SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
[x] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 1996
[   ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-14116

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

California	33-0459135
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2 Ada, Irvine, California	92618
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (714) 753-6800

Securities registered pursuant to section 12(b) of the Act:
Title of each class: Rising Interest Subordinated Redeemable Securities due 2006
Name of each exchange on which registered: New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: Common stock, no par value

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

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

The aggregate market value on March 27, 1996 (based on the $8.00 average of closing bid and asked prices on Nasdaq Stock Market on that date) of the voting stock beneficially held by non-affiliates of the registrant was $72,793,112. The number of shares of the registrant's Common Stock outstanding on March 27, 1997 was 13,779,442

DOCUMENTS INCORPORATED BY REFERENCE: The Registrant's proxy statement for its 1997 annual meeting of shareholders is incorporated by reference into Part III of this report.

Part I

ITEM 1. BUSINESS

A description of the business of Consumer Portfolio Services, Inc. (the "Registrant" or the "Company") appears as pages 31 through 47 of the preliminary prospectus ("Preliminary Prospectus") included in amendment number 3 to the registrant's registration statement, file number 333-21289, as filed with the Securities and Exchange Commission on March 28, 1997. Such description is incorporated herein by reference.

ITEM 2. PROPERTY

The information appearing at page 47 of the Preliminary Prospectus under the caption "Property" is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS

As of the date of this report, the registrant is not involved in any material litigation in which it is the defendant. The registrant regularly initiates legal proceedings as a plaintiff in connection with its routine collection activities.

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

Not applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information appearing at page 18 of the Preliminary Prospectus under the caption "Price Range of Common Stock and Dividend Policy" is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information appearing at pages 20 and 21 of the Registration Statement under the caption "Selected Consolidated Financial Data" is incorporated herein by reference.

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

The text appearing at pages 22 through 30 of the Preliminary Prospectus under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information appearing at page 68 of the Preliminary Prospectus and pages F-1 through F-25 of the Preliminary Prospectus, comprising an index to Consolidated Financial Statements, an Independent Auditors' Report, Consolidated Financial Statements and Notes thereto, is incorporated herein by reference.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

Information regarding directors of the registrant is incorporated by reference to the registrant's definitive proxy statement for its annual meeting of shareholders to be held in 1997 (the "1997 Proxy Statement"). The 1997 Proxy Statement will be filed not later than April 30, 1997. Information regarding executive officers of the registrant is incorporated by reference to the information appearing on pages 48 through 50 of the Preliminary Prospectus under the caption "Management."

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to the 1997 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference to the 1997 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference to the 1997 Proxy Statement.

PART IV

ITEM 14. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The following exhibits are filed as part of this report:

Exhibit
No.

Exhibit 3.1 Restated Articles of Incorporation of the Company, as amended on December 13, 1993, and March 7, 1996.(A)

Exhibit 3.2 Amended and Restated By-Laws of the Company, adopted November 30, 1993. (B)

Exhibit 4.1 The Indenture dated December 15, 1995, between Consumer Portfolio Services, Inc., and Harris Trust and Savings Bank. (E)

Exhibit 4.2 First Supplemental Indenture dated December 15, 1995, between Consumer Portfolio Services, Inc., and Harris Trust and Savings Bank. (E)

Exhibit 10.1 1991 Stock Option Plan as amended on April 27, 1994, and forms of Stock Option Agreement. (B)

Exhibit 10.2 Lease Agreement dated February 14, 1991 between Holdings and Irvine Technology Partners ("ITP"), First Amendment to Lease dated as of June 26, 1992 by and among ITP, Holdings and the Company and Assignment and Assumption of Lease dated April 1, 1992 by and between

Holdings and the Company. (C)
Exhibit 10.3   Amendment #2, dated January 17, 1995, between ITP and Consumer Portfolio Services, Inc., to Lease Agreement dated February 14, 1991, between Holdings and Irvine Technology Partners ("ITP"), First Amendment to Lease dated as of June 26, 1992, by and among ITP, Holdings and the Company and Assignment and Assumption of Lease dated April 1, 1992, by and between Holdings and the Company.(D)
Exhibit 10.4   Form of Automobile Dealer Agreement between the Company and its Dealers and the related Assignment. (C)
Exhibit 10.5   Consulting Agreement dated February 14, 1996, by and between the Company and Stanwich Partners, Inc.(A)
Exhibit 10.6   The Receivables Funding and Servicing Agreement, dated June 1, 1995, between Consumer Portfolio Services, Inc., CPS Funding Corp., Redwood Receivables Corporation and General Electric Capital Corporation.(A)
Exhibit 10.7   Amended and Restated Motor Vehicle Installment Contract Loan and Security Agreement, dated June 1, 1995, between Consumer Portfolio Services, Inc., and General Electric Capital Corporation.(A)
Exhibit 10.8   Agreement and Plan of Merger, dated August 30, 1995, between Consumer Portfolio Services, Inc., and CPS Holdings, Inc. (F)
Exhibit 10.9   Promissory Note, dated September 27, 1995, made by the Company in favor of Charles E. Bradley, Sr., in the aggregate principal amount of $2,000,000.(A)
Exhibit 10.10 Promissory Note, dated July 6, 1995, made by the Company in favor of SunAmerica, Inc., in the aggregate principal amount of $2,000,000.(A)
Exhibit 10.11 Lease Agreement dated December 9, 1996 between the Company and The Prudential Insurance Company of America, relating to the Company's branch facility in Chesapeake, Virginia.
Exhibit 11.0   Statement re Computation of Per Share Earnings.
Exhibit 21.1   Subsidiaries of the Company.
Exhibit 23.1   Consent of independent auditors.
Exhibit 24.   Director Powers of Attorney.
Exhibit 27.   Financial Data Schedule.
Exhibit 99.1   Pages 18, 20 through 47, 68 and F-1 through F-25 of the preliminary prospectus included in registrant's registration statement on Form S-3, file number 333-21289, amendment number 3 thereto, as filed March 28, 1997.

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A. Previously filed as an exhibit to the Company's Form 10-KSB for the transition period ended December 31, 1995, and incorporated herein by reference.
B. Previously filed as an exhibit to the Company's Form 10-KSB for the fiscal year ended March 31, 1994, and incorporated herein by reference.
C. Previously filed as an exhibit to the Company's Registration Statement on Form S-1, No. 33-49770, as amended, and incorporated herein by reference.
D. Previously filed as an exhibit to the Company's Form 10-KSB for the fiscal year ended March 31, 1995, and incorporated herein by reference.
E. Previously filed as an exhibit to the Company's Form 8-K, filed on December 26, 1995, and incorporated herein by reference.
F. Previously filed as an exhibit to the Company's Proxy Statement for the September 26, 1995, Annual Meeting, and incorporated herein by reference.

(b) Reports on Form 8-K

During the last quarter of the fiscal year ended December 1996, two reports on

Form 8-K were filed by the Company. Each of such two reports included responses to Items 5 and 7 of Form 8-K relating to "Other Information," and "Financial Statement and Exhibits," respectively. No financial statements were filed with either of such reports on Form 8-K. Each of such two reports related to the Company's December 1996 sale of Contracts in a securitization transaction.

The first of the two reports, dated December 19, 1996 and filed December 23, 1996, filed the forms of Underwriting Agreement, Pooling and Servicing Agreement and Receivables Purchase Agreement relating to that transaction, and the second, dated December 11, 1996 and filed December 19, 1996, filed computational materials relating to the securitization transaction.

SIGNATURES

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

CONSUMER PORTFOLIO SERVICES, INC.
(Registrant)

* /s/Jeffrey P. Fritz Jeffrey P. Fritz Sr. Vice President and Chief Financial Officer	Date: March 28, 1997

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

* /s/ Charles E. Bradley, Sr. Chairman of the Board	Date: March 28, 1997
* /s/ Charles E. Bradley, Jr. Director, President and Chief Executive Officer (Principal Executive Officer)	Date: March 28, 1997
* /s/ William B. Roberts Director	Date: March 28, 1997
* /s/ John G. Poole Director	Date: March 28, 1997
* /s/ Thomas L. Chrystie Director	Date: March 28, 1997
Robert A. Simms Director	Date:
/s/ Jeffrey P. Fritz Jeffrey P. Fritz Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	Date: March 28, 1997
* /s/ Jeffrey P. Fritz By Jeffrey P. Fritz, Attorney-in-fact	Date: March 28, 1997

EXHIBIT INDEX

The following exhibits are filed herewith:

Exhibit 10.11 Lease Agreement dated December 9, 1996 between the Company and The Prudential Insurance Company of America, relating to the Company's branch facility in Chesapeake, Virginia.

Exhibit 11.0 Statement re Computation of Per Share Earnings.

Exhibit 21.1 Subsidiaries of the Company.

Exhibit 23.1 Consent of independent auditors.

Exhibit 24. Director Powers of Attorney.

Exhibit 27. Financial Data Schedule.

Exhibit 99.1 Pages 18, 20 through 47, 68 and F-1 through F-25 of the preliminary prospectus included in registrant's registration statement on Form S-3, file number 333-21289, amendment number 3 thereto, as filed March 28, 1997.

OFFICE LEASE

GREENBRIER TOWER I

LANDLORD:
THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

TENANT:
CONSUMER PORTFOLIO SERVICES, a California corporation

INDEX

OFFICE LEASE

THIS DEED OF LEASE ("Lease") is made this 9th day of December 1996, by The Prudential Insurance Company of America, a New Jersey corporation (hereinafter referred to as "Landlord") and Consumer Portfolio Services, a California corporation (hereinafter referred to as "Tenant").

WHEREAS, Landlord is the owner of an office building located at 860 Greenbrier Circle, Chesapeake, Virginia 23320 (hereinafter referred to as "Building"); and

WHEREAS, Tenant desires to lease space in the Building and Landlord is willing to rent and demise to Tenant space in the Building, upon the terms, conditions, covenants and agreements set forth herein.

NOW, THEREFORE, the parties hereto, intending legally to be bound, hereby covenant and agree as set forth below.

ARTICLE I   BASIC LEASE INFORMATION.

1.1 (a) Building: A six story office building containing approximately 88,209 square feet of net rentable area and located at 860 Greenbrier Circle, Chesapeake, Virginia 23320.

(b) Premises: Approximately Eighteen Thousand Six Hundred Nineteen (18,619) square feet of rentable area located on the sixth (6th) and fifth (5th) floor of the Building as identified on Exhibit A attached hereto and made a part hereof. **Approximately 16,341 square feet known as Suite 600 and approximately 2,278 square feet known as Suite 500, for a total of

(c) Parking Space Allotment: Right to 74 parking spaces.

(d) Lease Term: One Hundred Twenty-six (126) months.

(e) Anticipated Occupancy Date: March 15, 1997.

(f) Base Rent: Two Hundred Sixty Thousand Six Hundred Sixty-six and 04/100ths dollars ($260,666.04) for the first Lease Year in monthly installments of $21,722.17, which amount is subject to adjustment provided in Exhibit G attached hereto and made apart hereof.

(g) Base Operating Expenses: Operating Expanses paid or incurred by Landlord in calendar year 1997.

(h) Base Real Estate Taxes: Real Estate Taxes for 1997.

(i) Tenant's Percentage: The ratio that the square feet of rentable area in the Premises bears to the square feet of rentable area in the Building, which Tenant's Percentage is agreed to be Twenty-one &

11/100th percent (21.11%).

(j) Security Deposit: n/a Dollars ($n/a).

(k) Broker(s): Robinson Sigma Commercial Real Estate, Inc. and Harvey Lindsay Commercial Real Estate

(l) Tenant Address for Notices: 2 Ada, Irvine, California 92618, until Tenant has commenced beneficial use of the Premises, and 860 Greenbrier Circle #600, Chesapeake, VA 23320,after Tenant has commenced beneficial use of the Premises.

(m) Guarantor(s): n/a .

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ARTICLE II PREMISES.

2.1 Landlord hereby leases and demises to Tenant and Tenant hereby leases and rents from Landlord the Premises for the term and upon the terms, conditions, covenants, and agreements hereinafter provided. The lease of the Premises includes the right, together with other tenants of the Building and members of the public, to use the common public areas of the Building, but includes no other rights not specifically set forth herein.

2.2 Tenant shall have the right to the use on an unassigned and non-exclusive basis parking spaces in the area shown on Exhibit E, as such area may be revised or relocated from time to time by Landlord, up to the Parking Space Allotment. Tenant covenants and agrees to comply with all reasonable rules and regulations which Landlord or the contract manager may make hereafter from time to time with respect to the use of the parking areas. Landlord's remedies under such rules and regulations may include, but shall not be limited to, the right to tow away at owner's expense any vehicles not parked in compliance with these rules and regulations. Landlord shall not be responsible to Tenant for the noncompliance or breach of such rules and regulations by any other tenant, its agents, employees and invitees or members of the public who may park in the parking areas. Landlord acknowledges that parking areas shall be used for their intended purpose such that Tenant shall have access to its Parking Space Allotment during normal business hours.

ARTICLE III TERM.

3.1 The Lease Term and Tenant's obligation to pay rent hereunder shall commence on the Lease Commencement Date, which shall be the date of Substantial Completion of the Landlord's Work (as defined in Exhibit B), and the issuance by the City. If the Lease Commencement Date is not the first day of a month, then the Lease Term shall be the period set forth above plus the partial month in which the Lease Commencement Date occurs. The date on which the Lease Term expires shall be the Lease Expiration Date.

3.2 Promptly after the Lease Commencement Date is ascertained, Landlord and Tenant shall execute a certificate substantially in the form of Exhibit C hereto affirming the Lease Commencement Date and the Lease Expiration Date.

3.3 It is presently anticipated that the Premises will be delivered to Tenant on or about the Anticipated Occupancy Date. It is understood and agreed that in the event Substantial Completion of the Landlord's Work is delayed for any reason whatsoever, this Lease shall not be void or voidable, nor shall Landlord be liable to Tenant for any loss or damage resulting therefrom, provided, however, that Tenant shall have no obligation to commence payment of rent until the Lease Commencement Date and such delay shall not affect the abatement of Base Rent as set forth in Paragraph 1 of Exhibit G.

3.4 If for any reason other than the Tenant delays described in Paragraph 5 of Exhibit B, Landlord fails to deliever the Premises on or before the date ninety (90) days after the Anticipated Occupancy Date, then Tenant may notify Landlord of Tenant's intention to cancel this Lease, and, if Landlord has not delivered the Premises to Tenant within ten (10) days after receipt of such cancellation notice (the "Outside Date"), Tenant may cancel this Lease by giving written notice to Landlord no later than five (5) days after the Outside Date.

ARTICLE IV BASE RENT.

4.1 Tenant shall pay Base Rent in advance, in equal monthly installments, the first payment to be made upon the signing of this Lease by Tenant, and subsequent monthly payments to be made on the first day of each calendar month during the Lease Term. (Subject to the abatement of Base Rent as set forth in Paragraph 1 of Exhibit G). If the Lease Term begins on a date other than on the first day of a month, rent for the month of commencement shall be prorated at the rate of one-thirtieth (1/30th) of the monthly installment of Base Rent for each day, payable in advance of the Lease Commencement Date. Tenant will pay all rent to Landlord, at the office of Landlord, or to such other party or to such other address as Landlord may designate from time to time by written notice to Tenant.

4.2 If Tenant fails to make any payment of the Base Rent, Additional [lent or any other sum payable to Landlord on or before the date such payment is due and payable (without regard to any grace period specified in Section 20.1), then Tenant shall pay a late charge of five percent (5%) of the amount of such payment. In addition, such payment and such late fee shall bear interest at the Default Rate as set forth in Section 20.5 from the date such payment was due to the date of payment thereof. Notwithstanding the foregoing, Landlord agrees that on no more than one (1) occasion during any twelve (12) month period during the Lease term, Landlord shall waive such late charge and interest if payment is received within five (5) days of notice that said payment has not been made. Such late charge and interest shall constitute Additional Rent due hereunder, shall be paid with the next monthly installment of Base Rent coming due hereunder, shall constitute agreed liquidated damages and not penalties, and shall be in addition to, and not in lieu of, all other rights and remedies provided to Landlord in this Lease, at law, or in equity.

ARTICLE V INCREASES IN OPERATING EXPENSES AND REAL ESTATE TAXES.

5.1 During each calendar year or portion thereof included in the Lease Term and any renewal thereof, Tenant shall pay to Landlord as Additional Rent Tenant's Percentage of any increase of Operating Expenses over the Base Operating Expenses and Tenant's Percentage of any increase of Real Estate Taxes over the Base Real Estate Taxes.

5.2 Operating Expenses which are incurred with respect to both the Building and the building located at 870 Greenbrier Circle shall be equitably allocated by Landlord among the Building and the building located at 870 Greenbrier Circle to which the same relate or whose benefit the same have been incurred, and only the portion allocated to the Building shall be included in calculating the Operating Expenses for the Building.

5.3 Operating Expenses, as that term is used herein, shall be computed on the accrual basis and shall mean all costs and expenses (excluding replacement of capital investment items [other than as provided in item 10 below] or costs specifically billed to and paid by specific tenants) which Landlord shall pay or become obligated to pay in connection with the ownership, management, operation and maintenance of the Building, including but not limited to, the following:

(1) Wages and salaries of all employees engaged in operating and maintenance or security of the Building, including taxes, insurance and benefits relating thereto.

(2) All supplies and materials used in operation and maintenance of the Building, including, without limitation, replacement light bulbs.

(3) Cost of all utilities (including surcharges) for the Building, including the cost of water, sewer, power, heating, lighting, air conditioning and ventilating for the Building.

(4) Cost of all maintenance and service agreements for the Building and the equipment therein, including but not limited to, security and energy management services, window cleaning, elevator maintenance and janitorial service.

(5) Cost of all insurance relating to the Building, including the cost of casualty and liability insurance applicable to the Building and Landlord's personal property used in connection therewith.

(6) Cost of repairs and general maintenance (excluding repairs 'Ind general maintenance paid by proceeds of insurance or by Tenant or other third parties, and alterations attributable solely to tenants of the Building other than Tenant).

(7) A management fee for the manager of the Building.

(8) Assessments imposed by any association now or hereafter established to maintain common areas and facilities of 860 Greenbrier Circle, Chesapeake, Virginia 23320 (which shall not include any items previously allocated to the Building pursuant to Paragraph 5.2).

(9) The costs of any additional services provided by Landlord in the prudent management of the Building.

(10) The cost of any capital improvements made to the Building after the Lease Commencement Date that, in Landlord's reasonable judgment, are expected to result in a net reduction of Operating Expenses or are required under any governmental law or regulation that was not applicable to the Building as of the date of this lease, such cost thereof

to be amortized over such reasonable period as Landlord shall determine together with interest on the unamortized balance at a per annum rate equal to two percent (2%) over the Prime Rate published in the Wall Street Journal's Money Rates Column on the first business day such capital improvements are completed or if such rate is no longer published then the rate which is two percentage points in excess of the Prime Rate of NationsBank of Virginia, N.A. or such higher rate as may have been paid by Landlord on funds borrowed for the purpose of constructing said capital improvements. Landlord acknowledges and agrees that Tenant's Percentage of the amortized cost of such capital improvements in any calendar year shall not exceed ten percent (10%) of Operating Expenses for such year.

(11) All personal property taxes and any other taxes which may be assessed during the Lease Term as a result of this Lease, including any value-added tax, ad valorem tax or excise tax. It is agreed that Tenant shall be responsible for all ad valorem taxes on Tenant's personal property.

5.4 If the average occupancy rate for the Building during any calendar year is less than one hundred percent (100%), or if any tenant is separately paying for electricity, janitorial services or other services furnished to its premises, then Operating Expenses which vary with occupancy for such calendar year shall be deemed to include all additional expenses, as reasonably estimated by Landlord, which would have been incurred during such calendar year if such average occupancy rate had been one hundred percent (100%) and if Landlord paid for electricity, janitorial services and other services furnished to such premises.

5.5 Real Estate Taxes, shall mean (i) all real estate taxes, including general and special assessments, if any, which are imposed upon Landlord or assessed against the Building and/or the land upon which the Building is located (the "Land") during any calendar year, and (ii) any other present or future taxes or governmental charges that are imposed upon Landlord or assessed against the Building and/or the Land during any calendar year which are in the nature of, in addition to or in substitution for real estate taxes, including, without limitation, any license fees, tax measured by or imposed upon rents, or other tax or charge upon Landlord's business of leasing the Building, but shall not include any federal, state or local income tax. Real Estate Taxes shall also include such expenses, including but not limited to, legal fees, incurred by Landlord in obtaining or attempting to obtain a reduction of any real estate taxes, provided that Landlord shall have no obligation to contest, object to or litigate the levying of any real estate taxes.

5.6 Upon the commencement of the Lease Term and thereafter at or after the beginning of each calendar year (or more frequently if deemed necessary by Landlord) Landlord shall submit to Tenant a statement of Landlord's estimate on an annual basis of any increase in Operating Expenses over the Base Operating Expenses and of any increase in Real Estate Taxes over Base Real Estate Taxes and within thirty (30) days after delivery of such statement Tenant shall pay to Landlord as Additional Rent, an amount equal to one-twelfth (1/12) of the amount determined to be Tenant's Percentage of such increases ("Tenant's Share"). In case such estimate is submitted during the calendar year, Tenant shall include with the next monthly installment of Base Rent (i) a lump sum payment to Landlord equal to one-twelfth (1/12) of Tenant's Share multiplied by the number of months in such calendar year that will have elapsed prior to the first month the payment required by clause (ii) hereof is due and (ii) begin paying to the Landlord monthly as Additional Rent, due and payable on the first day of each month an amount equal to one-twelfth (1/12) of Tenant's Share. Within one hundred twenty (120) days after the expiration of each calendar year or as soon thereafter as is reasonably practicable, Landlord shall submit a statement showing the determination of the total actual increase in Operating Expenses and Real Estate Taxes and Tenant's Share. If such statement shows that Tenant's monthly payments pursuant to this paragraph exceeded Tenant's Share of the actual increases incurred for the preceding calendar year, then Tenant may deduct such overpayments from its next payment or payments of monthly Base Rent until fully reimbursed therefor. If such statement shows that Tenant's Share of Landlord's actual increases exceeded Tenant's monthly payments for the preceding calendar year, the deficiency shall be paid by Tenant together with the next monthly installment of Base Rent due.

5.7 If the Lease Term commences or expires on a day other than the first day or last day of a calendar year, respectively, then Tenant's liability for its proportionate share of increases in Operating Expenses and Real Estate Taxes incurred during such calendar year shall be apportioned by multiplying the amount of Tenant's liability therefor for the full calendar year by a fraction, the numerator of which is the number of days during such calendar year falling within the Lease Term, and the denominator of which is 365. Tenant's liability for payment of its proportionate share of increases as aforesaid shall survive expiration or termination of this Lease. If Tenant's monthly payments exceed its proportionate share, such excess shall be refunded by Landlord.

5.8 For a period of 180 days following the date on which Landlord delivers to Tenant the statement of actual costs as provided in Section 5.6 hereof, Tenant shall have the right during business hours, at its sole cost and expense, to retain a public accounting firm to examine Landlord's books and records at Landlord's agent's office relating to Operating Expenses for the Building for the year to which such statement relates.

ARTICLE VI USE OF PREMISES.

6.1 Tenant will use and occupy the Premises solely for general office purposes consistent with a first class office building and only in accordance with the uses permitted under applicable zoning and other municipal regulations and for no other use or purpose. Tenant will not use or occupy the Premises for any unlawful purpose, or for any purpose that will constitute a nuisance or unreasonable annoyance to Landlord or other tenants of the Building, and will comply with all present and future laws, ordinances, regulations, and orders of the United States of America, Commonwealth of Virginia, and any other public or quasi-public authority having jurisdiction over the Premises. Landlord shall obtain any initial Certificate of Occupancy required at the time of the commencement of the Lease Term. Any amended or substitute certificate of occupancy necessitated by Tenant's particular use of the Premises or any alterations made by Tenant in the Premises shall be obtained by Tenant at Tenant's sole expense.

6.2 Tenant shall not generate, use, store or dispose of any Hazardous Material in or about the Building. Hazardous Materials shall mean (a) "hazardous wastes," as defined by the Resource Conservation and Recovery Act of 1976, as amended from time to time, (b) "hazardous substances," as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended from time to time, (c) "toxic substances," as defined by the Toxic Substances Control Act, as amended from time to time, (d) "hazardous materials," as defined by the Hazardous Materials Transportation Act, as amended from time to time, (e) oil or other petroleum products, and (Q any substance whose presence could be detrimental to the Building or hazardous to health or the environment. Tenant shall indemnify and hold Landlord harmless from any and all claims, damages, fines, judgments, penalties, costs, liabilities or losses arising during or after the Lease Term and arising from Tenant's breach of this Section 6.2. The indemnification pursuant to this Section shall survive termination or expiration of this Lease.

ARTICLE VII ASSIGNMENT AND SUBLETTING.

7.1 Tenant shall not assign this Lease or any of Tenant's rights or obligations hereunder, or sublet or permit anyone to occupy the Premises or any part thereof, without Landlord's prior written consent. No assignment or transfer of this Lease may be effected by operation of law or otherwise without Landlord's prior written consent. The transfer, whether a single transfer or multiple transfers, of fifty percent (50%) or more of the ownership interests of Tenant within a twelve (12) month period shall be deemed equivalent to an assignment or subletting requiring consent of Landlord. Any attempted assignment or subletting made without Landlord's consent shall at the option of Landlord be deemed an Event of Default under this Lease. Landlord's acceptance or collection of rent from any assignee, subtenant or occupant shall not be construed (i) as a consent to or acceptance of such assignee, subtenant or occupant as a tenant, (ii) as a waiver by Landlord of any provision hereof, (iii) as a waiver or release of Tenant from liability for the performance of any obligation to be performed under this Lease by Tenant, or (iv) as relieving Tenant or any assignee, subtenant or occupant from the obligation of obtaining Landlord's prior written consent to any subsequent assignment, subletting or occupancy. Tenant hereby assigns to Landlord any rent due from any assignee, subtenant or occupant of Tenant as security for Tenant's performance of its obligations pursuant to this Lease. Tenant authorizes each such assignee, subtenant or occupant to pay such rent directly to Landlord if such assignee, subtenant or occupant receives written notice from Landlord specifying that such rent shall be paid directly to Landlord. In the event of default by any assignee of Tenant or any successor of Tenant in the performance of any of the terms hereof, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against such assignee or successor. Landlord may consent to subsequent assignment or subletting of this Lease or amendments or modifications to this Lease with assignees of Tenant, without notifying Tenant, or any successor of Tenant, and without obtaining its or their consent thereto and such action shall not relieve Tenant of liability under this Lease. Tenant shall not mortgage this Lease without Landlord's consent, which consent may be granted or withheld in Landlord's sole discretion. All restrictions and obligations imposed pursuant to this Lease on Tenant shall be deemed to extend to any subtenant, assignee or occupant of Tenant, and Tenant shall cause such persons to comply with all such restrictions and obligations. Tenant shall pay to Landlord a Five Hundred Dollar ($500.00) processing fee as well as expenses (including reasonable attorneys' fees) incurred by Landlord in connection with Tenant's request for Landlord to give its consent to any assignment, subletting, occupancy or mortgage, whether or not Landlord consents thereto.

7.2 Notwithstanding the provisions of Section 7.1 above, or of Section 7.3 below, a corporate Tenant may, without the consent of Landlord, assign this Lease to its parent or subsidiary, or to any corporation resulting from a merger or consolidation with Tenant or to any person or entity which acquires all the assets of Tenant, provided the same assignee assumes, in full, the obligations of Tenant under this Lease, and such assignment shall not relieve the Tenant of its obligations hereunder.

7.3 If at any time Tenant wants to assign, sublet or otherwise transfer all or part of the Premises or this Lease, then Tenant shall give written notice to Landlord ("Sublease Proposal Notice") of the area proposed to be assigned or sublet (the "Proposed Sublet Space") and the term for which Tenant desires to sublet the Proposed Sublet Space and such other information as Landlord shall request.

