UNITED STATES 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, 2010
Commission file number: 001-14116

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.)**
19500 Jamboree Road, Irvine, California	**92618**
(Address of principal executive offices)	**(Zip Code)**

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, no par value	The Nasdaq Stock Market LLC (Global Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has 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 disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not 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. [X]

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X]

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

The aggregate market value of the 13,966,256 shares of the registrant's common stock held by non-affiliates as of the date of filing of this report, based upon the closing price of the registrant's common stock of $1.37 per share reported by Nasdaq as of June 30, 2010, was approximately $19,133,771. For purposes of this computation, a registrant sponsored pension plan and all directors and executive officers are deemed to be affiliates. Such determination is not an admission that such plan, directors and executive officers are, in fact, affiliates of the registrant. The number of shares of the registrant's Common Stock outstanding on March 22, 2011 was 18,119,810.

DOCUMENTS INCORPORATED BY REFERENCE

The proxy statement for registrant's 2011 annual shareholders meeting is incorporated by reference into Part III hereof.

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PART I

Item 1. Business

Overview

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

We were incorporated and began our operations in March 1991. From inception through December 31, 2010, we have purchased a total of approximately $8.8 billion of automobile contracts from dealers. In addition, we obtained a total of approximately $605.0 million of automobile contracts in mergers and acquisitions in 2002, 2003 and 2004. In 2004 and 2009, we were appointed as a third-party servicer for certain portfolios of automobile receivables originated and owned by entities not affiliated with us. Beginning in 2008, our managed portfolio has decreased each year due to our strategy of limiting contract purchases to conserve our liquidity in response to adverse economic conditions, as discussed further below. However, since October 2009, we have gradually increased contract purchases resulting in aggregate purchases of $113.0 million in 2010, compared to $8.6 million in 2009. Our total managed portfolio was $756.2 million at December 31, 2010, compared to $1,194.7 million at December 31, 2009, $1,664.1 million as of December 31, 2008 and $2,162.2 million as of December 31, 2007.

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

We direct our marketing efforts primarily to dealers, rather than to consumers. We establish relationships with dealers through our employee marketing representatives who contact a prospective dealer to explain our automobile contract purchase programs, and thereafter provide dealer training and support services. Our marketing representatives represent us exclusively. They may be located either in our Irvine headquarters, or in the field, in which case they work from their homes and support dealers in their geographic area. Our marketing representatives present dealers with a marketing package, which includes our promotional material containing the terms offered by us for the purchase of automobile contracts, a copy of our standard-form dealer agreement, and required documentation relating to automobile contracts. As of December 31, 2010, we had 18 marketing representatives and we were actively receiving applications from 3,568 dealers in 44 states. Current levels of marketing representatives and dealers are a significant reduction from December 31, 2007, when we had 134 marketing representatives and were actively receiving applications from 10,255 dealers. During 2008 and thereafter, we significantly reduced our presence in the marketplace in response to economic conditions as discussed further below. As of December 31, 2010, approximately 88% of our dealers were franchised new car dealers that sell both new and used vehicles, and the remainder were independent used car dealers. For the year ended December 31, 2010, approximately 87% of the automobile contracts purchased under our programs consisted of financing for used cars and 13% consisted of financing for new cars, as compared to 92% financing for used cars and 8% for new cars in the year ended December 31, 2009. We purchase contracts in our own name (“CPS”) and, until July 2008, also purchased contracts in the name of our wholly-owned subsidiary, The Finance Company ("TFC"). Programs marketed under the CPS name serve a wide range of sub-prime customers, primarily through franchised new car dealers. Our TFC program served vehicle purchasers enlisted in the U.S. Armed Forces, primarily through independent used car dealers. In July 2008, we ceased to purchase contracts under our TFC program.

We purchase automobile contracts with the intention of financing them on a long-term basis through securitizations. Securitizations are transactions in which we sell a specified pool of contracts to a special purpose entity of ours, which in turn issues asset-backed securities to fund the purchase of the pool of contracts from us. Depending on the structure of the securitization, the transaction may be treated, for financial accounting purposes, as a sale of the contracts or as a secured financing.

Historically, we have depended upon the availability of short-term warehouse credit facilities and access to long-term financing through the issuance of asset-backed securities collateralized by our automobile contracts. Since 1994, we have completed 50 term securitizations of approximately $6.7 billion in contracts. We conducted four term securitizations in 2006, four in 2007, two in 2008, none in 2009 and one in 2010. From July 2003 through April 2008 all of our securitizations were structured as secured financings. The second of our two securitization transactions in 2008 (completed in September 2008) was in substance a sale of the related contracts, and is treated as a sale for financial accounting purposes. The remaining receivables from that September 2008 securitization were re-securitized in September 2010 in a structure that maintained sale treatment for accounting purposes.

From the fourth quarter of 2007 through the end of 2009, we observed unprecedented adverse changes in the market for securitized pools of automobile contracts. These changes included reduced liquidity, and reduced demand for asset-backed securities, particularly for securities carrying a financial guaranty and for securities backed by sub-prime automobile receivables. Moreover, many of the firms that previously provided financial guarantees, which were an integral part of our securitizations, suspended offering such guarantees. The adverse changes that took place in the market from the fourth quarter of 2007 through the end of 2009 caused us to conserve liquidity by significantly reducing our purchases of automobile contracts. However, since October 2009 we have gradually increased our contract purchases by utilizing one $50 million credit facility established in September 2009 and another $50 million term funding facility established in March 2010. In September 2010 we took advantage of the improvement in the market for asset-backed securities by re-securitizing the remaining underlying receivables from our unrated September 2008 securitization. By doing so we were able to pay off the bonds associated with the September 2008 transaction and issue rated bonds with a significantly lower weighted average coupon. The September 2010 transaction was our first rated term securitization since 1993 that did not utilize a financial guaranty. More recently, we significantly increased our short-term contract financing resources by entering into a $100 million credit facility in December 2010 and another $100 million credit facility in February 2011. Despite the improvements we have seen in the capital markets, if the trend of improvement in the markets for asset-backed securities should reverse, or should we be unable to complete term securitization(s) of automobile contracts that we now hold or those we will seek to purchase in the future, we might be required to curtail or cease our purchases of new automobile contracts, which in turn could have a material adverse effect on our operations.

Sub-Prime Auto Finance Industry

Automobile financing is the second largest consumer finance market in the United States. The automobile finance industry can be divided into two principal segments: a prime credit market and a sub-prime credit market. Traditional automobile finance companies, such as commercial banks, savings institutions, credit unions and captive finance companies of automobile manufacturers, generally lend to the most creditworthy, or so-called prime, borrowers. The sub-prime automobile credit market, in which we operate, provides financing to less creditworthy borrowers, at higher interest rates.

Historically, traditional lenders have not served the sub-prime market or have done so through programs that were not consistently available. Independent companies specializing in sub-prime automobile financing and subsidiaries of larger financial services companies currently compete in this segment of the automobile finance market, which we believe remains highly fragmented, with no single company having a dominant position in the market.

Recent past economic conditions have negatively affected many aspects of our industry. First, as stated above, throughout 2008 and 2009 there was reduced demand for asset-backed securities secured by consumer finance receivables, including sub-prime automobile receivables. Second, lenders who previously provided short-term warehouse financing for sub-prime automobile finance companies such as ours were reluctant to provide such short-term financing due to the uncertainty regarding the prospects of obtaining long-term financing through the issuance of asset-backed securities. In addition, many capital market participants such as investment banks, financial guaranty providers and institutional investors who previously played a role in the sub-prime auto finance industry withdrew from the industry, or in some cases, have ceased to do business. Finally, broad economic weakness and high levels of unemployment during 2008, 2009 and 2010 made many of the obligors under our receivables less willing or able to pay, resulting in higher delinquency, charge-offs and losses. Each of these factors has adversely affected our results of operations. However, as stated above, since October 2009, improvements in the capital markets have allowed us to enter into a total of $300 million in new financing commitments, and to complete our first rated term securitization since April 2008. Nevertheless, should existing economic conditions worsen, both our ability to purchase new contracts and the performance of our existing managed portfolio may be impaired, which, in turn, could have a further material adverse effect on our results of operations.

Our Operations

Our automobile financing programs are designed to serve sub-prime customers, who generally have limited credit histories, low incomes or past credit problems. Because we serve customers who are unable to meet certain credit standards, we incur greater risks, and generally receive interest rates higher than those charged in the prime credit market. We also sustain a higher level of credit losses because we provide financing in a relatively high risk market.

Originations

When a retail automobile buyer elects to obtain financing from a dealer, the dealer takes a credit application to submit to its financing sources. Typically, a dealer will submit the buyer's application to more than one financing source for review. We believe the dealer’s decision to choose a financing source is based primarily on: (i) the monthly payment made available to the dealer's customer; (ii) the purchase price offered to the dealer for the contract; (iii) the timeliness, consistency and predictability of response; (iv) funding turnaround time; (v) any conditions to purchase; and (vi) the financial stability of the financing source. Dealers can send credit applications to us by entering the necessary data on our website or through one of several third-party application aggregators. For the year ended December 31, 2010, we received approximately 84% of all applications through DealerTrack (the industry leading dealership application aggregator), 3% via our website and 13% via other aggregators. Our automated application decisioning system produced our response within minutes to about 97% of those applications.

Upon receipt of information from a dealer, we immediately order a credit report to document the buyer's credit history. If, upon review by our proprietary automated decisioning system, or in some cases, one of our credit analysts, we determine that the automobile contract meets our underwriting criteria, or would meet such criteria with modification, we request and review further information and, ultimately, decide whether to approve the automobile contract for purchase. When presented with an application, we attempt to notify the dealer within one hour as to whether we would purchase the related automobile contract.

Dealers with which we do business are under no obligation to submit any automobile contracts to us, nor are we obligated to purchase any automobile contracts from them. During the year ended December 31, 2010, no dealer accounted for more than 2% of the total number of automobile contracts we purchased. The following table sets forth the geographical sources of the automobile contracts purchased by us (based on the addresses of the customers as stated on our records) during the years ended December 31, 2010 and 2009. See "Management's Discussion and Analysis."

	Contracts Purchased During the Year Ended			
	December 31, 2010		**December 31, 2009**	
	Number	**Percent (1)**	**Number**	**Percent (1)**
California	1,199	15.9%	154	25.9%
Texas	646	8.6%	40	6.7%
Pennsylvania	565	7.5%	49	8.2%
Florida	431	5.7%	44	7.4%
Other States	4,692	62.3%	308	51.8%
Total	7,533	100.0%	595	100.0%

(1) Percentages may not total to 100.0% due to rounding.

The following table sets forth the geographic concentrations of our outstanding managed portfolio as of December 31, 2010 and 2009.

	December 31, 2010		December 31, 2009	
	Amount	Percent (1)	Amount	Percent (1)
State based on obligor's residence	($ in millions)			
California	$ 100.2	13.3%	$ 145.9	12.2%
Texas	76.2	10.1%	127.6	10.7%
Florida	54.8	7.2%	89.5	7.5%
Pennsylvania	42.8	5.7%	64.2	5.4%
Illinois	42.3	5.6%	73.4	6.1%
Ohio	39.6	5.2%	64.1	5.4%
All others	400.3	52.9%	630.0	52.7%
Total	$ 756.2	100.0%	$ 1,194.7	100.0%

(1) Percentages may not total to 100.0% due to rounding.

We purchase automobile contracts from dealers at a price generally computed as the total amount financed under the automobile contracts, adjusted for an acquisition fee, which may either increase or decrease the automobile contract purchase price paid by us. The amount of the acquisition fee, and whether it results in an increase or decrease to the automobile contract purchase price, is based on the perceived credit risk of and, in some cases, the interest rate on the automobile contract. For the years ended December 31, 2010, 2009 and 2008, the average acquisition fee charged per automobile contract purchased under our CPS programs was $1,382, $1,508 and $592, respectively, or 9.2%, 11.7% and 3.9%, respectively, of the amount financed. We believe that the significant increase in acquisition fees since 2008 is a result of less competition in the marketplace for the types of sub-prime contracts that we typically purchase.

We offer seven different financing programs to our dealership customers, and price each program according to the relative credit risk. Our programs cover a wide band of the credit spectrum and are labeled as follows:

First Time Buyer – This program accommodates an applicant who has limited significant past credit history, such as a previous auto loan. Since the applicant has little or no credit history, the contract interest rate and dealer acquisition fees tend to be higher, and the loan amount, loan-to-value ratio, down payment and payment-to-income ratio requirements tend to be more restrictive compared to our other programs.

Mercury / Delta – This program accommodates an applicant who may have had significant past non-performing credit including recent derogatory credit. As a result, the contract interest rate and dealer acquisition fees tend to be higher, and the loan amount, loan-to-value ratio, down payment, payment-to-income ratio and income requirements tend to be more restrictive compared to our other programs.

Standard – This program accommodates an applicant who may have significant past non-performing credit, but who has also exhibited some performing credit in their history. The contract interest rate and dealer acquisition fees are comparable to the First Time Buyer and Mercury/Delta programs, but the loan amount, loan-to-value ratio, down payment, payment-to-income ratio and income requirements are somewhat less restrictive.

Alpha – This program accommodates applicants who may have a discharged bankruptcy, but who have also exhibited performing credit. In addition, the program allows for homeowners who may have had other significant non-performing credit in the past. The contract interest rate and dealer acquisition fees are lower than the Standard program, and the loan-to-value ratio, down payment, payment-to-income ratio and income requirements are somewhat less restrictive.

Alpha Plus – This program accommodates applicants with past non-performing credit, but with a stronger history of recent performing credit, including auto related credit, and higher incomes than the Alpha program. Contract interest rates and dealer acquisition fees are lower than the Alpha program.

Super Alpha – This program accommodates applicants with past non-performing credit, but with a somewhat stronger history of recent performing credit, including auto related credit, and higher incomes than the Alpha Plus program. Contract interest rates and dealer acquisition fees are lower, and the maximum loan amount is somewhat higher, than the Alpha Plus program.

Preferred - This program accommodates applicants with past non-performing credit, but who meet a certain minimum FICO score threshold. Other requirements include a somewhat stronger history of recent performing credit than the Super Alpha program. Contract interest rates and dealer acquisition fees are lower than the Super Alpha program.

Our upper credit tier products, which are our Preferred, Super Alpha, Alpha Plus and Alpha programs, accounted for approximately 77% of our new contract originations in 2010, 76% in 2009 and 78.5% in 2008, measured by aggregate amount financed.

The following table identifies the credit program, sorted from highest to lowest credit quality, under which we purchased automobile contracts during the years ended December 31, 2010, 2009 and 2008.

	Contracts Purchased During the Year Ended (1)					
	December 31, 2010		**December 31, 2009**		**December 31, 2008**	
	(dollars in thousands)					
	Amount Financed	**Percent (2)**	**Amount Financed**	**Percent (2)**	**Amount Financed**	**Percent (2)**
Preferred	$ 3,208	2.8%	$ 204	2.4%	$ 13,211	4.7%
Super Alpha	15,018	13.3%	1,158	13.5%	33,726	11.9%
Alpha Plus	17,824	15.8%	1,527	17.8%	50,823	18.0%
Alpha	47,341	41.9%	3,738	43.5%	123,933	43.9%
Standard	13,726	12.1%	830	9.7%	15,332	5.4%
Mercury / Delta	8,244	7.3%	560	6.5%	25,635	9.1%
First Time Buyer	7,662	6.8%	582	6.8%	19,695	7.0%
	$ 113,023	100.0%	$ 8,599	100.0%	$ 282,355	100.0%

(1) Automobile contracts purchased by TFC are not included because such purchases accounted for less than 10% of the total purchases during the year and are not representative of automobile contracts purchased under our CPS programs.
(2) Percentages may not total to 100.0% due to rounding.

We attempt to control misrepresentation regarding the customer's credit worthiness by carefully screening the automobile contracts we purchase, 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, we may require the dealer to repurchase any automobile contract in the event that the dealer breaches its representations or warranties. There can be no assurance, however, that any dealer will have the willingness or the financial resources to satisfy its repurchase obligations to us.

In addition to our purchases of installment contracts from dealers, we purchased from 2006 through 2008 an immaterial number of vehicle purchase money loans, evidenced by promissory notes and security agreements. A non-affiliated lender originated all such loans directly to vehicle purchasers, and sold the loans to us. We began financing vehicle purchases by lending money directly to consumers in January 2008, on terms similar to those that we offered through dealers, though without a down payment requirement and with more restrictive loan-to-value and credit score requirements. In October 2008 we suspended purchases of loans from other lenders and direct lending to consumers. There can be no assurance as to whether or not we will recommence these programs, the extent to which we may make such loans, or as to their future performance.

Underwriting

To be eligible for purchase by us, an automobile contract must have been originated by a dealer that has entered into a dealer agreement to sell automobile contracts to us. The automobile contract must be secured by a first priority lien on a new or used automobile, light truck or passenger van and must meet our underwriting criteria. In addition, each automobile contract requires the customer to maintain physical damage insurance covering the financed vehicle and naming us as a loss payee. We may, nonetheless, suffer a loss upon theft or physical damage of any financed vehicle if the customer fails to maintain insurance as required by the automobile contract and is unable to pay for repairs to or replacement of the vehicle or is otherwise unable to fulfill his or her obligations under the automobile contract.

We believe that our underwriting criteria enable us to evaluate effectively the creditworthiness of sub-prime customers and the adequacy of the financed vehicle as security for an automobile contract. The underwriting criteria include standards for price, term, amount of down payment, installment payment and interest rate; mileage, age and type of vehicle; principal amount of the automobile contract in relation to the value of the vehicle; customer income level, employment and residence stability, credit history and debt service ability, as well as other factors. Specifically, the underwriting guidelines for our CPS programs generally limit the maximum principal amount of a purchased automobile contract to 115% of wholesale book value in the case of used vehicles or to 115% 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. We generally do not finance vehicles that are more than eight model years old or have in excess of 99,999 miles. Under most of our programs, the maximum term of a purchased contract is 72 months; a shorter maximum term may be applicable based on the program, mileage and age of the vehicle. Automobile contracts with the maximum term of 72 months may be purchased if the customer is among the more creditworthy of our obligors and the vehicle is generally not more than four model years old and has less than 45,000 miles. Automobile contract purchase criteria are subject to change from time to time as circumstances may warrant. In 2008 we made our contract purchase criteria more restrictive as part of our strategy to decrease new contract purchases in order to conserve liquidity. Prior to purchasing an automobile contract, our underwriters verify the customer's employment, income, residency, and credit information by contacting various parties noted on the customer's application, credit information bureaus and other sources. In addition, we contact each customer by telephone to confirm that the customer understands and agrees to the terms of the related automobile contract. During this "welcome call," we also ask the customer a series of open ended questions about his application and the contract, which may uncover potential misrepresentations.

Credit Scoring. We use proprietary scoring models to assign each automobile contract several "credit scores" at the time the application is received from the dealer and the customer's credit information is retrieved from the credit reporting agencies. The credit scores are based on a variety of parameters including the customer's credit history, employment and residence stability, income, and the specific dealer. Once a vehicle is selected by the customer and a proposed deal structure is provided to us by the dealer, our scores will then consider the loan-to-value ratio, payment-to-income ratio, down payment amount and the sales price and make of the vehicle. We have developed the credit scores utilizing statistical risk management techniques and historical performance data from our managed portfolio. We believe this improves our allocation of credit evaluation resources, enhances our competitiveness in the marketplace and manages the risk inherent in the sub-prime market.

Characteristics of Contracts. All of the automobile contracts purchased by us are fully amortizing and provide for level payments over the term of the automobile contract. All automobile contracts may be prepaid at any time without penalty. The average original principal amount financed, under the CPS programs and in the year ended December 31, 2010, was $15,004, with an average original term of 61 months and an average down payment amount of 14.8%. Based on information contained in customer applications for this 12-month period, the retail purchase price of the related automobiles averaged $15,599 (which excludes tax, license fees and any additional costs such as a maintenance contract) and the average age of the vehicle at the time the automobile contract was purchased was four years. The average age of our customers is approximately 41, with approximately $52,000 in average annual household income and an average of six years tenure with his or her current employer.

Dealer Compliance. The dealer agreement and related assignment contain representations and warranties by the dealer that an application for state registration of each financed vehicle, naming us as secured party with respect to the vehicle, was effected by the time of sale of the related automobile contract to us, and that all necessary steps have been taken to obtain a perfected first priority security interest in each financed vehicle in favor of us under the laws of the state in which the financed vehicle is registered. To the extent that we do not receive such state registration within three months of purchasing the automobile contract, our dealer compliance group will work with the dealer in an attempt to rectify the situation. If these efforts are unsuccessful, we generally will require the dealer to repurchase the automobile contract.

Servicing and Collection

We currently service all automobile contracts that we own as well as those automobile contracts that are included in portfolios that we have sold in securitizations or service for third parties. We organize our servicing activities based on the tasks performed by our personnel. Our servicing activities consist of mailing monthly billing statements; collecting, accounting for and posting of all payments received; responding to customer inquiries; taking all necessary action to maintain the security interest granted in the financed vehicle or other collateral; investigating delinquencies; communicating with the customer to obtain timely payments; repossessing and liquidating the collateral when necessary; collecting deficiency balances; and generally monitoring each automobile contract and the related collateral. We are typically entitled to receive a base monthly servicing fee equal to 2.5% per annum computed as a percentage of the declining outstanding principal balance of the non-charged-off automobile contracts in the securitization pools. The servicing fee is included in interest income for those securitization transactions that are treated as financings.

Collection Procedures. We believe that our ability to monitor performance and collect payments owed from sub-prime customers is primarily a function of our collection approach and support systems. We believe that if payment problems are identified early and our collection staff works closely with customers to address these problems, it is possible to correct many problems before they deteriorate further. To this end, we utilize pro-active

collection procedures, which include making early and frequent contact with delinquent customers; educating customers as to the importance of maintaining good credit; and employing a consultative and customer service approach to assist the customer in meeting his or her obligations, which includes attempting to identify the underlying causes of delinquency and cure them whenever possible. In support of our collection activities, we maintain a computerized collection system specifically designed to service automobile contracts with sub-prime customers and similar consumer obligations.

We attempt to make telephonic contact with delinquent customers from one to 29 days after their monthly payment due date, depending on our proprietary behavioral scorecards which assess the customer’s likelihood of payment during early stages of delinquency. Our contact priorities may be based on the customers' physical location, stage of delinquency, size of balance or other parameters. Our collectors inquire of the customer the reason for the delinquency and when we can expect to receive the payment. The collector will attempt to get the customer to make an electronic payment over the phone or a promise for the payment for a time generally not to exceed one week from the date of the call. If the customer makes such a promise, the account is routed to a promise 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 queue for subsequent contacts.

If a customer fails to make or keep promises for payments, or if the customer is uncooperative or attempts to evade contact or hide the vehicle, a supervisor will review the collection activity relating to the account to determine if repossession of the vehicle is warranted. Generally, such a decision will occur between the 45th and 90th day past the customer's payment due date, but could occur sooner or later, depending on the specific circumstances. At the time the vehicle is repossessed we will stop accruing interest on this automobile contract, and reclassify the remaining automobile contract balance to other assets. In addition we will apply a specific reserve to this automobile contract so that the net balance represents the estimated fair value less costs to sell.

If we elect to repossess the vehicle, we assign the task to an independent local repossession service. Such services are licensed and/or bonded as required by law. When the vehicle is recovered, the repossessor delivers it to a wholesale automobile auction, where it is kept until sold. Financed vehicles that have been repossessed are generally resold by us through unaffiliated automobile auctions, which are attended principally by car dealers. Net liquidation proceeds are applied to the customer's outstanding obligation under the automobile contract. Such proceeds usually are insufficient to pay the customer's obligation in full, resulting in a deficiency. In most cases we will continue to contact our customers to recover all or a portion of this deficiency for up to several years after charge-off.

Once an automobile contract becomes greater than 90 days delinquent, we do not recognize additional interest income until the borrower under the automobile contract makes sufficient payments to be less than 90 days delinquent. Any payments received by a borrower that are greater than 90 days delinquent are first applied to accrued interest and then to principal reduction.

We generally charge off the balance of any contract by the earlier of the end of the month in which the automobile 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 us or if the vehicle has been in repossession inventory for more than three months. In the case of repossession, the amount of the charge-off is the difference between the outstanding principal balance of the defaulted automobile contract and the net repossession sale proceeds.

Credit Experience

Our financial results are dependent on the performance of the automobile contracts in which we retain an ownership interest. The tables below document the delinquency, repossession, extension and net credit loss experience of all automobile contracts that we hold and service (the tables exclude certain contracts we have serviced for third-parties on which we earn servicing fees only, and have no credit risk). While broad economic weakness and the high levels of unemployment experienced since 2008 have resulted in higher delinquencies and net charge-offs, the increase in the percentage levels is also partially attributable to the decrease in the size and the increase in the average age of our managed portfolio.

