and is in good standing under, and is in compliance with, all governmental approvals, licenses, permits, certificates, inspections, consents and franchises necessary to conduct its business, to enter into and perform this Agreement, and to own and operate its business. Principal place of Borrower's business and chief executive office is set forth in Section 16.1.

(B) Due Qualifications. Borrower has, and is in good standing under, all licenses, permits, and approvals in all jurisdictions which are required for Borrowers initial acquisition of the Pledged Contracts and for Borrowers performance of this Agreement.

(C) Power and Authority. Borrower has the power and authority to execute this Agreement and carry out its terms, and the execution and performance of the Agreement have been duly authorized by all necessary corporate action; and the execution, delivery and performance of the Agreement has been duly authorized by Borrower by all necessary corporation action. The execution and performance of this Agreement by Borrower does not require the consent or approval of any Person.

(D) Valid and Binding Obligations. The Agreement constitutes a valid loan obligation of Borrower and a valid granting of a security interest in the Collateral to Lender, enforceable against creditors of and purchasers from Borrower; and is a legal, valid and binding obligation of Borrower enforceable in accordance with its terms. Borrower's use of the Advances is a legal and proper corporate use. Borrower has not used Advances to give any preference to any creditor or to make a fraudulent transfer.

(E) No Violation. The execution and performance of this Agreement by Borrower does not conflict with, result in any breach of, nor constitute (with or without notice or lapse of time) a default under, the articles of incorporation or bylaws of Borrower, or any indenture, instrument, agreement, law, or court order by which it is bound; nor does it result in the creation or imposition of any lien upon any of Borrower's properties.

(F) No Proceedings. There are no proceedings or investigations pending, or threatened, before any court, regulatory body, administrative agency, or other governmental instrumentality having jurisdiction over Borrower or its properties, which (i) assert the invalidity of the Agreement, (ii) seek to prevent the consummation of any of the transactions contemplated by the Agreement, (iii) seek any determination or ruling that, if determined adversely to Borrower, would materially and adversely affect the performance by Borrower of its respective obligations under, or the validity or enforceability of, the Agreement.

(G) Collateral. Borrower has good, indefeasible, sole and marketable ownership of the Collateral, and the Collateral is, except for those liens to be released by existing lenders in satisfaction of Section 9.1 and those liens expressly allowed or created by this Agreement, free and clear of all liens, claims, charges, defenses, counterclaims, offsets, encumbrances and security interests of any kind or nature whatsoever. The security interests granted to Lender pursuant hereto are perfected first priority security interests (other than those expressly allowed or created by this Agreement) in and to the Collateral, assuming delivery to Lender of any Collateral as to which possession is the only method of perfecting a security interest and assuming the filing of a UCC financing statement with the collateral description with the office of Secretary of State of California; and no claim of ownership or other interest has been asserted which would be a breach of this Section 10.0(g).

(H) Taxes. All required federal, state and local tax returns of Borrower have been accurately prepared and duly and timely filed (within the initial or extended time period allowed therefor) and all federal, state and local taxes required to be paid with respect to the periods covered by such returns have been paid. Borrower has not been delinquent in the payment of any tax, assessment or other governmental charge which could adversely affect in any way the Collateral.

(I) Brokers. No person has, or as a result of the transactions contemplated hereby will have by reason of any Borrower conduct or any agreement to which Borrower is a party, any right, interest or claim against Borrower, Lender or the Collateral for any commission, fee or other compensation as a finder or broker or in any similar capacity.

(J) Status and Condition. Borrower is solvent, in stable financial condition with a positive net worth and is able to and does pay its liabilities as they mature. This transaction will not leave Borrower with remaining assets which are unreasonably small compared to its ongoing operations. Borrower is in compliance with Section 13.6. Borrower has capital sufficient to carry on its business and transactions as now carried on and as planned for the future, including but not limited to the transactions contemplated by this Agreement. No action, investigation, audit, claim or proceeding is now pending or threatened against Borrower before any court, board, commission, agency or instrumentality of any Federal, state or local government or of any agency or any subdivision thereof, or before any arbitrator or panel of arbitrators, nor to the knowledge of Borrower, does a state of facts exist which might give rise to such proceedings, with respect to any matter which if adversely determined could affect the Collateral, impair the ability of Borrower to perform its obligations in the Loan Documents, Lender's rights under the Loan Documents, or materially and adversely affect the financial condition or business of Borrower. Borrower is not a party to any labor dispute or any labor contract. Borrower is not, and has not received any notice alleging that it is, in violation of any statute, regulation, rule or ordinance of any governmental entity, including, without limitation, the United States of America, any state, city, town, municipality, county or of any other jurisdiction, or of any agency thereof. Borrower is not in default with respect to any indenture, loan agreement, mortgage, lease, deed or other similar agreement relating to the borrowing of monies, or any contract or other instrument relating to the transactions contemplated by this Agreement or which is material to its business, prospects, operations or financial condition.

(K) Disclosure. There is no fact known to Borrower which Borrower has not disclosed to Lender in writing with respect to the Collateral or the assets, liabilities, financial condition or activities of Borrower or its Affiliates which would or may be likely to have a material adverse effect upon the Collateral or Borrower's ability to perform its obligations under the Agreement. All information and documents prepared by Borrower and provided to Lender at any time are true and accurate at the time of delivery. Borrower has no knowledge that any information or documents, not prepared by Borrower but delivered by Borrower to Lender were not true and accurate at the time of delivery.

(L) Articles of Incorporation and Certificates of Good Standing. The Articles of Incorporation of Borrower received by Lender pursuant to Section 9.0 have not been modified. Borrower has not taken or allowed any action which would result in it not being in good standing. Borrower has not received notice of any actual or threatened action to revoke its articles of incorporation or good standing.

(M) Financial Statements. All financial statements of Borrower or Affiliates delivered to Lender fairly present the assets, liabilities and financial condition and income as of the dates thereof. There are no material omissions from the financial statements and there has been no adverse change in the assets, liabilities or



financial condition since the date of the most recently delivered financial statements. There exists no equity or long-term investments in, or outstanding advances to, or guaranties of, any Person except such equity, investment, advances or guaranties disclosed in the financial statements. The financial statements accurately disclose all transactions with Affiliates.

(N) Conditions. Each time Borrower requests an Advance, the Conditions in Section 9.1 have been met.

(O) Characteristics of Contracts. Each Pledged Contract delivered to Lender as an Eligible Contract meets all of the requirements listed in the definition of Eligible Contract, except that Borrower makes no representation or warranty as to whether (i) the Contract meets such requirements to Lender's satisfaction, or (ii) the Contract presents a credit, collateral, or documentation risk unacceptable to Lender. No selection procedures adverse to Lender have been utilized in selecting the Eligible Contracts delivered to Lender.

## **ARTICLE XI - REPRESENTATIONS AND WARRANTIES OF LENDER**

Section 11.0 Representations of Lender. Lender hereby makes the following representations and warranties:

(A) Due Organization. Lender is a corporation, duly organized, validly existing and in good standing under the laws of the State of New York, and has the power to own its assets and to transact the business in which it is presently engaged with regard to this Agreement;

(B) Requisite Power. Lender has the power to execute, deliver and perform this Agreement, and has taken all necessary action to authorize the execution, delivery and performance of this Agreement; and

(C) Binding Agreement. This Agreement has been duly executed and delivered by Lender and constitutes the legal, valid and binding obligation of Lender, enforceable in accordance with its terms.

## **ARTICLE XII - INDEMNITIES OF BORROWER**

Section 12.0 Indemnity. Borrower shall indemnify and hold Lender harmless from any and all losses, claims, damages, costs, good faith settlements, expenses, taxes, reasonable attorneys' fees or other liabilities, including but not limited to costs of investigation, litigation fees and expenses, and costs in successfully asserting the right to indemnification hereunder (collectively, "Lossee") incurred by Lender at any time and pertaining to (i) facts which are, or allegations which if true would be, a breach of any representation, warranty, obligation, agreement or covenant of Borrower contained in the Loan Documents, or (ii) Lender entering into the Loan Documents or making Advances or handling Remittances or administering Pledged Contracts, (iii) an Event of Default or a Pre-Default Event, or (iv) activities, operations or conduct of Borrower or its Affiliates.

## **ARTICLE XIII - AFFIRMATIVE COVENANTS**

The following covenants shall remain in effect until the full payment and performance of all of the obligations of Borrower to Lender:

Section 13.0 Financing Statements. At the request of Lender, Borrower shall execute such financing statements as Lender determines may be required by law to perfect, maintain and protect the interest of Lender in the Collateral and in the proceeds thereof.

Section 13.1 Books and Records. Borrower shall maintain accurate and complete books and records with respect to the Collateral and Borrower's business. All accounting books and records shall be maintained in accordance with generally accepted accounting principles consistently applied.





Section 13.2 Payment of Fees and Expenses. Borrower shall pay to Lender, on demand, any and all fees, costs or expenses which Lender pays to a bank or other similar institution arising out of or in connection with (i) the forwarding to Borrower, or any other Person on behalf of Borrower, by Lender of Advances pursuant to this Agreement and (ii) the return of payments deposited for collection by Lender, including but not limited to payments by Borrower and payments by Contract Debtors.

Section 13.3 Continuity of Business and Compliance With Agreement. Borrower shall continue in business in a prudent, reasonable and lawful manner with all necessary licenses, permits, and qualifications necessary to perform this Agreement. Borrower shall regularly and properly train its employees to comply with all applicable laws governing the administration and purchase of Contracts. Borrower shall take the steps necessary for the representations and warranties in Article X to be true at all times. In the event that Borrower learns that a representation and warranty in Article X is no longer true, it shall notify Lender within twenty (20) Business Days after learning thereof.

Section 13.4 Financial Statements and Access to Records. Borrower shall provide Lender with quarterly consolidated audited or unaudited financial statements of Borrower and its consolidated Subsidiaries within 45 days of the end of each of Borrower's fiscal quarters, and with audited consolidated annual financial statements within one hundred and twenty (120) days of Borrower's fiscal year-end audited by an independent certified public accounting firm acceptable to Lender. Upon request of Lender, Borrower shall provide Lender with unaudited (or audited if Borrower so chooses) monthly financial statements. Borrower shall deliver to Lender with each financial statement a certificate by the chief financial officer of Borrower verifying the accuracy and completeness of such statement.

Section 13.5 Subsequent Actions. At the request of Lender, Borrower shall execute and deliver to Lender after execution of this Agreement such documents or take such action as Lender deems necessary to carry out the Agreement.

Section 13.6 Financial Condition. Borrower shall notify Lender in writing, promptly upon its learning thereof of any material adverse change in the financial condition of Borrower. Section 13.7 Litigation Matters. Borrower shall notify Lender in writing, promptly upon its learning thereof, of any litigation, arbitration or administrative proceeding which may materially and adversely affect the operations, financial condition or business of Borrower or its ability to perform this Agreement or which in any way involve Lender's security interest in the Collateral or other rights under the Loan Documents.

Section 13.8 Value of Collateral. If in Lender's judgment the Collateral has materially decreased in value, other than the ordinary depreciation of Financed Vehicles, Borrower shall either provide enough additional Collateral to satisfy Lender or Borrower shall reduce the Loan by an amount sufficient to satisfy Lender.

Section 13.9 Payment of Obligations. Borrower shall pay and perform, as and when due, all of its obligations, including, without limitation, all of its obligations to Lender.

Section 13.10 Insurance. Borrower shall maintain customary amounts of insurance covering, without limitation, fire, theft, burglary, public liability, property damage, product liability, workers' compensation, and liability arising from the collection of Contracts and sale of motor vehicles. Borrower shall pay all insurance premiums payable for such coverage and shall upon request of Lender deliver a copy of the policies of such insurance to Lender, together with evidence of payment of all premiums therefor.

Section 13.11 Certificates of Title. Borrower shall promptly apply for and obtain Certificates of Title for all Financed Vehicles. Borrower shall promptly deliver to Lender all Certificates of Title it receives for Financed Vehicles for Pledged Contracts.

Section 13.12 Interest Rate Spread. If at any time the differential between Borrower's gross yield (including the impact of any discount retained by Borrower) on Borrower's portfolio of Contracts and the

applicable rate of interest hereunder is less than seven and one-half (7.5%), Lender may in its sole discretion cease making Advances to Borrower hereunder.

Section 13.13 Year 2000 Compliance. On and after March 31, 1999, Borrower shall be Year 2000 Compliant.

#### **ARTICLE XIV - NEGATIVE COVENANTS**

Borrower covenants and agrees that hereafter, without Lender's prior written consent, which Lender may or may not give, in its sole discretion, until all of Borrower's obligations to Lender with respect to this Agreement are performed and paid in full:

Section 14.0 Mergers, Etc. Borrower shall not merge with, consolidate with, acquire or otherwise combine with any Person, transfer any division or segment of its operations to any Person or form any subsidiary.

Section 14.1 Investments. Borrower shall not make any investment in any Person through the direct or indirect holding of securities or otherwise.

Section 14.2 Dividends. Borrower shall not declare or pay dividends except in accordance with all applicable laws and in no event to any Person other than CPS.

Section 14.3 Loans and Advances. Except for routine and customary salary advances, Borrower shall not make any unsecured loans or other advances of money to officers, directors, employees, stockholders or Affiliates in excess of Twenty Thousand Dollars (\$20,000.00) in the aggregate. Borrower shall not incur any long term or working capital debt (other than the Indebtedness) secured by Contracts.

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Section 14.5 Transactions with Affiliate. Borrower shall not enter into, or be a party to, any transaction with any Affiliate, or stockholder of Borrower, except, consistent with Borrower's practice before entering into this Agreement, in the ordinary course of, and pursuant to the reasonable requirements of, Borrower's business and upon fair and reasonable terms which are fully disclosed to Lender and are no less favorable to Lender than would obtain in a comparable arm's length transaction with a Person not an Affiliate or stockholder of Borrower.

Section 14.6 Adverse Transactions. Borrower shall not enter into any transaction which adversely affects the Collateral or Borrower's ability to perform this Agreement or Lender's rights under the Loan Documents; or permit or agree to any extension, compromise or settlement or make any change or modification of any kind or nature with respect to any Pledged Contract, including any of the terms thereof or the amounts due thereunder except for customary payment extensions of Pledged Contracts done in accordance with Borrower's policies and routines in existence on the Closing Date, no more frequently than once every twelve (12) months for a period of no more than three (3) months.

Section 14.7 Guaranties. Borrower shall not guaranty or otherwise in any way, become liable with respect to the obligations or liabilities of any other Person except (i) the Affiliates' obligations to Lender and (ii) by customary endorsement of instruments or items of payment for deposit to the general account of Borrower or for delivery to Lender.

Section 14.8 Collateral. Except as otherwise expressly permitted in the Loan Documents, Borrower shall not convey or allow any ownership, security, or other, interest in the Collateral other than Borrower's ownership interest and Lender's security interest. Borrower shall not interfere with or countermand Lender's instructions to any Person to send Remittances to the Lockbox, the Collection Account or Lender. Borrower can sell or pledge Contracts which are not Eligible Contracts provided that the sale or loan proceeds are

delivered to Lender for application to the Indebtedness. Borrower can grant purchase money security interests in its equipment to Persons other than Lender. Borrower can lease as lessee, equipment it uses.

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**ARTICLE XV - EVENTS OF DEFAULT**

Section 15.0 Events of Default. An Event of Default means the occurrence or existence of one or more of the following events or conditions (whatever the reason for the Event of Default and whether voluntary, involuntary or caused by operation of law) which is not waived in writing by Lender or cured as provided in Section 15.7 to the extent Section 15.7 applies:

(A) A breach by Borrower of any representation, warranty or obligation contained herein or in the other Loan Documents or in any other agreement with Lender.

(B) A breach by Borrower or an Affiliate of any representation, warranty, or obligation contained in any other agreement with Lender.

(C) The Collateral or any other of Borrower's or an Affiliate's assets are attached, seized, levied upon or subjected to a writ or distress warrant, or come within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors and the same is not dissolved within thirty (30) days thereafter; and application is made by any Person other than Borrower for the appointment of a receiver, trustee, or custodian for the Collateral or any other of Borrower's or an Affiliate's assets and the same is not dismissed within thirty (30) days after the application therefor; or Borrower or an Affiliate shall have concealed, removed or permitted to be concealed or removed, any part of its property, with intent to hinder, delay or defraud its creditors or made or suffered a transfer of any of its property which may be fraudulent under any bankruptcy, fraudulent conveyance or other similar law.

(D) An application is made by Borrower or an Affiliate for the appointment of a receiver, trustee or custodian for the Collateral or any other of Borrower's or an Affiliate's assets; a petition under any section or chapter of the Bankruptcy Code or any similar federal or state law or regulation shall be filed by Borrower or an Affiliate; Borrower or an Affiliate shall make an assignment for the benefit of its creditors or any case or proceeding is filed by Borrower, or an Affiliate for its dissolution, liquidation, or termination; Borrower ceases to conduct its Contract purchase and servicing business.

(E) Borrower is enjoined, restrained or in any way prevented by court order from conducting all or any material part of its business affairs, or a petition under any section or chapter of the Bankruptcy Code or any similar federal or state law or regulation is filed against Borrower or an Affiliate, or any case or proceeding is filed against Borrower or an Affiliate for its dissolution or liquidation, and such injunction, restraint, petition, case or proceeding is not dismissed within thirty (30) days after the entry or filing thereof.

(F) A notice of lien, levy or assessment, with respect to an obligation of \$5,000 or more, is filed of record with respect to all or any of Borrower's or an Affiliate's assets by the United States, or any department, agency or instrumentality thereof, or by any state, county, municipal or other governmental agency and it is not released within thirty (30) days after the filing; or if any taxes or debts become a lien or encumbrance upon the Collateral or any other of Borrower's assets, and the same is not released within thirty (30) days after the same becomes a lien or encumbrance.

(G) Borrower or an Affiliate becomes insolvent or admits in writing to its inability to pay its debts as they mature.

(H) An event has occurred which entitles Lender pursuant to Section 5.1(E) to take over administration of the Contracts.

(I) There occurs or exists any situation which leads Lender to believe, in good faith, that Borrower may not, or may be unable to, pay in the normal course one or more payment obligations to Lender, and Lender has given Borrower at least ten (10) days' notice thereof.

(J) A financial statement of Borrower or an Affiliate reveals that its financial condition has materially adversely deteriorated after the execution of this Agreement.

(K) An audited financial statement of Borrower is not unqualified.

(L) The Rolling Average Delinquency exceeds 3.0%.

(M) The Average Charged-Off Losses exceeds 0.55%.

(N) Any other event occurs which will, in Lender's reasonable opinion, have a material adverse effect on the Collateral, Lender's rights under the Loan Agreements, or on Borrower's financial or business condition, operations or prospects, including, without limitation, any change in the due diligence procedures used by Borrower to qualify Contract Debtors for Contracts, and Lender has given Borrower at least ten (10) days' notice thereof.

**(O) INTENTIONALLY LEFT BLANK**

(P) Borrower or any Affiliate is in default of its obligations under any transaction involving the securitization of Contracts.

**(A) INTENTIONALLY LEFT BLANK**

(B) A default by CPS of any of its obligations under the Secured Guaranty Agreement pursuant to which CPS, among other obligations, guaranteed the Borrower's payment of the Indebtedness to Lender.

Section 15.1 Default Rate of Interest. Upon and after an Event of Default and subject to Section 2.5, Borrower's obligations to Lender shall continue to bear interest, calculated daily on the basis of a 365-day year at the per annum rate set forth in Section 2.3, plus additional post-default interest of one percent (1%) per annum until paid in full.

Section 15.2 Lender's Remedies. Whenever a Pre-Default Event exists and whenever Lender is entitled to take over Contract administration, Lender may without prior notice immediately suspend making Advances. Upon and after an Event of Default, Lender shall have the following rights and remedies. The rights and remedies shall be cumulative, and none exclusive, except to the extent required by law. Lender's exercise of any right, remedy, or attorney-in-fact appointment shall not relieve Borrower of any of its obligations to Lender.

(A) The right, at Lender's discretion and without notice to Borrower, (i) to immediately cease further Advances and/or terminate this Agreement, and (ii) to declare Borrower's obligations to Lender immediately due and payable, whereupon Borrower's obligations shall become and be due and payable, without presentment, demand, protest or further notice or process of any kind, all of which are expressly waived by Borrower. Borrower's obligations to Lender shall be immediately due and payable without declaration by Lender if the Event of Default consists of a petition filed under the Bankruptcy Code or any similar federal or state law.

(B) All of the rights and remedies of a secured party under the UCC and other applicable laws, including the right to appoint a receiver.

(C) The right at any time to (i) enter through self-help and without judicial process, upon the premises of Borrower without any obligation to pay rent to Borrower or to enter any other place or places where the Collateral is located and kept, and remove the Collateral or remain on and use the premises for the purpose of collecting or disposing of the Collateral, and (ii) require Borrower to assemble the Collateral and make it available to Lender at a place to be designated by Lender.



(D) The right to sell or otherwise dispose of all or any of the Collateral at public or private sale, as Lender in its sole discretion may deem advisable, with such notice as may be required by law; and such sales may be adjourned from time to time with or without notice. Lender shall have the right to conduct such sales on the premises of Borrower without charge for such time and Collateral as Lender may see fit. Lender is hereby granted a license or other applicable right to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in advertising for sale and selling any Collateral and Borrower's rights under all licenses and all franchise agreements shall inure to Lender's benefit for this purpose. Lender shall have the right to sell, lease or otherwise dispose of the Collateral, or any part thereof, for cash, credit or any combination thereof, and Lender may purchase all or any part of the collateral at public, or, if permitted by law, private sale and, in lieu of actual payment of such purchase price, may set off the amount of such price against Borrower's obligations to Lender. Without excluding other methods of disposition which may be commercially reasonable, it shall be a commercially reasonable disposition of the Pledged Contracts and Contract Rights for Lender to collect and enforce the Contracts and Contract Rights in a manner similar to its collection and enforcement of contracts and Contract Rights for its own account or for the account of other Persons. If any deficiency shall arise from the disposition of Collateral, Borrower shall remain liable to Lender therefor.

(E) The right at any time and from time to time thereafter, at Lender's sole discretion and without notice to Borrower, (i) to enforce payment of the Contract Debtor's and Contract Rights Payor's obligations, and to collect and foreclose, by legal proceedings or otherwise, the Collateral in the name of Lender or Borrower and (ii) to take control, in any manner, of any item of payment for or proceeds of the Collateral. Lender is not obligated to pursue the Collateral or any other Person in order to enforce Borrower's obligations to Lender.

(F) The right to take over in Lender's or Borrower's name all or part of the administration of the Contracts.

(G) The right to carry out the actions within the scope of Borrower's appointment of Lender as attorney-in-fact.

(H) The right to offset or apply the funds in the Collection Account.

Section 15.3 Injunctive Relief. Borrower recognizes that if there is an Event of Default then, depending on the nature of the Event of Default, it may be that no remedy at law will provide complete or adequate relief to Lender, and Lender shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages. The injunctive relief shall not be a waiver of Lender's rights to other relief and remedies.

Section 15.4 Notice. Any notice required to be given by Lender of a sale, lease, or other disposition of the Collateral which is given pursuant to Section 16.1 at least five (5) days prior to such proposed action, shall constitute commercially reasonable and fair notice thereof to Borrower. Notice of less duration shall not be presumed to be commercially unreasonable or unfair.