7.4 Landlord shall have the right in its sole and absolute discretion either (i) to sublease the Proposed Sublet Space from Tenant for the term for which Tenant has proposed to sublet such space, or (ii) to terminate this Lease with respect to the Proposed Sublet Space. Landlord shall exercise such right by sending Tenant written notice within Thirty (30) days after Landlord's receipt of the Sublease Proposal Notice. If Landlord elects to sublease the Proposed Sublet Space from Tenant, such sublease shall be at the same Base Rent and additional rent as Tenant is obligated to pay for such space under this Lease and otherwise upon the same terms and conditions as are contained in this Lease, except that Landlord shall be entitled to sub-sublet the Proposed Sublet Space without Tenant's consent and without paying to Tenant any amount in excess of the rent and other charges payable to Tenant pursuant to its sublease with Landlord. If the Proposed Sublet Space does not constitute the entire Premises and Landlord elects to terminate this Lease with respect to the Proposed Sublet Space, then (1) Tenant shall tender the Proposed Sublet Space to Landlord on a date specified in Landlord's notice (not more than sixty (60) days after the date of such notice) as if such specified date had been originally set forth in this Lease as the expiration date of the Lease Term with respect to the Proposed Sublet Space, and (2) as to all portions of the Premises other than the Proposed Sublet Space, this Lease shall remain in full force and effect except that the Additional Rent payable pursuant to Section 4 and the Base Rent shall be reduced pro rata. Tenant shall pay all expenses of construction required to permit the operation of the Proposed Sublet Space separate from the balance of the Premises, unless Landlord elects to sublease or recapture such space, in which event landlord shall pay such expenses. If the Proposed Sublet Space constitutes the entire Premises and Landlord elects to terminate this Lease, then (1) Tenant shall tender the Premises to Landlord on a date specified in Landlord's notice (not more than sixty (60) days after the date of such notice), and (2) the Lease Term shall terminate on such specified date.

7.5 In the event Landlord does not exercise its rights to sublet the Proposed Sublet Space from Tenant or to terminate this Lease with respect thereto, Tenant shall be entitled to seek Landlord's consent to an acceptable assignee or subtenant for the Proposed Sublet Space, for a sublease term no longer than that set forth in the Sublease Proposal Notice, such consent not to be unreasonably withheld, conditioned or delayed. Such consent or permission may be withheld if (a) the subtenant or assignee is of a character or engaged in a business which is not in keeping with the standards of Landlord for the Building, (b) the purpose for which the subtenant or assignee intends to use the Premises is in violation of the terms this Lease or the purposes for which the subtenant or assignee intends to use the Premises are not in keeping with the standards maintained by first-class commercial buildings similar to the Building, (c) the purpose for which the subtenant or assignee intends to use the Premises in violation of the terms of this lease, (d) Tenant is in default under this Lease (e) the subtenant or assignee is either a government (or subdivision or agency thereof) or a present occupant of the Building, (f) in the sole judgment of Landlord, the assignee does not have the financial capacity to undertake the obligations of this Lease or the sublease, (g) the assignee or sublessee cannot comply with the requirements of the ERISA Representation at Article XXV or (h) such a sublease or assignment would violate any term or condition of any covenant or agreement of Landlord involving the Building, or any other tenant lease within the Building. In the event such an assignee or subtenant acceptable to Landlord has not been found by Tenant and submitted for Landlord's approval within one hundred twenty (120) days from the date of the most recent Sublease Proposal Notice, Tenant shall not be entitled to enter into any assignment or sublease without first submitting a new Sublease Proposal Notice to Landlord and affording Landlord an opportunity to exercise its sublefting or termination rights as set forth in Section 7.4.

7.6 If any sublease, assignment or other transfer (whether by operation of law or otherwise and whether consented to or not) provides that the subtenant, assignee or other transferee is to pay as Rent for the Premises any amount in excess of the rent and other charges due under this Lease (except rental or other payments received which are attributable to the amortization of the cost of leasehold improvements made to the sublet or assigned portion of the Premises by Tenant for the subtenant or assignee, and other reasonable expenses incident to the subletting or assignment, including standard leasing commissions), then whether such excess is in the form of an increased monthly or annual rental, a lump sum payment, payment for the sale, transfer or lease of Tenant's fixtures, leasehold improvements, furniture and other personal property at values in excess of the fair market value of such fixtures, improvements, furniture or personal property, or any other form (and if the subleased or assigned space does not constitute the entire Premises, the existence of such excess shall be determined on a pro rata basis), Tenant shall pay to Landlord any such excess as Additional Rent upon such terms as shall be specified by Landlord and in no event later than ten (10) days after Tenant's receipt thereof. Tenant expressly waives any right that it might have to retain such excess pursuant to the provisions of section 365(f) of the Bankruptcy Code. Landlord shall have the right to inspect and audit Tenant's books and records relating to any sublease, assignment or other transfer. Any sublease, assignment or other transfer shall be effected on a form approved by Landlord.

7.7 Notwithstanding the foregoing provisions of this Article VII, if consent to any assignment or subletting is required by the holder of any mortgage on the Building, no assignment or subletting shall be permitted without the prior written consent of such holder.

7.8 Notwithstanding the above, no assignment or subletting shall be permitted to any assignee or sublessee which is (a) an employee benefit plan as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, (b) an entity whose assets constitute plan assets of one or more such plans within the meaning of 29 C.F.R. Section 2510.3-101, or (c) an entity which is subject to state statutes regulating investments of and fiduciary obligations with respect to governmental plans.

ARTICLE VIII MAINTENANCE BY TENANT.

8.1 Tenant will keep the Premises and fixtures and equipment therein in clean, safe and sanitary condition, will take good care thereof, will suffer no waste or injury thereto, and will, at the expiration or other termination of the Lease Term, surrender the same, broom clean, in the same order and condition in which they are on the Lease Commencement Date, ordinary wear and tear and unavoidable damage by the elements excepted. Landlord shall provide and install all original fluorescent tubes to building standard lighting within the Premises and all standard replacement tubes for such lighting; all other bulbs, tubes and lighting fixtures for the Premises shall be provided and installed by Landlord.

8.2 Landlord shall keep and maintain in good order and repair the base building structure and systems, including the roof, exterior walls, elevators, electrical, plumbing and HVAC systems, and the ground floor lobby and other common areas and facilities of the Building.

ARTICLE IX TENANT ALTERATIONS.

9.1 The original improvement of the Premises shall be accomplished by Landlord in accordance with Exhibit B. Landlord is under no obligation to make any structural or other alterations, decorations, additions, improvements or other changes (collectively "Alterations") in or to the Premises except as set forth in Exhibit B or otherwise expressly provided in this Lease. Any additional Alterations, which are necessary in order for the Premises to comply with requirements of the Americans with Disabilities Act or such other laws or amendments thereto which may be hereinafter enacted during the term of this Lease or any extensions or renewals hereof shall be the responsibility of Tenant, and Tenant hereby agrees to indemnify Landlord for any loss, claim or damages incurred by Landlord as a result of Ten ant's failure to make such additional Alterations.

9.2 Tenant shall not make or permit anyone to make any Alterations in or to the Premises or the Building, without Landlord's prior written consent, which consent shall not be unreasonably withheld with respect to proposed Alterations that are not visible from the exterior of the Premises, do not affect the Building's structure, and do not impair the Building's mechanical, electrical, plumbing or HVAC systems. Any Alterations made by Tenant shall be made; (a) in a good, workmanlike, first-class and prompt manner; (b) using new materials only; (c) by a contractor and in accordance with plans and specifications approved in writing by Landlord; (d) in accordance with all applicable legal requirements and requirements of any insurance company insuring the Building or portion thereof, including, but not limited to, compliance with the Americans with Disabilities Act; and (e) after Tenant has obtained and delivered to Landlord written, unconditional waivers of mechanics' and materialmen's liens against the Premises and the Building from all proposed contractors, subcontractors, laborers and material suppliers for all work and materials in connection with such Alterations. Upon completion of any such work, Tenant shall pay to Landlord an amount equal to the lesser of ten percent (10%) of the cost of such workor the actual cost incurred by Landlord, to reimburse Landlord for the cost of coordination and final inspection of the work. During the course of performance of said work, Tenant will carry or cause to be carried insurance as may from time to time be required by Landlord naming Landlord and Landlord's managing agent as additional insureds and further providing that such insurance cannot be canceled or reduced in amount without thirty (30) days prior written notice to Landlord and Landlord's managing agent. Landlord shall require a guarantee by each of Tenant's prime contractors and materialmen for the benefit of Landlord, Tenant and such other parties as Landlord shall designate that all work performed and materials and equipment furnished by such contractors will conform to the requirements of the plans and. specifications as to the kind, quality, function of the equipment and characteristics of material and workmanship and will remain so for a period of at least one year from the date that the work has been completed, and in the event any deficiency, defects, faults or imperfections of materials, equipment or workmanship shall appear prior to the expiration of such period, the contractor upon receiving written notice thereof from Landlord or Tenant will immediately correct and repair the same at the expense of such contractor; said guarantees to be effective whether or not any part of the aforesaid work has been subcontracted by the contractor.

9.3 If any mechanic's or materialmen's lien or notice of intent with respect thereto is filed against the Premises or the Building for work claimed to have been done for, or materials claimed to have been furnished to, Tenant, such lien shall be discharged by Tenant within thirty (30) days thereafter, at Tenant's sole cost and expense, by the payment thereof or by filing any bond required by law, and Tenant hereby agrees to indemnify and save Landlord harmless from any legal expenses which Landlord may reasonably incur as a result of the filing of the lien or notice of intent and/or from any loss or liability incurred as a result of any lien filed against the Premises and/or Tenant. If Tenant shall fail to discharge any such mechanic's or materialmen's lien, Landlord may, at its option, discharge the same and treat the cost thereof as Additional Rent payable with the monthly installment of rent next becoming due; it being hereby expressly covenanted and agreed that such discharge by Landlord shall not be deemed to waive or release the default of Tenant in not discharging the same. It is understood and agreed by Landlord and Tenant that any such Alterations shall be conducted on behalf of Tenant and Landlord shall have no liability with respect thereto. It is further understood and agreed that in the event Landlord shall give its written consent to Tenant's making any such Alterations, such written consent shall not be deemed to be an agreement or consent by Landlord to subject Landlord's interest in the Premises, the Building or the Land to any mechanic's or materialmen's liens which may be filed in respect of any such Alterations made by or on behalf of Tenant.

9.4 All Alterations, including wall-to-wall carpet, upon the Premises (whether with or without the prior written consent of Landlord) shall, at the election of Landlord, remain upon the Premises, become property of Landlord, and be surrendered with the Premises at the expiration of this Lease without disturbance, molestation or injury, provided, however, that if Tenant is not in default in the performance of any of its obligations under this Lease, Tenant shall have the right to remove, prior to the expiration of the Lease Term, all movable furniture, furnishings, or equipment installed in the Premises at the expense of Tenant. Should Landlord elect that Alterations made by Tenant upon the Premises be removed upon termination of this Lease or upon termination of any renewal period hereof, Tenant hereby agrees to cause same to be removed at Tenant's sole cost and expense, and should Tenant fail to remove the same then and in such event Landlord may cause same to be removed at Tenant's expense and Tenant hereby agrees to reimburse Landlord for the cost of such removal together with any and all damages which Landlord may suffer and sustain by reason of the failure of Tenant to remove the same.

9.5 Tenant will indemnify and hold Landlord harmless from and against any and all expenses, liens, claims or damages to person or property which may or might arise directly or indirectly by reason of the making of any such Alterations, except to the extent such expenses, liens, claims or damages are the result of Landlord's negligence or will ful misconduct. If any such Alteration is made without the prior written consent of Landlord, Landlord may correct or remove the same, and Tenant shall be liable for any and all expenses incurred by Landlord in the performance of this work.

ARTICLE X SIGNS; FURNISHINGS.

10.1 No sign, advertisement or notice shall be inscribed, painted, affixed or otherwise displayed on any part of the outside or the inside of the Building except on the directories and doors of offices, and then only in such place, number, size, color and style as is approved by Landlord and provided by Landlord at Tenant's cost and expense; if any such sign, advertisement or notice is nevertheless exhibited by Tenant, Landlord shall have the right to remove the same and Tenant shall be liable for any and all expenses incurred by Landlord in said removal. Landlord shall have the right to prohibit any advertisement of Tenant which in Landlord's opinion tends to impair the reputation of the Building or its desirability as a high-quality building for offices or for financial, legal, insurance and other institutions of like nature, and upon written notice from Landlord, Tenant shall immediately refrain from and discontinue any such advertisement. Landlord reserves the right to install and display signs, advertisements and notices on any part of the exterior or interior of the Building.

10.2 Landlord shall have the right to prescribe the weight and position of safes and other heavy equipment or fixtures, which shall, if considered necessary by Landlord, stand on plank strips to distribute the weight. Any and all damage or injury to the Premises or the Building caused by moving the property of Tenant into, in or out of the Premises, or due to the same being on the Premises, shall be repaired by, and at the sole cost of, Tenant. No furniture, equipment or other bulky reafter of any description will be received into the Building or carried in the elevators except as approved by Landlord, and all such furniture, equipment and other bulky matter shall be delivered only through the designated delivery entrance of the Building. All moving of furniture, equipment and other bulky matter shall be under the direct control and supervision of Landlord who shall, however, not be responsible for any damage to or charges for moving the same. Tenant agrees promptly to remove from the sidewalks adjacent to the Building any of Tenant's furniture, equipment or other material there delivered or deposited.

ARTICLE XI TENANT'S EQUIPMENT.

Tenant will not install or operate in the Premises any electrically operated equipment or other machinery, other than standard electric typewriters, personal computers, adding machines, radios, televisions, clocks and copying machines, without first obtaining the prior written consent of Landlord, who may condition such consent upon the payment of Tenant of additional rent in compensation for such excess consumption of utilities as determined in the sole discretion of Landlord and for the cost of separate metering or additional wiring as may be occasioned by the operation of said equipment or machinery. Tenant shall not install any other equipment of any kind or nature whatsoever which will or may necessitate any changes, replacements or additions to, or in the use of, the water system, heating system, plumbing system, air-conditioning system, or electrical system of the Premises or the Building without first obtaining the prior written consent of Landlord. Business machines and mechanical equipment belonging to Tenant which cause noise or vibration that may be transmitted to the structure of the Building or to any space therein to such a degree as to be objectionable to Landlord or to any tenant shall be installed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate such noise and vibration. Landlord reserves the right to separately meter any utility consumption in the Premises.

ARTICLE XII SECURITY DEPOSIT.

ARTICLE XIII INSPECTION.

Tenant will permit Landlord, or its agents or other representatives, to enter the Premises, without charge therefor to Landlord and without diminution of the rent payable by Tenant, to examine, inspect and protect the Premises and the Building and to make such alterations and/or repairs as in the sole judgment of Landlord may be deemed necessary, or to exhibit the same to prospective tenants, purchasers or mortgagees during the Lease Term. In connection with any such entry, Landlord shall endeavor to provide reasonable notice and to minimize the disruption to Tenant's use of the Premises.

ARTICLE XIV INSURANCE.

14.1 Landlord agrees that it will keep the Building insured against loss due to fire and other property risks included in standard all risk coverage insurance policies, and covering loss of income from such casualty, or in lieu thereof, insure the Building against loss or damage as a self insurer. Throughout the Lease Term, Tenant shall insure the contents of the Premises, including, without limitation, alterations, decorations, furnishings, fixtures and equipment used or installed in the Premises by or on behalf of Tenant, and the other personal property of Tenant in the Premises, against loss due to fire and other property risks included in standard all risk coverage insurance policies, in an amount equal to the replacement cost thereof and covering loss of income from such casualty. All insurance carried by Tenant hereunder shall be primary and not contributing with any insurance carried by Landlord.

14.2 Landlord and Tenant agree to obtain and maintain throughout the term of this Lease endorsements to their respective All Risk Coverage policies waiving the right of subrogation of their insurance companies against the other party and its agents and employees. Each party hereto waives all claims for recovery from the other party for any loss or damage to any of its property arising from a risk insured against in the standard All Risk Coverage insurance policies required to be carried pursuant to this article, even though such loss was caused by the negligence of the Landlord or Tenant, their agents and employees.

14.3 Throughout the Lease Term, Tenant shall obtain commercial general liability insurance on an occurrence basis protecting against any liability occasioned by any occurrence on or about the Premises and containing contractual liability coverage. Such insurance shall be initially in minimum amounts of Two Million Dollars ($2,000,000) per occurrence, and shall be for a minimum term of one (1) year. Each of said policies of insurance shall name Landlord and Landlord's managing agent as an additional insured, and if requested by the holder of any mortgage or deed of trust against the Building, the public liability policy referred to above shall also name such holder as an additional insured. Each policy shall contain an endorsement which provides that no cancellation or reduction of coverage may be made without first giving Landlord and, if named as an additional insured, the holder of any mortgage or deed of trust on the Building, at least thirty (30) days prior written notice of such proposed action. All insurance policies required under this Lease shall be issued by insurance companies licensed to do business in the jurisdiction wherein the Building is located with a financial rating of at least an A:Xll as rated in the most recent edition of Best Insurance Reports and in business for the past five (5) years. On or before the Lease Commencement Date, and thereafter not less than fifteen (15) days prior to the expiration dates of said policy or policies, Tenant shall provide copies of policies or certificates of insurance (Accord 27) evidencing the coverages required by this Section. The aforesaid insurance limits may be reasonably increased from time to time by Landlord. Landlord shall carry commercial general liability insurance with minimum coverage in at least the amount specified above for Tenant. Landlord may provide such coverage by means of a blanket policy, and the cost of said insurance or the allocable portion of the cost of Landlord's blanket policy shall be included as an Operating Expense.

ARTICLE XV SERVICES AND UTILITIES.

Landlord will furnish the Premises air conditioning and heating during the seasons they are required in Landlord's reasonable judgment. Landlord will furnish adequate electrical power for all powered office machines and lighting. Landlord will provide: water; elevator service; exterior window cleaning service; and janitorial service after 6:00 p.m. Monday through Friday only (excluding Federal and Commonwealth of Virginia holidays). Landlord will furnish all services and utilities required by this Lease only during the normal hours of operation of the Building, as set forth in the rules and regulations attached hereto as Exhibit D, unless otherwise specified herein. It is also agreed that if Tenant requires air conditioning or heat beyond the normal hours of operation set forth herein, and provided arrangements are made with Landlord's agent, Landlord will furnish such services (at the price stipulated by Landlord from time to time) which shall be comparable to prices for similar services charged by owners of similar buildings in the greater Norfolk metropolitan area, at Tenant's expense. It is understood and agreed that Landlord shall not be liable for failure to furnish or for delay or suspension in furnishing, any of the utilities or services required to be provided or per-formed by Landlord caused by breakdown, maintenance, repairs, strikes, scarcity of labor or materials, acts of God, voluntary agreement between Landlord and any governmental body or agency or from any other cause whatsoever. It is further agreed that any such failure or inability to furnish the utilities or services required hereunder shall not be considered an eviction, actual or constructive, of Tenant from the Premises, and shall not entitle Tenant to terminate this Lease or to an abatement of any rent payable hereunder provided, however, that if the aforesaid utilities or services are interrupted as the result of the negligence or willful misconduct of Landlord for a period of more than three (3) consecutive business days, and Tenant is unable to operate its business in, or occupy the Premises, the rent payable hereunder shall abate until such interruption is remedied. Landlord shall use reasonable diligence to repair promptly any failure, interruption or suspension which is within Landlord's control.

ARTICLE XVI LIABILITY OF LANDLORD.

16.1 Landlord, its employees and agents shall not be liable to Tenant, its employees, agents, invitees or any other person or entity claiming through Tenant for any damage (including indirect and consequential damage), injury, loss or claim (including claims for the interruption of or loss to business) based on or arising out of any cause whatsoever except to the extent caused by the negligence or willful misconduct of Landlord, its employees and agents, including without limitation the following: repair to any portion of the Premises or the Building; interruption in the use of the Premises or any equipment therein; any accident or damage resulting from any use or operation (by Landlord, Tenant or any other person or entity) of elevators or heating, cooling, electrical, sewerage or plumbing equipment or apparatus; termination of this Lease by reason of damage to the Premises or the Building; fire, robbery, theft, vandalism, mysterious disappearance or any other casualty; actions of any other tenant of the Building or of any other person or entity; failure or inability of Landlord to furnish any utility or service specified in this Lease; any leakage in any part of the Premises or the Building, or from water, rain, ice or snow that may leak into, or flow from, any part of the Premises or the Building, or from drains, pipes or plumbing fixtures in the Premises or the Building. Any property stored or placed by Tenant or its employees, agents, invitees or any other person or entity claiming through Tenant in or about the Premises or the Building shall be at the sole risk of Tenant, and Landlord shall not in any manner be held responsible therefor. If any employee of Landlord receives any package or article delivered for Tenant, then such employee shall be acting as Tenant's agent for such purpose and not as Landlord's agent. For purposes of this Article, the term "Building" shall be deemed to include the Land.

16.2 Tenant shall indemnify and hold Landlord, its employees and agents harmless from and against all costs, damages, claims, liabilities, fines, suits, expenses and damages of any kind (including attorneys' fees) asserted by or on behalf of any person, entity or governmental authority against Landlord, directly or indirectly, based on or arising out of (a) Tenant's use and occupancy of the Premises or the business conducted by Tenant therein, (b) any act or omission of Tenant or any employee, agent, or invitee of Tenant while in the Premises, (c) any failure of Tenant to perform any of Tenant's obligations under this Lease, (d) any accident, injury or damage whatsoever caused to any person, or the property of any person, occurring in or about the Premises, except to the extent the same was caused by Landlord's negligence or willful misconduct.

16.3 If any landlord hereunder transfers the Building or such landlord's interest therein, then such landlord shall not be liable for any obligation or liability based on or arising out of any event or condition occurring on or after the date of such transfer. Within fifteen (i 5) days after any such transferee's request, Tenant shall attorn to such transferee and-execute, acknowledge and deliver any requisite or appropriate document submitted to Tenant confirming such attornment, provided that the transferee shall expressly assume in writing the obligations of Landlord under this Lease accruing on or after the date of such transfer.

16.4 Tenant shall not have the right to offset or deduct the amount allegedly owed to Tenant pursuant to any claim against Landlord from any rent or other sum payable to Landlord. Tenant's sole remedy for recovering upon such claim shall be to institute an independent action against Landlord. Tenant shall not seek the consolidation of any such action brought by Tenant with any action brought by Landlord hereunder.

16.5 If Tenant or any employee, agent or invitee of Tenant is awarded a money judgment against Landlord, then recourse for satisfaction of such judgment shall be limited to execution against Landlord's estate and interest in the Building, including any insurance proceeds paid to Landlord as a result of any claim by an employee, agent or invitee of Tenant. No other asset of Landlord, any partner of Landlord or any other person or entity shall be available to satisfy, or be subject to, such judgment, nor shall any such partner, person or entity be held to have personal liability for satisfaction of any claim or judgment against Landlord or any partner of Landlord.

ARTICLE XVII RULES AND REGULATIONS.

Tenant, its agents, employees, and invitees shall at all times abide by and observe the rules and regulations attached hereto as Exhibit D. In addition, Tenant, its agents, employees, and invitees, shall abide by and observe such other rules or regulations as may be promulgated from time to time by Landlord, with a copy sent to Tenant, for the operation and maintenance of the Building; provided, however, that the same are not inconsistent with the provisions of this Lease. Nothing contained in this Lease shall be construed to impose upon Landlord any duty or obligation to enforce such rules and regulations, or the terms, conditions or covenants contained in any other lease, as against any other tenant, and Landlord shall not be liable to Tenant for violation of the same by any other tenant, its employees, agents, or invitees. If there is any inconsistency between this Lease and the rules and regulations as set forth in Exhibit D, this Lease shall govern.

ARTICLE VIII DAMAGE.

18.1 If the Premises or the Building are totally or partially damaged or destroyed thereby rendering the Premises totally or partially inaccessible or unusable, then Landlord shall diligently repair and restore the Premises and the Building to substantially the same condition they were in prior to such damage or destruction; provided, however, that if (i) in Landlord's judgment such repair and restoration cannot be completed within one hundred and twenty (120) days after the occurrence of such damage or destruction (taking into account the time needed for effecting a satisfactory settlement with any insurance company involved, removal of debris, preparation of plans and issuance of all required governmental permits) or (ii) twenty percent (20%) or more of the Premises is damaged and less than six (6) months would remain of the Lease Term or any renewal thereof upon completion of the repairs, then Landlord shall have the right, at its sole option, to terminate this Lease as of the sixtieth (60th) day after such damage or destruction by giving written notice of termination within forty-five (45) days after the occurrence of such damage or destruction.

18.2 If this Lease is terminated pursuant to Section 18.1 above, then all rent shall be apportioned (based on the portion of the Premises which is usable after such damage or destruction) and paid to the date of termination. If this Lease is not terminated as a result of such damage or destruction, then until such repair and restoration of the Premises are substantially complete, Tenant shall be required to pay the Base Rent and Additional Rent only for the portion of the Premises that is usable while such repair and restoration are being made. Landlord shall bear the expenses of repairing and restoring the Premises and the Building; provided, however, that Landlord shall not be required to repair or restore the contents of the Premises, including without limitation, alterations-, decorations, furnishings, fixtures and equipment used or installed in the Premises by or on behalf of Tenant and any other personal property of Tenant. Tenant shall not be entitled to any compensation or damages from Landlord for loss of the use of the whole or any portion of the Premises or for any inconvenience or annoyance occasioned by any such damage, repair or restoration.

18.3 Notwithstanding anything herein to the contrary, Landlord shall not be obligated to restore the Premises or the Building and shall have the right to terminate this Lease if (a) the holder of any mortgage fails or refuses to make insurance proceeds available for such repair and restoration, (b) zoning or other applicable laws or regulations do not permit such repair and restoration, or (c) the cost of repairing and restoring the Building would exceed fifty percent (50%) of the replacement value of the Building, whether or not the Premises are damaged or destroyed, provided the leases of all other tenants in the Building are similarly terminated.

ARTICLE XIX CONDEMNATION.

19.1 If all or any portion of the Premises or occupancy thereof shall be permanently taken or condemned by any governmental or quasi-governmental authority for any public or quasi-public use or purpose or sold under threat of such a taking or condemnation (collectively, "Condemnation"), and such Condemnation shall materially and adversely affect Tenant's use of the Premises, then this Lease shall terminate on the date possession thereof is taken by authority and rent shall be apportioned as of such date. In the event of the Condemnation of any portion of the Premises which does not materially and adversely affect Tenant's use of the Premises, then this Lease shall continue in full force and effect as to the part of the Premises not Condemned, except that as of the date possession is taken by such authority Tenant shall not be required to pay the Base Rent and Additional Rent with respect to the part of the Premises Condemned. Notwithstanding anything herein to the contrary, if twenty-five (25%) or more of the Land or the Building is Condemned, then whether or not any portion of the Premises is Condemned, Landlord shall have the right to terminate this Lease as of the date title vests in such authority.

19.2 All awards, damages and other compensation paid by such authority on account of such Condemnation shall belong to Landlord, and Tenant assigns to Landlord all rights to such awards, damages and compensation. Tenant shall not make any claim against Landlord or the authority for any portion of such award, damages or compensation attributable to damage to the Premises, value of the unexpired portion of the Lease Term, loss of profits or goodwill, leasehold improvements or severance damages. Tenant may, if allowed by statute, seek such awards or damages for moving expenses, loss of profits and fixtures and other equipment installed by it which do not, under the terms of this Lease, become the property of Landlord at the termination hereof. Such awards or damages must be in an amount mutually agreed upon between Landlord and Tenant, or as established by a condemnation court or other authority.

ARTICLE XX DEFAULT OF TENANT.

20.1 Each of the following shall constitute an Event of Default: (a) Tenant's failure to make any payment of the Base Rent, Additional Rent or any other sum where such failure to pay continues for five (5) days Landlord's delivery of written notice of such failure to pay; (b) Tenant's failure to take possession of the Premises within thirty (30) days after notice to Tenant that the same are Substantially Complete; (c) Tenant's violation or failure to perform or observe any other covenant or condition within thirty (30) days after notice thereof from Landlord; or if such violation or failure is remediable but is of such a nature that it cannot be remedied within such thirty day period, then for such longer period as may reasonably be required provided that Tenant promptly commences and diligently pursues such remedy to completion; (d) Tenant's abandonment or vacation of the Premises; (e) an Event of Bankruptcy as specified in Article XXI with respect to Tenant, any general partner of Tenant (a "General Partner") or any Guarantor; or (f) Tenant's dissolution or liquidation.

