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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE

TRANSITION PERIOD FROM _____ TO _____.

COMMISSION FILE NUMBER: 1-11416

CONSUMER PORTFOLIO SERVICES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

California
(State or other jurisdiction of
incorporation or organization)

33-0459135
(IRS Employer
Identification No.)

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

92618
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER: (949) 753-6800

FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST
REPORT: N/A

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

Indicate by check mark whether the registrant is an accelerated filer (as
defined by Rule 12b-2 of the Exchange Act). Yes No

As of May 12, 2003 the registrant had 20,219,476 common shares outstanding.

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CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
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FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

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ITEM 1. FINANCIAL STATEMENTS

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

	MARCH 31, 2003	DECEMBER 31, 2002
	-----	-----
ASSETS		
Cash	\$ 41,456	\$ 32,947
Restricted cash	17,782	18,912
Finance receivables, net	81,700	110,420
Less: Allowance for finance credit losses	(19,840)	(25,828)
	-----	-----
Finance receivables	61,860	84,592
Servicing fees receivable	3,729	3,407
Residual interest in securitizations	127,112	127,170
Furniture and equipment, net	1,438	1,612
Deferred financing costs	1,940	1,671
Deferred interest expense	2,026	2,695
Other assets	16,230	12,442
	-----	-----
	\$ 273,573	\$ 285,448
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	\$ 16,961	\$ 18,132
Tax liabilities, net	7,009	8,800
Capital lease obligation	41	67
Notes payable	504	673
Securitization trust debt	54,165	71,630
Senior secured debt	53,308	50,072
Subordinated debt	35,996	36,000
Related party debt	17,500	17,500
	-----	-----
	185,484	202,874
SHAREHOLDERS' EQUITY		
Preferred stock, \$1 par value; authorized 5,000,000 shares; none issued	--	--
Series A preferred stock, \$1 par value; authorized 5,000,000 shares; 3,415,000 shares issued; none outstanding	--	--
Common stock, no par value; authorized 30,000,000 shares; 20,239,176 and 20,528,270 shares issued and outstanding at March 31, 2003 and December 31, 2002, respectively	63,017	63,929
Retained earnings	26,875	20,597
Comprehensive loss - minimum pension benefit obligation, net	(1,594)	(1,594)
Deferred compensation	(209)	(358)
	-----	-----
	88,089	82,574
	-----	-----
	\$ 273,573	\$ 285,448
	=====	=====

See accompanying Notes to Condensed Consolidated Financial Statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands, except per share data)
(Unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
REVENUES:		
Net gain on sale of contracts	\$ 4,555	\$ 1,772
Interest income	9,328	7,744
Servicing fees	4,602	3,390
Other income	4,062	230
	22,547	13,136
EXPENSES:		
Employee costs	8,447	8,462
General and administrative	4,033	4,404
Interest	5,530	4,431
Marketing	965	1,485
Occupancy	980	841
Depreciation and amortization	238	288
	20,193	19,911
Income (loss) before income tax benefit	2,354	(6,775)
Income tax benefit	(3,924)	(5,794)
	6,278	(981)
Income (loss) before extraordinary item	6,278	(981)
Extraordinary item, unallocated negative goodwill	--	17,412
	6,278	16,431
Net income	6,278	16,431
Other comprehensive income	--	--
Comprehensive income	\$ 6,278	\$ 16,431
	=====	=====
Earnings (loss) per share before extraordinary item:		
Basic	\$ 0.31	\$ (0.05)
Diluted	0.29	(0.05)
Earnings per share, extraordinary item:		
Basic	\$ --	\$ 0.90
Diluted	--	0.90
Earnings per share after extraordinary item:		
Basic	\$ 0.31	\$ 0.85
Diluted	0.29	0.85
Number of shares used in computing earnings (loss) per share:		
Basic	20,270	19,286
Diluted	21,860	19,286

See accompanying Notes to Condensed Consolidated Financial Statements

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

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,278	\$ 16,431
Adjustments to reconcile net income to net cash provided by operating activities:		
Extraordinary gain, excess of assets acquired over purchase price	--	(17,412)
Depreciation and amortization	238	288
Amortization of deferred financing costs	781	2,303
Provision for (recovery of) credit losses	66	(527)
NIR gains recognized, net	(3,301)	(143)
Loss on sale of furniture and equipment	--	5
Deferred compensation	(140)	843
Releases of cash from Trusts to Company	8,979	16,672
Initial deposits to spread accounts	(10,658)	(1,273)
Net deposits to spread accounts	(775)	(973)
Decrease in receivables from Trusts and investment in subordinated certificates	5,813	10,678
Changes in assets and liabilities:		
Restricted cash	1,130	5,603
Purchases of contracts held for sale	(87,342)	(145,902)
Amortization and liquidation of contracts held for sale	110,008	155,327
Other assets	(3,471)	545
Accounts payable and accrued expenses	(1,171)	(8,233)
Deferred tax asset/liability	(1,791)	106
	-----	-----
Net cash provided by operating activities	24,644	34,338
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net related party receivables	--	(7)
Purchase of subsidiary, net of cash acquired	--	(29,467)
Purchases of furniture and equipment	(35)	(85)
	-----	-----
Net cash used in investing activities	(35)	(29,559)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of senior secured debt	25,000	46,242
Repayment of securitization trust debt	(17,465)	(12,011)
Repayment of senior secured debt	(21,764)	(789)
Repayment of subordinated debt	(4)	(22,500)
Repayment of capital lease obligations	(26)	(128)
Repayment of notes payable	(169)	(238)
Payment of financing costs	(1,050)	(1,037)
Purchase of common stock	(643)	--
Exercise of options and warrants	21	22
	-----	-----
Net cash provided by (used in) financing activities	(16,100)	9,561
	-----	-----
Increase in cash	8,509	14,340
Cash at beginning of period	32,947	2,570
	-----	-----
Cash at end of period	\$ 41,456	\$ 16,910
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Interest	\$ 4,258	\$ 3,733
Income taxes	(2,132)	(5,683)
Supplemental disclosure of non-cash investing and financing activities:		
Stock compensation	(140)	843

See accompanying Notes to Condensed Consolidated Financial Statements

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(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") specialize primarily in the business of purchasing, selling and servicing retail automobile installment sale contracts ("Contracts") originated by licensed motor vehicle dealers ("Dealers") located throughout the United States. The Company purchases 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.

MFN FINANCIAL CORPORATION ACQUISITION

On March 8, 2002, CPS acquired 100% of MFN Financial Corporation, a Delaware corporation ("MFN") and its subsidiaries, by the merger (the "Merger") of CPS Mergersub, Inc., a Delaware corporation ("Mergersub") and a direct wholly owned subsidiary of CPS, with and into MFN. The Merger took place pursuant to an Agreement and Plan of Merger, dated November 18, 2001 (the "Merger Agreement"), among CPS, Mergersub and MFN. In the Merger, MFN became a wholly owned subsidiary of CPS. CPS thus acquired the assets of MFN, consisting principally of interests in automobile installment sales finance Contracts and the facilities for originating and servicing such Contracts. The Merger was accounted for as a purchase.

MFN, through its primary operating subsidiary, Mercury Finance Company LLC, was in the business of purchasing automobile installment sales finance Contracts from Dealers, and securitizing and servicing such Contracts. CPS intends to continue to use the assets acquired in the Merger in the automobile finance business, but a portion of such assets have been disposed of. CPS has ceased to use the acquired assets for the purchase of automobile installment sales finance Contracts, and does not anticipate recommencing such use. In connection with the termination of MFN origination activities and the integration and consolidation of certain activities, the Company has recognized certain liabilities related to the costs to exit these activities and terminate the affected employees of MFN. These activities include service departments such as accounting, finance, human resources, information technology, administration, payroll and executive management. These costs include the following:

	DECEMBER 31, 2002	ACTIVITY	MARCH 31, 2003 (1)
	-----	-----	-----
	(IN THOUSANDS)		
Severance payments and consulting contracts	\$ 571	\$ (102)	\$ 469
Facilities closures	1,995	(296)	1,699
Termination of contracts, leases, services and other obligations ...	323	(98)	225
Acquisition expenses accrued but unpaid	51	--	51
	-----	-----	-----
Total liabilities assumed	\$ 2,940	\$ (496)	\$ 2,444
	=====	=====	=====

(1) Approximately \$2.4 million of remaining accrual is recorded in the Condensed Consolidated Balance Sheet of the Company at March 31, 2003. The Company believes that this amount provides adequately for anticipated remaining

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

costs related to exiting certain activities of MFN, and that amounts indicated above are reasonably allocated.