Section 15.5 Appointment of Lender as Borrower's Lawful Attorney. Borrower irrevocably appoints Lender (and all persons designated by Lender) as Borrower's true and lawful attorney-in-fact to act in its name, place and stead and at its expense to: (i) demand payment of the Pledged Contracts, other Collateral consisting of payment obligations and Contract Rights; (ii) enforce payment of the Pledged Contracts, other Collateral consisting of payment obligations and Contract Rights, by legal proceedings or otherwise; (iii) exercise all of Borrower's rights and remedies with respect to the collection and enforcement of the Pledged Contracts, other Collateral consisting of payment obligations, and Contract Rights; (iv) settle, adjust, compromise, discharge, release, extend or renew the Pledged Contracts, other Collateral consisting of payment obligations, and Contract Rights; (v) if permitted by applicable law, sell or assign the Collateral upon such terms, for such amounts and at such time or times as Lender deems advisable; (vi) take control, in any manner, of any item of payment or proceeds with respect to the Collateral; (vii) prepare, file and sign Borrower's name on any proof of claim in Bankruptcy or similar document against any Contract Debtor or Contract Rights Payor; (ix) prepare, file and sign Borrower's name on any notice of lien, assignment or satisfaction of lien or similar document in connection with the

Collateral; (x) do all acts and things necessary, in Lender's sole discretion, to exercise Lender's rights granted in or referred to in Section 15.2 of this Agreement; (xi) endorse the name of Borrower upon any item of payment or proceeds consisting of or relating to the Collateral and deposit the same in the account of Lender for application to the Indebtedness; (xii) use the information recorded on or contained in any data processing equipment and computer hardware and software relating to the collateral to which Borrower has access; (xiii) open Borrower's mail to collect Collateral and direct the Post Office to deliver Borrower's mail to an address designated by Lender; and (xiv) do all things necessary to carry out and enforce this Agreement which Borrower has failed to do. Borrower ratifies and approves all acts of Lender as Borrower's attorney-in-fact. Lender shall not, when acting as attorney-in-fact, be liable for any acts or omissions as or for any error of judgment or mistake of fact or law, except for actions taken in bad faith. This power, being coupled with an interest, is irrevocable until all payment and performance obligations of Borrower to Lender have been fully satisfied. Borrower shall upon request of Lender execute powers of attorney to separately evidence the foregoing powers granted to Lender. All costs, fees and expenses incurred by Lender, or for which Lender becomes obligated, in connection with exercising any of the foregoing powers shall be payable to Lender by Borrower on demand by Lender and until paid shall be part of the Loan.

Section 15.6 Lender's Default. In the event of any default of the Loan Documents by Lender or any claim by Borrower related to the Loan Documents, Borrower's sole and exclusive remedy against Lender shall be a cause of action sounding in contract with damages limited to actual and direct damages incurred. Lender shall in no event be liable for ordinary negligence, delay in performance or any consequential, special, punitive, incidental or indirect damages, including without limitation, loss of profit or goodwill. Lender shall in no event be liable for any loss or damage directly or indirectly resulting from the furnishing of services or reports under this Agreement. With respect to any goods and services provided by Lender, LENDER MAKES NO WARRANTIES, whether express or implied, including, without limitation, implied WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. Borrower shall have no cause of action against Lender for a default of the Loan Documents unless Borrower first notifies Lender of the default and allows Lender a reasonable time of at least thirty (30) Business Days to cure the default and Lender fails to cure the default.

Section 15.7 Borrower's Right to Cure. In the event of an unintentional Pre-Default Event by Borrower with respect to payment obligations or the delivery of Contract Delivery Documents or Remittances, Borrower shall have three (3) Business Days to cure the Pre-Default Event before Lender exercises its right to sue Borrower or repossess the Collateral. In the event of any other type of unintentional default by Borrower (but not including a default by CPS under its Secured Guaranty Agreement with Lender), Borrower shall have thirty (30) calendar days to cure the default before Lender exercises its right to sue Borrower or repossess the Collateral. Regardless of whether Borrower cures a default, Lender shall be entitled to indemnification pursuant to Article XII with respect to any Losses arising from claims asserted against Lender.

## **ARTICLE XVI - GENERAL TERMS AND CONDITIONS**

Section 16.0 This Agreement shall be governed and construed in accordance with the laws of the State of California.

Section 16.1 Notices. Any notice, request, demand, instruction or other communication to be given any party herein in writing shall be effective upon delivery during regular business hours at the offices of Borrower and Lender hereinafter set forth or at such other offices that either party notifies the other of in writing. The failure to deliver a copy as set forth below shall not affect the validity of the notice to Borrower or Lender. Such communications shall be given by telecopy, commercial delivery service, or sent by certified mail, postage prepaid and return receipt requested, as follows:

If to Borrower:

CPS Funding Corporation  
16355 Laguna Canyon Road  
Irvine, CA 92718  
Electronic FAX (949) 450-3951

Attention: Chief Financial Officer

If to Lender:

General Electric Capital Corporation  
540 W. Northwest Highway  
Barrington, IL 60010  
Electronic FAX (847) 277-6997  
Attention: Manager, Asset Based Financing

with a copy to:

General Electric Capital Corporation  
540 W. Northwest Highway  
Barrington, IL 60010  
Electronic FAX (847) 277 - 5983  
Attention: Counsel - Auto Financial Services

Section 16.2 Headings. Paragraph headings have been inserted in this Agreement as a matter of convenience for reference only. The paragraph headings shall not be used in the interpretation of this Agreement.

Section 16.3 Severability. If any one or more of the provisions of this Agreement are held to be invalid, illegal or unenforceable in any respect for any reason, the validity, legality or enforceability of any such provision or provision in every other respect and of the remaining provisions of this Agreement shall not be in any way impaired.

Section 16.4 Offset. Lender has the right to offset, apply, or recoup any obligation of Borrower to Lender, arising under the Loan Documents or otherwise, against any obligations or payments Lender owes to Borrower, arising under the Loan Documents or otherwise, or against any property of Borrower held by Lender. Borrower waives any right to offset, apply, or recoup against any obligation it owes to Lender. Lender is not obligated to collect any of the Contracts or pursue any of the other Collateral or any of Lender's rights at any time as a condition to payment and performance by Borrower.

Section 16.5 Independent Contractor. Borrower is an independent contractor in all matters relating to this Agreement and the Collateral and is not an agent or representative of Lender. Borrower has no authority to act on behalf of or bind Lender.

Section 16.6 Expenses. Each party shall bear the expenses of its own performance of this Agreement.

Section 16.7 Modification of Loan Documents; Sale of Interest. This Agreement may not be modified, altered or amended, except by an agreement in writing and signed by Borrower and Lender. The rights of Lender granted in or referred to in this Agreement shall apply to any modification of or supplement to the Loan Documents. Borrower may not without Lender's prior written permission, sell, assign or transfer any of the Loan Documents, or any portion thereof, including, without limitation, Borrower's rights, title, interests, remedies, powers and duties thereunder. Any sale, assignment, or transfer by Borrower without Lender's permission shall be void ab initio. Borrower hereby consents to Lender's participation, sale, assignment, transfer or other disposition, at any time or times hereafter, of any of the Loan Documents, or of any portion thereof, including, without limitation, Lender's rights, title, interests, remedies, powers and duties thereunder. The Loan Documents shall be binding upon and inure to the benefit of the permitted successors and assigns of Borrower and Lender.

Section 16.8. Attorneys' Fees and Lender's Expenses. If, following an Event of Default, Lender shall in good faith employ counsel for advice or other representation or shall incur other costs and expenses in connection with (A) any litigation, contest, dispute, suit, proceeding or action (whether instituted by Lender, Borrower or any other Person) in any way relating to the Collateral, any of the Loan Documents or any other agreements executed or delivered in connection herewith, (B) any attempt to enforce, or enforcement of, any rights of Lender against Borrower or any other Person, including, without limitation, Contract Debtors, that may be





obligated to Lender by virtue of any of the Loan Documents, (C) any actual or attempted inspection, verification, protection, collection, sale, liquidation or other disposition of the Collateral, then, in any such event, the attorneys' fees arising from such services and all expenses, costs, charges and other fees (including expert's fees) incurred by Lender in any way arising from or relating to any of the events or actions described in this Section shall be payable to Lender by Borrower on demand by Lender and until paid shall be part of the Loan.

Section 16.9 Waiver by Lender. Lender's failure, at any time or times hereafter, to require strict performance by Borrower of any provision of this Agreement or any of the other Loan Documents shall not waive, affect or diminish any right of Lender thereafter to demand strict performance therewith. Any suspension or waiver by Lender of an Event of Default by Borrower under the Loan Documents shall not suspend, waive or affect any other Event of Default by Borrower under the Loan Documents, whether the same is prior or subsequent thereto and whether of the same or of a different type. None of the undertakings, agreements, warranties, covenants and representations of Borrower contained in the Loan Documents and no Event of Default by Borrower under the Loan Documents shall be deemed to have been suspended or waived by Lender unless such suspension or waiver is by an instrument in writing signed by a manager of Lender and identifies the matter waived or suspended. Any consent or approval by Lender pursuant to this Agreement is not a waiver by Lender of, or an admission by Lender of the truth of, any Borrower's representations and warranties in this Agreement.

Section 16.10 Waivers by Borrower. Except as otherwise provided for in this Agreement, Borrower waives (i) notice and consummation of presentment, demand, protest, dishonor, intent to accelerate, acceleration, (ii) all rights to notice and a hearing prior to taking possession or control of, or Lender's replevy, attachment or levy upon, the Collateral; (iii) any bond or security in a judicial proceeding as a condition to Lender exercising any of Lender's remedies; (iv) the benefit of all valuation, appraisal and exemption laws, (v) TRIAL BY JURY in any dispute with Lender arising out of or related to any of the Loan Documents, and (vi) any claim against Lender arising before November 30, 1998. The failure or delay of Lender to strictly enforce the terms of this Agreement shall not be a waiver of Lender's right to do so.

Section 16.11 Counterparts. This Agreement may be executed in two or more counterparts, with the same effect as if all parties had signed the same document. All such counterparts shall be deemed an original, shall be construed together and shall constitute one and the same instrument.

Section 16.12 Entire Agreement. This Agreement contains the entire agreement among the parties regarding the loan by Lender to Borrower based on Contracts and supersedes all prior agreements, whether written or oral, with respect thereto.

Section 16.13 Statements of Account. Each report, billing statement, Statement of Borrowing Base, and payment transcript which is prepared by Lender shall, except for manifest errors, be deemed final, binding and conclusive upon Borrower in all respects as to all matters reflected therein, and shall constitute an account stated between Borrower and Lender, unless thereafter waived in writing by Lender or unless, within thirty (30) days after Borrower's receipt of such document, Borrower delivers to Lender notice of a written objection thereto specifying the claimed error. In the event of such an error, only those items expressly objected to in such notice shall be deemed to be disputed by Borrower and Lender's only liability to Borrower shall be to issue a corrected document.

Section 16.14 Publicity. Borrower authorizes Lender to publicize "tombstone" or similar announcements with respect to the financing contemplated under this Agreement, and to use Borrower' name and logo in connection therewith

Section 16.15 Contract Documents. After Lender reviews a Contract form or any other form used in connection with a Contract (collectively, the "Form"), Lender may inform Borrower hereto that the Form may not comply with certain laws or that the Form is not acceptable to Lender as an Eligible Contract form unless certain changes are made. Borrower is responsible for its use of the Forms and for any changes Borrower makes to the Forms in response to Lender's comments. Lender shall have no liability to Borrower arising from Borrower's use of, or changes to, any Form regardless of whether Lender approved the Form or the changes or whether Lender conditioned the use of the Form as an Eligible Contract Form or Lender's comments regarding a Form, Borrower remain obligated to Lender to conduct its business in a lawful manner, including the use of Forms which comply with applicable laws.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

CPS FUNDING CORPORATION,  
as Borrower

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

GENERAL ELECTRIC CAPITAL  
CORPORATION, as Lender

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## **EXHIBIT A**

### **AMENDED AND RESTATED PROMISSORY NOTE**

\$100,000,000.00 November 30, 1998

FOR VALUE RECEIVED, the undersigned, CPS FUNDING CORPORATION, a California corporation ("Borrower"), hereby promises to pay to GENERAL ELECTRIC CAPITAL CORPORATION, a New York corporation ("Lender"), or order, the principal amount (the "Principal") of up to One Hundred Million Dollars (\$100,000,000.00), or such other amount constituting the Loan made by Lender to Borrower pursuant to the Amended and Restated Motor Vehicle Installment Contract Loan and Security Agreement, dated as of November 30, 1998 between Borrower and Lender (the "Agreement"). All terms used in this Note shall have the meanings given to them in the Agreement if they are defined in the Agreement and not defined in this Note. Borrower further promises to pay interest ("Interest") on the amount of the Principal outstanding from time to time from the date hereof until such Principal shall be paid in full, at a rate per annum (calculated on the basis of a year of 365 days for the actual days elapsed) equal to the applicable rate of interest provided for in the Agreement.

Interest and Principal shall be due and payable at the times provided for in the Agreement. All payments of Principal and Interest shall be made in lawful money of the United States of America and in immediately available funds to Lender at GE Capital, 540 W. Northwest Highway, Barrington, IL 60010, Attention: Manager - Asset Based Financing, or such other address as may be specified by Lender or any other holder of this Note.

This Note is the Note described in, and is subject to the terms and provisions of, the Agreement, as the same may at any time be amended or modified and in effect.

Upon and after an Event of Default, the outstanding Principal of this Note and any Interest and fees accrued thereon shall, at the option of the holder of this Note and without demand, notice or legal process of any kind, become immediately due and payable.

The records of the holder of this Note shall, in the absence of manifest error, be conclusive evidence at any time as to the amount of the outstanding Principal of this Note and the amount of Interest accrued thereon.

This Note is secured by a security interest in the Collateral, as described in and evidenced by the Agreement. This Note is enforceable by the holder without first enforcing the security interest and whether or not the security interest exists or is enforceable.

If any suit or other proceeding shall be instituted to enforce this Note, the holder of the Note shall, in addition to such other relief as the court may award, be entitled to recover attorneys' fees, expenses and costs of investigation, including, without limitation, attorneys' fees, costs and expenses of investigation incurred in appellate proceedings or in connection with any case or proceeding under the Bankruptcy Code or similar law.

No delay or failure on the part of the holder of this Note to exercise any power or right given under this Note shall operate as a waiver of any right or remedy of the holder; nor shall any right or remedy of the holder hereunder or under any other applicable law be abridged or modified by any course of conduct.

The undersigned and all endorsers, guarantors, and all persons liable or to become liable on this Note hereby waive presentment, protest, demand, notice of dishonor, notice of protest, and any and all delays or lack of diligence or collection and any other notice or further requirement necessary to hold each of them liable for payment. The right to a trial by jury and to plead any statute of limitations as a defense to any demand on this Note, or any guaranty hereof, or any agreement to pay the same, or any and all obligations or liabilities arising out



of or in connection with this Note is expressly waived by the undersigned, endorsers and guarantors, to the fullest extent permitted by the law.

No payment of interest hereunder shall exceed the maximum amount payable under applicable law.

This Note may not be modified, amended or terminated, except in a written instrument executed by both Borrower and the holder of this Note. Borrower agrees that the rights granted to Lender pursuant to this Note shall accrue to any Person who is lawfully in possession of this Note with an assignment from Lender.

This Note shall be governed by and construed in accordance with the laws of the State of California. This Note amends, restates and supersedes the prior Notes of Borrower payable to the order of Redwood Receivables Corporation pursuant to the Receivables Funding and Servicing Agreement, dated as of June 1, 1995, as amended, and is given in substitution therefor and not in satisfaction of Borrower's obligations thereunder.

IN WITNESS WHEREOF, Borrower has executed and delivered the foregoing Note as of the day and year first above written.

CPS FUNDING CORPORATION

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

EXHIBIT 10.23

**WARRANT AGREEMENT**

by and between

**CONSUMER PORTFOLIO SERVICES, INC.,**  
the Company,

and

**FSA PORTFOLIO MANAGEMENT INC.,**  
**AND ITS SUCCESSORS AND ASSIGNS,**  
the Purchaser,

Dated as of November 30, 1998

EXECUTION COPY

WARRANT AGREEMENT (this "Agreement"), dated as of November 30, 1998, by and between CONSUMER PORTFOLIO SERVICES, INC., a California corporation (the "Company"), and FSA PORTFOLIO MANAGEMENT INC., a Delaware corporation (together with its successors and assigns, the "Purchaser").

**WITNESSETH:**

WHEREAS, the Company proposes to issue to the Purchaser warrants ("Warrants") to purchase shares of Common Stock (as defined in Section 1) in connection with the agreement of Financial Security Assurance Inc. ("FSA"), an affiliate of FSA Portfolio Management Inc., (i) to facilitate the obtaining of reinsurance related to securities issued in CPS Auto Securitizations (as defined herein) and guaranteed by FSA and (ii) to undertake certain actions necessary to permit FSA to issue financial guaranty insurance policies for the benefit of holders of securities issued in such CPS Auto Securitizations.

NOW, THEREFORE, in consideration of the premises, the agreements herein set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Conditional Grant. (a) The Purchaser is hereby granted the right to purchase, subject to the terms and conditions of this Agreement, including, without limitation, the conditions precedent set forth in Section 1(b) below, at any time and from time to time, during the period from the Issue Date (as defined in Section 1(b) below) until 5:30 p.m., New York time, on the first Business Day (as defined in this Section 1(a)) on or after the fifth anniversary of the Issue Date (the "Exercise Period"), 2,525,114 shares (the "Warrant Shares") designated pursuant to the Company's Articles of Incorporation, as they may be amended as of the Issue Date, as voting "Common Stock" without par value, at the initial exercise price per Warrant Share of Three Dollars (\$3.00). The adjusted exercise price shall be the price that shall result from time to time from any and all adjustments of the initial exercise price in accordance with the provisions of Section 6. "Exercise Price" means the initial exercise price or the adjusted exercise price, depending upon the context. The number of Warrant Shares issuable upon the exercise of any Warrant remaining unexercised at any time shall be the number of Warrant Shares that shall result from time to time from any and all adjustments to the number of Warrant Shares represented by such Warrant in accordance with the provisions of Section 7. "Business Day" means a day that is not a Saturday or a Sunday or a day on which banking institutions in New York, New York or Irvine, California are authorized or obligated by law, regulation, executive order or decree to be closed.

(b) The rights of the Purchaser under this Agreement, including, without limitation, the right to receive Warrant Certificates (as defined in Section 2 below), the right to exercise any Warrants, the right to receive certificates for the Warrant Shares, the right to have the Company register certain securities, and the right to receive notice of and to participate in certain meetings, are all contingent upon satisfaction of the following conditions: that FSA shall have issued a financial guaranty insurance policy for the benefit of holders of at least \$300 million of securities issued by one or more entities affiliated with the company in securitizations of automobile installment receivables, that said policy guarantees the full and timely payment of the scheduled payments of principal and interest relating to such securities, and that said policy be issued after the date hereof and not later than December 31, 1998. The date on which such conditions are first satisfied shall be the "Issue Date".

(c) The Company represents that it has disclosed to FSA on Schedule 1 hereto all Common Stock, Serial Preferred Stock, and any other capital stock of the Company outstanding on the date of this Agreement, and has disclosed to FSA, on at least an accurate pro forma basis if not in full, any options, interests, participations, or other equivalents (however designated) of or in the Company, whether voting or nonvoting, including, without limitation, phantom stock, performance stock, Options (as defined in Section 6.7(b)) Convertible Securities (as defined in Section 6.7(b), and all agreements, instruments, documents, and securities convertible, exercisable, or exchangeable, in whole or in part, into any one or more of the foregoing that are outstanding on the date of this Agreement. The Company further represents that the number of Warrant Shares in



Section 1(a) is not less than 10% of the Common Stock after full dilution, giving effect to the exercise of all such outstanding interests and rights. The Company agrees that, in connection with a breach of either of the foregoing representations, the Purchaser shall have the right, without limitation of any other available rights and remedies, to compel the Company to grant additional Warrants for additional Warrant Shares in accordance with the essential intent and principles of this Agreement, including, without limitation, the intent that the Purchaser receive Warrants for 10% of the Common Stock on a fully diluted basis measured as of the date of this Agreement.

Section 2. Warrant Certificates. The warrant certificates (the "Warrant Certificates") delivered pursuant to this Agreement shall be in the form set forth in Exhibit A, attached hereto and made a part hereof, with such appropriate insertions, omissions, substitutions, and other variations as required or permitted by this Agreement.

### Section 3. Exercise of Warrants.

3.1 Method of Exercise. The Warrants are exercisable at the Exercise Price per Warrant Share payable by check or by surrender of Warrants in lieu of cash as provided in Section 3.2. Upon surrender of a Warrant Certificate, together with the annexed Form of Election to Purchase duly executed by the registered holder of such Warrant Certificate (the "Holder") or the Holder's agent or attorney and payment of the Exercise Price for the Warrant Shares purchased, at the Company's principal executive offices at 16355 Laguna Canyon Road, Irvine, California 92618 or its office or agency maintained for such purpose as referred to below, the Holder shall be entitled to receive a certificate or certificates for the Warrant Shares so purchased. The purchase rights represented by each Warrant Certificate are exercisable at the option of the Holder thereof, in whole or in part (but subject to Section 8 as to fractional shares). In the case of the purchase of less than all the Warrant Shares purchasable under any Warrant Certificate, the Company shall cancel said Warrant Certificate upon the surrender thereof and shall execute and deliver a new Warrant Certificate of like tenor for the balance of the Warrant Shares purchasable thereunder. As long as any of the Warrants remain outstanding, the Company shall maintain an office or agency (which shall initially be the the principal executive offices of the Company) where the Warrant Certificates may be presented for exercise, registration of transfer, division, or combination as provided in this Agreement. The Company agrees to maintain, at its aforesaid office or agency, books for the registration and the registration of transfer of the Warrants.

3.2 Exercise by Surrender of Warrants. In addition to the method of payment set forth in Section 3.1 and in lieu of any cash payment required thereunder, the Holder(s) of the Warrants shall have the right at any time and from time to time to exercise the Warrants in whole or in part by surrendering the Warrant Certificate in the manner specified in Section 3.1 in exchange for the number of Warrant Shares equal to  $(x)$  the number of Warrant Shares as to which the Warrants are being exercised multiplied by  $(y)$  a fraction, the numerator of which is the 30-Day Average Market Price (as defined in Section 6.6) of the Common Stock less the Exercise Price and the denominator of which is such 30-Day Average Market Price.

Section 4. Issuance of Certificates. Upon the exercise of the Warrants, the issuance of certificates for the Warrant Shares and/or other securities, properties, or rights underlying such Warrants shall be made forthwith (and in any event within five (5) Business Days thereafter) without charge to the Holder thereof including, without limitation, any tax that may be payable in respect of the issuance thereof, and such certificates shall (subject to the provisions of Section 5) be issued in the name of, or in such names as may be directed by, the Holder thereof.