20.2 If there shall be an Event of Default, including an Event of Default prior to the Lease Commencement Date, then Landlord shall have the right, at its sole option, to terminate this Lease. In addition, with or without terminating this Lease, Landlord may re-enter, terminate Tenant's right of possession and take possession of the Premises. The provisions of this Article shall operate as a notice to quit, any other notice to quit or of Landlord's intention to re-enter the Premises being hereby expressly waived. If necessary, Landlord may proceed to recover possession of the Premises under and by virtue of the laws of the Commonwealth of Virginia, or by such other proceedings, including re-entry and possession, as may be applicable. If Landlord elects to terminate this Lease and/or elects to terminate Tenant's right of possession, then everything contained in this Lease to be done and performed by Landlord shall cease, without prejudice, however, to Landlord's right to recover from Tenant all rent and other sums accrued through the later of termination or Landlord's recovery of possession. Whether or not this Lease and/or Tenant's right of possession is terminated, Landlord may, but shall not be obligated to, relet the Premises or any part thereof, alone or together with other premises, for such rent and upon such terms and conditions (which may include concessions or free rent and alterations of the Premises) as Landlord, in its sole discretion, may determine, but Landlord shall not be liable for, nor shall

Tenant's obligations be diminished by reason of, Landlord's failure to relet the Premises or collect any rent due upon such reletting. Whether or not this Lease is terminated, Tenant nevertheless shall remain liable for any Base Rent, Additional Rent or damages which may be due or sustained prior to such default, all costs, fees and expenses (including without limitation reasonable attorneys fees, brokerage fees, expenses incurred in placing the Premises in rentable condition and tenant finish necessitated to obtain the new tenant) incurred by Landlord in pursuit of its remedies and in renting the Premises to others from time to time. Tenant shall also be liable for additional damages which at Landlord's election shall be either:

(a) an amount equal to the Base Rent and additional rent which would have become due during the remainder of the Lease Term, less the amount of rental, if any, which Landlord receives during such period from others to whom the Premises may be rented (other than any Additional Rent payable as a result of any failure of such other person to perform any of its obligations), which damages shall be computed and payable in monthly installments, in advance, on the first day of each calendar month following Tenant's default and continuing until the date on which the Lease Term would have expired but for Tenant's default. Separate suits may be brought to collect any such damages for any month(s), and such suits shall not in any manner prejudice Landlord's right to collect any such damages for any subsequent month(s), or Landlord may defer any such suit until after the expiration of the Lease Term, in which event the cause of action shall be deemed not to have accrued until the expiration of the Lease Term; or

(b) an amount equal to the present value (as of the date of Tenant's default) of the Base Rent and Additional Rent which would have become due during the remainder of the Lease Term, which damages shall be payable to Landlord in one lump sum on demand. For purpose of this Section, present value shall be computed by discounting at a rate equal to one (1) whole percentage point above the discount rate then in effect at the Federal Reserve Bank of New York. Tenant waives any right of redemption, re-entry or restoration of the operation of this Lease under any present or future law, including any such right which Tenant would otherwise have if Tenant shall be dispossessed for any cause.

20.3 Landlord's rights and remedies set forth in this Lease are cumulative and in addition to Landlord's other rights and remedies at law or in equity, including those available as a result of any anticipatory breach of this Lease. Landlord's exercise of any such right or remedy shall not prevent the concurrent or subsequent exercise of any other right or remedy. Landlord's delay or failure to exercise or enforce any of Landlord's rights or remedies or Tenant's obligations shall not constitute a waiver of any such rights, remedies or obligations. Landlord shall not be deemed to have waived any default unless such waiver expressly is set forth in an instrument signed by Landlord. If Landlord waives in writing any default, then such waiver shall not be construed as a waiver of any covenant or condition set forth in this Lease except as to the specific circumstances described in such written waiver. Neither Tenant's payment of a lesser amount than the sum due hereunder nor Tenant's endorsement or statement on any check or letter accompanying such payment shall be deemed an accord and satisfaction, and Landlord may accept the same without prejudice to Landlord's right to recover the balance of such sum or to pursue any other remedy available to Landlord. Landlord's re-entry and acceptance of keys shall not be considered an acceptance of a surrender of this Lease.

20.4 If more than one natural person and/or entity shall execute this Lease as Tenant, then the liability of each such person or entity shall be joint and several. Similarly, if Tenant is a general partnership or other entity the partners or members of which are subject to personal liability, then the liability of each such partner or member shall be joint and several.

20.5 If Tenant fails to make any payment to any third party or do any act herein required to be made or done by Tenant, then Landlord may, but shall not be required to, make such payment or do such act. Landlord's taking such action shall not be considered a cure of such failure by Tenant or prevent Landlord from pursuing any remedy to which it is otherwise entitled in connection with such failure. If Landlord elects to make such payment or do such act, then all expenses incurred, plus interest thereon at the lesser of (i) a rate per annum (the "Default Rate") which is five (5) whole percentage points higher than the highest Prime Rate as published in the Wall Street Journal's Money Rates Column or if such rate is no longer published then the rate which is five (5) whole percentage points in excess of the Prime Rate of NationsBank of Virginia, N.A., or (ii) the highest non-usurious rate permitted under the laws of the jurisdiction where the Building is located, from the date incurred to the date of payment thereof by Tenant, shall constitute Additional Rent.

ARTICLE XXI BANKRUPTCY.

The following shall be Events of Bankruptcy under this Lease: (a) Tenant, a Guarantor or a General Partner becoming insolvent, as that term is defined in Title 1 1 of the United States Code (the "Bankruptcy Code,,), or under the insolvency laws of any state (the "Insolvency Laws"); (b) appointment of a receiver or custodian for any property of Tenant, a Guarantor or a General Partner, or the institution of a foreclosure or attachment action upon any property of Tenant, a Guarantor or a General Partner; (c) filing of a voluntary petition by Tenant, a Guarantor or a General Partner under the provisions of the Bankruptcy Code or Insolvency Laws; (d) filing of an involuntary petition against Tenant, a Guarantor or a General Partner as the subject debtor under the Bankruptcy Code or Insolvency Laws, which either (i) is not dismissed within sixty (60) days of filing, or (ii) results in the issuance of an order for relief against the debtor; or (e) Tenant, a Guarantor or a General Partner making or consenting to an assignment for the benefit of creditors or a composition of creditors.

ARTICLE XXII SUBORDINATION.

22.1 This Lease is subject and subordinate to all ground or underlying leases and to all mortgages and/or deeds of trust which may now or hereafter affect the real property of which the Premises form a part, and to all renewals, modifications, consolidations, replacements and extensions thereof. This clause shall be self-operative and no further instrument of subordination shall be required by any mortgagee or trustee. In confirmation of such subordination, Tenant shall execute within fifteen (15) days any certificate that Landlord may request. The failure of Tenant to timely execute and deliver any such certificate shall be deemed a conclusive admission of the certifications and acknowledgments contained thereinNotwithstanding the foregoing, the party secured by any such deed of trust shall have the right to recognize this Lease and, in the event of any foreclosure sale under such deed of trust, this Lease shall continue in full force and effect at the option of the party secured by such deed of trust or the purchaser under any such foreclosure sale in which event Tenant shall attorn to such purchaser and shall recognize such purchaser as the Landlord under this Lease. Upon such attornment such purchaser shall not be (a) bound by any payment of the Base Rent or Additional Rent more than one (1) month in advance, (b) bound by any amendment of this Lease made without the consent of the holder of the deed of trust existing as of the date of such amendment, (c) liable for damages for any breach, act or omission of any prior landlord, or (d) subject to any offsets or defenses which Tenant might have against any prior landlord; provided, however, that after succeeding to Landlord's interest, such purchaser shall perform in accordance with the terms of this Lease all obligations of Landlord arising after the date such purchaser acquires title to the Building. Within fifteen (15) days after the request of such purchaser, Tenant shall execute, acknowledge and deliver any requisite or appropriate document submitted to Tenant confirming such attornment, provided that commercially reasonable non-disturbance agreements are included therein.

22.2 Tenant covenants and agrees that it will, at the written request of the party secured by any such deed of trust, execute, acknowledge and deliver any instrument that has for its purpose and effect the subordination of said deed of trust to the lien of this Lease. The failure of Tenant to timely execute and deliver any such certificate shall be deemed a conclusive admission of the certifications and acknowledgments contained therein. At the option of any landlord under any ground or underlying lease to which the Lease is now or may hereafter become subject or subordinate, Tenant agrees that neither the cancellation nor termination of such ground or underlying lease shall by operation of law or otherwise, result in cancellation or termination of this Lease or the obligations of Tenant hereunder. Tenant covenants and agrees to attorn to such landlord or to any successor to Landlord's interest in such ground or underlying lease subject to the attornment provisions set forth above. In that event, this Lease shall continue as a direct lease between Tenant and such landlord or its successor.

22.3 After receiving notice from any person, firm or other entity that it holds a mortgage or deed of trust on the Building or the Land, no notice from Tenant to Landlord alleging any default by Landlord shall be effective unless and until a copy of the same is given to such holder, provided that Tenant shall have been furnished with the name and address of such holder. Any such holder shall have thirty (30) days, or such additional time as may reasonably be necessary (so long as holder shall have promptly commenced and continued to pursue diligently), after receipt of notice from

Tenant of a default by Landlord under this Lease to cure such default before Tenant may exercise any remedy hereunder. The curing of any of Landlord's defaults by such holder shall be treated as performance by Landlord.

ARTICLE XXIII DELIVERY AT END OF LEASE TERM.

23.1 On the Expiration Date, Tenant shall without notice quit and surrender the Premises broom clean and in good condition and repair (ordinary wear and tear and damage by fire or other casualty excepted), together with all Alterations which may have been made in or attached to the Premises unless Landlord elects to have Tenant remove the same in accordance with Section 9.4 hereof. Upon surrender, Tenant shall remove its Personal Property and movable trade fixtures and repair any damage to the Premises caused thereby. Any property of Tenant not promptly removed shall be deemed to have been abandoned by Tenant and to have become the property of Landlord and may be retained by Landlord or disposed of at Tenant's expense (Tenant hereby agreeing to remain liable for the cost thereof even though this Lease shall have terminated) as Landlord shall so desire.

23.2 If Tenant or any party claiming under Tenant remains in possession of the Premises, or any portion thereof, after the Expiration Date, no tenancy or interest in the Premises shall result therefrom, unless Landlord elects as hereinafter provided, but such holding over shall be an unlawful detainer and all such parties shall be subject to immediate eviction and removal. If, without consent of Landlord, Tenant or any party claiming under Tenant remains in possession of the Premises, or any part thereof, after the Expiration Date, Landlord may, in addition to its other rights, elect, in its sole discretion, to treat such holding over by Tenant as the creation of a month-to-month tenancy subject to all of the terms, covenants and conditions set forth in this Lease insofar as the same are applicable to a month-to-month tenancy, except that Tenant shall pay a monthly Base Rent equal to two (2) times the monthly Base Rent in effect during the last month of the term of the Lease. Tenant shall give to Landlord at least thirty (30) days prior written notice of any intention to quit the Premises and Tenant shall be entitled to thirty (30) days prior written notice to quit the Premises except in the event of nonpayment of rent in advance or the breach of any other covenant by Tenant, in which event Tenant shall not be entitled to any notice to quit, the usual thirty (30) days notice to quit being hereby expressly waived.

ARTICLE XXIV COVENANT OF LANDLORD.

24.1 Landlord covenants that it has the right to make this Lease for the term aforesaid, and that if Tenant shall pay the rent and perform all of the covenants, terms, conditions and agreements of this Lease to be performed by Tenant, Tenant shall, during the term hereby created, freely, peaceably and quietly occupy and enjoy the full possession of the Premises without molestation or hindrance by Landlord, subject to the provisions of Section 24.2 hereof.

24.2 Landlord hereby reserves to itself and its successors and assigns the following rights (all of which are hereby consented to by Tenant): (i) to change the street address and/or name of the Building and/or the arrangement and/or location of entrances, passageways, doors, doorways, corridors, elevators, stairs, toilets, or other public parts of the Building, (ii) to control and operate the public portions of the Building and the public facilities, as well as facilities furnished for the common use of the tenants, in such a manner as it deems best for the benefit of tenants generally, (iii) to erect, use and maintain pipes and conduits in and through the Premises. Landlord may exercise any or all of the foregoing rights without being deemed to be guilty of an eviction, actual or constructive, or a disturbance or interruption of the business of Tenant or Tenant's use or occupancy of the Premises.

ARTICLE XXV ERISA REPRESENTATION.

Tenant hereby represents to The Prudential Insurance Company of America that (a) Tenant is not an employee benefit plan as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, (b) the assets of Tenant do not constitute plan assets of one or more such plans within the meaning of 29 C.F.R. Section 2510.3-1 01 and (c) Tenant is not subject to state statutes regulating investments of and fiduciary obligations with respect to governmental plans.

ARTICLE XXVI GENERAL PROVISIONS.

26.1 No Representations by Landlord. Tenant acknowledges that neither Landlord nor any broker, agent or employee of Landlord has made any representations or promises with respect to the Premises or the Building except as herein expressly set forth, and no rights, privileges, easements or licenses are acquired by Tenant except as herein expressly set forth. Tenant, by taking possession of the Premises, shall accept the same "as is", and such taking of possession shall be conclusive evidence that the Premises and the Building are in good and satisfactory condition at the time of such taking of possession, punch list items excepted.

26.2 No Partnership. Nothing contained in this Lease shall be deemed or construed to create a partnership or joint venture of or between Landlord and Tenant, or to create any other relationship between the parties hereto other than that of Landlord or Tenant.

26.3 Broker. Landlord recognizes the Broker(s) as the sole broker(s) procuring this Lease and shall pay said Broker(s) a commission therefor pursuant to a separate agreement between said Broker(s) and Landlord. Landlord and Tenant each represent and warrant to one another that except as set forth herein neither of them has employed any broker, agent or finder in carrying on the negotiations relating to this Lease. Landlord shall indemnify and hold Tenant harmless, and Tenant shall indemnify and hold Landlord harmless, from and against any claim or claims for brokerage or other commission arising from or out of any breach of the foregoing representation and warranty by the respective indemnitor.

26.4 Estoppel Certificate. Tenant agrees, at any time and from time to time and within ten (1 0) days after written request by Landlord, to execute, acknowledge and deliver to Landlord a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the Lease is in full force and effect as modified and stating the modifications), (ii) stating the rent payable and dates to which the rent and any other charges hereunder have been paid by Tenant, (iii) stating whether or not, to the best knowledge of Tenant, Landlord is in default in the performance of any covenant, agreement or condition contained in this Lease, and if so, specifying each such default of which Tenant may have knowledge, (iv) stating the address to which notices to Tenant should be sent, (v) stating the commencement and expiration dates of this Lease, including any optional renewals and (vi) certifying to such other matters as Landlord may reasonably request. Any such statement delivered pursuant hereto may be relied upon by any owner of the Building or the Land, any prospective purchaser of the Building or the Land, any mortgagee or prospective mortgagee of the Building or the Land or of Landlord's interest in either, or any prospective assignee of any such mortgagee. If Tenant fails to deliver the certificate as required, Tenant's failure to do so shall be deemed a conclusive admission of the certifications and acknowledgments contained therein.

26.5 WAIVER OF JURY TRIAL. LANDLORD, TENANT, ALL GUARANTORS AND GENERAL PARTNERS HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING, OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER ON OR IN RESPECT OF ANY MATTER WHATSOEVER ARISING OUT OF OR IN ANYWAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT HEREUNDER, TENANT'S USE PR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM OF INJURY OR DAMAGE. Landlord, Tenant, all Guarantors and all General Partners of Tenant waive any objection to the venue of any action filed in any court situated in the jurisdiction in which the Building is located and waive any right under the doctrine of forum non conveniens or otherwise, to transfer any such action filed in any such court to any other court.

26.6 Notices. All notices or other communications hereunder shall be in writing and shall be deemed duly given if delivered in person (with receipt therefor) or when sent by certified or registered mail, return receipt requested, first-class, postage prepaid, (i) if to Landlord c/o The Prudential Insurance Company of America, 1200 K Street, N.W., Suite 920, Washington, D.C. 20005, Attention: Regional Counsel, with copy to Vice President, Asset Management at the same address and (ii) if to Tenant at Tenant Address for Notices unless notice of a change of address is given pursuant to the provisions of this Article.

26.7 Invalidity of Particular Provisions. If any provision of this Lease or the application thereof to any person or circumstances shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such provision to persons or circumstances other than those to which it is invalid or unenforceable, shall not be affected thereby, and each provision of this Lease shall be valid and be enforced to the fullest extent permitted by law.

26.8 Gender and Number. Feminine or neuter pronouns shall be substituted for those of the masculine form, and the plural shall be substituted for the singular number, in any place or places herein in which the context may require such substitution.

26.9 Benefit and Burden. The provisions of this Lease shall be binding upon, and shall inure to the benefit of, the parties hereto and each of their respective representatives, successors and assigns. Landlord may freely and fully assign its interest hereunder.

26.10 Entire Agreement. This Lease, together with the Exhibits attached hereto, contains and embodies the entire agreement of the parties hereto, and no representations, inducements or agreements, oral or otherwise, between the parties not contained in this Lease and the Exhibits, shall be of any force or effect. This Lease may not be modified, changed or terminated in whole or in part in any manner other than by an agreement in writing duly signed by both parties hereto.

26.11 Authority. Landlord and Tenant hereby covenant each for itself, that each has full right, power and authority to enter into this Lease upon the terms and conditions herein set forth. If Tenant signs as a corporation, each of the persons executing this Lease on behalf of Tenant does hereby covenant and warrant that Tenant is a duly authorized and existing corporation, qualified to do business in the Commonwealth of Virginia, that the corporation has full right and authority to enter into this Lease, and that each and both of the persons signing on behalf of the corporation were authorized to do so.

26.12 Time of the Essence. Time is of the essence of each provision of this Lease.

26.13 Attorney's Fees. If as a result of any breach or default in the performance of any of the provisions of this Lease, Landlord or Tenant uses the services of an attorney in order to secure compliance with such provisions or recover damages therefor, or to terminate this Lease, pursue other available remedies, the prevailing party shall be entitled to recover upon demand any and all attorneys' fees and expenses incurred by such prevailing party.

26.14 Captions. Article and Section headings are used for convenience and shall not be considered when construing this Lease.

26.15 No Recording. This Lease shall not be recorded. This Lease shall not be recorded in any office legally established for the purpose of giving public notice of real estate records and any attempt to do so may be treated by Landlord as an Event of Default under this Lease. In the event Tenant does record this Lease or any memorandum thereof, Tenant by such act irrevocably constitutes and appoints Landlord as its special attorney-in-fact to execute any and all documents required to remove the Lease or any memorandum thereof from the public records.

26.16 Governing Law. This Lease is governed under the laws of the Commonwealth of Virginia. Landlord and Tenant agree that any litigation arising out of, or related to, this Lease shall be brought in the courts of the Commonwealth of Virginia or in the United States District Court for the Eastern District of Virginia, and the Landlord and Tenant hereby consent to the venue of such courts.

26.17 Examination of Lease. Submission of this Lease for examination or signature by Tenant shall not constitute reservation of or option for lease, and the same shall not be effective as a lease or otherwise until execution and delivery by both Landlord and Tenant.

26.18 Survival. Landlord's and Tenant's liabilities existing as of the expiration or earlier termination of the Lease Term shall survive such expiration or earlier termination.

26.19 Force Majeure. If Landlord is in any way delayed or prevented from performing any of its obligations under this Lease due to fire, act of God, governmental act or failure to act, strike, labor dispute, inability to procure materials or any other cause beyond Landlord's reasonable control (whether similar or dissimilar to the foregoing events), then the time for performance of such obligation shall be excused for the period of such delay or prevention and extended for a period equal to the period of such delay or prevention.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease under seal on the day and year first hereinabove written.

LANDLORD:

ATTEST: The Prudential Insurance Company of America

____________________________ By: _________________________________(SEAL)

Assistant Secretary Its: Vice President

TENANT:

ATTEST:

______________________________ By: _______________________________(SEAL)

Title: Title:

EXHIBIT A
FLOOR PLANS

EXHIBIT B
AGREEMENT FOR CONSTRUCTION

Landlord and Tenant simultaneously with the execution of this Agreement for Construction (Agreement) are executing a Lease for space (the Premises) in the Building. The Premises and Building are described in the Lease.

As further inducement, each to the other, to enter into the Lease (which is hereby incorporated by reference to the extent the provisions of this Agreement apply thereto) and in consideration of the mutual covenants herein, Landlord and Tenant mutually agree as follows:

1. Landlord's Work. "Landlord's Work" shall mean the provision of all labor, materials, coordination, supervision and planning services necessary to install in the Premises those Tenant Improvements described in Exhibit B.1.

2. Construction. Landlord's space planner will prepare Tenant Construction Documents for the Premises showing in completed detail and in finish form the necessary drawings by which a contractor can build out the Premises. Tenant Construction Documents will, in complete detail, describe partitions, doors, reflected ceilings, telephone outlets, electrical switches and outlets, finishes, and HVAC equipment and controls for Landlord's Work.

(a) Space Planning

Landlord's space planner will develop a program for Tenant showing the relationships of functions and/or people and the physical requirements of Tenant's operations. It is agreed that Tenant will furnish to Landlord and Space Planner all information regarding its partitioning, electrical, mechanical, telephone requirements and all other pertinent data by not later than 12/09/96 . Up to two (2) preliminary architectural Tenant drawings will be provided at Landlord's expense.

(b) Construction Documents

Landlord's space planner and engineer will prepare Tenant Construction Documents for all Landlord's Work. Landlord will produce and furnish to Tenant, at no cost, one blue print copy of the approved Tenant Construction Documents. All other sets or copies will be provided at Tenant's expense. Landlord and Tenant must approve the Tenant Construction Documents in writing on or before the approval date specified herein and prior to the commencement of the pricing and construction.

(c) Pricing

Prior to the commencement of construction, Landlord will furnish Tenant a pricing for all Landlord's Work included in the Tenant Construction Documents, which Tenant shall be liable for, which pricing must be approved in writing by Tenant on or before the approval date specified on Exhibit B.2. This pricing will include a reasonable contingency factor. Tenant shall pay to Landlord as Additional Rent, after occupancy by Tenant, and not later than ten (10) days after receipt of a statement from Landlord, any and all amounts by which the actual cost of the Tenant Improvements exceeds the Improvement Allowance.

(d) Schedule

Landlord and Tenant shall adhere to the schedule for preparation and approval of plans and working drawings set forth in Exhibit B.2.

(e) General

Landlord specifically retains the sole right of architectural control, review, approval or disapproval of any Landlord's Work. If Tenant shall arrange for interior design services, whether with Landlord's space planner or any other planner or designer, it shall be Tenant's responsibility to coordinate such interior design services with Landlord to ensure that no delays are caused in the programming, space planning, construction documentation or construction of any of the work. Landlord shall have the right to approve or disapprove the use of any planner or designer Tenant elects to use, other than Landlord's space planner, prior to developing the program for the Space Plan. All sums due Landlord for Landlord's Work shall be considered Additional Rent under the terms of the Lease; non-payment shall constitute default and entitle Landlord to any and all remedies specified in the Lease.

(f) Changes

No changes will be made to the work after acceptance of the pricing by Tenant unless the change request is made in writing by Tenant, Landlord approves the change in writing and Tenant approves pricing for the change in work and drawings and the time adjustment for rent commencement.

5. Lease Commencement Date. As provided in the Lease, it is agreed that the Lease Commencement Date shall occur, and Tenant's obligation to pay Rent will begin, when all Landlord's Work has been substantially completed by Landlord. As used herein and in the Lease, "Substantial Completion" shall mean that date, as reasonably determined by Landlord or by Landlord's architect, when all of the work required of Landlord hereunder has been completed except for completion or correction of minor items, which do not adversely affect Tenant's use or occupancy of the Premises, and the City of Chesapeake has issued such certificate as may be

necessary to permit initial occupancy of the Premises by Tenant. However, Tenant agrees that if Substantial Completion of such Landlord's Work has been delayed as a result of:

(a) Tenant's failure to timely furnish plans or required information,

(b) Tenant's failure to promptly review any and all submittals and make any changes or adjustments and return same in a timely manner in order to meet the approval schedule contained in Exhibit B.2 hereof,

(c) Tenant's failure to timely furnish approvals or information necessary for the preparation of the space planning program, Space Plan, Tenant Construction Documents or pricing in accordance with the schedule contained in Exhibit B.2 hereof,

(d) Tenant's request for changes to the approved Space Plan or approved Tenant Construction Documents,

(e) Tenant's request for material, finishes or installations, which require long lead items, or

(f) Actions of Tenant, or any person, firm or corporation employed by Tenant,

then, for purposes of determining the Lease Commencement Date, the Landlord's Work shall be deemed to have been substantially completed on the date that Landlord's architect determines in its sole judgment that the Landlord's Work would have been substantially completed if such delay or delays had not occurred.

6. Tenant Entrv. If Tenant should desire to enter the Premises or authorize its agent to do so prior to the Lease Commencement Date, to per-form approved work not included in Landlord's Work, then Landlord shall permit such entry subject to the following conditions and requirements:

(a) The terms of this Lease shall govern the tenant's occupancy and all work performed in the Premises.

(b) Tenant, its contractors, mechanics, workmen, or such others as may enter, do not in any way disturb Landlord's contractors, workmen, mechanics, or other agents, in the performance of their work. If, in Landlord's reasonable judgment, entry of Tenant or any of its agents would cause, has caused or is causing disturbance to Landlord or its agents then Landlord may without notice refuse admittance to Tenant or its contractors, workmen, mechanics, or agents.

(c) Tenant, its contractors or other agents provide Landlord sufficient evidence that it (they) is (are) covered under such Worker's Compensation, public liability and property damage insurance as Landlord may reasonably request for its protection.

7. Landlord's representative for coordination of construction will be:

Name: Robinson Sigma Commercial Real Estate, Inc.
Address: 150 Boush Street, Suite 300, Norfolk, Virginia 23510
Phone: (757) 640-7130

8. Tenant's representative for coordination of construction will be:

Name: Harvey Lindsay Commercial Real Estate
Address: 1400 Dominion Tower, Norfolk, VA 23510
Phone: (757) 640-8700
Attention: Mr. Scott Godbout

TENANT:	LANDLORD:
Consumer Portfolio Services, a California corporation	The Prudential Insurance Company of America
By:________________________________	By: ________________________________
Title:	Vice President

EXHIBIT B.1
BUILDING STANDARD

"Preliminary Working Drawings" by Morrisetts Architecture dated December 30, 1996.

EXHIBIT B.2

PRELIMINARY AND FINAL WORKING DRAWINGS SCHEDULE

The schedule for the development of the Preliminary and Final Working Drawings will be as follows:

Deadlines

(1)	Tenant approves general space layout for the Premises. complete	
(2)	Tenant furnishes information to Space Planner necessary for the preparation of Preliminary Working Drawings. complete	
(3)	Space Planner submits Preliminary Working Drawings to Landlord and Tenant for review and approval.	complete
(4)	Tenant gives Landlord approval of Preliminary Working Drawings, with any requested changes or otherwise required as a result of Landlord's review of the same.	complete
(5)	Landlord quotes price estimates to Tenant for Landlord's Work (including cost estimates of design, materials, permits, etc.) shown on Preliminary Working Drawings.	01/16/97
(6)	Tenant authorizes and approves such Landlord's Work as it may determine and Long-Lead Items are ordered. 01/19/97	
(7)	Engineers, Space Planner, Landlord, and Tenant coordinate and produce Final Working Drawings.	01/25/97
(8)	Landlord and Tenant approve Final Working Drawings and authorize commencement of construction of Landlord's Work.	01/27/97
(9)	Projected date of Substantial Completion.	03/15/97

Tenants agree to promptly review any and all submissions and make any changes or adjustments and return the same to Landlord in a timely manner in order to meet the schedule set forth above.

EXHIBIT C

CERTIFICATE AFFIRMING THE LEASE COMMENCEMENT AND EXPIRATION DATE

This Certificate is being provided pursuant to Section 3.2 of that certain lease agreement dated ________________ (the "Lease"), between The Prudential Insurance Company of America and ____.

The parties to the Lease desire to confirm the following:

1. The Lease Commencement Date is ____________________________.

2. The initial term of the Lease shall expire on _________________________ ("Lease Expiration Date").

Attached to this Certificate is evidence of payment of premiums for all insurance required pursuant to Sections 14.1 and 14.3 of the Lease.

LANDLORD:

ATTEST:

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, a New Jersey corporation

___________________________ By: ____________________________(SEAL)

Assistant Secretary Its: Vice President

TENANT:

ATTEST: ____________________________ ____________________________

___________________________ By: __________________________(SEAL)

Title: Its: _________________________

EXHIBIT D
RULES AND REGULATIONS

This Exhibit is attached to and made a part of that certain Lease Agreement dated as of the 9th day of December , 1996 (the "Lease"), by and between The Prudential Insurance Company of America ("Landlord"), and Consumer Portfolio Services, a California corporation ("Tenant").

1. Tenant shall not obstruct or encumber or use for any purpose other than ingress and egress to and from the Premises any sidewalk, entrance, passage, court, elevator, vestibule, stairway, corridor, hall or other part of the Building not exclusively occupied by Tenant. Landlord shall have the right to control and operate the public portions of the Building and the facilities furnished for common use of the tenants, in such manner as Landlord deems best for the benefit of the tenants generally. Tenant shall not permit the visit to the Premises of persons in such numbers or under such conditions as to interfere with the use and enjoyment of the entrances, corridors, elevators and other public portions or facilities of the Building by other tenants. Tenant shall coordinate in advance with Landlord's property management department all deliveries to the Building so that arrangements can be made to minimize such interference.