The Company's Condensed Consolidated Balance Sheet and Condensed Consolidated Statement of Operations as of and for the three months ended March 31, 2003 and 2002, include the balance sheet accounts of MFN Financial Corporation as of March 31, 2003 and 2002 and the results of operations subsequent to March 8, 2002, the merger date.

Upon effectiveness of the Merger, each outstanding share of common stock of MFN converted into the right to receive \$10.00 per share in cash. The total Merger consideration payable to stockholders of MFN was approximately \$99.9 million. The amount of such consideration was agreed to as the result of arms'-length negotiations between CPS and MFN. The aggregate purchase price, including expenses related to the transaction, was approximately \$123.2 million.

Acquisition financing was provided to CPS by Westdeutsche Landesbank Girozentrale, New York Branch ("WestLB") and Levine Leichtman Capital Partners II, L.P ("LLCP"). CPS obtained acquisition financing from LLCP through its issuance and sale of certain senior secured notes to LLCP in the aggregate principal amount of \$35 million.

The Company has recorded certain purchase accounting adjustments recorded on its Condensed Consolidated Balance Sheet, which are estimates based on available information. In addition, the Company's Condensed Consolidated Statement of Operations for the period ended March 31, 2002 includes an extraordinary gain related to the excess of net assets acquired over purchase price ("negative goodwill") totaling \$17.4 million.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

	MARCH 8, 2002

	(IN THOUSANDS)
Cash	\$ 93,782
Restricted cash	25,499
Finance Contracts, net	186,554
Residual interest in securitizations	32,485
Other assets	12,006

Total assets acquired	350,326

Securitization trust debt	156,923
Subordinated debt	22,500
Accounts payable and other liabilities	30,242

Total liabilities assumed	209,665

Net assets acquired	140,661
Less: purchase price	123,249

Excess of net assets acquired over purchase price	\$ 17,412
	=====

Selected unaudited pro forma combined results of operations for the three-month period ending March 2002, assuming the Merger occurred on January 1, 2002, are as follows:

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 2002 ----- (IN THOUSANDS)
Total revenue	\$ 30,013
Net earnings (loss) before Merger-related expenses and extraordinary item	(10,205)
Extraordinary item	17,412
Net earnings	7,207
Basic net earnings (loss) per share before Merger-related expenses and extraordinary item	\$ (0.53)
Extraordinary item	0.90
Basic net earnings per share	0.37
Diluted net earnings (loss) per share before Merger-related expenses and extraordinary item	\$ (0.53)
Extraordinary item	0.90
Diluted net earnings per share	0.37

BASIS OF PRESENTATION

The unaudited Condensed Consolidated Financial Statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America, with the instructions to Form 10-Q and with Article 10 of Regulation S-X of the Securities and Exchange Commission, and include all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are, in the opinion of management, of a normal recurring nature. In addition, certain items in prior period financial statements have been reclassified for comparability to current period presentation. Results for the three-month period ended March 31, 2003 are not necessarily indicative of the operating results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

RECENT DEVELOPMENTS

On April 1, 2003, CPS announced it had signed an agreement to acquire TFC Enterprises, Inc. ("TFC")(Nasdaq: TFCE) and its subsidiaries in a cash merger. CPS has agreed to pay \$1.87 per share for each of the approximately 11.6 million outstanding shares of TFC stock.

The boards of both companies have approved the agreement. The transaction is subject to approval by the stockholders of TFC and other conditions, and is expected to be completed in May 2003.

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

RESIDUAL INTEREST IN SECURITIZATIONS AND GAIN ON SALE OF CONTRACTS

Gain on sale may be recognized on the disposition of Contracts outright or in securitization transactions. In its securitization transactions, the Company, or a wholly owned, consolidated subsidiary of the Company, retains a residual interest in the Contracts that are sold to a wholly owned, unconsolidated special purpose subsidiary. The Company's securitization transactions include "term" securitizations (purchaser holds the Contracts for substantially their entire term) and "continuous" securitizations (which finance the acquisition of the Contracts for future sale into term securitizations).

The residual interest in term securitizations and the residual interest in the Contracts held in "continuous" securitizations are reflected in the line item "residual interest in securitizations" on the Company's Condensed Consolidated Balance Sheet.

The Company's securitization structure has generally been as follows:

The Company sells Contracts it acquires to a wholly owned, unconsolidated Special Purpose 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 an owner trust ("Trust"). The Trust is a qualifying special purpose entity as defined in Statement of Financial Accounting Standards No. 140 ("SFAS 140"), and is therefore not consolidated in the Company's Condensed Consolidated Financial Statements. The Trust issues interest-bearing asset backed securities (the "Notes"), generally in a principal 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 Notes issued by the Trust; the proceeds from the sale of the Notes are then used to purchase the Contracts from the Company. The Company may retain subordinated Notes issued by the Trust. The Company purchases a financial guaranty insurance policy, guaranteeing timely payment of principal and interest on the senior Notes, from an insurance company (the "Note Insurers"). In addition, the Company provides a credit enhancement for the benefit of the Note Insurers and the investors in the form of an initial cash deposit to an account ("Spread Account") held by the Trust or in the form of subordinated Notes, or both. The agreements governing the securitization transactions (collectively referred to as the "Securitization 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 Notes. 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 Note Insurers and the trustee. Such levels have increased and decreased from time to time based on performance of the portfolios, and have also varied by Securitization Agreement. The Securitization Agreements generally

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

grant the Company the option to repurchase the sold Contracts from the Trust when the aggregate outstanding balance has amortized to 10% or less of the initial aggregate balance.

The Company's continuous securitization structure is similar to the above, except that (i) the SPS that purchases the Contracts pledges the Contracts to secure promissory notes issued directly by the SPS, (ii) the initial purchaser of such notes has the right, but not the obligation, to require that the Company repurchase the Contracts, (iii) the promissory notes are in an aggregate principal amount of not more than 72.5% to 73% of the aggregate principal balance of the Contracts (that is, at least 27% over-collateralization), and (iv) no Spread Account is involved. The SPS is a qualifying special purpose entity and is therefore not consolidated in the Company's Condensed Consolidated Financial Statements.

Upon each sale of Contracts in a securitization, whether a term securitization or a continuous securitization, the Company removes from its Condensed Consolidated Balance Sheet the Contracts held for sale and adds to its Condensed 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 the securitization. That retained interest (the "Residual") consists of (a) the cash held in the Spread Account, if any, (b) over collateralization, if any, (c) subordinated Notes retained, if any, and (d) receivables from Trust, which include 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 Notes, 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 Notes sold 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. The Company is not aware of an active market for the purchase or sale of interests such as the Residuals; accordingly, the Company determines the estimated fair value of the Residuals by discounting the amount and timing of anticipated cash flows that it estimates will be released to the Company in the future (the cash out method), using a discount rate that the Company believes is appropriate for the risks involved. The Company estimates the value of its optional right to repurchase receivables pursuant to the terms of the Securitization Agreements primarily based on its estimate of the amount and timing of cash flows that it anticipates will be received from the repurchased receivables following exercise of the optional right. The anticipated cash flows include collections from both current and charged off receivables. 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 Notes, the base servicing fees, and certain other fees (such as trustee and custodial fees).

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Required principal payments are in most cases defined as the payments sufficient to keep the principal balance of the Notes equal to the aggregate principal balance of the related Contracts (excluding those Contracts that have been charged off). Some of the Securitization Agreements require accelerated payment of principal until the principal balance of the Notes is reduced to a specified percentage of the aggregate principal balance of the related Contracts. Such accelerated principal payment is said to create "over-collateralization" of the Notes.

If the amount of cash required for payment of fees, interest and principal exceeds the amount collected during the collection period, the shortfall is drawn from the Spread Account, if any. 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. 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. Although Spread Account balances are held by the Trusts on behalf of the Company's SPS as the owner of the Residuals, 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 Securitization Agreements. The interest rate payable on the Contracts is significantly greater than the interest rate on the Notes. As a result, the Residuals described above are a significant asset of the Company. In determining the value of the Residuals, the Company must estimate the future rates of prepayments, delinquencies, defaults and default loss severity, and the value of the Company's optional right to repurchase receivables pursuant to the terms of the Securitization Agreements, as all of these factors affect the amount and timing of the estimated cash flows. The Company estimates prepayments by evaluating historical prepayment performance of comparable Contracts. The Company has used prepayment estimates of approximately 18.3% to 21.7% cumulatively over the lives of the related Contracts. 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. The Company estimates recovery rates of previously charged off receivables using available historical recovery data and projected future recovery levels. In valuing the Residuals, the Company estimates that gross losses as a percentage of the original principal balance will approximate 13.7% to 19.7% cumulatively over the lives of the related Contracts, with recovery rates approximating 2.1% to 5.2% of the original principal balance.