The Warrant Certificates and the certificates representing the Warrant Shares (and/or other securities, cash, rights, or other property issuable upon the exercise of the Warrants) shall be executed on behalf of the Company by the manual or facsimile signature of the then Chairman or Vice Chairman of the Board of Directors or President or Vice President of the Company under its corporate seal reproduced thereon, attested to by the manual or facsimile signature of the then Secretary or Assistant Secretary of the Company. Warrant Certificates shall be dated the date of execution by the Company upon initial issuance, division, exchange, substitution, or transfer.

Section 5. Securities Act of 1933 Legend. None of the Warrants, the Warrant Shares, nor any of the other securities that may become issuable upon exercise of the Warrants or upon conversion of the Warrant Shares have been registered under the Securities Act of 1933, as amended (the "Securities Act"). Upon exercise of the Warrants, in part or in whole, unless the Warrant Shares previously have been registered pursuant to the Securities Act, pursuant to Section 11 or 12 hereof or otherwise, the certificates representing the Warrant Shares and any other securities issued upon exercise of the Warrants or upon conversion of the Warrant Shares shall bear the following legend:

**"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND NEITHER THE SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED, OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND SUCH STATE LAWS OR UNDER AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND SUCH STATE LAWS."**

Section 6. Adjustments to Exercise Price and Number of Warrant Shares.

6.1 Subdivision and Combination. If the Company shall at any time (i) subdivide the outstanding shares of Common Stock into a larger number of shares, (ii) combine the outstanding shares of Common Stock into a smaller number of shares, (iii) declare a dividend on the outstanding shares of Common Stock payable in shares of Common Stock or (iv) issue by reclassification of its Common Stock any shares of its Capital Stock (as defined in this Section 7.1), then the Exercise Price in effect immediately after the record date for such dividend or distribution or the effective date of such subdivision, combination, or reclassification shall be adjusted so that it shall equal the price determined by multiplying the Exercise Price in effect immediately prior thereto by a fraction, of which the numerator shall be the number of shares of Common Stock outstanding immediately before such dividend, distribution, subdivision, combination, or reclassification, and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such dividend, distribution, subdivision, combination, or reclassification. Such adjustment shall be made successively whenever any event specified above shall occur. "Capital Stock" means the Common Stock, the Serial Preferred Stock, and any other capital stock of the Company authorized from time to time, and any other shares, options, interests, participations, or other equivalents (however designated) of or in the Company, whether voting or nonvoting, including, without limitation, common stock, preferred stock, phantom stock, performance stock, Options (as defined in Section 6.7(b)) Convertible Securities (as defined in Section 6.7(b)), and all agreements, instruments, documents, and securities convertible, exercisable, or exchangeable, in whole or in part, into any one or more of the foregoing.

6.2 Adjustment in Number of Warrant Shares. Upon each adjustment of the Exercise Price pursuant to the provisions of Section 6.1, the number of Warrant Shares issuable upon the exercise of each remaining unexercised Warrant shall be adjusted to the nearest full Warrant Share by multiplying the number of Warrant Shares issuable upon exercise of such Warrant immediately prior to such adjustment by a fraction, of which the numerator shall be the number of shares of Common Stock outstanding immediately after such dividend, distribution, subdivision, combination, or reclassification, and of which the denominator shall be the number of shares of Common Stock outstanding immediately before such dividend, distribution, subdivision, combination, or reclassification. Such adjustment shall be made successively whenever any event specified above shall occur.

6.3 Definition of Common Stock. "Common Stock" means (i) any class of stock designated as "Common Stock" in the Articles of Incorporation of the Company, as they may be amended as of the Issue Date, or (ii) any other class of stock resulting from one or more changes or reclassifications of such designated Common Stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that the Company shall after the date of this Agreement issue Common Stock ("New Common Stock") with any rights that are different from the rights evidenced by the shares of Common Stock outstanding as of the date of this Agreement ("Existing Common Stock"), the Holder, at its option, may receive upon exercise of any Warrant, Warrant Shares consisting of either shares of Existing Common Stock or shares of New Common Stock or any combination of shares of Existing Common Stock and New Common Stock. This Section 6.3 shall apply to successive issuances of any such New Common Stock.

6.4 Merger or Consolidation. If the Company after the Issue Date (i) shall consolidate with or merge into any other person and shall not be the continuing or surviving corporation of such consolidation or merger, (ii) shall permit any other person to consolidate with or merge into the Company and the Company shall be the continuing or surviving person but, in connection with such consolidation or merger, the Common Stock shall be changed into or exchanged for stock or other securities of any other person or cash or rights or any other property, (iii) shall transfer all or substantially all of its properties or assets to any other person, or (iv) shall effect a capital reorganization or reclassification of the Common Stock (other than a capital reorganization or reclassification resulting in the issue of additional shares of Common Stock for which adjustments to the Exercise Price are provided in this Section 6), or (v) shall effect a spin-off of assets, securities (other than Common Stock), or other property to holders of its Common Stock, then, and in the case of each such transaction, proper provision shall be made so that, upon the basis and the terms and in the manner provided in this Agreement and the Warrants, the Holders of the Warrants, upon the exercise thereof at any time after the consummation of such transaction, shall be entitled to receive (at the Exercise Price in effect at the time of such consummation for all Warrant Shares immediately prior to such consummation), in lieu of or, in the case of an event described clause (v) above, in addition to the Warrant Shares or other securities issuable upon such exercise prior to such consummation, the highest amount of securities, cash, rights, or other property to which such Holders would actually have been entitled as stockholders upon such consummation if such Holders had exercised the rights represented by the Warrants immediately prior thereto, subject to adjustments (subsequent to such consummation) as nearly equivalent as possible to the adjustments provided for in this Section 6.

6.5 Assumption of Obligations. Notwithstanding anything contained in the Warrants to the contrary, the Company will not effect any of the transactions described in clauses (i) through (v) of Section 6.4 unless, prior to the consummation thereof, each person (other than the Company) that may be required to deliver any stock, securities, cash, rights, or other property upon the exercise of the Warrants as provided herein shall assume, by written instrument delivered to and reasonably satisfactory to the Holders of the Warrants, (a) the obligations of the Company under this Agreement and the Warrants (and if the Company shall survive the consummation of such transaction, such assumption shall be in addition to, and shall not release the Company from, any continuing obligations of the Company under this Agreement and the Warrants) and (b) the obligation to deliver to such Holders such stock, securities, cash, rights, or property as, in accordance with the foregoing provisions of this Section 6, such Holders may be entitled to receive, and such person shall have similarly delivered to such Holders an opinion of counsel for such person, which counsel shall be reasonably satisfactory to such Holders, stating that this Agreement and the Warrants shall thereafter continue in full force and effect and the terms hereof (including, without limitation, all of the provisions of this Section 6) shall be applicable to the stock, securities, cash, rights, or property that such person may be required to deliver upon any exercise of the Warrants or the exercise of any rights pursuant hereto.

6.6 Dividends and Other Distributions. If, at any time or from time to time after the date of this Agreement, the Company shall issue or distribute to the holders of shares of Common Stock evidences of its indebtedness, any other securities of the Company, or any cash, rights, property, or other assets (excluding pursuant to a subdivision, combination, or reclassification, or dividend or distribution payable in shares of Common Stock, provision for which is made in Section 6.1, and excluding Regular Cash Dividends (as defined in this Section 6.6)) (any such non-excluded event being herein called a "Special Dividend"), the Exercise Price shall be adjusted by multiplying the then current Exercise Price by a fraction (i) the numerator of which shall be (a) the 30-Day Average Market Price (as defined in this Section 6.6) of the Common Stock, less (b) the Fair Market Value (as defined in this Section 6.6) of the evidences of indebtedness, other securities, cash, rights, property, or other assets issued or distributed in such Special Dividend applicable to one share of Common Stock and (ii) the denominator of which shall be such 30-Day Average Market Price. An adjustment made pursuant to this Section 6.6 shall become effective immediately after the record date of any such Special Dividend. "30-Day Average Market Price" means, with respect to any security, the average for the thirty consecutive trading days on the New York Stock Exchange immediately preceding the record date (or, if such calculation is being made pursuant to Section 6.7(a) or 6.7(b), at the time specified in such Section) of the daily closing price of such security as reported by the national securities exchange upon which such security is then listed or if not listed on any such exchange, the average of the closing prices as reported by the Nasdaq National Market, or if not then listed on the Nasdaq

National Market, the average of the highest reported bid and lowest reported asked prices in the over-the-counter market as reported by the National Association of Securities Dealers Inc. Automated Quotation System or its successor or such other generally accepted source of publicly reported bid quotations; provided, that if such thirty-trading-day period would include any days of trading in such security on an ex-dividend basis, the 30-Day Average Market Price shall be determined on the basis of only the portion of such thirty-trading-day period preceding the period of ex-dividend trading or, if no portion of such thirty-trading-day period precedes ex-dividend trading, then the 30-Day Average Market Price shall be determined on the basis of the ten consecutive trading days on the New York Stock Exchange immediately preceding such ex-dividend trading; provided, further, that if such security is not then publicly traded on the basis of any of the foregoing listings or quotations, the 30-Day Average Market Price shall be the Fair Market Price. "Fair Market Price" means, with respect to any security, the fair market price of such security as determined in good faith by the Company's Board of Directors, subject to Section 6.8. "Fair Market Value" means, with respect to any evidences of indebtedness, other securities, cash, rights, property, or other assets, the fair market value of such property or assets as determined in good faith by the Company's Board of Directors, subject to Section 6.8. "Regular Cash Dividend" means, for the purposes of this Section 6.6, any cash dividend declared or paid after the date of this Agreement of which the Purchaser has received at least 30 days' advance notice so long as the sum of (a) such cash dividend plus (b) the aggregate amount of all Restricted Payments (as defined in this Section 6.6) made during the period after December 31, 1996 would not exceed the sum of (x) \$7,500,000 plus (y) 50% of the Consolidated Net Income for the period commencing December 31, 1996 and ending on the date of payment of such cash dividend, treated as one accounting period. "Restricted Payments" means any payment of or in respect of (i) any dividend, either in cash or property, on any shares of the Company's Capital Stock (excluding pursuant to a subdivision, combination, or reclassification, or dividend or distribution payable in shares of Common Stock provision for which is made in Section 6.1) or (ii) any purchase, redemption, or retirement of any shares of the Company's Capital Stock or any warrants, rights, or options to purchase or acquire any shares of the Company's Capital Stock or (iii) any other payment or distribution, either directly or indirectly through any subsidiary, in respect of the Company's Capital Stock.

6.7 Certain Issuances. (a) If at any time on or after the date of this Agreement the Company issues or sells any shares of Capital Stock (x) including any Capital Stock issuable pursuant to Options (as defined in, and subject to the further provisions of, Section 6.7(b)) or Convertible Securities (as defined in, and subject to the further provisions of, Section 6.7(b)) outstanding on or before the Issue Date but (y) excluding all Warrant Shares, at a per unit or share price less than the Exercise Price or less than the 30-Day Average Market Price of Common Stock immediately before the time such Capital Stock (the "Additional Capital Stock") is issued or sold, then the Exercise Price will be, in the case of Capital Stock issued at a price less than the Exercise Price, reduced to the lower of the prices calculated by the following clauses (i) and (ii) and, in the case of Capital Stock issued at a price less than such 30-Day Average Market Price but above the Exercise Price, reduced to the price calculated by the following clause (ii):

(i) dividing (A) the sum of (I) the total number of shares of Capital Stock outstanding immediately before such issuance or sale of Additional Capital Stock multiplied by the then current Exercise Price plus (II) the aggregate cash consideration, if any, received by the Company upon such issuance or sale, by (B) the total number of shares of Capital Stock outstanding immediately after such issuance or sale (as calculated on a fully-diluted basis); and

(ii) multiplying the then current Exercise Price by a fraction, (A) the numerator of which is calculated by dividing (I) the sum of (x) the total number of shares of Capital Stock outstanding immediately before such issuance or sale of Additional Capital Stock multiplied by the then current 30-Day Average Market Price of the Common Stock plus (y) the aggregate consideration, if any, received by the Company upon such issuance or sale, by (II) the total number of shares of Capital Stock outstanding immediately after such issuance or sale (as calculated on a fully-diluted basis), and (B) the denominator of which is the 30-Day Average Market Price before such issuance or sale;

for purposes of this Section 6.7(a), in each case where the 30-Day Average Market Price is to be computed with respect to the time before any Additional Capital Stock is issued or sold, the date as of which the 30-Day Average Market Price will be computed will be the earlier of the date upon which the Company enters into a firm contract

for the issuance of such Additional Capital Stock and the date upon which the Company issues such Additional Capital Stock.

(b) If at any time on or after the date of this Agreement the Company issues, sells, grants, or assumes, or shall fix a record date for the determination of holders of any class of securities (other than the Warrant Certificates) to receive, any Options or Convertible Securities, then, and in each case, the maximum number of shares of Additional Capital Stock (and set forth in the instrument relating thereto, without regard to any provisions contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities or Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be the shares of Additional Capital Stock issued as of the time of such issue, sale, grant, or assumption or, in case such a record date shall have been fixed, as of the close of business on such record date (or, if the related Capital Stock trades on an ex-dividend basis, on the date immediately before the commencement of ex-dividend trading); provided, that such shares of Additional Capital Stock shall never be deemed to have been issued for the purposes of this Section 6.7 unless the per unit or share price of such shares (including the consideration for such Options or Convertible Securities) is less than the Exercise Price or less than the 30-Day Average Market Price of Common Stock immediately before the time such Options or Convertible Securities are issued, sold, granted, or assumed, or such a record date is fixed; and provided, further, that in any such case in which shares of Additional Capital Stock are deemed to be issued:

(i) no further adjustment of the Exercise Price shall be made upon the subsequent issue or sale of shares of Capital Stock or Convertible Securities upon the exercise of such Options or the conversion or exchange of such Convertible Securities;

(ii) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase in the consideration payable to the Company, or decrease in the number of shares of Additional Capital Stock issuable, upon the exercise, conversion, or exchange thereof (by change of rate or otherwise), the Exercise Price computed upon the original issue, sale, grant, or assumption thereof, and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options, or the rights of conversion or exchange under such Convertible Securities, that are outstanding at such time;

(iii) upon the expiration of any such Options that have not been exercised (or the purchase by the Company and cancellation or retirement of any such Options that have not been exercised) or the expiration of any rights of conversion or exchange under any such Convertible Securities that have not been exercised (or purchase by the Company and cancellation or retirement of any such Convertible Securities the rights of conversion or exchange under which have not been exercised), the Exercise Price computed upon the original issue, sale, grant, or assumption thereof, and any subsequent adjustments based thereon, shall, upon such expiration (or such cancellation or retirement, as the case may be), be recomputed as if:

(A) in the case of Options for Capital Stock, the only shares of Additional Capital Stock issued or sold were the shares of Additional Capital Stock, if any, actually issued or sold upon the exercise of such Options and the consideration received therefor was the consideration actually received by the Company for the issue, sale, grant, or assumption of all such Options, whether or not actually exercised, plus the consideration actually received by the Company upon the issue or

sale of such shares of Additional Capital Stock with respect to which such Options were actually exercised;

(B) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued or sold upon the exercise of such Options were issued at the time of the issue, sale, grant, or assumption of such Options, and the consideration received by the Company for the shares of Additional Capital Stock deemed to have then been issued was the consideration actually received by the Company for the issue, sale, grant, or assumption of all such Options, whether or not actually exercised, plus the consideration received by the Company upon the issue

or sale of such Convertible Securities with respect to which such Options were actually exercised; and

(C) in the case of Convertible Securities, the only shares of Additional Capital Stock issued or sold were the shares of Additional Capital Stock, if any, actually issued or sold upon the conversion or exchange of such Convertible Securities and the only consideration received therefor was the consideration actually received by the Company for the issue or sale of such Convertible Securities that were actually converted or exchanged, plus the additional consideration actually received by the Company upon such conversion or exchange.

No readjustment pursuant to paragraphs (A) through (C) above shall have effect of increasing the Exercise Price by an amount in excess of the amount of the adjustment thereof originally made in respect of the issue, sale, grant, or assumption of such Options or Convertible Securities. In the case of any Options that expire by their terms not more than 30 days after the date of issue, sale, grant, or assumption thereof, all adjustments pursuant to this Section 6.7(b)(iii) shall be postponed until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the manner provided for such Options above.

"Convertible Securities" means any evidences of indebtedness or other securities directly or indirectly convertible into or exchangeable for shares of Additional Capital Stock. "Options" means options, warrants, stock purchase rights, or stock appreciation rights for or related to shares of Additional Capital Stock or Convertible Securities.

(c) Subject to Section 1(c) only, no adjustment to the Exercise Price or to the number of Warrant Shares shall take place as a result solely of either (i) exercise of Options or Convertible Securities that are referred to on Schedule 1 hereto or (ii) issuance of Options or Convertible Securities (or the issuance of Capital Stock upon the exercise or conversion of such Options or Convertible Securities) under an employee benefit plan, so long as such plan is approved or ratified by action of the Company's shareholders and such Options or Convertible Securities are granted with an exercise or conversion price at or above market value (as reasonably determined under the terms of such plan) at the time of such grant.

6.8 Other Dilutive Events; Holders' Objection to Valuation. If any event shall occur as to which the other provisions of this Section 6 are not strictly applicable, but as to which the failure to make any adjustment would not fairly protect the purchase rights represented by this Agreement and the Warrants in accordance with the essential intent and principles hereof or if any adjustment is made based in any respect upon a determination of Fair Market Price or Fair Market Value and any Holders object to the Board of Directors' determination of Fair Market Price or Fair Market Value then, in each such case, the Holders of Warrants representing a majority may appoint a firm of independent public accountants of recognized national standing reasonably acceptable to the Company, which shall give their opinion as to the adjustment, if any, on a basis consistent with the essential intent and principles established herein, or the further adjustment, if any, on the basis of a corrected determination of Fair Market Price or Fair Market Value, necessary properly to preserve the purchase rights represented by this Agreement and the Warrants. The opinion of such accounting firm shall be conclusive and binding on the Company and the Holders. The Company and the Holders shall equally bear the expenses of the accounting firm appointed pursuant to this Section.

6.9 Notice of Adjustment Events. Whenever the Company contemplates the occurrence of an event that would give rise to adjustments under this Section 6, the Company shall mail to each Holder, at least thirty (30) days prior to the record date with respect to such event or, if no record date shall be established, at least thirty (30) days prior to such event, a notice specifying (i) the nature of the contemplated event, (ii) the date as of which any such record is to be taken for the purpose of such event, (iii) the date on which such event is expected to become effective, and (iv) the time, if any is to be fixed, when the holders of record of



Common Stock shall be entitled to exchange their shares of Common Stock for securities, cash, rights, or other property deliverable in connection with such event.

6.10 Notice of Adjustments. Whenever the Exercise Price or the kind of securities, cash, rights, or other property issuable upon exercise of the Warrants, or both, shall be adjusted pursuant to this Section 6, the

Company shall prepare a certificate signed by its President or a Vice President and by its Chief Financial Officer, Secretary, or Assistant Secretary, setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated (including a description of the basis on which the Company made any determination hereunder), and the Exercise Price and the kind of securities, cash, rights, or other property issuable upon exercise of the Warrants after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first class mail postage prepaid) to each Holder promptly after each adjustment. The Company shall keep copies of all such certificates at the principal executive offices of the Company referred to in Section 3.1, or the office or agency designated by the Company pursuant to Section 3.1, and cause the same to be available for inspection at such location during normal business hours by any Holder or any prospective purchaser of a Warrant designated by the Holder thereof.

6.11 Preservation of Rights. The Company will not, by amendment of its Certificate of Incorporation or through any consolidation, merger, reorganization, transfer of assets, dissolution, issuance or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Agreement or the Warrants or the rights represented thereby, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holders of the Warrants against dilution or other impairment in accordance with the essential intent and principles of this Agreement.

6.12 When No Adjustment Required. No adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least \$0.001 per share of Common Stock; provided, however that any and all adjustments that, by reason of this Section 6.12, are not required to be made shall be carried forward and taken into account in any subsequent adjustment; provided, further, however, that adjustments shall be required and made in accordance with the provisions of this Section 6 (other than this Section 6.12) not later than such time as may be required in order to preserve the tax-free nature of a distribution to the Holders of the Warrants. Anything in this Section 6 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Exercise Price, in addition to those required by this Section 6, as it in its discretion shall deem to be advisable in order that any stock dividend, subdivision of shares, or distribution of rights to purchase stock or securities convertible or exchangeable for stock hereafter made by the Company to its stockholders shall not be taxable.

Section 7. Exchange and Replacement of Warrant Certificates. Each Warrant Certificate is exchangeable without expense, upon the surrender thereof by the registered Holder at the principal executive offices of the Company referred to in Section 3.1 or the office or agency designated by the Company pursuant to Section 3.1, for a new Warrant Certificate or Warrant Certificates of like tenor and date representing in the aggregate the right to purchase the same number of Warrant Shares in such denominations as shall be designated by the Holder thereof at the time of such surrender. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Warrant Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of the Warrants, if mutilated, the Company will make and deliver a new Warrant Certificate of like tenor, in lieu thereof.

Section 8. Elimination of Fractional Interests. The Company shall not be required to issue certificates representing fractions of shares of Common Stock upon the exercise of any Warrant. As to any fraction of a Warrant Share or fraction of other securities, properties, or rights that the Holder would otherwise be entitled to purchase upon exercise of any Warrant, the Company shall pay a cash adjustment in an amount equal to the fractional interest multiplied by the difference of (x) the 30-Day Average Market Price, on the date of exercise, of the Common Stock or other securities that the Holder would be entitled to purchase or, if such 30-Day Average Market Price cannot be determined, the Fair Market Price, on the date of exercise, of the Common Stock or such other securities and the Fair Market Value of any other property or rights to which the Holder would be entitled upon such exercise and (y) the Exercise Price.

Section 9. Transfer. Subject to compliance with all applicable securities laws, transfer of any Warrant and all rights hereunder relating to such Warrant, in whole or in part, shall be registered on the books of

the Company to be maintained for such purpose, upon (i) surrender of a Warrant Certificate at the principal executive offices of the Company referred to in Section 3.1 or the office or agency designated by the Company pursuant to Section 3.1, together with a written Assignment of such Warrant, substantially in the form of Exhibit B hereto, duly executed by the Holder or its agent or attorney, and (ii) if required, payment of funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall cancel such surrendered Warrant Certificate and shall execute and deliver one or more new Warrant Certificates of like tenor in the name of the assignee or assignees and in the denominations specified in such Assignment, and shall issue to the assignor a new Warrant Certificate evidencing the portion of such Warrant, if any, not so assigned.

Section 10. [intentionally omitted.]

Section 11. Registration Rights.

11.1 Demand Registration. (a) Request for Registration. At any time and from time to time on or after the first anniversary of the date of this Agreement, the Demanding Holders (as defined in this Section 11.1(a)) may make a written request for registration under the Securities Act of all or part of their Registrable Securities (as defined in this Section 11.1(a)) (a "Demand Registration"). Such request for a Demand Registration must specify the number of shares of Registrable Securities proposed to be sold and must also specify the intended method of disposition thereof. Upon any such request, the Demanding Holders shall be entitled to have their Registrable Securities included in the Demand Registration, subject to Section 11.1(d). The Company shall not be obligated to effect more than two Demand Registrations with respect to the Registrable Securities under this Section 11.1(a). "Demanding Holders" means a majority of the holders of Registrable Securities. "Registrable Securities" means the Warrant Shares (issuable but unissued Warrant Shares shall be considered held by the Holder of Warrants representing the right to receive such Warrant Shares) and any securities issued or issuable upon any subdivision, combination, or reclassification thereof, any dividend or distribution thereon, or any merger or consolidation with respect to the Company.