2. Tenant shall not attach, hang or use in connection with any window or door of the Premises any drape, blind, shade or screen, without Landlord's prior written consent. All awnings, projections, curtains, blinds, shades, screens and other fixtures shall be of a quality, type, design and color, and attached in a manner, approved in writing by Landlord.

3. Tenant shall not place any showcase, mat or other article in any part of the exterior of the Premises.

4. Tenant shall not use the water and wash closets and other plumbing fixtures for any purpose other than those for which they were constructed, and Tenant shall not place any debris, rubbish, rag or other substance therein.

5. Tenant will cooperate with Landlord in complying with all present and future laws, orders, and regulations of the state, federal, municipal, and local governments, departments, commissions, agencies and boards regarding the collection, sorting, separation, and recycling of trash. Tenant shall sort and separate its trash into such categories as are provided by law. Each separately sorted category of trash shall be placed in separate receptacles as directed by Landlord. Landlord reserves the right to refuse to collect or accept from Tenant any trash that is not separated and sorted as may be required by law.

6. Tenant shall not construct, maintain, use or operate within the Premises any electrical device, wiring or apparatus in connection with a loud speaker system or other sound system without Landlord's prior written consent. Tenant shall not construct, maintain, use or operate any such

loud speaker or sound system outside of the Premises.

7. Tenant shall not bring any bicycle, vehicle, animal, bird or pet of any kind into the Building. Tenant shall not do or permit any cooking on the Premises, except for use of microwave ovens and coffee machines by Tenant's employees for their own consumption. Tenant shall not install any microwave oven or coffee machine in the Premises without Landlord's prior written approval of such equipment and its location within the Premises. Tenant shall not cause or permit any unusual or objectionable odor to be produced upon or permeate from the Premises.

8. Tenant shall not use any space in the Building for the sale of goods to the public at large or for the sale at auction of goods or property of any kind.

9. Tenant shall not make any unseemly or disturbing noise or disturb or interfere with occupants of the Building.

10. Tenant will not conduct or permit to be conducted, any activity, or place any equipment in or about the Premises or the Building, which will in any way increase the rate of fire insurance or other insurance on the Building; and if any increase in the rate of fire insurance or other insurance is stated by any insurance company or by the applicable insurance Rating Bureau to be due to any activity or equipment of Tenant in or about the Premises or the Building, such statement shall be conclusive evidence that the increase in such rate is due to such activity or equipment and as a result thereof, Tenant shall be liable for such increase and shall reimburse Landlord therefor upon demand and any such sum shall be considered additional rent payable hereunder.

11. Tenant shall not place additional locks or bolts of any kind on any of the doors or windows, and shall not make any change in any existing lock or locking mechanism therein, without Landlord's prior written approval. Tenant shall keep doors leading to a corridor or main hall closed during business hours except as such doors may be used for ingress or egress. Tenant shall, upon the termination of its tenancy, restore to Landlord all keys of stores, offices, storage and toilet rooms either furnished to, or otherwise procured by, Tenant, and in the event of the loss of any keys so furnished, Tenant shall pay the replacement cost thereof. Tenant's key system shall be separate from that for the rest of the Building.

12. Landlord reserves the right to exclude from the Building at all times any person who does not properly identify himself to the Building management or watchman on duty. Landlord may require all persons admitted to or leaving the Building to register.

13. The normal hours of operation for the Building will be 8:00 a.m. to 6:00 p.m. on Monday through Friday (except Federal and Commonwealth of Virginia holidays) and 9:00 a.m. to 1:00 p.m. on Saturday (except Federal and Commonwealth of Virginia holidays) and such other hours, if any, as Landlord from time to time determines.

14. Tenant shall not use the Premises for lodging or sleeping or for any immoral or illegal purpose.

15. Tenant, before closing and leaving the Premises at any time, shall see that all windows are closed and all lights turned off.

16. Tenant shall not request Landlord's employees to perform any work or do anything outside of such employees' regular duties without Landlord's prior written consent. Tenant's special requirements will be attended to only upon application to Landlord, and any such special requirements shall be billed to Tenant in accordance with the schedule of charges maintained by Landlord from time to time or as is agreed upon in writing in advance by Landlord and Tenant. Tenant shall not employ any of Landlord's employees for any purpose whatsoever without Landlord's prior written consent.

17. Canvassing, soliciting and peddling in the Building are prohibited and Tenant shall cooperate to prevent the same.

18. There shall not be used in any space, or in the public halls of the Building, either by any tenant or by jobbers or others in the delivery or receipt of merchandise, any hand trucks, except those equipped with rubber tires and side guards. Tenant shall be responsible for any loss or damage resulting from any deliveries made by or for Tenant.

19. Landlord shall have the right to prescribe standards for curtains, drapes, blinds, shades, screens, lights and ceilings, including standards designed to give the Building a uniform, attractive appearance. Tenant shall comply with all such standards prescribed by Landlord.

20. Drapes (whether installed by Landlord or Tenant) which are visible from the exterior of the Building, shall be cleaned by Tenant at least once a year, without notice from Landlord, at Tenant's own expense.

21. The following rules apply to parking:

(a) Cars must be parked entirely within the stall lines painted on the pavement.

(b) All directional signs and arrows must be observed.

(c) The speed limit shall be 5 miles per hour.

(d) Parking is prohibited:

(i) in areas not striped for parking
(ii) in aisles
(iii) where "no parking" signs are posted
(iv) in cross hatched areas
(v) in such other areas as may be designated by Landlord or Landlord's agent(s).

(e) Parking stickers or any other device or form of identification supplied by Landlord shall remain the property of Landlord and shall not be transferable. There will be a replacement charge payable by Tenant equal to the amount posted from time to time by Landlord for loss of any magnetic parking card or parking sticker.

(f) No intermediate or full-size cars shall be parked in parking spaces limited to compact cars.

(g) Every parker is required to park and lock his own car. All responsibility for damage to cars or persons is assumed by the parker.

22. Landlord may, upon request of Tenant, waive Tenant's compliance with any of the rules, provided that (a) no waiver shall be effective unless signed by Landlord, (b) no waiver shall relieve Tenant from the obligation to comply with such rule in the future unless otherwise agreed in writing by Landlord, (c) no waiver granted to any tenant shall relieve any other tenant from the obligation of complying with these rules and regulations, and (d) no waiver shall relieve Tenant from any liability for any loss or damage resulting from Tenant's failure to comply with any rule.

EXHIBIT E
PARKING PLAN

EXHIBIT F

ADDITIONAL PROVISIONS

The following paragraphs are made a part of this Lease, and in the event of any inconsistency between the following paragraphs and any other terms of this Lease, the following paragraphs shall control:

1. Escalation:

EXHIBIT G

ADDITIONAL PROVISIONS

The following paragraphs are made a part of this Lease, and in the event of any inconsistency between the following paragraphs and any other terms of this Lease, the following paragraphs shall control:

Rent Abatement: Provided Tenant is not in default hereunder, the Base Rent shall be abated for the first six (6) months of the Lease term. All other provisions of the Lease, including payment of Operating Expenses and any additional rent described hereunder, shall be in effect during the abatement period.

Escalation: The annual rent, as described in paragraph 4 of the Lease, shall increase annually in accordance with the following schedule:

PERIOD	ANNUAL RENT	MONTHLY RENT	P.S.F.
03/15/97 - 03/31/98	$260,666.04	$21,722.17	$14.00
04/01/98 - 03/31/99	$267,182.64	$22,265.22	$14.35
04/01/99 - 03/31/00	$273,885.48	$22,823.79	$14.71
04/01/00 - 03/31/01	$280,774.56	$23,397.88	$15.08
04/01/01 - 03/31/02	$287,663.52	$23,971.96	$15.45
04/01/02 - 03/31/03	$294,924.96	$24,577.08	$15.84
04/01/03 - 03/31/04	$302,372.52	$25,197.71	$16.24
04/01/04 - 03/31/05	$309,820.20	$25,818.35	$16.64
04/01/05 - 03/31/06	$317,640.12	$26,470.01	$17.06
04/01/06 - 03/31/07	$325,460.16	$27,121.68	$17.48
04/01/07 - 09/30/07	$333,652.44	$27,804.37	$17.92

3. Right of First Offer:

(a) During the term of this Lease, Tenant shall have a right of first offer to lease a portion or all of the currently vacant fifth floor space consisting in total of approximately 9,258 rentable square feet as shown on Exhibit F, subject to any tenant's rights to renew or expand. If Landlord receives an expression of interest from, or sends a proposal to and receives a response from a bona fide third party prospective tenant to lease all or a part of the expansion space (the "Additional Space"), then Landlord shall provide Tenant notice of the availability of the space. The exact size and configuration of the Additional Space, and the date on which it can be delivered to Tenant shall be specified by Landlord in a written notice furnished to Tenant ("Landlord's Notice of Availability").

(b) Provided Tenant shall not be in default under the Lease, Tenant will have the right to accept the offer to lease said Additional Space as it becomes available for Lease by giving written notice to Landlord within five (5) business days following its receipt of Landlord's Notice of Availability. If Tenant fails to accept the Additional Space then being offered in Landlord's Notice of Availability within such five (5) business day period, Landlord thereafter shall be free to lease the space to any other party, which lease may include rights in favor of such other party to renew or expand to which this right of first offer shall be subordinate. Upon the date of delivery of the Additional Space to Tenant (the "Delivery Date"), the Additional Space so delivered shall become part of the Demised Premises, subject to all the terms and conditions of this Lease except as stipulated in subsection (c) below.

(c) The leasing of the Additional Space shall be on the same terms and conditions set forth in this Lease or applicable on the Delivery Date, except that the Additional Space shall be delivered to and accepted by Tenant in its existing condition, provided that Landlord shall provide a Tenant improvement allowance based on $10.00 per square foot for a one hundred twenty six (126) month lease term pro-rated accordingly based on the amount of time remaining in the term.

For example, if the Tenant were to obtain Additional Space and the Delivery Date of the Additional Space to the Tenant was March 15, 1 999, then the Tenant Improvement Allowance would be $8.10 per square foot.

In the event Tenant exercises its Right of First Offer, rent abatement shall not apply to the Additional Space.

(d) In the event there exists a default by Tenant under this Lease on the date the Additional Space is delivered to Tenant for occupancy, then, at Landlord's option, possession of such Additional Space shall not be delivered to Tenant, and Tenant's right to lease such Additional Space shall lapse and be of no further force or effect.

(e) Landlord shall incur no liability if Landlord is unable to deliver possession of the Additional Space to Tenant due to any holdover tenant's refusal to vacate, or for any other reason not within Landlord's reasonable control, provided that Landlord shall use reasonable efforts to obtain and deliver possession of the Additional Space.

(f) Tenant's right under this Section is not assignable and may be exercised only by Tenant and only if the Additional Space is intended for Tenant's own use and will be used solely by Tenant, may be exercised only by Tenant, and shall not be exercised by any transferee, mortgagee, subtenant or other assignee of tenant or any trustee for Tenant.

(g) Notwithstanding any provisions of this Section, or any other provisions of this Lease, Tenant shall have no rights pursuant to this Section as if this Section had not been included, in this Lease, if Tenant has assigned this Lease in whole or in part, or if Tenant has subleased all or any part of the Premises. The preceding sentence shall not impair Tenant's leasing of Additional Space which Tenant has leased pursuant to subsection (a) above before the occurrence of such assignment or sublease. Without limiting the other provisions of this Lease with respect to which time is of the essence, time is of the essence of each of the provisions of this Section with respect to the exercise by Tenant of its options.

4. Renewal Option:

(a) Landlord hereby grants to Tenant the conditional one-time right, exercisable at Tenant's option, to renew the term of this Lease for one (1) term of an additional five (5) years (the "Renewal Term"). If exercised, and if the conditions applicable thereto have been satisfied, the Renewal Term shall commence immediately following the end of the Lease Term (i.e. October 1, 2007). The right of renewal herein granted to Tenant shall be subject to, and shall be exercised in accordance with the following terms and conditions:

(i) Tenant shall exercise its right of renewal by giving Landlord written notice thereof (the "Renewal Notice") not earlier than December 1, 2006 and later than February 28, 2007.

(ii) At the time the option Is exercised and at the commencement of the Renewal Term, the Lease shall be in full force and effect, and Tenant shall not be in default thereunder.

(iii) In the event the Renewal Notice is not given timely, Tenant's right of renewal with respect to the Renewal Term shall lapse and be of no further force or effect.

(b) During any Renewal Term, all the terms, conditions, covenants and agreements set forth in the Lease, as amended, shall continue to apply and be binding upon Landlord and Tenant, except that the Base Rent payable during the Renewal Term shall be equal to Market Rent as defined below.

(c) "Market Rent" shall be the fair market amount of Base Rent (including escalations) determined as follows:

(i) Following the giving of the Renewal Notice, Landlord and Tenant shall commence negotiations concerning the amount of Base Rent that shall constitute Market Rent. The parties shall have thirty (30) days after the date Tenant delivers its Renewal Notice within which to agree on such Market Rent. If, during such negotiation period, the parties are unable to agree on such Market Rent, then within ten (10) days after the expiration of that period each party, at its cost, and by giving notice to the other party shall appoint a real estate broker familiar with the fair market rental value of commercial office space in the area in which the building is located to determine the Market Rent for the Premises, taking into consideration the factors described below. If one party does not appoint a broker within ten (10) business days after the other party has given notice of the name of its broker, the single broker appointed shall be the sole broker, and the Market Rent so determined by that broker shall be the Market Rent for purposed of this subparagraph.

If two brokers are appointed by the parties as stated above, they shall independently establish their opinions of Market Rent for the Premises within ten (10) days of their respective appointments. If the brokers agree, the Market Rent shall be the fair rental value of the property as agreed by the two brokers. If they are unable to agree within fifteen (15) days after the second broker has been appointed, the Market Rent shall be the fair rental value for the Total Premises as determined by the average of the two appraisals if the higher of the two appraisals is no greater than 110% of the lower of the two appraisals. If, however, the higher of the two appraisals is more than 110% higher than the lower appraisal, the two brokers shall appoint a third broker (within 5 business days after the expiration of said 15 day period) who shall establish his or her own opinion of Market Rent for the Premises within five (5) business days after such third broker's appointment, taking into consideration the factors described below. Each of the parties shall bear one half of the cost of appointing the third broker and of paying the third broker's fee. The third broker shall have the qualifications stated above and shall further be a person who has not previously acted in any capacity for either party.

Within fifteen (15) days after the selection of the third broker, the Market Rent shall be determined by an average of the Market Rents specified by the three brokers; provided, however, that if the low appraisal and/or the high appraisal are/is more than ten percent (10%) lower and/or higher than the middle appraisal, the low appraisal and/or the high appraisal shall be disregarded. If only one appraisal is disregarded, the remaining two appraisals shall be added together and their total divided by two to establish the Market Rent. If both the low appraisal and the high appraisal are disregarded as stated in this Paragraph, the middle appraisal shall establish the Market Rent for the Premises during the Renewal Term.

(ii) Among the factors to be considered in determining Market Rent shall be the rental rates and rental escalations then being quoted by (a) Landlord for comparable space in the Building available for lease to new tenants and (b) other landlords for similar space in comparable buildings (or adjusting the rental rate as appropriate for differences between such space and the Premises) taking into consideration, among other things, location and floor level within the applicable building, the location, quality, age and reputation of the building, the definition of rental area or net rentable area, as the case may be, with respect to which such rental rates are computed, rent concessions or other allowances, abatements, rental rates are computed, rent concessions or other allowances, abatements, moving expenses, tenant improvements, parking rights, the term of the lease (or renewal) under consideration, and the extent of services provided thereunder, applicable distinctions between "gross" leases and "net" leases, and any other relevant term of condition in making such evaluation. All determinations shall reflect market conditions expected to exist as of the date Base Rent for the Renewal Term (based on Market Rent) is to commence (including base rents, escalations, concessions and other terms expected to be agreed to in market leases entered into at such time).

(iii) Without limiting the other provisions of this Lease with respect to which time is of the essence, time is of the essence of each of the provisions of this Section with respect to the exercise by Tenant of its option.

(iv) To the extent that arbitration has not been completed prior to the expiration of any preceding period for which Base Rent has been determined, Tenant shall pay Base Rent at the rate estimated by Landlord, with an adjustment to be made once Fair Market Rent is ultimately determined by arbitration.

5. Termination Option:

(a) Tenant shall have a one-time option to terminate the Lease effective as of March 31, 2002 the "Termination Date") provided that (i) the Lease is in full force and effect and Tenant shall not be in default under the Lease, both at the time the Termination Notice is given, and on the Termination Date, (ii) Tenant has provided Landlord with prior written notice of its intention to terminate the Lease (the "Termination Notice") on or before October 1, 2001, and (iii) a check in the amount of $210,000.00 (the "Termination Fee") for costs associated with Tenant's occupancy of the Premises accompanies the Termination Notice. Failure to pay the Termination Fee to Landlord at the time the Termination Notice is delivered to Landlord shall make such Termination Notice null and void and of no force and effect whatsoever, and this Lease shall continue in full force and effect as if such Termination Notice had not been given. In the event that Tenant exercises its option as aforesaid, then, in such event, such termination shall be treated as if the term of this Lease had expired and all provisions contained in this Lease pertaining to the rights and obligations of Tenant and Landlord as to and as of the expiration of the term of this Lease shall apply in a like-manner to such early termination. In the event Tenant does not timely notify Landlord of its intent to terminate, this Lease shall continue, in full force and effect, throughout the entire Lease Term.

(b) In the event Tenant exercises its Right of First Offer as defined in paragraph 3 above, and desires to terminate the Lease, all terms and conditions pursuant to paragraph 5(a) above shall apply to the Additional Space, except that Tenant shall pay the Termination Fee in an amount equivalent to the unamortized costs incurred by Landlord in connection with Tenant's occupancy of the Additional Space (including, but not limited to leasing commissions and improvement allowance) as of the Termination Date, assuming amortization of such costs at a rate of ten percent (10%) per annum over the period between the Delivery Date and the Lease Expiration Date.

(c) In the event Tenant does not exercise its Termination Option as defined in paragraph 5(a) above, effective as of April 1. 2002, Tenant shall be allocated an allowance of up to $5.00 per square foot (the "Refurbishment Allowance") for paint and carpet to the Premises and any Additional Space.

6. Tenant Improvements: Landlord shall construct within the Premises certain improvements (the "Landlord's Work') pursuant to the terms of Exhibit B attached hereto. Landlord shall provide Tenant with an allowance of $ 186,190.00 ("Improvement Allowance") for the Landlord's Work. All Costs in excess of the Improvement Allowance shall be Tenant's responsibility.

Consumer Portfolio Services, Inc.
Statement Regarding Computation of Per Share Earnings (Loss)
Exhibit 11

Primary earnings (loss) per share	Year ended December 31,	Nine month transition period ended December 31,	Year ended March 31,		
Computation for Statement of Operations:	1996	1995	1995	1994	1993
Net earnings (loss) per statement of operations used in primary earnings (loss) per share computation					
Net earnings (loss)	$ 14,097,376	$ 7,575,122	$ 6,665,630	$ (1,778,069)	$ (1,502,272)
Interest on borrowings, net of tax effect, on application of assumed proceeds from exercise of warrants and options in excess of 20% limitations	-	-	-	-	-
Net earnings (loss) as adjusted	$ 14,097,376	$ 7,575,122	$ 6,665,630	$ (1,778,069)	$ (1,502,272)
Weighted average number of shares outstanding	13,489,247	11,582,625	8,903,096	8,520,548	6,378,082
Net shares issuable from assumed exercise of warrants and options, as determined by the application of the Treasury Stock Method	1,360,362	2,740,967	2,240,172	-	-
Weighted average number of shares outstanding	14,849,609	14,323,592	11,143,268	8,520,548	6,378,082
Primary earnings (loss) per share, as adjusted	$ 0.95	$ 0.53	$ 0.60	$ (.21)	$ (0.24)

Exhibit 21.1 List of subsidiaries

Following is a list of subsidiaries of the registrant, omitting certain subsidiaries which, if taken together as one subsidiary, would not be a significant subsidiary as of December 31, 1996.

G&A Financial Services, Inc.*
Alton Receivables Corp.*
CPS Receivables Corp.*
CPS Funding Corp.*
CPS Marketing, Inc.*
SAMCO Acceptance Corp.**
LINC Acceptance Company LLC**

* organized under California law
** organized under Delaware law

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Consumer Portfolio Services, Inc.:

We consent to incorporation by reference in the registration statements (Nos. 33-77314, 33-82778, 333-00880, 333-00736 and 333-21289) on Form S-3 and (Nos. 33-78680 and 33-80327) on Form S-8 of Consumer Portfolio Services, Inc. of our report dated February 14, 1997, relating to the consolidated balance sheets of Consumer Portfolio Services, Inc. and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 1996, for the nine-month period ended December 31, 1995, and for the year ended March 31, 1995, which report is incorporated by reference in the December 31, 1996 Annual Report on Form 10-K of Consumer Portfolio Services, Inc.

KPMG PEAT MARWICK LLP

Orange County, California
March 31, 1997

Exhibit 24

POWER OF ATTORNEY
- --------------------------------

By his signature below, the undersigned director or officer of Consumer Portfolio Services, Inc., a California corporation, which will file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, an Annual Report on Form 10-K for the year ended December 31, 1996, hereby appoints Charles E. Bradley, Jr., and Jeffrey P. Fritz his true and lawful attorneys-in-fact, each of them with full power to act without the other, for him and in his name, place and stead, in any and all capacities, to sign said Form 10-K Annual Report and any and all amendments thereto, and any and all other documents in connection therewith, and to file the same with the Securities and Exchange Commission, the Nasdaq Stock Market and the New York Stock Exchange, Inc., hereby ratifying and confirming all that said attorneys-in-fact or either of them may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 26th day of March, 1997.

/s/ Charles E. Bradley, Sr.
Director

POWER OF ATTORNEY
- ----------------------------------

By his signature below, the undersigned director or officer of Consumer Portfolio Services, Inc., a California corporation, which will file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, an Annual Report on Form 10-K for the year ended December 31, 1996, hereby appoints Charles E. Bradley, Jr., and Jeffrey P. Fritz his true and lawful attorneys-in-fact, each of them with full power to act without the other, for him and in his name, place and stead, in any and all capacities, to sign said Form 10-K Annual Report and any and all amendments thereto, and any and all other documents in connection therewith, and to file the same with the Securities and Exchange Commission, the Nasdaq Stock Market and the New York Stock Exchange, Inc., hereby ratifying and confirming all that said attorneys-in-fact or either of them may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 26th day of March, 1997.

/s/ Charles E. Bradley, Jr.
Director

POWER OF ATTORNEY
- ------------------------------------

By his signature below, the undersigned director or officer of Consumer Portfolio Services, Inc., a California corporation, which will file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, an Annual Report on Form 10-K for the year ended December 31, 1996, hereby appoints Charles E. Bradley, Jr., and Jeffrey P. Fritz his true and lawful attorneys-in-fact, each of them with full power to act without the other, for him and in his name, place and stead, in any and all capacities, to sign said Form 10-K Annual Report and any and all amendments thereto, and any and all other documents in connection therewith, and to file the same with the Securities and Exchange Commission, the Nasdaq Stock Market and the New York Stock Exchange, Inc., hereby ratifying and confirming all that said attorneys-in-fact or either of them may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 26th day of March, 1997.

/s/ John G. Poole
Director

POWER OF ATTORNEY
- ------------------------------------

By his signature below, the undersigned director or officer of Consumer Portfolio Services, Inc., a California corporation, which will file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, an Annual Report on Form 10-K for the year ended December 31, 1996, hereby appoints Charles E. Bradley, Jr., and Jeffrey P. Fritz his true and lawful attorneys-in-fact, each of them with full power to act without the other, for him and in his name, place and stead, in any and all capacities, to sign said Form 10-K Annual Report and any and all amendments thereto, and any and all other documents in connection therewith, and to file the same with the Securities and Exchange Commission, the Nasdaq Stock Market and the New York Stock Exchange, Inc., hereby ratifying and confirming all that said attorneys-in-fact or either of them may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 26th day of March, 1997.

/s/ Thomas L. Chrystie
Director

POWER OF ATTORNEY
- ---------------------------------

By his signature below, the undersigned director or officer of Consumer Portfolio Services, Inc., a California corporation, which will file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, an Annual Report on Form 10-K for the year ended December 31, 1996, hereby appoints Charles E. Bradley, Jr., and Jeffrey P. Fritz his true and lawful attorneys-in-fact, each of them with full power to act without the other, for him and in his name, place and stead, in any and all capacities, to sign said Form 10-K Annual Report and any and all amendments thereto, and any and all other documents in connection therewith, and to file the same with the Securities and Exchange Commission, the Nasdaq Stock Market and the New York Stock Exchange, Inc., hereby ratifying and confirming all that said attorneys-in-fact or either of them may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney this 26th day of March, 1997.

/s/ William B. Roberts
Director

YEAR
DEC-31-1996
JAN-01-1996
DEC-31-1996
153,958
0
24,742,967
0
0
0
1,727,353
1,097,579
101,946,420
0
20,000,000
0
0
34,644,314
22,313,219
101,946,420
0
51,193,803
0
27,501,407
0
2,755,803
5,780,529
23,692,396
9,595,020
14,097,376
0
0
0
14,097,376
0.95
0.93

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

The Company's Common Stock is traded on the Nasdaq National Market, under the symbol "CPSS." The following table sets forth the high and low bid prices quoted for the Common Stock for the periods indicated. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

	HIGH	LOW
January 1--March 31, 1995	$ 8.375	$ 6.625
April 1--June 30, 1995	9.313	7.000
July 1--September 30, 1995	12.875	9.250
October 1--December 31, 1995	11.625	8.500
January 1--March 31, 1996	10.438	7.375
April 1--June 30, 1996	10.250	8.250
July 1--September 30, 1996	12.750	7.500
October 1--December 31, 1996	14.375	10.625
January 1--March 26, 1997	13.625	7.250

On March 26, 1997 the last reported sale price for the Common Stock on the Nasdaq National Market was as reported on the cover page of this Prospectus. As of March 26, 1997, there were 84 holders of record of the Company's Common Stock.

To date, the Company has not declared or paid any dividends on its Common Stock. The payment of future dividends, if any, on the Company's Common Stock is within the discretion of the Board of Directors and will depend upon the Company's earnings, its capital requirements and financial condition, and other relevant factors. The Company does not intend to declare any dividends on its Common Stock in the foreseeable future, but instead intends to retain any earnings for use in the Company's operations. See "Description of Common Stock."