In future periods, the Company will recognize additional revenue from the Residuals if the actual performance of the Contracts is 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 worse than the original estimate, then a downward adjustment to the carrying value of the Residuals would be required.

The Noteholders and the related securitization Trusts have no recourse to the Company for failure of the Contract obligors to make payments on a timely basis. The Company's Residuals, however, are subordinate to the Notes until the Noteholders are fully paid, and the Company is therefore at risk to that extent.

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

OTHER INCOME

Other income consists primarily of recoveries on previously charged off Contracts.

STOCK BASED COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") and related interpretations, in accounting for employee stock options rather than the alternative fair value accounting allowed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation." ("SFAS 123"). APB 25 provides that compensation expense relative to the Company's employee stock options is measured based on the difference between the share price and the exercise price of stock options at the date of grant and the Company recognizes compensation expense in its statement of operations using the straight-line method over the vesting period for fixed awards. Under SFAS 123, the fair value of stock options at the date of grant is recognized in earnings over the vesting period of the options. In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." ("SFAS 148"). SFAS 148 amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method on reported results.

As of March 31, 2003 and 2002, the Company had options outstanding to acquire 4,062,149 and 3,693,439 shares, respectively, of its common stock. The following table shows the pro forma net income (loss) as if the fair value method of SFAS 123 had been used to account for stock-based compensation expense (in thousands, except per share amounts):

	THREE MONTHS ENDED MARCH 31,	
	----- 2003	2002 -----
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Net income, as reported	\$ 6,278	\$ 16,431
Stock-based employee compensation expense, fair value method, net of tax	(263)	(181)
Previously recorded stock-based employee compensation income (expense), net of tax	(81)	489
Pro forma net income	\$ 5,934	\$ 16,739
	=====	=====

	THREE MONTHS ENDED MARCH 31,	
	----- 2003	2002 -----
Net income per share		
Basic, as reported.....	\$ 0.31	\$ 0.85
Diluted, as reported(1).....	\$ 0.29	\$ 0.85
Pro forma basic.....	\$ 0.29	\$ 0.87
Pro forma diluted(1).....	\$ 0.28	\$ 0.87

(1) The assumed conversion of certain subordinated debt during the three month period ended March 31, 2003, resulted in an increase to income for purposes of the diluted earnings per share calculation of \$133,400.

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Pro forma net income (loss) and income (loss) per share reflect only options granted in the years ended December 31, 1996 to March 31, 2003. Therefore, the full effect of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma amounts presented above, as compensation expense for options granted prior to 1996 is not considered.

Included in the number of options outstanding above are 1,511,200 options the Company has conditionally granted, subject to shareholder approval in 2003 of an increase in the number of shares available for grant under its 1997 Long-Term Incentive Plan, at an exercise price of \$1.50. Until and unless such shareholder approval is gained, these options are not outstanding or exercisable. Excluding such options, there would be 475,251 options available for grant.

PURCHASES OF COMPANY STOCK

During the three-month period ended March 31, 2003, the Company purchased 321,944 shares of its common stock at an average price of \$2.00, or \$643,888 in total.

NEW ACCOUNTING PRONOUNCEMENTS

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45")." FIN 45 clarifies previously issued accounting guidance and disclosure requirements for guarantees, expands the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees, and requires the guarantor to recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 was effective as of December 31, 2002. The adoption of FIN 45 did not have a material effect on the Company.

Financial Accounting Standards Board Interpretation 46, "Consolidation of Variable Interest Entities" ("FIN 46"), issued January 2003, requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. Prior to FIN 46, a company included another entity in its Consolidated Financial Statements only if it controlled the entity through voting interests. FIN 46 also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. The consolidated requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidated requirements apply to older entities in the first fiscal year or interim period after June 15, 2003. Certain disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of FIN 46 is not expected to have a material effect on the Company.

In April 2003, FASB issued Statement on Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities"

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("SFAS 149"). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 149 is effective for most contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 is not expected to have a material effect on the Company.

(2) FINANCE RECEIVABLES

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

MARCH 31, 2003

(IN THOUSANDS)

Finance Receivables	
Automobile	
Simple interest	\$23,530
Precompute or "Rule of 78's", net of unearned income ...	58,170

Finance Receivables, net of unearned income	<u>\$81,700</u>
	=====

The following table presents the contractual maturities of Finance Receivables, net of unearned income as of March 31, 2003:

	AMOUNT	%
	-----	-----
	(DOLLARS IN THOUSANDS)	
Due within one year.....	\$ 14,624	18%
Due within two years.....	39,379	48%
Due within three years.....	23,856	29%
Due after three years.....	3,841	5%
	-----	-----
Total.....	<u>\$ 81,700</u>	<u>100%</u>
	=====	=====

The following table presents a summary of the activity for the allowance for credit losses, for the three-month periods ended March 31, 2003 and 2002:

	MARCH 31, 2003	MARCH 31, 2002
	-----	-----
	(IN THOUSANDS)	
Balance at beginning of period	\$ 25,828	\$ --
Addition to allowance for credit losses due to MFN Merger..	--	59,261
Provision for credit losses	66	--
Net charge offs	(6,054)	(3,348)
	-----	-----
Balance at end of period	<u>\$ 19,840</u>	<u>\$ 55,913</u>
	=====	=====

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(3) RESIDUAL INTEREST IN SECURITIZATIONS

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

	MARCH 31, 2003	DECEMBER 31, 2002
	-----	-----
	(IN THOUSANDS)	
Cash, commercial paper, United States government securities and other qualifying investments (Spread Account)	\$ 37,120	\$ 27,218
Receivables from Trusts	31,358	33,214
Over-collateralization	44,706	59,366
Investment in subordinated notes	13,928	7,372
	-----	-----
Residual interest in securitizations	\$127,112	\$127,170
	=====	=====

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

	MARCH 31, 2003	DECEMBER 31, 2002
	-----	-----
	(IN THOUSANDS)	
Undiscounted estimated credit losses	\$ 58,785	\$ 54,363
Servicing portfolio subject to recourse provisions	505,614	477,038
Undiscounted estimated credit losses as percentage of servicing portfolio subject to recourse provisions	11.63%	11.40%

On March 31, 2003, CPS (through a subsidiary) sold automobile installment sales finance Contracts to CPS Auto Receivables Trust 2003-A in a securitization transaction, retaining a residual interest therein. In this transaction, qualified institutional buyers purchased \$138.13 million of notes backed by automotive Contracts that CPS had purchased from Dealers. The Notes, issued by CPS Auto Receivables Trust 2003-A, consist of two classes: \$17.96 million of 1.53% Class A-1 Notes, and \$120.17 million of 2.89% Class A-2 Notes. The value of the residual was \$28.8 million at March 31, 2003. The key assumptions used in determining the value were a discount rate of 14.0% per annum, prepayment speed of 21.69% per annum, and cumulative lifetime credit losses of 12.51%.

(4) NOTES PAYABLE TO SECURITIZATION TRUST

On June 28, 2001, MFN issued \$301 million of notes secured by automobile sales finance Contracts (the "Securitized Notes") in a private placement (the "Secured Financing Agreement"). The issuance was completed through the MFN Auto Receivables Trust 2001-A of MFN Securitization LLC, a wholly owned subsidiary of Mercury Finance Company LLC. MFN Securitization LLC is a special purpose company that holds certain automobile sales finance Contracts of the Company and borrowed funds under the Secured Financing Agreement. MFN Securitization LLC paid the borrowed funds to Mercury Finance Company LLC in consideration for the transfer of certain automobile sales finance Contracts. Both classes of the

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Securitized Notes issued under the Secured Financing Agreement bear a fixed rate of interest until their final distribution. While MFN Securitization LLC is included in the Company's Condensed Consolidated Financial Statements, it is a separate legal entity. The automobile sales finance Contracts and other assets held by MFN Securitization LLC are legally owned by MFN Securitization LLC and are not available to creditors of the Company or its subsidiaries. Interest payments on the Securitized Notes are payable monthly, in arrears, based on the respective notes' interest rates. The following table presents the Company's Securitized Notes outstanding and their stated interest rates at March 31, 2003 (dollars in thousands):

	OUTSTANDING PRINCIPAL	STATED INTEREST RATE	FINAL SCHEDULED DISTRIBUTION DATE (1)
	-----	-----	-----
Class A-1 Notes.....	\$ --	4.05125%	July 15, 2002
Class A-2 Notes.....	54,165	5.07000%	July 15, 2007

Total principal outstanding.....	\$ 54,165		
	=====		

(1) Payment in full of the Securitized Notes could occur earlier than the final scheduled distribution date.