(b) Effective Registration. Except in the case of a withdrawal governed by the last sentence of Section 11.1(e), a registration will not count as a Demand Registration until it has become effective and the Company has complied with its obligations under this Agreement with respect thereto; provided, however, that, after it has been declared effective, if the offering of Registrable Securities pursuant to a Demand Registration is interfered with by any stop order, injunction, or other order or requirement of the Securities and Exchange Commission (the "Commission") or any other governmental agency or court, such Demand Registration will be deemed not to have become effective during the period of such interference.

(c) Underwritten Offering. If the Demanding Holders so elect, the offering of such Registrable Securities pursuant to such Demand Registration shall be in the form of an underwritten offering. The Demanding Holders shall select one or more firms of investment bankers to act as the managing Underwriter or Underwriters in connection with such offering and shall select any additional managers to be used in connection with the offering.

(d) Reduction of Offering. If the managing Underwriter or Underwriters for a Demand Registration that is to be an underwritten offering advises the Company and the Demanding Holders, in writing, that the dollar amount or number of shares of Registrable Securities that the Demanding Holders desire to sell, taken together with all other shares of Common Stock or securities that the Company or any other shareholders of the Company desire to sell, exceeds the maximum dollar amount or number that can be sold in such offering without adversely affecting the proposed offering price, the timing, the distribution method, or the probability of success of such offering (the "Maximum Number of Shares"), then the Company shall include in such registration: (i) first, the Registrable Securities as to which Demand Registration has been requested by the Demanding Holders (pro rata in accordance with the number of shares of Registrable Securities that such Demanding Holder has requested be included in such registration) that can be sold without exceeding the Maximum Number of Shares and (ii) second, to the extent the Maximum Number of Shares has not been reached under the foregoing clause (i), the

shares of Common Stock or other securities, if any, that the Company is obligated (pursuant to agreements other than this Agreement) or desires to register, that can be sold without exceeding the Maximum Number of Shares.

(e) **Withdrawal.** If the Demanding Holders or any of them disapprove of the terms of any underwriting or are not entitled to include all of their Registrable Securities in any offering, such Demanding Holders may elect to withdraw from such offering by giving written notice to the Company and the Underwriter of their request to withdraw prior to the effectiveness of the registration statement. If the Demanding Holders or any of them withdraw from a proposed offering relating to a Demand Registration and, solely as a result of such withdrawal the registration statement is withdrawn prior to being declared effective, such registration shall count as a Demand Registration provided for in Section 11.1(a), unless the withdrawing Demanding Holders pay their pro rata share (based upon the number of shares to be included in such registration statement) of the expenses incurred in connection with such registration statement.

**11.2 Piggyback Registration.** (a) **Piggy-Back Rights.** If at any time the Company proposes to file a registration statement under the 1933 Act with respect to an offering of equity securities, or securities convertible or exchangeable into equity securities, by the Company for its own account or by shareholders of the Company for their account (or by the Company and by shareholders of the Company) other than a registration statement (i) on Form S-4 or S-8 (or any substitute or successor form that may be adopted by the Commission), (ii) filed in connection with any employee stock option or other benefit plan, (iii) for an exchange offer or offering of securities solely to the Company's existing shareholders, or (iv) for a dividend reinvestment plan, then the Company shall (x) give written notice of such proposed filing to the holders of Registrable Securities as soon as practicable but in no event less than 30 days before the anticipated filing date, which notice shall describe the amount and type of securities to be included in such offering, the intended method(s) of distribution, and the name of the proposed managing Underwriter or Underwriters, if any, of the offering; and (y) offer to holders of Registrable Securities in such notice the opportunity to register such number of shares of Registrable Securities as such holders may request in writing within 15 days following receipt of such notice (a "Piggy-Back Registration"). The Company shall cause such Registrable Securities to be included in such registration and shall use its best efforts to cause the managing Underwriter or Underwriters of a proposed underwritten offering to permit the Registrable Securities requested to be included in a Piggy-Back Registration to be included on the same terms and conditions as any similar securities of the Company and to permit the sale or other disposition of such Registrable Securities in accordance with the intended method of distribution thereof.

(b) **Reduction of Offering.**

(i) If the managing Underwriter or Underwriters for a Piggy-Back Registration that is to be an underwritten offering of shares for the Company's account advises the Company and the holders of Registrable Securities in writing that the dollar amount or number of shares of Common Stock that the Company desires to sell, taken together with the Registrable Securities as to which registration has been requested pursuant to the piggy-back registration rights under the Stanwich Registration Rights Agreement (as defined in this Section 11.2(b)) or the LLC Registration Agreement (as defined in this Section 11.2(b)) that other shareholders or warrant holders of the Company desire to sell, exceeds the Maximum Number of Shares, then the Company shall include in such registration: (1) first, the shares of Common Stock or other securities that the Company desires to sell that can be sold without exceeding the Maximum Number of Shares, (2) second, to the extent the Maximum Number of Shares has not been reached under the foregoing clause (1), the Registrable Securities as to which registration has been requested hereunder, the shares of Common Stock or other securities, if

any, as to which registration has been requested pursuant to the piggy-back registration rights granted under the Stanwich Registration Rights Agreement, and the shares of Common Stock or other securities, if any, as to which registration has been requested pursuant to the piggy-back registration rights granted under the LLC Registration Rights Agreement (pro rata among the holders of such Registrable Securities and Common Stock or other securities in accordance with the number of shares held by each such holder, regardless of the number of shares that such holder has requested be included in such registration) that can be sold without exceeding the Maximum Number of Shares, and (3) third, to the extent the Maximum Number of Shares has not been reached under the foregoing clauses (1) and (2), the shares of Common Stock or other securities, if any, that other shareholders desire to sell that can be sold without exceeding the Maximum Number of Shares. "Stanwich Registration Rights Agreement" means the Consolidated Registration Rights Agreement entered into before the date of this Agreement by and between the Company and Stanwich Financial Corp., together with any persons identified as "Stanwich Parties" therein. "LLCP Registration Rights Agreement" means the Registration Rights Agreement entered into before the date of this Agreement by and between the Company and Levine Leichtman Capital Partners II, L.P.

(ii) If the managing Underwriter or Underwriters for a Piggy-Back Registration that is to be an underwritten offering of shares for the account of persons having exercised their demand registration rights under the Stanwich Registration Rights Agreement or the LLC Registration Rights Agreement advises the Company and the holders of Registrable Securities in writing that the dollar amount or number of shares of Common Stock that such persons desire to sell, taken together with the Registrable Securities as to which registration has been requested hereunder and the shares of Common Stock or other securities, if any, that the Company desires to sell or that other shareholders of the Company desire to sell, exceeds the Maximum Number of Shares, then the Company shall include in such registration: (1) first, the shares of Common Stock or other securities for the account of persons having demand registration rights under the Stanwich Registration Rights Agreement or the LLC Registration Rights Agreement, as applicable, that can be sold without exceeding the Maximum Number of Shares, (2) second, to the extent the Maximum Number of Shares has not been reached under the foregoing clause (1), the Registrable Securities as to which registration has been requested pursuant to the piggy-back registration rights granted hereunder and the shares of Common Stock or other securities, if any, as to which registration has been requested pursuant to the piggy-back registration rights granted under the LLC Registration Rights Agreement or the Stanwich Registration Rights Agreement, as applicable (pro rata among such holders in accordance with the number of shares of Registrable Securities held by each such holder, regardless of the number of shares of Registrable Securities that such holder has requested be included in such registration), that can be sold without exceeding the Maximum Number of Shares, (3) third, to the extent the Maximum Number of Shares has not been reached under the foregoing clauses (1) and (2), the shares of Common Stock or other securities, if any, that the Company is obligated (pursuant to agreements other than

this Agreement, the Stanwich Registration Rights Agreement, and the LLC Registration Rights Agreement) or desires to register, that can be sold without exceeding the Maximum Number of Shares.

(c) **Withdrawal.** Any holder of Registrable Securities may elect to withdraw such holder's request for inclusion of Registrable Securities in any Piggy-Back Registration by giving written notice to the Company of such request to withdraw prior to the effectiveness of the registration statement. The Company may also elect to withdraw a registration statement at any time prior to the effectiveness of the registration statement. Notwithstanding any such withdrawal, the Company shall pay all expenses incurred by the holders of Registrable Securities in connection with such Piggy-Back Registration as provided in Section 11.4(b).

**11.3 Registration on Form S-3.** The holders of Registrable Securities may at any time request in writing that the Company register the resale of any or all of such Registrable Securities on Form S-3 (or any similar short-form registration that may be available at such time). Upon receipt of such written request, the Company shall promptly give written notice of the proposed registration to all other holders of Registrable Securities, and, as soon as practicable thereafter, effect the registration of all or such portion of such holder's or holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other holder or holders joining in such request as are specified in a written request given within 15 days after receipt of such written notice from the Company; provided, however, that the Company shall not be obligated to effect any such registration pursuant to this Section 11.3 if (i) Form S-3 is not available for such offering, (ii) the holders propose to effect an underwritten offering, (iii) the holders propose to sell Registrable Securities at an anticipated aggregate price to the public (net of any underwriters' discounts or commissions) of less than \$500,000, (iv) the Company shall furnish to the holders a certificate signed by the Chief Executive Officer of the Company stating that in

the good faith judgment of the Board, it would be materially detrimental to the Company and its shareholders for such Form S-3 registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 registration statement for a period of not more than 60 days after receipt of the request of the holder or holders under this Section 11.3, provided, however, that in the event the Company elects to exercise such right with respect to any registration, it shall not exercise such right again prior to the date that is nine months after the date on which the registration statement relating to such deferred registration is filed, (v) the Company has effected eight registrations pursuant to this Section 11.3, or (vi) the Company has effected two registrations pursuant to this Section 11.3 during the 12-month period prior to the date on which the registration statement relating to such registration is anticipated to be declared effective. The Company shall use its best efforts to maintain each registration statement under this Section 11.3 effective for 60 days or until the Registrable Securities covered thereby have been sold, whichever shall first occur. Registrations effected pursuant to this Section 11.3 shall not be counted as Demand Registrations effected pursuant to Section 11.1.

11.4 Covenants of the Company with Respect to Registration. In connection with any registration under Section 11.1, 11.2, or 11.3, the Company covenants and agrees as follows:

(a) The Company shall use its best efforts to have any registration statements declared effective at the earliest possible time, and shall furnish each holder desiring to sell securities such number of prospectuses as shall reasonably be requested.

(b) The Company shall pay all of the costs, fees and expenses in connection with all registration statements filed pursuant to Sections 11.1, 11.2, and 11.3 including, without limitation, the Company's legal and accounting fees, printing expenses, blue sky fees, and expenses (including legal fees and disbursements of one counsel for holders of Warrants and/or Warrant Shares in connection with such registration statements but excluding each such holder's pro rata share of underwriting commissions and discounts). If the Company shall fail to comply with the provisions of Section 11.4(a), the Company shall, in addition to any other equitable or other relief available to the holder(s) of Warrants and/or Warrant Shares, extend the Exercise Period of the Warrants by such number of days as shall equal any delay in excess of 120 days caused by the Company's failure.

(c) The Company shall take all necessary action that may be required in qualifying or registering the securities included in a registration statement for offering and sale under the securities or blue sky laws of such states as the holder(s) of Warrants and/or Warrant Shares shall reasonably designate; provided, that the Company shall not be obligated to qualify to do business in any such jurisdiction or to file any general consent to service of process in any jurisdiction in any action other than one arising out of the offering or the sale of the Warrants and/or Warrant Shares.

(d) Nothing contained in this Agreement shall be construed as requiring a Holder to exercise any Warrant representing Warrant Shares to be registered under Section 11.1, 11.2, or 11.3 prior to the closing of the sales pursuant to an offering made by means of a registration statement referred to in Sections 11.1, 11.2, or 11.3.

(e) In connection with any registration statement filed pursuant to Section 11.1, 11.2, or 11.3, the Company shall furnish to each holder of Warrants and/or Warrant Shares participating in any underwritten offering and to each underwriter, a signed counterpart, addressed to such holder or underwriter, of (i) an opinion of counsel to the Company, dated the effective date of such registration statement (and, if such registration includes an underwritten public offering, an opinion dated the date of the closing under the underwriting agreement), and (ii) a "cold comfort" letter, dated the effective date of such registration statement (and, if such registration includes an underwritten public offering, a letter dated the date of the closing under the underwriting agreement), signed by the independent public accountants who have issued a report on the Company's financial statements included in such registration statement, in each case covering substantially the same matters with respect to such registration statement (and the prospectus included therein) and, in the case of such accountants' letter, with respect to events subsequent to the date of such financial statements, as are customarily covered in opinions of issuer's counsel and in accountants' letters delivered to underwriters in underwritten public offerings of securities.

(f) The Company shall as soon as practicable after the effective date of the registration statement, and in any event within fifteen (15) months thereafter, make "generally available to its security holders" (within the meaning of Rule 158 under the Securities Act) an earnings statement (which need not be audited) complying





with Section 11(a) of the Securities Act and covering a period of at least twelve (12) consecutive months beginning after the effective date of the registration statement.

(g) The Company shall deliver promptly to each holder of Warrants and/or Warrant Shares participating in the offering requesting the correspondence and memoranda described below, and to the managing underwriters, copies of all correspondence between the Commission and the Company, its counsel or auditors and all memoranda relating to discussions with the Commission or its staff with respect to the registration statement and permit each such holder (at its sole cost and expense other than that set forth in Section 11.3(b)) and underwriter to do such investigation, upon reasonable advance notice, with respect to information contained in or omitted from the registration statement as it deems reasonably necessary to comply with applicable securities laws or rules of the NASD. Such investigation shall include access to books, records and properties and opportunities to discuss the business of the Company with its officers and independent auditors, all to such reasonable extent and at such reasonable times and as often as any such holder or underwriter shall reasonably request.

(h) (A) The Company shall indemnify, to the full extent permitted by law, each selling holder of Warrants and/or Warrant Shares, its officers and directors, and each person who "controls" such seller (within the meaning of Section 15 of the Securities Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) against all losses, claims, damages, liabilities, and expenses (collectively, "Losses") suffered by or threatened against such seller as a result of any untrue or alleged untrue statement of a material fact contained in any registration statement or any amendment thereof or any omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements made therein not misleading or any untrue or alleged untrue statement of a material fact contained in any prospectus or preliminary prospectus or any supplement thereto or any omission or alleged omission to state therein a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, except insofar as the Losses are caused by or contained in any information which such seller furnished in writing to the Company expressly for use therein. In connection with an underwritten offering, the Company shall indemnify the underwriters thereof, their officers and directors, and each person who "controls" any of such underwriters (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) to the same extent as provided above with respect to the indemnification of the selling holders of Warrants and/or Warrant Shares.

(B) Each selling holder of Warrants and/or Warrant Shares shall indemnify, to the full extent permitted by law, the Company, its directors and officers and each person who controls the Company (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) against Losses resulting from any untrue or alleged untrue statement of a material fact contained in any registration statement or any amendment thereof or any omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements made therein not misleading or any untrue or alleged untrue statement of a material fact contained in any prospectus or preliminary prospectus or any supplement thereto or any omission or alleged omission to state therein a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, if and only to the extent that, such untrue statement or alleged untrue statement or omission or alleged omission is contained in any information that such seller furnished in writing to the Company expressly for use in any registration statement or any amendment thereof or in any prospectus or preliminary prospectus or any supplement thereto.

(C) Any person entitled to indemnification hereunder (the "Indemnitee") shall promptly notify the indemnifying party (the "Indemnitor") in writing after the Indemnitee receives any written notice of the commencement of any action, suit, proceeding, or investigation or threat thereof made in writing for which the Indemnitee may claim indemnification or contribution pursuant to this Agreement. Unless, in the reasonable judgment of the Indemnitee, a conflict of interest exists between the Indemnitee and the Indemnitor with respect to such claim, the Indemnitee will permit the Indemnitor to assume the defense of such claim with counsel reasonably satisfactory to the Indemnitee and the Indemnitor will pay all costs and expenses incurred in connection therewith, including the fees and expenses of counsel. If the Indemnitor is not entitled, or elects not, to assume the defense of a claim, it need not pay the fees and expenses of more than one counsel with respect to such claim, unless, in an Indemnitee's reasonable judgment, a conflict of interest may exist between such Indemnitee and any other Indemnitee(s) with respect to such claim. In such event the Indemnitor shall pay the fees and expenses of such



additional counsel as may be necessary, but in no event shall the Company be required to pay the fees or expenses of more than one counsel in addition to counsel representing the Company. The Indemnitor shall not be subject to any liabilities for any settlement made without its consent, which consent shall not unreasonably be withheld or delayed. No Indemnitor shall consent to entry of any judgment or enter into any settlement that does not unconditionally require the claimant or plaintiff to release the Indemnitee from all liability in respect of such claim or litigation.

(D) If the indemnification provided for in this paragraph (h) is unavailable to an Indemnitee hereunder in respect of any Losses referred to herein, then the Indemnitor, in lieu of indemnifying such Indemnitee, shall contribute to the amount paid or payable by such Indemnitee as a result of such Losses, in such proportion as appropriately reflects the relative fault of the Indemnitor(s) and Indemnitee(s) in connection with such Losses, as well as any other relevant equitable considerations. The relative fault of the Indemnitor(s) and Indemnitee(s) and relevant equitable considerations shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such Indemnitor(s) or Indemnitee(s) and their relative intent, knowledge, access to information, and opportunity to correct or prevent such action, and their benefit therefrom. The amount paid or payable by a party as a result of the Losses referred to above shall include, subject to the limitations set forth in subparagraph (E), any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this subparagraph (D) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(E) Anything to the contrary contained in this paragraph (h) notwithstanding, no selling holder of Warrants and/or Warrant Shares shall be liable for any indemnification or contribution in excess of the maximum amount received by such holder from any sale of Warrants and/or Warrant Shares that were actually registered pursuant to Section 11.1 or 11.2, net of any amounts paid by such holder in connection with such sale in respect of the Exercise Price, underwriting commissions and discounts, or any other costs related to such sale.

(i) The Company shall promptly notify each holder of Warrants and/or Warrant Shares covered by such registration statement, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, upon the Company's discovery that, or upon the happening of any event as a result of which, the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, and at the request of any such holder promptly prepare and furnish to such holder and each underwriter, if any, a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not contain such misstatement or omission.

(j) The Company shall enter into an underwriting agreement with the managing underwriters of an underwritten offering covered by Section 11.1 or Section 11.2. Such agreement shall be reasonably satisfactory in form and substance to the Company, each holder of Warrants and/or Warrant Shares to be sold thereunder and such managing underwriters, and shall contain such representations, warranties, and covenants by the Company and such other terms as are customarily contained in agreements of that type. The holders of Warrants and/or Warrant Shares shall be parties to any underwriting agreement relating to an underwritten sale of their Warrants and/or Warrant Shares and may, at their option, require that any or all the representations, warranties, and covenants of the Company to or for the benefit of such underwriters shall also be made to and for the benefit of such holders. Such holders shall not be required to make any representations or warranties to or agreements with the Company or the underwriters except as they may relate to such holders and their intended methods of distribution.

(k) In the event the Company grants to any other holder of the Company's securities at any time registration rights more favorable than those afforded to the Holders hereunder, then the provisions hereunder shall be deemed amended to include such more favorable provisions.

Section 12. Other Covenants of the Company. For so long as any Warrants remain outstanding:

12.1 Information. The Company shall furnish to the Purchaser:

(a) within 15 days after the Company is required to file the same with the Commission, copies of the annual, quarterly and other reports which the Company may be required to file with the Commission pursuant to Sections 13(a), 13(c), or 15(d) of the Exchange Act; and

(b) with reasonable promptness, such other information respecting the business, operations, properties, or condition (financial or otherwise) or prospects of the Company as the Purchaser may reasonably request from time to time.

12.2 Rule 144; Rule 144A. (a) The Company will file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the Commission thereunder and will take such further action as may reasonably be required from time to time to enable Holders to sell Warrant Shares without registration under the Securities Act within the limitation of the exemptions provided by (i) Rule 144 under the Securities Act, as such Rule may be amended from time to time, or (ii) any similar rule or regulation hereafter adopted by the Commission. Upon the request of any Holder, the Company will deliver to such Holder a written statement as to whether it has complied with such requirements.

(b) For so long as any Warrants or Shares are restricted securities within the meaning of Rule 144(a)(3) under the Securities Act, the Company covenants and agrees that it shall, during any period in which it is not subject to Section 13 or 15(d) of the Exchange Act, make available to any Holder in connection with the sale by such Holder to any prospective purchaser of Common Stock from such Holder, in each case upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

Section 13. Voting. So long as any holder of Warrants and/or Warrant Shares shall own Warrants exercisable for and/or Warrant Shares consisting of or convertible into at least five percent (5%) of the outstanding Common Stock of the Company, such holder of Warrants and/or Warrant Shares shall have the right to send a representative selected by it to each meeting of the Company's Board of Directors, which representative shall be permitted to attend (but not participate in) such meeting and any adjournments thereof. The Company shall give to such holder of Warrants and/or Warrant Shares notice of all meetings thereof at least ten (10) Business Days prior to convening such meeting, which notice shall describe the matters upon which action is to be taken, or shall provide such notice as is given to members of the Company's Board of Directors. The Company shall provide such holder with a copy of all resolutions adopted by the Board of Directors by written consent promptly upon execution by the Board members.

Section 14. Further Assurance. The Company represents and warrants that all corporate action on the part of the Company necessary for the authorization, execution, delivery, and performance by the Company of this Agreement in accordance with the provisions hereof has been taken.

Section 15. Reservation and Listing of Securities. The Company shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of issuance upon the exercise or conversion of the Warrants, such number of shares of Common Stock or other securities, properties, or rights as shall be issuable upon the exercise or conversion thereof. The Company covenants and agrees that, upon exercise of the Warrants and payment of the Exercise Price therefor, all shares of Common Stock and other securities issuable upon such exercise and conversion thereof shall be duly and validly issued, fully paid, nonassessable, and not subject to the preemptive rights of any stockholder. As long as the Warrants shall be outstanding, the Company shall use its best efforts to cause all Warrant Shares to be listed on all securities exchanges and/or included in the



automated quotation system of the Nasdaq National Market (subject to official notice of issuance) with respect to which the Common Stock issued to the public may then be so listed and/or quoted.