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents certain summary consolidated financial information for the year ended December 31, 1996, the nine-month transition period ended December 31, 1995, and the fiscal years ended March 31, 1995, 1994 and 1993, which has been derived from the Company's Consolidated Financial Statements audited by KPMG Peat Marwick LLP, independent certified public accountants, certain of which have been included elsewhere herein. The following information should be read in conjunction with the Consolidated Financial Statements and related Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

	YEAR ENDED DECEMBER 31, 1996	NINE-MONTH TRANSITION PERIOD ENDED 12/31/95	FISCAL YEAR ENDED MARCH 31, 1995	1994(1)	1993
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF OPERATIONS DATA:					
Net gain on sale of Contracts	$ 23,321	$ 11,549	$ 9,455	$ 5,425	$ 523
Servicing fees	16,169	6,475	7,201	3,556	1,538
Interest income	11,704	6,230	5,849	1,443	400
Total revenue	51,194	24,254	22,505	10,424	2,461
Operating expenses(1)	27,502	11,597	11,358	11,712	3,963
Income taxes	9,595	5,082	4,481	490	0
Net income (loss)	$ 14,097	$ 7,575	$ 6,666	$ (1,778)	$ (1,502)
Primary net income (loss) per common share	$ .95	$ .53	$ .60	$ (.21)	$ (.24)
Weighted average common and common equivalent shares	14,849,609	14,323,592	11,143,268	8,520,548	6,378,082
Fully diluted net income (loss) per common share	$ .93	$ .52	$ .56	$ (.21)	$ (.24)
Fully diluted weighted average common and common equivalent shares	15,410,044	14,803,592	12,538,352	8,520,548	6,378,082
OTHER DATA:					
Principal amount of Contracts purchased during period (excluding Bulk Purchases)	$ 351,350	$ 150,943	$ 150,573	$ 53,103	$ 19,484
Principal amount of Contracts sold during period	340,990	155,719	140,617	58,095	14,103
Outstanding Servicing Portfolio at end of period(2)	505,934	288,927	192,800	63,208	20,436
Net charge-offs(3)	20,328	8,331	4,349	964	276
Servicing fees as a percentage of average principal balance of Contracts being serviced(4)	4.1%	3.6%	5.3%	7.5%	4.7%
Delinquencies as a percentage of gross Servicing Portfolio at end of period(5)(6)	6.8%	5.1%	2.5%	1.3%	1.0%
Delinquencies and amount in repossession as a percent of gross Servicing Portfolio(5)(6)(10)	9.2%	7.9%	4.4%	2.0%	2.0%
Net charge-offs as a percentage of average Servicing Portfolio(3)(6)	5.1%	4.9%	4.0%	2.5%	2.2%
Operating expenses (before interest and provisions for credit losses) as a percentage of average Servicing Portfolio(2)(4)	4.8%	4.4%	5.4%	28.9%	31.5%
Servicing subject to recourse provisions(6)	483,106	268,163	169,331	62,464	14,736
Discounted allowance for credit losses as a percentage of servicing subject to recourse provisions(7)	9.7%	8.7%	8.5%	8.1%	10.2%
Ratio of earnings to fixed charges(8)(9)	5.0x	5.5x	4.2x	--	--
Pro forma ratio of earnings to fixed charges (8)(11)	3.2x	n/a	n/a	n/a	n/a
Cash flows provided by (used in) operating activities	$ (9,661)	$ (18,533)	$ (6,115)	$ (2,816)	$ (6,718)

	AS OF DECEMBER 31, 1996	AS OF DECEMBER 31, 1995	AS OF MARCH 31, 1995	1994	1993
	(IN THOUSANDS)				
BALANCE SHEET DATA:					
Cash	$ 154	$ 10,895	$ 5,767	$ 2,089	$ 245
Investments in credit enhancements	43,597	30,478	23,201	10,497	0
Contracts held for sale	21,657	19,549	21,896	647	5,054
Excess servicing receivables	23,654	11,108	5,154	2,294	503
Total assets	101,946	77,878	57,975	16,538	6,922
Total liabilities	44,989	36,397	30,981	6,337	2,833
Total shareholders' equity	56,957	41,481	26,994	10,201	4,089

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(1) In October 1992, as a condition to the initial public offering of Common Stock of the Company, the then majority shareholder of the Company deposited 1,200,000 shares of Common Stock (the "Escrow Shares") in escrow. The escrow agreement provided that part or all of the Escrow Shares would be released if the Company's net income after taxes (as defined in the escrow agreement) or the average market price of the Common Stock for specified periods exceeded specified levels. The Company's net income (as defined in the escrow agreement) for fiscal 1994 (prior to the accounting effect of the release of the Escrow Shares) exceeded the specified level and, accordingly, all 1,200,000 Escrow Shares were released. The release of the Escrow Shares was deemed compensatory for accounting purposes, resulting in a one-time, non-cash charge of $6,450,000 against earnings for fiscal 1994. Without that charge, net income, primary net income per share and fully diluted net income per share for fiscal 1994 would have been $4,672,000, $.46 and $44, respectively.

(2) Includes the outstanding principal amount of all Contracts purchased by the Company, including Contracts subsequently sold by the Company which it continues to service. Excludes loans serviced for third parties but not purchased by the Company. As of December 31, 1994, the Company had ceased servicing loans for third parties.

(3) Net charge-offs include the remaining principal balance after the application of the net proceeds from the liquidation of the vehicle (excluding accrued and unpaid interest). For periods prior to the year ended December 31, 1996, post liquidation amounts received on previously charged off Contracts were applied to the period in which the related Contract was originally charged off. These prior period allocations were made only for the purpose of calculating this ratio. For financial statement purposes, post liquidation amounts are recognized in the period received. Effective January 1, 1996, post liquidation amounts received on previously charged off Contracts are applied in the period in which they are received, both for this ratio and financial statement purposes. This ratio excludes uninsured casualty losses, which, for the year ended December 31, 1996, the nine-month transition period ended December 31, 1995, and the years ended March 31, 1995, 1994 and 1993 were $1.7 million, $604,000, $205,000, $111,000 and $15,000, respectively

(4) The percentages set forth for the nine-month transition period ended December 31, 1995, are computed using annualized operating data, which do not necessarily represent comparable data for a full twelve-month period.

(5) The Company considers a Contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date and the vehicle securing the Contract has not been repossessed. All amounts and percentages are based on the full amount remaining to be repaid on each Contract, including, for rule of 78s Contracts, any unearned finance charges.

(6) Includes the outstanding principal amount of all Contracts purchased and subsequently sold by the Company which it continues to service. Excludes loans serviced for third parties and Contracts purchased but not yet sold by the Company.

(7) Discounted allowance for credit losses represents the discounted present value calculated at a risk free rate, of future estimated credit losses as determined by the Company in conjunction with the recognition of its gains on sale of Contracts.

(8) The ratio of earnings to fixed charges has been computed by dividing income before taxes and fixed charges by fixed charges. Fixed charges include interest expense and the portion of rent expense that is representative of the interest factor (deemed by the Company to be one-third).

(9) The Company incurred losses in fiscal 1994 and fiscal 1993. Earnings were inadequate to cover fixed charges by $1.3 million and $1.5 million for fiscal 1994 and fiscal 1993, respectively. Adjusted to eliminate the one-time non-cash charge of $6,450,000 referred to in footnote (1) above, the ratio of earnings to fixed charges for fiscal 1994 would have been 10.1x.

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

(11) Adjusted to give effect to the sale of the Notes offered hereby at an estimated interest rate of 9.75% (assuming no exercise of the Underwriters' over-allotment option).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

OVERVIEW

The Company specializes in the business of purchasing, selling and servicing retail automobile installment sales Contracts originated by Dealers in the sale of new and used automobiles, light trucks and passenger vans and has done so since its inception on March 8, 1991. Through its purchases, the Company provides indirect financing to borrowers with limited credit histories, low incomes or past credit problems.

The Company generates earnings primarily from the gains recognized on the sale or securitization of its Contracts, servicing fees earned on Contracts sold, and interest earned on Contracts held for sale. Earnings from gains on sale, servicing fees and interest for the year ended December 31, 1996, were $23.3 million, $16.2 million, and $11.7 million, respectively. Such earnings for the nine-month transition period ended December 31, 1995, were $11.5 million, $6.5 million, and $6.2 million, respectively. For the fiscal year ended March 31, 1995, such earnings were $9.5 million, $7.2 million and $5.8 million, respectively. The Company's income is affected by losses incurred on Contracts, whether such Contracts are held for sale or have been sold in securitizations. The Company's cash requirements have been and will continue to be significant. Net cash used in operating activities for the year ended December 31, 1996, the nine-month transition period ended December 31, 1995 and the year ended March 31, 1995 were $9.7 million, $18.5 million and $6.1 million, respectively.

In each securitization, the Company sells Contracts to a trust which, in turn, sells asset-backed securities to Investors. The terms of the securitization transactions generally provide for the Company to earn a base servicing fee computed as a percentage of the outstanding balance of the Contracts as compensation for its duties as servicer. In addition, the Company is entitled to certain excess servicing fees which represent collections on the Contracts in excess of the amounts necessary to pay principal and interest to Investors and the expenses of the trust, including, primarily, base servicing fees. Excess servicing fees are first deposited into a Spread Account in order to meet the predetermined credit enhancement levels of the securitization trusts. To the extent cash in excess of the predetermined level is generated, such cash is either transferred to cover deficiencies, if any, in Spread Accounts for other pools, or is released to the Company. Transfers between Spread Accounts to cover deficiencies have been insignificant from inception through December 31, 1996. For the year ended December 31, 1996, initial deposits to Spread Accounts, excess servicing deposited to Spread Accounts and cash released from Spread Accounts was $12.3 million, $18.8 million, and $17.9 million, respectively. For the nine-month transition period ended December 31, 1995, initial deposits to Spread Accounts, excess servicing deposited to Spread Accounts and cash released from Spread Accounts was $4.9 million, $7.6 million, and $7.7 million, respectively. For the year ended March 31, 1995, initial deposits to Spread Accounts, excess servicing deposited to Spread Accounts and cash released from Spread Accounts was $13.2 million, $5.4 million, and $5.9 million, respectively.

The Company also recognizes gains on its sales of Contracts. Gains are determined based upon the difference between the sales proceeds for the portion of Contracts sold and the Company's recorded investment in the Contracts sold. The Company allocates the recorded investment in the Contracts between the portion of the Contracts sold and the portion retained based on the relative fair values of those portions on the date of the sale. In addition, the Company recognizes gains attributable to its estimates of excess servicing receivables for each pool of Contracts it securitizes. Excess servicing receivables are determined by computing the difference between the weighted average yield of the Contracts sold and the yield to the purchaser, adjusted for the normal servicing fee based on the agreements between the Company and the purchaser. The resulting differential is recorded as a gain at the time of sale equal to the present value of the estimated cash flows, net of any portion of the excess that may be due to the purchaser and adjusted for anticipated prepayments, repossessions, liquidations and other losses. To the extent that the actual future performance of the Contracts results in less excess cash flows than the Company estimated, the Company's excess servicing receivables will be adjusted at least quarterly, with corresponding charges recorded against income in the period in which the adjustment is made. To the extent that the actual cash flows exceed the Company's discounted estimates, the Company will record additional servicing fees in the periods in which the excess cash is received.

RESULTS OF OPERATIONS

THE YEAR ENDED DECEMBER 31, 1996 COMPARED TO THE NINE-MONTH TRANSITION PERIOD ENDED DECEMBER 31, 1995

The Company changed its fiscal year-end from March 31 to December 31, effective with the nine-month transition period ended December 31, 1995. Accordingly, readers should take into account that the following discussion compares figures for a full twelve month year to a nine-month period. The discussion below does not attempt to explain, for each item discussed, the extent to which the differing length of these periods has affected the figures.

REVENUE. During the year ended December 31, 1996, revenue increased $26.9 million, or 111.1%, compared to the nine-month transition period ended December 31, 1995. Net gain on sale of Contracts includes (i) the excess of the amount realized on the sale of Contracts over the Company's net cost, (ii) the net present value of estimated excess servicing fees on sold contracts, and (iii) the recognition of deferred acquisition fees paid by Dealers net of related acquisition costs. Net gain on sale of Contracts increased by $11.8 million, or 101.9%, and represented 45.6% of total revenue for the year ended December 31, 1996. The increase in gain on sale is largely due to the volume of Contracts which were sold in the period. During the year ended December 31, 1996, the Company sold $341.0 million in Contracts, compared to $155.7 million in the nine-month transition period ended December 31, 1995.

Servicing fees increased by $9.7 million, or 149.7%, and represented 31.6% of total revenue. The increase in servicing fees is due to the Company's continued expansion of its Contract purchase, sale and servicing activities. As of December 31, 1996, the Company was earning servicing fees on 45,363 Contracts approximating $483.1 million compared to 25,398 Contracts approximating $268.2 million as of December 31, 1995. In addition to the $483.1 million in sold Contracts on which servicing fees were earned, the Company was holding for sale and servicing an additional $22.8 million in Contracts for an aggregate servicing portfolio of $505.9 million. Amortization of excess servicing increased by $4.1 million and represented 27.5% of gross loan servicing fees for the year ended December 31, 1996 versus 23.8% for the nine-month transition period ended December 31, 1995. The increase is primarily due to the increase in the average age of the Contracts making up the Company's Servicing Portfolio and consequently the increase in charge-offs and corresponding reduction of servicing fees. The Company expects these increases in the ratio of amortization of excess servicing to gross loan servicing fees to continue until the size and average age of the Servicing Portfolio stabilizes.

Interest income on Contracts held for sale increased by $5.5 million, or 87.9%, representing 22.9% of total revenues for the year ended December 31, 1996. The increase is due to the increase in the volume of contracts purchased and held for sale. During the year ended December 31, 1996, the Company purchased $351.4 million in Contracts from Dealers, compared to $160.1 million in the nine-month transition period ended December 31, 1995.

EXPENSES. During the year ended December 31, 1996, operating expenses increased $15.9 million, or 137.1%, compared to the nine-month transition period ended December 31, 1995. Employee costs increased by $5.6 million, or 169.6%, and represented 32.4% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the Company's growth and certain increases in salaries of existing staff. General and administrative expenses increased by $4.4 million, or 158.9% and represented 26.4% of total operating expenses. Increases in general and administrative expenses included increases in telecommunications, stationery, credit reports and other related items as a result of increases in the volume of purchasing and servicing of Contracts. Additionally, general and administrative expenses increased by $595,000 as a result of including the company's share of losses incurred by NAB Asset Corporation, in which the Company made a 38% equity investment on June 6, 1996.

Marketing expenses increased by $448,000, or 36.4%, and represented 6.1% of total expenses. The increase is primarily due to the increase in the volume of contracts purchased as marketing representatives are compensated directly in proportion to the number of Contracts the Company purchases from Dealers serviced by the marketing representative. Additional increases in marketing expense relate to other marketing expenses such as travel, promotion and convention expenses.

Interest expense increased $3.1 million, or 112.2%, and represented 21.0% of total operating expenses. The increase is primarily due to the interest paid on the $20.0 million in subordinated debt securities issued on December 20, 1995. Interest expense was also impacted by the volume of Contracts held for sale as well as by the Company's cost of borrowed funds.

During the year ended December 31, 1996, the provision for losses on Contracts held for sale increased by $1.9 million, or 232.6%, and represented 10.0% of total operating expenses. The increase in the provision reflects somewhat higher charge-off rates and a larger volume of Contracts held prior to sale when compared to the nine-month transition period ended December 31, 1995.

The results for the year ended December 31, 1996 include net operating losses of $491,000 from the Company's subsidiary Samco Acceptance Corp. ("Samco"). Samco was formed in March 1996 and provides the Company's products and services to Dealers and independent finance companies primarily in rural areas of the southeastern portion of the United States.

The results for the year ended December 31, 1996 also include net operating losses of $324,000 from the Company's subsidiary LINC Acceptance Corp. ("LINC"). LINC was formed in May 1996 and provides the Company's products and services to credit unions and other depository institutions.

NINE-MONTH TRANSITION PERIOD ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED MARCH 31, 1995

The Company changed its fiscal year-end from March 31 to December 31, effective with the nine-month transition period ended December 31, 1995. Accordingly, readers should take into account that the following discussion compares figures for a nine-month period to a full twelve-month year. The discussion below does not attempt to explain, for each item discussed, the extent to which the differing length of these periods has affected the figures.

REVENUES. During the nine months ended December 31, 1995, revenues increased $1.7 million, or 7.8%, compared to the year ended March 31, 1995. Net gain on sale of Contracts, which includes (i) the excess of the amount realized on the sale of Contracts over the Company's net cost, (ii) the net present value of estimated excess servicing fees on sold Contracts, and (iii) the recognition of acquisition fees paid by Dealers and deferred by the Company, increased by $2.1 million, or 22.2%, and represented 47.6% of total revenues for the nine months ended December 31, 1995. The increase in gain on sale is largely due to the volume of Contracts which were sold in the period. During the nine months ended December 31, 1995, the Company sold $155.7 million in Contracts, compared to $140.6 million in the year ended March 31, 1995.

Servicing fees decreased by $726,000, or 10.1%, and represented 26.7% of total revenues. Servicing fees consist primarily of base and excess monthly servicing fees earned on Contracts sold and serviced by the Company, as well as servicing fees for certain third-party originated portfolios for which it has been engaged as servicer. Servicing fees have been impacted by the Company's continued expansion of its Contract purchase, sale and servicing activities. As of December 31, 1995, the Company was earning servicing fees on 25,398 Contracts and loans approximating $268.2 million compared to 16,077 Contracts and loans approximating $169.3 million as of March 31, 1995. In addition to the $268.2 million in sold Contracts and loans on which servicing fees were earned, the Company was holding for sale and servicing an additional $20.8 million in Contracts for an aggregate total servicing portfolio of $288.9 million at December 31, 1995. Amortization of excess servicing increased by $819,000 and represented 23.8% of gross loan servicing fees for the nine-month transition period ended December 31, 1995 versus 14.3% for the year ended March 31, 1995. The increase is primarily due to the increase in the average age of the Contracts making up the Company's securitized portfolio and consequently the increase in charge-offs and corresponding reduction of servicing fees.

Interest income on Contracts warehoused for sale increased by $381,000, or 6.5%, representing 25.7% of total revenues for the nine months ended December 31, 1995. Interest income is closely related to the volume of Contracts purchased and the length of time they are held by the Company prior to their sale.
During the nine months ended December 31, 1995, the Company purchased $151.0 million in Contracts from Dealers, compared to $150.6 million in the year ended March 31, 1995. In addition to Contracts purchased from Dealers, the Company made two bulk purchases of portfolios of Contracts having an aggregate principal balance of $9.2 million during the nine months ended December 31, 1995.

EXPENSES. During the nine months ended December 31, 1995, operating expenses increased $239,131, or 2.1%, compared to the year ended March 31, 1995. Employee costs increased by $318,886 or 10.7%, and represented 28.5% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the Company's growth in its business as well as certain increases in salaries of existing staff. General and administrative expenses increased by $894,444, or 46.9% and represented 24.1% of total operating expenses. Increases in general and administrative expenses included increases in telephone, stationery, credit bureaus and other related items as a result of increases in the volume of purchases and servicing of Contracts.

Marketing expenses decreased by $533,011 or 30.2%, and represented 10.6% of total expenses. The Company uses a combination of independent contractor and employee marketing representatives all of whom are compensated directly in proportion to the number of Contracts the Company purchases from Dealers serviced by the marketing representative. Marketing expense is further impacted by the Company's estimates for direct expenses made in accordance with deferring contract origination costs.

Interest expense decreased by $683,195, or 20.0%, and represented 23.5% of total operating expenses. During the nine-month period ended December 31, 1995, the Company's interest expense was affected by improved pricing on the Line, a more favorable interest rate environment, and less reliance on other short term financing, in part, as a result of the proceeds from the Company's issuance of two million shares of common stock in March 1995.

During the nine months ended December 31, 1995, the provision for losses on Contracts held for sale increased by $295,511 or 55.4% and represented 7.1% of total operating expenses. The increase in the provision reflects a larger volume of Contracts held for a longer period of time prior to sale when compared to the year ended March 31, 1995, and certain losses associated with Bulk Purchases in the nine months ended December 31, 1995.

CHANGE OF FISCAL YEAR; 1994 RELEASE OF ESCROW SHARES

In 1995, the Company changed its fiscal year-end from March 31 to December 31. For that reason, much of the information contained herein compares a fiscal year ended March 31, 1995 with a nine-month transition period ended December 31, 1995, and then with a full fiscal year ended December 31, 1996. The table below presents certain information on a calendar-year basis, for the calendar years 1994, 1995 and 1996. In that table, two columns present information regarding the year ended December 31, 1994, one column including and one column excluding the effect of a charge for release of Escrow Shares (as described below).

Upon consummation of the Company's initial public offering which became effective on October 22, 1992, the Company's controlling shareholder, Holdings, deposited 1,200,000 shares of Common Stock (the "Escrow Shares") in escrow, subject to release upon attainment of certain net income goals or stock price levels. As of March 31, 1994, the Company exceeded the requisite levels. The release of the Escrow Shares was deemed compensatory and resulted in a one-time, non-cash charge for fiscal 1994 of $6.5 million which was equal to the market value of the Escrow Shares at the time of their release. This one-time, non-cash charge was offset by an identical increase in common stock and was not tax deductible. Consequently, there was no impact on total shareholders' equity on the Company's financial statements as a result of the release of the Escrow Shares and the corresponding charge. The following table presents three-year comparative information.

	12 MONTHS ENDED DECEMBER 31,			
	1996	1995	1994(1)	1994(2)
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
REVENUES:				
Net gain on sale of contracts	$ 23,321	$ 13,719	$ 9,980	$ 9,980
Servicing fees	16,169	9,019	6,175	6,175
Interest	11,704	7,869	4,403	4,403
	51,194	30,607	20,558	20,558
EXPENSES:				
Charge from release of escrow shares	--	--	6,450	--
Selling, general and administrative	9,694	5,276	3,651	3,651
Employee costs	8,921	3,888	3,253	3,253
Interest	5,781	3,842	2,520	2,520
Provision for losses	2,756	1,008	384	384
Depreciation	275	209	169	169
Related party consulting fees	75	350	350	350
	27,502	14,573	16,777	10,327
Income before taxes	23,692	16,034	3,781	10,231
Income taxes	9,595	6,440	3,613	3,613
Net income	$ 14,097	$ 9,594	$ 168	$ 6,618
Primary income per share	$ 0.95	$ 0.71	$ 0.02	$ 0.61
Weighted average primary shares	14,850	13,431	10,932	10,932
Fully diluted income per share	$ 0.93	$ 0.70	$ 0.02	$ 0.57
Fully diluted weighted average shares	15,410	13,911	12,182	12,182

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(1) Results include the non-cash one time charge from the release of Escrow Shares.

(2) Results exclude the non-cash one time charge from the release of Escrow Shares.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of cash from operating activities include base and excess servicing fees it earns on portfolios of Contracts it has previously sold, proceeds on the sales of Contracts in excess of its recorded investment of the Contracts, amortization and release of investments in credit enhancement balances pledged in conjunction with the securitization of its Contracts, borrower payments on Contracts held for sale, and interest earned on Contracts held for sale. The Company's primary uses of cash include its normal operating expenses, the establishment and build-up of Spread Accounts used for credit enhancement to their maintenance levels, and income taxes.

Net cash used in operating activities was $9.7 million during the year ended December 31, 1996 compared to net cash used of $18.5 million during the nine month transition period ended December 31, 1995. Cash used for purchasing Contracts was $351.4 million, an increase of $191.2 million, or 119.4%, over cash used for purchasing Contracts in the nine month transition period ended December 31, 1995. Cash provided from the liquidation of Contracts was $346.5 million, an increase of $189.6 million, or 120.8%, over cash provided from liquidation of Contracts in the nine month transition period ended December 31, 1995.

During the year ended December 31, 1996, cash used for initial deposits to Spread Accounts was $12.3 million, an increase of $7.3 million, or 149.0%, from the amount of cash used for initial deposits to Spread Accounts in the nine month transition period ended December 31, 1995. Cash from excess servicing deposited to Spread Accounts for the year ended December 31, 1996, was $18.8 million, an increase of $11.2 million, or 148.8%, over cash from excess servicing deposited to Spread Accounts in the nine month transition period ended December 31, 1995. Cash released from Spread Accounts for the year ended December 31, 1996, was $17.9 million, an increase of $10.2 million, or 133.2%, over cash released from Spread Accounts in the nine month transition period ended December 31, 1995. Changes in deposits to and releases from Spread Accounts are impacted by the relative size, seasoning and performance of the various pools of sold Contracts that make up the Company's Servicing Portfolio.

Delinquencies as a percent of the gross Servicing Portfolio increased from 5.1% at December 31, 1995 to 6.8% at December 31, 1996. Increases in delinquency can be attributed to the continued aging of the Company's Servicing Portfolio, and to the fact that during 1996 the Company often allowed a borrower more time to resolve a delinquency prior to ordering repossession than it had allowed in prior periods. To accommodate the resulting higher levels of delinquency, the Company restructured certain aspects of its agreements with FSA in November 1996. Under the restructured agreements, the levels of delinquency that trigger increased Spread Account requirements have been raised, so that the higher delinquency levels currently experienced by the Company do not result in increased Spread Account requirements. The Company cannot predict with assurance whether delinquency and loss rates will continue to increase, but a further increase in average delinquency and in losses should be expected if the average age of the Servicing Portfolio continues to rise. Whether the average age of the Servicing Portfolio increases will depend in part on the rate of the Company's continued growth (rapid growth in originations decreases the average age of the Servicing Portfolio), as to which there can be no assurance.

During the year ended December 31, 1996, the Company purchased 38% of the outstanding common stock of NAB Asset Corporation for approximately $4.3 million. See "Business--Expansion and Diversification".

The Company's cash requirements have been and will continue to be significant. The agreements under which the Company has securitized and sold its Contracts required the Company to make a significant initial cash deposit, for purposes of credit enhancement, to a Spread Account which is pledged to support the related asset-backed securities, and is invested in high quality liquid securities. Excess cash flows from the securitized Contracts are deposited into the Spread Accounts until such time as the Spread Account balance reaches a specified percent of the outstanding balance of the related asset-backed securities. Since its June 1995 securitization, and, it is expected, on an ongoing basis, the Company altered the credit enhancement mechanism used in its securitizations to create a subordinated class of asset-backed securities (a "B Piece") in order to reduce the size of the required initial deposit to the Spread Accounts. This revised structure may, if the Company is able to continue to sell the B Piece, reduce the amount of cash that the Company must invest or set aside in Spread Accounts in future securitizations. The Company continues to hold the B Piece associated with its June 1995 transaction, but has sold and believes it will be able to continue to sell the B Pieces created in subsequent securitizations. The aggregate balances of the Spread Accounts associated with each securitization of Contracts, together with the one B Piece held by the Company, are reflected as "Investments in credit enhancements" on the Company's consolidated balance sheet.

The table below documents the Company's history of Contract securitizations, comprising sales to 16 securitization trusts.

STRUCTURED CONTRACT SECURITIZATIONS

PERIOD FUNDED	SECURITIZED DOLLAR AMOUNT (IN THOUSANDS)	RATINGS(1)	RATING AGENCY	POOL NAME
April 1993	$ 4,990	A	Duff & Phelps	Alton Grantor Trust 1993-1
May 1993	3,933	A	Duff & Phelps	Alton Grantor Trust 1993-1
June 1993	3,467	A	Duff & Phelps	Alton Grantor Trust 1993-1
July 1993	5,575	A	Duff & Phelps	Alton Grantor Trust 1993-2
August 1993	3,336	A	Duff & Phelps	Alton Grantor Trust 1993-2
September 1993	3,578	A	Duff & Phelps	Alton Grantor Trust 1993-2
October 1993	1,921	A	Duff & Phelps	Alton Grantor Trust 1993-2
November 1993	1,816	A	Duff & Phelps	Alton Grantor Trust 1993-3
December 1993	6,694	A	Duff & Phelps	Alton Grantor Trust 1993-3
January 1994	1,998	A	Duff & Phelps	Alton Grantor Trust 1993-3
March 1994	20,787	A	Duff & Phelps	Alton Grantor Trust 1993-4
June 1994	24,592	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-1
September 1994	28,916	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-2
October 1994	13,136	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-3
December 1994	28,893	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-4
February 1995	20,084	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-1
June 1995	49,290	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-2
September 1995	45,009	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-3
September 1995	2,369	BB	S&P	CPS Auto Grantor Trust 1995-3
December 1995	53,634	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-4
December 1995	2,823	BB	S&P	CPS Auto Grantor Trust 1995-4
March 1996	63,747	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1996-1
March 1996	3,355	BB	S&P	CPS Auto Grantor Trust 1996-1
June 1996 (2)	84,456	Aaa/AAA	Moody's/S&P	Fasco Auto Grantor Trust 1996-1
June 1996	4,445	BB	S&P	Fasco Auto Grantor Trust 1996-1
September 1996	87,523	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1996-2
September 1996	4,606	BB	S&P	CPS Auto Grantor Trust 1996-2
December 1996	88,215	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1996-3
December 1996	4,643	BB	S&P	CPS Auto Grantor Trust 1996-3
	$ 667,831			

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(1) Commencing with the securitization completed on June 28, 1994, the principal and interest due on the asset-backed securities issued by the various grantor trusts are guaranteed by Financial Security Assurance Inc. ("FSA"), enabling the issuer to obtain Aaa/AAA ratings for the asset-backed securities issued in such transactions. See "Business--Purchase and Sale of Contracts--Securitization and Sale of Contracts to Institutional Investors."

(2) Commencing with the securitization completed on June 27, 1996, asset-backed securities with Aaa/ AAA ratings have been sold through public offerings pursuant to registration statements filed with the Securities and Exchange Commission.

Cash flows are impacted by the use of the Warehouse Line of Credit which is in turn impacted by the amount of Contracts the Company holds for sale. At December 31, 1996, the Warehouse Line of Credit had an outstanding balance of $13.3 million compared to $7.5 million at December 31, 1995. Borrowings under the Warehouse Line of Credit rise during each fiscal quarter and then are substantially repaid when the Company completes a Contract securitization, which has occurred near the end of each quarter during the past two fiscal years. The maximum amount outstanding under the Warehouse Line of Credit during 1996 was $92.1 million and the average was $41.2 million. In June 1995 the Company entered into two new agreements which restructured the Warehouse Line of Credit and increased the maximum available amount to $100.0 million. The primary agreement provides for loans by Redwood Receivables Corporation ("Redwood") to the Company, to be funded by commercial paper issued by Redwood and secured by Contracts pledged periodically by the Company. The Redwood facility provides for a maximum of $100.0 million of advances to the Company, with interest at a variable rate tied to prevailing commercial paper rates. When the Company wishes to securitize these Contracts, a substantial part of the proceeds received from Investors is paid to Redwood, which simultaneously releases the pledged Contracts for transfer to a pass-through securitization trust. The second agreement is a standby line of credit with GECC, also with a $100.0 million maximum, which the Company may use only if and to the extent that Redwood does not provide funding as described above. The GECC line is secured by Contracts and substantially all the other assets of the Company. Both agreements extend through November 30, 1998. The two agreements are viewed as a single short-term warehouse line of credit, with advances varying according to the amount of pledged Contracts. All references in this Prospectus to the Warehouse Line of Credit refer, since June 1995, to the Redwood facility and, unless the context indicates otherwise, the standby line of credit with GECC.