Interest expense on the Securitized Notes is composed of the stated rate of interest plus additional costs of borrowing. Additional costs of borrowing include facility fees, insurance and amortization of deferred financing costs. Deferred financing costs related to the Securitized Notes are amortized in proportion to the principal distributed to the noteholders. Accordingly, the effective cost of borrowing of the Securitized Notes is greater than the stated rate of interest.

The Securitized Notes contain various covenants requiring certain minimum financial ratios and results. The Company was in compliance with these covenants as of the date of this report. The Securitized Notes also require certain funds be held in restricted cash accounts to provide additional collateral for the borrowings or to be applied to make payments on the Securitized Notes. As of March 31, 2003, restricted cash under the MFN 2001-A Securitization totaled approximately \$11.4 million.

(5) SENIOR SECURED DEBT

On February 3, 2003, the Company borrowed \$25 million from Levine Leichtman Capital Partners II, L.P. ("LLCP"), net of fees and expenses of \$1.05 million. The indebtedness, represented by the "Term D Note," was originally due in April 2003, with Company options to extend the maturity to May 2003 and January 2004, upon payment of successive extension fees of \$125,000. The Company has paid the fee to extend the maturity to May 2003, and intends to pay the additional fee to extend the maturity to January 2004. The Term D is bears interest monthly at rates ranging from 4.0% to 12.0 %, depending on the ultimate term of the note.

Additionally, in a separate transaction, the Bridge Note issued to LLCP in connection with the acquisition of MFN, in an original principal amount of \$35.0 million, was due on February 28, 2003. The outstanding principal balance of \$17.0 million was paid in February 2003.

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(6) NET GAIN ON SALE OF CONTRACTS

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

	THREE MONTHS ENDED MARCH 31,	
	2003	2002

	(IN THOUSANDS)	
Gains on sale of Contracts	\$ 3,301	\$ 1,652
Deferred acquisition fees and discounts	2,291	--
Expenses related to sales	(971)	(407)
(Provision for) recovery of credit losses	(66)	527

Net gain on sale of Contracts	\$ 4,555	\$ 1,772
	=====	

(7) INTEREST INCOME

The following table presents the components of interest income:

	THREE MONTHS ENDED MARCH 31,	
	2003	2002

	(IN THOUSANDS)	
Interest	\$ 5,452	\$ 3,909
Residual interest income, net	3,741	3,821
Other interest income	135	14

Net interest income	\$ 9,328	\$ 7,744
	=====	

(8) EARNINGS PER SHARE

Diluted earnings per share for the three-month periods ended March 31, 2003 and 2002, were calculated using the weighted average number of shares outstanding for the related period. The following table reconciles the number of shares used in the computations of basic and diluted earnings per share for the three-month periods ended March 31, 2003 and 2002:

	THREE MONTHS ENDED MARCH 31,	
	2003	2002

	(IN THOUSANDS)	
Weighted average number of common shares outstanding during the period used to compute basic earnings per share	20,270	19,286
Incremental common shares attributable to exercise of outstanding options and warrants	511	--
Incremental common shares attributable to convertible debt ...	1,079	--

Weighted average number of common shares used to compute diluted earnings per share	21,860	19,286
	=====	

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The assumed conversion of certain subordinated debt during the three-month period ended March 31, 2003, resulted in an increase to income for purposes of the diluted earnings per share calculation of \$133,400, representing interest attributable to convertible debt that would not have been incurred if the convertible debt had been converted. Diluted net earnings for purposes of the diluted earnings per share calculation totaled \$6.4 million for the three months ended March 31, 2003.

If the anti-dilutive effects of common stock equivalents were not considered, additional shares included in the diluted earnings per share calculation for the three-month period ended March 31, 2002 would have included an additional 2.4 million shares attributable to the exercise of options to acquire common stock and the conversion of certain subordinated debt, for an aggregate total of approximately 21.7 million diluted shares for the three-month period ended March 31, 2002. No such anti-dilution existed for the three-month period ended March 31, 2003.

(9) INCOME TAXES

As of December 31, 2002, the Company had a net deferred tax liability of \$6.7 million, which included a valuation allowance against certain deferred tax assets of \$8.6 million. As a result of the resolution of Internal Revenue Service examinations of tax returns previously filed by MFN Financial Corporation, the Company recorded a tax benefit of approximately \$4.9 million. The Company has evaluated its deferred tax assets and believes that it is more than likely that certain deferred tax assets will not be realized due to limitations imposed by the Internal Revenue Code and expected future taxable income. The Company, therefore, has established a valuation allowance totaling \$29.4 million.

(10) LIQUIDITY

The Company's business requires substantial cash to support its purchases of Contracts and other operating activities. The Company's primary sources of cash have been cash flows from operating activities, including proceeds from sales of Contracts, amounts borrowed under various revolving credit facilities (also sometimes known as warehouse credit facilities), servicing fees on portfolios of Contracts previously sold, customer payments of principal and interest on Contracts held for sale, fees for origination of Contracts, and releases of cash from credit enhancements provided by the Company for the financial guaranty insurers (Note Insurers) and Investors, initially made in the form of a cash deposit to an account (Spread Account), and releases of cash from securitized pools of Contracts in which the Company has retained a residual ownership interest. The Company's primary uses of cash have been the purchases of Contracts, repayment of amounts borrowed under lines of credit and otherwise, operating expenses such as employee, interest, occupancy expenses and other general and administrative expenses, the establishment of and further contributions to "Spread Accounts" (cash posted to enhance credit of securitized pools), and income taxes. There can be no assurance that internally generated cash will be sufficient to meet the Company's cash demands. The sufficiency of internally generated cash will depend on the performance of securitized pools (which determines the level of releases from Spread Accounts), the rate of

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expansion or contraction in the Company's servicing portfolio, and the terms upon which the Company is able to acquire, sell, and borrow against Contracts.

Contracts are purchased from Dealers for a cash price approximating their principal amount, and generate cash flow over a period of years. As a result, the Company has been dependent on warehouse credit facilities to purchase Contracts, and on the availability of cash from outside sources in order to finance its continuing operations, as well as to fund the portion of Contract purchase prices not financed under warehouse credit facilities. Through May 2002, the Company's Contract purchasing program consisted of both (i) purchases for the Company's own account made on other than a flow basis, funded primarily by advances under a revolving warehouse credit facility, and (ii) flow purchases for immediate resale to non-affiliates. Flow purchases allowed the Company to purchase Contracts with minimal demands on liquidity. The Company's revenues from the resale of flow purchase Contracts, however, were materially less than those that may be received by holding Contracts to maturity or by selling Contracts in securitization transactions. During the three-month period ended March 31, 2003 the Company purchased \$87.3 million of Contracts for its own account, compared to \$144.9 million of Contracts on a flow basis and \$1.0 million for its own account in 2002. The Company's flow purchase program ended in May 2002.

The Company previously purchased Contracts on a flow basis, which, as compared with purchases of Contracts for the Company's own account, involved a materially reduced demand on the Company's cash. The Company's plan for meeting its liquidity needs is to match its levels of Contract purchases to its availability of cash.

The Company's ability to adjust the quantity of Contracts that it purchases and sells will be subject to general competitive conditions and the continued availability of warehouse credit facilities. There can be no assurance that the desired level of Contract acquisition can be maintained or increased. Obtaining releases of cash from the Spread Accounts is dependent on collections from the related Trusts generating sufficient cash to maintain the Spread Accounts in excess of the amended specified levels. There can be no assurance that collections from the related Trusts will generate cash in excess of the amended specified levels.

Certain of the Company's securitization transactions and the warehouse credit facilities contain various covenants requiring certain minimum financial ratios and results. The Company was in compliance with these covenants as of the date of this report.

(11) LEGAL PROCEEDINGS

The Company is routinely involved in various legal proceedings resulting from its consumer finance activities and practices, both continuing and discontinued. The Company believes that there are substantive legal defenses to such claims, and intends to defend them vigorously. There can be no assurance, however, as to the outcome.

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

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 automobile installment purchase contracts ("Contracts") originated by licensed automobile 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.