Section 16. Notices to Warrant Holders. Nothing contained in this Agreement shall be construed as conferring upon the Holders the right to vote or to consent or to receive notice as a stockholder in respect of any meetings of stockholders for the election of directors or any other matter, or as having any rights whatsoever as a stockholder of the Company. If, however, at any time prior to the expiration of the Warrants and their exercise, any of the following events shall occur:

(a) the Company shall take a record of the holders of its shares of Common Stock for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution payable; or

(b) the Company shall offer to all the holders of its Common Stock any additional shares of Capital Stock of the Company or securities convertible into or exchangeable for shares of Capital Stock of the Company, or any option, right, or warrant to subscribe therefor; or

(c) a voluntary or involuntary dissolution, liquidation, or winding-up of the Company (other than in connection with a consolidation or merger) or any capital reorganization, recapitalization, or reclassification or a sale of all or substantially all of its property, assets, and business as an entirety shall be proposed;

then, in any one or more of said events, the Company shall mail to each Holder of a Warrant a notice specifying (i) the date or expected date on which any such record is to be taken for the purpose of such dividend, distribution, or right, and the amount and character of such dividend, distribution, or right, or (ii) the date or expected date on which any such reorganization, reclassification, recapitalization, consolidation, merger, sale, dissolution, liquidation, or winding-up is to take place and the time, if any such time is to be fixed, as of which the holders of record of Common Stock shall be entitled to exchange their shares of Common Stock for the securities, cash, rights, or other property deliverable upon such reorganization, reclassification, recapitalization, consolidation, merger, sale, dissolution, liquidation, or winding-up. Such notice shall be mailed at least thirty (30) days prior to the date therein specified.

Section 17. Notices. All notices, requests, consents, and other communications hereunder shall be in writing and shall be deemed to have been duly given or made at the time delivered by hand, if personally delivered; five calendar days after mailing, if sent by registered or certified mail; when answered back, if telexed; when receipt is acknowledged, if telecopied; and the next Business Day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery (except that a notice of change of address shall not be deemed to have been given until actually received by the addressee):

(a) If to a registered Holder of any Warrant, to the address of such Holder as shown on the books of the Company; or

(b) If to the Company, to the Company's principal executive offices referred to in Section 3.1 or to such other address as the Company may designate by notice to the Holders.

Section 18. Supplements and Amendments. The Company and the Purchaser may from time to time supplement or amend this Agreement without the approval of any Holders (other than the Purchaser) in order to cure any ambiguity, to correct or supplement any provision contained herein that may be defective or inconsistent with any other provision herein, or to make any other provision in regard to matters or questions arising hereunder that the Company and the Purchaser may deem necessary or desirable and that the Company and the Purchaser determine in good faith does not materially and adversely affect the interests of any other Holder.



Section 19. Successors. All the covenants and provisions of this Agreement shall be binding upon and inure to the benefit of the Company, the Holders, and their respective permitted successors and assigns hereunder.

Section 20. Governing Law, Submission to Jurisdiction. This Agreement and each Warrant issued hereunder shall be governed and construed in accordance with the laws of the State of New York applicable to contracts made and performed in the State of New York without giving effect to the principles of conflicts of law thereof.. If any action or proceeding shall be brought by the Purchaser or any of the Holders in order to enforce any right or remedy under the Warrants or this Agreement, the Company hereby consents to, and submits to, the jurisdiction of the courts of the State of New York and of any federal court sitting in the Borough of Manhattan, City of New York. The Company agrees that process in any such action or proceeding may be served in the manner provided by New York law for service on foreign persons, as appropriate.

Section 21. Entire Agreement, Modification. This Agreement contains the entire understanding between the parties hereto with respect to the subject matter hereof and may not be modified or amended except by a writing duly signed by the party against whom enforcement of the modification or amendment is sought.

Section 22. Expiration of this Agreement. This Agreement shall expire 10 years from the Issue Date; provided, however, that the indemnity and contribution agreements contained in Section 11.3(h) shall continue in full force and effect.

Section 23. Severability. If any provision of this Agreement shall be held to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision of this Agreement. Any such provision held to be invalid or unenforceable shall, to the extent possible, be deemed modified so as to be valid and enforceable and in harmony with the essential intent and principles of this Agreement.

Section 24. Captions. The caption headings of the Sections of this Agreement are for convenience of reference only and are not intended to be, nor should they be construed as, part of this Agreement and shall be given no substantive effect.

Section 25. Benefits of This Agreement. Nothing in this Agreement (except for the indemnity and contribution agreements contained in Section 11.3(h)) shall be construed to give any person or corporation other than the Company and the Purchaser and any other holder(s) of the Warrants and/or Warrant Shares any legal or equitable right, remedy, or claim under this Agreement; and (except for the indemnity and contribution agreements contained in Section 11.3(h)) this Agreement shall be for the sole and exclusive benefit of the Company, the Purchaser, and any other Holder from time to time of any Warrant or Warrant Shares.

Section 26. Specific Performance. The parties hereby declare that it is impossible to measure in money the damages that will accrue to a party hereto by reason of a failure to perform any of the obligations under this Agreement. Therefore, all parties hereto shall have the right to specific performance of the obligations of the other parties under this Agreement, and if any party hereto shall institute an action or proceeding to enforce the provisions hereof, any person (including the Company) against whom such action or proceeding is brought hereby waives the claim or defense therein that such party has an adequate remedy at law, and such person shall not urge in any such action or proceeding the claim or defense that such remedy at law exists.

Section 27. Counterparts. This Agreement may be executed in any number of counterparts, including by telecopied facsimile, and each of such counterparts shall for all purposes be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.



IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, as of the day and year first above written.

CONSUMER PORTFOLIO SERVICES, INC.

By: \_\_\_\_\_  
Name:  
Title:

FSA PORTFOLIO MANAGEMENT INC.

By: \_\_\_\_\_  
Name:  
Title:

EXHIBIT A

[FORM OF WARRANT CERTIFICATE]

**THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND NEITHER THE SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED, OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND SUCH STATE LAWS OR UNDER AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND SUCH STATE LAWS.**

**EXERCISABLE ON OR BEFORE  
5:30 P.M., NEW YORK TIME, ON NOVEMBER \_\_, 2003**

**WARRANT CERTIFICATE NO. \_\_\_\_**

This Warrant Certificate certifies that

\_\_\_\_\_, or registered assigns, is the registered holder of a Warrant to purchase initially, at any time from the date hereof until 5:30 p.m., New York time, on November \_\_, 2003 (the "Expiration Date"), up to \_\_\_\_\_ fully paid and nonassessable shares of Common Stock, no par value (the "Common Stock") of CONSUMER PORTFOLIO SERVICES, INC., a California corporation (the "Company"), at the Exercise Price (as defined in the Warrant Agreement, dated as of November \_\_, 1998, between the Company and FSA Portfolio Management Inc. (the "Warrant Agreement")) upon surrender of this Warrant Certificate and payment of the Exercise Price at the Company's principal executive offices or another office maintained by the Company for such purpose in accordance with the Warrant Agreement, but subject to the conditions set forth herein and in the Warrant Agreement. Payment of the Exercise Price shall be made by certified or official bank check in New York Clearing House funds payable to the order of the Company or as otherwise set forth in the Warrant Agreement.

Capitalized terms used but not defined in this Warrant Certificate have the meanings given to such terms in the Warrant Agreement.

**NO WARRANT MAY BE EXERCISED AFTER 5:30 P.M., NEW YORK TIME, ON THE EXPIRATION DATE, AT WHICH TIME ALL WARRANTS EVIDENCED HEREBY, UNLESS EXERCISED PRIOR THERETO, SHALL THEREAFTER BE VOID.**

The warrant evidenced by this Warrant Certificate is part of a duly authorized issue of Warrants issued pursuant to the Warrant Agreement which, among other things, provides certain rights and procedures related to the Warrants and Warrant Shares. The Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties, and immunities thereunder of the Company and the holders (the words "holders" or "holder" meaning the registered holders or registered holder) of the Warrants.

The Warrant Agreement provides that upon the occurrence of certain events the Exercise Price and the type and/or number of the Company's securities issuable thereupon may, subject to certain conditions, be adjusted. In such event, the Company will, at the request of the holder, issue a new Warrant Certificate evidencing the adjustment in the Exercise Price and the number and/or type of securities issuable upon the exercise of the Warrant; provided, however, that the failure of the Company to issue such new Warrant Certificates shall not in any way change, alter, or otherwise impair the rights of the holder as set forth in the Warrant Agreement.

Upon due presentment for registration of transfer of this Warrant Certificate at an office or agency of the Company, a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrant Shares shall be issued to the transferee(s) in exchange for this Warrant Certificate, subject to the limitations provided herein and in the Warrant Agreement, without any charge.



Upon the exercise of the Warrant evidenced hereby for the purchase of less than all the Warrant Shares purchasable hereunder, the Company shall cancel this Warrant Certificate upon the surrender hereof and forthwith issue to the holder hereof a new Warrant Certificate of like tenor representing the balance of the Warrant Shares purchasable hereunder.

The Company may deem and treat the registered holder(s) hereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, and of any distribution to the holder(s) hereof, and for all other purposes, and the Company shall not be affected by any notice to the contrary.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed under its corporate seal.

Dated as of \_\_\_\_\_

CONSUMER PORTFOLIO SERVICES, INC.

[SEAL]

By: \_\_\_\_\_

Name:

Title:

Attest:

\_\_\_\_\_  
Name:

Title: Secretary

**[FORM OF ELECTION TO PURCHASE  
PURSUANT TO SECTION 3.1]**

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant Certificate, to purchase \_\_\_\_\_ shares of Common Stock and herewith tenders in payment for such securities a certified or official bank check payable in New York Clearing House funds to the order of CONSUMER PORTFOLIO SERVICES, INC. in the amount of \$\_\_\_\_\_, all in accordance with the terms hereof. The undersigned requests that a certificate for such securities be registered in the name of \_\_\_\_\_ whose address is \_\_\_\_\_ and that such Certificate be delivered to \_\_\_\_\_ whose address is \_\_\_\_\_.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Signature (Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate.)

\_\_\_\_\_  
(Insert Social Security or Other Identifying Number of Holder)

\_\_\_\_\_  
Signature Guarantee

**[FORM OF ELECTION TO PURCHASE  
PURSUANT TO SECTION 3.2]**

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant Certificate, to purchase \_\_\_\_\_ shares of Common Stock all in accordance with the terms of Section 3.2 of the Warrant Agreement, dated as of November \_\_, 1998 between Consumer Portfolio Services, Inc. and FSA Portfolio Management Inc. The undersigned requests that a certificate for such securities be registered in the name of \_\_\_\_\_ whose address is \_\_\_\_\_ and that such Certificate be delivered to \_\_\_\_\_ whose address is \_\_\_\_\_.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Signature (Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate.)

\_\_\_\_\_  
(Insert Social Security or Other Identifying Number of Holder)

---

Signature Guarantee

**A-4**

EXHIBIT B

**[FORM OF ASSIGNMENT]**

(To be executed by the registered holder if such holder  
desires to transfer the Warrant Certificate)

FOR VALUE RECEIVED \_\_\_\_\_ hereby sells, assigns and transfers unto

\_\_\_\_\_ (Please print name and  
address of transferee)

this Warrant Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint  
\_\_\_\_\_ Attorney, to transfer the within Warrant Certificate on the books of  
the within-named Company, with full power of substitution.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Signature (Signature must conform in  
all respects to name of holder as  
specified on the face of the Warrant  
Certificate.)

\_\_\_\_\_  
(Insert Social Security or Other  
Identifying Number of Holder)

\_\_\_\_\_  
Signature Guarantee



Schedule 1 to Warrant Agreement

Capital Stock	
Outstanding common shares	15,658,501
Outstanding preferred shares	0
Convertible Debt	
PENs (1997 public subordinated debt)	492,611
Stanwich 1997 quasi-PENs (1997 private subordinated debt)	252,951
1998 Stanwich/Poole Convertible Subordinated Notes	1,666,667
Options, Warrants & Rights	
Options outstanding under Plans	2,341,400
Non-Plan options (directors)	60,000
Levine Leichtman warrant	3,450,000
	-----
TOTAL	23,922,130
	=====

**THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND NEITHER THE SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, TRANSFERRED, PLEDGED, OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND SUCH STATE LAWS OR UNDER AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND SUCH STATE LAWS.**

**EXERCISABLE ON OR BEFORE  
5:30 P.M., NEW YORK TIME, ON DECEMBER 4, 2003**

**WARRANT CERTIFICATE NO. 1**

This Warrant Certificate certifies that FSA PORTFOLIO MANAGEMENT INC., or registered assigns, is the registered holder of a Warrant to purchase initially, at any time from the date hereof until 5:30 p.m., New York time, on December 4, 2003 (the "Expiration Date"), up to 2,525,114 (two million, five hundred twenty-five thousand, one hundred fourteen) fully paid and nonassessable shares of Common Stock, no par value (the "Common Stock") of CONSUMER PORTFOLIO SERVICES, INC., a California corporation (the "Company"), at the Exercise Price (as defined in the Warrant Agreement, dated as of November 30, 1998, between the Company and FSA Portfolio Management Inc. (the "Warrant Agreement")) upon surrender of this Warrant Certificate and payment of the Exercise Price at the Company's principal executive offices or another office maintained by the Company for such purpose in accordance with the Warrant Agreement, but subject to the conditions set forth herein and in the Warrant Agreement. Payment of the Exercise Price shall be made by certified or official bank check in New York Clearing House funds payable to the order of the Company or as otherwise set forth in the Warrant Agreement.

Capitalized terms used but not defined in this Warrant Certificate have the meanings given to such terms in the Warrant Agreement.

**NO WARRANT MAY BE EXERCISED AFTER 5:30 P.M., NEW YORK TIME, ON THE EXPIRATION DATE, AT WHICH TIME ALL WARRANTS EVIDENCED HEREBY, UNLESS EXERCISED PRIOR THERETO, SHALL THEREAFTER BE VOID.**

The warrant evidenced by this Warrant Certificate is part of a duly authorized issue of Warrants issued pursuant to the Warrant Agreement which, among other things, provides certain rights and procedures related to the Warrants and Warrant Shares. The Warrant Agreement is hereby incorporated by reference in and made a part of this instrument and is hereby referred to for a description of the rights, limitation of rights, obligations, duties, and immunities thereunder of the Company and the holders (the words "holders" or "holder" meaning the registered holders or registered holder) of the Warrants.

The Warrant Agreement provides that upon the occurrence of certain events the Exercise Price and the type and/or number of the Company's securities issuable thereupon may, subject to certain conditions, be adjusted. In such event, the Company will, at the request of the holder, issue a new Warrant Certificate evidencing the adjustment in the Exercise Price and the number and/or type of securities issuable upon the exercise of the Warrant; provided, however, that the failure of the Company to issue such new Warrant Certificates shall not in any way change, alter, or otherwise impair the rights of the holder as set forth in the Warrant Agreement.

Upon due presentment for registration of transfer of this Warrant Certificate at an office or agency of the Company, a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like

number of Warrant Shares shall be issued to the transferee(s) in exchange for this Warrant Certificate, subject to the limitations provided herein and in the Warrant Agreement, without any charge.

Upon the exercise of the Warrant evidenced hereby for the purchase of less than all the Warrant Shares purchasable hereunder, the Company shall cancel this Warrant Certificate upon the surrender hereof and forthwith issue to the holder hereof a new Warrant Certificate of like tenor representing the balance of the Warrant Shares purchasable hereunder.

The Company may deem and treat the registered holder(s) hereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, and of any distribution to the holder(s) hereof, and for all other purposes, and the Company shall not be affected by any notice to the contrary.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed under its corporate seal.

Dated as of December 4, 1998

CONSUMER PORTFOLIO SERVICES, INC.

[SEAL]

By: \_\_\_\_\_  
Name:  
Title:

Attest:

\_\_\_\_\_  
Name:  
Title: Secretary

**[FORM OF ELECTION TO PURCHASE  
PURSUANT TO SECTION 3.1]**

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant Certificate, to purchase \_\_\_\_\_ shares of Common Stock and herewith tenders in payment for such securities a certified or official bank check payable in New York Clearing House funds to the order of CONSUMER PORTFOLIO SERVICES, INC. in the amount of \$\_\_\_\_\_, all in accordance with the terms hereof. The undersigned requests that a certificate for such securities be registered in the name of \_\_\_\_\_ whose address is \_\_\_\_\_ and that such Certificate be delivered to \_\_\_\_\_ whose address is \_\_\_\_\_.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Signature (Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate.)

\_\_\_\_\_  
(Insert Social Security or Other Identifying Number of Holder)

\_\_\_\_\_  
Signature Guarantee

**[FORM OF ELECTION TO PURCHASE  
PURSUANT TO SECTION 3.2]**

The undersigned hereby irrevocably elects to exercise the right, represented by this Warrant Certificate, to purchase \_\_\_\_\_ shares of Common Stock all in accordance with the terms of Section 3.2 of the Warrant Agreement, dated as of November 30, 1998 between Consumer Portfolio Services, Inc. and FSA Portfolio Management Inc. The undersigned requests that a certificate for such securities be registered in the name of \_\_\_\_\_ whose address is \_\_\_\_\_ and that such Certificate be delivered to \_\_\_\_\_ whose address is \_\_\_\_\_.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Signature (Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate.)

\_\_\_\_\_  
(Insert Social Security or Other Identifying Number of Holder)

## Signature Guarantee

EXHIBIT B

**[FORM OF ASSIGNMENT]**

(To be executed by the registered holder if such holder desires to transfer the Warrant Certificate)

FOR VALUE RECEIVED \_\_\_\_\_ hereby sells, assigns and transfers unto \_\_\_\_\_ (Please print name and address of transferee)

this Warrant Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney, to transfer the within Warrant Certificate on the books of the within-named Company, with full power of substitution.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Signature (Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate.)

\_\_\_\_\_  
(Insert Social Security or Other Identifying Number of Holder)

\_\_\_\_\_  
Signature Guarantee

EXHIBIT 10.29  
**SUBORDINATION AGREEMENT**

This Subordination Agreement (this "Agreement") is made as of this 17th day of November, 1998, by and between Stanwich Financial Services Corp., a Rhode Island corporation ("Stanwich"), John G. Poole, an individual ("Poole"), Levine Leichtman Capital Partners II, L.P., a California limited partnership ("LLCP"), and Consumer Portfolio Services, Inc., a California corporation ("CPS").

**RECITALS**

A. Pursuant to the terms of that certain Debt Restructure Agreement of even date herewith by and among CPS, Stanwich and Poole (the "Debt Restructure Agreement"), CPS is issuing (i) a Convertible Subordinated 12.5% Note in the principal amount of \$4,000,000 to Stanwich (the "\$4 Million Stanwich Note") and (ii) a Convertible Subordinated 12.5% Note in the principal amount of \$1,000,000 to Poole (the "Poole Note").

B. Stanwich is the holder of (i) two Partially Convertible Subordinated 9% Notes dated June 12, 1997, each in the principal amount of \$5,000,000 (the "\$5 Million Stanwich Notes"), and (ii) five Partially Convertible Subordinated 9% Notes dated June 12, 1997, each in the principal amount of \$1,000,000 (the "\$1 Million Stanwich Notes" and, together with the \$4 Million Stanwich Note and the \$5 Million Stanwich Notes, the "Stanwich Notes").

C. Stanwich has pledged both of the \$5 Million Stanwich Notes and one of the \$1 Million Stanwich Notes (collectively, the "Pledged Notes") to certain financial institutions pursuant to the terms of various agreements (as such agreements as in effect on the date hereof, the "Note Pledge Agreements").

D. LLCP and CPS are parties to that certain Securities Purchase Agreement of even date herewith (the "LLCP Purchase Agreement") pursuant to which CPS has agreed to issue to LLCP, and LLCP has agreed to purchase from CPS as of the date hereof a Senior Subordinated Primary Note in the principal amount of \$25,000,000.

E. The execution of this Agreement by Stanwich, Poole and CPS is a condition precedent to the obligation of LLCP to consummate the transactions contemplated by the LLCP Purchase Agreement.

F. In consideration of the substantial direct and indirect benefits which Stanwich, Poole and CPS will realize from the consummation of the transactions contemplated by the LCCP Purchase Agreement, Stanwich, Poole and CPS desire to enter into this Agreement and to be bound by the terms and conditions hereof.

**AGREEMENT**

In consideration of the mutual covenants and agreements set forth herein, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendment of the Stanwich Notes and the Poole Note.

1.1 Amendment of Section 2. Subject to Section 1.4, from and after the date hereof and until the termination of this Agreement as provided below, Section 2 (SUBORDINATION) of the Stanwich Notes and the Poole Note shall be amended and restated to read in its entirety as follows:

**2. SUBORDINATION.**





**(a) IN GENERAL. THIS NOTE IS ISSUED SUBJECT TO, AND EACH PERSON HOLDING THIS NOTE OR ANY INTEREST THEREIN, WHETHER UPON ORIGINAL ISSUE OR UPON TRANSFER OR ASSIGNMENT HEREOF, SHALL BY ACCEPTANCE HEREOF BE DEEMED TO HAVE ACCEPTED AND AGREED TO BE BOUND BY THE PROVISIONS THAT THE INDEBTEDNESS EVIDENCED BY THIS NOTE IS AND SHALL BE SUBORDINATED AND SUBJECT IN RIGHT OF PAYMENT, TO THE EXTENT AND IN THE MANNER PROVIDED IN THIS SECTION 2, TO THE PRIOR PAYMENT IN FULL OF ALL SENIOR INDEBTEDNESS AND OF ALL SENIOR SUBORDINATED INDEBTEDNESS.**

**(b) PERMITTED PAYMENTS. THE MAKER MAY NOT MAKE ANY PAYMENT OF PRINCIPAL OR PREMIUM ON THIS NOTE, AND THE HOLDER OF THIS NOTE SHALL NOT BE PERMITTED TO RETAIN ANY PAYMENT OF PRINCIPAL OR PREMIUM, PRIOR TO THE PAYMENT IN FULL OF ALL SENIOR INDEBTEDNESS AND ALL SENIOR SUBORDINATED INDEBTEDNESS. UNTIL ALL SENIOR INDEBTEDNESS AND ALL SENIOR SUBORDINATED INDEBTEDNESS HAVE BEEN PAID IN FULL, THE MAKER SHALL BE PERMITTED TO MAKE AND THE HOLDER SHALL BE PERMITTED TO RETAIN, SUBJECT TO THE PROVISIONS OF SECTION 2(c), ONLY PAYMENTS OF INTEREST ON THIS NOTE ("PERMITTED PAYMENTS"), AND ANY PAYMENTS MADE BY THE MAKER THAT ARE NOT PERMITTED PAYMENTS WILL BE TURNED OVER BY THE HOLDER OF THIS NOTE (i) FIRST, TO THE HOLDER OR HOLDERS OF SENIOR INDEBTEDNESS OR ANY AGENT THEREFOR (A "SENIOR AGENT") FOR THE BENEFIT OF THE HOLDER OR HOLDERS OF SENIOR INDEBTEDNESS AND (ii) TO THE EXTENT THE SENIOR INDEBTEDNESS HAS BEEN PAID IN FULL, TO THE HOLDER OR HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS OR ANY AGENT THEREFOR (A "SENIOR SUBORDINATED AGENT") FOR THE BENEFIT OF THE HOLDER OR HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS. UPON PAYMENT IN FULL OF THE SENIOR INDEBTEDNESS AND THE SENIOR SUBORDINATED INDEBTEDNESS, PAYMENT OF PRINCIPAL AND INTEREST MAY BE MADE TO THE HOLDER OF THIS NOTE WITHOUT RESTRICTION HEREUNDER.**

(c) SUSPENSION OF PAYMENTS; LIMITATION ON REMEDIES.