Prior to October 29, 1992, the Company was dependent on capital contributions and loans by Holdings (which was then the sole shareholder of the Company) to satisfy its cash requirements. On October 29, 1992, the Company raised approximately $4.9 million (net of offering expenses) in an initial public offering. On March 12, 1993, the Company borrowed $2.0 million from Sun Life through the issuance of a convertible note in conjunction with an agreement by that investor to purchase up to $50.0 million of the Company's Contracts. On July 5, 1995, Sun Life converted this note into 533,334 shares of the Company's Common Stock. On November 16, 1993, the Company borrowed an additional $3.0 million from Sun Life through the issuance of a convertible note in conjunction with that investor's commitment to purchase an additional $50.0 million in Contracts. On January 17, 1997, Sun Life converted this note into 480,000 shares of Common Stock. On November 23, 1993, the Company issued and sold 333,334 shares of Common Stock in a private transaction at a price of $4.50 per share ($1.5 million in the aggregate). In May and October, 1994, the Company borrowed an aggregate of $5.0 million pursuant to three short term notes, all of which were repaid in March 1995 with proceeds from the March 7, 1995 public offering of 2.0 million shares of the Company's stock at a price of $7.38 per share. In December 1995, the Company issued $20 million of debt in the form of Rising Interest Subordinated Redeemable Securities ("RISRS").

The Company anticipates that the proceeds from this offering, the funds available under the Warehouse Line of Credit, proceeds from the sale of Contracts, and cash from operations will be sufficient to satisfy the Company's estimated cash requirements for at least the next 12 months, assuming that the Company continues to have a means by which to sell its warehoused Contracts. If for any reason the Company is unable to sell its Contracts, or if the Company's available cash otherwise proves to be insufficient to fund operations (because of future changes in the industry, general economic conditions, unanticipated increases in expenses, or other factors), the Company may be required to seek additional financing.

On November 1, 1996, the Company began to rent an additional 7,000 square feet of contiguous office space in accordance with the Company's lease agreement. In addition, the Company recently acquired an additional, and significantly upgraded, IBM AS/400 computer. This hardware serves as the primary platform on which the Company processes its Contracts. The Company anticipates that it will incur certain limited capital expenditures during the next twelve months as its business continues to grow. The Company expects to incur occupancy expenses of approximately $50,000 per month in connection with its Chesapeake, Virginia satellite facility, which were not incurred in fiscal 1996. Personnel and other expenses may also increase, depending on the extent of any continuing growth in the Company's business (as to which there can be no assurance) and the availability of personnel.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1996, the Financial Accounting Standards board issued SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996 and is to be applied prospectively. This Statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on consistent application of a financial-components approach that focuses on control. It distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. Management of the Company does not expect that adoption of SFAS No. 125 will have a material impact on the Company's financial position, results of operations or liquidity.

BUSINESS

GENERAL

The Company is a consumer finance company specializing in the business of purchasing, selling and servicing Contracts originated by Dealers in the sale of new and used automobiles, light trucks and passenger vans. Through its purchases, the Company provides indirect financing to Sub-Prime Borrowers. The Company serves as an alternative source of financing for Dealers, allowing sales to customers who otherwise might not be able to obtain financing from more traditional sources of automobile financing such as banks, credit unions or finance companies affiliated with major automobile manufacturers.

HISTORY

The Company was incorporated in March 1991 as a wholly owned subsidiary of CPS Holdings, Inc. ("Holdings") (formerly known as FWB Acceptance Corp.). Holdings was formed in April 1990 by Charles E. Bradley, Sr., the Chairman of the Board of the Company, in order to enter into the automobile financing business. Mr. Bradley believed that the Sub-Prime Borrower segment of this business had the potential for growth and profit due in part to the withdrawal from such business by many savings and loan associations and other financial institutions. In December 1995, Holdings was merged with and into the Company.

The period from March 8, 1991 (the Company's inception) through May 1991 was devoted to the start-up of the Company's operations. On May 31, 1991, the Company first acquired certain third-party loan servicing contracts and in June 1991 began earning servicing fee income. The Company thereafter added to its third-party loan servicing portfolio and, in October 1991, began acquiring Contracts and selling them to GECC. To date, the Company has sold $42.6 million in Contracts to GECC and an additional $100.1 million to Sun Life. Since June 1994, the Company has issued an additional $545.4 million of "AAA"-rated and $22.2 million of "BB"-rated certificates backed by Contracts to various institutional investors. Since June 1996, all sales of "AAA"-rated certificates have been made in public offerings pursuant to registration statements filed with the Securities and Exchange Commission. See "Servicing of Contracts--Third-Party Loan Servicing" and "Purchase and Sale of Contracts--Securitization and Sale of Contracts to Institutional Investors."

AUTOMOBILE FINANCING INDUSTRY

Automobile financing is the largest category, by dollar amount, of consumer installment debt in the United States. Most traditional sources of automobile financing, such as commercial banks, credit unions and captive finance companies affiliated with major automobile manufacturers, generally provide automobile financing for the most creditworthy, or so-called "prime" borrowers. The Company believes that the strong credit performance and large size of the market have led to intense price competition in the financing market for prime borrowers, and, in turn, low profit margins, effectively limiting this market to only the largest participants. In addition, special low-rate financing programs offered by automobile manufacturers' captive finance companies to promote the sale of specific automobiles have added to the competition within the prime borrower market.

Although prime borrowers represent the largest segment of the automobile financing market, there are many potential purchasers of automobiles who do not qualify as prime borrowers. Purchasers considered by the Company to be Sub-Prime Borrowers have limited credit histories, low incomes or past credit problems and, therefore, are unable to obtain credit from traditional sources of automobile financing, such as commercial banks, credit unions or captive finance companies affiliated with major automobile manufacturers. (The terms "prime" and "sub-prime" reflect the Company's categorization of borrowers and bear no relationship to the prime rate of interest or persons who are able to borrow at that rate.) The Company believes that, because these potential purchasers represent a substantial market, there is a demand by automobile dealers for Sub-Prime Borrower financing that has not been effectively served by traditional automobile financing sources.

According to the Board of Governors of the Federal Reserve System, as of March 1996, there was approximately $359 billion in automobile-related installment credit outstanding. The Company is unaware of any authoritative estimates of the size of the "non-prime" portion of this market, although various sources have estimated that the potential loan base in this portion of the market is between $50 billion and $70 billion. Based on these figures, the Company's Servicing Portfolio represents less than one percent of the market.

BUSINESS STRATEGY

The Company's primary objective is to increase revenue and earnings through the expansion of its sales and servicing of Contracts purchased from Dealers. The Company has substantial operational and administrative capacity to expand its business. The Company's strategy is to:

- Maintain consistent underwriting standards and portfolio performance.

- Increase the number of Contracts it purchases from its existing Dealers.

- Expand its Dealer network, in part by entry into other geographic areas. During the year ended December 31, 1996, 52.1% of the Contracts acquired by the Company related to borrowers who resided in California, Florida, Pennsylvania and Texas (see "Purchase and Sale of Contracts-- Dealer Contract Purchase Program").

- Control and/or reduce its cost of funds by proper structuring of its securitization offerings and by obtaining the necessary ratings from nationally recognized credit rating agencies.

- Evaluate opportunities to provide additional products and services, such as automobile insurance, credit cards and extended maintenance contracts.

EXPANSION AND DIVERSIFICATION

In March 1996, the Company formed Samco Acceptance Corp. ("Samco"), an 80 percent-owned subsidiary based in Dallas, Texas. Samco's business plan is to provide the Company's sub-prime auto finance products to rural areas through independently owned finance companies. The Company believes that many rural areas are not adequately served by other industry participants due to their distance from large metropolitan areas where a Dealer marketing representative is most likely to be based.

Samco employees call on independent finance companies ("IFCs"), primarily in the southeastern United States and present them with financing programs that are essentially identical to those which the Company markets directly to Dealers through its marketing representatives. The Company believes that a typical rural IFC has relationships with many local automobile purchasers as well as Dealers who, because of their financial resources or capital structure are generally unable to provide 36, 48 or 60 month financing for an automobile. IFCs may offer Samco's financing programs to borrowers directly or to local Dealers. Upon submission of applications to Samco, credit personnel who have been trained by the Company use the Company's proprietary systems to evaluate the borrower and the proposed Contract terms. Samco purchases Contracts from the IFCs after its credit personnel have performed all of the underwriting and verification procedures that the Company performs for Contracts it purchases from Dealers. Servicing and collection procedures on Samco Contracts are performed by the Company at its headquarters in Irvine, California. However, Samco may solicit aid from the IFC in collecting accounts that are seriously past due. As of December 31, 1996, Samco had purchased 399 Contracts with original balances aggregating $4.7 million.

In May 1996, the Company formed LINC Acceptance Corp. ("LINC"), an 80 percent-owned subsidiary based in Norwalk, Connecticut. LINC's business plan is to provide the Company's sub-prime auto finance products to credit unions, banks and savings and loans ("Deposit Institutions"). The Company believes that credit unions, banks and savings and loans do not generally make loans to sub-prime borrowers, even though they may have relationships with Dealers and have sub-prime borrowers as deposit customers.

LINC proposes to have certain of its employees call on various Deposit Institutions and present them with a financing program that is similar to those which the Company markets directly to Dealers through its marketing representatives. The LINC program is intended to result in a slightly more creditworthy borrower than the Company's regular programs by requiring slightly higher income and lower debt-to-income ratios. LINC's customers may offer its financing program to borrowers directly or to local Dealers. Unlike Samco, which has employees who evaluate applications and make decisions to purchase Contracts, LINC applications will be submitted by the Deposit Institution directly to the Company, where the approval, underwriting and purchase procedures will be performed by Company staff who will work with LINC as well as with the Company's Dealers. Servicing and collection procedures on LINC Contracts will be performed entirely by the Company using its personnel. As of December 31, 1996, LINC had purchased seven Contracts with original balances aggregating $81,000.

In June 1996, the Company acquired 38% of the outstanding shares of NAB Asset Corporation ("NAB") for $4.3 million. At the time of the acquisition, NAB had approximately $3.5 million in cash and no significant operations. Subsequent to the Company's investment in NAB, NAB purchased Mortgage Portfolio Services, Inc. ("MPS") from the Company for $300,000. MPS is a Dallas, Texas-based mortgage broker-dealer which the Company formed in April 1996. MPS specializes in the origination and sale of sub-prime residential mortgages. In July 1996, NAB formed CARSUSA, Inc., which subsequently purchased a Mitsubishi dealership in Riverside, California. The Company provides CARSUSA with an $800,000 line of credit for financing its vehicle inventory. In November 1996, NAB purchased Mack Financial Ltd, a small appliance "rent to own" company based in Dallas, Texas.

In January 1997, the Company purchased 80% of the outstanding shares of an equipment financing company, Stanwich Leasing, Inc. ("SLI"), from its shareholders, who included two directors of the Company, Charles E. Bradley, Sr. and John G. Poole. The purchase price was $100,000 in cash. As of December 31, 1996, SLI owned and serviced an outstanding equipment lease portfolio of approximately $2.0 million, and had a book value of approximately $37,000. See "Certain Transactions".

PURCHASE AND SALE OF CONTRACTS

DEALER CONTRACT PURCHASE PROGRAM. As of December 31, 1996, the Company was a party to Dealer Agreements with 2,182 Dealers. Approximately 93.2% of these Dealers are franchised new car dealers that sell both new and used cars and the remainder are independent used car dealers. For the year ended December 31, 1996, approximately 88.5% of the Contracts purchased by the Company consisted of financing for used cars and the remaining 11.5% for new cars. Most of these Dealers regularly submit Contracts to the Company for purchase, although such Dealers are under no obligation to submit any Contracts to the Company, nor is the Company obligated to purchase any Contracts. During the year ended December 31, 1996, no Dealer accounted for more than 2.3% of the total number of Contracts purchased by the Company. In addition, the Company continues to diversify geographically, and has reduced its concentration of Contract purchases in California from 35.0% for the year ended December 31, 1995, to 25.8% for the year ended December 31, 1996. The following table sets forth the geographical sources of the Contracts purchased by the Company (based on the addresses of the borrowers as stated on the Company's records) during each of the years ended December 31, 1996 and December 31, 1995.

	CONTRACTS PURCHASED DURING YEAR ENDED			
	DECEMBER 31, 1996		DECEMBER 31, 1995	
	NUMBER	PERCENT	NUMBER	PERCENT
California	7,296	25.8%	5,157	35.0%
Pennsylvania	2,730	9.6%	1,432	9.7%
Florida	2,638	9.3%	1,555	10.6%
Texas	2,073	7.3%	1,046	7.1%
Illinois	1,385	4.9%	963	6.5%
Tennessee	1,225	4.3%	221	1.5%
New York	1,201	4.2%	384	2.6%
Louisiana	1,184	4.2%	271	1.8%
Ohio	1,180	4.2%	119	0.8%
Nevada	1,060	3.7%	750	5.1%
Maryland	920	3.3%	106	0.7%
Alabama	906	3.2%	93	0.6%
Michigan	788	2.8%	598	4.1%
New Jersey	625	2.2%	308	2.1%
Hawaii	507	1.8%	452	3.1%
Other states	2,587	9.1%	1,283	8.7%
Total	28,305		14,738	

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

Upon receipt of an application from a Dealer, the Company's administrative personnel order a report containing information from the three major national credit bureaus on the applicant to document the buyer's credit history. If, upon review by a Company loan officer, it is determined that the application meets the Company's underwriting criteria, or would meet such criteria with modification, the Company requests and reviews further information and supporting documentation and, ultimately, decides whether to purchase the Contract. When presented with an application, the Company attempts to notify the Dealer within four hours as to whether it intends to purchase such Contract. The Company buys Contracts directly from Dealers and does not make loans directly to purchasers of automobiles.

The Company has historically purchased Contracts from Dealers at discounts ranging from 0% to 10% of the total amount financed under the Contracts, depending on the perceived credit risk of the Contract, plus a flat acquisition fee, generally $200, for each Contract purchased. Discounts averaged 4.1% and 2.8% for the years ended December 31, 1995 and 1996, respectively. The Company believes that the level of discounts and fees are a significant factor in the Dealer's decision to submit a Contract to the Company for purchase, and will continue to play such a role in the future. Effective January 10, 1997, the Company began purchasing all Contracts without a percentage discount, charging Dealers only an acquisition fee ranging from zero to $1,195 for each Contract purchased. The fees vary based on the perceived credit risk and, in some cases, the interest rate on the Contract. The acquisition fees instituted in January 1997 are larger, on average, than the acquisition fees previously charged in conjunction with percentage discounts, so as to result in a similar net purchase price on a typical Contract.

The Company attempts to control Dealer misrepresentation by carefully screening the Contracts it purchases, by establishing and maintaining professional business relationships with Dealers, and by including certain representations and warranties by the Dealer in the Dealer Agreement. Pursuant to the Dealer Agreement, the Company may require the Dealer to repurchase any Contract in the event that the Dealer breaches its representations or warranties or if a borrower fails, for any reason, to make timely payment of the first installment due under a Contract. There can be no assurance, however, that any Dealer will have the financial resources to satisfy its repurchase obligations to the Company.

BULK PURCHASES. The Company has purchased portfolios of Contracts and assumed the servicing thereon in bulk from other companies that had previously purchased the Contracts from Dealers. To date, the Company has made four such bulk purchases aggregating approximately $22.9 million. In considering Bulk Purchases, the Company carefully evaluates the credit profile and payment history of each portfolio and negotiates the purchase price accordingly. The credit profiles of the Contracts in each of the portfolios purchased are similar to those in the underwriting standards used by the Company in its normal course of business. The Bulk Purchases were made at purchase prices ranging from 93.0% to 100.0% of the aggregate principal balance of the Contracts. The Company may consider the purchase of additional portfolios from third parties, but has not made any such purchases since August 1995. As of December 31, 1996, Contracts that were acquired in Bulk Purchases and not yet sold account for 0.2% of the Servicing Portfolio.

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

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

CREDIT SCORING. Since its inception the Company has purchased $729.1 million in Contracts and, as of December 31, 1996, has an outstanding servicing portfolio of $505.9 million. The Company's management information systems are structured to include a variety of credit and demographic data for each Contract as well as maintaining data which indicate each Contract's past or current performance characteristics.

Furthermore, the Company's technical staff have the ability to interrogate the database to compare performing and non-performing Contracts and to ascertain which demographic and credit related data elements may be predictors of credit performance.

In November 1996, the Company implemented a scoring model which assigns each Contract a numeric value (a "credit score") at the time the application is received from the Dealer and the borrower's credit information is retrieved from the credit reporting agencies. The credit score is based on a variety of parameters such as the borrower's job and residence stability, the amount of the down payment, and the age and mileage of the vehicle. The Company has developed the credit score as a means of improving its productivity by identifying Contracts where the characteristics are so strong (or alternatively, so weak), that the initial notification to the Dealer can be given without the more extensive analysis that a Company loan officer would give to a more average scoring Contract. Regardless of the credit score a Contract originally receives, the Company's underwriters perform the same extensive review and verification procedures on all Contracts. In addition to productivity improvements, the credit score is used to identify Contracts for which review by a supervisor or manager prior to approval and purchase may be appropriate.

Once an application is approved, financing documents are generated by the Dealer and the Company obtains a certificate of title for the vehicle when a lien is recorded, and various other documents pertaining to the borrower's credit application. After the documents are signed by the Dealer and the borrower, the Dealer sells the Contract to the Company. The borrower then receives monthly billing statements.

All of the Contracts purchased by the Company are fully amortizing and provide for level payments over the term of the Contract. The average original principal amount financed under Contracts purchased in the year ended December 31, 1996 was approximately $12,606, with an average original term of approximately 54.0 months and an average down payment of 15.3%. Based on information contained in borrower applications, for this twelve-month period, the retail purchase price of the related automobiles averaged $12,855 (which excludes tax and license fees, and any additional costs such as a maintenance contract), the average age of the vehicle at the time the Contract was purchased was 3 years, and the Company's average borrower at the time of purchase was approximately 37.0 years old, with approximately $32,007 in average household income and an average of 4.6 years' history with his or her current employer.

All Contracts may be prepaid at any time without penalty. In the event a borrower elects to prepay a Contract in full, the payoff amount is calculated by deducting the unearned interest (as determined by the "Rule of 78s" method, where applicable) from the Contract balance. When a partial prepayment is made on a Contract originated in California, at the option of the borrower, the future monthly payments may be reduced pro rata by the aggregate amount of the prepayment, payment of the next succeeding regular monthly payments may be suspended, or the borrower may continue to make the regular monthly payments and thereby pay the Contract in full prior to its scheduled amortization. With respect to Contracts originated outside of California, the portion of each payment on the Contracts allocated to principal and interest and the payoff amount in the event of a full prepayment would be determined by the Rule of 78s method or such other interest amortization method as is permitted by applicable state law.

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

The Company believes that the most important requirements to succeed in the sub-prime automobile financing market are the ability to control borrower and Dealer misrepresentation at the point of origination; the development and consistent implementation of objective underwriting criteria specifically designed to evaluate the creditworthiness of Sub-Prime Borrowers; and the maintenance of an active program to monitor performance and collect payments.

SECURITIZATION AND SALE OF CONTRACTS TO INSTITUTIONAL INVESTORS. The Company purchases Contracts with the intention of reselling them to Investors either as bulk sales or as asset-backed securities. Asset-backed securities are generally structured as follows: First, the Company sells a portfolio of Contracts to a wholly-owned subsidiary which has been established for the limited purpose of buying and reselling the Company's Contracts. The subsidiary then sells the same Contracts to a grantor trust, and the grantor trust in turn issues interest-bearing asset-backed securities in an amount equal to the aggregate principal balance of the Contracts. One or more Investors purchase these asset-backed securities, the proceeds of which are used by the grantor trust to purchase the Contracts from the subsidiary, which uses such proceeds to purchase the Contracts from the Company. In addition, the Company provides a credit enhancement for the benefit of investors in the form of an initial cash deposit to a specific trust account ("Spread Account") and a deposit of certain excess servicing cash flows. Since its September 1995 securitization, and, it is expected, on an ongoing basis in the future, the Company altered the credit enhancement mechanism used in its securitizations to create and sell a subordinated security ("B Piece") in order to reduce the size of the required initial deposit to the Spread Account. The B Piece provides an additional credit enhancement to the senior security holders because distributions of interest on the B Piece are subordinated in priority of payment to interest due on the senior certificates and distributions of principal on the B Piece are subordinated in priority of payment to interest and principal due on the senior certificates. This revised structure may, if the Company is able to continue to sell the B Piece, reduce the amount of cash effectively used in securitizations. The Company continues to hold the B Piece associated with the June 1995 securitization but has sold all subsequent B Pieces. The Company believes it will be able to continue to sell the B Pieces created in its future securitizations. Purchasers of the asset-backed securities receive a particular coupon rate (the "Pass-Through Rate") established at the time of the sale. The Company receives periodic base servicing fees for its duties relating to the accounting for and collection of the Contracts. In addition, the Company is entitled to certain excess servicing fees that represent collections on the Contracts in excess of the amounts required to pay investor principal and interest, the base servicing fees and certain other fees such as trustee and custodial fees. Generally, the Company sells the Contracts at face value and without recourse except that the representations and warranties provided by the Dealer to the Company are similarly provided by the Company to the investor.

At the end of the month, the aggregate cash collections are allocated first to the base servicing fees and certain other fees such as trustee and custodial fees for the period, then to the asset-backed securities certificateholder in an amount equal to the interest accrued at the Pass-Through Rate on the portfolio plus the amount by which the portfolio balance decreased (due to payments, payoffs or charge-offs) during the period. If the amount of cash required for the above allocations exceeds the amount collected during the monthly period, the shortfall is drawn from the Spread Account. If the cash collected during the period exceeds the amount necessary for the above allocations, and there is no shortfall in the related Spread Account, the excess is returned to the Company or one of its subsidiaries. The excess cash flows are considered by the Company to be excess servicing fees, part of which the Company recognizes as a gain on sale based on an estimate of the discounted present value of the excess cash flows.

Each sale of asset-backed securities results in an increase in the Excess Servicing Receivables account on the Company's Consolidated Balance Sheet and the recognition of a "Net Gain on Sale of Contracts" on the Company's Consolidated Statement of Operations for the period in which the sale was made. The

Excess Servicing Receivables account is increased by a portion of the gain recognized on each securitization which represents principally the net present value of estimated future cash flows relating to the Contracts which were sold, calculated as follows:

(i) the present value of all future interest and principal payments expected to be received by the Company over the remaining life of the Contracts;

less

(ii) the Contracts' principal payments which are required to be passed through to the investors in the period in which they were received plus interest payments required to be made to investors at the Pass-Through Rate established at the time of securitization, and certain other fees and expenses associated with the securitization transaction, including the base servicing fee paid to the Company in respect of its obligations to service the borrowers' Contracts.

Because the APR on the Contracts received by the Company is relatively high in comparison to the Pass-Through Rate paid to investors, the net present value described above can be significant. In calculating the net gain on sale described above, the Company must estimate the future rates of prepayments, delinquencies, defaults and default loss severity as they impact the amount and timing of the cash flows in the net present value calculation. The cash flows received by the Company are then discounted at an interest rate that the Company believes a third-party purchaser would require as a rate of return. Expected losses are discounted using a rate equivalent to the risk free rate for securities with a duration similar to that estimated for the underlying Contracts.

In future periods, the Company will recognize additional revenue in the Servicing Fees account if the actual performance of the Contracts is better than the original discounted estimate. Although the Company has never recognized a writedown against the Excess Servicing Receivables account, if the actual performance of the Contracts is worse than the original discounted estimate, then such a writedown would be required. The Company's actual excess servicing cash flows, however, historically have exceeded the Company's original discounted estimates.

The Company's first significant sales consisted of an aggregate of $17.6 million of Contracts sold from October 1, 1991 through January 31, 1993 to GECC pursuant to an agreement that expired on December 31, 1992. On March 16, 1995, the Company sold an additional $25.0 million in Contracts to GECC for an aggregate total of $42.6 million sold to GECC. On April 7, 1993, the Company began selling Contracts to Sun Life pursuant to various agreements. As of December 31, 1996, the Company had sold approximately $100.1 million in Contracts to Sun Life, $42.1 million of which was sold in the form of "Aaa/AAA" rated securities, as discussed below. As of December 31, 1996, the unpaid balance of the Contracts sold to Sun Life was approximately $25.0 million and the unpaid balance of Contracts sold to GECC was approximately $11.2 million.

Contract sales to GECC were in the form of whole loan sales. All of the Contracts sold to Sun Life have been in the form of asset-backed securities issued by grantor trusts to which a wholly-owned subsidiary of the Company has sold the Contracts. The first $58.1 million of the certificates sold to Sun Life were rated "A" by Duff & Phelps Credit Rating Co. The principal and interest due on the remaining $42.0 million of the certificates sold to Sun Life are guaranteed by Financial Security Assurance Inc. ("FSA"), and, as a result, such certificates were rated "Aaa" by Moody's Investors Service and "AAA" by Standard & Poor's Corporation.

On June 23, 1994, the Company began using various investment banking firms to place its asset-backed securities issues. The certificates have been issued by grantor trusts to which a wholly owned subsidiary of the Company has sold the related Contracts. Through December 31, 1996, the Company had delivered approximately $612.3 million principal amount of Contracts (of which approximately $461.7 million was outstanding at December 31, 1996) to twelve grantor trusts pursuant to these arrangements. The principal and interest due on the certificates issued pursuant to these arrangements are guaranteed by

FSA and, as a result, such certificates are rated "Aaa" by Moody's Investors Services and "AAA" by Standard & Poor's Corporation. Since June 1996, the Company has sold such "AAA"-rated certificates in public offerings pursuant to registration statements filed with the Securities and Exchange Commission.

In connection with the sale of the Contracts, the Company is required to make certain representations and warranties, which generally duplicate the substance of the representations and warranties made by Dealers in connection with the Company's purchase of the Contracts. If the Company breaches any of its representations or warranties to a purchaser of the Contracts, the Company will be obligated to repurchase the Contract from such purchaser at a price equal to such purchaser's purchase price less the related cash securitization reserve and any payments received by such purchaser on the Contract. In most cases, the Company would then be entitled under the terms of its Dealer Agreement to require the selling Dealer to repurchase the Contract at a price equal to the Company's purchase price, less any payments made by the borrower. Subject to any recourse against Dealers, the Company will bear the risk of loss on repossession and resale of vehicles under Contracts repurchased by it.

TERMS OF SERVICING AGREEMENTS. The Company currently services all Contracts sold and expects to service all Contracts that it purchases and sells in the future, whether structured as whole loan sales or sales of asset-backed securities. Pursuant to the Company's usual form of servicing agreement (the Company's servicing agreements are collectively referred to as the "Servicing Agreements"), the Company is obligated to service all Contracts sold to the investors or trusts in accordance with the Company's standard procedures. The Servicing Agreements generally provide that the Company will bear all costs and expenses incurred in connection with the management, administration and collection of the Contracts serviced. The Servicing Agreements also provide that the Company will take all actions necessary or reasonably requested by the investor to maintain perfection and priority of the investor's or the trust's security interest in the financed vehicles.

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

The Company is entitled under most of the Servicing Agreements to receive a base monthly servicing fee of 2.0% per annum computed as a percentage of the declining outstanding principal balance of each Contract in the portfolio that is not in default as of the beginning of the month. Each month, after payment of the Company's base monthly servicing fee and certain other fees, the investor receives the paid principal reduction of the Contracts in its portfolios and interest thereon at the Pass-Through Rate. If, in any month, collections on the Contracts are insufficient to pay such amounts and any principal reduction due to charge-offs, the shortfall is satisfied from the Spread Account established in connection with the sale of the portfolio. (If the Spread Account is not sufficient to satisfy a shortfall, then the investor or trust may suffer a loss to the extent that the shortfall exceeds the Spread Account.) If collections on the Contracts exceed such amounts, the excess is utilized, first, to build up or replenish the Spread Account to the extent required, next, to cover deficiencies in Spread Accounts for other portfolios, and the balance, if any, constitutes excess servicing fees, which are distributed to the Company. If, in any month, the Spread Account balance is in excess of that required under the commitment or the Servicing Agreements, the Company is entitled to receive such excess. The Servicing Agreements also provide that the Company is entitled to receive certain late fees collected from borrowers.