CPS was incorporated and began its operations in 1991. From inception through March 31, 2003 the Company has purchased approximately \$4.7 billion of Contracts, and as of March 31, 2003, had an outstanding servicing portfolio of approximately \$595.6 million. The Company makes the decision to purchase Contracts exclusively from its headquarters location. The Company services Contracts from regional centers across the United States.

CREDIT RISK RETAINED

The Company purchases Contracts with the intention of reselling them in securitizations. In a securitization, the Company sells Contracts to a special purpose subsidiary, which funds the purchase by sale of asset backed interest-bearing securities. At the closing of each securitization, the Company removes the sold Contracts from its Condensed Consolidated Balance Sheet. The Company remains responsible for collecting payments due under the Contracts, and retains a residual interest in the sold Contracts. The residual interest represents the discounted value of what the Company expects will be the excess of future collections on the Contracts over principal and interest due on the asset backed securities. That residual interest appears on the Company's balance sheet as "Residual interest in securitizations," and its value is dependent on estimates of the future performance of the sold Contracts. Further, the special purpose subsidiary may be prohibited from releasing the excess cash to the Company if the credit performance of the sold Contracts falls short of pre-determined standards. Such releases represent a material portion of the cash that the Company uses to fund its operations. An unexpected deterioration in the performance of sold Contracts could therefore have a material adverse effect on both the Company's liquidity and its results of operations.

RESULTS OF OPERATIONS

The Company's Condensed Consolidated Balance Sheet and Condensed Consolidated Statement of Operations as of and for the three months ended March 31, 2003 and 2002 include the results of operations of MFN Financial Corporation for the period subsequent to March 8, 2002, the date on which the Company acquired that corporation and its subsidiaries in a merger (the "MFN Merger"). See Note 1 of Notes to Condensed Consolidated Financial Statements.

THE THREE-MONTH PERIOD ENDED MARCH 31, 2003 COMPARED TO THE THREE-MONTH PERIOD ENDED MARCH 31, 2002

REVENUES. During the three months ended March 31, 2003, revenues were \$22.5 million, an increase of \$9.4 million, or 71.6%, from the prior year period revenue amount of \$13.1 million. Net gain on sale of contracts increased \$2.8 million, or 157.1%, to \$4.6 million in the three-month period ended March 31, 2003, compared to \$1.8 million in the year earlier period, primarily as the result of increased sales of Contracts in securitizations offset by the impact of the termination of the flow purchase program in early May 2002. The 2003 gain on sale amount is net of a \$1.0 million pre-tax charge related to the Company's analysis and estimate of the expected ultimate performance of the Company's previously securitized pools in which it retains a residual interest. During the first quarter of 2002, to prepare for the MFN Merger and related financing requirements, the Company chose to originate Contracts almost exclusively on a flow basis, resulting in a significantly lower gain on sale than had the Contracts been originated for the Company's own account and securitized, as was the case in the first quarter of 2003. In addition, as a result of revised Company estimates resulting from analyses of the current and historical performance of certain of the Company's previously securitized pools, the Company recorded pre-tax charges of approximately \$2.5 million related to its residual interest in securitizations during the first quarter of 2002. Certain of the Company's older pools related to 1998 and prior had not performed as originally projected. Also in the first quarter of 2002, the Company recognized a charge of approximately \$500,000 related to a loss realized upon the sale of a subordinated certificate ("B Piece") from the Company's 2002-A securitization.

Interest income for the three-month period ended March 31, 2003 increased \$1.6 million, or 20.5%, to \$9.3 million in 2003 from \$7.7 million in 2002. Similarly, servicing fees totaling \$4.6 million in the three months ended March 31, 2003 increased \$1.2 million, or 35.8%, from \$3.4 million in the same period a year earlier. The increase in interest income and servicing fees can be attributed to the inclusion of a full quarter's results from the portfolio acquired in the MFN Merger, compared to 23 days in the prior year period, combined with the relative stability in the size of the Company's servicing portfolio. At March 31, 2003, the Company was generating income and fees on a portfolio with an outstanding principal balance approximating \$595.6 million, compared to a portfolio with an outstanding principal balance approximating \$599.1 million as of March 31, 2002. As the portfolio of Contracts acquired in the MFN Merger amortizes, the portfolio of Contracts originated by CPS continues to expand. At March 31, 2003, the portfolio make up was \$437.3 million, or 73.4%, CPS and \$158.3 million, or 26.6%, MFN, compared to \$234.1 million, or 39.1%, CPS and \$365.0 million, or 60.9%, MFN at March 31, 2002.

The period over period increase in other income can be attributed to recoveries on previously charged off MFN Contracts totaling \$3.7 million during the first quarter of 2003.

EXPENSES. The Company's operating expenses consist primarily of personnel costs and other operating expenses, which are incurred as applications and Contracts are received, processed and serviced. Factors that affect margins and net income include changes in the automobile and automobile finance market environments, macroeconomic factors such as interest rates, and mix of business between Contracts purchased on a flow basis and Contracts purchased on an other than flow basis.

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

Other operating expenses consist primarily of facilities expenses, telephone and other communication services, credit services, computer services (including personnel costs associated with information technology support), professional services, marketing and advertising expenses, and depreciation and amortization.

Total operating expenses were \$20.2 million for the first quarter of 2003, compared to \$19.9 million for the first quarter of 2002.

Personnel costs were stable, \$8.4 million during the three months ended March 31, 2003, representing 41.8% of total operating expenses, compared to \$8.5 million for the 2002 period, or 42.5% of total operating expenses.

General and administrative expenses decreased to \$4.0 million, or 20.0% of total operating expenses, in the first quarter of 2003, from \$4.4 million, or 22.1% of total operating expenses, in the first quarter of 2002.

Interest expense for the three-month period ended March 31, 2003, increased \$1.1 million, or 24.8%, to \$5.5 million in 2003, compared to \$4.4 million in 2002. The increase is due to the full period inclusion of interest expense resulting from the MFN Merger, including interest expense related to acquisition debt and the Notes Payable to Securitization Trust, and the addition of interest expense related to the LLC Term D Note.

Income tax benefit of \$3.9 million and \$5.7 million has been provided in the 2003 and 2002 periods, respectively. The 2003 benefit is primarily the result of the resolution of certain Internal Revenue Service examinations of previously filed MFN tax returns, resulting in a tax benefit of \$4.9 million, which has been included in the current period tax provision. The 2002 benefit is due to tax legislation passed in early 2002, which enabled the Company to reverse a previously recorded valuation allowance of approximately \$3.2 million, as well as record benefit in the then current period. The Company does not expect any comparable income tax benefit in future periods.

LIQUIDITY AND CAPITAL RESOURCES

The Company's business requires substantial cash to support its purchases of Contracts and other operating activities. The Company's primary sources of cash have been cash flows from operating activities, including proceeds from sales of Contracts, amounts borrowed under various revolving credit facilities (also sometimes known as warehouse credit facilities), servicing fees on portfolios of Contracts previously sold, customer payments of principal and interest on Contracts held for sale, fees for origination of Contracts, and releases of cash from credit enhancements provided by the Company for the financial guaranty insurers (Note Insurers) and Investors, initially made in the form of a cash deposit to an account (Spread Account), and releases of cash from securitized pools of Contracts in which the Company has retained a residual ownership interest. The Company's primary uses of cash have been the purchases of Contracts, repayment of amounts borrowed under lines of credit and otherwise, operating expenses such as employee, interest, occupancy expenses and other general and administrative expenses, the establishment of and further

contributions to "Spread Accounts" (cash posted to enhance credit of securitized pools), and income taxes. There can be no assurance that internally generated cash will be sufficient to meet the Company's cash demands. The sufficiency of internally generated cash will depend on the performance of securitized pools (which determines the level of releases from Spread Accounts), the rate of expansion or contraction in the Company's servicing portfolio, and the terms upon which the Company is able to acquire, sell, and borrow against Contracts.

Net cash provided by operating activities for the quarters ended March 31, 2003 and 2002, was \$24.6 million and \$34.3 million, respectively. Cash from operating activities is generally provided by the net releases from the Company's securitization Trusts and from the amortization and liquidation of Contracts.

Net cash used in investing activities for the quarters ended March 31, 2003 and 2002, was \$35,000 and \$29.6 million, respectively. Cash used in the MFN Merger, net of the cash acquired in the transaction, totaled \$29.5 million for the three months ended March 31, 2002.

Net cash (used in) provided by financing activities for the quarters ended March 31, 2003 and 2002, was (\$16.1) million and \$9.6 million, respectively. Cash (used in) provided by financing activities is primarily attributable to the repayment or issuance of debt.