Delinquency, Repossession and Extension Experience

	December 31, 2010		December 31, 2009		December 31, 2008	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
Delinquency Experience			**(Dollars in thousands)**			
Gross servicing portfolio (1)	84,601	$ 681,157	111,105	$ 1,057,348	145,564	$ 1,665,036
Period of delinquency (2)						
31-60 days	2,856	19,168	2,787	24,628	3,733	39,798
61-90 days	1,537	10,872	1,824	16,840	2,376	26,549
91+ days	1,233	9,067	1,205	10,358	2,424	27,243
Total delinquencies (2)	5,626	39,107	5,816	51,826	8,533	93,590
Amount in repossession (3)	3,263	23,290	4,305	40,815	4,262	49,357
Total delinquencies and amount in repossession (2)	8,889	$ 62,397	10,121	$ 92,641	12,795	$ 142,947
Delinquencies as a percentage of gross servicing portfolio	6.7%	5.7%	5.2%	4.9%	5.9%	5.6%
Total delinquencies and amount in repossession as a percentage of gross servicing portfolio	10.5%	9.2%	9.1%	8.8%	8.8%	8.6 %
Extension Experience						
Contracts with one extension (4)	17,749	135,204	26,528	$ 266,081	30,160	$ 354,330
Contracts with two or more extensions (4)	13,226	105,637	12,884	126,853	8,639	88,988
Total contracts with extensions	30,975	$ 240,841	39,412	$ 392,934	38,799	$ 443,318

(1) All amounts and percentages are based on the amount remaining to be repaid on each automobile contract, including, for pre-computed automobile contracts, any unearned interest. The information in the table represents the gross principal amount of all automobile contracts we purchased, including automobile contracts we subsequently sold in securitization transactions that we continue to service. The table does not include certain contracts we have serviced for third-parties on which we earn servicing fees only, and have no credit risk.

(2) We consider an automobile contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date, which date may have been extended within limits specified in the servicing agreements. The period of delinquency is based on the number of days payments are contractually past due. Automobile contracts less than 31 days delinquent are not included.

(3) Amount in repossession represents the contract balance on financed vehicles that have been repossessed but not yet liquidated. This amount is not netted with the specific reserve to arrive at the estimated asset value less costs to sell.

(4) The delinquency aging categories shown in the tables reflect the effect of extensions.

Extensions

We may offer a customer an extension, under which the customer agrees with us to move past due payments to the end of the automobile contract term. In such cases the customer must sign an agreement for the extension, and may pay a fee representing partial payment of accrued interest. Our policies, and contractual arrangements for our warehouse and securitization transactions, limit the number of extensions that may be granted. In general, a customer may arrange for an extension no more than twice every 12 months, not to exceed six extensions over the life of the contract.

If a customer is granted such an extension, the date next due is advanced. Subsequent delinquency aging classifications would be based on the future payment performance of the automobile contract.

Net Credit Loss Experience (1)

	Year Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Average servicing portfolio outstanding	$ 827,176	$ 1,319,106	$ 1,934,003
Net charge-offs as a percentage of average servicing portfolio (2)	9.0%	11.0%	7.7%

(1) All amounts and percentages are based on the principal amount scheduled to be paid on each automobile contract, net of unearned income on pre-computed automobile contracts. The information in the table represents all automobile contracts serviced by us, excluding certain contracts we have serviced for third-parties on which we earn servicing fees only, and have no credit risk.

(2) Net charge-offs include the remaining principal balance, after the application of the net proceeds from the liquidation of the vehicle (excluding accrued and unpaid interest) and amounts collected subsequent to the date of charge-off, including some recoveries which have been classified as other income in the accompanying financial statements.

Securitization of Automobile Contracts

We purchase automobile contracts with the intention of financing them on a long-term basis through securitizations. All such securitizations have involved identification of specific automobile contracts, sale of those automobile contracts (and associated rights) to a special purpose subsidiary, and issuance of asset−backed securities to fund the transactions. Upon the securitization of a portfolio of automobile contracts, we retain the obligation to service the contracts, and receive a monthly fee for doing so. We have been a regular issuer of asset-backed securities since 1994, completing 50 securitizations totaling over $6.7 billion through December 31, 2010. Depending on the structure of the securitization, the transaction may be treated as a sale of the automobile contracts or as a secured financing for financial accounting purposes. From July 2003 through April 2008, we structured our securitizations as secured financings rather than as sales of contracts. The second of our two securitizations completed in 2008 (September 2008) was in substance a sale of the related contracts, and is treated as a sale for financial accounting purposes. In September 2010 we took advantage of improvement in the market for asset-backed securities by re-securitizing the underlying receivables from our unrated September 2008 securitization. By doing so we were able to pay off the bonds associated with the September 2008 transaction and issue rated bonds with a significantly lower weighted average coupon. The September 2010 transaction was our first rated term securitization since 1993 that did not utilize a financial guaranty.

When structured to be treated as a secured financing, the subsidiary is consolidated and, accordingly, the automobile contracts and the related securitization trust debt appear as assets and liabilities, respectively, on our consolidated balance sheet. We then recognize interest income on the contracts and interest expense on the securities issued in the securitization and record as expense a provision for probable credit losses on the contracts.

When structured to be treated as a sale, the subsidiary is not consolidated. Accordingly, the securitization removes the sold automobile contracts from our consolidated balance sheet, the related debt does not appear as our debt, and our consolidated balance sheet shows, as an asset, a retained residual interest in the sold automobile contracts. The residual interest represents the discounted value of what we expect will be the excess of future collections on the automobile contracts over principal and interest due on the asset-backed securities. That residual interest appears on our consolidated balance sheet as "residual interest in securitizations," and the determination of its value is dependent on our estimates of the future performance of the sold automobile contracts.

Historically, prior to a securitization transaction, we funded our automobile contract purchases primarily with proceeds from warehouse credit facilities. As of December 31, 2007, we had $425 million in warehouse credit capacity, in the form of two $200 million senior facilities and one $25 million subordinated facility. Both warehouse credit facilities provided funding for automobile contracts purchased under the CPS programs, while one facility also provided funding for automobile contracts purchased under the TFC programs. Up to 93% of the principal balance of the automobile contracts was advanced to us under these facilities, subject to collateral tests and certain other conditions and covenants. In April 2008, the subordinated facility expired and the subordinated lenders were fully repaid. In November 2008, one of the two senior facilities expired and the lender was fully repaid. The remaining warehouse facility was amended in December 2008 to eliminate further advances and to provide for

repayment from proceeds collected under the related pledged receivables, and certain other scheduled principal reductions until its lenders were fully repaid in September 2009. Since October 2009, we have gradually increased our contract purchases by utilizing one $50 million credit facility and another $50 million term funding facility. More recently, we significantly increased our short-term contract financing resources by entering into agreements for one new $100 million credit facility in December 2010 and for another $100 million credit facility in February 2011. We have in the past secured long-term financing for our automobile contract purchases through securitization transactions. We have used the proceeds from such securitization transactions primarily to repay the warehouse credit facilities. We expect to conduct one or more securitizations of newly purchased contracts in 2011.

In a securitization and in our warehouse credit facilities, we are required to make certain representations and warranties, which are generally similar to the representations and warranties made by dealers in connection with our purchase of the automobile contracts. If we breach any of our representations or warranties, we will be obligated to repurchase the automobile contract at a price equal to the principal balance plus accrued and unpaid interest. We may then be entitled under the terms of our dealer agreement to require the selling dealer to repurchase the contract at a price equal to our purchase price, less any principal payments made by the customer. Subject to any recourse against dealers, we will bear the risk of loss on repossession and resale of vehicles under automobile contracts that we repurchase.

Whether a securitization is treated as a secured financing or as a sale for financial accounting purposes, the related special purpose subsidiary may be unable to release excess cash to us if the credit performance of the securitized automobile contracts falls short of pre-determined standards. Such releases represent a material portion of the cash that we use to fund our operations. An unexpected deterioration in the performance of securitized automobile contracts could therefore have a material adverse effect on both our liquidity and results of operations, regardless of whether such automobile contracts are treated as having been sold or as having been financed. For estimation of the magnitude of such risk, it may be appropriate to look to the size of our "managed portfolio," which represents both financed and sold automobile contracts as to which such credit risk is retained. Our managed portfolio as of December 31, 2010 was approximately $756.2 million, including $75.1 million of receivables on which we earn only servicing fees.

Competition

The automobile financing business is highly competitive. We compete with a number of national, regional and local finance companies with operations similar to ours. 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. Many of our competitors and potential competitors possess substantially greater financial, marketing, technical, personnel and other resources than we do. Moreover, our future profitability will be directly related to the availability and cost of our capital in relation to the availability and cost of capital to our competitors. Our 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 that may be unavailable to us. 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 we do not offer.

We believe that the principal competitive factors affecting a dealer's decision to offer automobile contracts for sale to a particular financing source are the monthly payment amount made available to the dealer’s customer, the purchase price offered for the automobile contracts, the timeliness of the response to the dealer upon submission of the initial application, the reasonableness of the financing source's documentation requests, the predictability and timeliness of purchases and the financial stability of the funding source. While we believe that we can obtain from dealers sufficient automobile contracts for purchase at attractive prices by consistently applying reasonable underwriting criteria and making timely purchases of qualifying automobile contracts, there can be no assurance that we will do so.

Regulation

Several federal and state consumer protection laws, including the federal Truth-In-Lending Act, the federal Equal Credit Opportunity Act, the federal Fair Debt Collection Practices Act and the Federal Trade Commission Act, regulate the extension of credit in consumer credit transactions. These laws mandate certain disclosures with respect to finance charges on automobile contracts and impose certain other restrictions on dealers. In many states, a license is required to engage in the business of purchasing automobile contracts from dealers. In addition, laws in a number of states impose limitations on the amount of finance charges that may be charged by dealers on credit sales.

The so-called Lemon Laws enacted by various states provide certain rights to purchasers with respect to automobiles that fail to satisfy express warranties. The application of Lemon Laws or violation of such other federal and state laws may give rise to a claim or defense of a customer against a dealer and its assignees, including us and purchasers of automobile contracts from us. The dealer agreement contains representations by the dealer that, as of the date of assignment of automobile contracts, no such claims or defenses have been asserted or threatened with respect to the automobile 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 automobile 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. Certain of these laws also regulate our servicing activities, including our methods of collection.

Although we believe that we are currently in material compliance with applicable statutes and regulations, there can be no assurance that we will be able to maintain such compliance. The past or future failure to comply with such statutes and regulations could have a material adverse effect upon us. Furthermore, the adoption of additional statutes and regulations, changes in the interpretation and enforcement of current statutes and regulations or the expansion of our business into jurisdictions that have adopted more stringent regulatory requirements than those in which we currently conduct business could have a material adverse effect upon us. In addition, due to the consumer-oriented nature of the industry in which we operate and the application of certain laws and regulations, industry participants are regularly named as defendants in litigation involving alleged violations of federal and state laws and regulations and consumer law torts, including fraud. Many of these actions involve alleged violations of consumer protection laws. A significant judgment against us or within the industry in connection with any such litigation could have a material adverse effect on our financial condition, results of operations or liquidity.

Employees

As of December 31, 2010, we had 435 employees. The breakdown of the employees is as follows: eight are senior management personnel; 300 are servicing personnel; 47 are automobile contract origination personnel; 26 are marketing personnel (18 of whom are marketing representatives); 28 are operations and systems personnel; and 26 are administrative personnel. We believe that our relations with our employees are good. We are not a party to any collective bargaining agreement.

Item 1A. RISK FACTORS

Our business, operating results and financial condition could be adversely affected by any of the following specific risks. The trading price of our common stock could decline due to any of these risks and other industry risks. In addition to the risks described below, we may encounter risks that are not currently known to us or that we currently deem immaterial, which may also impair our business operations and the value of our common stock.

Risks Related to Our Business

We Require a Substantial Amount of Cash to Service Our Substantial Debt.

To service our existing substantial indebtedness, we require a significant amount of cash. Our ability to generate cash depends on many factors, including our successful financial and operating performance. Our financial and operational performance depends upon a number of factors, many of which are beyond our control. These factors include, without limitation:

- the economic and competitive conditions in the asset-backed securities market;
- the performance of our current and future automobile contracts;
- the performance of our residual interests from our securitizations and warehouse credit facilities;
- any operating difficulties or pricing pressures we may experience;
- our ability to obtain credit enhancement for our securitizations;
- our ability to establish and maintain dealer relationships;
- the passage of laws or regulations that affect us adversely;
- our ability to compete with our competitors; and
- our ability to acquire and finance automobile contracts.

Depending upon the outcome of one or more of these factors, we may not be able to generate sufficient cash flow from operations or obtain sufficient funding to satisfy all of our obligations. Over the last few years the credit performance of our automobile contracts has been adversely affected by general economic conditions, and adverse effects on performance of our automobile contracts held in securitization pools result in an adverse effect on performance of residual interests. Such factors may result in our being unable to pay our debts timely or as agreed. If we were unable to pay our debts, we would be required to pursue one or more alternative strategies, such as

selling assets, refinancing or restructuring our indebtedness or selling additional equity capital. These alternative strategies might not be feasible at the time, might prove inadequate or could require the prior consent of our lenders.

We Need Substantial Liquidity to Operate Our Business.

We have historically funded our operations principally through internally generated cash flows, sales of debt and equity securities, including through securitizations and warehouse credit facilities, borrowings under senior secured debt agreements and sales of subordinated notes. However, we may not be able to obtain sufficient funding for our future operations from such sources. During 2008, 2009 and much of 2010, our access to the capital markets was impaired with respect to both short-term and long-term funding. While our access to such funding has improved recently, our results of operations, financial condition and cash flows have been and may continue to be materially and adversely affected. We require a substantial amount of cash liquidity to operate our business. Among other things, we use such cash liquidity to:

- acquire automobile contracts;
- fund overcollateralization in warehouse credit facilities and securitizations;
- pay securitization fees and expenses;
- fund spread accounts in connection with securitizations;
- satisfy working capital requirements and pay operating expenses;
- pay taxes; and
- pay interest expense.

We have to date matched our liquidity needs to our available sources of funding by reducing our acquisition of new automobile contracts, at times to merely nominal levels. There can be no assurance that we will continue to be successful with that strategy.

We Are Not Presently Profitable.

We have incurred net losses every quarter subsequent to the quarter ended June 30, 2008. We have been adversely affected by the economic recession affecting the United States as a whole, by increased financing costs and decreased availability of capital to fund our purchases of automobile contracts, and by a decrease in the overall level of sales of automobiles and light trucks. We expect to return to profitability at some time within the calendar year 2011; however, there can be no assurance as to that expectation. Our expectation of profitability is a forward-looking statement. We discuss the assumptions underlying that expectation under the caption “Forward-Looking Statements” in this report. We identify important factors that could cause actual results to differ, generally in the “Risk Factors” section of this report, and also under the caption “Forward-Looking Statements.”

Our Results of Operations Will Depend on Our Ability to Secure and Maintain Adequate Credit and Warehouse Financing on Favorable Terms.

Our business strategy requires that warehouse credit facilities be available in order to purchase significant volumes of receivables.

Historically, our primary sources of day-to-day liquidity have been our warehouse credit facilities, in which we sold and contributed automobile contracts, as often as twice a week, to special-purpose subsidiaries, where they were "warehoused" until they were securitized, at which time funds advanced under one or more warehouse credit facilities were repaid from the proceeds of the securitizations. In December 2010 and again in February 2011, we entered into separate agreements for two new $100 million revolving warehouse facilities.

If we are unable to maintain warehouse financing on acceptable terms, our results of operations, financial condition and cash flows could be materially and adversely affected.

Our Results of Operations Will Depend on Our Ability to Securitize Our Portfolio of Automobile Contracts.

Historically we have depended upon our ability to obtain permanent financing for pools of automobile contracts by conducting term securitization transactions. By "permanent financing" we mean financing that extends to cover the full term during which the underlying contracts are outstanding and requires repayment as the underlying contracts are repaid or charged off. By contrast, our warehouse credit facilities permit us to borrow against the value of such receivables only for limited periods of time. Our past practice and future plan has been and is to repay loans made to us under our warehouse credit facilities with the proceeds of securitizations. There can be no assurance that any securitization transaction will be available on terms acceptable to us, or at all. The timing of any securitization

transaction is affected by a number of factors beyond our control, any of which could cause substantial delays, including, without limitation:

- market conditions;
- the approval by all parties of the terms of the securitization;
- the availability of credit enhancement on acceptable terms; and
- our ability to acquire a sufficient number of automobile contracts for securitization.

As stated elsewhere in this report, during 2008 and 2009 adverse changes in the market for securitized pools of automobile contracts made permanent financing in the form of securitization transactions difficult to obtain and more costly than in prior periods. These changes included reduced liquidity and reduced demand for asset-backed securities, particularly for securities carrying a financial guaranty or for securities backed by sub-prime automobile receivables. Should we chose not to securitize automobile contracts in the future or do so on the more costly terms prevalent during 2008 and 2009, we could expect a further material adverse effect on our results of operations.

Our Results of Operations Will Depend on Cash Flows from Our Residual Interests in Our Securitization Program and Our Warehouse Credit Facilities.

When we finance our automobile contracts through securitizations and warehouse credit facilities, we receive cash and a residual interest in the assets financed. This residual interest represents the right to receive the future cash flows to be generated by the automobile contracts in excess of (i) the interest and principal paid to investors on the asset-backed notes issued in connection with the financing, (ii) the costs of servicing the contracts and (iii) certain other costs incurred in connection with completing and maintaining the securitization or warehouse credit facility. We sometimes refer to these future cash flows as "excess spread cash flows."

Under the financial structures we have used to date in our securitizations and warehouse credit facilities, excess spread cash flows that would otherwise be paid to the holder of the residual interest are first used to increase overcollateralization or are retained in a spread account within the securitization trusts or the warehouse facility to provide liquidity and credit enhancement for the related securities.

While the specific terms and mechanics vary among transactions, our securitization and warehousing agreements generally provide that we will receive excess spread cash flows only if the amount of overcollateralization and spread account balances have reached specified levels and/or the delinquency, defaults or net losses related to the contracts in the automobile contract pools are below certain predetermined levels. In the event delinquencies, defaults or net losses on contracts exceed these levels, the terms of the securitization or warehouse credit facility:

- may require increased credit enhancement, including an increase in the amount required to be on deposit in the spread account to be accumulated for the particular pool;
- may restrict the distribution to us of excess spread cash flows associated with other securitized or warehoused pools; and
- in certain circumstances, may permit affected parties to require the transfer of servicing on some or all of the securitized or warehoused contracts from us to an unaffiliated servicer.

We typically retain residual interests or use them as collateral to borrow cash. In any case, the future excess spread cash flow received in respect of the residual interests is integral to the financing of our operations. The amount of cash received from residual interests depends in large part on how well our portfolio of securitized and warehoused automobile contracts performs. If our portfolio of securitized and warehoused automobile contracts has higher delinquency and loss ratios than expected, then the amount of money realized from our retained residual interests, or the amount of money we could obtain from the sale or other financing of our residual interests, would be reduced. Such higher than expected losses have been incurred, which has had an adverse effect on our operations, financial condition and cash flows. Should losses continue to rise, we would expect further material adverse effects on our results of operations, financial condition and cash flows.

If We Are Unable to Obtain Credit Enhancement for Our Securitizations Upon Favorable Terms, Our Results of Operations Would Be Impaired.

In our securitizations, we historically have utilized credit enhancement in the form of one or more financial guaranty insurance policies issued by financial guaranty insurance companies. Each of these policies unconditionally and irrevocably guarantee certain interest and principal payments on the senior classes of the securities issued in our securitizations. These guarantees enabled these securities to achieve the highest credit rating available. This form of credit enhancement reduced the costs of our securitizations relative to alternative forms of credit enhancement available to us at the time. Due to significantly reduced investor demand for securities carrying

such a financial guaranty, it is likely that this form of credit enhancement may not be economic for us in the future. As we pursue future securitizations, we may not be able to obtain:

- credit enhancement in any form on terms acceptable to us, or at all; or
- similar highest available credit ratings for senior classes of securities to be issued in future securitizations.

Based on indications from market participants as to reduced investor comfort with credit ratings and financial guarantees, we believe that even if we were unable to obtain such financial guarantees or such ratings, we would expect a greater spread than we had seen in the past between our securitization trust debt and risk-free investments, and we would thus expect to incur increased interest expense. As of the date of this report, interest rates on risk-free debt are close to historical lows, which may offset the adverse effect on us of greater spreads. If we should incur increased interest expense, doing so would adversely affect our results of operations.

If We Are Unable to Successfully Compete With Our Competitors, Our Results of Operations May Be Impaired.

The automobile financing business is highly competitive. We compete with a number of national, regional and local finance companies. In addition, competitors or potential competitors include other types of financial services companies, such as commercial banks, savings and loan associations, leasing companies, credit unions providing retail loan financing and lease financing for new and used vehicles and captive finance companies affiliated with major automobile manufacturers. Many of our competitors and potential competitors possess substantially greater financial, marketing, technical, personnel and other resources than we do, including greater access to capital markets for unsecured commercial paper and investment grade rated debt instruments, and to other funding sources which may be unavailable to us. Moreover, our future profitability will be directly related to the availability and cost of our capital relative to that of our competitors. Many of these companies also have long-standing relationships with automobile dealers and may provide other financing to dealers, including floor plan financing for the dealers' purchases of automobiles from manufacturers, which we do not offer. There can be no assurance that we will be able to continue to compete successfully and, as a result, we may not be able to purchase contracts from dealers at a price acceptable to us, which could result in reductions in our revenues or the cash flows available to us.

If Our Dealers Do Not Submit a Sufficient Number of Suitable Automobile Contracts to Us for Purchase, Our Results of Operations May Be Impaired.

We are dependent upon establishing and maintaining relationships with a large number of unaffiliated automobile dealers to supply us with automobile contracts. During the years ended December 31, 2009 and 2010, no dealer accounted for more than 8.0% or 2.0%, respectively, of the contracts we purchased. The agreements we have with dealers to purchase contracts do not require dealers to submit a minimum number of contracts for purchase. The failure of dealers to submit contracts that meet our underwriting criteria could result in reductions in our revenues or the cash flows available to us, and, therefore, could have an adverse effect on our results of operations.

If a Significant Number of Our Automobile Contracts Experience Defaults, Our Results of Operations May Be Impaired.

We specialize in the purchase and servicing of contracts to finance automobile purchases by sub-prime customers, those who have limited credit history, low income, or past credit problems. Such contracts entail a higher risk of non-performance, higher delinquencies and higher losses than contracts with more creditworthy customers. While we believe that our pricing of the automobile contracts and the underwriting criteria and collection methods we employ enable us to control, to a degree, the higher risks inherent in contracts with sub-prime customers, no assurance can be given that such pricing, criteria and methods will afford adequate protection against such risks. We have experienced increases in the delinquency of, and credit losses on, our contracts.

If automobile contracts that we purchase and hold experience defaults to a greater extent than we have anticipated, this could materially and adversely affect our results of operations, financial condition, cash flows and liquidity. Our results of operations, financial condition, cash flows and liquidity, depend, to a material extent, on the performance of automobile contracts that we purchase, warehouse and securitize. A portion of the automobile contracts acquired by us will default or prepay. In the event of payment default, the collateral value of the vehicle securing an automobile contract realized by us in a repossession will most likely not cover the outstanding principal balance on that contract and the related costs of recovery. We maintain an allowance for credit losses on automobile contracts held on our balance sheet, which reflects our estimates of probable credit losses that can be reasonably estimated for securitizations that are accounted for as financings and warehoused contracts. If the allowance is inadequate, then we would recognize the losses in excess of the allowance as an expense and our results of operations could be adversely affected. In addition, under the terms of our warehouse credit facilities, we are not able to borrow against

defaulted automobile contracts, including contracts that are, at the time of default, funded under our warehouse credit facilities, which will reduce the overcollateralization of those warehouse credit facilities and possibly reduce the amount of cash flows available to us.

If We Lose Servicing Rights on Our Portfolio of Automobile Contracts, Our Results of Operations Would Be Impaired.

We are entitled to receive servicing fees only while we act as servicer under the applicable sale and servicing agreements governing our warehouse facilities and securitizations. Under such agreements, we may be terminated as servicer upon the occurrence of certain events, including:

- our failure generally to observe and perform covenants and agreements applicable to us;
- certain bankruptcy events involving us; or
- the occurrence of certain events of default under the documents governing the facilities.

We have received waivers regarding the potential breach of certain covenants relating to minimum net worth and maintenance of active warehouse credit facilities. Without such waivers, certain credit enhancement providers would have had the right to terminate us as servicer with respect to certain of outstanding securitization pools. Although such rights have been waived, such waivers are temporary, and there can be no assurance as to their future extension. We do, however, believe that we will obtain such future extensions because it is generally not in the interest of any party to the securitization transaction to transfer servicing. Nevertheless, there can be no assurance as to our belief being correct. The loss of our servicing rights could materially and adversely affect our results of operations, financial condition and cash flows. Our results of operations, financial condition and cash flows, would be materially and adversely affected if we were to be terminated as servicer with respect to a material portion of the automobile contracts for which we are receiving servicing fees.

If We Lose Key Personnel, Our Results of Operations May Be Impaired.

Our senior management team averages thirteen years of service with us. Charles E. Bradley, Jr., our President and CEO, has been our President since our formation in 1991. Our future operating results depend in significant part upon the continued service of our key senior management personnel, none of whom is bound by an employment agreement. Our future operating results also depend in part upon our ability to attract and retain qualified management, technical, sales and support personnel for our operations. Competition for such personnel is intense. We cannot assure you that we will be successful in attracting or retaining such personnel. Layoffs since 2008 may have reduced employee loyalty, which may in turn result in decreased employee performance. Conversely, adverse general economic conditions may have had a countervailing effect. The loss of any key employee, the failure of any key employee to perform in his or her current position or our inability to attract and retain skilled employees, as needed, could materially and adversely affect our results of operations, financial condition and cash flows.

If We Fail to Comply with Regulations, Our Results of Operations May Be Impaired.