(i) FROM AND AFTER RECEIPT BY THE MAKER OF A WRITTEN NOTICE FROM THE HOLDER OR HOLDERS OF NOT LESS THAN FIFTY-ONE PERCENT (51.0%) IN PRINCIPAL AMOUNT OF THE OUTSTANDING SENIOR INDEBTEDNESS OR ANY SENIOR AGENT (A "DEFAULT NOTICE") STATING THAT A DEFAULT HAS OCCURRED IN THE PAYMENT OF ANY OBLIGATION ON ANY SENIOR INDEBTEDNESS WHEN DUE, WHETHER AT THE STATED MATURITY OF ANY SUCH PAYMENT OR BY DECLARATION OF ACCELERATION, CALL FOR REDEMPTION, MANDATORY REPURCHASE, PAYMENT OR PREPAYMENT OR OTHERWISE (A "PAYMENT DEFAULT"), AND UNTIL THE DATE ON WHICH SUCH PAYMENT DEFAULT IS CURED OR WAIVED IN WRITING BY THE HOLDERS OF THE SENIOR INDEBTEDNESS WHO DELIVERED THE DEFAULT NOTICE, THE MAKER SHALL NOT MAKE, AND THE HOLDER SHALL NOT BE PERMITTED TO RECEIVE OR RETAIN, ANY PAYMENT OF INTEREST ON THIS NOTE.

(ii) FROM AND AFTER RECEIPT BY THE MAKER OF WRITTEN NOTICE FROM LLCP STATING THAT A DEFAULT OR EVENT OF DEFAULT HAS OCCURRED UNDER THE LLCP PURCHASE AGREEMENT AND STATING THAT LLCP IS ELECTING TO INVOKE THE PROVISIONS OF THIS SECTION 2(c)(ii), AND UNTIL THE DATE ON WHICH SUCH DEFAULT OR EVENT OF DEFAULT IS CURED OR WAIVED IN WRITING BY LLCP, THE MAKER MAY NOT MAKE, AND THE HOLDER SHALL NOT BE PERMITTED TO RECEIVE OR RETAIN, ANY PAYMENT OF INTEREST ON THIS NOTE.

(iii) THE HOLDER OF THIS NOTE MAY NOT ACCELERATE THE MATURITY OF THIS NOTE, OR PURSUE ANY OTHER REMEDY PROVIDED IN SECTION 11 PRIOR TO THE PAYMENT IN FULL OF ALL SENIOR INDEBTEDNESS AND ALL SENIOR SUBORDINATED INDEBTEDNESS; PROVIDED, HOWEVER, THAT THIS CLAUSE (iii) SHALL NOT LIMIT THE AUTOMATIC ACCELERATION OF THIS NOTE UPON THE OCCURRENCE OF ANY EVENT OF DEFAULT SPECIFIED IN SECTIONS 10(f) OR 10(g) OF THIS NOTE .

(iv) IN THE EVENT THE MAKER IS PROHIBITED FROM MAKING ANY PAYMENT OF INTEREST UNDER THIS SECTION 2(c), THE AMOUNT OF SUCH PAYMENT SHALL BE ADDED TO THE PRINCIPAL AMOUNT OF THIS NOTE AS OF THE DATE ON WHICH SUCH PAYMENT WOULD OTHERWISE HAVE BEEN DUE AND SUCH ADDITIONAL PRINCIPAL AMOUNT SHALL BE DUE AND PAYABLE AT MATURITY, EXCEPT TO THE EXTENT LLCP MAY OTHERWISE AGREE IN WRITING.

(d) DISTRIBUTIONS IN BANKRUPTCY. UPON A PAYMENT OR DISTRIBUTION **TO CREDITORS OF THE MAKER IN A LIQUIDATION, DISSOLUTION, OR WINDING UP OF THE MAKER OR IN A BANKRUPTCY, REORGANIZATION, INSOLVENCY, RECEIVERSHIP OR SIMILAR PROCEEDING RELATING TO THE MAKER OR ITS PROPERTIES OR AN ASSIGNMENT FOR THE BENEFIT OF CREDITORS OR ANY MARSHALING OF THE MAKER'S ASSETS AND LIABILITIES:**

(i) THE HOLDER OR HOLDERS OF SENIOR INDEBTEDNESS SHALL BE ENTITLED TO RECEIVE PAYMENT OF THE FULL AMOUNT OF THE SENIOR INDEBTEDNESS AND, AFTER SUCH PAYMENT IN FULL OF THE SENIOR INDEBTEDNESS, THE HOLDER OR HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS SHALL BE ENTITLED TO RECEIVE PAYMENT OF THE FULL

AMOUNT OF THE SENIOR SUBORDINATED INDEBTEDNESS BEFORE THE HOLDER IS ENTITLED TO RECEIVE ANY PAYMENT ON ACCOUNT OF THE PRINCIPAL **OF, PREMIUM, IF ANY, OR INTEREST ON THIS NOTE; AND**

(ii) ANY PAYMENT BY, OR DISTRIBUTION OF ASSETS OF, THE MAKER OF ANY KIND OR CHARACTER, WHETHER IN CASH, PROPERTY OR SECURITIES (OTHER THAN SECURITIES OF THE MAKER AS REORGANIZED OR READJUSTED OR SECURITIES OF THE MAKER OR ANY OTHER CORPORATION PROVIDED FOR BY A PLAN OF REORGANIZATION OR READJUSTMENT THE PAYMENT OF WHICH IS SUBORDINATE, AT LEAST TO THE EXTENT PROVIDED IN THIS SECTION 2 WITH RESPECT TO THIS NOTE, TO THE PAYMENT OF **ALL SENIOR INDEBTEDNESS AND ALL SENIOR SUBORDINATED**

INDEBTEDNESS, PROVIDED THAT THE RIGHTS OF THE HOLDERS OF SENIOR INDEBTEDNESS AND THE HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS ARE NOT IMPAIRED BY SUCH REORGANIZATION OR READJUSTMENT) TO WHICH THE HOLDER WOULD BE ENTITLED EXCEPT FOR THE PROVISIONS OF THIS SECTION 2 SHALL BE PAID OR DELIVERED BY THE PERSON MAKING SUCH PAYMENT OR DISTRIBUTION, WHETHER A TRUSTEE IN BANKRUPTCY, A RECEIVER OR LIQUIDATING TRUSTEE OR OTHERWISE, (i) FIRST, DIRECTLY TO THE HOLDER OR HOLDERS OF SENIOR INDEBTEDNESS OR ANY SENIOR AGENT, RATABLY ACCORDING TO THE AGGREGATE AMOUNTS REMAINING UNPAID ON ACCOUNT OF THE SENIOR INDEBTEDNESS HELD OR REPRESENTED BY EACH, TO THE EXTENT NECESSARY TO MAKE PAYMENT IN FULL OF ALL SENIOR INDEBTEDNESS REMAINING UNPAID AFTER GIVING EFFECT TO ANY CONCURRENT PAYMENT OR DISTRIBUTION TO THE HOLDER OR HOLDERS OF SENIOR INDEBTEDNESS, BEFORE ANY PAYMENT OR DISTRIBUTION IS MADE TO THE HOLDER OR HOLDERS OF ANY SENIOR SUBORDINATED INDEBTEDNESS OR ANY SENIOR SUBORDINATED AGENT OR TO THE HOLDER, AND (II) THEREAFTER DIRECTLY TO THE HOLDER OR HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS OR ANY SENIOR SUBORDINATED AGENT, RATABLY ACCORDING TO THE AGGREGATE AMOUNTS REMAINING UNPAID ON ACCOUNT OF THE SENIOR SUBORDINATED INDEBTEDNESS HELD OR REPRESENTED BY EACH, TO THE EXTENT NECESSARY TO MAKE PAYMENT IN FULL OF ALL SENIOR SUBORDINATED INDEBTEDNESS REMAINING UNPAID AFTER GIVING EFFECT TO ANY CONCURRENT PAYMENT OR DISTRIBUTION TO THE HOLDER OR HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS, BEFORE ANY PAYMENT OR DISTRIBUTION IS MADE TO THE HOLDER; AND

(iii) IN THE EVENT, NOTWITHSTANDING THE FOREGOING, ANY PAYMENT BY, OR DISTRIBUTION OF ASSETS OF, THE MAKER OF ANY KIND OR CHARACTER, WHETHER IN CASH, PROPERTY OR SECURITIES (OTHER THAN SECURITIES OF THE MAKER AS REORGANIZED OR READJUSTED OR SECURITIES OF THE MAKER OR ANY OTHER CORPORATION PROVIDED FOR BY A PLAN OF REORGANIZATION OR READJUSTMENT THE PAYMENT OF WHICH IS SUBORDINATE, AT LEAST TO THE EXTENT PROVIDED IN THIS SECTION 2 WITH RESPECT TO THIS NOTE, TO THE PAYMENT OF ALL SENIOR INDEBTEDNESS AND ALL SENIOR SUBORDINATED INDEBTEDNESS, PROVIDED THAT THE RIGHTS OF THE HOLDERS OF SENIOR INDEBTEDNESS AND THE HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS ARE NOT IMPAIRED BY SUCH REORGANIZATION OR READJUSTMENT) SHALL BE RECEIVED BY THE HOLDER OF THIS NOTE BEFORE ALL SENIOR INDEBTEDNESS AND ALL SENIOR SUBORDINATED INDEBTEDNESS IS PAID IN FULL, SUCH PAYMENT OR DISTRIBUTION SHALL BE PAID OVER (i) FIRST, TO THE HOLDER OR HOLDERS OF SUCH SENIOR INDEBTEDNESS OR ANY SENIOR AGENT, AND (ii) THEREAFTER TO THE HOLDERS OF SUCH SENIOR SUBORDINATED INDEBTEDNESS OR ANY SENIOR SUBORDINATED AGENT RATABLY AS AFORESAID, FOR APPLICATION TO THE PAYMENT OF ALL SENIOR INDEBTEDNESS AND ALL SENIOR SUBORDINATED INDEBTEDNESS REMAINING UNPAID, AS THE CASE MAY BE, UNTIL ALL SUCH SENIOR INDEBTEDNESS AND ALL SUCH SENIOR SUBORDINATED INDEBTEDNESS SHALL HAVE BEEN PAID IN FULL, AFTER GIVING EFFECT TO ANY CONCURRENT PAYMENT OR DISTRIBUTION TO THE HOLDERS OF SUCH SENIOR INDEBTEDNESS AND THE **HOLDERS OF SUCH SENIOR SUBORDINATED INDEBTEDNESS.**

(e) EXCLUSIVE POWERS. THE HOLDERS OF SENIOR INDEBTEDNESS AND THE

**HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS, ON THE ONE HAND, AND THE HOLDER, ON THE OTHER HAND, ARE ENTITLED TO EXERCISE CERTAIN RIGHTS AND POWERS WITH RESPECT TO THE MAKER FROM TIME TO TIME, WHETHER BEFORE OR AFTER AN OCCURRENCE OF AN EVENT OF DEFAULT, AND THE EXERCISE OF ANY SUCH RIGHT OR POWER BY ONE CREDITOR MAY PRECLUDE THE EXERCISE OF A SIMILAR RIGHT OR POWER BY ONE OR MORE OTHER CREDITORS (ANY SUCH RIGHT OR POWER BEING HEREIN CALLED AN "EXCLUSIVE POWER"). TO THE EXTENT THAT ANY HOLDER OR HOLDERS OF SENIOR INDEBTEDNESS OR ANY SENIOR AGENT OR ANY HOLDER OR HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS OR ANY SENIOR SUBORDINATED AGENT ACTUALLY EXERCISES ANY EXCLUSIVE POWER, THEN THE HOLDER OF THIS NOTE AGREES TO REFRAIN FROM EXERCISING ANY SUBSTANTIALLY SIMILAR EXCLUSIVE POWER TO THE EXTENT NECESSARY TO PERMIT THE HOLDER OR HOLDERS OF SENIOR INDEBTEDNESS OR THE HOLDER OR HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS, OR ANY OF THEM, TO BENEFIT FROM THEIR ACTIONS.**

**(f) MODIFICATION OF SENIOR DEBT OR SENIOR SUBORDINATED DEBT. NO AMENDMENT, MODIFICATION, EXTENSION, REPLACEMENT, RESTATEMENT OR SUBSTITUTION OF ANY SENIOR INDEBTEDNESS OR OF ANY SENIOR SUBORDINATED INDEBTEDNESS, OR OF ANY AGREEMENT OR NOTE NOW OR HEREAFTER IN EFFECT PERTAINING TO SUCH SENIOR INDEBTEDNESS OR SENIOR SUBORDINATED INDEBTEDNESS, SHALL NULLIFY, IMPAIR, LIMIT, ALTER OR MODIFY THE PROVISIONS OF THIS SECTION 2.**

**(g) EXPENSES INCLUDED IN SENIOR INDEBTEDNESS AND SENIOR SUBORDINATED INDEBTEDNESS. FOR PURPOSES OF THIS SECTION 2, SENIOR INDEBTEDNESS SHALL INCLUDE ALL FEES, EXPENSES AND COSTS INCURRED BY OR ON BEHALF OF THE HOLDER OR HOLDERS OF SENIOR INDEBTEDNESS OR THE SENIOR AGENT IN CONNECTION WITH SUCH SENIOR INDEBTEDNESS, AND SENIOR SUBORDINATED INDEBTEDNESS SHALL INCLUDE ALL FEES, EXPENSES AND COSTS INCURRED BY OR ON BEHALF OF THE HOLDER OR HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS OR THE SENIOR SUBORDINATED AGENT IN CONNECTION WITH SUCH SENIOR SUBORDINATED INDEBTEDNESS.**

**(h) NOTICE TO SENIOR DEBT AND TO SENIOR SUBORDINATED DEBT. NOTICES TO HOLDERS OF SENIOR INDEBTEDNESS SHALL BE MADE TO EACH HOLDER OF SENIOR INDEBTEDNESS OR, IF THE HOLDERS OF SENIOR INDEBTEDNESS HAVE APPOINTED A SENIOR AGENT, THEN TO SUCH SENIOR AGENT, AND SHALL BE MADE IN THE MANNER SPECIFIED IN THE DOCUMENT EVIDENCING SUCH HOLDER'S SENIOR INDEBTEDNESS IF SUCH A MANNER IS SO SPECIFIED THEREIN. NOTICES TO HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS SHALL BE MADE TO EACH HOLDER OF SENIOR SUBORDINATED INDEBTEDNESS OR, IF THE HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS HAVE APPOINTED A SENIOR SUBORDINATED AGENT, THEN TO SUCH SENIOR SUBORDINATED AGENT, AND SHALL BE MADE IN THE MANNER SPECIFIED IN THE DOCUMENT EVIDENCING SUCH HOLDER'S SENIOR SUBORDINATED INDEBTEDNESS IF SUCH A MANNER IS SO SPECIFIED THEREIN.**

**(i) SUBROGATION. SUBJECT TO THE PAYMENT IN FULL OF ALL SENIOR INDEBTEDNESS AND ALL SENIOR SUBORDINATED INDEBTEDNESS, THE HOLDER SHALL BE SUBROGATED TO THE RIGHTS OF THE HOLDER OR HOLDERS OF SENIOR INDEBTEDNESS AND THE HOLDER OR HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS TO RECEIVE PAYMENTS OR DISTRIBUTIONS OF CASH, PROPERTY OR SECURITIES OF THE MAKER APPLICABLE TO SUCH SENIOR INDEBTEDNESS OR SENIOR SUBORDINATED INDEBTEDNESS, AS THE CASE MAY BE, UNTIL ALL AMOUNTS OWING ON THIS NOTE SHALL BE PAID IN FULL, AND, AS BETWEEN THE MAKER, ITS CREDITORS OTHER THAN HOLDERS OF SENIOR INDEBTEDNESS OR HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS AND THE HOLDER, NO SUCH PAYMENT OR DISTRIBUTION MADE TO THE HOLDER OR HOLDERS OF SENIOR INDEBTEDNESS OR THE HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS BY VIRTUE OF THIS SECTION 2 WHICH OTHERWISE WOULD HAVE BEEN MADE TO THE HOLDER SHALL BE DEEMED TO BE A PAYMENT BY THE MAKER ON ACCOUNT OF ANY SENIOR INDEBTEDNESS OR ANY SENIOR SUBORDINATED INDEBTEDNESS, IT BEING UNDERSTOOD THAT THE PROVISIONS OF THIS SECTION 2 ARE AND ARE INTENDED SOLELY FOR THE PURPOSE OF DEFINING THE RELATIVE RIGHTS OF THE HOLDER, ON THE ONE HAND, AND THE HOLDER OR HOLDERS OF SENIOR INDEBTEDNESS AND THE HOLDER OR HOLDERS OF SENIOR SUBORDINATED INDEBTEDNESS, ON THE OTHER HAND.**

**(j) OBLIGATIONS OF THE MAKER UNCONDITIONAL. NOTHING CONTAINED IN THIS SECTION 2 OR ELSEWHERE IN THIS NOTE IS INTENDED TO OR SHALL IMPAIR,**

**AS BETWEEN THE MAKER, ITS CREDITORS OTHER THAN THE HOLDERS OF SENIOR INDEBTEDNESS OR OF SENIOR SUBORDINATED INDEBTEDNESS AND THE HOLDER, THE OBLIGATIONS OF THE MAKER, WHICH ARE ABSOLUTE AND UNCONDITIONAL, TO PAY TO THE HOLDER THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THIS NOTE AS AND WHEN THE SAME SHALL BECOME DUE AND PAYABLE IN ACCORDANCE WITH ITS TERMS HEREOF, OR IS INTENDED TO OR SHALL AFFECT THE RELATIVE RIGHTS OF THE HOLDER, ON THE ONE HAND, AND CREDITORS OF THE MAKER OTHER THAN THE HOLDERS OF SENIOR INDEBTEDNESS AND SENIOR SUBORDINATED INDEBTEDNESS, ON THE OTHER HAND.**

**UPON ANY PAYMENT OR DISTRIBUTION OF ASSETS OF THE MAKER REFERRED TO IN THIS SECTION 2, THE HOLDER OF THIS NOTE SHALL BE ENTITLED TO RELY UPON ANY ORDER OR DECREE MADE BY ANY COURT OF COMPETENT JURISDICTION IN WHICH ANY SUCH DISSOLUTION, WINDING UP, LIQUIDATION OR REORGANIZATION PROCEEDING AFFECTING THE AFFAIRS OF THE MAKER IS PENDING OR UPON A CERTIFICATE OF THE TRUSTEE IN**



**BANKRUPTCY, RECEIVER, ASSIGNEE FOR THE BENEFIT OF CREDITORS, LIQUIDATING TRUSTEE OR AGENT OR OTHER PERSON MAKING ANY PAYMENT OR DISTRIBUTION, DELIVERED TO THE HOLDER OF THIS NOTE, FOR THE PURPOSE OF ASCERTAINING THE PERSONS ENTITLED TO PARTICIPATE IN SUCH PAYMENT OR DISTRIBUTION, THE HOLDERS OF THE SENIOR INDEBTEDNESS, SENIOR SUBORDINATED INDEBTEDNESS AND OTHER INDEBTEDNESS OF THE MAKER, THE AMOUNT THEREOF OR PAYABLE THEREON, THE AMOUNT PAID OR DISTRIBUTED THEREON AND ALL OTHER FACTS PERTINENT THERETO OR TO THIS SECTION 2.**

1.2 Amendment of Section 12. From and after the date hereof and until the termination of this Agreement as provided below, the following definitions shall be added to Section 12 of the Stanwich Notes and the Poole Note:

**"LLCP" MEANS LEVINE LEICHTMAN CAPITAL PARTNERS II, L.P., A CALIFORNIA LIMITED PARTNERSHIP.**

**"LLCP PURCHASE AGREEMENT" MEANS THAT CERTAIN SECURITIES PURCHASE AGREEMENT DATED NOVEMBER 16, 1998 BY AND AMONG THE MAKER AND LLCP.**

**"SENIOR SUBORDINATED INDEBTEDNESS" HAS THE MEANING GIVEN TO SUCH TERM IN THE LLCP PURCHASE AGREEMENT.**

1.3 Legends. Subject to Section 1.4, the following legend shall be placed on the Stanwich Notes and the Poole Note:

**THE PROVISIONS OF THIS NOTE HAVE BEEN AMENDED AS PROVIDED IN A SUBORDINATION AGREEMENT DATED NOVEMBER 16, 1998 AMONG THE MAKER, THE ORIGINAL HOLDER OF THIS NOTE AND CERTAIN OTHER PARTIES. A COPY OF SUCH SUBORDINATION AGREEMENT MAY BE OBTAINED FROM THE PRINCIPAL EXECUTIVE OFFICE OF THE MAKER.**

CPS shall not effect any transfer of the Stanwich Note or the Poole Note or any portion of either of them prior to the termination of this Agreement unless the foregoing legend is imprinted thereon. Upon the termination of this Agreement, CPS shall, upon request and against delivery of the legended note for cancellation, issue a new note without the foregoing legend for any Stanwich Note or for the Poole Note.

1.4 The Pledged Notes. The foregoing provisions of this Section 1 notwithstanding, the Pledged Notes shall not be amended as provided herein so long as they remain subject to the Note Pledge Agreements as in effect on the date hereof. Neither Stanwich nor Poole may amend any Note Pledge Agreement without the prior written consent of LLCP. Upon the release of any Pledged Note from the pledge created pursuant to any Pledge Agreement, such Pledged Note shall thereupon immediately be deemed amended as provided in this Agreement without any further action of any kind by any party. Without limiting the foregoing, upon the release of any Pledged Note from pledge, such Pledged Note shall be legended as required by Section 1.4 within two business days of such release.

2. Termination. This Agreement shall terminate and be of no further force or effect upon the first to occur of (i) the payment in full of all "Obligations to Purchaser" as such term is defined in the LLCP Purchase Agreement or (ii) the issuance to LLCP of the New Senior Credit Facility Note (as such term is defined in the LLCP Purchase Agreement). Upon termination of this Agreement, the terms and provisions of the Stanwich Notes and the Poole Note shall no longer be amended as provided herein and shall continue in effect without any modification resulting from this Agreement.

3. Miscellaneous.

3.1 Successors and Assigns. This Agreement shall be binding on and inure to the benefit of the respective successors, legal representatives and assigns of the parties to this Agreement. No party to this Agreement may assign its right or obligations hereunder without the prior written consent of the other parties.

3.2 Notices. All notices, requests, demands and other communications which are required or may be given under this Agreement shall be in writing and shall be deemed to have been duly given if transmitted by telecopier with receipt acknowledged, or upon delivery, if delivered personally or by recognized commercial courier with receipt acknowledged, or upon the expiration of 72 hours after mailing, if mailed by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to LLCP: c/o Levine Leichtman Capital Partners, Inc.  
335 North Maple Drive, Suite 240  
Beverly Hills, California 90210  
Attention: Arthur E. Levine, President  
Telephone: (310) 275-5335  
Facsimile: (310) 275-1441

If to Stanwich: c/o Stanwich Partners, Inc.  
One Stamford Landing  
62 Southfield Avenue  
Stamford, CT 06902  
Attention: President  
Telephone: (203) 325-0551  
Facsimile: (203) 967-3923

If to Poole: c/o Stanwich Partners, Inc.  
One Stamford Landing  
62 Southfield Avenue  
Stamford, CT 06902  
Telephone: (203) 325-0551  
Facsimile: (203) 967-3923

If to CPS: Consumer Portfolio Services, Inc.  
16355 Laguna Canyon Road  
Irvine, CA 92618  
Attention: Charles E. Bradley, Jr., President  
and Chief Executive Officer  
Telephone: (949) 753-6800  
Facsimile: (949) 753-6805

or at such other address or addresses as LLCP, Stanwich, Poole, or CPS, as the case may be, may specify by written notice given in accordance with this Section.