Contracts are purchased from Dealers for a cash price approximating their principal amount, and generate cash flow over a period of years. As a result, the Company has been dependent on warehouse credit facilities to purchase Contracts, and on the availability of cash from outside sources in order to finance its continuing operations, as well as to fund the portion of Contract purchase prices not financed under warehouse credit facilities. The Company currently has \$200 million in warehouse credit capacity, in the form of a \$125 million facility and a \$75 million facility. Through May 2002, the Company's Contract purchasing program consisted of both (i) purchases for the Company's own account made on other than a flow basis, funded primarily by advances under a revolving warehouse credit facility, and (ii) flow purchases for immediate resale to non-affiliates. Flow purchases allowed the Company to purchase Contracts with minimal demands on liquidity. The Company's revenues from the resale of flow purchase Contracts, however, were materially less than those that may be received by holding Contracts to maturity or by selling Contracts in securitization transactions. During the three-month period ended March 31, 2003 the Company purchased \$87.3 million of Contracts for its own account, compared to \$1.0 million for its own account and \$144.9 million of Contracts on a flow basis in 2002. The Company's flow purchase program ended in May 2002.

The \$125 million warehouse facility is structured to allow CPS to fund a portion of the purchase price of Contracts by drawing against a floating rate variable funding note issued by CPS Warehouse Trust. This facility was established in March 7, 2002, in the maximum amount of \$100 million. Such maximum amount was increased to \$125 million in November 2002. Approximately 73% of the principal balance of Contracts may be advanced to the Company under this facility, subject to collateral tests and certain other conditions and covenants. Notes under this facility bear interest at a rate of one-month commercial paper plus 1.18% per annum. This facility was renewed on March 6, 2003 for a 364-day term.

The \$75 million warehouse facility is similarly structured to allow CPS to fund a portion of the purchase price of Contracts by drawing against a floating rate variable funding note issued by CPS Funding LLC. Approximately 72.5% of the principal balance of Contracts may be advanced to the Company under this facility, subject to collateral tests and certain other conditions and covenants. Notes under this facility bear interest at a rate of one-month LIBOR plus 0.75% per annum. This facility was renewed and restated on January 9, 2003, also for a 364-day term.

These facilities are independent of each other, and are funded and insured by different institutions. Sales of Contracts to the facility-related special purpose subsidiaries ("SPS") are treated as ongoing securitizations. The Company, therefore, removes the securitized Contracts and related debt from its Condensed Consolidated Balance Sheet and recognizes a gain on sale in the Company's Condensed Consolidated Statement of Operations.

The Company previously purchased Contracts on a flow basis, which, as compared with purchases of Contracts for the Company's own account, involved a materially reduced demand on the Company's cash. The Company's plan for meeting its liquidity needs is to match its levels of Contract purchases to its availability of cash.

Cash used for subsequent deposits to Spread Accounts for the periods ended March 31, 2003 and 2002 was \$775,000 and \$1.0 million, respectively. Cash released from Spread Accounts to the Company for the three-month periods ended March 31, 2003 and 2002, was \$9.0 million and \$16.7 million, respectively. Changes in deposits to and releases from Spread Accounts are affected by the relative size, seasoning and performance of the various pools of Contracts sold that make up the Company's servicing portfolio to which the respective Spread Accounts are related. During the quarter ended March 31, 2003 the Company made initial deposits to the related Spread Accounts of \$10.7 million related to its term securitization transactions, compared to \$1.3 million in the 2002 period. The acquisition of Contracts for subsequent sale in securitization transactions, and the need to fund Spread Accounts when those transactions take place, results in a continuing need for capital. The amount of capital required is most heavily dependent on the rate of the Company's Contract purchases (other than flow purchases), the required level of initial credit enhancement in securitizations, and the extent to which the previously established Spread Accounts either release cash to the Company or capture cash from collections on sold Contracts. The Company is currently limited in its ability to purchase Contracts due to certain liquidity constraints. As of March 31, 2003, the Company had cash on hand of \$41.5 million and available Contract purchase commitments from its warehouse credit facilities of \$172.6 million. The Company's plans to manage the need for liquidity include the completion of additional term securitizations that would provide additional credit availability from the warehouse credit facilities, and matching its levels of Contract purchases to its availability of cash. There can be no assurance that the Company will be able to complete the term securitizations on favorable economic terms or that the Company will be able to complete term securitizations at all. If the Company is unable to complete such securitizations, servicing fees and other portfolio related income would decrease.

The Company's ability to adjust the quantity of Contracts that it purchases and sells will be subject to general competitive conditions and the continued availability of warehouse credit facilities. There can be no assurance that the desired level of Contract acquisition can be maintained or increased. Obtaining releases of cash from the Spread Accounts is dependent on collections from the related Trusts generating sufficient cash to maintain the Spread Accounts in excess of the amended specified levels. There can be no assurance that collections from the related Trusts will generate cash in excess of the amended specified levels.

Certain of the Company's securitization transactions and warehouse credit facilities contain various covenants requiring certain minimum financial ratios and results. The Company was in compliance with these covenants as of the date of this report.

CRITICAL ACCOUNTING POLICIES

(a) ALLOWANCE FOR FINANCE CREDIT LOSSES

In order to estimate an appropriate allowance for losses to be incurred on finance receivables, the Company uses a loss reserving methodology commonly referred to as "static pooling," which stratifies its finance receivable portfolio into separately identified pools. Using analytical and formula driven techniques, the Company estimates an allowance for finance credit losses, which management believes is adequate for known and inherent losses in the finance receivable Contract portfolio. Provision for loss is charged to the Company's Consolidated Statement of Operations. Charge offs of finance receivables are charged to the allowance. Management evaluates the adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio and the value of the underlying collateral. As conditions change, the Company's level of provisioning and/or allowance may change as well.

(b) RESIDUAL INTEREST IN SECURITIZATION AND GAIN ON SALE OF CONTRACTS

Gain on sale may be recognized on the disposition of Contracts outright or in securitization transactions. In its securitization transactions, the Company, or a wholly owned, consolidated subsidiary of the Company, retains a residual interest in the Contracts that are sold to a wholly owned, unconsolidated special purpose subsidiary. The Company's securitization transactions include "term" securitizations (purchaser holds the Contracts for substantially their entire term) and "continuous" securitizations (which finance the acquisition of the Contracts for future sale into term securitizations).

The residual interest in term securitizations and the residual interest in the Contracts held in "continuous" securitizations are reflected in the line item "residual interest in securitizations" on the Company's Condensed Consolidated Balance Sheet.

The Company's securitization structure has generally been as follows:

The Company sells Contracts it acquires to a wholly owned, unconsolidated Special Purpose 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 an owner trust ("Trust"). The Trust is a qualifying special purpose entity as defined in Statement of Financial Accounting Standards No. 140 ("SFAS 140"), and is therefore not consolidated in the Company's Condensed Consolidated Financial Statements. The Trust issues interest-bearing asset backed securities (the "Notes"), generally in a principal 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 Notes issued by the Trust; the proceeds from the sale of the Notes are then used to purchase the Contracts from the Company. The Company may retain subordinated Notes issued by the Trust. The Company purchases a financial guaranty insurance policy, guaranteeing timely payment of principal and interest on the senior Notes, from an insurance company (the "Note

Insurers"). In addition, the Company provides a credit enhancement for the benefit of the Note Insurers and the investors in the form of an initial cash deposit to an account ("Spread Account") held by the Trust or in the form of subordinated Notes, or both. The agreements governing the securitization transactions (collectively referred to as the "Securitization 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 Notes. 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 Note Insurers and the trustee. Such levels have increased and decreased from time to time based on performance of the portfolios, and have also varied by Securitization Agreement. The Securitization Agreements generally grant the Company the option to repurchase the sold Contracts from the Trust when the aggregate outstanding balance has amortized to 10% or less of the initial aggregate balance.

The Company's continuous securitization structure is similar to the above, except that (i) the SPS that purchases the Contracts pledges the Contracts to secure promissory notes issued directly by the SPS, (ii) the initial purchaser of such notes has the right, but not the obligation, to require that the Company repurchase the Contracts, (iii) the promissory notes are in an aggregate principal amount of not more than 72.5% to 73% of the aggregate principal balance of the Contracts (that is, at least 27% over-collateralization), and (iv) no Spread Account is involved. The SPS is a qualifying special purpose entity and is therefore not consolidated in the Company's Condensed Consolidated Financial Statements.