Failure to materially comply with all laws and regulations applicable to us could materially and adversely affect our ability to operate our business. Our business is subject to numerous federal and state consumer protection laws and regulations, which, among other things:

- require us to obtain and maintain certain licenses and qualifications;
- limit the interest rates, fees and other charges we are allowed to charge;
- limit or prescribe certain other terms of our automobile contracts;
- require specific disclosures to our customers;
- define our rights to repossess and sell collateral; and
- maintain safeguards designed to protect the security and confidentiality of customer information.

We believe that we are in compliance in all material respects with all such laws and regulations, and that such laws and regulations have had no material adverse effect on our ability to operate our business. However, we may be materially and adversely affected if we fail to comply with:

- applicable laws and regulations;
- changes in existing laws or regulations;
- changes in the interpretation of existing laws or regulations; or
- any additional laws or regulations that may be enacted in the future.

Recent Legislation and Proposed Regulations May Have an Adverse Effect on Our Business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") mandates the most wide-ranging overhaul of financial industry regulation in decades. Dodd-Frank was signed into law on July 21, 2010, and is now in the implementation stage. The law provides a regulatory framework and requires that regulators, some of which are new regulatory bodies created by Dodd-Frank, draft, review and approve more than 200 implementing regulations and conduct numerous studies that are likely to lead to more regulations. In addition, the Commission has recently proposed amendments to regulations first adopted in 2005 known as Regulation AB. The amendments to Regulation AB have yet to be adopted and are expected to be significantly modified from the form initially proposed, however, the final form of the amendments to Regulation AB when adopted are likely to increase the expenses that we will incur in securitization transactions.

Compliance with these new laws and regulations may be or likely will be costly and can affect operating results. Compliance requires forms, processes, procedures, controls and the infrastructure to support these requirements. Compliance may create operational constraints and place limits on pricing. Laws in the financial services industry are designed primarily for the protection of consumers. The failure to comply could result in significant statutory civil and criminal penalties, monetary damages, attorneys’ fees and costs, possible revocation of licenses and damage to reputation, brand and valued customer relationships.

At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting regulations or the Regulation AB amendments will affect our business. However, compliance with these new laws and regulations may result in additional cost and expenses, which may adversely affect our results of operations, financial condition or liquidity.

If We Experience Unfavorable Litigation Results, Our Results of Operations May Be Impaired.

Unfavorable outcomes in any of our current or future litigation proceedings could materially and adversely affect our results of operations, financial conditions and cash flows. As a consumer finance company, we are subject to various consumer claims and litigation seeking damages and statutory penalties based upon, among other things, disclosure inaccuracies and wrongful repossession, which could take the form of a plaintiff's class action complaint. We, as the assignee of finance contracts originated by dealers, may also be named as a co-defendant in lawsuits filed by consumers principally against dealers. We are also subject to other litigation common to the automobile industry and businesses in general. The damages and penalties claimed by consumers and others in these types of matters can be substantial. The relief requested by the plaintiffs varies but includes requests for compensatory, statutory and punitive damages.

While we intend to vigorously defend ourselves against such proceedings, there is a chance that our results of operations, financial condition and cash flows could be materially and adversely affected by unfavorable outcomes.

If We Experience Problems with Our Originations, Accounting or Collection Systems, Our Results of Operations May Be Impaired.

We are dependent on our receivables originations, accounting and collection systems to service our portfolio of automobile contracts. Such systems are vulnerable to damage or interruption from natural disasters, power loss, telecommunication failures, terrorist attacks, computer viruses and other events. A significant number of our systems are not redundant, and our disaster recovery planning is not sufficient for every eventuality. Our systems are also subject to break-ins, sabotage and intentional acts of vandalism by internal employees and contractors as well as third parties. Despite any precautions we may take, such problems could result in interruptions in our services, which could harm our reputation and financial condition. We do not carry business interruption insurance sufficient to compensate us for losses that may result from interruptions in our service as a result of system failures. Such systems problems could materially and adversely affect our results of operations, financial conditions and cash flows.

We Have Substantial Indebtedness.

We have and will continue to have a substantial amount of indebtedness. At December 31, 2010, we had approximately $717.9 million of debt outstanding. Such debt consisted primarily of $567.7 million of securitization trust debt, and also included $45.6 million of warehouse lines of credit, $39.4 million of residual interest financing, $44.9 million of senior secured related party debt and $20.3 million in subordinated notes. We are also currently offering the subordinated notes to the public on a continuous basis, and such notes have maturities that range from three months to ten years.

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

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

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

Because We Are Subject to Many Restrictions in Our Existing Credit Facilities and Securitization Transactions, Our Ability to Pay Dividends or Engage in Specified Transactions May Be Impaired.

The terms of our existing credit facilities, term securitizations and our other outstanding debt impose significant operating and financial restrictions on us and our subsidiaries and require us to meet certain financial tests. These restrictions may have an adverse effect on our business activities, results of operations and financial condition. These restrictions may also significantly limit or prohibit us from engaging in certain transactions, including the following:

- incurring or guaranteeing additional indebtedness;
- making capital expenditures in excess of agreed upon amounts;
- paying dividends or other distributions to our stockholders or redeeming, repurchasing or retiring our capital stock or subordinated obligations;
- making investments;
- creating or permitting liens on our assets or the assets of our subsidiaries;
- issuing or selling capital stock of our subsidiaries;
- transferring or selling our assets;
- engaging in mergers or consolidations;
- permitting a change of control of our company;
- liquidating, winding up or dissolving our company;
- changing our name or the nature of our business, or the names or nature of the business of our subsidiaries; and
- engaging in transactions with our affiliates outside the normal course of business.

These restrictions may limit our ability to obtain additional sources of capital, which may limit our ability to generate earnings. In addition, the failure to comply with any of the covenants of one or more of our debt agreements could cause a default under other debt agreements that may be outstanding from time to time. A default, if not waived, could result in acceleration of the related indebtedness, in which case such debt would become immediately due and payable. A continuing default or acceleration of one or more of our credit facilities or any other debt agreement, would likely cause a default under other debt agreements that otherwise would not be in default, in which case all such related indebtedness could be accelerated. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance our indebtedness. Even if any new financing is available, it may not be on terms that are acceptable to us or it may not be sufficient to refinance all of our indebtedness as it becomes due.

In addition, the transaction documents for our securitizations restrict our securitization subsidiaries from declaring or making payment to us of (i) any dividend or other distribution on or in respect of any shares of their capital stock, or (ii) any payment on account of the purchase, redemption, retirement or acquisition of any option, warrant or other right to acquire shares of their capital stock unless (in each case) at the time of such declaration or payment (and after giving effect thereto) no amount payable under any transaction document with respect to the related securitization is then due and owing, but unpaid. These restrictions may limit our ability to receive distributions in respect of the residual interests from our securitization facilities, which may limit our ability to generate earnings.

We May Have Rescission Liability in Connection with Offers and Sales of Our Renewable Unsecured Subordinated Notes to Certain Purchasers.

We filed a registration statement on Form S-2 with respect to our renewable unsecured subordinated notes on January 7, 2005 and subsequently filed amendments to such registration statement on April 13, May 2, and May 20,

2005 and April 11, 2006 (such registration statement, as so amended, the “Former Registration Statement”). In July 2010, we discovered that, under a rule of the SEC, we were no longer permitted to offer and sell our renewable unsecured subordinated notes in reliance on the Former Registration Statement. Consequently, purchasers who acquired such notes between January 1, 2010 and December 13, 2010 (the effective date of a new registration statement that we filed to register such sales) may have had at December 31, 2010, a statutory right to rescind their purchases. At any time, such potential rescission right may relate to any such notes sold (i) within the one-year period immediately preceding, and (ii) prior to the December 13, 2010 effectiveness of the new registration statement. As a result of such sales, we could be required to repurchase some or all of such notes at the original sale price plus statutory interest, less the amount of any income received by the purchasers. From January 1, 2010 to December 13, 2010, we sold a total of $11.3 million of notes, including renewals of previously sold notes, but excluding notes that we repaid. Within the twelve months immediately preceding March 25. 2011, we sold a total of approximately $5.5 million of such notes, including renewals of previously sold notes, but excluding notes that we have repaid and excluding notes sold or renewed under the new registration statement.

Sales of such notes could also subject us to regulatory sanctions by the SEC, which might include the imposition of civil penalties. Although we do not expect any rescissions or regulatory actions to have a material adverse effect on us, we are unable to predict the full consequences of these events and regulatory actions at this time.

Our results of operations, financial condition and cash flows could be materially and adversely affected if a substantial number of purchasers of such notes were to successfully assert rescission rights or if we were to be assessed substantial penalties by regulatory authorities. The exercise of rescission rights would not have any direct material effect on our results of operations, as any rescission of sales of such notes would involve simultaneous and approximately equal reductions in our assets and our liabilities. However, if holders of sufficient amounts of such notes were to demand rescission and to prevail in that demand, the adverse effect on our liquidity could be material, which could in turn impair our ability to conduct our business as otherwise planned. In such event, our ability to perform our obligations under the renewable unsecured subordinated notes could also be materially and adversely affected.

Risks Related to General Factors

If The Economy of All or Certain Regions of the United States Continues to Slow Down or the Current Recession Worsens, Our Results of Operations May Be Impaired.

Our business is directly related to sales of new and used automobiles, which are sensitive to employment rates, prevailing interest rates and other domestic economic conditions. Delinquencies, repossessions and losses generally increase during economic slowdowns or recessions. Because of our focus on sub-prime customers, the actual rates of delinquencies, repossessions and losses on our automobile contracts could be higher under adverse economic conditions than those experienced in the automobile finance industry in general, particularly in the states of Texas, California, Ohio, Florida, Pennsylvania and Louisiana, states in which our automobile contracts are geographically concentrated. Any sustained period of economic slowdown or recession could adversely affect our ability to acquire suitable contracts, or to securitize pools of such contracts. The timing of any economic changes is uncertain, and weakness in the economy could have an adverse effect on our business and that of the dealers from which we purchase contracts and result in reductions in our revenues or the cash flows available to us.

Our Results Of Operations May Be Impaired As a Result of Natural Disasters.

Our automobile contracts are geographically concentrated in the states of California, Texas, and Florida. Such states may be particularly susceptible to natural disasters: earthquake in the case of California, and hurricanes and flooding in the states of Florida and Texas. Natural disasters, in those states or others, could cause a material number of our vehicle purchasers to lose their jobs, or could damage or destroy vehicles that secure our automobile contracts. In either case, such events could result in our receiving reduced collections on our automobile contracts, and could thus result in reductions in our revenues or the cash flows available to us.

If an Increase in Interest Rates Results in a Decrease in Our Cash Flow from Excess Spread, Our Results of Operations May Be Impaired.

Our profitability is largely determined by the difference, or "spread," between the effective interest rate received by us on the automobile contracts that we acquire and the interest rates payable under warehouse credit facilities and on the asset-backed securities issued in our securitizations. Recent disruptions in the market for asset-backed securities are likely to result in an increase in the interest rates we would pay on asset-backed securities that we may

issue in future securitizations. Although we have the ability to partially offset increases in our cost of funds by increasing fees we charge to dealers when purchasing contracts, or by demanding higher interest rates on contracts we purchase, there is no assurance that such actions will materially offset increases in interest we pay to finance our managed portfolio.

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

To mitigate, but not eliminate, the short-term risk relating to interest rates payable by us under the warehouse facilities, we have historically held automobile contracts in the warehouse credit facilities for less than four months. To mitigate, but not eliminate, the long-term risk relating to interest rates payable by us in securitizations, we have in the past, and intend to continue to, structure some of our securitization transactions to include pre-funding structures, whereby the amount of securities issued exceeds the amount of contracts initially sold into the securitization. In pre-funding, the proceeds from the pre-funded portion are held in an escrow account until we sell the additional contracts into the securitization in amounts up to the balance of the pre-funded escrow account. In pre-funded securitizations, we effectively lock in our borrowing costs with respect to the contracts we subsequently sell into the securitization. However, we incur an expense in pre-funded securitizations equal to the difference between the money market yields earned on the proceeds held in escrow prior to subsequent delivery of contracts and the interest rate paid on the securities issued in the securitization. The amount of such expense may vary. Despite these mitigation strategies, an increase in prevailing interest rates would cause us to receive less excess spread cash flows on automobile contracts, and thus could adversely affect our earnings and cash flows.

Risks Related to Our Common Stock

Our Common Stock Is Thinly-Traded.

Our stock is thinly-traded, which means investors will have limited opportunities to sell their shares of common stock in the open market. Limited trading of our common stock also contributes to more volatile price fluctuations. Because there historically has been low trading volume in our common stock, there can be no assurance that our stock price will not decline as additional shares are sold in the public market. As of December 31, 2010, all of our directors and executive officers beneficially owned 2,851,140shares of our common stock, or approximately 15.8%.

Our Common Stock May Be Delisted.

Our stock has occasionally traded at less than one dollar per share, which is the minimum price required for continued listing on the Nasdaq Stock Market. If our common shares trade at a price below the Nasdaq minimum for an extended period, we would be required to take steps to increase the price, or suffer delisting from the Nasdaq Stock Market. The most likely step to increase the trading price would be a reverse split of outstanding shares, which would result in each existing shareholder receiving one new share in exchange for some larger number of local shares.

We Do Not Intend to Pay Dividends on Our Common Stock.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. See "Dividend Policy".

Forward-Looking Statements

Discussions of certain matters contained in this report may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Exchange Act, and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the business environment in which we operate, projections of future performance,

perceived opportunities in the market and statements regarding our mission and vision. You can generally identify forward-looking statements as statements containing the words "will," "would," "believe," "may," "could," "expect," "anticipate," "intend," "estimate," "assume" or other similar expressions. Our actual results, performance and achievements may differ materially from the results, performance and achievements expressed or implied in such forward-looking statements. The discussion under "Risk Factors" identifies some of the factors that might cause such a difference, including the following:

- changes in general economic conditions;
- changes in interest rates;
- our ability to generate sufficient operating and financing cash flows;
- competition;
- level of future provisioning for receivables losses; and
- regulatory requirements.

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

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Property

The Company’s headquarters are located in Irvine, California, where it leases approximately 60,000 square feet of general office space from an unaffiliated lessor. The annual base rent is approximately $1.65 million, increasing to approximately $1.75 million through 2016.

In March 1997, the Company established a branch collection facility in Chesapeake, Virginia. The Company leases approximately 27,000 square feet of general office space in Chesapeake, Virginia, at a base rent that is approximately $540,000 per year, increasing to approximately $572,000 through 2012.

The remaining two regional servicing centers occupy a total of approximately 41,000 square feet of leased space in Maitland, Florida; and Westchester, Illinois. The termination dates of such leases range from 2011 to 2014.

Item 3. Legal Proceedings

Stanwich Litigation. CPS was for some time a defendant in a class action (the "Stanwich Case") brought in the California Superior Court, Los Angeles County. The original plaintiffs in that case were persons entitled to receive regular payments (the "Settlement Payments") pursuant to earlier settlements of claims, generally personal injury claims, against unrelated defendants. Stanwich Financial Services Corp. ("Stanwich"), which was an affiliate of the former chairman of the board of directors of CPS, is the entity that was obligated to pay the Settlement Payments. Stanwich defaulted on its payment obligations to the plaintiffs and in June 2001 filed for reorganization under the Bankruptcy Code, in the federal bankruptcy court in Connecticut. At December 31, 2004, CPS was a defendant only in a cross-claim brought by one of the other defendants in the case, Bankers Trust Company, which asserted a claim of contractual indemnity against CPS.

By February 2005, CPS had settled all claims brought against it in the Stanwich Case.

In November 2001, one of the defendants in the Stanwich Case, Jonathan Pardee, asserted claims for indemnity against the Company in a separate action, which remains pending in federal district court in Rhode Island. The Company has filed counterclaims in the Rhode Island federal court against Mr. Pardee, and has filed a separate action against Mr. Pardee's Rhode Island attorneys, in the same court. The litigation between Mr. Pardee and CPS is stayed, awaiting resolution of an adversary action brought against Mr. Pardee in the bankruptcy court, which is hearing the bankruptcy of Stanwich.

CPS has reached an agreement in principle with the representative of creditors in the Stanwich bankruptcy to resolve the adversary action. Under the agreement in principle, CPS is to pay the bankruptcy estate $800,000 and abandon its claims against the estate, while the estate would abandon its adversary action against Mr. Pardee. We believe that resolution of the adversary action will result in (i) limitation of our exposure to Mr. Pardee to no more than some portion of his attorneys fees incurred and (ii) stays in Rhode Island being lifted, causing those cases to become active again.

The reader should consider that an adverse judgment against CPS in the Rhode Island case for indemnification, if in an amount materially in excess of any liability already recorded in respect thereof, could have a material adverse effect on our financial condition.

Other Litigation. We are routinely involved in various legal proceedings resulting from our consumer finance activities and practices, both continuing and discontinued. We believe that there are substantive legal defenses to such claims, and intend to defend them vigorously. There can be no assurance, however, as to their outcomes. We have recorded a liability as of December 31, 2010 that we believe represents a sufficient allowance for legal contingencies. Any adverse judgment against us, if in an amount materially in excess of the recorded liability, could have a material adverse effect on our financial position or results of operations.

Executive Officers of the Registrant

Charles E. Bradley, Jr., 51, has been our President and a director since our formation in March 1991, and was elected Chairman of the Board of Directors in July 2001. In January 1992, Mr. Bradley was appointed Chief Executive Officer. From April 1989 to November 1990, he served as Chief Operating Officer of Barnard and Company, a private investment firm. From September 1987 to March 1989, Mr. Bradley, Jr. was an associate of The Harding Group, a private investment banking firm. Mr. Bradley does not currently serve on the board of directors of any other publicly-traded companies.

Mark A. Creatura, 51, has been Senior Vice President – General Counsel since October 1996. From October 1993 through October 1996, he was Vice President and General Counsel at Urethane Technologies, Inc., a polyurethane chemicals formulator. Mr. Creatura was previously engaged in the private practice of law with the Los Angeles law firm of Troy & Gould Professional Corporation, from October 1985 through October 1993.

Jeffrey P. Fritz, 51, has been Senior Vice President - Chief Financial Officer since April 2006. He was Senior Vice President - Accounting from August 2004 through March 2006. He served as a consultant to us from May 2004 to August 2004. Previously, he was the Chief Financial Officer of SeaWest Financial Corp. from February 2003 to May 2004, and the Chief Financial Officer of AFCO Auto Finance from April 2002 to February 2003. He practiced public accounting with Glenn M. Gelman & Associates from March 2001 to April 2002 and was Chief Financial Officer of Credit Services Group, Inc. from May 1999 to November 2000. He previously served as our Chief Financial Officer from our inception through May 1999.

Robert E. Riedl, 47, has been Senior Vice President - Chief Investment Officer since April 2006. Mr. Riedl was Senior Vice President - Chief Financial Officer from August 2003 until assuming his current position. Mr. Riedl joined the Company as Senior Vice President - Risk Management in January 2003. Previously, Mr. Riedl was a Principal at Northwest Capital Appreciation ("NCA"), a middle market private equity firm, from 2000 to 2002. For a year prior to joining Northwest Capital, Mr. Riedl served as Senior Vice President for one of NCA's portfolio companies, SLP Capital. Mr. Riedl was an investment banker for ContiFinancial Services, Jefferies & Company and PaineWebberfrom 1986 to 1999.

Christopher Terry, 43, has been Senior Vice President - Servicing since May 2005, and prior to that was Senior Vice President - Asset Recovery since January 2003. He joined us in January 1995 as a loan officer, held a series of successively more responsible positions, and was promoted to Vice President - Asset Recovery in June 1999. Mr. Terry was previously a branch manager with Norwest Financial from 1990 to October 1994.

Teri L. Clements, 48, has been the Senior Vice President of Originations since April 2007. Prior to that, she held the position of Vice President of Originations since August 1998. She joined the Company in June 1991 as an Operations Specialist. Previously, Ms. Clements held an administrative position at Greco & Associates.

Michael L. Lavin, 38, has been Senior Vice President – Legal since May 2009. Prior to that, he was our Vice President – Legal since joining the Company in November 2001. Mr. Lavin was previously engaged as a law clerk and an associate with the San Diego law firm (now defunct) of Edwards, Sooy & Byron from 1996 through 2000 and then as an associate with the Orange County firm of Trachtman & Trachman from 2000 through 2001. Mr. Lavin also clerked for the San Diego District Attorney's office and Orange County Public Defender's office.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

The Company's Common Stock is traded on the Nasdaq Global Market, under the symbol "CPSS." The following table sets forth the high and low sale prices as reported by Nasdaq for our Common Stock for the periods shown.

	High	Low
January 1 - March 31, 2009	$ 0.80	$ 0.25
April 1 - June 30, 2009	1.15	0.40
July 1 - September 30, 2009	1.65	0.46
October 1 - December 31, 2009	1.30	0.95
January 1 - March 31, 2010	2.25	1.00
April 1 - June 30, 2010	2.27	1.25
July 1 - September 30, 2010	1.37	0.59
October 1 - December 31, 2010	1.34	0.56

As of March 21, 2010, there were 56 holders of record of the Company's Common Stock. To date, we have not declared or paid any dividends on our Common Stock. The payment of future dividends, if any, on our Common Stock is within the discretion of the Board of Directors and will depend upon our income, capital requirements and financial condition, and other relevant factors. The instruments governing our outstanding debt place certain restrictions on the payment of dividends. We do not intend to declare any dividends on our Common Stock in the foreseeable future, but instead intend to retain any cash flow for use in our operations.

The table below presents information regarding outstanding options to purchase our Common Stock as of December 31, 2010:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	12,816,448	$ 1.31	829,500
Equity compensation plans not approved by security holders	-	-	-
Total	12,816,448	$ 1.31	829,500

Issuer Purchases of Equity Securities in the Fourth Quarter

Period(1)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
October 2010	4,440	$ 0.89	4,440	$ 2,067,439
November 2010	3,397	0.82	3,397	2,064,659
December 2010	-	-	-	2,064,659
Total	7,837	$ 1.22	7,837	

(1) *Each monthly period is the calendar month.*

(2) *Through December 31, 2010, our board of directors had authorized the purchase of up to $34.5 million of our outstanding securities, which program was first announced in our annual report for the year 2002, filed on March 26, 2003. All purchases described in the table above were under the plan announced in March 2003, which has no fixed expiration date.*

Item 6. Selected Financial Data

The following table presents our selected consolidated financial data and operating data as of and for the dates indicated. The data under the captions "Statement of Operations Data" and "Balance Sheet Data" have been derived from our audited and unaudited consolidated financial statements. The remainder is derived from other records of ours.

You should read the selected consolidated financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited and unaudited financial statements and notes thereto that are included in this report.

(dollars in thousands, except per share data)	As of and For the Year Ended December 31, 2010	2009	2008	2007	2006
Statement of Operations Data					
Revenues:					
Interest income	$ 137,090	$ 208,196	$ 351,551	$ 370,265	$ 263,566
Servicing fees	7,657	4,640	2,064	1,218	2,894
Other income	10,438	11,059	14,796	23,067	12,403
Total revenues	155,185	223,895	368,411	394,550	278,863
Expenses:					
Employee costs	33,814	37,306	48,874	46,716	38,483
General and administrative	26,068	32,217	44,368	47,416	42,011
Interest expense	82,226	111,768	156,253	139,189	93,112
Provision for credit losses	29,921	92,011	148,408	137,272	92,057
Loss on sale of receivables	-	-	13,963		
Total expenses	172,029	273,302	411,866	370,593	265,663
Income (loss) before income tax expense (benefit)	(16,844)	(49,407)	(43,455)	23,957	13,200
Income tax expense (benefit)	16,982	7,800	(17,364)	10,099	(26,355)
Net income (loss)	$ (33,826)	$ (57,207)	$ (26,091)	$ 13,858	$ 39,555
Earnings (loss) per share-basic	$ (1.94)	$ (3.07)	$ (1.36)	$ 0.66	$ 1.82
Earnings (loss) per share-diluted	$ (1.94)	$ (3.07)	$ (1.36)	$ 0.61	$ 1.64
Pre-tax income (loss) per share-basic (1)	$ (0.96)	$ (3.07)	$ (2.26)	$ 1.15	$ 0.61
Pre-tax income (loss) per share-diluted (2)	$ (0.96)	$ (3.07)	$ (2.26)	$ 1.06	$ 0.55
Weighted average shares outstanding-basic	17,477	18,643	19,230	20,880	21,759
Weighted average shares outstanding-diluted	17,477	18,643	19,230	22,595	24,052
Balance Sheet Data					
Total assets	$ 742,884	$ 1,068,261	$ 1,638,807	$ 2,282,813	$ 1,728,594
Cash and cash equivalents	16,252	12,433	22,084	20,880	14,215
Restricted cash and equivalents	123,958	128,511	153,479	170,341	193,001
Finance receivables, net	552,453	840,092	1,339,307	1,967,866	1,401,414
Residual interest in securitizations	3,841	4,316	3,582	2,274	13,795
Warehouse lines of credit	45,564	4,932	9,919	235,925	72,950
Residual interest financing	39,440	56,930	67,300	70,000	31,378
Securitization trust debt	567,722	904,833	1,404,211	1,798,302	1,442,995
Long-term debt	65,210	48,083	45,826	28,134	38,574
Shareholders' equity	4,554	35,577	89,849	114,355	111,512

(1) Income (loss) before income tax benefit divided by weighted average shares outstanding-basic. Included for illustrative purposes because some of the periods presented include significant income tax benefits while other periods have neither income tax benefit nor expense.