Pursuant to the Servicing Agreements, the Company is generally required to charge off the balance of any Contract by the earlier of the end of the month in which the Contract becomes five scheduled installments past due or, in the case of repossessions, the month that the proceeds from the liquidation of the financed vehicle are received by the Company. In the case of a repossession, the amount of the charge-off is the difference between the outstanding principal balance of the defaulted Contract and the repossession sale proceeds. In the event collections on the Contracts are not sufficient to pay to the investor the entire principal balance of any Contracts charged off during the month, the Spread Account established in connection with the sale of the Contracts is reduced by the unpaid principal amount of such Contracts. Such amount would then have to be restored to the Spread Account from future collections on the Contracts remaining in the portfolio before the Company would again be entitled to excess servicing fees. In addition, the Company would not be entitled to receive any further base monthly servicing fees with respect to the defaulted Contracts. Subject to any recourse against the Company in the event of a breach of the Company's representations and warranties with respect to any Contracts and after any recourse to any FSA guarantees backing the certificates, the investor bears the risk of all charge-offs on the Contracts in excess of the Spread Account. However, the Company would experience a reduction of excess servicing fees in the event of greater than anticipated charge-offs or prepayments on Contracts sold and serviced by the Company.

The Servicing Agreements are terminable by the investor in the event of certain defaults by the Company and under certain other circumstances.

SERVICING OF CONTRACTS

GENERAL. The Company's servicing activities, both with respect to portfolios of Contracts sold by it and with respect to loans owned or originated by third parties, consist of collecting, accounting for and posting of all payments received; responding to borrower inquiries; taking all necessary action to maintain the security interest granted in the financed vehicle or other collateral; investigating delinquencies; communicating with the borrower to obtain timely payments; repossessing and reselling the collateral when necessary; and generally monitoring each Contract and any related collateral.

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

With the aid of its high penetration auto dialer, the Company typically attempts to make telephonic contact with delinquent borrowers on the sixth day after their monthly payment due date. Using coded instructions from a collection supervisor, the automatic dialer will attempt to contact borrowers based on their physical location, state of delinquency, size of balance or other parameters. If the automatic dialer obtains a "no-answer" or a busy signal, it records the attempt on the borrower's record and moves on to the next call. If a live voice answers the automatic dialer's call, the call is transferred to a waiting collector at the same time that the borrower's pertinent information is simultaneously displayed on the collector's workstation. The collector then inquires of the borrower the reason for the delinquency and when the Company can expect to receive the payment. The collector will attempt to get the borrower to make a promise for the delinquent payment for a time generally not to exceed one week from the date of the call.

If the borrower makes such a promise, the account is routed to a pending queue and is not contacted until the outcome of the promise is known. If the payment is made by the promise date and the account is no longer delinquent, the account is routed out of the collection system. If the payment is not made, or if the payment is made, but the account remains delinquent, the account is returned to the automatic dialing queue for subsequent contacts.

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

If a decision to repossess is made by a supervisor, such assignment is given to one of many licensed, bonded repossession agents used by the Company. When the vehicle is recovered, the repossession agent delivers it to a wholesale auto auction where it is kept until it is liquidated, usually within 30 days of the repossession. Liquidation proceeds are applied to the borrower's outstanding obligation under the Contract and the borrower is advised of his obligation to pay any deficiency balance that remains. The Company uses all practical means available to collect deficiency balances, including filing for judgments against borrowers where applicable.

A repossession in the event of default generally does not yield proceeds sufficient to pay all amounts owing under a Contract. The actual cash value of the vehicle may be less than the amount financed at inception of the Contract, and also thereafter, because the amount financed may be as much as 115% of the wholesale book value in the case of used vehicles or 110% of manufacturer's invoice in the case of new vehicles, plus sales tax, licensing fees, and any service contract or credit life or disability policy purchased by the borrower, less the borrower's down payment and/or trade-in allowance (generally not less than 10% of the vehicle sales price). In addition, the proceeds available upon resale are reduced by statutory liens, such as those for repairs, storage, unpaid taxes and unpaid parking fines, and by the costs incurred in the repossession and resale. Unless the Contract is sufficiently seasoned that the borrower has substantial equity in the vehicle, the proceeds of sale are generally insufficient to pay all amounts owing. For that reason, the Company's collection policies aim to avoid repossession to the extent possible. In order to do so, the Company may extend the payment due date of a Contract within limits specified in the Servicing Agreements. Included in the Servicing Portfolio at December 31, 1996 are 5,680 Contracts for which the purchaser of the underlying vehicle had been granted at least a one month payment extension. Of such extended Contracts, 4,814 were current based on the modified payment terms.

The Company's excess servicing fees are impacted by the relative performance of the portfolios of Contracts it has sold to institutional investors. The tables below document the delinquency, repossession and net credit loss experience of all Contracts originated by the Company since its inception:

DELINQUENCY EXPERIENCE(1)

	DECEMBER 31, 1996		DECEMBER 31, 1995		MARCH 31, 1995	
	NUMBER OF LOANS	AMOUNT	NUMBER OF LOANS	AMOUNT	NUMBER OF LOANS	AMOUNT
	(DOLLARS IN THOUSANDS)					
Gross Servicing Portfolio....................	47,187	$ 604,092	27,129	$ 356,114	18,104	$ 248,550
Period of delinquency (2)						
31-60 days.................................	1,801	22,099	910	11,525	299	3,878
61-90 days.................................	724	9,068	203	2,654	70	948
91+ days..................................	768	9,906	273	3,912	101	1,487
Total delinquencies (2)......................	3,293	41,073	1,386	18,091	470	6,313
Amount in repossession (3)...................	1,168	14,563	836	10,179	367	5,271
Total delinquencies and amount in repossession (2)...........................	4,461	55,636	2,222	28,270	837	11,584
Delinquencies as a percent of gross Servicing Portfolio.................................	7.0%	6.8%	5.1%	5.1%	2.6%	2.5%
Total delinquencies and amount in repossession as a percent of gross Servicing Portfolio........................	9.5%	9.2%	8.2%	7.9%	4.6%	4.7%

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(1) All amounts and percentages are based on the full amount remaining to be repaid on each Contract, including, for Rule of 78s Contracts, any unearned finance charges. The information in the table represents the principal amount of all Contracts purchased by the Company, including Contracts subsequently sold by the Company which it continues to service.

(2) The Company considers a Contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date, which date may have been extended within limits specified in the Servicing Agreements, as discussed above. The period of delinquency is based on the number of days payments are contractually past due. Contracts less than 31 days delinquent are not included.

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

NET CHARGE-OFF EXPERIENCE(1)

	YEAR ENDED DECEMBER 31, 1996	TRANSITION PERIOD ENDED DECEMBER 31, 1995(2)	FISCAL YEAR ENDED MARCH 31, 1995
	(DOLLARS IN THOUSANDS)		
Average Servicing Portfolio outstanding......................	$ 397,430	$ 240,864	$ 128,004
Net charge-offs as a percent of average Servicing Portfolio (3)...	5.1%	4.9%	4.0%

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

(2) The percentages set forth for the nine-month transition period ended December 31, 1995, are computed using annualized operating data which do not necessarily represent comparable data for a full twelve-month period.

(3) Net charge-offs include the remaining principal balance, after the application of the net proceeds from the liquidation of the vehicle (excluding accrued and unpaid interest). For periods prior to the year ended December 31, 1996, post liquidation amounts received on previously charged off Contracts were applied to the period in which the related Contract was originally charged off. These prior period allocations were made only for the purpose of calculating this ratio. For financial statement purposes, post liquidation amounts are recognized in the period received. Effective January 1, 1996, post liquidation amounts received on previously charged off Contracts are applied in the period in which they are received, both for this ratio and financial statement purposes. Excludes uninsured casualty losses which for the year ended December 31, 1996, the nine-month transition period ended December 31, 1995, and the year ended March 31, 1995 were $1.7 million, $604,000 and $205,000, respectively.

MANAGEMENT INFORMATION SYSTEMS

The Company maintains sophisticated data processing support and management information systems. To support its collection efforts, the Company utilizes Digital Systems International's Intelligent Dialing System-TM-, a high-penetration automatic dialer, in conjunction with the American Management Systems' Computer Assisted Collection System software, which has been customized by the Company, and numerous accounting software programs. All systems are operated at the Company's offices on an Advance System IBM AS/400 computer.

The Company's high-penetration automatic dialer controls multiple telephone lines and automatically dials numbers from file records in accordance with programmed instructions established by management. If the dialer receives a busy signal or no answer, it will generally route the number for a subsequent re-call. The dialer has the ability to distinguish a pre-recorded voice and will leave the appropriate digitized human voice message on the borrower's answering machine. Generally, the dialer transfers the call to a collector only after it has determined that there is a live voice on the line. In most instances, this is accomplished so rapidly that the individual receiving the call is unaware that an automatic dialer has been used. The efficiency of the auto dialer allows the Company to place as many as 5,000 telephone calls per day.

The high-penetration automatic dialer also monitors telephone activity and activates more telephone lines when connect rates are low or shuts down lines when connect rates are high. Once a live call is passed to a collector, all relevant account information, including one of 99 account status codes, automatically appears on the collector's video screen. The Company believes the capabilities of the automatic dialer reduce the likelihood that an account will remain delinquent for a prolonged period without appropriate follow-up.

The Company's automation allows it to electronically sort and prioritize each collector's workload as well as to implement specific collection strategies. Moreover, the Company has adopted certain procedural controls designed to ensure that certain important decisions, such as ordering a repossession, initiating legal action or materially modifying an account, are automatically routed to a supervisor for review and approval.

The Company believes that the capacity of its existing data processing support and management information systems is sufficient to allow the Company to substantially expand its business without significant additional capital expenditures.

COMPETITION

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

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

The Company believes that it can compete effectively for the interest of institutional investors in purchasing Contracts acquired by the Company based upon the historical performance of portfolios of Contracts sold and serviced by it and its willingness to establish substantial Spread Accounts for the benefit of investors and to derive a portion of its revenues from excess servicing fees paid on a monthly basis rather than up-front fees paid at the time of sale of the Contracts.

MARKETING

The Company establishes relationships with Dealers through Company representatives that contact a prospective Dealer to explain the Company's Contract purchases and thereafter provide Dealer training and support services. As of December 31, 1996, the Company had 48 representatives, 31 of whom are employees and 17 of whom are independent. The independent representatives are contractually obligated to represent the Company's financing program exclusively. The Company's representatives present the Dealer with a marketing package, which includes the Company's promotional material containing the current discount rate offered by the Company for the purchase of Contracts, a copy of the Company's standard-form Dealer Agreement, examples of monthly reports and required documentation relating to Contracts, but they have no authority relating to the decision to purchase Contracts from Dealers. The Company's acceptance of a Dealer is subject to its analysis of, among other things, the Dealer's operating history.

The Company has not actively advertised its automobile financing or third-party loan servicing businesses, although it may do so selectively in the future.

GOVERNMENT REGULATION

The Company intends to obtain and maintain all licenses necessary to the lawful conduct of its business and operations. The Company is not licensed to make loans directly to borrowers.

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

Although the Company believes that it is currently in compliance with applicable statutes and regulations, there can be no assurance that the Company will be able to maintain such compliance. The failure to comply with such statutes and regulations could have a material adverse effect upon the Company. Furthermore, the adoption of additional statutes and regulations, changes in the interpretation and enforcement of current statutes and regulations or the expansion of the Company's business into jurisdictions that have adopted more stringent regulatory requirements than those in which the Company currently conducts business could have a material adverse effect upon the Company. In addition, due to the consumer-oriented nature of the industry in which the Company operates and the application of certain laws and regulations, industry participants are regularly named as defendants in litigation involving alleged violations of federal and state laws and regulations and consumer law torts, including fraud. Many of these actions involve alleged violations of consumer protection laws. 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.

Upon the purchase of Contracts by the Company, the original Contracts and related title documents for the financed vehicles are delivered by the selling Dealers to the Company. Upon the sale of each portfolio of Contracts by the Company, a financing statement is filed under the Uniform Commercial Code as adopted in the applicable state (the "UCC") to perfect and give notice of the purchaser's security interest in the Contracts.

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

Under the laws of many states, liens for storage and repairs performed on a vehicle and for unpaid taxes take priority over a perfected security interest in the vehicle. Pursuant to its securitization purchase commitments, the Company generally warrants that, to the best of the Company's knowledge, no such liens or claims are pending or threatened with respect to a financed vehicle, which may be or become prior to or equal with the lien of the related Contracts. In the event that any of the Company's representations or warranties proves to be incorrect, the trust or the investor would be entitled to require the Company to repurchase the Contract relating to such financed vehicle.

The Company, on behalf of purchasers of Contracts, may take action to enforce the security interest in financed vehicles with respect to any related Contracts in default by repossession and resale of the financed vehicles. The UCC and other state laws regulate repossession sales by requiring that the secured party provide the borrower with reasonable notice of the date, time and place of any public sale of the collateral, the date after which any private sale of the collateral may be held and of the borrower's right to redeem the financed vehicle prior to any such sale and by providing that any such sale be conducted in a commercially reasonable manner. Financed vehicles repossessed generally are resold by the Company through unaffiliated wholesale automobile networks or auctions, which are attended principally by used car dealers.

In the event of a repossession and resale of a financed vehicle, after payment of outstanding liens for storage, repairs and unpaid taxes, to the extent those liens take priority over the Company's security interest, and after payment of the reasonable costs of retaking, holding and selling the vehicle, the secured party would be entitled to be paid the full outstanding balance of the Contract out of the sale proceeds before payments are made to the holders of junior security interests in the financed vehicles, to unsecured creditors of the borrower, or, thereafter, to the borrower. Under the UCC and other laws applicable in most states (including California), a creditor is entitled to obtain a deficiency judgment from a borrower for any deficiency on repossession and resale of the motor vehicle securing the unpaid balance of such borrower's Contract. However, some states impose prohibitions or limitations on deficiency judgments. If a deficiency judgment were granted, the judgment would be a personal judgment against the borrower for the shortfall, and a defaulting borrower may often have very little capital or few sources of income available following repossession. Therefore, in many cases, it may not be useful to seek a deficiency judgment against a borrower or, if one is obtained, it may be settled at a significant discount.

PROPERTY

The Company's headquarters are located in Irvine, California, where it leases approximately 51,400 square feet of general office space from an unaffiliated lessor. The annual rent is $524,596 through the year 2000, the final year of the lease. In addition, the Company pays the property taxes, maintenance and other common area expenses of the premises, currently at the approximate annual rate of $98,000. All such amounts are payable monthly. The Company has an option to extend the lease for an additional five years upon terms substantially similar to those of the existing lease.

The Company plans to establish a branch facility in Chesapeake, Virginia. The Company has agreed to lease approximately 18,600 square feet of general office space in Chesapeake at an initial annual rent of $260,666, increasing to $333,652 over a ten-year term. In addition, the Company is in discussions with its current landlord in California regarding a lease of a larger headquarters location or of additional space. Although the terms of any such lease have not been fixed as yet, the Company believes that adequate facilities are available.

EMPLOYEES

As of December 31, 1996, the Company had 325 full-time and 5 part-time employees, of whom 10 are management personnel, 102 are collections personnel, 119 are Contract origination personnel, 37 are marketing representatives, 53 are operations personnel, and 9 are accounting personnel. The Company believes that its relations with its employees are good. The Company is not a party to any collective bargaining agreement.

LEGAL PROCEEDINGS

As of the date of this Prospectus, the Company was not involved in any material litigation in which it is the defendant. The Company regularly initiates legal proceedings as a plaintiff in connection with its routine collection activities.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Consumer Portfolio Services, Inc.

We have audited the accompanying consolidated balance sheets of Consumer Portfolio Services, Inc. and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 1996, for the nine-month period ended December 31, 1995, and for the year ended March 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Consumer Portfolio Services, Inc. and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for the year ended December 31, 1996, for the nine-month period ended December 31, 1995, and for the year ended March 31, 1995, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Orange County, California
February 14, 1997

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 1996	DECEMBER 31, 1995
ASSETS (note 11)		
Cash	$ 153,958	$ 10,895,157
Contracts held for sale (notes 5 and 11)	21,656,773	19,548,842
Servicing fees receivable	3,086,194	1,454,707
Investment in subordinated certificates	--	2,174,666
Investments in credit enhancements (note 2)	43,597,472	30,477,793
Excess servicing receivables (note 7)	23,654,461	11,108,251
Furniture and equipment, net (note 3)	629,774	548,535
Taxes receivable	610,913	--
Deferred financing costs (note 11)	943,222	1,100,430
Investment in unconsolidated affiliate (note 4)	2,263,768	--
Other assets (note 4)	5,349,885	569,944
	$ 101,946,420	$ 77,878,325
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Accounts payable & accrued expenses	$ 1,697,051	$ 1,341,905
Warehouse line of credit (note 11)	13,264,585	7,500,000
Taxes payable	--	2,912,084
Deferred tax liability (note 10)	7,027,251	1,643,254
Notes payable (note 11)	20,000,000	20,000,000
Convertible subordinated debt (note 11)	3,000,000	3,000,000
	44,988,887	36,397,243
SHAREHOLDERS' EQUITY (notes 8 and 11)		
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; 13,779,242 and 13,298,642 shares issued and outstanding at December 31, 1996 and 1995, respectively	34,644,314	33,265,239
Retained earnings	22,313,219	8,215,843
	56,957,533	41,481,082
Commitments and contingencies (notes 4, 5, 6, 8, 9 and 12)		
Subsequent events (notes 9, 11 and 14)		
	$ 101,946,420	$ 77,878,325

See accompanying notes to consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED MARCH 31, 1995
REVENUES:			
Net gain on sale of contracts (note 7)	$ 23,321,015	$ 11,549,413	$ 9,454,620
Servicing fees (note 6)	16,168,867	6,475,405	7,201,062
Interest	11,703,921	6,229,895	5,849,154
	51,193,803	24,254,713	22,504,836
EXPENSES:			
Employee costs	8,920,521	3,309,139	2,990,253
General and administrative	7,247,011	2,799,599	1,905,155
Interest	5,780,529	2,724,403	3,407,598
Provision for credit losses (note 5)	2,755,803	828,458	532,947
Marketing	1,678,674	1,231,110	1,764,121
Occupancy	768,521	267,641	254,845
Depreciation and amortization	275,348	174,555	153,355
Related party consulting fees (note 4)	75,000	262,500	350,000
	27,501,407	11,597,405	11,358,274
Income before income taxes	23,692,396	12,657,308	11,146,562
Income taxes (note 10)	9,595,020	5,082,186	4,480,932
Net income	$ 14,097,376	$ 7,575,122	$ 6,665,630
Net income per common and common equivalent share	$ 0.95	$ 0.53	$ 0.60
Weighted average number of common and common equivalent shares	14,849,609	14,323,592	11,143,268
Fully diluted net income per common and common equivalent share	$ 0.93	$ 0.52	$ 0.56
Fully diluted weighted average number of common and common equivalent shares	15,410,044	14,803,592	12,538,352

See accompanying notes to consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	SERIES A PREFERRED STOCK		COMMON STOCK		RETAINED EARNINGS (ACCUMULATED DEFICIT)	TOTAL
	SHARES	AMOUNT	SHARES	AMOUNT		
Balance at March 31, 1994..........	3,415,000	$ 3,415,000	8,733,334	$ 12,810,689	$ (6,024,909)	$ 10,200,780
Common stock issued upon exercise of warrants.......................	--	--	39,466	118,398	--	118,398
Common stock issued upon exercise of options........................	--	--	48,000	120,000	--	120,000
Common stock issuance, net (note 8)................................	--	--	2,000,000	13,304,550	--	13,304,550
Redemption of Preferred Stock (note 8)................................	(3,415,000)	(3,415,000)	--	--	--	(3,415,000)
Net income.........................	--	--	--	--	6,665,630	6,665,630
Balance at March 31, 1995..........	--	$ --	10,820,800	$ 26,353,637	$ 640,721	$ 26,994,358
Common stock issued upon exercise of warrants.......................	--	--	100,534	301,602	--	301,602
Common stock issued upon exercise of options........................	--	--	1,843,974	4,610,000	--	4,610,000
Common stock issued upon conversion of debt (note 11).................	--	--	533,334	2,000,000	--	2,000,000
Net income.........................	--	--	--	--	7,575,122	7,575,122
Balance at December 31, 1995.......	--	$ --	13,298,642	$ 33,265,239	$ 8,215,843	$ 41,481,082
Common stock issued upon exercise of warrants.......................	--	--	86,000	258,000	--	258,000
Common stock issued upon exercise of options........................	--	--	394,600	1,121,075	--	1,121,075
Net income.........................	--	--	--	--	14,097,376	14,097,376
Balance at December 31, 1996.......	--	$ --	13,779,242	$ 34,644,314	$ 22,313,219	$ 56,957,533

See accompanying notes to consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED MARCH 31, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 14,097,376	$ 7,575,122	$ 6,665,630
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	275,348	174,555	153,355
Amortization of purchased and excess servicing receivables	6,119,219	2,023,938	1,210,120
Amortization of deferred financing costs	157,208	5,265	--
Provision for credit losses	2,755,803	828,458	532,947
Gain on sale of contracts from excess servicing receivables	(18,665,429)	(7,977,828)	(4,065,899)
Loss on investment in unconsolidated affiliate	595,352	--	--
Changes in operating assets and liabilities:			
Purchases of contracts held for sale	(351,350,070)	(160,150,781)	(164,263,577)
Liquidation of contracts held for sale	346,486,336	156,890,700	142,472,028
Servicing fees receivable	(1,631,487)	(658,385)	(615,063)
Prepaid related party expenses	--	--	233,333
Initial deposits to credit enhancement accounts	(12,270,168)	(4,931,325)	(13,237,454)
Excess servicing deposited to credit enhancement accounts	(18,790,430)	(7,553,086)	(5,390,422)
Release of cash from credit enhancement accounts	17,940,919	7,693,839	5,923,201
Deferred taxes	5,383,997	2,199,068	(381,616)
Other assets	(3,361,654)	(425,695)	3,810
Accounts payable and accrued expenses	355,146	(131,382)	528,256
Warehouse line of credit	5,764,585	(12,230,389)	19,730,389
Taxes payable/receivable	(3,522,997)	(1,865,464)	4,385,724
Net cash used in operating activities	(9,660,946)	(18,533,390)	(6,115,238)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of subordinated certificates	2,022,220	--	--
Investment in unconsolidated affiliate	(4,277,407)	--	--
Purchases of furniture and equipment	(356,587)	(263,496)	(334,458)
Payments received on subordinated certificates	152,446	118,764	--
Net cash used in investing activities	(2,459,328)	(144,732)	(334,458)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of promissory notes	--	2,000,000	5,000,000
Issuance of note to related party	--	2,000,000	--
Issuance of long term notes	--	20,000,000	--
Payment of financing costs	--	(1,105,695)	--
Repayment of promissory notes	--	(2,000,000)	(5,000,000)
Repayment of note to related party	--	(2,000,000)	--
Issuance of common stock	--	--	13,304,550
Redemption of preferred stock	--	--	(3,415,000)
Exercise of options and warrants	1,379,075	4,911,602	238,398
Net cash provided by financing activities	1,379,075	23,805,907	10,127,948
Increase (decrease) in cash	(10,741,199)	5,127,785	3,678,252
Cash at beginning of period	10,895,157	5,767,372	2,089,120
Cash at end of period	$ 153,958	$ 10,895,157	$ 5,767,372
Supplemental disclosure of cash flow information:			
Cash paid during the period			
Interest	$ 5,213,912	$ 2,542,718	$ 3,288,848
Income taxes	$ 6,679,000	$ 4,759,050	$ 523,000
Supplemental disclosure of non-cash investing and financing activities:			
Issuance of common stock upon conversion of debt	$ --	$ 2,000,000	$ --
Investments in subordinated certificates	$ --	$ 4,779,166	$ --

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1996, NINE MONTHS ENDED DECEMBER 31, 1995 AND YEAR ENDED MARCH 31, 1995

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

Consumer Portfolio Services, Inc. ("the Company") was incorporated in California on March 8, 1991. The Company and its subsidiaries engage primarily in the business of purchasing, selling and servicing retail automobile installment sale contracts ("Contracts") originated by dealers located throughout the United States. The Company specializes in Contracts with borrowers who generally would not be expected to qualify for traditional financing such as that provided by commercial banks or automobile manufacturers' captive finance companies. The Company's operations are centralized in Irvine, California and it has purchased Contracts from Dealers in California since its inception. During the year ended December 31, 1996, Contract purchases relating to borrowers who resided in California totaled 25.8% of all contract purchases. Moreover, at December 31, 1996, borrowers who resided in California made up 58.0% of the Servicing Portfolio. A significant adverse change in the economic climate in California could result in fewer Contracts available for sale and potentially less gain on sale and servicing fee revenue.

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

The Company purchases Contracts with the intent to re-sell them to institutional investors either as bulk sales or in the form of securities backed by the Contracts. Purchasers of the Contracts receive a pass through rate of interest set at the time of the sale and the Company receives a base servicing fee for its duties relating to the accounting for and collection of the Contracts. In addition, the Company is entitled to certain excess servicing fees which represent collections on the Contracts in excess of those required to pay investor principal and interest, base servicing fees and any other expenses of the trust.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Consumer Portfolio Services, Inc. and its wholly-owned subsidiaries, Alton Receivables Corp. ("Alton") , CPS Receivables Corp. ("CPSRC") and CPS Funding Corp. ("CPSFC"). Alton, CPSRC and CPSFC are limited purpose corporations formed to accommodate the structures under which the Company sells its Contracts. The consolidated financial statements also include the accounts of SAMCO Acceptance Corp. and LINC Acceptance Company, LLC,

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
both of which are 80% owned subsidiaries formed by the Company in fiscal 1996. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in unconsolidated affiliates which are not majority owned are reported using the equity method. The excess of the cost of the stock over the Company's share of the net assets at the acquisition date ("goodwill") is being amortized over fifteen years.

CONTRACTS HELD FOR SALE

The Contracts which the Company purchases from dealers provide for finance charges of approximately 20% per annum, in most cases. Each Contract provides for full amortization, equal monthly payments and can be fully prepaid by the borrower at any time without penalty. The Company typically purchases the Contracts from dealers at a discount from the amount financed under the Contract with such discounts deferred and recognized as revenue upon sale of the related Contracts. Effective January 10, 1997, the Company began purchasing all Contracts without a percentage discount, charging dealers only a flat acquisition fee for each Contract purchased based on the perceived credit risk and, in some cases, the interest rate on the Contract. Contracts are generally sold to institutional investors at par. In the case of whole loan sales, the investor withholds a portion of the purchase price as an initial credit enhancement. In the case of Contracts sold in the form of asset backed securities, the Company pledges certain cash balances as an initial credit enhancement. Contracts are generally sold by the Company within one to three months of their purchase, although they may be held longer.

Contracts held for sale are stated at the lower of cost or market value. Market value is determined by purchase commitments from investors and prevailing market prices. Gains and losses are recorded as appropriate when Contracts are sold.

ALLOWANCE FOR CREDIT LOSSES

The Company provides an allowance for credit losses which management believes provides adequately for current and possible future losses that may develop in the Contracts held for sale. Management evaluates the adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio, the value of underlying collateral, and general economic conditions and trends.

CONTRACT ACQUISITION FEES AND COSTS

The Company generally receives an acquisition fee from the dealer for each Contract purchased. Fee proceeds are used to offset the direct expenses associated with the purchase of the Contracts, with any excess amount deferred until the Contracts are sold at which time the deferred portions are recognized as a component of the gain on sale.

INVESTMENTS

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

GAIN ON SALE OF CONTRACTS

Gains or losses are determined based upon the difference between the sales proceeds for the portion of Contracts sold and the Company's recorded investment in the Contracts sold. The Company allocates the recorded investment in the Contracts between the portion of the Contracts sold and the portion retained based on the relative fair values of those portions on the date of sale.

EXCESS SERVICING RECEIVABLES

Excess servicing receivables ("ESR") result from the sale of Contracts on which the Company retains servicing rights and all, or a portion of, the excess cash flows. ESRs are determined by computing the difference between the weighted average yield of the Contracts sold and the yield to the purchaser, adjusted for the normal servicing fee based on the agreements between the Company and the purchaser. The resulting differential is recorded as a gain at the time of the sale equal to the present value of the estimated cash flows, net of any portion of the excess that may be due to the purchaser and adjusted for anticipated prepayments, repossessions, liquidations and other losses. The excess servicing cash flows over the estimated remaining life of the Contracts have been calculated for all applicable periods using estimates for prepayments, losses (charge-offs) and weighted average discount rates, which the Company expects market participants would use for similar instruments. Losses are discounted at an assumed risk free rate. The ESRs are amortized using the interest method and are offset against servicing fees. To the extent that the actual future performance of the Contracts results in less excess cash flows than the Company estimated, the Company's ESRs will be adjusted at least quarterly, with corresponding charges recorded against income in the period in which the adjustment is made. To the extent that the actual cash flows exceed the Company's estimates the Company will record additional servicing fees. Excess servicing receivables are evaluated quarterly for impairment by reassessing the discounted future estimated excess servicing fees, on individual securitized pools, which consist predominantly of pools of Contracts purchased in the quarter of each securitization. If the carrying value of the ESR is greater than the future estimated ESR, a charge to earnings is made through a valuation allowance.