Upon each sale of Contracts in a securitization, whether a term securitization or a continuous securitization, the Company removes from its Condensed Consolidated Balance Sheet the Contracts held for sale and adds to its Condensed 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 the securitization. That retained interest (the "Residual") consists of (a) the cash held in the Spread Account, if any, (b) over collateralization, if any, (c) subordinated Notes retained, if any, and (d) receivables from Trust, which include 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 Notes, 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 Notes sold 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. The Company is not aware of an active market for the purchase or sale of interests such as the Residuals; accordingly, the Company determines the estimated fair value of the Residuals by discounting the amount and timing of anticipated cash flows that it estimates will be released to the Company in the future (the cash out method), using a discount rate that the Company believes is appropriate for the risks involved. The Company estimates the value of its

optional right to repurchase receivables pursuant to the terms of the Securitization Agreements primarily based on its estimate of the amount and timing of cash flows that it anticipates will be received from the repurchased receivables following exercise of the optional right. The anticipated cash flows include collections from both current and charged off receivables. 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 Notes, the base servicing fees, and certain other fees (such as trustee and custodial fees). Required principal payments are in most cases defined as the payments sufficient to keep the principal balance of the Notes equal to the aggregate principal balance of the related Contracts (excluding those Contracts that have been charged off). Some of the Securitization Agreements require accelerated payment of principal until the principal balance of the Notes is reduced to a specified percentage of the aggregate principal balance of the related Contracts. Such accelerated principal payment is said to create "over-collateralization" of the Notes.

If the amount of cash required for payment of fees, interest and principal exceeds the amount collected during the collection period, the shortfall is drawn from the Spread Account, if any. 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. 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. Although Spread Account balances are held by the Trusts on behalf of the Company's SPS as the owner of the Residuals, 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 Securitization Agreements. The interest rate payable on the Contracts is significantly greater than the interest rate on the Notes. As a result, the Residuals described above are a significant asset of the Company. In determining the value of the Residuals, the Company must estimate the future rates of prepayments, delinquencies, defaults and default loss severity, and the value of the Company's optional right to repurchase receivables pursuant to the terms of the Securitization Agreements, as all of these factors affect the amount and timing of the estimated cash flows. The Company estimates prepayments by evaluating historical prepayment performance of comparable Contracts. The Company has used prepayment estimates of approximately 18.3% to 21.7% cumulatively over the lives of the related Contracts. 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. The Company estimates recovery rates of previously charged off receivables using available historical recovery data and projected future recovery levels. In valuing the Residuals, the Company estimates that gross losses as a percentage of the original principal balance will approximate 13.7% to 19.7% cumulatively over the lives of the related Contracts, with recovery rates approximating 2.1% to 5.2% of the original principal balance.

In future periods, the Company will recognize additional revenue from the Residuals if the actual performance of the Contracts is 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 worse than the original estimate, then a downward adjustment to the carrying value of the Residuals would be required.

The Noteholders and the related securitization Trusts have no recourse to the Company for failure of the Contract obligors to make payments on a timely basis. The Company's Residuals, however, are subordinate to the Notes until the Noteholders are fully paid, and the Company is therefore at risk to that extent.

(c) 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 the differences between the financial statement values of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has estimated a valuation allowance against that portion of the deferred tax asset whose utilization in future periods is not more than likely.

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

FORWARD LOOKING STATEMENTS

This report on Form 10-Q includes certain "forward-looking statements," including, without limitation, the statements or implications to the effect that gross losses as a percentage of original balances will approximate 13.7% to 19.7% cumulatively over the lives of the related Contracts, with recovery rates approximating 2.1% to 5.2% of original principal balances. Other forward-looking statements may be identified by the use of words such as "anticipates," "expects," "plans," "estimates," or words of like meaning. As to the specifically identified forward-looking statements, factors that could affect gross losses and recovery rates include changes in the general economic climate, which could affect the willingness or ability of obligors to pay pursuant to the terms of Contracts, changes in laws respecting consumer finance, which could affect the ability of the Company to enforce rights under Contracts, and changes in the market for used vehicles, which could affect the levels of recoveries upon sale of repossessed vehicles. Factors that could affect the Company's revenues in the current year include the levels of cash releases from existing pools of Contracts, which would affect the Company's ability to purchase Contracts, the terms on which the Company is able to finance such purchases, the willingness of Dealers to sell Contracts to the Company on the terms that it offers, and the terms on which the Company is able to sell Contracts once acquired. Factors that could affect the Company's expenses in the current year include competitive conditions in the market for qualified personnel, and interest rates (which affect the rates that the Company pays on Notes issued in its securitizations).

Additional risk factors, any of which could have a material effect on the Company's performance, are set forth below:

DEPENDENCE ON WAREHOUSE FINANCING. The Company's primary source of day-to-day liquidity is continuous securitization of Contracts, under which it sells Contracts to either of two special-purpose affiliated entities as often as once a week. Such transactions function as a "warehouse," in which Contracts are held. The Company expects to continue to effect similar transactions (or to obtain replacement or additional financing) as current arrangements expire or become fully utilized; however, there can be no assurance that such financing will be obtainable on favorable terms. To the extent that the Company is unable to maintain its existing structure or is unable to arrange new warehouse facilities, the Company may have to curtail Contract purchasing activities, which could have a material adverse effect on the Company's financial condition and results of operations.

DEPENDENCE ON SECURITIZATION PROGRAM. The Company is dependent upon its ability to continue to pool and sell Contracts in term securitizations in order to generate cash proceeds for new purchases. Adverse changes in the market for securitized Contract pools, or a substantial lengthening of the warehousing period, would burden the Company's financing capabilities, could require the Company to curtail its purchase of Contracts, and could have a material adverse effect on the Company. In addition, as a means of reducing the percentage of cash collateral that the Company would otherwise be required to deposit and maintain in Spread Accounts, all of the Company's securitizations since June 1994 have utilized credit enhancement in the form of financial guaranty insurance policies issued by monoline financial guaranty insurers. The Company believes that financial guaranty insurance policies reduce the costs of securitizations relative to alternative forms of credit enhancements available to the Company. No insurer is required to insure Company-sponsored securitizations and there can be no assurance that any will continue to do so. Similarly, there can be no assurance that any securitization transaction will be available on terms acceptable to the Company, or at all. The timing of any securitization transaction is affected by a number of factors beyond the Company's control, any of which could cause substantial delays, including, without limitation, market conditions and the approval by all parties of the terms of the securitization.

RISK OF GENERAL ECONOMIC DOWNTURN. The Company's business is directly related to sales of new and used automobiles, which are affected by employment rates, prevailing interest rates and other domestic economic conditions. Delinquencies, foreclosures and losses generally increase during economic slowdowns or recessions. Because of the Company's focus on Sub-Prime Customers, the actual rates of delinquencies, repossessions and losses on such Contracts could be higher under adverse economic conditions than those experienced in the automobile finance industry in general. Any sustained period of economic slowdown or recession could adversely affect the Company's ability to sell or securitize pools of Contracts. The timing of any economic changes is uncertain, and sluggish sales of automobiles and weakness in the economy could have an adverse effect on the Company's business and that of the Dealers from which it purchases Contracts.

DEPENDENCE ON PERFORMANCE OF SOLD CONTRACTS. Under the financial structures the Company has used to date in its term securitizations, certain excess servicing cash flows generated by the Contracts sold in the term securitizations are retained in a Spread Account within the securitization trusts to provide liquidity and credit enhancement. While the specific terms and mechanics of the

Spread Account vary among transactions, the Company's Securitization Agreements generally provide that the Company will receive excess cash flows only if the Spread Account balances have reached specified levels and/or the delinquency or losses related to the Contracts in the pool are below certain predetermined levels. In the event delinquencies and losses on the Contracts exceed such levels, the terms of the securitization may require increased Spread Account balances to be accumulated for the particular pool; may restrict the distribution to the Company of excess cash flows associated with other pools; or, in certain circumstances, may permit the insurers to require the transfer of servicing on some or all of the Contracts to another servicer. Any of these conditions could materially adversely affect the Company's liquidity and financial condition.

CREDITWORTHINESS OF CONSUMERS. The Company specializes in the purchase, sale and servicing of Contracts to finance automobile purchases by Sub-Prime Customers, which entail a higher risk of non-performance, higher delinquencies and higher losses than Contracts with more creditworthy customers. While the Company believes that the underwriting criteria and collection methods it employs enable it to control the higher risks inherent in Contracts with Sub-Prime Customers, no assurance can be given that such criteria and methods will afford adequate protection against such risks. The Company has experienced fluctuations in the delinquency and charge-off performance of its Contracts. In the event that portfolios of Contracts sold and serviced by the Company experience greater defaults, higher delinquencies or higher losses than anticipated, the Company's income could be negatively affected. A larger number of defaults than anticipated could also result in adverse changes in the structure of the Company's future securitization transactions, such as a requirement of increased cash collateral in such transactions.