(2) Income (loss) before income tax benefit divided by weighted average shares outstanding-diluted. Included for illustrative purposes because some of the periods presented include significant income tax benefits while other periods have neither income tax benefit nor expense.

(dollars in thousands, except per share data)	As of and For the Year Ended December 31, 2010	2009	2008	2007	2006
Contract Purchases/Securitizations					
Automobile contract purchases	$ 113,023	$ 8,599	$ 296,817	$ 1,282,311	$ 1,019,018
Automobile contracts securitized - structured as sales	103,772	-	198,662	-	-
Automobile contracts securitized - structured as secured financings	-	-	310,360	1,118,097	957,681
Managed Portfolio Data					
Contracts held by consolidated subsidiaries	$ 597,142	$ 922,681	$ 1,477,810	$ 2,125,755	$ 1,527,285
Contracts held by non-consolidated subsidiaries	83,964	134,894	186,233	-	34,850
Third party portfolios (1)	75,097	137,146	79	422	3,770
Total managed portfolio	$ 756,203	$ 1,194,721	$ 1,664,122	$ 2,126,177	$ 1,565,905
Average managed portfolio	928,977	1,342,410	1,934,003	1,906,605	1,376,781
Weighted average fixed effective interest rate (total managed portfolio) (2)	16.2%	15.8%	18.0%	18.2%	18.5%
Core operating expense (% of average managed portfolio) (3)	6.4%	5.2%	4.8%	4.9%	5.8%
Allowance for loan losses	$ 13,168	$ 38,274	$ 78,036	$ 100,138	$ 79,380
Allowance for loan losses (% of total contracts held by consolidated subsidiaries)	2.2%	4.1%	5.3%	4.7%	5.2%
Total delinquencies (2) (4)	5.7%	4.9%	5.6%	4.7%	4.0%
Total delinquencies and repossessions (2) (4)	9.2%	8.8%	8.6%	6.3%	5.5%
Net charge-offs (2) (5)	9.0%	11.0%	7.7%	5.3%	4.5%

(1) Receivables related to the third party portfolios, on which we earn only a servicing fee.

(2) Excludes receivables related to the third party portfolios.

(3) Total expenses excluding provision for credit losses, interest expense, loss on sale of receivables and impairment loss on residual assets.

(4) For further information regarding delinquencies and the managed portfolio, see the table captioned "Delinquency Experience," in Item 1, Part I of this report and the notes to that table.

(5) Net charge-offs include the remaining principal balance, after the application of the net proceeds from the liquidation of the vehicle (excluding accrued and unpaid interest) and amounts collected subsequent to the date of the charge-off, including some recoveries which have been classified as other income in the accompanying financial statements. For further information regarding charge-offs, see the table captioned "Net Charge-Off Experience," in Item I, Part I of this report and the notes to that table.

Item 7. Management’s Discussion And Analysis Of Financial Condition And Results Of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto and other information included or incorporated by reference herein.

Overview

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

We were incorporated and began our operations in March 1991. From inception through December 31, 2010, we have purchased a total of approximately $8.8 billion of automobile contracts from dealers. In addition, we obtained a total of approximately $605.0 million of automobile contracts in mergers and acquisitions in 2002, 2003 and 2004. In 2004 and 2009, we were appointed as a third-party servicer for certain portfolios of automobile receivables originated and owned by entities not affiliated with us. Beginning in 2008, our managed portfolio has decreased each year due to our strategy of limiting contract purchases to conserve our liquidity in response to adverse economic conditions, as discussed further below. However, since October 2009, we have gradually increased contract purchases resulting in aggregate purchases of $113.0 million in 2010, compared to $8.6 million in 2009. Our total managed portfolio was $756.2 million at December 31, 2010 compared to $1,194.7 million at December 31, 2009, $1,664.1 million at December 31, 2008, $2,162.2 million at December 31, 2007 and $1,565.9 million at December 31, 2006.

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

We purchase contracts in our own name (“CPS”) and, until July 2008, also in the name of our wholly-owned subsidiary, TFC. Programs marketed under the CPS name are intended to serve a wide range of sub-prime customers, primarily through franchised new car dealers. Our TFC program served vehicle purchasers enlisted in the U.S. Armed Forces, primarily through independent used car dealers. In July 2008, we ended our TFC program.

We purchase automobile contracts with the intention of financing them on a long-term basis through securitizations. Securitizations are transactions in which we sell a specified pool of contracts to a special purpose entity of ours, which in turn issues asset-backed securities to fund the purchase of the pool of contracts from us. Depending on the structure of the securitization, the transaction may be treated, for financial accounting purposes, as a sale of the contracts or as a secured financing.

Securitization and Warehouse Credit Facilities

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

When structured to be treated as a secured financing for accounting purposes, the subsidiary is consolidated with us. Accordingly, the sold automobile contracts and the related debt appear as assets and liabilities, respectively, on our consolidated balance sheet. We then periodically: (i) recognize interest and fee income on the contracts, (ii) recognize interest expense on the securities issued in the transaction, and (iii) record as expense a provision for credit losses on the contracts. From July 2003 through April 2008, all of our securitizations were structured in this manner. In September 2008, we securitized automobile contracts in a transaction that was in substance a sale, that

was treated as a sale for accounting purposes, and in which we retained a residual interest in the automobile contracts. The remaining receivables from that September 2008 securitization were re-securitized in September 2010 in a structure that maintained sale treatment for accounting purposes.

When structured to be treated as a sale for accounting purposes, the assets and liabilities of the special-purpose subsidiary are not consolidated with us. Accordingly, the transaction removes the sold automobile contracts from our consolidated balance sheet, the related debt does not appear as our debt, and our consolidated balance sheet shows, as an asset, a retained residual interest in the sold automobile contracts. The residual interest represents the discounted value of what we expect will be the excess of future collections on the automobile contracts over principal and interest due on the asset-backed securities. That residual interest appears on our consolidated balance sheet as "residual interest in securitizations," and the determination of its value is dependent on our estimates of the future performance of the sold automobile contracts. Of our managed portfolio outstanding at December 31, 2010, only our September 2010 securitization was structured to be treated as a sale for accounting purposes.

Credit Risk Retained

Whether a sale of automobile contracts in connection with a securitization or warehouse credit facility is treated as a secured financing or as a sale for financial accounting purposes, the related special-purpose subsidiary may be unable to release excess cash to us if the credit performance of the related automobile contracts falls short of pre-determined standards. Such releases represent a material portion of the cash that we use to fund our operations. An unexpected deterioration in the performance of such automobile contracts could therefore have a material adverse effect on both our liquidity and our results of operations, regardless of whether such automobile contracts are treated for financial accounting purposes as having been sold or as having been financed. For estimation of the magnitude of such risk, it may be appropriate to look to the size of our "managed portfolio," which represents both financed and sold automobile contracts as to which such credit risk is retained. Our managed portfolio as of December 31, 2010 was approximately $756.2 million, which includes a third party servicing portfolio of $75.1 million on which we earn only servicing fees and have no credit risk.

Critical Accounting Policies

We believe that our accounting policies related to (a) Allowance for Finance Credit Losses, (b) Amortization of Deferred Originations Costs and Acquisition Fees, (c) Residual Interest in Securitizations and Gain on Sale of Automobile Contracts and (d) Income Taxes are the most critical to understanding and evaluating our reported financial results. Such policies are described below.

Allowance for Finance Credit Losses

In order to estimate an appropriate allowance for losses to be incurred on finance receivables, we use a loss allowance methodology commonly referred to as "static pooling," which stratifies our finance receivable portfolio into separately identified pools based on the period of origination. Using analytical and formula driven techniques, we estimate an allowance for finance credit losses, which we believe is adequate for probable credit losses that can be reasonably estimated in our portfolio of automobile contracts. Provision for losses is charged to our consolidated statement of operations. Net losses incurred on finance receivables are charged to the allowance. We evaluate the adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio, prospective liquidation values of the underlying collateral and general economic and market conditions. As circumstances change, our level of provisioning and/or allowance may change as well. We observed deterioration in performance of automobile contracts held in our portfolio since 2008, which we attribute to a general recession that began in December 2007. Accordingly, we increased our provision for credit losses in the fourth quarter of 2009.

Our allowance as a percentage of finance receivables has decreased in recent years due primarily to the continued seasoning of our portfolio. Our historical static loss data shows that, in general, incremental monthly losses increase through approximately the 28th month of the life of a static portfolio, after which such monthly incremental losses tend to decrease. As of December 31, 2010 the weighted average age of our portfolio of finance receivables was 37 months. In addition, for receivables originated beginning with the third quarter of 2008, we have found the early credit performance of those static portfolios to be significantly better than earlier portfolios at similar vintage time frames.

Amortization of Deferred Originations Costs and Acquisition Fees

Upon purchase of a contract from a dealer, we generally either charge or advance the dealer an acquisition fee. In addition, we incur certain direct costs associated with originations of our contracts. All such acquisition fees and

direct costs are applied to the carrying value of finance receivables and are accreted into earnings as an adjustment to the yield over the estimated life of the contract using the interest method.

Term Securitizations

Our term securitization structure has generally been as follows:

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

Our September 2008 securitization and the subsequent re-securitization of the remaining receivables from such transaction in September 2010 were each in substance sales of the underlying receivables, and have been treated as sales for financial accounting purposes. They differ from those treated as secured financings in that the trust to which our special-purpose subsidiaries sold the automobile contracts met the definition of a "qualified special-purpose entity" under Statement of Financial Accounting Standards No. 140 ("SFAS 140") (ASC 860 10 65-2) As a result, assets and liabilities of those trusts are not consolidated into our consolidated balance sheet.

Historically, our warehouse credit facility structures were similar to the above, except that (i) our special-purpose subsidiaries that purchased the automobile contracts pledged the automobile contracts to secure promissory notes that they issued, (ii) no increase in the required amount of internal credit enhancement was contemplated, and (iii) we did not purchase financial guaranty insurance. Through November 2008, we depended substantially on two warehouse credit facilities: (i) a $200 million warehouse credit facility, which we established in November 2005 and expired by its terms in November 2008; and (ii) a $200 million warehouse credit facility, which we established in June 2004 and which was amended in December 2008 to eliminate future advances and to provide for repayment of the related notes from the cash collections on the underlying pledged contracts, and certain other principal reductions until it was fully repaid in September 2009. Since October 2009, we have gradually increased our contract purchases by utilizing a $50 million credit facility we established in September 2009 and $50 million term funding facility that we established in March 2010. More recently, we increased our short-term contract financing resources by $200 million by entering into agreements for a $100 million credit facility in December 2010 and for another $100 million credit facility in February 2011.

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

Under the September 2008 and September 2010 securitizations, and other term securitizations completed prior to July 2003 that were structured as sales for financial accounting purposes, we removed from our consolidated balance sheet the automobile contracts sold and added to our consolidated balance sheet (i) the cash received, if any, and (ii) the estimated fair value of the ownership interest that we retained in the automobile contracts sold in the transaction. That retained or residual interest consisted of (a) the cash held in the spread account, if any, (b) overcollateralization, if any, (c) asset-backed securities retained, if any, and (d) receivables from the trust, which include the net interest receivables. Net interest receivables represent the estimated discounted cash flows to be received from the trust in the future, net of principal and interest payable with respect to the asset-backed notes, the premium paid to the insurance company, if any, and certain other expenses. The excess of the cash received and the assets we retained over the carrying value of the automobile contracts sold, less transaction costs, equaled the net gain on sale of automobile contracts we recorded.

We receive periodic base servicing fees for the servicing and collection of the automobile contracts. Under our securitization structures treated as secured financings for financial accounting purposes, such servicing fees are included in interest income from the automobile contracts. In addition, we are entitled to the cash flows from the trusts that represent collections on the automobile contracts in excess of the amounts required to pay principal and interest on the asset-backed securities, base servicing fees, and certain other fees and expenses (such as trustee and custodial fees). Required principal payments on the asset-backed notes are generally defined as the payments sufficient to keep the principal balance of such notes equal to the aggregate principal balance of the related automobile contracts (excluding those automobile contracts that have been charged off), or a pre-determined percentage of such balance. Where that percentage is less than 100%, the related securitization agreements require accelerated payment of principal until the principal balance of the asset-backed securities is reduced to the specified percentage. Such accelerated principal payment is said to create overcollateralization of the asset-backed notes.

If the amount of cash required for payment of fees, expenses, interest and principal on the senior asset-backed notes exceeds the amount collected during the collection period, the shortfall is withdrawn from the spread account, if any. If the cash collected during the period exceeds the amount necessary for the above allocations plus required principal payments on the subordinated asset-backed notes, and there is no shortfall in the related spread account or the required overcollateralization level, the excess is released to us. If the spread account and overcollateralization is not at the required level, then the excess cash collected is retained in the trust until the specified level is achieved. Although spread account balances are held by the trusts on behalf of our special-purpose subsidiaries as the owner of the residual interests (in the case of securitization transactions structured as sales for financial accounting purposes) or the trusts (in the case of securitization transactions structured as secured financings for financial accounting purposes), we are restricted in use of the cash in the spread accounts. Cash held in the various spread accounts is invested in high quality, liquid investment securities, as specified in the securitization agreements. The interest rate payable on the automobile contracts is significantly greater than the interest rate on the asset-backed notes. As a result, the residual interests described above historically have been a significant asset of ours.

In all of our term securitizations and warehouse credit facilities, whether treated as secured financings or as sales, we have sold the automobile contracts (through a subsidiary) to the securitization entity. The difference between the two structures is that in securitizations that are treated as secured financings we report the assets and liabilities of the securitization trust on our consolidated balance sheet. Under both structures, recourse to us by holders of the asset-backed securities and by the trust, for failure of the automobile contract obligors to make payments on a timely basis, is limited to the automobile contracts included in the securitizations or warehouse credit facilities, the spread accounts and our retained interests in the respective trusts.

Since the third quarter of 2003, we have conducted 25 term securitizations. Of these 25, 19 were periodic (generally quarterly) securitizations of automobile contracts that we purchased from automobile dealers under our regular programs. In addition, in March 2004 and November 2005, we completed securitizations of our retained interests in other securitizations that we and our affiliates previously sponsored. The debt from the March 2004 transaction was repaid in August 2005, and the debt from the November 2005 transaction was repaid in May 2007. Also, in June 2004, we completed a securitization of automobile contracts purchased under our TFC program and acquired in a bulk purchase. Further, in December 2005 and May 2007 we completed securitizations that included automobile contracts purchased under the TFC programs, automobile contracts purchased under the CPS programs and automobile contracts we repurchased upon termination of prior securitizations. Since July 2003 all such securitizations have been structured as secured financings, except that our September 2008 and September 2010 securitizations were in substance sales of the underlying receivables, and were treated as sales for financial accounting purposes.

Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. Although realization is not assured, we believe that the realization of the recognized net deferred tax asset of $15.0 million is more likely than not based on available tax planning strategies that could be implemented if necessary to prevent a carryforward from expiring. Our net deferred tax asset of $15.0 million is net of a valuation allowance of $56.6 million and consists of approximately $11.5 million of net U.S. federal deferred tax assets and $3.5 million of net state deferred tax assets. The major components of the deferred tax asset are $67.0 million in net operating loss carryforwards and built in losses and $11.5 million in net deductions which have not yet been taken on a tax return. We estimate that we would need to generate approximately $37.5 million of taxable income during the applicable carryforward periods to realize fully our federal and state net deferred tax assets.

As a result of recent net losses, we are in a three-year cumulative pretax loss position at December 31, 2010. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset. In determining the possible future realization of deferred tax assets, we have considered future taxable income from the following sources: (a) reversal of taxable temporary differences; and (b) tax planning strategies available to us in accordance with SFAS 109 (FASB ASC 740, "Income Taxes") that, if necessary, would be implemented to accelerate taxable income into years in which net operating losses might otherwise expire. Our tax planning strategies include the prospective sale of certain assets such as finance receivables, residual interests in securitized finance receivables, charged off receivables and base servicing rights. The expected proceeds for such asset sales have been estimated based on our expectation of what buyers of the assets would consider to be reasonable assumptions for net cash flows and required rates of return for each of the various asset types. Our estimates for net cash flows and required rates of return are subjective and inherently subject to future events which may significantly impact actual net proceeds we may receive from executing our tax planning strategies. Nevertheless, we believe such asset sales can produce significant taxable income within the relevant carryforward period. Such strategies could be implemented without significant impact on our core business or our ability to generate future growth. The costs related to the implementation of these tax strategies were considered in evaluating the amount of taxable income that could be generated in order to realize our deferred tax assets.

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

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

Uncertainty of Capital Markets and General Economic Conditions

Historically, we have depended upon the availability of warehouse credit facilities and access to long-term financing through the issuance of asset-backed securities collateralized by our automobile contracts. Since 1994, we have completed 50 term securitizations of approximately $6.7 billion in contracts. We conducted four term securitizations in 2006, four in 2007, two 2008 and one in 2010. From July 2003 through April 2008 all of our securitizations were structured as secured financings. The second of our two securitization transactions in 2008

(completed in September 2008) and our most recent securitization in September 2010 (a re-securitization of the remaining receivables from the September 2008 transaction) were each in substance a sale of the related contracts, and have been treated as sales for financial accounting purposes.

Since the fourth quarter of 2007 through the end of 2009, we observed unprecedented adverse changes in the market for securitized pools of automobile contracts. These changes included reduced liquidity, and reduced demand for asset-backed securities, particularly for securities carrying a financial guaranty and for securities backed by sub-prime automobile receivables. Moreover, many of the firms that previously provided financial guarantees, which were an integral part of our securitizations, suspended offering such guarantees. The adverse changes that took place in the market from the fourth quarter of 2007 through the end of 2009 caused us to conserve liquidity by significantly reducing our purchases of automobile contracts. However, since October 2009, we have gradually increased our contract purchases by utilizing one $50 million credit facility that we established in September 2009 and another $50 million term funding facility that we established in March 2010. In September 2010 we took advantage of improvement in the market for asset-backed securities by re-securitizing the remaining underlying receivables from our unrated September 2008 securitization. By doing so we were able to pay off the bonds associated with the September 2008 transaction and issue rated bonds with a significantly lower weighted average coupon. The September 2010 transaction was our first rated term securitization since 1993 that did not utilize a financial guaranty. More recently, we increased our short-term funding capacity by $200 million with the establishment of a new $100 million credit facility in December 2010 and an additional $100 million credit facility in February 2011. In addition, we expect to complete one or more term securitization transactions in 2011. In spite of the improvements we have seen in the capital markets, if the trend of improvement in the markets for asset-backed securities should reverse, or if we should be unable to obtain additional contract financing facilities or to complete a term securitization of our recently originated receivables, we may curtail or cease our purchases of new automobile contracts, which could lead to a material adverse effect on our operations.

The downturn in economic conditions and the capital markets that began in the fourth quarter of 2007 has negatively affected many aspects of our industry. First, throughout 2008 and 2009 there was reduced demand for asset-backed securities secured by consumer finance receivables, including sub-prime automobile receivables, as compared to 2007 and earlier. During 2010, however, we observed that yield requirements for investors that purchase securities backed by consumer finance receivables, including sub-prime automobile receivables, have decreased significantly and are approaching pre-2008 levels, albeit with significantly fewer transactions in the market. Second, there have been fewer lenders who provide short term warehouse financing for sub-prime automobile finance companies due to more uncertainty regarding the prospects of obtaining long-term financing through the issuance of asset-backed securities than before 2008. Many capital market participants such as investment banks, financial guaranty providers and institutional investors who previously played a role in the sub-prime auto finance industry have withdrawn from the industry, or in some cases, have ceased to do business. These developments resulted in our incurring higher interest costs for receivables we financed in 2009 and 2010 compared to pre-2008 levels. However, on December 23, 2010 we entered into a $100 million two-year warehouse credit line with a significantly lower cost of funds than the facilities we used in 2009 and 2010. Finally, broad economic weakness and high levels of unemployment in 2008, 2009 and 2010 have made many of our customers less willing or able to pay, resulting in higher delinquency, charge-offs and losses. Each of these factors has adversely affected our results of operations. Should existing economic conditions worsen, both our ability to purchase new contracts and the performance of our existing managed portfolio may be impaired, which, in turn, could have a further material adverse effect on our results of operations.

Financial Covenants

Certain of our securitization transactions and our warehouse credit facilities contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels and maximum financial losses. In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare a default if a default occurred under a different facility.

The agreements under which we receive periodic fees for servicing automobile contracts in securitizations are terminable by the respective financial guaranty insurance companies (also referred to as note insurers) upon defined events of default, and, in some cases, at the will of the insurance company. In August 2010, we agreed with the note insurer for eight of our twelve currently outstanding securitizations to amend the applicable agreements to remove the financial covenants that were contained in three of the related agreements. In return for such amendments, we

agreed to increase the required credit enhancement amounts in those three deals through increased spread account requirements. The remaining five transactions insured by this particular note insurer do not contain financial covenants.

For the remaining four securitizations insured by different parties, we have been receiving waivers for certain financial and operating covenants on a monthly and/or quarterly basis as summarized below:

Financial covenant	*Applicable Standard*	*Status Requiring Waiver (as of or for the quarter ended December 31, 2010)*
Warehouse financing capacity	$200 million of warehouse capacity	$150 million of warehouse capacity
Adjusted net worth (I)	$87.6 million	$4.6 million
Leverage	Not greater than 4.5:1	27.5:1
Maximum net loss	$7.5 million	$33.8 million
Adjusted net worth (II)	$95.3 million	$4.6 million

The covenant regarding warehouse financing capacity is a covenant to maintain one or more credit facilities that allow us to finance acquisition of automobile contracts on a revolving basis, with a minimum aggregate capacity of $200 million. The adjusted net worth covenants are covenants to maintain minimum levels of adjusted net worth, defined as our consolidated book value under GAAP with the exclusion of intangible assets such as goodwill. There are two separate adjusted net worth covenants because there are two separate note insurers that have this covenant in their related securitization agreements. The leverage covenant requires that we not exceed the specified ratio of debt over the defined adjusted net worth. Debt is defined in this covenant to mean consolidated liabilities less warehouse lines of credit and securitization trust debt; using this definition at December 31 2010, we had debt of $125.0 million. The maximum net loss covenant requires that we not exceed $7.5 million in net losses for any quarter or year.

Without the waivers we have received from the related note insurers, we would have been in violation of covenants relating to minimum net worth, maximum financial losses, maximum leverage levels and maintenance of active warehouse facilities with respect to four of our 12 currently outstanding securitization transactions. Upon such an event of default, and subject to the right of the related note insurers to waive such terms, the agreements governing the securitizations call for payment of a default insurance premium, ranging from 25 to 100 basis points per annum on the aggregate outstanding balance of the related insured senior notes, and for the diversion of all excess cash generated by the assets of the respective securitization pools into the related spread accounts to increase the credit enhancement associated with those transactions. The cash so diverted into the spread accounts would otherwise be used to make principal payments on the subordinated notes in each related securitization or would be released to us. As of the date of this report, cash is being diverted to the related spread accounts in seven transactions. In addition, upon an event of default, the note insurers have the right to terminate us as servicer. Although our termination as servicer has been waived, we are paying default premiums, or their equivalent, with respect to insured notes representing $347.0 million of the $567.7 million of securitization trust debt outstanding at December 31, 2010. It should be noted that the principal amount of such securitization trust debt is not increased, but that the increased insurance premium is reflected as increased interest expense. Furthermore, such waivers are temporary, and there can be no assurance as to their future extension. We do, however, believe that we will obtain such future extensions of our servicing agreements because it is generally not in the interest of any party to the securitization transaction to transfer servicing. Nevertheless, there can be no assurance as to our belief being correct. Were an insurance company in the future to exercise its option to terminate such agreements or to pursue other remedies, such remedies could have a material adverse effect on our liquidity and results of operations, depending on the number and value of the affected transactions. Our note insurers continue to extend our term as servicer on a monthly and/or quarterly basis, pursuant to the servicing agreements.

Results of Operations

Comparison of Operating Results for the Year Ended December 31, 2010 with the Year Ended December 31, 2009

Revenues. During the year ended December 31, 2010, revenues were $155.2 million, a decrease of $68.7 million, or 30.7%, from the prior year revenue of $223.9 million. The primary reason for the decrease in revenues is a decrease in interest income. Interest income for the year ended December 31, 2010 decreased $71.1 million, or 34.2%, to $137.1 million from $208.2 million in the prior year. The primary reason for the decrease in interest income is the decrease in finance receivables held by consolidated subsidiaries. At December 31, 2010 the aggregate outstanding balance of finance receivables held by consolidated subsidiaries was $597.1 million compared to $922.7 million at December 31, 2009, resulting in a decrease of $70.9 million in interest income. We also experienced a decrease in interest income on our residual interest in securitizations of $348,000, which was partially offset by an increase in interest earned on cash deposits (including restricted cash deposits) of $86,000.