FURNITURE AND EQUIPMENT

Furniture and equipment are stated at cost net of accumulated depreciation which is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the related lease term.

SERVICING

Servicing fees are reported as income when earned, net of related amortization of purchased and excess servicing. Servicing costs are charged to expense as incurred.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET INCOME PER SHARE

The computation of net income per common and common equivalent share is based upon the Treasury Stock Method using the weighted average number of common shares outstanding during the period plus (in periods in which they have a dilutive effect) the effect of common shares contingently issuable, primarily from stock options and warrants. The fully diluted net income per share computation reflects the effect of common shares contingently issuable upon the conversion of convertible debt in which such conversion would cause dilution. Fully diluted net income per common share also reflects additional dilution related to stock options and warrants due to the use of the market price at the end of the period, when higher than the average price for the period.

INCOME TAXES

The Company and its subsidiaries file a consolidated Federal income and combined state franchise tax return on a fiscal year basis. The Company utilizes the asset and liability method of accounting for income taxes under which deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has accounted for income taxes in this manner since its inception.

STOCK SPLIT

On February 16, 1996, the Board of Directors authorized a two-for-one stock split to be distributed on or about March 14, 1996, to shareholders of record on March 7, 1996. All references in the consolidated financial statements to number of shares, per share amounts and market prices of the Company's common stock have been retroactively restated to reflect the increased number of common shares outstanding.

STOCK OPTION PLAN

Prior to January 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted SFAS No. 123, Accounting for Stock-Based Compensation, which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based methods defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and to provide the pro forma disclosure provisions of SFAS No. 123.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

The Company adopted the provisions of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, on January 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Adoption of this Statement did not have a material impact on the Company's financial position, results of operations or liquidity.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1996, the Financial Accounting Standards Board issued SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996 and is to be applied prospectively. This Statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on consistent application of a financial-components approach that focuses on control. It distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. Management of the Company does not expect that adoption of SFAS No. 125 will have a material impact on the Company's financial position, results of operations or liquidity.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of income and expenses during the reported periods. Specifically, a number of estimates were made in connection with the recording of the allowance for credit losses and excess servicing receivables and the related gain. Actual results could differ from those estimates.

RECLASSIFICATION

Certain amounts for the prior periods have been reclassified to conform to the current presentation.

(2) INVESTMENTS

The Company is a party to various agreements with institutional investors and investment banks for the sale of the Company's Contracts. The agreements call for the Company to sell Contracts to one of its special purpose corporation subsidiaries, either Alton or CPSRC (the "SPCs"), which subsequently transfer the Contracts to various grantor trusts (the "Trusts") which then issue interest bearing certificates which are purchased by institutional investors. The terms of the agreements provide that simultaneous with

(2) INVESTMENTS (CONTINUED)

each purchase of certificates by the investor, the Company is required to provide a credit enhancement in the form of a cash capital contribution to the SPC equal to a specified percentage of the amount of the certificates purchased by the investor. The SPC then deposits the initial cash, and subsequent excess servicing cash flows as required by the terms of the various agreements, to an account held by a trustee (the "Spread Account") and pledges the cash to the Trust, which in turn invests the cash in high quality liquid investment securities as defined by the various agreements. In the securitizations since June 1995, the Company altered the credit enhancement mechanism to create a subordinated class of asset-backed securities ("B Piece") in order to reduce the size of the required initial deposit to the Spread Account. All of the B Pieces through December 31, 1996, had an initial principal balance equal to 5% of the aggregate principal balance of the asset-backed securities. As of December 31, 1996, all of the B Pieces have been sold except the B Piece related to the June 1995 securitization. In the event that the cash flows generated by the Contracts transferred to the Trust are insufficient to pay obligations of the Trust, including principal or interest due to certificateholders or expenses of the Trust, the trustee will draw an amount necessary from the Spread Accounts to pay the obligations of the Trust.

The agreements provide that the Spread Accounts shall be maintained at a specified percent of the principal balance of the certificates, which can be increased in the event delinquencies and/or losses exceed certain specified levels. In the event delinquencies and/or losses on the Contracts serviced exceed specified levels defined in certain of the Company's securitization agreements, the terms of those securitizations may require the transfer of servicing to another servicer. Consequently, as principal payments are made to the certificateholders, and if the Spread Accounts are in excess of the specified percent of the principal balance of the certificates, the trustee shall release to the SPC the portion of the pledged cash that is in excess of the amount necessary to meet the specified percent of the principal balance of the certificates. To the extent cash in excess of the predetermined level is generated, such cash is either transferred to cover deficiencies, if any, in Spread Accounts for other pools, or is released to the Company. Except for releases in this manner, the cash in the Spread Accounts is restricted from use by the SPC or the Company. Investments in credit enhancements were made up of the following components:

	DECEMBER 31, 1996	DECEMBER 31, 1995
Funds held by investor	$ 1,263,660	$ 2,211,363
Investment in subordinated certificates	1,530,950	2,137,333
US government securities	40,802,862	26,129,097
	$ 43,597,472	$ 30,477,793

(3) FURNITURE AND EQUIPMENT

Furniture and equipment consists of the following:

	DECEMBER 31, 1996	DECEMBER 31, 1995
Furniture and fixtures	$ 759,783	$ 629,613
Computer equipment	875,870	682,541
Leasehold improvements	91,700	65,103
	1,727,353	1,377,257
Less accumulated depreciation and amortization	(1,097,579)	(828,722)
	$ 629,774	$ 548,535

(4) RELATED PARTY TRANSACTIONS

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

The Company is a party to a consulting agreement with Stanwich Partners, Inc. ("SPI") that call for monthly payments of $6,250 through December 31, 1998. Included in the accompanying consolidated statements of operations for the year ended December 31, 1996, for the nine months ended December 31, 1995, and for the year ended March 31, 1995, is $75,000, $262,500 and $350,000, respectively, of consulting expense related to this consulting agreement. The Chairman of the Board of Directors of the Company is a principal shareholder of SPI.

During the year ended March 31, 1995, the Company advanced to Holdings $714,494, pursuant to various notes which were to mature on or before July 1, 1995. As of March 31, 1995, all principal and interest under the notes had been paid in full.

On September 27, 1995, the Company borrowed $2 million through a promissory note to Charles E. Bradley, Sr., Chairman of the Board of Directors. Interest accrued at 11.5% and was payable on the maturity date, December 31, 1995, or upon the exercise of an option by Holdings for the purchase of 1,800,000 shares of the Company's common stock at $2.50 per share, whichever was earlier. On December 6, 1995, Holdings exercised its option and the note was repaid in full.

Included in other assets at December 31, 1996, is a receivable for approximately $100,000 from SPI related to investment banking services performed by the Company in connection with the Company's January 2, 1997 acquisition of Stanwich Leasing, Inc. ("SLI") (see note 14).

Investment in unconsolidated affiliate consists of a 38% interest in NAB Asset Corporation ("NAB") that was acquired by the Company on June 6, 1996, for approximately $4,300,000. At the time of the acquisition, NAB had approximately $3.5 million in cash and no significant operations. The Company's investment in NAB exceeded the Company's share of the net assets of NAB at the acquisition date by approximately $1,418,000. This amount, which is included in other assets in the accompanying balance

(4) RELATED PARTY TRANSACTIONS (CONTINUED)

sheet, has been recorded by the Company as goodwill. Based on the closing price on the Nasdaq, the market value of the investment in NAB was approximately $7.5 million at December 31, 1996. Charles E. Bradley, Sr., Chairman of the Company's Board of Directors and principal shareholder and Charles E. Bradley, Jr., President, Chief Executive Officer and a member of the Company's Board of Directors are both on the Board of Directors of NAB.

Subsequent to the Company's investment in NAB, NAB purchased Mortgage Portfolio Services, Inc. ("MPS") from the Company for $300,000. MPS, formed by the Company in April, 1996, is a mortgage broker-dealer based in Texas specializing in "B" and "C" mortgages. In July 1996, NAB formed CARSUSA, Inc. ("CARSUSA"), which purchased, and now owns and operates, a Mitsubishi automobile dealership in Southern California. Included in general and administrative expenses for the year ended December 31, 1996, is $595,352, which represents the Company's share of NAB's loss since June 6, 1996. Included in other assets at December 31, 1996, are amounts due from NAB amounting to $1,098,000. Of this amount, $800,000 relates to a flooring line of credit provided to CARSUSA and the remainder relates to fees owed by MPS and CARSUSA for services rendered by the Company in fiscal 1996.

During fiscal 1996, the Company sold 69 automobiles to CARSUSA and received proceeds of $458,650. Additionally, the Company purchased 39 contracts from CARSUSA. The aggregate principal balance of the Contracts purchased was $517,264.

(5) CONTRACTS HELD FOR SALE

The balance of Contracts held for sale was made up of the following components:

	DECEMBER 31, 1996	DECEMBER 31, 1995
Gross receivable balance	$ 28,095,461	$ 24,584,472
Unearned finance charges	(5,268,107)	(3,820,267)
Dealer discounts	(509,266)	(944,284)
Deferred loan origination costs (net of related fees)	61,774	59,077
Allowance for credit losses	(723,089)	(330,156)
Net contracts held for sale	$ 21,656,773	$ 19,548,842

Activity in the allowance for credit losses consisted of the following:

	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED MARCH 31, 1995
Balance, beginning of period	$ 330,156	$ 323,631	$ 50,169
Provisions	2,755,803	828,458	532,947
Charge-offs	(2,755,303)	(1,076,982)	(386,408)
Recoveries	392,433	255,049	126,923
Balance, end of period	$ 723,089	$ 330,156	$ 323,631

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

As of December 31, 1996, December 31, 1995, and March 31, 1995, the Company had commitments to purchase $1,109,595, $910,325, and $706,720, respectively of Contracts from Dealers in the ordinary course of business.

(6) SERVICING

Servicing fees are reported as income when earned, net of related amortization of purchased and excess servicing. Servicing costs are charged to expense as incurred. Servicing fees included the following components:

	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED MARCH 31, 1995
Gross loan servicing fees	$ 22,288,086	$ 8,499,343	$ 8,411,182
Amortization of purchased servicing	--	--	(4,849)
Amortization of excess servicing	(6,119,219)	(2,023,938)	(1,205,271)
Net Servicing fees	$ 16,168,867	$ 6,475,405	$ 7,201,062

The Company services Contracts and loans to borrowers residing in approximately 49 states, with the largest concentrations of loans in California, Florida, Pennsylvania and Texas. Servicing balances were made up of the following components:

	DECEMBER 31, 1996	DECEMBER 31, 1995	MARCH 31, 1995
Contracts held for sale	$ 22,827,354	$ 20,764,205	$ 23,469,223
Servicing subject to recourse provisions:			
Whole loan portfolios	11,212,010	21,213,050	29,754,103
Alton Receivables Corp	10,240,973	22,732,021	35,324,463
CPS Receivables Corp	461,653,273	224,218,079	104,252,042
	$ 505,933,610	$ 288,927,355	$ 192,799,831

(7) EXCESS SERVICING RECEIVABLES

The following table summarizes ESR activity:

	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED MARCH 31, 1995
Balance, beginning of period	$ 11,108,251	$ 5,154,361	$ 2,293,733
ESR gains recognized	18,665,429	7,977,828	4,065,899
Amortization of ESR	(6,119,219)	(2,023,938)	(1,205,271)
Balance, end of period	$ 23,654,461	$ 11,108,251	$ 5,154,361

ESR balances were made up of the following components:

	DECEMBER 31, 1996	DECEMBER 31, 1995	MARCH 31, 1995
Present value of future cash flows	$ 70,339,711	$ 34,538,442	$ 19,551,370
Discounted allowance for credit losses	(46,685,250)	(23,430,191)	(14,397,009)
Net ESR balance	$ 23,654,461	$ 11,108,251	$ 5,154,361
Servicing subject to recourse provisions	$ 483,106,256	$ 268,163,150	$ 169,330,608
Discounted allowance as percentage of servicing subject to recourse provisions	9.66%	8.74%	8.50%

Net gain on sale on Contracts was made up of the following components:

	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED MARCH 31, 1995
Dealer discount	$ 8,271,777	$ 5,573,371	$ 6,750,955
ESR gains recognized	18,665,429	7,977,828	4,065,899
Deferred acquisition fees (expenses)	(1,381,436)	(528,870)	647,766
Expenses related to sales	(2,234,755)	(1,472,916)	(2,010,000)
	$ 23,321,015	$ 11,549,413	$ 9,454,620

(8) SHAREHOLDERS' EQUITY

PREFERRED STOCK

The holders of the Series A Preferred Stock were entitled to receive non-cumulative annual dividends equal to 6% of par value, payable quarterly in cash (or, at the option of the Company, in-kind in additional shares of Series A Preferred Stock), when and as declared by the Board of Directors, after the Company's cumulative net income from the date of the Company's initial public offering reached $5,000,000. No dividends or other distributions may be made with respect to the common stock until accrued dividends

(8) SHAREHOLDERS' EQUITY (CONTINUED)

have been declared and paid (or reserved for payment) on the Series A Preferred Stock. Upon liquidation, the Series A Preferred Stock is entitled to receive, in preference to any payment on the common stock, an amount equal to par value plus any accrued and unpaid dividends. After March 31, 1994, the Series A Preferred Stock was subject to redemption at the option of the Company at a price of $1.00 per share plus accrued and unpaid dividends. On March 15, 1995, the Company redeemed, for an aggregate price of $3.4 million, all of the outstanding Series A Preferred Stock with proceeds from the March 7, 1995, public offering of 2,000,000 shares of its common stock.

COMMON STOCK

On March 7, 1995, the Company completed a second public offering of 2,000,000 shares of its common stock. Net of related offering expenses of $1,445,450, the Company raised $13,304,550 in this offering.

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

OPTIONS AND WARRANTS

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

At December 31, 1996, there were 97,000 additional shares available for grant under the Plan. Of the options outstanding at December 31, 1996 and 1995 and March 31, 1995, 1,319,420, 1,296,786 and 1,191,872 were exercisable with weighted-average exercise prices of $4.02, $2.71 and $2.62, respectively. The per share weighted-average fair value of stock options granted during the year ended December 31,

(8) SHAREHOLDERS' EQUITY (CONTINUED)

1996 and the nine months ended December 31, 1995 was $4.99 and $4.17 at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED DECEMBER 31, 1995
Expected life (years)	5.86	6.33
Risk-free interest rate	6.23%	6.80%
Volatility	46.20%	46.20%
Expected dividend yield	--	--

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

	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED DECEMBER 31, 1995
Net income		
As reported	$ 14,097,376	$7,575,122
Pro forma	13,550,000	7,505,000
Net income per share		
As reported	$ 0.95	$ 0.53
Pro forma	$ 0.92	$ 0.53
Net income per fully-diluted share		
As reported	$ 0.93	$ 0.52
Pro forma	$ 0.90	$ 0.52

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

(8) SHAREHOLDERS' EQUITY (CONTINUED)

Stock options activity during the periods indicated is as follows:

	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Balance at March 31, 1994	1,677,840	$ 2.63
Granted	415,200	5.54
Exercised	48,000	2.50
Canceled	--	--
Balance at March 31, 1995	2,045,040	3.23
Granted	159,360	7.61
Exercised	44,000	2.50
Canceled	--	--
Balance at December 31, 1995	2,160,400	3.56
Granted	513,400	9.60
Exercised	394,600	2.82
Canceled	124,800	5.23
Balance at December 31, 1996	2,154,400	$ 5.04

At December 31, 1996, the range of exercise prices, the number, weighted-average exercise price and weighted-average remaining term of options outstanding and the number and weighted-average price of options currently exercisable are as follows:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING TERM	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$ 2.50--$ 2.50	874,920	1.80	$ 2.50	874,920	$ 2.50
$ 2.69--$ 2.69	228,920	4.96	$ 2.89	91,840	$ 2.69
$ 4.38--$ 4.38	70,000	7.25	$ 4.38	34,000	$ 4.38
$ 5.38--$ 5.38	301,200	7.25	$ 5.38	27,200	$ 5.38
$ 6.78--$ 8.38	201,760	8.09	$ 7.42	57,700	$ 7.41
$ 8.63--$ 8.63	15,000	9.53	$ 8.63	3,000	$ 8.63
$ 8.88--$ 8.88	326,400	9.25	$ 8.88	205,760	$ 8.88
$11.00--$11.00	15,200	7.83	$ 11.00	--	--
$12.00--$12.00	119,000	9.82	$ 12.00	23,800	$ 12.00
$12.13--$12.13	2,000	9.83	$ 12.13	400	$ 12.13

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

(8) SHAREHOLDERS' EQUITY (CONTINUED)
December 31, 1995, and the year ended March 31, 1995, the underwriter exercised 86,000, 100,534, and 39,466 warrants, respectively, leaving a balance of 14,000 at December 31, 1996.

(9) COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases its facilities and certain computer equipment under non-cancelable operating leases which expire through 2007. Future minimum lease payments at December 31, 1996, under these leases are as follows:

1997	$ 989,333
1998	874,539
1999	794,019
2000	670,497
2001	87,433
	$3,415,821

Subsequent to December 31, 1996, the Company entered into a building lease for a new collection facility in Chesapeake, Virginia. The lease calls for 126 monthly payments of $21,722 for total minimum lease payments of $2,736,993.

Rent expense for the year ended December 31, 1996, the nine months ended December 31, 1995, and the year ended March 31, 1995, was $463,592, $186,483 and $219,835, respectively. The Company's facility lease contains certain rental concessions and escalating rental payments which are recognized as adjustments to rental expense and are amortized on a straight-line basis over the term of the lease.

LITIGATION

The Company is subject to lawsuits which arise in the ordinary course of its business. Management is of the opinion, based in part upon consultation with its counsel, that the liability of the Company, if any, arising from existing and threatened lawsuits would not have a material adverse effect on the Company's financial position and results of operations.

(10) INCOME TAXES

Income taxes are comprised of the following:

	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED MARCH 31, 1995
Current			
Federal	$3,060,164	$2,156,799	$ 3,718,390
State	1,150,859	726,319	1,144,158
	4,211,023	2,883,118	4,862,548
Deferred			
Federal	4,565,383	1,683,960	(353,739)
State	818,614	515,108	(27,877)
	5,383,997	2,199,068	(381,616)
Total tax expense	$9,595,020	$5,082,186	$ 4,480,932

The Company's effective tax expense differs from the amount determined by applying the statutory Federal rate of 35% for the year ended December 31, 1996, and for the nine months ended December 31, 1995, and the year ended March 31, 1995, to income before income taxes as follows:

	YEAR ENDED DECEMBER 31, 1996	NINE MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED MARCH 31, 1995
Expense at Federal tax rate	$8,292,338	$4,430,058	$ 3,901,297
California franchise tax, net of	1,280,157		
Federal income tax benefit		737,192	727,267
Other	22,525	(85,064)	(147,632)
	$9,595,020	$5,082,186	$ 4,480,932

(10) INCOME TAXES (CONTINUED)

The tax effected cumulative temporary differences that give rise to deferred tax assets and liabilities as of December 31, 1996, and December 31, 1995, are as follows:

	DECEMBER 31, 1996	DECEMBER 31, 1995
Deferred Tax Assets:		
Accrued Liabilities	$ 13,670	$ 77,716
Furniture and equipment	23,095	52,938
Provision for credit losses	301,357	33,727
State taxes	508,219	489,856
	846,341	654,237
Valuation allowance	--	--
	846,341	654,237
Deferred Tax Liabilities--		
Excess servicing receivables	7,873,592	2,297,491
Net deferred tax liability	$7,027,251	$1,643,254

In determining the possible future realization of deferred tax assets, future taxable income from the following sources are taken into account: (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 years in which net operating losses might otherwise expire.

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

(11) DEBT

In June 1995, the Company entered into two warehouse line of credit agreements (collectively the "Line"). The Line provides the Company with an interim financing facility to hold Contracts for sale in greater numbers and for longer periods of time prior to their sale to other institutional investors. The primary agreement provides for loans by Redwood Receivables Corporation ("Redwood") to the Company, to be funded by commercial paper issued by Redwood and secured by Contracts pledged periodically by the Company. The Redwood facility provides for a maximum of $100.0 million of advances to the Company, with interest at a variable rate tied to prevailing commercial paper rates (6.99% at December 31, 1996). When the Company wishes to securitize these Contracts, a substantial part of the proceeds received from investors is paid to Redwood, which simultaneously releases the pledged Contracts for transfer to a pass-through securitization trust.

The second agreement is a standby line of credit with General Electric Capital Corporation ("GECC"), also with a $100.0 million maximum, which the Company may use only if and to the extent that Redwood does not provide funding as described above. The GECC line is secured by Contracts and substantially all the other assets of the Company. Both agreements extend through November 30, 1998.

(11) DEBT (CONTINUED)

The two agreements are viewed as a single short-term warehouse line of credit, with advances varying according to the amount of pledged Contracts. The Company is charged a non-utilization fee of .25% per annum on the unused portion of the Line.

In December 1996, the Company entered into a overdraft financing facility with, a bank that provides for maximum borrowings of $2.0 million. Interest is charged on the outstanding balance at the bank's reference rate (8.25% at December 31, 1996) plus 1.75%. There were no borrowings outstanding under this facility at December 31, 1996. The facility expires on June 1, 1998. Both the Line and the overdraft financing facility contain various restrictive and financial covenants that the Company was in compliance with at December 31, 1996.

On December 20, 1995, the Company issued $20.0 million in rising interest subordinated redeemable securities due January 1, 2006 (the "Notes"). The Notes are unsecured general obligations of the Company. Interest on the Notes is payable on the first day of each month, commencing February 1, 1996, at an interest rate of 10.0% per annum. The interest rate increases 0.25% on each January 1 for the first nine years and 0.50% in the last year. In connection with the issuance of the Notes, the Company incurred and capitalized issuance costs of $1,105,695. The Company recognizes interest and amortization expense related to the Notes using a method which approximates the effective interest method over the expected redemption period. The Notes are subordinated to certain existing and future indebtedness of the Company as defined in the indenture agreement. The Company is required to redeem, subject to certain adjustments, $1.0 million of the aggregate principal amount of the Notes through the operation of a sinking fund on each of January 1, 2000, 2001, 2002, 2003, 2004 and 2005. The Notes are not redeemable at the option of the Company prior to January 1, 1998. The Company may at its option elect to redeem the Notes from the registered holders of the Notes, in whole or in part, at any time, on or after January 1, 1998, and prior to January 1, 1999, at 102% of their principal amount, on or after January 1, 1999, and prior to January 1, 2000, at 101% of their principal amount, and on or after January 1, 2000, at 100% of their principal amount, in each case plus accrued interest to and including the date of redemption.

On March 12, 1993, the Company issued a $2 million five year convertible subordinated note ("Note 1") to an institutional investor in conjunction with an agreement by that investor to commit to purchase up to $50 million of the Company's Contracts. Interest accrued at 11% and was payable semi-annually. On July 5, 1995, the holder converted Note 1 to 533,334 shares of the Company's common stock. On November 16, 1993, the Company issued a $3 million five year convertible subordinated note ("Note 2") to the same institutional investor in conjunction with an agreement by that investor to commit to purchase an additional $50 million of the Company's Contracts. Interest accrued at 9.5% and was payable semi-annually. On January 17, 1997, the holder converted Note 2 into 480,000 shares of the Company's common stock.

On May 15, 1994, the Company issued a promissory note in the amount of $2.0 million to the same institutional investor who held Note 2. On October 25, 1994, the Company borrowed an additional $3.0 million under two new promissory notes from two different institutional investors. These promissory notes bore interest at 400 basis points over the Citibank Base Rate and matured on February 28, 1995, with provisions for extensions to April 30, 1995, at the option of the Company. The Company repaid each of these notes with the proceeds from its March 7, 1995, public common stock offering.

(11) DEBT (CONTINUED)

On July 6, 1995, the Company issued a promissory note in the amount of $2.0 million to the same institutional investor who held Note 2. The note bore interest at 200 basis points over the Citibank Base Rate and matured on December 31, 1995. On December 6, 1995, this note was repaid in full.

(12) EMPLOYEE BENEFITS

The Company sponsors a pretax savings and profit sharing plan (the "401(K) Plan") under section 401(k) of the Internal Revenue Code. Under the 401(K) Plan, eligible employees are able to contribute up to 15% of their compensation (subject to stricter limitation in the case of highly compensated employees). The Company matches 40% of employees' contributions up to $500 per employee per calendar year. The Company's contribution to the 401(K) Plan was $63,801, $13,811, and $16,245 for the year ended December 31, 1996, for the nine months ended December 31, 1995, and for the year ended March 31, 1995, respectively.

(13) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following summary presents a description of the methodologies and assumptions used to estimate the fair value of the Company's financial instruments. Much of the information used to determine fair value is highly subjective. When applicable, readily available market information has been utilized. However, for a significant portion of the Company's financial instruments, active market values do not exist. Therefore, considerable judgments were required in estimating fair value for certain items. The subjective factors include, among other things, the estimated timing and amount of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of December 31, 1996, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different. The estimated fair values of financial assets and liabilities at December 31, 1996, were as follows:

	DECEMBER 31,			
	1996		1995	
FINANCIAL INSTRUMENT	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Cash	$ 153,958	$ 153,958	$ 10,895,157	$ 10,895,157
Contracts held for sale	21,656,773	22,800,000	19,548,842	20,700,000
Investment in subordinated certificates	--	--	2,174,666	2,174,666
Investment in credit enhancements	43,597,472	43,597,472	30,477,793	30,477,793
Excess servicing receivable	23,654,461	23,654,461	11,108,251	11,108,251
Warehouse line of credit	13,264,585	13,264,585	7,500,000	7,500,000
Notes payable	20,000,000	20,000,000	20,000,000	20,000,000
Convertible subordinated debt	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 3,000,000

CASH

The carrying value equals fair value.

(13) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

CONTRACTS HELD FOR SALE

The fair value of the Company's contracts held for sale is determined in the aggregate based upon current investor yield requirements and by discounting the future cash flows using the current credit and discount rates that the Company believes reflect the estimated credit, interest rate and prepayment risks associated with similar types of instruments.

INVESTMENTS IN SUBORDINATED CERTIFICATES

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

INVESTMENTS IN CREDIT ENHANCEMENTS

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

EXCESS SERVICING RECEIVABLES

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

WAREHOUSE LINE OF CREDIT

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

NOTES PAYABLE

The fair value is estimated based on quoted market prices and on current rates for similar debt with similar remaining maturities.

CONVERTIBLE SUBORDINATED DEBT

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

(14) SUBSEQUENT EVENTS

In January 1997, the Company purchased 80% of the outstanding stock of SLI from Charles E. Bradley, Sr., Chairman of the Board of Directors and principal shareholder, and John G. Poole, a director of the Company, for a purchase price of $100,000. The transaction was considered and approved by the independent members of the Board of Directors of the Company.

(14) SUBSEQUENT EVENTS (CONTINUED)

In February 1997, the Company filed a Form S-3 Registration Statement with the Securities and Exchange Commission to sell approximately $35 million in unsecured Participating Equity Notes due in 2004. Twenty-five percent of each note is convertible into common stock of the Company at maturity or in connection with redemption. The notes will be subordinate to all existing and future senior indebtedness.

(15) SELECTED QUARTERLY DATA (UNAUDITED)

	QUARTER ENDED MARCH 31,	QUARTER ENDED JUNE 30,	QUARTER ENDED SEPTEMBER 30,	QUARTER ENDED DECEMBER 31,
1996				
Revenues	$ 9,907,581	$ 12,485,185	$ 13,758,526	$ 15,042,511
Income before income taxes	5,101,297	5,517,249	6,451,297	6,622,553
Net income	3,051,297	3,271,229	3,834,297	3,940,553
Net income per common and common equivalent share	0.21	0.22	0.26	0.26
Fully diluted net income per common and common equivalent share	0.20	0.22	0.25	0.26
1995				
Revenues	$ 6,518,853	$ 8,089,304	$ 7,852,191	$ 8,313,218
Income before income taxes	3,376,694	4,075,286	4,175,663	4,406,359
Net income	2,019,189	2,342,207	2,532,645	2,700,270
Net income per common and common equivalent share	0.18	0.18	0.18	0.18
Fully diluted net income per common and common equivalent share	0.18	0.16	0.18	0.18