3.3 Severability. In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

3.4 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

3.5 Descriptive Headings, Construction and Interpretation. The descriptive headings of the several paragraphs of this Agreement are for convenience of reference only and do not constitute a part of this Agreement and are not to be considered in construing or interpreting this Agreement. All section, preamble, recital and party references are to this Agreement unless otherwise stated. No party, nor its counsel, shall be deemed the drafter of this Agreement for purposes of construing the provisions of this Agreement, and all provisions of this Agreement shall be construed in accordance with their fair meaning, and not strictly for or against any party.



3.6 Waivers and Amendments. Neither this Agreement nor any provision hereof may be changed, waived, discharged or terminated orally or by course of dealing, except by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought.

3.7 Remedies. In the event that Stanwich, Poole, or CPS fails to observe or perform any covenant or agreement to be observed or performed under this Agreement, LLCP may proceed to protect and enforce its rights by suit in equity or action at law, whether for specific performance of any term contained in this Agreement or for an injunction against the breach of any such term or in aid of the exercise of any power granted in this Agreement or to enforce any other legal or equitable right, or to take any one or more of such actions. Stanwich, Poole and CPS severally agree to pay all fees, costs, and expenses, including without limitation, fees and expenses of attorneys, accountants and other experts, and all fees, costs and expenses of appeals, incurred by LLCP in connection with the enforcement of this Agreement against it or him, as the case may be or the collection or any sums due hereunder, whether or not suit is commenced. None of the rights, powers or remedies conferred under this Agreement shall be mutually exclusive, and each such right, power or remedy shall be cumulative and in addition to any other right, power or remedy whether conferred by this Agreement or now or hereafter available at law, in equity, by statute or otherwise.

3.8 Governing Law. In all respects, including all matters of construction, validity and performance, this Agreement and the rights and obligations arising hereunder shall be governed by, and construed and enforced in accordance with, the laws of the State of California applicable to contracts made and performed in such state, without regard to principles thereof regarding conflicts of laws.

**4. WAIVER OF JURY TRIAL. BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX COMMERCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE STATE AND FEDERAL LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, AND UNDERSTANDING THEY ARE WAIVING A CONSTITUTIONAL RIGHT, THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE, WHETHER IN CONTRACT, TORT, OR OTHERWISE, ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO, THIS AGREEMENT AND/OR ANY RELATED AGREEMENT OR THE TRANSACTIONS COMPLETED HEREBY OR THEREBY.**



EXHIBIT 10.30  
**CONSOLIDATED REGISTRATION RIGHTS AGREEMENT**

THIS CONSOLIDATED REGISTRATION RIGHTS AGREEMENT (this "Agreement") is entered into as of November 17, 1998 by and between Consumer Portfolio Services, Inc., a California corporation (the "Company"), and the following parties (collectively, the "Stanwich Parties"): Stanwich Financial Corp, a Rhode Island corporation ("Stanwich"), and John G. Poole ("Poole").

**RECITALS**

A. Stanwich is the holder of seven Partially Convertible Subordinated 9% Notes, each dated June 12, 1997 and issued by the Company to Stanwich, in the following principal amounts (collectively, the "1997 Stanwich Notes"): two such notes for \$5,000,000 each, and five such notes for \$1,000,000 each. Each of the 1997 Stanwich Notes contains provisions granting to the holder thereof the right to convert 20% of the principal thereof into shares of Common Stock at the rate of \$11.86 per shares, subject to adjustment as provided therein.

B. Stanwich is the holder of 443,450 shares of Common Stock, which it subscribed for and purchased from the Company on or about July 21, 1998 (the "1998 Issued Shares").

C. The Company and the Stanwich Parties are parties to a certain Debt Restructure Agreement of even date herewith (the "Restructure Agreement") pursuant to which, simultaneously herewith, the Company has (i) issued to Stanwich a certain Convertible Subordinated 12.5% Note dated the date hereof in the principal amount of \$4,000,000 (the "1998 Stanwich Note") and (ii) issued to Poole a certain Convertible Subordinated 12.5% Note dated the date hereof in the principal amount of \$1,000,000 (the "Poole Note"). The principal of each of the 1998 Stanwich and the Poole Note is convertible into shares of Common Stock at the rate of \$3.00 per share, subject to adjustment as provided therein.

D. The Company is obligated to enter into this Agreement under the terms of the Restructure Agreement.

E. In consideration of the substantial direct and indirect benefits which the Company will realize from the consummation of the transactions contemplated by the Restructure Agreement, the Company desires to enter into this Agreement and to be bound by the terms and conditions hereof.

**AGREEMENT**

In consideration of the mutual covenants and agreements set forth herein, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. DEFINITIONS. For purposes of this Agreement, the following terms shall have the meanings specified below:

"Business Day" shall mean any day that is not a Saturday, Sunday or other day on which banks in the State of California are authorized or required to close.

"Commission" shall mean the Securities and Exchange Commission or any other Federal agency at the time administering the 1933 Act.

"Common Stock" shall mean the common stock, no par value, of the Company.

"Company" shall have the meaning set forth in the preamble of this Agreement.

"Conversion Right" means, with respect to each of the Notes, the right to convert the principal thereof into shares of Common Stock, as provided therein.

"Demanding Holders" shall mean Stanwich or, if Stanwich does not hold a majority of the Registrable Securities at any time, the holders of a majority of Registrable Securities.

"Demand Registration" shall have the meaning specified in Section 2.1(a).

"FSA Registration Rights Agreement" shall have the meaning given to such term in the LLC Registration Rights Agreement.

"Indemnified Party" shall have the meaning specified in Section 4.3.

"Indemnifying Party" shall have the meaning specified in Section 4.3.

"Inspectors" shall have the meaning specified in Section 3.1(h).

"LLCP" shall mean Levine Leichtman Capital Partners II, L.P., a California limited partnership.

"LLCP Registration Rights Agreement" shall mean that certain Registration Rights Agreement of even date herewith between the Company and **LLCP**.

"Maximum Numbers of Shares" shall have the meaning specified in Section 2.1(d).

"1998 Issued Shares" shall have the meaning set forth in the recitals to this Agreement.

"1998 Stanwich Note" shall have the meaning set forth in the recitals to this Agreement.

"1997 Stanwich Notes" shall have the meaning set forth in the recitals to this Agreement.

"1933 Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"1934 Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Notes" shall mean, collectively, the 1997 Stanwich Notes, the 1998 Notes and the Poole Note.

"Piggy-Back Registration" shall have the meaning specified in Section 2.2(a).

"Poole" shall have the meaning set forth in the recitals to this Agreement.

"Poole Note" shall have the meaning set forth in the recitals to this Agreement.

"Register", "registered" and "registration" shall mean a registration effected by preparing and filing a registration statement or similar document in compliance with the 1933 Act, and the applicable rules and regulations thereunder, and such registration statement becoming effective.

"Registrable Securities" shall mean, collectively, the Shares and any securities issued or issuable upon any stock dividend, stock split, recapitalization, merger, consolidation or similar event with respect to the Shares. As to any particular Registrable Securities, such securities shall cease to be Registrable Securities when (i) a registration statement covering such securities shall have become effective under the 1933 Act and such securities shall have been sold pursuant to such registration statement, (ii) such securities shall have been distributed to the public pursuant to Rule 144 or Rule 144A (or any successor provisions) under the 1933 Act, or (iii) such securities shall have ceased to be outstanding.

"Restructure Agreement" shall have the meaning set forth in the recitals to this Agreement.





"SFSC Warrant" shall have the meaning given to such term in that certain Securities Option Agreement of even date herewith among LLC, Stanwich and the Company.

"Shares" shall mean, collectively, (i) the 1998 Issued Shares, (ii) the shares of Common Stock issued or issuable upon exercise of any and all of the Conversion Rights and (iii) the shares of Common Stock issued or issuable pursuant to the SFSC Warrant. As used in this Agreement, the holder of any Conversion Right or of the SFSC Warrant or any portion thereof shall be deemed to be the holder of the shares of Common Stock issuable upon exercise thereof and, to the extent such shares constitute Registrable Securities, such holder shall be deemed to be the holder of such Registrable Securities.

"Stanwich" shall have the meaning set forth in the recitals to this Agreement.

"Stanwich Parties" shall have the meaning set forth in the recitals to this Agreement.

"Underwriter" shall mean a securities dealer who purchases any Registrable Securities as principal in an underwritten offering and not as part of such dealer's market-making activities.

As used herein, the plural or singular include each other, and pronouns in any gender are to be construed as masculine, feminine or neuter, as the context requires.

## **2. REGISTRATION RIGHTS.**

### **2.1 Demand Registration.**

(a) Request for Registration. At any time and from time to time on or after the first anniversary of the date of this Agreement, the Demanding Holders may make a written request for registration under the 1933 Act of all or part of their Registrable Securities (a "Demand Registration"). Such request for a Demand Registration must specify the number of shares of Registrable Securities proposed to be sold and must also specify the intended method of disposition thereof. Upon any such request, the Demanding Holders shall be entitled to have their Registrable Securities included in the Demand Registration, subject to Section 2.1(d) and the proviso set forth in Section 3.1(a). The Company shall not be obligated to effect more than two Demand Registrations with respect to the Shares under this Section 2.1(a).

(b) Effective Registration. Except in the case of a withdrawal governed by the last sentence of Section 2.1(e), a registration will not count as a Demand Registration until it has become effective and the Company has complied with its obligations under this Agreement with respect thereto; provided, however, that, after it has been declared effective, if the offering of Registrable Securities pursuant to a Demand Registration is interfered with by any stop order, injunction or other order or requirement of the Commission or any other governmental agency or court, such Demand Registration will be deemed not to have become effective during the period of such interference.

(c) Underwritten Offering. If the Demanding Holders so elect, the offering of such Registrable Securities pursuant to such Demand Registration shall be in the form of an underwritten offering. The Demanding Holders shall select one or more firms of investment bankers to act as the managing Underwriter or Underwriters in connection with such offering and shall select any additional managers to be used in connection with the offering.

(d) Reduction of Offering. If the managing Underwriter or Underwriters for a Demand Registration that is to be an underwritten offering advises the Company and the Demanding Holders, in writing, that the dollar amount or number of shares of Registrable Securities which the Demanding Holders desire to sell, taken together with all other shares of Common Stock or securities which the Company desires to sell and the shares of Common Stock, if any, as to which registration has been requested pursuant to the piggy-back registration rights under the LLC Registration Rights Agreement and the FSA Registration Rights Agreement or which other shareholders of the Company desire to sell, exceeds the maximum dollar amount or number that can be sold in such offering without adversely affecting the proposed offering



price, the timing, the distribution method or the probability of success of such offering (the "Maximum Number of Shares"), then the Company shall include in such registration: (i) first, the Registrable Securities as to which Demand Registration has been requested by the Demanding Holders (pro rata in accordance with the number of shares of Registrable Securities held by each Demanding Holder, regardless of the number of shares of Registrable Securities which such Demanding Holder has requested be included in such registration) that can be sold without exceeding the Maximum Number of Shares, (ii) second, to the extent the Maximum Number of Shares has not been reached under the foregoing clause (i), the shares of Common Stock for the account of other persons that the Company is obligated to register pursuant to the LLC Registration Rights Agreement and the FSA Registration Rights Agreement (to be allocated among the persons requesting inclusion in such registration pursuant to such agreements pro rata in accordance with the number of shares of Common Stock with respect to which such person has the right to request such inclusion under such agreements, regardless of the number of shares which such person has actually requested be included in such registration) that can be sold without exceeding the Maximum Number of Shares, (iii) third, to the extent the Maximum Number of Shares has not been reached under the foregoing clauses (i) and (ii), the shares of Common Stock that the Company desires to sell that can be sold without exceeding the Maximum Number of Shares and (iii) fourth, to the extent the Maximum Number of Shares has not been reached under the foregoing clauses (i), (ii) and (iii), the shares of Common Stock that other shareholders desire to sell that can be sold without exceeding the Maximum Number of Shares.

(e) **Withdrawal.** If the Demanding Holders or any of them disapprove of the terms of any underwriting or are not entitled to include all of their Registrable Securities in any offering, such Demanding Holders may elect to withdraw from such offering by giving written notice to the Company and the Underwriter of their request to withdraw prior to the effectiveness of the registration statement. If the Demanding Holders or any of them withdraw from a proposed offering relating to a Demand Registration and, solely as a result of such withdrawal the registration statement is withdrawn prior to being declared effective, such registration shall count as a Demand Registration provided for in Section 2.1(a) unless the withdrawing Demanding Holders pay their pro rata share (based upon the number of shares to be included in such registration statement) of the expenses incurred in connection with such registration statement.

## 2.2 Piggy-Back Registration.

(a) **Piggy-Back Rights.** If at any time the Company proposes to file a registration statement under the 1933 Act with respect to an offering of equity securities, or securities convertible or exchangeable into equity securities, by the Company for its own account or by shareholders of the Company for their account (or by the Company and by shareholders of the Company) other than a registration statement (i) on Form S-4 or S-8 (or any substitute or successor form that may be adopted by the Commission), (ii) filed in connection with any employee stock option or other benefit plan, (iii) for an exchange offer or offering of securities solely to the Company's existing shareholders, or (iv) for a dividend reinvestment plan, then the Company shall (x) give written notice of such proposed filing to the holders of Registrable Securities as soon as practicable but in no event less than 30 days before the anticipated filing date, which notice shall describe the amount and type of securities to be included in such offering, the intended method(s) of distribution, and the name of the proposed managing Underwriter or Underwriters, if any, of the offering; and (y) offer to the holders of Registrable Securities in such notice the opportunity to register such number of shares of Registrable Securities as such holders may request in writing within 15 days following receipt of such notice (a "Piggy-Back Registration"). The Company shall cause such Registrable Securities to be included in such registration and shall use its best efforts to cause the managing Underwriter or Underwriters of a proposed underwritten offering to permit the Registrable Securities requested to be included in a Piggy-Back Registration to be included on the same terms and conditions as any similar securities of the Company and to permit the sale or other disposition of such Registrable Securities in accordance with the intended method of distribution thereof.

### (b) Reduction of Offering.

(i) If the managing Underwriter or Underwriters for a Piggy-Back Registration that is to be an underwritten offering of shares for the Company's account advises the Company and the holders of Registrable Securities in writing that the dollar amount or number of shares of Common Stock which the Company desires to sell, taken together with the Registrable Securities as to which registration has been requested hereunder and the shares of Common Stock, if any, as to which registration has been requested pursuant to the piggy-back registration rights under the FSA Registration Rights Agreement or the LLC Registration Rights Agreement or which other shareholders of the Company desire to sell, exceeds the Maximum Number of Shares, then the Company shall include in such registration: (i) first, the shares of

Common Stock or other securities that the Company desires to sell that can be sold without exceeding the Maximum Number of Shares, (ii) second, to the extent the Maximum Number of Shares has not been reached under the foregoing clause (i), the Registrable Securities as to which registration has been requested hereunder and the shares of Common Stock, if

any, as to which registration has been requested pursuant to the piggy-back registration rights granted under the FSA Registration Rights Agreement and the LLCP Registration Rights Agreement (to be allocated among the persons requesting inclusion in such registration pursuant to such agreements pro rata in accordance with the number of shares of Common Stock with respect to which such person has the right to request such inclusion under such agreements, regardless of the number of shares which such person has actually requested be included in such registration) that can be sold without exceeding the Maximum Number of Shares and (iii) third, to the extent the Maximum Number of Shares has not been reached under the foregoing clauses (i) and (ii), the shares of Common Stock that other shareholders desire to sell that can be sold without exceeding the Maximum Number of Shares.

(ii) If the managing Underwriter or Underwriters for a Piggy-Back Registration that is to be an underwritten offering of shares for the account of persons having demand registration rights under the LLCP Registration Rights Agreement account advises the Company and the holders of Registrable Securities in writing that the dollar amount or number of shares of Common Stock which such persons desire to sell, taken together with the Registrable Securities as to which registration has been requested hereunder, the shares of Common Stock, if any, as to which registration has been requested pursuant to the piggy-back registration rights under the FSA Registration Rights Agreement and the shares of Common Stock, if any, which the Company desires to sell or which other shareholders of the Company desire to sell, exceeds the Maximum Number of Shares, then the Company shall include in such registration: (i) first, the shares of Common Stock for the account of persons having demand registration rights under the LLCP Registration Rights Agreement that can be sold without exceeding the Maximum Number of Shares, (ii) second, to the extent the Maximum Number of Shares has not been reached under the foregoing clause (i), the Registrable Securities as to which registration has been requested by the holders of Registrable Securities hereunder and the shares of Common Stock, if any, as to which registration has been requested pursuant to the piggy-back registration rights granted under the FSA Registration Rights Agreement (to be allocated among the persons requesting inclusion in such registration pursuant to such agreements pro rata in accordance with the number of shares of Common Stock with respect to which such person has the right to request such inclusion under such agreements, regardless of the number of shares which such person has actually requested be included in such registration) that can be sold without exceeding the Maximum Number of Shares, (iii) third, to the extent the Maximum Number of Shares has not been reached under the foregoing clauses (i) and (ii), the shares of Common Stock, if any, that the Company desires to sell that can be sold without exceeding the Maximum Number of Shares and (iv) fourth, to the extent the Maximum Number of Shares has not been reached under the foregoing clauses (i), (ii) and (iii), the shares of Common Stock, if any, which other shareholders desire to sell that can be sold without exceeding the Maximum Number of Shares.

(iii) If the managing Underwriter or Underwriters for a Piggy-Back Registration that is to be an underwritten offering of shares for the account of persons having demand registration rights under the FSA Registration Rights Agreement account advises the Company and the holders of Registrable Securities in writing that the dollar amount or number of shares of Common Stock which such persons desire to sell, taken together with the Registrable Securities as to which registration has been requested hereunder, the shares of Common Stock, if any, as to which registration has been requested pursuant to the piggy-back registration rights under the LLCP Registration Rights Agreement and the shares of Common Stock, if any, which the Company or other shareholders of the Company desire to sell, exceeds the Maximum Number of Shares, then the Company shall include in such registration: (i) first, the shares of Common Stock for the account of persons having demand registration rights under the FSA Registration Rights Agreement that can be sold without exceeding the Maximum Number of Shares, (ii) second, to the extent the Maximum Number of Shares has not been reached under the foregoing clause (i), the Registrable Securities as to which registration has been requested by the holders of Registrable Securities hereunder and the shares of Common Stock, if any, as to which registration has been requested pursuant to the piggy-back registration rights granted under the LLCP Registration Rights Agreement (to be allocated among the persons requesting inclusion in such registration pursuant to such agreements pro rata in accordance with the number of shares of Common Stock with respect to which such person has the right to request such inclusion under such agreements,

regardless of the number of shares which such person has actually requested be included in such registration) that can be sold without exceeding the Maximum Number of Shares, (iii) third, to the extent the Maximum Number of Shares has not been reached under the foregoing clauses (i) and (ii), the shares of Common Stock, if any, that the Company desires to sell that can be sold without exceeding the Maximum Number of Shares and (iv) fourth, to the extent the Maximum Number of Shares has not been reached under the foregoing clauses (i), (ii) and (iii), the shares of Common Stock, if any, which other shareholders desire to sell that can be sold without exceeding the Maximum Number of Shares.

(c) Withdrawal. Any holder of Registrable Securities may elect to withdraw such holder's request for inclusion of Registrable Securities in any Piggy-Back Registration by giving written notice to the Company of such request to withdraw prior to the effectiveness of the registration statement. The Company may also elect to withdraw a registration statement at any time prior to the effectiveness of the registration statement. Notwithstanding any such withdrawal, the Company shall pay all expenses incurred by the holders of Registrable Securities in connection with such Piggy-Back Registration as provided in Section 3.3.

2.3 Registrations on Form S-3. The holders of Registrable Securities may at any time request in writing that the Company register the resale of any or all of such Registrable Securities on Form S-3 (or any similar short-form registration which may be available at such time). Upon receipt of such written request, the Company will promptly give written notice of the proposed registration to all other holders of Registrable Securities, and, as soon as practicable thereafter, effect the registration of all or such portion of such holder's or holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other holder or holders joining in such request as are specified in a written request given within 15 days after receipt of such written notice from the Company; provided, however, that the Company shall not be obligated to effect any such registration pursuant to this Section 2.3 if (i) Form S-3 is not available for such offering; (ii) the holders propose to effect an underwritten offering, (iii) the holders propose to sell Registrable Securities at an anticipated aggregate price to the public (net of any underwriters' discounts or commissions) of less than \$500,000, (iv) the Company shall furnish to the holders a certificate signed by the Chief Executive Officer of the Company stating that in the good faith judgment of the Board, it would be materially detrimental to the Company and its shareholders for such Form S-3 registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 registration statement for a period of not more than 60 days after receipt of the request of the holder or holders under this Section 2.3, provided, however, that in the event the Company elects to exercise such right with respect to any registration, it shall not have the right to exercise such right again prior to the date which is ten months after the date on which the registration statement relating to such deferred registration is declared effective, (v) the Company has effected eight registrations pursuant to this Section 2.3 or (vi) the Company has effected two registrations pursuant to this Section 2.3 during the 12 month period prior to the date on which the registration statement relating to such registration is anticipated to be declared effective. The Company shall use its best efforts to maintain each registration statement under this Section 2.3 effective for 60 days or until the Registrable Securities covered thereby have been sold, whichever shall first occur. Registrations effected pursuant to this Section 2.3 shall not be counted as Demand Registrations effected pursuant to Section 2.1.

2.4 Purchase (and Exercise) of the SFSC Warrant by the Underwriters. Notwithstanding any other provision of this Agreement to the contrary, in connection with any Demand Registration or Piggy-Back Registration which is to be an underwritten offering, to the extent all or any portion of the Registrable Securities to be included in such registration consist of shares of Common Stock issuable upon exercise of the SFSC Warrant or any portion thereof, the holders of such Registrable Securities may require that the Underwriter or Underwriters purchase (and exercise) the SFSC Warrant or any portion thereof rather than require the holders of the Registrable Securities to exercise the SFSC Warrant or portion thereof in connection with such registration unless the Underwriters inform such holders that such a purchase and exercise of the SFSC Warrant will materially and adversely affect the proposed offering. The Company shall take all such action and provide all such assistance as may be reasonably requested by the holders of Registrable Securities to facilitate any such purchase (and exercise) of the SFSC Warrant agreed to by the Underwriter or Underwriters, including, without limitation, issuing the Common Stock issuable upon the exercise of the SFSC Warrant or any portion thereof to be issued within such time period as will permit the Underwriters to make and complete the distribution contemplated by the underwriting.