Servicing fees totaling $7.7 million in the year ended December 31, 2010 increased $3.0 million, or 65.0%, from $5.0 million in the prior year. The increase in servicing fees is the result our appointment in November 2009 as a third-party servicer for a portfolio of sub-prime automobile receivables owned by a subsidiary of CompuCredit Corporation. As of December 31, 2010 and 2009, our managed portfolio owned by consolidated vs. non-consolidated subsidiaries and third parties was as follows:

	December 31, 2010		December 31, 2009	
	Amount	%	Amount	%
Total Managed Portfolio		($ in millions)		
Owned by Consolidated Subsidiaries	$ 597.1	79.0%	$ 922.7	77.2%
Owned by Non-Consolidated Subsidiaries	84.0	11.1%	134.9	11.3%
Third-Party Servicing Portfolios	75.1	9.9%	137.1	11.5%
Total	$ 756.2	100.0%	$ 1,194.7	100.0%

At December 31, 2010, we were generating income and fees on a managed portfolio with an outstanding principal balance of $756.2 million compared to a managed portfolio with an outstanding principal balance of $1,194.7 million as of December 31, 2009. At December 31, 2010 and 2009, the managed portfolio composition was as follows:

	December 31, 2010		December 31, 2009	
	Amount	%	Amount	%
Originating Entity		($ in millions)		
CPS	$ 672.2	88.9%	$ 1,034.2	86.6%
TFC	8.9	1.2%	23.4	2.0%
Third-Party Servicing Portfolios	75.1	9.9%	137.1	11.5%
Total	$ 756.2	100.0%	$ 1,194.7	100.0%

Other income decreased $620,000, or 5.6%, to $10.4 million in the year ended December 31, 2010 from $11.1 million during the prior year. The year-over-year decrease is the result of a variety of factors including a decrease of $1.6 million in convenience fees charged to our customers for web-based and other electronic payments and a decrease of $617,000 in income from direct mail and related products and services that we offer to our dealers. The decreases were offset by an increase of $2.4 million in sales tax refunds.

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

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

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

Total operating expenses were $172.0 million for the year ended December 31, 2010, compared to $273.3 million for the prior year, a decrease of $101.3 million, or 37.1%. The decrease is primarily due to decreases in provision for credit losses and interest expense, which decreased by $62.1 million and $29.5 million, or 67.5% and 26.4%, respectively.

Employee costs decreased by 9.4% to $33.8 million during the year ended December 31, 2010, representing 19.7% of total operating expenses, from $37.3 million for the prior year, or 13.7% of total operating expenses. The decrease in employee costs is due to the reduction in our workforce, primarily in the areas related to contract servicing throughout both 2010 and 2009 as a result of the reduction in our managed portfolio over those periods. As of December 31, 2010 we had 435 employees, compared to 523 employees at December 31, 2009.

General and administrative expenses decreased by 23.7% to $18.5 million and represented 10.7% of total operating expenses in the year ending December 31, 2010, as compared to the prior year when such expenses represented 8.9% of total operating expenses. General and administrative expenses include telecommunications costs, postage and delivery costs and other costs associated with servicing our managed portfolio.

Provision for credit losses was $29.9 million for the year ended December 31, 2010, a decrease of $62.1 million, or 67.5%, compared to the prior year and represented 17.4% of total operating expenses. The provision for credit losses maintains the allowance for loan losses at levels that we feel are adequate for the probable credit losses that can be reasonably estimated. The decrease in provision expense compared to the prior year is caused by the decrease in the size and continued aging of our portfolio of finance receivables.

Interest expense for the year ended December 31, 2010 decreased $29.5 million, or 26.4%, to $82.2 million, compared to $111.8 million in the previous year. The decrease is primarily the result of the decline in our portfolio owned by consolidated subsidiaries. Interest on securitization trust debt decreased by $34.2 million in 2010 compared to the prior year. Interest expense on our residual interest financing also decreased by $1.5 million as the balance outstanding has dropped from $56.9 million at the end of 2009 to $39.4 million at then end of 2010 . Decreases in interest expense for securitization debt and residual interest debt were partially offset by an increase of $5.0 million in interest expense for warehouse debt and $1.2 million on senior secured debt. In November 2009 we issued $5 million in new senior secured debt.

Marketing expenses consist primarily of commission-based compensation paid to our employee marketing representatives. These expenses increased by $44,000, or 1.2%, to $3.8 million, compared to $3.8 million in the previous year and represented 2.2% of total operating expenses. Although we purchased 7,507 contracts in 2010 compared to 595 in 2009, the increase in volume was offset by changes in the compensation rates for our marketing representatives.

Occupancy expenses decreased by $457,000 or 13.0%, to $3.1 million compared to $3.5 million in the previous year and represented 1.8% of total operating expenses. The reduction in occupancy expense is primarily attributable to the amendment in July 2009 of the lease for our Irvine headquarters to reduce our square footage from approximately 90,000 to approximately 60,000 square feet.

Depreciation and amortization expenses decreased by $58,000, or 8.2%, to $649,000 from $707,000 in the previous year.

For the year ended December 31, 2010, we recorded a tax benefit of $6.1 million resulting from operating losses and an additional $4.9 million resulting from changes in state tax rates. The benefit was offset by an increase of $28.0 to our valuation allowance for deferred taxes. For the year ended December 31, 2009, we recorded a tax benefit of $19.2 million. The benefit was offset by an increase of $27.0 to our valuation allowance for deferred taxes.

Liquidity and Capital Resources

Liquidity

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

Net cash provided by operating activities for the years ended December 31, 2010 and 2009 was $38.1 million and $74.5 million, respectively.

Net cash provided by investing activities for the year ended December 31, 2010 was $272.9 million compared to $443.7 million in 2009. Cash provided by investing activities primarily results from principal payments and other proceeds received on finance receivables held for investment. Cash used in investing activities generally relates to purchases of automobile contracts. Purchases of finance receivables held for investment were $113.3 million and $8.6 million in 2010 and 2009, respectively. The significant increase in contract purchases in 2010 was made possible by the establishment of a $50 million secured revolving credit facility in September 2009 and a $50 million term funding facility in March 2010.

Net cash used by financing activities for the year ended December 31, 2010 was $307.2 million compared with $527.8 million in 2009. Cash used or provided by financing activities is primarily attributable to the issuance or repayment of debt, and in particular, securitization trust debt. We issued $42.5 million in new securitization trust debt in 2010 in conjunction with the $50 million term funding facility. We did not issue any new securitization trust debt in 2009. Repayments of securitization debt were $385.2 million and $511.0 million in 2010 and 2009, respectively.

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

On September 25, 2009 we established a $50 million secured revolving credit facility with Fortress Credit Corp., which will mature on September 25, 2011. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated subsidiary Page Four Funding LLC. The facility provides for advances up to 75% of eligible finance receivables and the notes under it accrue interest at a rate of one-month LIBOR plus 12.00% per annum, with a minimum rate of 14.00% per annum. At December 31, 2010, $45.6 million was outstanding under this facility. As part of the consideration given to Fortress for committing to make loans under this facility, we issued a 10-year warrant to purchase up to 1,158,087 of our common shares, at an exercise price of $0.879 per share (we refer to this as the Fortress Warrant). Issuance of the Fortress Warrant required an adjustment to the terms of an existing outstanding warrant regarding 1,564,324 shares, reducing the exercise price of that other warrant from $1.44 per share to $1.40702 per share and increasing the number of shares available for purchase to 1,600,991.

In December 2010 we entered into a $100 million two-year warehouse credit line with affiliates of Goldman, Sachs & Co. and Fortress Investment Group. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated subsidiary Page Six Funding, LLC. The facility provides for advances up to 75% of eligible finance receivables and

the notes under it accrue interest at a rate of one-month LIBOR plus 5.00% per annum, with a minimum rate of 6.5% per annum. There were no amounts outstanding under this facility at December 31, 2010.

Subsequent to the reporting period covered by this report, on February 24, 2011, we entered into an additional $100 million two-year warehouse credit line with UBS Real Estate Securities, Inc. The facility revolves during the first year and amortizes during the second year. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated subsidiary Page Seven Funding, LLC. The facility provides for advances up to 76.5% of eligible finance receivables and the notes under it accrue interest at one-month LIBOR plus 6.00% per annum.

In March 2010, we entered into a $50 million term funding facility with a syndicate of note purchasers including affiliates of Angelo, Gordon & Co., L.P. and an affiliate of Cohen & Company Securities. Under the term funding facility, the note purchasers agreed to purchase up to $50 million in asset-backed notes through December 31, 2010, subject to collateral eligibility and other terms and conditions, through the end of 2010. Amounts outstanding bear interest at a fixed rate of 11.00%, which may be decreased to 9.00% should the notes receive investment grade ratings from at least two of the following three credit rating agencies: Moody's, Standard & Poor's, or Fitch. Principal payments on the notes are due as the underlying receivables are paid or charged off, and the final maturity is July 17, 2017. In connection with the establishment of this term funding facility, we paid a closing fee of $750,000 and issued to certain of the note purchasers or their designees warrants to purchase 500,000 shares of our common stock at an exercise price of $1.41 per share (we refer to this as the Page Five Warrant). Issuance of the Page Five Warrant required adjustments to the terms of two existing outstanding warrants. The first warrant related to 1,600,991 shares, on which the exercise price was decreased from $1.407 per share to $1.398 per share and the number of shares available for purchase was increased to 1,611,114. The second affected warrant related to 283,985 shares, which was increased to 285,781 shares. As of December 31, 2010, there was $42.5 million outstanding under the facility and no additional advances are expected to be made.

In July 2007, we established a combination term and revolving residual credit facility and have used eligible residual interests in securitizations as collateral for floating rate borrowings. The amount that we were able to borrow was computed using an agreed valuation methodology of the residuals, subject to an overall maximum principal amount of $120 million, represented by (i) a $60 million Class A-1 variable funding note (the “revolving note”), and (ii) a $60 million Class A-2 term note (the “term note”). The term note was fully drawn in July 2007 and was originally due in July 2009. As of July 2008, we had drawn $26.8 million on the revolving note. The facility’s revolving feature expired in July 2008. On July 10, 2008 we amended the terms of the combination term and revolving residual credit facility, (i) eliminating the revolving feature and increasing the interest rate, (ii) consolidating the amounts then owing on the Class A-1 note with the Class A-2 note, (iii) establishing an amortization schedule for principal reductions on the Class A-2 note, and (iv) providing for an extension, at our option if certain conditions were met, of the Class A-2 note maturity from June 2009 to June 2010. In June 2009 we met all such conditions and extended the maturity. In conjunction with the amendment, we reduced the principal amount outstanding to $70 million by delivering to the lender (i) warrants valued as being equivalent to 2,500,000 common shares, or $4,071,429, and (ii) cash of $12,765,244. The warrants represent the right to purchase 2,500,000 CPS common shares at a nominal exercise price, at any time prior to July 10, 2018. In May 2010, we extended the maturity date from June 2010 to May 2011. As of December 31, 2010 the aggregate indebtedness under this facility was $39.4 million.

On June 30, 2008, we entered into a series of agreements pursuant to which an affiliate of Levine Leichtman Capital Partners purchased a $10 million five-year, fixed rate, senior secured note from us. The indebtedness is secured by substantially all of our assets, though not by the assets of our special-purpose financing subsidiaries. In July 2008, in conjunction with the amendment of the combination term and revolving residual credit facility as discussed above, the lender purchased an additional $15 million note with substantially the same terms as the $10 million note. Pursuant to the June 30, 2008 securities purchase agreement, we issued to the lender 1,225,000 shares of common stock. In addition, we issued the lender two warrants: (i) warrants that we refer to as the FMV Warrants, which are exercisable for 1,611,114 shares of our common stock, at an exercise price of $1.39818 per share, and (ii) warrants that we refer to as the N Warrants, which are exercisable for 285,781 shares of our common stock, at a nominal exercise price. Both the FMV Warrants and the N Warrants are exercisable in whole or in part and at any time up to and including June 30, 2018. We valued the warrants using the Black-Scholes valuation model and recorded their value as a liability on our balance sheet because the terms of the warrants also included a provision whereby the lender could require us to purchase the warrants for cash. That provision was eliminated by mutual

agreement in September 2008. The FMV Warrants were initially exercisable to purchase 1,500,000 shares for $2.573 per share, were adjusted in connection with the July 2008 issuance of other warrants to become exercisable to purchase 1,564,324 shares at $2.4672 per share, and were further adjusted in connection with a July 2009 amendment of our option plan to become exercisable at $1.44 per share. Upon issuance in September 2009 of the Fortress Warrant, the FMV Warrant was further adjusted to become exercisable to purchase 1,600,991 shares at an exercise price of $1.407 per share. Upon issuance in March 2010 of the Page Five Warrant, the FMV Warrant was further adjusted to become exercisable to purchase 1,611,114 shares at an exercise price of $1.39818 per share. In November 2009 we entered into an additional agreement with this lender whereby they purchased an additional $5 million note. The note accrued interest at 15.0% and was repaid in December 2010 at which time the lender purchased a new $27.8 million note under substantially the same terms as the $10 million and $15 million notes already outstanding. The $27.8 million note accrues interest at 16.0% and matures in December 2013. Concurrent with the issuance of the $27.8 million note, the term $10 and $15 million notes were amended to change their maturity dates to December 2013. In conjunction with the issuance of the $27.8 million note, we issued to the lender 880,000 shares of common stock and 1,870 shares of Series B convertible preferred stock. Each share of the Series B convertible preferred stock may become exchangeable for 1,000 shares of our common stock, upon shareholder approval of such exchange, but not without shareholder approval. At the time of issuance, the value of the common stock and Series B preferred stock was $753,000 and $1.6 million, respectively.

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

We are and may in the future be limited in our ability to purchase automobile contracts due to limits on our capital. As of December 31, 2010, we had unrestricted cash of $16.3 million. We had $4.4 million available under our Fortress facility and $100 million available under the Goldman facility (in both facilities advances are subject to available eligible collateral). As stated above, we established a second $100 million revolving credit facility in February 2011. In September 2010 we completed a securitization of previously securitized receivables, and we intend to complete securitizations regularly beginning in 2011, although there can be no assurance that we will be able to so. Our plans to manage our liquidity include maintaining our rate of automobile contract purchases at a level that matches our available capital, and, wherever appropriate, reducing our operating costs. If we are unable to complete such securitizations, we may be unable to increase our rate of automobile contract purchases, in which case our interest income and other portfolio related income would decrease.

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

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

The agreements under which we receive periodic fees for servicing automobile contracts in securitizations are terminable by the respective insurance companies upon defined events of default, and, in some cases, at the will of

the insurance company. We have received waivers regarding the potential breach of certain such covenants relating to minimum net worth, financial loss in any one period and maintenance of active warehouse credit facilities. Without such waivers, certain credit enhancement providers would have had the right to terminate us as servicer with respect to certain of our outstanding securitization pools. Although such rights have been waived, such waivers are temporary, and there can be no assurance as to their future extension. We do, however, believe that we will obtain such future extensions because it is generally not in the interest of any party to the securitization transaction to transfer servicing. Nevertheless, there can be no assurance as to our belief being correct. Were an insurance company in the future to exercise its option to terminate such agreements, such a termination could have a material adverse effect on our liquidity and results of operations, depending on the number and value of the terminated agreements. Our note insurers continue to extend our term as servicer on a monthly and/or quarterly basis, pursuant to the servicing agreements.

The agreements for our residual interest financing, revolving credit facility and term funding facility include financial covenants which, if breached, would be an event of default. We have entered into an amendment that avoided the potential breach of a minimum net worth covenant on the revolving credit facility. Without such amendment, the lender could have, among other things, ceased providing funding to us for new contract purchases, terminated us as servicer of the pledged receivables and sold the pledged contracts to satisfy the debt.

Our plan for future operations and meeting the obligations of our financing arrangements includes returning to profitability by gradually increasing the amount of our contract purchases with the goal of increasing the balance of our outstanding managed portfolio. Our plans also include financing future contract purchases with credit facilities and term securitizations that offer a lower overall cost of funds compared to the facilities we used in 2009 and 2010. To illustrate, in the last six months of 2009 we purchased $6.1 million in contracts and our sole credit facility had a minimum interest rate of 14.00% per annum. By comparison, in 2010, we purchased $113.0 million in contracts and, in March 2010, entered into the $50 million term funding facility which has an interest rate of 11.00% per annum and the ability to decrease such rate to 9.00% per annum if certain conditions are met. In December 2010 we entered into a $100 million credit facility with an interest rate of one-month LIBOR plus 5.00% per annum, with a minimum rate of 6.5% per annum, and in February 2011 we added another $100 million credit facility with an interest rate of one-month LIBOR plus 6.00% per annum.

Moreover, the weighted average effective coupon of our September 2010 term securitization was 3.21% and did not include a financial guaranty policy. This transaction demonstrates our ability to access the lower cost of funds available in the current market environment without the financial guaranties we historically incorporated into our term securitization structures. We expect to complete one or more term securitizations in 2011. In addition, less competition in the auto financing marketplace has resulted in better terms for our recent contract purchases compared to prior years. For the years ended December 31, 2010, 2009 and 2008, the average acquisition fee we charged per automobile contract purchased under our CPS programs was $1,382, $1,508 and $592, respectively, or 9.2%, 11.7%, and 3.9%, respectively, of the amount financed. Similarly, the weighted average annual percentage rate of interest payable by our customers on newly purchased contracts has increased significantly: to 20.05% for 2010 from 19.9%, and 18.5% in 2009 and 2008, respectively.

We have and will continue to have a substantial amount of indebtedness. At December 31, 2010, we had approximately $717.9 million of debt outstanding. Such debt consisted primarily of $567.7 million of securitization trust debt, and also included $45.6 million of a warehouse line of credit, $39.4 million of residual interest financing, $44.9 million of senior secured related party debt and $20.3 million in subordinated notes. We are also currently offering the subordinated notes to the public on a continuous basis, and such notes have maturities that range from three months to 10 years. The residual interest financing facility matures in May 2011 and we are in discussions with the lender regarding the extension or restructuring of the facility, as to which there can be no assurance.

Our recent operating results include net losses of $33.8 million and $57.2 million in 2010 and 2009, respectively. We believe that our results have been materially and adversely affected by the disruption in the capital markets that began in the fourth quarter of 2007, by the recession that began in December 2007, and by related high levels of unemployment. Our ability to repay or refinance maturing debt may be adversely affected by prospective lenders' consideration of our recent operating losses.

Although we believe we are able to service and repay our debt, there is no assurance that we will be able to do so. If our plans for future operations do not generate sufficient cash flows and operating profits, our ability to make

required payments on our debt would be impaired. Failure to pay our indebtedness when due could have a material adverse effect and may require us to issue additional debt or equity securities.

Contractual Obligations

The following table summarizes our material contractual obligations as of December 31, 2010 (dollars in thousands):

	Payment Due by Period (1)				
	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	More than 5 Years
Long Term Debt (2)	$ 104,650	$ 50,948	$ 53,400	$ 256	$ 46
Operating Leases	$ 13,520	$ 3,185	$ 5,195	$ 3,789	$ 1,351

(1) Securitization trust debt, in the aggregate amount of $567.7 million as of December 31, 2010, is omitted from this table because it becomes due as and when the related receivables balance is reduced by payments and charge-offs. Expected payments, which will depend on the performance of such receivables, as to which there can be no assurance, are $283.5 million in 2011, $191.2 million in 2012, $59.3million in 2013, $17.2 million in 2014 and $16.5 million in 2015.

(2) Long-term debt includes residual interest debt, senior secured debt and subordinated renewable notes.

Warehouse Credit Facilities

The terms on which credit has been available to us for purchase of automobile contracts have varied in recent years, as shown in the following summary of our warehouse credit facilities:

Facility Established in September 2009. On September 25, 2009 we established a $50 million secured revolving credit facility with Fortress Credit Corp. that will mature on September 25, 2011. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated subsidiary Page Four Funding LLC. The facility provides for advances up to 75% of eligible finance receivables and the notes under it accrue interest at a rate of one-month LIBOR plus 12.00% per annum, with a minimum rate of 14.00% per annum. At December 31, 2010, $45.6 million was outstanding under this facility.

Facility Established in December 2010. On December 23, 2010 we entered into a $100 million two-year warehouse credit line with affiliates of Goldman, Sachs & Co. and Fortress Investment Group. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated subsidiary Page Six Funding, LLC. The facility provides for advances up to 75% of eligible finance receivables and the notes under it accrue interest at a rate of one-month LIBOR plus 5.00% per annum, with a minimum rate of 6.5% per annum. There were no amounts outstanding under this facility at December 31, 2010.

Facility Established in February 2011. On February 24, 2011 we entered into a $100 million two-year warehouse credit line with affiliates of UBS AG. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated subsidiary Page Seven Funding, LLC. The facility provides for advances up to 76.5% of eligible finance receivables and the notes under it accrue interest at a rate of one-month LIBOR plus 6.00% per annum. There were no amounts outstanding under this facility at December 31, 2010, as it had not yet been established.

Capital Resources

Securitization trust debt is repaid from collections on the related receivables, and becomes due in accordance with its terms as the principal amount of the related receivables is reduced. Although the securitization trust debt also has alternative final maturity dates, those dates are significantly later than the dates at which repayment of the related

receivables is anticipated, and at no time in our history have any of our sponsored asset-backed securities reached those alternative final maturities.

The acquisition of automobile contracts for subsequent transfer in securitization transactions, and the need to fund spread accounts and initial overcollateralization, if any, when those transactions take place, results in a continuing need for capital. The amount of capital required is most heavily dependent on the rate of our automobile contract purchases, the required level of initial credit enhancement in securitizations, and the extent to which the trusts and related spread accounts either release cash to us or capture cash from collections on securitized automobile contracts. We plan to adjust our levels of automobile contract purchases and the related capital requirements to match anticipated releases of cash from the trusts and related spread accounts.

Capitalization

Over the period from January 1, 2009 through December 31, 2010 we have managed our capitalization by issuing and refinancing debt as summarized in the following table:

	Year Ended December 31,	
	2010	**2009**
	(Dollars in thousands)	
RESIDUAL INTEREST FINANCING:		
Beginning balance	$ 56,930	$ 67,300
Issuances	—	—
Payments	(17,490)	(10,370)
Ending balance	$ 39,440	$ 56,930
SECURITIZATION TRUST DEBT:		
Beginning balance	$ 904,833	$ 1,404,211
Issuances	42,465	—
Payments	(379,576)	(499,378)
Ending balance	$ 567,722	$ 904,833
SENIOR SECURED DEBT, RELATED PARTY:		
Beginning balance	$ 26,118	$ 20,105
Issuances	27,750	5,000
Payments	(5,000)	—
Debt discount net of amortization	(3,995)	1,013
Ending balance	$ 44,873	$ 26,118
SUBORDINATED RENEWABLE NOTES:		
Beginning balance	$ 21,965	$ 25,721
Issuances	2,685	2,424
Payments	(4,313)	(6,180)
Ending balance	$ 20,337	$ 21,965

Residual Interest Financing.

In July 2007, we established a combination term and revolving residual credit facility and have used eligible residual interests in securitizations as collateral for floating rate borrowings. The amount that we were able to borrow was computed using an agreed valuation methodology of the residuals, subject to an overall maximum principal amount of $120 million, represented by (i) a $60 million Class A-1 variable funding note (the “revolving note”), and (ii) a $60 million Class A-2 term note (the “term note”). The term note was fully drawn in July 2007 and was originally due in July 2009. As of July 2008, we had drawn $26.8 million on the revolving note. The facility’s revolving feature expired in July 2008. On July 10, 2008 we amended the terms of the combination term and revolving residual credit facility, (i) eliminating the revolving feature and increasing the interest rate, (ii) consolidating the amounts then owing on the Class A-1 note with the Class A-2 note, (iii) establishing an amortization schedule for principal reductions on the Class A-2 note, and (iv) providing for an extension, at our option if certain conditions were met, of the Class A-2 note maturity from June 2009 to June 2010. In June 2009 we met all such conditions and extended the maturity. In conjunction with the amendment, we reduced the principal amount outstanding to $70 million by delivering to the lender (i) warrants valued as being equivalent to 2,500,000

common shares, or $4,071,429, and (ii) cash of $12,765,244. The warrants represent the right to purchase 2,500,000 CPS common shares at a nominal exercise price, at any time prior to July 10, 2018. In May 2010, we extended the maturity date from June 2010 to May 2011. As of December 31, 2010 the aggregate indebtedness under this facility was $39.4 million.

Securitization Trust Debt. From July 2003 through April 2008, we have, for financial accounting purposes, treated securitizations of automobile contracts as secured financings, and the asset-backed securities issued in such securitizations remain on our balance sheet as securitization trust debt. Our two most recent securitizations, in September 2008 and the re-securitization of the remaining receivables from such transaction in September 2010, were each structured as a sale for financial accounting purposes and the asset-backed securities issued in those transactions have not been and are not on our balance sheet.

Senior Secured Debt. From 1998 to 2005, we entered into a series of financing transactions with Levine Leichtman Capital Partners II, L.P. In July 2007 we repaid the final amounts due under these financing transactions. On June 30, 2008, we entered into a series of agreements pursuant to which a different but related lender Levine Leichtman Capital Partners IV, L.P., purchased a $10 million five-year, fixed rate, senior secured note from us. The indebtedness is secured by substantially all of our assets, though not by the assets of our special-purpose financing subsidiaries. In July 2008, in conjunction with the amendment of the combination term and revolving residual credit facility as discussed above, the lender purchased an additional $15 million note with substantially the same terms as the $10 million note. Pursuant to the June 30, 2008 securities purchase agreement, we issued to the lender 1,225,000 shares of common stock. In addition, we issued the lender two warrants: (i) warrants that we refer to as the FMV Warrants, which are exercisable for 1,611,114 shares of our common stock, at an exercise price of $1.39818 per share, and (ii) warrants that we refer to as the N Warrants, which are exercisable for 285,781 shares of our common stock, at a nominal exercise price. Both the FMV Warrants and the N Warrants are exercisable in whole or in part and at any time up to and including June 30, 2018. We valued the warrants using the Black-Scholes valuation model and recorded their value as a liability on our balance sheet because the terms of the warrants also included a provision whereby the lender could require us to purchase the warrants for cash. That provision was eliminated by mutual agreement in September 2008. The FMV Warrants were initially exercisable to purchase 1,500,000 shares for $2.573 per share, were adjusted in connection with the July 2008 issuance of other warrants to become exercisable to purchase 1,564,324 shares at $2.4672 per share, and were further adjusted in connection with a July 2009 amendment of our option plan to become exercisable at $1.44 per share. Upon issuance in September 2009 of the Fortress Warrant, the FMV Warrant was further adjusted to become exercisable to purchase 1,600,991 shares at an exercise price of $1.407 per share. Upon issuance in March 2010 of the Page Five Warrant, the FMV Warrant was further adjusted to become exercisable to purchase 1,611,114 shares at an exercise price of $1.39818 per share.