POSSIBLE INCREASE IN COST OF FUNDS. The Company's profitability is determined by, among other things, the difference between the rate of interest charged on the Contracts purchased by the Company and the rate of interest payable to purchasers of Notes issued in securitizations. The Contracts purchased by the Company generally bear finance charges close to or at the maximum permitted by applicable state law. The interest rates payable on such Notes the Company are fixed, based on interest rates prevailing in the market at the time of sale. Consequently, increases in market interest rates tend to reduce the "spread" or margin between Contract finance charges and the interest rates required by investors and, thus, the potential operating profits to the Company from the purchase, sale and servicing of Contracts. Operating profits expected to be earned by the Company on portfolios of Contracts previously sold are insulated from the adverse effects of increasing interest rates because the interest rates on the related Notes were fixed at the time the Contracts were sold. Any future increases in interest rates would likely increase the interest rates on Notes issued in future term securitizations and could have a material adverse effect on the Company's results of operations.

PREPAYMENT AND DEFAULT RISK. Gains from the sale of Contracts in the Company's past securitization transactions have constituted a significant portion of the net income of the Company and are likely to continue to represent a significant portion of the Company's net income. A portion of the gains is based in part on management's estimates of future prepayment and default rates and other considerations in light of then-current conditions. If actual prepayments with respect to Contracts occur more quickly than was projected at the time such Contracts were sold, as can occur when interest rates decline, or if default rates are greater than projected at the time such Contracts were sold, a charge to income may be required and would be taken in the period of adjustment. If actual prepayments occur more slowly or if default rates are lower than

estimated with respect to Contracts sold, total revenue would exceed previously estimated amounts.

COMPETITION. The automobile financing business is highly competitive. The Company competes with a number of national, local and regional finance companies. In addition, competitors or potential competitors include other types of financial services companies, such as commercial banks, savings and loan associations, leasing companies, credit unions providing retail loan financing and lease financing for new and used vehicles and captive finance companies affiliated with major automobile manufacturers such as General Motors Acceptance Corporation, Ford Motor Credit Corporation, Chrysler Financial 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 relative to that of 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' purchases of automobiles from manufacturers, which is not offered by the Company. There can be no assurance that the Company will be able to continue to compete successfully.

LITIGATION. Because of 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 class-action 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. Although the Company is not involved in any material litigation, 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 and results of operations.

DEPENDENCE ON DEALERS. The Company is dependent upon establishing and maintaining relationships with unaffiliated Dealers to supply it with Contracts. During the three-month period ended March 31, 2003, no Dealer accounted for more than 1.0% of the Contracts purchased by the Company. The Dealer Agreements do not require Dealers to submit a minimum number of Contracts for purchase by the Company. The failure of Dealers to submit Contracts that meet the Company's underwriting criteria would have a material adverse effect on the Company's financial condition and results of operations.

GOVERNMENT REGULATIONS. The Company's business is subject to numerous federal and state consumer protection laws and regulations, which, among other things: (i) require the Company to obtain and maintain certain licenses and qualifications; (ii) limit the interest rates, fees and other charges the Company is allowed to charge; (iii) limit or prescribe certain other terms of its Contracts; (iv) require the Company to provide specified disclosures; and (v) regulate certain servicing and collection practices and define its rights to repossess and sell collateral. An adverse change in existing laws or regulations, or in the interpretation thereof, the promulgation of any

additional laws or regulations, or the failure to comply with such laws and regulations could have a material adverse effect on the Company's financial condition and results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

Although the Company utilized its floating rate variable note purchase facility and completed a term securitization during the quarter ended March 31, 2003, the structures did not lend themselves to some of the strategies the Company has used in the past to minimize interest rate risk, as described below. Specifically, the rate on the Notes issued by the floating rate variable note purchase facility is adjustable and there is no pre-funding component to the floating rate variable note purchase facility or term securitization. The Company does intend to issue fixed rate Notes and to include pre-funding structures for future term securitization transactions, whereby the amount of asset backed securities issued exceeds the amount of Contracts initially sold to the Trusts. In pre-funding, the proceeds from the pre-funded portion are held in an escrow account until 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 Contracts 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, the amount as to which there can be no assurance. In addition, the Contracts the Company does purchase and securitize have fixed rates of interest, whereas the Company's interest expense related to the current note purchase facility is based on a variable rate. Historically, the Company's term securitization facilities had fixed rates of interest. Therefore, some of the strategies the Company has used in the past to minimize interest rate risk do not currently apply.

The Company is subject to market risks due to fluctuations in interest rates primarily through its outstanding indebtedness and to a lesser extent its outstanding interest earning assets, and commitments to enter into new Contracts. The table below outlines the carrying values and estimated fair values of such financial instruments:

FINANCIAL INSTRUMENT	MARCH 31, 2003		DECEMBER 31, 2002	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
	(IN THOUSANDS)			
Finance receivables, net	\$61,860	\$61,860	\$84,592	\$84,592
Notes payable	504	504	673	673
Securitization trust debt	54,165	54,165	71,630	71,630
Senior secured debt	53,308	53,308	50,072	50,072
Subordinated debt	35,996	34,656	36,000	32,800
Related party debt	17,500	16,800	17,500	15,400

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 markets 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 and do not reflect amounts of which amounts outstanding could be settled by the Company, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

ITEM 4. CONTROLS AND PROCEDURES

CPS maintains a system of internal controls and procedures designed to provide reasonable assurance as to the reliability of its published financial statements and other disclosures included in this report. Within the 90-day period prior to filing this report, CPS evaluated the effectiveness of the design and operation of such disclosure controls and procedures. Based upon that evaluation, the principal executive officer (Charles E. Bradley, Jr.) and the principal financial officer (David N. Kenneally) concluded that the disclosure controls and procedures are effective in timely alerting them to material information relating to CPS that is required to be included in this quarterly report on Form 10-Q. There have been no significant changes in such internal controls or in other factors that could significantly affect internal controls subsequent to the date that CPS carried out such evaluation.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The information provided under the caption "Legal Proceedings" in the Company's annual report on Form 10-K for the year ended December 31, 2002, is incorporated herein by reference. No material developments have taken place in the litigation described therein.

The Company is the nominal defendant in a shareholder derivative lawsuit filed in a California state court on April 1, 2003, by a purported shareholder, Robert W. Walter. The case was removed on April 25 to the federal district court for the central district of California. The other defendants are (i) each of the Company's directors who held that office in 2002 (Charles Bradley, Jr., Thomas Chrystie, John McConnaughy, Jr., John Poole, William Roberts, and Daniel Wood), as well as two former directors (Charles Bradley, Sr., and Robert Simms). Such individuals are alleged to have permitted the Company to have engaged in transactions with affiliates on terms that are said to have been unfair to the Company. The relief sought is money damages, together with costs and attorney fees. The reader should note that (i) were there any merit to the allegations raised in the lawsuit, any recovery would inure to the benefit of the Company, and (ii) there will be costs to the Company incurred in relation to the lawsuit. The Company has referred the matter to a special committee of its board of directors, composed exclusively of individuals who are not defendants in the lawsuit, and expects to govern itself in accordance with the determinations of that committee.

The Company is routinely involved in various legal proceedings resulting from its consumer finance activities and practices, both continuing and discontinued. The Company believes that there are substantive legal defenses to such claims, and intends to defend them vigorously. There can be no assurance, however, as to the outcome.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are filed with this report:

- 99.1 Certification, by chief executive officer
- 99.2 Certification by chief financial officer

(b) The Company did not file any reports on Form 8-K during the quarter ended March 31, 2003.

SIGNATURES

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

CONSUMER PORTFOLIO SERVICES, INC.
(Registrant)

Date: May 12, 2003

/s/ CHARLES E. BRADLEY, JR.

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

Date: May 12, 2003

/s/ DAVID N. KENNEALLY

David N. Kenneally
SENIOR VICE PRESIDENT -- CHIEF FINANCIAL OFFICER
(Principal Financial and Accounting Officer)

CERTIFICATION

I, Charles E. Bradley, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Consumer Portfolio Services, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ CHARLES E. BRADLEY, JR.

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

CERTIFICATION

I, David N. Kenneally, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Consumer Portfolio Services, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ DAVID N. KENNEALLY

David N. Kenneally
Senior Vice President - Finance (Principal Financial Officer)