### **3. REGISTRATION PROCEDURES.**





3.1 Filings; Information. If and whenever the Company is required to effect the registration of any Registrable Securities under the 1933 Act pursuant to Section 2, the Company shall use its best efforts to effect the registration and the sale of such Registrable Securities in accordance with the intended method of disposition thereof as expeditiously as practicable, and in connection with any such request:

(a) Filing Registration Statement. The Company shall, as expeditiously as possible, prepare and file, within 60 days after receipt of a request for a Demand Registration pursuant to Section 2.1, with the Commission a registration statement on any form for which the Company then qualifies or which counsel for the Company shall deem appropriate and which form shall be available for the sale of the Registrable Securities to be registered thereunder in accordance with the intended method of distribution thereof, and shall use its best efforts to cause such registration statement to become and remain effective for the period required by Section 3.1(c); provided, however, that the Company shall have the right to defer such registration for up to 60 days if the Company shall furnish to the holders a certificate signed by the Chief Executive Officer of the Company stating that, in the good faith judgment of the Board, it would be materially detrimental to the Company and its shareholders for such registration statement to be effected at such time; provided further, that in the event the Company elects to exercise such right with respect to any registration, it shall not have the right to exercise such right again prior to the date which is 12 months after the date on which the registration statement relating to such deferred registration is declared effective.

(b) Copies. The Company shall, prior to filing a registration statement or prospectus or any amendment or supplement thereto, furnish without charge to the holders of Registrable Securities included in such registration, and such holders' legal counsel, copies of such registration statement as proposed to be filed, each amendment and supplement to such registration statement (in each case including all exhibits thereto and documents incorporated by reference therein), the prospectus included in such registration statement (including each preliminary prospectus), and such other documents as the holders of Registrable Securities included in such registration or legal counsel for any such holder may request in order to facilitate the disposition of the Registrable Securities owned by such holders.

(c) Amendments and Supplements. The Company shall prepare and file with the Commission such amendments, including post-effective amendments, and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and in compliance with the provisions of the 1933 Act until all Registrable Securities and other securities covered by such registration statement have been disposed of in accordance with the intended methods of disposition set forth in such registration statement (which period shall not exceed the sum of 120 days plus any period during which any such disposition is interfered with by any stop order, injunction or other order or requirement of the Commission or any governmental agency or court) or such securities have been withdrawn.

(d) Notification. After the filing of the registration statement, the Company shall promptly, and in no event more than two Business Days, notify the holders of Registrable Securities included in such registration statement, and confirm such advice in writing, (i) when such registration statement becomes effective, (ii) when any post-effective amendment to such registration statement becomes effective, (iii) of any stop order issued or threatened by the Commission (and the Company shall take all actions required to prevent the entry of such stop order or to remove it if entered) and (iv) of any request by the Commission for any amendment or supplement to such registration statement or any prospectus relating thereto or for additional information or of the occurrence of an event requiring the preparation of a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of the securities covered by such registration statement, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and promptly make available to the holders of Registrable Securities included in such registration statement any such supplement or amendment; except that before filing with the Commission a registration statement or prospectus or any amendment or supplement thereto, including documents incorporated by reference, the Company shall furnish to the holders of Registrable Securities included in such registration statement and to the legal counsel for any such holders, copies of all such documents proposed to be filed sufficiently in advance of filing to provide such holders and legal counsel with a reasonable opportunity to review such documents and comment thereon, and the Company shall not file any registration statement or prospectus or amendment or supplement



thereto, including documents incorporated by reference to which such holders or legal counsel, shall object on a timely basis in light of the requirements of the 1933 Act or any other applicable laws and regulations.

(e) State Securities Laws Compliance. The Company shall use its best efforts to (i) register or qualify the Registrable Securities covered by the registration statement under such securities or blue sky laws of such jurisdictions in the United States as the holders of Registrable Securities included in such registration statement (in light of their intended plan of distribution) may request and (ii) cause such Registrable Securities covered by the registration statement to be registered with or approved by such other governmental agencies or authorities in the United States as may be necessary by virtue of the business and operations of the Company and do any and all other acts and things that may be necessary or advisable to enable the holders of Registrable Securities included in such registration statement to consummate the disposition of such Registrable Securities in such jurisdictions; provided, however, that the Company shall not be required to qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this paragraph (e), or subject itself to taxation in any such jurisdiction.

(f) Agreements for Disposition. The Company shall enter into customary agreements (including, if applicable, an underwriting agreement in customary form) and take such other actions as are reasonably required in order to expedite or facilitate the disposition of such Registrable Securities. The representations, warranties and covenants of the Company in any underwriting agreement which are made to or for the benefit of any Underwriters shall also be made to and for the benefit of the holders of Registrable Securities included in such registration statement. No holder of Registrable Securities included in such registration statement shall be required to make any representations or warranties in the underwriting agreement except, if applicable, with respect to such holder's organization, good standing, authority, title to Registrable Securities, lack of conflict of such sale with such holder's material agreements and organizational documents, and with respect to written information relating to such holder that such holder has furnished in writing expressly for inclusion in such registration statement.

(g) Cooperation. The Chief Executive Officer, the President of the Company, the Chief Financial Officer of the Company, any Senior Vice President of the Company and any other members of the management of the Company shall cooperate fully in any offering of Registrable Securities hereunder, which cooperation shall include, without limitation, the preparation of the registration statement with respect to such offering and all other offering materials and related documents, and participation in meetings with Underwriters, attorneys, accountants and potential investors.

(h) Records. The Company shall make available for inspection by the holders of Registrable Securities included in such registration statement, any Underwriter participating in any disposition pursuant to such registration statement and any attorney, accountant or other professional retained by any holder of Registrable Securities included in such registration statement or any Underwriter, all financial and other records, pertinent corporate documents and properties of the Company, as shall be necessary to enable them to exercise their due diligence responsibility, and cause the Company's officers, directors and employees to supply all information requested by any of them in connection with such registration statement.

(i) Opinions and Comfort Letters. The Company shall furnish to each holder of Registrable Securities included in any registration statement a signed counterpart, addressed to such holder, of (i) any opinion of counsel to the Company delivered to any Underwriter and (ii) any comfort letter from the Company's independent public accountants delivered to any Underwriter. In the event no legal opinion is delivered to any Underwriter, the Company shall furnish to each holder of Registrable Securities included in such registration statement, at any time that such holder elects to use a prospectus, an opinion of counsel to the Company to the effect that the registration statement containing such prospectus has been declared effective and that no stop order is in effect.

(j) Earnings Statement. The Company shall comply with all applicable rules and regulations of the Commission and the 1933 Act, and make available to its shareholders, as soon as practicable, an earnings statement covering a period of 12 months, beginning within three months after the effective date of the registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the 1933 Act and Rule 158 thereunder.



(k) Listing. The Company shall use its best efforts to cause all Registrable Securities included in any registration to be listed on such exchanges or otherwise designated for trading in the same manner as similar securities issued by the Company are then listed or designated or, if no such similar securities are then listed or designated, in a manner satisfactory to the holders of a majority of the Registrable Securities included in such registration.

3.2 Obligation to Suspend Distribution. Upon receipt of any notice from the Company of the happening of any event of the kind described in Section 3.1(d)(iv), each holder of Registrable Securities included in any registration shall immediately discontinue disposition of such Registrable Securities pursuant to the registration statement covering such Registrable Securities until such holder receives the supplemented or amended prospectus contemplated by Section 3.1(d)(iv), and, if so directed by the Company, each such holder will deliver to the Company all copies, other than permanent file copies then in such holder's possession, of the most recent prospectus covering such Registrable Securities at the time of receipt of such notice.

3.3 Registration Expenses. The Company shall pay all expenses incurred in connection with any Demand Registration pursuant to Section 2.1 and any Piggy-Back Registration pursuant to Section 2.2, and all expenses incurred in performing or complying with the Company's obligations under this Section 3, whether or not the registration statement becomes effective, in each case including, but not limited to: (i) all registration and filing fees; (ii) fees and expenses of compliance with securities or blue sky laws (including fees and disbursements of counsel in connection with blue sky qualifications of the Registrable Securities); (iii) printing expenses; (iv) the Company's internal expenses (including, without limitation, all salaries and expenses of its officers and employees); (v) the fees and expenses incurred in connection with the listing of the Registrable Securities as required by Section 3.1(k); (vi) National Association of Securities Dealers, Inc. fees; (vii) fees and disbursements of counsel for the Company and fees and expenses for independent certified public accountants retained by the Company (including the expenses or costs associated with the delivery of any opinions or comfort letters requested pursuant to Section 3.1(i); (viii) the fees and expenses of any special experts retained by the Company in connection with such registration; (ix) one-half of the cost for selling stockholder errors and omissions insurance for the benefit of the holders of Registrable Securities included in such registration which the holders of a majority of such Registrable Securities may elect to purchase (with the other one-half of such cost to be paid by the holders of Registrable Securities included in such registration, pro rata in accordance with the number of shares included in such registration), and (x) all fees and expenses incurred by the holders of Registrable Securities included in such registration statement in connection with its participation in such registration, including, without limitation, the fees and expenses of such holders' legal counsel, accountants and other experts. The Company shall have no obligation to pay any underwriting fees, discounts or selling commissions attributable to the Registrable Securities being sold by holders of Registrable Securities, which expenses shall be borne by such holders.

3.4 Information. The holders of Registrable Securities shall provide such information as reasonably requested by the Company in connection with the preparation of any registration statement, including amendments and supplements thereto, in order to effect the registration of any Registrable Securities under the 1933 Act pursuant to Sections 2.

#### **4. INDEMNIFICATION AND CONTRIBUTION.**

4.1 Indemnification by the Company. The Company agrees to indemnify and hold harmless (i) each of the Stanwich Parties and each holder of Registrable Securities and (ii) the respective officers, employees, affiliates, directors, partners, members and agents of, and each person, if any, who controls, Stanwich or any holder of Registrable Securities within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act (each, a "Stanwich Indemnified Party"), from and against any loss, claim, damage or liability and any action in respect thereof to which any Stanwich Indemnified Party may become subject under the 1933 Act or the 1934 Act or any other statute or common law, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (a) any untrue statement or alleged untrue statement of a material fact made in connection with the sale of Registrable Securities or shares of Common Stock, whether or not such statement is contained or incorporated by reference in any registration statement or prospectus relating to the Registrable Securities (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or any preliminary prospectus, (b) any omission or alleged omission to state a material fact required to be stated in any registration statement or prospectus or necessary to make the statements therein not misleading, or (c) any violation by the



Company of any Federal, state or common law, rule or regulation applicable to the Company and relating to action required of or inaction by the Company in connection with such registration. The Company also shall promptly, but in no event more than ten Business Days after request for payment, pay directly or reimburse each Stanwich Indemnified Party for any legal and other expenses incurred by such Stanwich Indemnified Party in investigating or defending or preparing to defend against any such loss, claim, damage, liability or action. The Company also shall indemnify any Underwriter of the Registrable Securities, their officers, affiliates, directors, partners, members and agents and each person who controls such Underwriters on substantially the same basis as that of the indemnification provided above in this Section 4.1.

The indemnity agreement contained in this Section 4.1 shall not apply to amounts paid in settlement of any such loss, claim, damage or liability or any action in respect thereof if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable to any holder of Registrable Securities included in any registration for any loss, claim, damage, liability or any action in respect thereof to the extent that it arises solely from or is based solely upon and is in conformity with information related to such holder furnished in writing by such holder expressly for use in connection with such registration, nor shall the Company be liable to any holder of Registrable Securities included in any registration for any loss, claim, damage or liability or any action in respect thereof to the extent it arises solely from or is based solely upon (i) any untrue statement or alleged untrue statement of a material fact contained in any registration statement or prospectus relating to the Registrable Securities delivered in writing by such holder after the Company had provided written notice to such holder that such registration statement or prospectus contained such untrue statement or alleged untrue statement of a material fact, or (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading after the Company had provided written notice to such holder that such registration statement or prospectus contained such omission or alleged omission.

4.2 Indemnification by Holders of Registrable Securities. Each holder of Registrable Securities shall indemnify and hold harmless the Company, its officers, directors, partners, members and agents and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act to the same extent as the foregoing indemnity from the Company to such holder, but solely with reference to information related to such holder furnished in writing by such holder expressly for use in any registration statement or prospectus relating to Registrable Securities of such holder included in any registration, or any amendment or supplement thereto, or any preliminary prospectus. Each holder of Registrable Securities included in any registration hereunder shall also indemnify and hold harmless any Underwriter of such holder's Registrable Securities, their officers, directors, partners, members and agents and each person who controls such Underwriters on substantially the same basis as that of the indemnification of the Company provided in this Section 4.2; provided, however, that in no event shall any indemnity obligation under this Section 4.2 exceed the dollar amount of the net proceeds (after payment of any underwriting fees, discounts or commissions) actually received by such holder from the sale of Registrable Securities which gave rise to such indemnification obligation under such registration statement or prospectus.

4.3 Conduct of Indemnification Proceedings. Promptly after receipt by any person of any notice of any loss, claim, damage or liability or any action in respect of which indemnity may be sought pursuant to Section 4.1 or 4.2, such person (the "Indemnified Party") shall, if a claim in respect thereof is to be made against any other person for indemnification hereunder, notify such other person (the "Indemnifying Party") in writing of the loss, claim damage, liability or action; provided, however, that the failure by the Indemnified Party to notify the Indemnifying Party shall not relieve the Indemnifying Party from any liability which the Indemnifying Party may have to such Indemnified Party hereunder, except to the extent the Indemnifying Party is actually prejudiced by such failure. If the Indemnified Party is seeking indemnification with respect to any claim or action brought against the Indemnified Party, then the Indemnifying Party shall be entitled to participate in such claim or action, and, to the extent that it wishes, jointly with all other Indemnifying Parties, to assume the defense thereof with counsel satisfactory to the Indemnified Party. After notice from the Indemnifying Party to the Indemnified Party of its election to assume the defense of such claim or action, the Indemnifying Party shall not be liable to the Indemnified Party for any legal or other expenses subsequently incurred by the Indemnified Party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that in any action in which both the Indemnified Party and the Indemnifying Party are named as defendants, the Indemnified Party shall have the right to employ separate counsel (but no more than one such separate counsel) to represent the Indemnified Party and its controlling persons





who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the Indemnified Party against the Indemnifying Party, with the fees and expenses of such counsel to be paid by such Indemnifying Party if, based upon the written opinion of counsel of such Indemnified Party, representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, consent to entry of judgment or effect any settlement of any claim or pending or threatened proceeding in respect of which the Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such judgment or settlement includes an unconditional release of such Indemnified Party from all liability arising out of such claim or proceeding.

4.4 Contribution. If the indemnification provided for in the foregoing Sections 4.1, 4.2 and 4.3 is unavailable to any Indemnified Party in respect of any loss, claim, damage, liability or action referred to herein, then each such Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, claim, damage, liability or action in such proportion as is appropriate to reflect the relative fault of the Indemnified Parties and the Indemnifying Parties in connection with the actions or omissions which resulted in such loss, claim, damage, liability or action, as well as any other relevant equitable considerations. The relative fault of any Indemnified Party and any Indemnifying Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by such Indemnified Party or such Indemnifying Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 4.4 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an Indemnified Party as a result of any loss, claim, damage, liability or action referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 4.4, no holder of Registrable Securities shall be required to contribute any amount in excess of the dollar amount of the net proceeds (after payment of any underwriting fees, discounts or commissions) actually received by such holder from the sale of Registrable Securities which gave rise to such contribution obligation. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

## **50 UNDERWRITING AND DISTRIBUTION.**

5.1 Rule 144. The Company covenants that it shall file any reports required to be filed by it under the 1933 Act and the 1934 Act and shall take such further action as the holders of Registrable Securities may reasonably request, all to the extent required from time to time to enable such holders to sell Registrable Securities without registration under the 1933 Act within the limitation of the exemptions provided by Rule 144 or Rule 144A under the 1933 Act, as such Rules may be amended from time to time, or any similar Rule or regulation hereafter adopted by the Commission.

5.2 Restrictions on Sale by the Company and Others. The Company agrees (i) not to effect any sale or distribution of any securities similar to those being registered in accordance with Section 2.1, or any securities convertible into or exchangeable or exercisable for such securities, during the 90 days prior to, and during the 120-day period beginning on, the effective date of any Demand Registration (except as part of such Demand Registration to the extent permitted by Section 2.1(d)); and (ii) that any agreement entered into after the date hereof pursuant to which the Company issues or agrees to issue any privately placed securities shall contain a provision under which holders of such securities agree not to effect any sale or distribution of any such securities during the periods described in (i) above, in each case including a sale pursuant to Rule 144 or 144A under the 1933 Act (except as part of any such registration, if permitted); provided, however, that the provisions of this Section 5.2 shall not prevent the conversion or exchange of any securities pursuant to their terms into or for other securities and shall not prevent the issuance of securities by the Company under any employee benefit, stock option or stock subscription plans.

## 60 MISCELLANEOUS.

6.1 Other Registration Rights. The Company represents and warrants that, except as provided in the LLC Registration Rights Agreement, no person has any right to require the Company to register any shares of the Company's capital stock for sale or to include shares of the Company's capital stock in any registration filed by the Company for the sale of shares of capital stock for its own account or for the account of any other person. From and after the date of this Agreement, the Company shall not, without the prior written consent of the holders of a majority of the Registrable Securities, (i) enter into any agreement granting any demand registration right (i.e., the right to require the Company to register the sale of any shares of the Company's capital stock) other than demand registration rights under the FSA Registration Rights Agreement, (ii) enter into any agreement granting any piggy-back registration right (i.e., the right to require the Company to register the sale of any shares of the Company's capital stock in any registration filed by the Company for the sale of shares of capital stock for its own account or for the account of any other person) which is inconsistent with, equal to (except pursuant to the FSA Registration Rights Agreement) or superior to any registration rights granted to hereunder, or (iii) amend the LLC Registration Rights Agreement (or enter into or amend the FSA Registration Rights Agreement at any time) so as to cause the registration rights granted therein to be inconsistent with, equal to or superior to the rights granted to the holders of Registrable Securities hereunder or to otherwise adversely affect the registration rights granted to the holders of Registrable Securities hereunder.

6.2 Successors and Assigns. The rights and obligations of the Stanwich Parties under this Agreement shall be freely assignable in whole or in part. Each such assignee, by accepting such assignment of the rights of the assignor hereunder shall be deemed to have agreed to and be bound by the obligations of the assignor hereunder. The rights and obligations of the Company hereunder may not be assigned.

6.3 Notices. All notices, requests, demands and other communications which are required or may be given under this Agreement shall be in writing and shall be deemed to have been duly given if transmitted by telecopier with receipt acknowledged, or upon delivery, if delivered personally or by recognized commercial courier with receipt acknowledged, or upon the expiration of 72 hours after mailing, if mailed by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Stanwich:

c/o Stanwich Partners, Inc.  
One Stamford Landing  
62 Southfield Avenue  
Stamford, CT 06902  
Attention: President  
Telephone: (203) 325-0551  
Facsimile: (203) 967-3923

If to Poole:

c/o Stanwich Partners, Inc.  
One Stamford Landing  
62 Southfield Avenue  
Stamford, CT 06902  
Telephone: (203) 325-0551  
Facsimile: (203) 967-3923

If to any assignee of either of the Stanwich Parties:

At such assignee's address as shown on the books of the  
Company.



If to the Company:

Consumer Portfolio Services, Inc.  
16355 Laguna Canyon Road  
Irvine, CA 92618  
Attention: Charles E. Bradley, Jr., President  
and Chief Executive Officer  
Telephone: (949) 753-6800  
Facsimile: (949) 753-6805

or at such other address or addresses as Stanwich, Poole, such assignee or the Company, as the case may be, may specify by written notice given in accordance with this Section.

6.4 Severability. In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

6.5 Counterpart. This Agreement may be executed in two or more counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

6.6 Descriptive Headings, Construction and Interpretation. The descriptive headings of the several paragraphs of this Agreement are for convenience of reference only and do not constitute a part of this Agreement and are not to be considered in construing or interpreting this Agreement. All section, preamble, recital and party references are to this Agreement unless otherwise stated. No party, nor its counsel, shall be deemed the drafter of this Agreement for purposes of construing the provisions of this Agreement, and all provisions of this Agreement shall be construed in accordance with their fair meaning, and not strictly for or against any party.

6.7 Waivers and Amendments. Neither this Agreement nor any provision hereof may be changed, waived, discharged or terminated orally or by course of dealing, except by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought.

6.8 Remedies. In the event that the Company fails to observe or perform any covenant or agreement to be observed or performed under this Agreement, either of the Stanwich Parties or any other holder of Registrable Securities may proceed to protect and enforce its rights by suit in equity or action at law, whether for specific performance of any term contained in this Agreement or for an injunction against the breach of any such term or in aid of the exercise of any power granted in this Agreement or to enforce any other legal or equitable right, or to take any one or more of such actions. The Company agrees to pay all fees, costs, and expenses, including without limitation, fees and expenses of attorneys, accountants and other experts, and all fees, costs and expenses of appeals, incurred by either of the Stanwich Parties or any other holder of Registrable Securities in connection with the enforcement of this Agreement or the collection or any sums due hereunder, whether or not suit is commenced. None of the rights, powers or remedies conferred under this Agreement shall be mutually exclusive, and each such right, power or remedy shall be cumulative and in addition to any other right, power or remedy whether conferred by this Agreement or now or hereafter available at law, in equity, by statute or otherwise.

6.9 Governing Law. In all respects, including all matters of construction, validity and performance, this Agreement and the rights and obligations arising hereunder shall be governed by, and construed and enforced in accordance with, the laws of the State of California applicable to contracts made and performed in such state, without regard to principles thereof regarding conflicts of laws.

6.10 Termination of Prior Registration Rights Agreements. This Agreement supersedes and replaces the Old Registration Rights (as such term is defined in the Restructure Agreement) relating to or covering the Shares.

**70 WAIVER OF JURY TRIAL. BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX COMMERCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN**



**EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE STATE AND FEDERAL LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, AND UNDERSTANDING THEY ARE WAIVING A CONSTITUTIONAL RIGHT, THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE, WHETHER IN CONTRACT, TORT, OR OTHERWISE, ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO, THIS AGREEMENT, THE PURCHASE AGREEMENT AND/OR ANY RELATED AGREEMENT OR THE TRANSACTIONS COMPLETED HEREBY OR THEREBY.**

**[THE REMAINDER OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK]**

IN WITNESS WHEREOF, the parties have caused this Consolidated Registration Rights Agreement to be executed and delivered by their duly authorized representatives as of the date first above written.

**THE COMPANY:**

**STANWICH:**

**CONSUMER PORTFOLIO SERVICES,**  
INC., a California corporation

**STANWICH FINANCIAL SERVICES CORP.,**  
a Rhode Island Corporation

By: \_\_\_\_\_  
Charles E. Bradley, Jr.,  
President President and Chief  
Executive Officer

By: \_\_\_\_\_  
Charles E. Bradley, Sr.

**POOLE:**

By: \_\_\_\_\_  
Jeffrey P. Fritz,  
Senior Vice President and Chief  
Financial Officer

\_\_\_\_\_   
John G. Poole

EXHIBIT 23.1

**CONSENT OF INDEPENDENT AUDITORS**

The Board of Directors  
Consumer Portfolio Services, Inc.:

We consent to incorporation by reference in the registration statements (Nos. 33-77314, 333-00880) on Form S-3 and the registration statements (Nos. 33-78680 and 33-80327) on Form S-8 of Consumer Portfolio Services, Inc. of our report dated March 3, 1999, except as to notes 13, 16 and 17 to the consolidated financial statements, which are as of April 15, 1999 relating to the consolidated balance sheets of Consumer Portfolio Services, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 1998 annual report on Form 10-K of Consumer Portfolio Services, Inc.

KPMG LLP

Orange County, California  
April 15, 1999