In November 2009 we entered into an additional agreement with this lender under which they purchased an additional $5 million note. The note accrued interest at 15.0% and was repaid in December 2010, at which time the lender purchased a new $27.8 million note under substantially the same terms as the $10 million and $15 million notes already outstanding. The $27.8 million note accrues interest at 16.0% and matures in December 2013. Concurrent with the issuance of the $27.8 million note, the term of the $10 and $15 million notes were amended to change their maturity dates to December 2013. In conjunction with the issuance of the $27.8 million note, we issued to the lender 880,000 shares of common stock and 1,870 shares of Series B convertible preferred stock. Each share of the Series B convertible preferred stock may become exchangeable for 1,000 shares of our common stock, upon shareholder approval of such exchange, but not without shareholder approval. At the time of issuance, the value of the common stock and Series B preferred stock was $753,000 and $1.6 million, respectively.

Subordinated Renewable Notes Debt. In June 2005, we began issuing registered subordinated renewable notes in an ongoing offering to the public. Upon maturity, the notes are automatically renewed for the same term as the maturing notes, unless we elect not to have the notes renewed or unless the investor notifies us within 15 days after the maturity date for his notes that he wants his notes repaid. Renewed notes bear interest at the rate we are offering at that time to other investors with similar note maturities. Based on the terms of the individual notes, interest payments may be required monthly, quarterly, annually or upon maturity. In July 2010, we discovered that, under a rule of the SEC, we were no longer permitted to offer and sell our subordinated renewable notes in reliance on the registration statement (the “Former Registration Statement”) that we initially filed in January 2005. Consequently, purchasers who acquired such notes between January 1, 2010 and December 13, 2010 (the effective date of a new registration statement that we then filed to register such sales) may have had at December 31, 2010, a statutory right to rescind their purchases. At any time, such potential rescission right may relate to any such notes sold (i) within the one-year period immediately preceding, and (ii) prior to the December 13, 2010 effectiveness of the new

registration statement. As a result of such sales, we could be required to repurchase some or all of such notes at the original sale price plus statutory interest, less the amount of any income received by the purchasers. From January 1, 2010 to December 13, 2010, we sold a total of $11.3 million of notes, including renewals of previously sold notes, but excluding notes that we repaid. We have not received any indication that any purchaser of such notes intends to seek rescission.

We must comply with certain affirmative and negative covenants related to debt facilities, which require, among other things, that we maintain certain financial ratios related to liquidity, net worth, capitalization, investments, acquisitions, restricted payments and certain dividend restrictions.   In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare default if a default occurred under a different facility. We have received waivers regarding the potential breach of financial covenants for our residual financing facility and certain of our securitization debt structures.

Forward-looking Statements

This report on Form 10-K includes certain "forward-looking statements". Forward-looking statements may be identified by the use of words such as "anticipates," "expects," "plans," "estimates," or words of like meaning. As to the specifically identified forward-looking statements, factors that could affect charge-offs and recovery rates include changes in the general economic climate, which could affect the willingness or ability of obligors to pay pursuant to the terms of contracts, changes in laws respecting consumer finance, which could affect our ability to enforce rights under contracts, and changes in the market for used vehicles, which could affect the levels of recoveries upon sale of repossessed vehicles. Factors that could affect our revenues in the current year include the levels of cash releases from existing pools of contracts, which would affect our ability to purchase contracts, the terms on which we are able to finance such purchases, the willingness of dealers to sell contracts to us on the terms that it offers, and the terms on which we are able to complete term securitizations once contracts are acquired. Factors that could affect our expenses in the current year include competitive conditions in the market for qualified personnel, investor demand for asset-backed securities and interest rates (which affect the rates that we pay on asset-backed securities issued in our securitizations). The statements concerning structuring securitization transactions as secured financings and the effects of such structures on financial items and on future profitability also are forward-looking statements. Any change to the structure of our securitization transaction could cause such forward-looking statements not to be accurate. Both the amount of the effect of the change in structure on our profitability and the duration of the period in which our profitability would be affected by the change in securitization structure are estimates. The accuracy of such estimates will be affected by the rate at which we purchase and sell contracts, any changes in that rate, the credit performance of such contracts, the financial terms of future securitizations, any changes in such terms over time, and other factors that generally affect our profitability.

New Accounting Pronouncements

In June 2009, the FASB issued ASU 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (FAS 167, Amendments to FASB Interpretation No. 46(R)). This standard amends several key consolidation provisions related to variable interest entity (“VIE”), which are included in FASB ASC 810, Consolidation to require a company to analyze whether its interest in a VIE gives it a controlling financial interest. A company must assess whether it has an implicit financial responsibility to ensure that the VIE operates as designed when determining whether it has the power to direct the activities of the VIE that significantly impact its economic performance. Ongoing reassessment of whether a company is the primary beneficiary is also required by the standard. This standard amends the criteria to qualify as a primary beneficiary as well as how to determine the existence of a VIE. This standard is effective for us beginning with the first quarter in 2010. Comparative disclosures will be required for periods after the effective date. The Company adopted this new accounting pronouncement as of January 1, 2010 and the impact of adoption was not material on the consolidated financial statements.

In July 2010, the FASB issued FASB ASU 2010-20, *Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which required more information about credit quality. The ASU introduces the term “financing receivables”, which includes loans, trade accounts receivable, notes receivable, credit cards, leveraged leases, direct financing leases, and sales-type leases. The term does not include receivables measured at fair value or the lower of cost of fair value and debt securities among others. It also defines two levels of disaggregation for disclosure: portfolio segment and class of financing receivables. A portfolio segment is defined as the level at which an entity determines its allowance for credit losses. A class of financing receivable is defined as a group of finance receivables determined on the basis of their initial measurement attribute (i.e., amortized cost of purchased credit impaired), risk characteristics, and an entity’s method

for monitoring and assessing credit risk. The ASU requires an entity to provide additional disclosures including, but not limited to, a rollforward schedule of the allowance for credit losses (with the ending allowance balance further disaggregated based on impairment methodology) and the related ending balance of the finance receivable presented by portfolio segment, and the aging of past due financing receivables at the end of the period, the nature and extent of troubled debt restructurings that occurred during the period and their impact on the allowance for credit losses, the nature and extend of troubled debt restructurings that occurred within the last year, that have defaulted in the current reporting period, and their impact on the allowance for credit losses, the nonaccrual status of financing receivables, and impaired financing receivables, presented by class. The extensive new disclosures of information as of the end of a reporting period will become effective for both interim and annual reporting periods ending after December 15, 2010 for public companies. Specific items regarding activity that occurred before the issuance of the ASU, such as the allowance rollforward and modification disclosures will be required for periods beginning after December 15, 2010 for public companies. We adopted this pronouncement as disclosed in Note 7.

In January 2011, the FASB issued FASB ASU 2011-01, *Receivables (Topic 310) – Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*, which deferred the effective date of the disclosure requirements for public entities about troubled debt restructurings in ASU 2010-20, to be concurrent with the effective date of the guidance for troubled debt restructuring which is currently anticipated to be effective for interim and annual periods after June 15, 2011. The Company does not anticipate the new guidance will have a material impact on the consolidated financial statements.

Off-Balance Sheet Arrangements

From July 2003 through April 2008 all of our securitizations were structured as secured financings for financial accounting purposes. In September 2008, we securitized $198.7 million of our automobile contracts in a structure that is treated as a sale of the receivables for financial accounting purposes. The terms of the September 2008 securitization provide for us (1) to continue servicing the sold portfolio, (2) to retain a 5.0% interest in the bonds issued by the trust to which we sold the automobile contracts and (3) to earn additional compensation contingent upon (a) the return to the holders of the senior bonds issued by the trust reaching certain targets or (b) “lifetime” cumulative net charge-offs on the automobile contracts being below a pre-determined level. In September 2010 we re-securitized the remaining receivables from the September 2008 transaction in a similar "off balance sheet" structure. The September 2010 transaction is treated as a sale of the receivables for financial accounting purposes. See "Critical Accounting Policies" for a detailed discussion of our securitization structure.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

Item 8. Financial Statements and Supplementary Data

This report includes Consolidated Financial Statements, notes thereto and an Independent Auditors’ Report, at the pages indicated below, in the "Index to Financial Statements."

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures. Under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") as of December 31, 2010 (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company’s disclosure controls and procedures were not effective (i) to ensure that information required to be disclosed by us in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission; and (ii) to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to our management, including the Company’s Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. The valuation allowance for deferred taxes as of December 31, 2010 was not sufficient to reserve for the amount of deferred tax asset that is not more than likely to be realized. As a result of our external audit, management has increased the deferred tax asset valuation allowance at December 31, 2010.

The certifications of our chief executive officer and chief financial officer required under Section 302 of the Sarbanes-Oxley Act have been filed as Exhibits 31.1 and 31.2 to this report.

Internal Control. Management’s Report on Internal Control over Financial Reporting is included in this Annual Report, immediately below. During the fiscal quarter ended December 31, 2010, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting. We are responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

Management, with the participation of the chief executive and chief financial officers, assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on this assessment, management, with the participation of the chief executive and chief financial officers, believes that, as of December 31, 2010, our internal control over financial reporting was not effective based on those criteria.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securites and Exchange Commission that permit us to provide only management’s report in this annual report.

Item 9B. Other Information

Not Applicable

PART III

Item 10. Directors and Executive Officers of the Registrant

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 2011 (the "2011 Proxy Statement"). The 2011 Proxy Statement will be filed not later than April 30, 2011. Information regarding executive officers of the registrant appears in Part I of this report, and is incorporated herein by reference.

Item 11. Executive Compensation

Incorporated by reference to the 2011 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated by reference to the 2011 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated by reference to the 2011 Proxy Statement.

Item 14. Principal Accountant Fees and Services

Incorporated by reference to the 2011 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

The exhibits listed below are filed as part of this report, whether filed herewith or incorporated by reference to an exhibit filed with the report identified in the parentheses following the description of such exhibit. Unless otherwise indicated, each such identified report was filed by or with respect to the registrant.

Exhibit Number	*Description* (“**” indicates compensatory plan or agreement.)
2.1	Agreement and Plan of Merger, dated as of November 18, 2001, by and among the Registrant, CPS Mergersub, Inc. and MFN Financial Corporation. (Exhibit 2.1 to Form 8-K filed on November 19, 2001 by MFN Financial Corporation)
3.1	Restated Articles of Incorporation (Exhibit 3.1 to Form 10-K filed March 31, 2009)
3.1.1	Certificate of Designation re Series B Preferred (Exhibit 3.1.1 to Form 8-K filed by the registrant on December 30, 2010)
3.2	Amended and Restated Bylaws (Exhibit 3.3 to Form 8-K filed July 20, 2009)
4.1	Instruments defining the rights of holders of long-term debt of certain consolidated subsidiaries of the registrant are omitted pursuant to the exclusion set forth in subdivisions (b)(iv)(iii)(A) and (b)(v) of Item 601 of Regulation S-K (17 CFR 229.601). The registrant agrees to provide copies of such instruments to the United States Securities and Exchange Commission upon request.
4.2	Form of Indenture re Renewable Unsecured Subordinated Notes (“RUS Notes”). (Exhibit 4.1 to Form S-2, no. 333-121913)
4.2.1	Form of RUS Notes (Exhibit 4.2 to Form S-2, no. 333-121913)
4.3	Form of Indenture re additional Renewable Unsecured Subordinated Notes ("ARUS Notes"). (Exhibit 4.1 to Form S-1, no. 333-168976)
4.3.1	Form of ARUS Notes (Exhibit 4.2 to Form S-1, no. 333-168976)
4.4	Supplement dated December 7, 2010 to Indenture re ARUS Notes (Exhibit 4.3 to Form S-1, no. 333-168976)
4.23	Indenture dated as of June 1, 2007, respecting notes issued by CPS Auto Receivables Trust 2007-B (exhibit 4.23 to Form 8-K filed by the registrant on June 29, 2007)
4.24	Sale and Servicing Agreement dated as of June 1, 2007, related to notes issued by CPS Auto Receivables Trust 2007-B (exhibit 4.24 to Form 8-K filed by the registrant on June 29, 2007.)
4.25	Indenture dated as of September 1, 2007, respecting notes issued by CPS Auto Receivables Trust 2007-C (exhibit 4.25 to Form 8-K filed by the registrant on November 2, 2007)
4.26	Sale and Servicing Agreement dated as of September 1, 2007, related to notes issued by CPS Auto Receivables Trust 2007-C (exhibit 4.26 to Form 8-K filed by the registrant on November 2, 2007.)
4.27	Indenture re Notes issued by CPS Auto Receivables Trust 2008-A (exhibit 4.27 to Form 8-K filed by the registrant on April 15, 2008)
4.28	Sale and Servicing Agreement dated as of March 1, 2008, related to notes issued by CPS Auto Receivables Trust 2008-A (exhibit 4.28 to Form 8-K filed by the registrant on April 15, 2008)
4.29	Revolving Credit Agreement dated December 23, 2010 (filed herewith)
10.1	1991 Stock Option Plan & forms of Option Agreements thereunder (Exhibit 10.19 to Form S-2, no. 333-121913) **
10.2	1997 Long-Term Incentive Stock Plan ("1997 Plan") (Exhibit 10.20 to Form S-2, no. 333-121913) **
10.2.1	Form of Option Agreement under 1997 Plan (Exhibit 10.2.1 to Form 10-K filed March 13, 2006) **

Exhibit Number	*Description* (“**” indicates compensatory plan or agreement.)
10.14	2006 Long-Term Equity Incentive Plan as amended to date (Exhibit A, pp A-1 through A-10, to the registrant's definitive proxy statement filed June 24, 2009)**
10.14.1	Form of Option Agreement under the 2006 Long-Term Equity Incentive Plan (Exhibit 10.14.1 to registrant's Form 10-K filed March 9, 2007)**
10.14.2	Form of Option Agreement under the 2006 Long-Term Equity Incentive Plan (Exhibit 99.(D)(2) to registrant's Schedule TO filed November 12, 2009)**
10.14.2	Form of Option Agreement under the 2006 Long-Term Equity Incentive Plan (Exhibit 99.(D)3) to registrant's Schedule TO filed November 12, 2009)**
10.15	Securities Purchase Agreement between the registrant and Levine Leichtman Capital Partners IV, L. P. ("LLCP"), relating to the sale of an aggregate of $25 million of Notes. (Incorporated by reference to exhibit 99.2 to Schedule 13D filed by LLCP on July 10, 2008)
10.15.1	Amendment dated July 10, 2008 to Securities Purchase Agreement dated June 30, 2008 between the registrant and LLCP. (Exhibit 10.15.1 to registrant's Form 10-Q filed August 11, 2008)
10.15.2	Amendment dated December 23, 2010 to Securities Purchase Agreement dated June 30, 2008 between the registrant and LLCP (incorporated by reference to exhibit to Schedule 13D filed by Levine Leichtman Capital Partners IV, L.P. on January 3, 2011)
10.16	Registration Rights Agreement between the registrant and LLCP. (Incorporated by reference to exhibit 99.6 to Schedule 13D filed by LLCP on July 10, 2008)
10.17	Investor Rights Agreement between the registrant and LLCP. (Incorporated by reference to exhibit 99.7 to Schedule 13D filed by LLCP on July 10, 2008)
10.18	FMV Warrant dated June 30, 2008, issued to LLCP. (Incorporated by reference to the FMV warrant appearing as pages A-1 through A-13 of the preliminary proxy statement filed by the registrant on July 28, 2008.)
10.19	N Warrant dated June 30, 2008, issued to LLCP. (Incorporated by reference to the FMV warrant appearing as pages B-1 through B-13 of the preliminary proxy statement filed by the registrant on July 28, 2008.)
10.20	Amended and Restated Note Purchase Agreement dated July 10, 2008 among the registrant, its subsidiary Folio Funding II, LLC, and Citigroup Financial Products Inc. (Exhibit 10.20 to registrant's Form 10-Q filed August 11, 2008)
10.21	Amended and Restated Indenture dated July 10, 2008 among Folio Funding II, LLC, Citigroup Financial Products Inc. and Wells Fargo Bank, N.A. (Exhibit 10.21 to registrant's Form 10-Q filed August 11, 2008)
10.22	Performance Guaranty dated July 10, 2008 issued by the registrant in favor of Citigroup Financial Products Inc. (Exhibit 10.22 to registrant's Form 10-Q filed August 11, 2008)
10.23	Warrant dated July 10, 2008, issued to Citigroup Global Markets Inc. (Exhibit 10.23 to registrant's Form 10-Q filed August 11, 2008)
10.24	Purchase and Sale Agreement re Motor Vehicle Contracts dated as of September 26, 2008 (Exhibit 10.24 to Form 8-K/A filed by the registrant on November 7, 2008)

Exhibit Number	*Description* (*"**" indicates compensatory plan or agreement.*)
10.25	Transfer and Servicing Agreement dated as of September 26, 2008 (Exhibit 10.25 to Form 8-K/A filed by the registrant on November 7, 2008)
10.26	Revolving Credit Agreement dated September 25, 2009 among the registrant, its subsidiary Page Four Funding, LLC, and Fortress Credit Corp. ("Fortress") (Exhibit 10.1 to registrant's Form 8-K filed October 1, 2009)
10.27	Warrant dated September 25, 2009, issued to an affiliate of Fortress. (Exhibit 10.2 to registrant's Form 8-K filed October 1, 2009)
14	Registrant's Code of Ethics for Senior Financial Officers (Exhibit 14 to Form 10-K filed March 13, 2006)
21	List of subsidiaries of the registrant (filed herewith)
23.1	Consent of Crowe Horwath LLP (filed herewith)
31.1	Rule 13a-14(a) certification by chief executive officer (filed herewith)
31.2	Rule 13a-14(a) certification by chief financial officer (filed herewith)
32	Section 1350 certification (filed herewith)

SIGNATURES

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

CONSUMER PORTFOLIO SERVICES, INC.
(registrant)

March 31, 2011	By: /s/ CHARLES E. BRADLEY, JR. Charles E. Bradley, Jr., *President*

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

March 31, 2011	/s/ CHARLES E. BRADLEY, JR. Charles E. Bradley, Jr., *Director,* *President and Chief Executive Officer* *(Principal Executive Officer)*
March 31, 2011	/s/ CHRIS A. ADAMS Chris A. Adams, *Director*
March 31, 2011	/s/ BRIAN J. RAYHILL Brian J. Rayhill, *Director*
March 31, 2011	/s/ WILLIAM B. ROBERTS William B. Roberts, *Director*
March 31, 2011	/s/ GREGORY S. WASHER Gregory S. Washer, *Director*
March 31, 2011	/s/ DANIEL S. WOOD Daniel S. Wood, *Director*
March 31, 2011	/s/ JEFFREY P. FRITZ Jeffrey P. Fritz, *Sr. Vice President and Chief Financial Officer* *(Principal Accounting Officer)*

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Consumer Portfolio Services, Inc.

We have audited the accompanying consolidated balance sheets of Consumer Portfolio Services, Inc. (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Company is currently in compliance with debt covenants or has obtained waivers for all potential covenant violations as of December 31, 2010. The waivers are temporary and will expire during 2011. See Note 1, *Uncertainty of Capital Markets and General Economic Conditions* and *Financial Covenants*, Note 7 and Note 15 for a discussion of potential consequences associated with the failure to obtain renewed waivers or inability to service or repay debt.

/s/ CROWE HORWATH LLP
Costa Mesa, California
March 30, 2011

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	December 31, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 16,252	$ 12,433
Restricted cash and equivalents	123,958	128,511
Finance receivables	565,621	878,366
Less: Allowance for finance credit losses	(13,168)	(38,274)
Finance receivables, net	552,453	840,092
Residual interest in securitizations	3,841	4,316
Furniture and equipment, net	1,143	1,509
Deferred financing costs	6,179	5,717
Deferred tax assets, net	15,000	33,450
Accrued interest receivable	6,165	8,573
Other assets	17,893	33,660
	$ 742,884	$ 1,068,261
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	$ 20,394	$ 17,906
Warehouse lines of credit	45,564	4,932
Residual interest financing	39,440	56,930
Securitization trust debt	567,722	904,833
Senior secured debt, related party	44,873	26,118
Subordinated renewable notes	20,337	21,965
	738,330	1,032,684
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, $1 par value; authorized 5,000,000 shares; none issued	-	-
Series A preferred stock, $1 par value; authorized 5,000,000 shares; none issued	-	-
Series B preferred stock, $1 par value; authorized 1,870 shares; 1,870 and 0 shares issued and outstanding at December 31, 2010 and 2009, respectively	1,601	-
Common stock, no par value; authorized 75,000,000 shares; 18,122,810 and 18,034,909 shares issued and outstanding at December 31, 2010 and 2009, respectively	55,496	55,346
Additional paid in capital, warrants	9,141	8,371
Accumulated Deficit	(56,330)	(22,504)
Accumulated other comprehensive loss	(5,354)	(5,636)
	4,554	35,577
	$ 742,884	$ 1,068,261

See accompanying Notes to Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31,	
	2010	**2009**
Revenues:		
Interest income	$ 137,090	$ 208,196
Servicing fees	7,657	4,640
Other income	10,438	11,059
	155,185	223,895
Expenses:		
Employee costs	33,814	37,306
General and administrative	18,526	24,204
Interest	82,226	111,768
Provision for credit losses	29,921	92,011
Marketing	3,826	3,782
Occupancy	3,067	3,524
Depreciation and amortization	649	707
	172,029	273,302
Loss before income tax expense	(16,844)	(49,407)
Income tax expense	16,982	7,800
Net loss	$ (33,826)	$ (57,207)
Loss per share:		
Basic	$ (1.94)	$ (3.07)
Diluted	(1.94)	(3.07)
Number of shares used in computing loss per share:		
Basic	17,477	18,643
Diluted	17,477	18,643

See accompanying Notes to Consolidated Financial Statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(In thousands)

	Year Ended December 31,	
	2010	**2009**
Net loss	$ (33,826)	$ (57,207)
Other comprehensive income; minimum pension liability, net of tax	282	1,391
Comprehensive loss	$ (33,544)	$ (55,816)

See accompanying Notes to Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Series B Preferred Stock		Common Stock		Additional Paid-in	Retained Earnings/	Accumulated Other	
	Shares	Amount	Shares	Amount	Capital, Warrants	(Accumulated Deficit)	Comprehensive Loss	Total
Balance at December 31, 2008	-	$ -	19,111	$ 54,702	$ 7,471	$ 34,703	$ (7,027)	$ 89,849
Common stock issued upon exercise of options and warrants	-	-	11	7	-	-	-	7
Purchase of common stock	-	-	(1,087)	(999)	-	-	-	(999)
Pension benefit obligation	-	-	-	-	-	-	1,391	1,391
Valuation of warrants issued	-	-	-	-	900	-	-	900
Stock-based compensation	-	-	-	1,636	-	-	-	1,636
Net loss	-	-	-	-	-	(57,207)	-	(57,207)
Balance at December 31, 2009	-	$ -	18,035	$ 55,346	$ 8,371	$ (22,504)	$ (5,636)	$ 35,577
Common stock issued upon exercise of options and warrants	-	-	500	-	-	-	-	-
Common stock issued upon issuance of debt	-	-	880	753	-	-	-	753
Preferred stock issued upon issuance of debt	2	1,601	-	-	-	-	-	1,601
Purchase of common stock	-	-	(1,292)	(2,201)	-	-	-	(2,201)
Pension benefit obligation	-	-	-	-	-	-	282	282
Valuation of warrants issued	-	-	-	-	770	-	-	770
Stock-based compensation	-	-	-	1,598	-	-	-	1,598
Net loss	-	-	-	-	-	(33,826)	-	(33,826)
Balance at December 31, 2010	2	$ 1,601	18,123	$ 55,496	$ 9,141	$ (56,330)	$ (5,354)	$ 4,554

See accompanying Notes to Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	$ (33,826)	$ (57,207)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Accretion of deferred acquisition fees	(5,954)	(7,306)
Amortization of discount on securitization notes	5,655	11,613
Amortization of discount on senior secured debt, related party	1,109	1,013
Depreciation and amortization	649	707
Amortization of deferred financing costs	4,090	3,236
Provision for credit losses	29,921	92,011
Stock-based compensation expense	1,598	1,636
Interest income on residual assets	(1,039)	(1,542)
Change in market value of warrants	-	77
Changes in assets and liabilities:		
Accrued interest receivable	2,409	6,330
Other assets	12,311	7,034
Deferred tax assets	18,449	19,277
Accounts payable and accrued expenses	2,769	(2,404)
Net cash provided by operating activities	38,141	74,475
Cash flows from investing activities:		
Purchases of finance receivables held for investment	(113,023)	(8,600)
Payments received on finance receivables held for investment	376,695	423,110
Change in repo inventory	4,969	5,025
Decreases in restricted cash and cash equivalents, net	4,553	24,968
Purchase of furniture and equipment	(283)	(812)
Net cash provided by investing activities	272,911	443,691
Cash flows from financing activities:		
Proceeds from issuance of securitization trust debt	42,465	-
Proceeds from issuance of subordinated renewable notes	2,685	2,424
Proceeds from issuance of senior secured debt, related party	25,000	5,000
Payments on subordinated renewable notes	(4,313)	(6,180)
Net proceeds from (repayments to) warehouse lines of credit	40,632	(4,987)
Repayment of residual financing debt	(17,490)	(10,370)
Repayment of securitization trust debt	(385,229)	(510,983)
Repayment of senior secured debt, related party	(5,000)	-
Payment of financing costs	(3,782)	(1,722)
Repurchase of common stock	(1,448)	(999)
Issuance of common in conjunction with new debt	(753)	-
Net cash used in financing activities	(307,233)	(527,817)
Increase (decrease) in cash and cash equivalents	3,819	(9,651)
Cash and cash equivalents at beginning of period	12,433	22,084
Cash and cash equivalents at end of period	$ 16,252	$ 12,433

See accompanying Notes to Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,	
	2010	**2009**
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 74,188	$ 98,257
Income taxes	(9,252)	(12,397)
Non-cash financing activities:		
Pension benefit obligation, net	(282)	(1,391)
Common stock issued in connection with new senior secured debt, related party	753	-
Preferred stock issued in connection with new senior secured debt, related party	1,601	-
Warrants issued in connection with warehouse line of credit	770	822

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Description of Business

Consumer Portfolio Services, Inc. ("CPS") was incorporated in California on March 8, 1991. CPS and its subsidiaries (collectively, the "Company") specialize in purchasing and servicing retail automobile installment sale contracts ("Contracts") originated by licensed motor vehicle dealers ("Dealers") located throughout the United States. Dealers located in California, Texas, Pennsylvania, and Florida represented 15.9%, 8.6%, 7.5% and 5.7%, respectively, of contracts purchased during 2010 compared with 25.9%, 6.7%, 8.2% and 7.4%, respectively in 2009. No other state had a concentration in excess of 5.6%. We specialize in Contracts with borrowers who generally would not be expected to qualify for traditional financing provided by commercial banks or automobile manufacturers' captive finance companies.

We are subject to various regulations and laws as they relate to the extension of credit in consumer credit transactions. Although we believe we are currently in material compliance with these regulations and laws, there can be no assurance that we will be able to maintain such compliance. Failure to comply with such laws and regulations could have a material adverse effect on the Company.

Acquisitions

On March 8, 2002, we acquired MFN Financial Corporation and its subsidiaries in a merger (the "MFN Merger"). On May 20, 2003, we acquired TFC Enterprises, Inc. and its subsidiaries in a second merger (the "TFC Merger"). Each merger was accounted for as a purchase. MFN Financial Corporation and its subsidiaries ("MFN") and TFC Enterprises, Inc. and its subsidiaries ("TFC") were engaged in similar businesses: buying contracts from Dealers, financing those contracts through securitization transactions, and servicing those contracts. MFN ceased acquiring contracts in March 2002; TFC acquired contracts under its "TFC Programs" until July 2008 when such purchases were suspended.

On April 2, 2004, we purchased a portfolio of contracts and certain other assets (the "SeaWest Asset Acquisition") from SeaWest Financial Corporation ("SeaWest"). In addition, we were named the successor servicer for three term securitization transactions originally sponsored by SeaWest (the "SeaWest Third Party Portfolio"). We do not offer financing programs similar to those previously offered by SeaWest.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Consumer Portfolio Services, Inc. and its wholly-owned subsidiaries, certain of which are Special Purpose Subsidiaries ("SPS"), formed to accommodate the structures under which we purchase and securitize our contracts. The Consolidated Financial Statements also include the accounts of CPS Leasing, Inc., an 80% owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of the statements of cash flows, we consider all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of cash on hand and due from banks and money market accounts. Substantially all of our cash is deposited at two financial institutions. We maintain cash due from banks in excess of the banks' insured deposit limits. We do not believe we are exposed to any significant credit risk on these deposits. As part of certain financial covenants related to debt facilities, we are required to maintain a minimum unrestricted cash balance. As of December 31, 2010, our unrestricted cash balance was $16.3 million.

Finance Receivables

Finance receivables, which we have the intent and ability to hold for the foreseeable future or until maturity or payoff, are presented at cost. All finance receivable contracts are held for investment. Interest income is accrued on the unpaid principal balance. Origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the interest method without anticipating prepayments. Generally, payments received on finance receivables are restricted to certain securitized pools, and the related contracts cannot be resold. Finance receivables are charged off pursuant to the controlling documents of certain securitized pools, generally before they become contractually delinquent five payments. Contracts that are deemed uncollectible prior to the maximum

delinquency period are charged off immediately. Management may authorize an extension of payment terms if collection appears likely during the next calendar month.

Our portfolio of finance receivables consists of small-balance homogeneous contracts that are collectively evaluated for impairment on a portfolio basis. We report delinquency on a contractual basis. Once a Contract becomes greater than 90 days delinquent, we do not recognize additional interest income until the obligor under the Contract makes sufficient payments to be less than 90 days delinquent. Any payments received on a Contract that is greater than 90 days delinquent are first applied to accrued interest and then to principal reduction.

Finance Receivables Held for Sale

Finance receivables originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. We had no finance receivables held for sale at December 31, 2010 and 2009.

Allowance for Finance Credit Losses

In order to estimate an appropriate allowance for losses likely incurred on finance receivables, we use a loss allowance methodology commonly referred to as "static pooling," which stratifies the finance receivable portfolio into separately identified pools based on their period of origination, then uses historical performance of seasoned pools to estimate future losses on current pools. Historical loss experience is adjusted as necessary for current economic conditions. We consider our portfolio of finance receivables to be relatively homogenous and consequently we analyze credit performance primarily in the aggregate rather than stratification by any particular credit quality indicator. Using analytical and formula driven techniques, we estimate an allowance for finance credit losses, which we believe is adequate for probable credit losses that can be reasonably estimated in our portfolio of finance receivable contracts. Such allowance for loss is charged to expense on a monthly basis. Net losses incurred on finance receivables are charged to the allowance. We evaluate the adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio, the value of the underlying collateral and historical loss trends. As conditions change, our level of provisioning and/or allowance may change as well. We observed deterioration in performance of automobile contracts held in our portfolio during 2009 and 2010, which we attribute to a general recession that began in December 2007.

Charge Off Policy

Delinquent Contracts for which the related financed vehicle has been repossessed are generally charged off at the earliest of (1) the month in which the proceeds from the sale of the financed vehicle are received, (2) the month in which 90 days have passed from the date of repossession or (3) the month in which the Contract becomes seven scheduled payments past due (see Repossessed and Other Assets below). The amount charged off is the remaining principal balance of the Contract, after the application of the net proceeds from the liquidation of the financed vehicle. With respect to delinquent Contracts for which the related financed vehicle has not been repossessed, the remaining principal balance thereof is generally charged off no later than the end of the month that the Contract becomes five scheduled payments past due, and no later than the end of the month that the Contract becomes eight scheduled payments past due for other receivables.

Contract Acquisition Fees and Origination Costs

Upon purchase of a Contract from a Dealer, we generally either charge or advance the Dealer an acquisition fee. Dealer acquisition fees and deferred origination costs are applied to the carrying value of finance receivables and are accreted into earnings as an adjustment to the yield over the estimated life of the Contract using the interest method.

Repossessed and Other Assets

If a Contract obligor fails to make or keep promises for payments, or if the obligor 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 obligor's payment due date, but could occur sooner or later, depending on the specific circumstances. At the time the vehicle is repossessed we stop accruing interest on the Contract, and reclassify the remaining Contract balance to the line item "Other assets" on our Consolidated Balance Sheet at its estimated fair value less costs to sell. Included in other assets in the accompanying balance sheets are repossessed vehicles pending sale of $4.8 million and $9.7 million at December 31, 2010 and 2009, respectively.

In addition, other assets as of December 31, 2009 included 5% of the structured notes issued by our subsidiary in connection with our $199 million loan sale completed in September 2008. These notes were held for investment and earned interest at a rate of LIBOR plus 5%. The amount outstanding as of December 31, 2009 was $5.0 million. These notes were sold in September 2010.

Treatment of Securitizations

Our term securitization structure has generally been as follows:

We sell Contracts we acquire to a wholly-owned special purpose subsidiary ("SPS"), which has been established for the limited purpose of buying and reselling our contracts. The SPS then transfers the same Contracts to another entity, typically a statutory trust ("Trust"). The Trust issues interest-bearing asset-backed securities ("Notes"), in a principal amount equal to or less than the aggregate principal balance of the contracts. We typically sell these contracts to the Trust at face value and without recourse, except that representations and warranties similar to those provided by the Dealer to us are provided by us to the Trust. One or more investors purchase the Notes issued by the Trust (the "Noteholders"); the proceeds from the sale of the Notes are then used to purchase the contracts from us. We may retain or sell subordinated Notes issued by the Trust. Historically we have purchased a financial guaranty insurance policy for most of our term securitizations, guaranteeing timely payment of interest and ultimate payment of principal on the senior Notes, from an insurance company (a "Note Insurer"). In addition, we have provided "Credit Enhancement" for the benefit of the Note Insurer and the Noteholders in three forms: (1) an initial cash deposit to a bank account (a "Spread Account") held by the Trust, (2) overcollateralization of the Notes, where the principal balance of the Notes issued is less than the principal balance of the contracts, and (3) in the form of subordinated Notes. The agreements governing the securitization transactions (collectively referred to as the "Securitization Agreements") require that the initial level of Credit Enhancement be supplemented by a portion of collections from the contracts until the level of Credit Enhancement reaches specified levels, which are then maintained. The specified levels are generally computed as a percentage of the principal amount remaining unpaid under the related contracts. The specified levels at which the Credit Enhancement is to be maintained will vary depending on the performance of the portfolios of contracts held by the Trusts and on other conditions, and may also be varied by agreement among the Company, the SPS, the Note Insurers and the trustee. Such levels have increased and decreased from time to time based on performance of the various portfolios, and have also varied by from one Trust to another.

Our warehouse securitization structures are similar to the above, except that (i) the SPS that purchases the contracts pledges the contracts to secure promissory notes that it issues, (ii) no increase in the required amount of Credit Enhancement is contemplated, and (iii) we do not purchase financial guaranty insurance. Upon each sale of contracts in a securitization structured as a secured financing, we retain as assets on our Consolidated Balance Sheet the securitized contracts and record as indebtedness the Notes issued in the transaction.

Under the September 2008 and September 2010 securitizations and other term securitizations completed prior to July 2003 (which were structured as sales for financial accounting purposes), we removed from our Consolidated Balance Sheet the contracts sold and added to our Consolidated Balance Sheet (i) the cash received, if any, and (ii) the estimated fair value of the ownership interest that we retained in contracts sold in the securitization. That retained or residual interest (the "Residual") consists of (a) the cash held in the Spread Account, if any, (b) overcollateralization, if any, (c) Notes retained, if any, and (d) receivables from the Trust, which include the net interest receivables ("NIRs"). NIRs represent the estimated discounted cash flows to be received from the Trust in the future, net of principal and interest payable with respect to the Notes, the premium paid to the Note Insurer, if any, and certain other expenses.

We recognize gains or losses attributable to any changes in the estimated fair value of the Residuals. Gains in fair value are recognized as Other Income in the income statement, and losses are recorded as an impairment loss in the income statement. We are not aware of an active market for the purchase or sale of interests such as the Residuals; accordingly, we determine the estimated fair value of the Residuals by discounting the amount of anticipated cash flows that we estimate will be released to us in the future (the cash out method), using a discount rate that we believe is appropriate for the risks involved. The anticipated cash flows may include collections from both current and charged off receivables. Historically we have used an effective pre-tax discount rate of 14% per annum for cash flows from current receivables and of 25% per annum for cash flows from charged-off receivables. As a result of changing market conditions as discussed below, we have used an effective pre-tax discount rate of 20% per annum for the September 2010 Residual.

We receive periodic base servicing fees for the servicing and collection of the contracts. In addition, we are entitled to the cash flows from the Trusts that represent collections on the contracts in excess of the amounts required to pay principal and interest on the Notes, the base servicing fees, and the premium paid to the Note Insurer, and certain other fees (such as trustee and custodial fees). Required principal payments on the Notes are generally defined as the payments sufficient to keep the principal balance of the Notes equal to the aggregate principal balance of the related contracts (excluding those contracts that have been charged off), or a pre-determined percentage of such balance. Where that percentage is less than 100%, the related Securitization Agreements require accelerated payment of principal until the principal balance of the Notes is reduced to the specified percentage. Such accelerated principal payment is said to create "overcollateralization" of the Notes.

If the amount of cash required for payment of fees, interest and principal on the senior Notes exceeds the amount collected during the collection period, the shortfall is generally withdrawn from the Spread Account, if any. If the cash collected during the period exceeds the amount necessary for the above allocations plus required principal payments on the subordinated Notes, if any, and there is no shortfall in the related Spread Account or other form of Credit Enhancement, the excess is released to us. If the total Credit Enhancement amount is not at the required level, then the excess cash collected is retained in the Trust until the specified level is achieved. Cash in the Spread Accounts is restricted from our use. Cash held in the various Spread Accounts is invested in high quality, liquid investment securities, as specified in the Securitization Agreements. In determining the value of the Residuals, we have estimated the future rates of prepayments, delinquencies, defaults, default loss severity, and recovery rates, as all of these factors affect the amount and timing of the estimated cash flows. Our estimates are based on historical performance of comparable contracts.

Following a securitization that is structured as a sale for financial accounting purposes, we recognize interest income on the balance of the Residuals. In addition, we will recognize additional revenue in other income if the actual performance of the contracts related to the Residuals is better than our estimate of the value of the Residual. If the actual performance of the contracts is worse than our estimate, then a reduction to the carrying value of the Residuals and a related impairment charge would be required. In a securitization structured as a secured financing for financial accounting purposes, interest income is recognized when accrued under the terms of the related contracts and, therefore, presents less potential for fluctuations in performance when compared to the approach used in a transaction structured as a sale for financial accounting purposes.

In all of our term securitizations, whether treated as secured financings or as sales, we have transferred the receivables (through a subsidiary) to the securitization Trust. The difference between the two structures is that in securitizations that are treated as secured financings we report the assets and liabilities of the securitization Trust on our Consolidated Balance Sheet. Under both structures the Noteholders' and the related securitization Trusts' recourse to us for failure of the contract obligors to make payments on a timely basis is limited, in general, to our Finance receivables, Spread Accounts and Residuals. Under a two-year multiple draw credit facility established in September 2009, the Noteholders have limited recourse against us in the event of a borrowing base deficiency for up to 10% of the amount outstanding at the time of the borrowing base deficiency) in addition to recourse against the assets of the SPS that is the note issuer under that facility.

Servicing

We consider the contractual servicing fee received on our managed portfolio held by non-consolidated subsidiaries to be equal to adequate compensation. Additionally, we consider that these fees would fairly compensate a substitute servicer, should one be required. As a result, no servicing asset or liability has been recognized. Servicing fees received on the managed portfolio held by non-consolidated subsidiaries are reported as income when earned. Servicing fees received on the managed portfolio held by consolidated subsidiaries are included in interest income when earned. Servicing costs are charged to expense as incurred. Servicing fees receivable, which are included in Other Assets in the accompanying balance sheets, represent fees earned but not yet remitted to us by the trustee.

Furniture and Equipment

Furniture and equipment are stated at cost net of accumulated depreciation. We calculate depreciation using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Assets held under capital leases and leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the related lease terms. Amortization expense on assets acquired under capital lease is included with depreciation expense on owned assets.

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

Long-lived assets and certain identifiable intangibles are 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 exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Other Income

The following table presents the primary components of Other Income:

	December 31,	
	2010	2009
	(In thousands)	
Sales tax refunds	$ 3,269	$ 904
Convenience fees charged to obligors	2,937	4,512
Direct mail revenues	2,001	2,618
Recoveries on previously charged-off contracts	1,456	1,560
Other	775	1,465
Other income for the year	$ 10,438	$ 11,059

Earnings (Loss) Per Share

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

	Year Ended December 31,	
	2010	2009
	(In thousands, except per share data)	
Numerator:		
Numerator for basic and diluted earnings (loss) per share	$ (33,826)	$ (57,207)
Denominator:		
Denominator for basic earnings (loss) per share - weighted average number of common shares outstanding during the year	17,477	18,643
Incremental common shares attributable to exercise of outstanding options and warrants	-	-
Denominator for diluted earnings (loss) per share	17,477	18,643
Basic earnings (loss) per share	$ (1.94)	$ (3.07)
Diluted earnings (loss) per share	$ (1.94)	$ (3.07)

Incremental shares of 3.2 million and 5.5 million related to stock options and warrants have been excluded from the diluted earnings per share calculation for the year ended December 31, 2010 and 2009, respectively, because the effect is anti-dilutive. The exercise prices of these stock options were greater than the average market price of the Company's common shares or the Company was in a net loss position and, therefore, the effect would be anti-dilutive to earnings (loss) per share.

Deferral and Amortization of Debt Issuance Costs

Costs related to the issuance of debt are deferred and amortized using the interest method over the contractual or expected term of the related debt.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return and combined or stand-alone state franchise tax returns for certain states. We utilize the asset and liability method of accounting for income taxes, under which deferred income taxes are recognized for the future tax consequences attributable to the differences between the financial statement values of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which

those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. We have estimated a valuation allowance against that portion of the deferred tax asset whose utilization in future periods is not more than likely.

Purchases of Company Stock

We record purchases of our own common stock at cost and treat the shares as retired.

Stock Option Plan

We recognize compensation costs in the financial statements for all share-based payments granted subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with the provisions of FASB ASC 718 "Accounting for Stock Based Compensation". Compensation cost is recognized over the required service period, generally defined as the vesting period.

The per share weighted-average fair value of stock options granted during the years ended December 31, 2010 and 2009 was $1.11 and $0.51, respectively. That fair value was estimated using the Black-Scholes option pricing model using the weighted average assumptions noted in the following table. We estimate the expected life of each option as the average of the vesting period and the contractual life of the option. The volatility estimate is based on the historical volatility of our stock over the period that equals the expected life of the option. Volatility assumptions ranged from 78% to 125% for 2010 and 74% to 111% for 2009. The risk-free interest rate is based on the yield on a U.S. Treasury bond with a maturity comparable to the expected life of the option. The dividend yield is estimated to be zero based on our intention not to issue dividends for the foreseeable future.

	Year Ended December 31,	
	2010	2009
Expected life (years)	5.67	5.42
Risk-free interest rate	2.31%	1.99%
Volatility	82%	79%
Expected dividend yield	-	-

New Accounting Pronouncements

In June 2009, the FASB issued ASU 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (FAS 167, Amendments to FASB Interpretation No. 46(R)). This standard amends several key consolidation provisions related to variable interest entity ("VIE"), which are included in FASB ASC 810, Consolidation to require a company to analyze whether its interest in a VIE gives it a controlling financial interest. A company must assess whether it has an implicit financial responsibility to ensure that the VIE operates as designed when determining whether it has the power to direct the activities of the VIE that significantly impact its economic performance. Ongoing reassessment of whether a company is the primary beneficiary is also required by the standard. This standard amends the criteria to qualify as a primary beneficiary as well as how to determine the existence of a VIE. This standard is effective for us beginning with the first quarter in 2010. Comparative disclosures will be required for periods after the effective date. The Company adopted this new accounting pronouncement as of January 1, 2010 and the impact of adoption was not material on the consolidated financial statements.

In July 2010, the FASB issued FASB ASU 2010-20, *Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which required more information about credit quality. The ASU introduces the term "financing receivables", which includes loans, trade accounts receivable, notes receivable, credit cards, leveraged leases, direct financing leases, and sales-type leases. The term does not include receivables measured at fair value or the lower of cost of fair value and debt securities among others. It also defines two levels of disaggregation for disclosure: portfolio segment and class of financing receivables. A portfolio segment is defined as the level at which an entity determines its allowance for credit losses. A class of financing receivable is defined as a group of finance receivables determined on the basis of their initial measurement attribute (i.e., amortized cost of purchased credit impaired), risk characteristics, and an entity's method for monitoring and assessing credit risk. The ASU requires an entity to provide additional disclosures including, but not limited to, a rollforward schedule of the allowance for credit losses (with the ending allowance balance further disaggregated based on impairment methodology) and the related ending balance of the finance receivable presented by portfolio segment, and the aging of past due financing receivables at the end of the period, the nature and extent

of troubled debt restructurings that occurred during the period and their impact on the allowance for credit losses, the nature and extend of troubled debt restructurings that occurred within the last year, that have defaulted in the current reporting period, and their impact on the allowance for credit losses, the nonaccrual status of financing receivables, and impaired financing receivables, presented by class. The extensive new disclosures of information as of the end of a reporting period will become effective for both interim and annual reporting periods ending after December 15, 2010 for public companies. Specific items regarding activity that occurred before the issuance of the ASU, such as the allowance rollforward and modification disclosures will be required for periods beginning after December 15, 2010 for public companies. We adopted this pronouncement as disclosed in Note 7.

In January 2011, the FASB issued FASB ASU 2011-01, *Receivables (Topic 310) – Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*, which deferred the effective date of the disclosure requirements for public entities about troubled debt restructurings in ASU 2010-20, to be concurrent with the effective date of the guidance for troubled debt restructuring which is currently anticipated to be effective for interim and annual periods after June 15, 2011. The Company does not anticipate the new guidance will have a material impact on the consolidated financial statements.

Use of Estimates

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

Reclassification

Certain amounts for the prior years have been reclassified to conform to the current year's presentation with no effect on previously reported earnings or shareholders' equity.

Uncertainty of Capital Markets and General Economic Conditions

Historically, we have depended upon the availability of short-term warehouse credit facilities and access to long-term financing through the issuance of asset-backed securities collateralized by our automobile contracts. Since 1994, we have completed 50 term securitizations of approximately $6.7 billion in contracts. We conducted four term securitizations in 2006, four in 2007, and two in 2008 and one in 2010. From July 2003 through April 2008 all of our securitizations were structured as secured financings. The second of our two securitization transactions in 2008 (completed in September 2008), and our most recent securitization in 2010 (a re-securitization of the remaining receivables from the September 2008 transaction) were each in substance a sale of the related contracts, and have been treated as sales for financial accounting purposes.

Since the fourth quarter of 2007 through the end of 2009, we observed unprecedented adverse changes in the market for securitized pools of automobile contracts. These changes included reduced liquidity, and reduced demand for asset-backed securities, particularly for securities carrying a financial guaranty and for securities backed by sub-prime automobile receivables. Moreover, many of the firms that previously provided financial guarantees, which were an integral part of our securitizations, suspended offering such guarantees. The adverse changes that took place in the market from the fourth quarter of 2007 through the end of 2009 caused us to conserve liquidity by significantly reducing our purchases of automobile contracts. However, since October 2009, we have gradually increased our contract purchases by utilizing one $50 million credit facility that we established in September 2009 and another $50 million term funding facility that we established in March 2010. In September 2010 we took advantage of improvement in the market for asset-backed securities by re-securitizing the remaining underlying receivables from our unrated September 2008 securitization. By doing so we were able to pay off the bonds associated with the September 2008 transaction and issue rated bonds with a significantly lower weighted average coupon. The September 2010 transaction was our first rated term securitization since 1993 that did not utilize a financial guaranty. More recently, we increased our short-term funding capacity by $200 million with the establishment of a new $100 million credit facility in December 2010 and an additional $100 million credit facility

in February 2011. In addition, we expect to complete one or more term securitization transactions in 2011. In spite of the improvements we have seen in the capital markets, if the trend of improvement in the markets for asset-backed securities should reverse, or if we should be unable to obtain additional contract financing facilities or to complete a term securitization of our recently originated receivables, we may curtail or cease our purchases of new automobile contracts, which could lead to a material adverse effect on our operations.

The downturn in economic conditions and the capital markets that began in the fourth quarter of 2007 has negatively affected many aspects of our industry. First, throughout 2008 and 2009 there was reduced demand for asset-backed securities secured by consumer finance receivables, including sub-prime automobile receivables, as compared to 2007 and earlier. During 2010, however, we observed that yield requirements for investors that purchase securities backed by consumer finance receivables, including sub-prime automobile receivables, have decreased significantly and are approaching pre-2008 levels, albeit with significantly fewer transactions in the market. Second, there have been fewer lenders who provide short term warehouse financing for sub-prime automobile finance companies due to more uncertainty regarding the prospects of obtaining long-term financing through the issuance of asset-backed securities than before 2008. Many capital market participants such as investment banks, financial guaranty providers and institutional investors who previously played a role in the sub-prime auto finance industry have withdrawn from the industry, or in some cases, have ceased to do business. These developments resulted in our incurring higher interest costs for receivables we financed in 2009 and 2010 compared to pre-2008 levels. However, on December 23, 2010 we entered into a $100 million two-year warehouse credit line with a significantly lower cost of funds than the facilities we used in 2009 and 2010. Finally, broad economic weakness and high levels of unemployment in 2008, 2009 and 2010 have made many of our customers less willing or able to pay, resulting in higher delinquency, charge-offs and losses. Each of these factors has adversely affected our results of operations. Should existing economic conditions worsen, both our ability to purchase new contracts and the performance of our existing managed portfolio may be impaired, which, in turn, could have a further material adverse effect on our results of operations.

Financial Covenants

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

The agreements under which we receive periodic fees for servicing automobile contracts in securitizations are terminable by the respective financial guaranty insurance companies (also referred to as note insurers) upon defined events of default, and, in some cases, at the will of the insurance company. In August 2010, we agreed with the note insurer for eight of our twelve currently outstanding securitizations to amend the applicable agreements to remove the financial covenants that were contained in three of the related agreements. In return for such amendments, we agreed to increase the required credit enhancement amounts in those three deals through increased spread account requirements. The remaining five transactions insured by this particular note insurer do not contain financial covenants.

For the remaining four securitizations insured by different parties we have been receiving waivers for certain financial and operating covenants on a monthly and/or quarterly basis as summarized below:

Financial covenant	*Applicable Standard*	*Status Requiring Waiver (as of or for the quarter ended December 31, 2010)*
Warehouse financing capacity	$200 million of warehouse capacity	$150 million of warehouse capacity
Adjusted net worth (I)	$87.6 million	$4.6 million
Leverage	Not greater than 4.5:1	25.5:1
Maximum net loss	$7.5 million	$33.8 million
Adjusted net worth (II)	$95.3 million	$4.6 million

The covenant regarding warehouse financing capacity is a covenant to maintain one or more credit facilities that allow us to finance acquisition of automobile contracts on a revolving basis, with a minimum aggregate capacity of $200 million. The adjusted net worth covenants are covenants to maintain minimum levels of adjusted net worth, defined as our consolidated book value under GAAP with the exclusion of intangible assets such as goodwill. There are two separate adjusted net worth covenants because there are two separate note insurers that have this covenant in their related securitization agreements. The leverage covenant requires that we not exceed the specified ratio of debt over the defined adjusted net worth. Debt is defined in this covenant to mean consolidated liabilities less warehouse lines of credit and securitization trust debt; using this definition at December 31 2010, we had debt of $125 million. The maximum net loss covenant requires that we not exceed $7.5 million in net losses for any quarter or year.

Without the waivers we have received from the related note insurers, we would have been in violation of covenants relating to minimum net worth, maximum financial losses, maximum leverage levels and maintenance of active warehouse facilities with respect to four of our 12 currently outstanding securitization transactions. Upon such an event of default, and subject to the right of the related note insurers to waive such terms, the agreements governing the securitizations call for payment of a default insurance premium, ranging from 25 to 100 basis points per annum on the aggregate outstanding balance of the related insured senior notes, and for the diversion of all excess cash generated by the assets of the respective securitization pools into the related spread accounts to increase the credit enhancement associated with those transactions. The cash so diverted into the spread accounts would otherwise be used to make principal payments on the subordinated notes in each related securitization or would be released to us. As of the date of this report, cash is being diverted to the related spread accounts in seven transactions. In addition, upon an event of default, the note insurers have the right to terminate us as servicer. Although our termination as servicer has been waived, we are paying default premiums, or their equivalent, with respect to insured notes representing $347.0 million of the $567.7 million of securitization trust debt outstanding at December 31, 2010. It should be noted that the principal amount of such securitization trust debt is not increased, but that the increased insurance premium is reflected as increased interest expense. Furthermore, such waivers are temporary, and there can be no assurance as to their future extension. We do, however, believe that we will obtain such future extensions of our servicing agreements because it is generally not in the interest of any party to the securitization transaction to transfer servicing. Nevertheless, there can be no assurance as to our belief being correct. Were an insurance company in the future to exercise its option to terminate such agreements or to pursue other remedies, such remedies could have a material adverse effect on our liquidity and results of operations, depending on the number and value of the affected transactions. Our note insurers continue to extend our term as servicer on a monthly and/or quarterly basis, pursuant to the servicing agreements.

(2) Restricted Cash

Restricted cash consists of cash and cash equivalent accounts relating to our outstanding securitization trusts and credit facilities. The amount of restricted cash on our consolidated balance sheets was $124.0 million and $128.5 million as of December 31, 2010 and 2009, respectively.

Certain of our financing agreements require that we establish cash reserves for the benefit of the creditors to protect against unforeseen credit losses on the Contracts. These cash reserves, which are included in restricted cash, were $95.2 million and $90.1 million as of December 31, 2010 and 2009, respectively.

(3) Finance Receivables

We consider our portfolio of finance receivables to be homogenous and consist of a single segment and class. Consequently we analyze credit performance primarily in the aggregate rather than stratification by any particular credit quality indicator. The following table presents the components of Finance Receivables, net of unearned interest:

	December 31,	
	2010	**2009**
Finance Receivables	**(In thousands)**	
Automobile finance receivables, net of unearned interest	$ 576,090	$ 884,819
Less: Unearned acquisition fees and discounts	(10,469)	(6,453)
Finance Receivables	$ 565,621	$ 878,366

We consider an automobile contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date, which date may have been extended within limits specified in the servicing agreements. The period of delinquency is based on the number of days payments are contractually past due. Automobile contracts less than 31 days delinquent are not included. The following table summarizes the delinquency status of finance receivables as of December 31, 2009 and 2010:

	December 31, 2010	December 31, 2009
	(In thousands)	
Deliquency Status		
Current	$ 541,375	$ 837,737
31 - 60 days	16,784	22,325
61 - 90 days	9,453	15,258
91 + days	8,478	9,499
	$ 576,090	$ 884,819

Finance receivables totaling $13.3 million and $16.1 million at December 31, 2010 and 2009, respectively, have been placed on non-accrual status as a result of their delinquency status.

The following table presents a summary of the activity for the allowance for credit losses, for the years ended December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009
	(In thousands)	
Balance at beginning of year	$ 38,274	$ 78,036
Provision for credit losses	29,921	92,011
Charge-offs	(82,585)	(160,174)
Recoveries	27,558	28,401
Balance at end of year	$ 13,168	$ 38,274

Excluded from finance receivables are contracts that were previously classified as finance receivables but were reclassified as other assets because we have repossessed the vehicle securing the Contract. The following table presents a summary of such repossessed inventory together with the allowance for losses in repossessed inventory that is not included in the allowance for credit losses:

	December 31, 2010	December 31, 2009
	(In thousands)	
Gross balance of repossessions in inventory	$ 21,046	$ 37,821
Allowance for losses on repossessed inventory	(16,278)	(28,084)
Net repossessed inventory included in other assets	$ 4,768	$ 9,737

(4) Residual Interest in Securitizations

In September 2008 we completed a structured loan sale in which we retained a residual interest. The remaining receivables from that September 2008 securitization were re-securitized in September 2010. The residual interest in the cash flows from this transaction was $3.8 million and $4.2 million as of December 31, 2010 and 2009, respectively, and was determined using a discounted cash flow model that included estimates for prepayments and losses. The discount rate utilized was 20%. The assumptions utilized were based on our historical performance adjusted for current market conditions.

(5) Furniture and Equipment

The following table presents the components of furniture and equipment:

	December 31, 2010	December 31, 2009
	(In thousands)	
Furniture and fixtures	$ 4,133	$ 4,133
Computer and telephone equipment	6,857	6,294
Leasing assets	673	673
Leasehold improvements	1,301	1,301
Other fixed assets	-	280
	12,964	12,681
Less: accumulated depreciation and amortization	(11,821)	(11,172)
	$ 1,143	$ 1,509

Depreciation expense totaled $649,000 and $707,000 for the years ended December 31, 2010 and 2009, respectively.

(6) Securitization Trust Debt

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

Series	Final Scheduled Payment Date (1)	Receivables Pledged at December 31, 2010 (2)	Initial Principal	Outstanding Principal at December 31, 2010	Outstanding Principal at December 31, 2009	Weighted Average Interest Rate at December 31, 2010
			(Dollars in thousands)			
CPS 2004-B	February 2011	$ -	$ 96,369	$ -	$ 1,254	-
CPS 2004-C	April 2011	-	100,000	-	1,989	-
CPS 2005-A	October 2011	-	137,500	-	6,924	-
CPS 2005-B	February 2012	-	130,625	-	10,021	-
CPS 2005-C	May 2012	5,249	183,300	5,481	19,661	5.13%
CPS 2005-TFC	July 2012	-	72,525	-	5,330	-
CPS 2005-D	July 2012	6,151	145,000	6,573	19,295	5.69%
CPS 2006-A	November 2012	16,082	245,000	16,765	41,546	5.33%
CPS 2006-B	January 2013	23,861	257,500	29,196	56,664	6.92%
CPS 2006-C	July 2013	29,226	247,500	35,499	64,332	6.24%
CPS 2006-D	August 2013	35,141	220,000	38,493	69,584	5.89%
CPS 2007-A	November 2013	57,736	290,000	64,166	107,011	5.92%
CPS 2007-TFC	December 2013	14,871	113,293	17,029	31,087	6.04%
CPS 2007-B	January 2014	75,942	314,999	86,355	135,602	6.48%
CPS 2007-C	May 2014	91,356	327,499	100,107	158,955	6.60%
CPS 2008-A	October 2014	107,417	310,359	125,593	175,578	7.81%
Delayed Draw Notes	July 2017	56,501	9,174	42,465	-	11.00%
		$ 519,533	$ 3,200,643	$ 567,722	$ 904,833	

(1) The Final Scheduled Payment Date represents final legal maturity of the securitization trust debt. Securitization trust debt is expected to become due and to be paid prior to those dates, based on amortization of the finance receivables pledged to the Trusts. Expected payments, which will depend on the performance of such receivables, as to which there can be no assurance, are $283.5 million in 2011, $191.2 million in 2012, $59.3 million in 2013, $17.2 million in 2014, and $16.5 million in 2015.

(2) Includes repossessed assets that are included in Other Assets on our Consolidated Balance Sheet.

All of the securitization trust debt was issued in private placement transactions to qualified institutional investors. The debt was issued through wholly-owned, bankruptcy remote subsidiaries of CPS and is secured by the assets of such subsidiaries, but not by other assets of the Company. Principal and interest payments on the senior notes are guaranteed by financial guaranty insurance policies.

The terms of the various Securitization Agreements related to the issuance of the securitization trust debt require that certain delinquency and credit loss criteria be met with respect to the collateral pool, and require that we maintain minimum levels of liquidity and net worth and not exceed maximum leverage levels and maximum financial losses. We were in compliance with all such covenants as of December 31, 2010, in some cases only after giving effect to waivers of otherwise applicable standards.

We are responsible for the administration and collection of the contracts. The Securitization Agreements also require certain funds be held in restricted cash accounts to provide additional collateral for the borrowings or to be applied to make payments on the securitization trust debt. As of December 31, 2010, restricted cash under the various agreements totaled approximately $124.0 million. Interest expense on the securitization trust debt is composed of the stated rate of interest plus amortization of additional costs of borrowing. Additional costs of borrowing include facility fees, insurance premiums, amortization of transaction costs, and amortization of discounts required on the notes at the time of issuance. Deferred financing costs related to the securitization trust debt are amortized using the interest method. Accordingly, the effective cost of borrowing of the securitization trust debt is greater than the stated rate of interest.

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

(7) Debt

The terms of our debt outstanding at December 31, 2010 and 2009 are summarized below:

	December 31,	
	2010	2009
	(In thousands)	
Residual interest financing Notes secured by our residual interests in securitizations. In May 2010, the maturity was extended from June 2010 to May 2011. The aggregate indebtedness under this facility was $39.4 million at December 31, 2010. It bears interest at 12.875% over LIBOR.	$39,440	$56,930
Senior secured debt, related party Notes payable to Levine Leichtman Capital Partners IV, L.P. ("LLCP"). The notes consisted of a $10 million term note, a $15 million term note and a $27.75 million term note all due in December 2013. The notes accrue interest at 16% per annum. The amount outstanding at December 31, 2010 is net of the unamortized debt discount of $7.9 million relating to the valuation of 1,225,000 shares of stock, warrants to purchase 1,611,114 shares of our common stock at an exercise price of $1.3982, warrants to purchase 285,781 of our common stock at an exercise price of $0.01 and $1.4 million in cash paid to the lender at issuance. In addition, the unamortized debt discount includes the valuation of 880,000 shares of common stock and 1,870 shares of Series B convertible preferred stock and $2.75 million in cash paid to the lender at issuance of the $27.75 million note.	44,873	26,118
Subordinated renewable notes Notes bearing interest ranging from 6.85% to 16.00%, with a weighted average rate of 13.83%, and with maturities from January 2011 to March 2020 with a weighted average maturity of April 2013. We began issuing the notes in June 2005 and incurred issuance costs of $250,000. Payments are made monthly, quarterly, annually or upon maturity based on the terms of the individual notes.	20,337	21,965
	$104,650	$105,013

The outstanding debt on our credit facilities was $45.6 million as of December 31, 2010, compared to $4.9 million outstanding as of December 31, 2009. See Note 15 for a discussion of our warehouse lines of credit.

The costs incurred in conjunction with the above debt are recorded as deferred financing costs on the accompanying balance sheets and are more fully described in Note 1.

We must comply with certain affirmative and negative covenants related to debt facilities, which require, among other things, that we maintain certain financial ratios related to liquidity, net worth, capitalization and maximum financial losses. Further covenants include matters relating to investments, acquisitions, restricted payments and certain dividend restrictions. See the discussion of financial covenants in footnote 1.

The following table summarizes the contractual and expected maturity amounts of debt as of December 31, 2010:

Contractual maturity date	Residual interest financing	Senior secured debt (1)	Subordinated renewable notes	Total
		(In thousands)		
2011	$ 39,440	$ -	$ 11,508	$ 50,948
2012	-	-	4,396	4,396
2013	-	44,873	4,131	49,004
2014	-	-	242	242
2015	-	-	60	60
Thereafter	-	-	-	-
Total	$ 39,440	$ 44,873	$ 20,337	$ 104,650

(1) The senior secured debt maturing in 2013 is shown net of unamortized debt discounts of $7.9 million. On a gross basis the scheduled maturity of this debt in 2013 is $52.8 million.

(8) Shareholders' Equity

Common Stock

Holders of common stock are entitled to such dividends as our 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.

We are required to comply with various operating and financial covenants defined in the agreements governing the warehouse lines of credit, senior debt, residual interest financing and subordinated debt. The covenants restrict the payment of certain distributions, including dividends (See Note 7).

Included in compensation expense for the years ended December 31, 2010 and 2009, is $1.6 million related to the amortization of deferred compensation expense and valuation of stock options.

Stock Purchases

At five different times between 2000 and 2010, our Board of Directors authorized us to purchase a total of up to $34.5 million of our securities. As of December 31, 2010, we had purchased $5.0 million in principal amount of debt securities, and $27.5 million of our common stock, representing 9,005,724 shares.

Options and Warrants

In 2006, the Company adopted and its shareholders approved the CPS 2006 Long-Term Equity Incentive Plan (the “2006 Plan”) pursuant to which our Board of Directors, or a duly-authorized committee thereof, may grant stock options, restricted stock, restricted stock units and stock appreciation rights to our employees or our subsidiaries, to directors of the Company, and to individuals acting as consultants to the Company or its subsidiaries. In June 2008, the shareholders of the Company approved an amendment to the 2006 Plan to increase the maximum number of shares that may be subject to awards under the 2006 Plan from 3,000,000 to 5,000,000. Options that have been granted under the 2006 Plan have been granted at an exercise price equal to (or greater than) the stock’s fair market value at the date of the grant, with terms generally of 10 years and vesting generally over five years.

For the year ended December 31, 2010, we recorded stock-based compensation costs in the amount of $1.6 million. As of December 31, 2010, unrecognized stock-based compensation costs to be recognized over future periods was equal to $3.0 million. This amount will be recognized as expense over a weighted-average period of 3.1 years.

At December 31, 2010, the options outstanding and exercisable had intrinsic values of $538,000 and $168,000, respectively. The total intrinsic value of options exercised was $7,000 for the year ended December 31, 2009. No options were exercised in 2010. New shares were issued for all options exercised during the year ended December 2009. At December 31, 2010, there were a total of 830,000 additional shares available for grant under the 2006 Plan.

Stock option activity for the year ended December 31, 2010, including the activity related to the option exchange described above, is as follows:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Options outstanding at the beginning of period	6,874	$ 1.62	N/A
Granted	720	1.64	N/A
Exercised	-	-	N/A
Forfeited	(604)	1.73	N/A
Options outstanding at the end of period	6,990	$ 1.61	5.65 years
Options exercisable at the end of period	4,749	$ 1.78	4.47 years

The per share weighted average fair value of stock options granted whose exercise price was equal to the market price of the stock on the grant date during the years ended December 31, 2010 and 2009, was $1.11 and $0.78, respectively.

The per share weighted average fair value of stock options granted whose exercise price was above the market price of the stock on the grant date during the year ended December 31, 2009 was $0.17. The per share weighted average exercise price of stock options granted whose exercise price was above the market price of the stock on the grant date during the year ended December 31, 2009 was $1.50.

We have not issued any stock options with an exercise price below the market price of the stock on the grant date.

On June 30, 2008, we entered into a series of agreements pursuant to which a lender purchased a $10 million five-year, fixed rate, senior secured note from us. In July 2008, in conjunction with the amendment of the combination term and revolving residual credit facility as discussed above, the lender purchased an additional $15 million note with substantially the same terms as the $10 million note. Pursuant to the June 30, 2008 securities purchase agreement, we issued to the lender 1,225,000 shares of common stock. In addition, we issued the lender two warrants: (i) warrants that we refer to as the FMV Warrants, which are exercisable for 1,611,114 shares of our common stock, at an exercise price of $1.39818 per share, and (ii) warrants that we refer to as the N Warrants, which are exercisable for 285,781 shares of our common stock, at a nominal exercise price. Both the FMV Warrants and the N Warrants are exercisable in whole or in part and at any time up to and including June 30, 2018. We valued the warrants using the Black-Scholes valuation model.

In connection with the amendment to our residual credit facility discussed in Note 15, we issued warrants valued as being equivalent to 2,500,000 common shares, or $4,071,429. The warrants represented the right to purchase 2,500,000 CPS common shares at a nominal exercise price, at any time prior to July 10, 2018. In March 2010 we re-purchased 500,000 shares for $1.0 million.

(9) Interest Income

The following table presents the components of interest income:

	Year Ended December 31, 2010	Year Ended December 31, 2009
	(In thousands)	
Interest on finance receivables	$ 135,013	$ 205,892
Residual interest income	1,063	1,376
Other interest income	1,014	928
Net interest income	$ 137,090	$ 208,196

(10) Income Taxes

Income taxes consist of the following:

	Year Ended December 31, 2010	Year Ended December 31, 2009
	(In thousands)	
Current federal tax expense (benefit)	$ (1,518)	$ (28,110)
Current state tax expense (benefit)	(28)	(2,814)
Deferred federal tax (benefit)	(4,107)	11,294
Deferred state tax expense (benefit)	(5,331)	(191)
Change in valuation allowance	27,966	27,621
Income tax expense (benefit)	$ 16,982	$ 7,800

Income tax expense/(benefit) for the years ended December 31, 2010 and 2009 differs from the amount determined by applying the statutory federal rate of 35% to income before income taxes as follows:

	Year Ended December 31,	
	2010	2009
	(In thousands)	
Expense at federal tax rate	$ (5,896)	$ (17,293)
State taxes, net of federal income tax benefit	734	(2,187)
Other adjustments to tax reserve	(1,344)	(827)
Effect of change in state tax rate	(4,931)	-
Valuation allowance	27,966	27,621
Stock-based compensation	535	540
Other	(82)	(54)
	16,982	$ 7,800

The tax effected cumulative temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2010 and 2009 are as follows:

	December 31,	
	2010	2009
	(In thousands)	
Deferred Tax Assets:		
Finance receivables	$ 7,562	$ 11,779
Accrued liabilities	1,476	1,613
Furniture and equipment	281	274
NOL carryforwards and BILs	66,994	48,170
Pension Accrual	2,214	2,347
Other	-	-
Total deferred tax assets	78,527	64,183
Valuation allowance	(56,587)	(28,621)
	21,940	35,562
Deferred Tax Liabilities:		
Other	(6,940)	(2,112)
Total deferred tax liabilities	(6,940)	(2,112)
Net deferred tax asset	$ 15,000	$ 33,450

As part of the MFN and TFC Mergers, CPS acquired certain net operating losses and built-in loss assets. Moreover, both MFN and TFC have undergone an ownership change for purposes of Internal Revenue Code ("IRC") Section 382. In general, IRC Section 382 imposes an annual limitation on the ability of a loss corporation (that is, a corporation with a net operating loss ("NOL") carryforward, credit carryforward, or certain built-in losses ("BILs") to utilize its pre-change NOL carryforwards or BILs to offset taxable income arising after an ownership change.

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

Asset Category	Key Assumptions	Estimated Taxable Income	
Base servicing rights	Net cash flows discounted at 12%	$	15,965
Residual interests in securitized receivables	Net cash flows discounted at 20%		5,084
Finance receivables	Net cash flows discounted at 25%		7,842
Charged off receivables	Assumed value of 1.5%		6,171
Note receivable	Net cash flows discounted at 11%		2,464
		$	37,526

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

At December 31, 2010 we have established a $56.6 million valuation allowance against that portion of the deferred tax asset whose utilization in future periods is not more than likely.

As of December 31, 2010, we had net operating loss carryforwards for federal and state income tax purposes of $115.1 million and $185.8 million, respectively. The federal net operating losses begin to expire in 2022. The state net operating losses begin to expire in 2013.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits including interest and penalties for the year:

	2010		2009	
	(In thousands)			
Unrecognized tax benefit - opening balance	$	4,319	$	8,183
Gross increases - tax positions in prior period		157		-
Gross decreases - tax positions in prior period		-		(2,165)
Gross increases - tax positions in current period		-		-
Settlements		-		(532)
Lapse of statute of limitations		(1,454)		(1,167)
Unrecognized tax benefit - ending balance	$	3,022	$	4,319

Included in the balance of unrecognized tax benefits at December 31, 2010, are $2.6 million of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of unrecognized tax benefits at December 31, 2010 are $400,000 of tax benefits that, if recognized, would result in adjustments to other tax accounts, primarily deferred taxes.

We recognize potential interest and penalties related to unrecognized tax benefits as income tax expense. Related to the uncertain tax benefits noted above, we reduced penalties by $200,000 and increased gross interest by $200,000 during 2010 and in total, as of December 31, 2010, have recognized a liability for penalties of $300,000 million and gross interest of $700,000.

We do not anticipate a significant change in unrecognized tax positions within the coming year. In addition, we believe that it is reasonably possible that none of our currently remaining unrecognized tax positions, each of which is individually insignificant, may be recognized by the end of 2010 as a result of a lapse of the statute of limitations.

We are subject to taxation in the US and various states and foreign jurisdictions. The Company's tax years for 2006 through 2009 are subject to examination by the tax authorities. With few exceptions, we are no longer subject to U.S. federal, state, or local examinations by tax authorities for years before 2006.

(11) Related Party Transactions

Director Purchase of Retail Note

In December 2007, one of our directors purchased a $4.0 million subordinated renewable note pursuant to our ongoing program of issuing such notes to the public. The note was purchased through the registered agent and under the same terms and conditions, including the interest rate, that were offered to other purchasers at the time the note was issued. As of December 31, 2010, $4.0 million remains outstanding on this note.

(12) Commitments and Contingencies

Leases

The Company leases its facilities and certain computer equipment under non-cancelable operating leases, which expire through 2016. Future minimum lease payments at December 31, 2010, under these leases are due during the years ended December 31 as follows:

	Amount (In thousands)
2011	$ 3,185
2012	2,737
2013	2,458
2014	1,973
2015	1,816
Thereafter	1,351
Total minimum lease payments	$ 13,520

Rent expense for the years ended December 31, 2010 and 2009, was $3.6 million and $4.1 million, respectively.

Our facility leases contain 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 terms of the leases.

Litigation

Stanwich Litigation. CPS was for some time a defendant in a class action (the “Stanwich Case”) brought in the California Superior Court, Los Angeles County. The original plaintiffs in that case were persons entitled to receive regular payments (the “Settlement Payments”) pursuant to earlier settlements of claims, generally personal injury claims, against unrelated defendants. Stanwich Financial Services Corp. (“Stanwich”), an affiliate of the former chairman of the board of directors of CPS, is the entity that was obligated to pay the Settlement Payments. Stanwich defaulted on its payment obligations to the plaintiffs and in June 2001 filed for reorganization under the Bankruptcy Code, in the federal bankruptcy court in Connecticut. By February 2005, CPS had settled all claims brought against it in the Stanwich Case.

In November 2001, one of the defendants in the Stanwich Case, Jonathan Pardee, asserted claims for indemnity against the Company in a separate action, which is now pending in federal district court in Rhode Island. The Company has filed counterclaims in the Rhode Island federal court against Mr. Pardee, and has filed a separate action against Mr. Pardee's Rhode Island attorneys, in the same court. The litigation between Mr. Pardee and CPS is stayed, awaiting resolution of an adversary action brought against Mr. Pardee in the bankruptcy court, which is hearing the bankruptcy of Stanwich.

CPS has reached an agreement in principle with the representative of creditors in the Stanwich bankruptcy to resolve the adversary action. Under the agreement in principle, CPS is to pay the bankruptcy estate $800,000 and abandon its claims against the estate, while the estate is to abandon its adversary action against Mr. Pardee. We believe that resolution of the adversary action will result in (i) limitation of its exposure to Mr. Pardee to no more than some portion of his attorneys fees incurred and (ii) stays in Rhode Island being lifted, causing those cases to become active again.

The reader should consider that an adverse judgment against CPS in the Rhode Island case for indemnification, if in an amount materially in excess of any liability already recorded in respect thereof, could have a material adverse effect on our financial condition.

Other Litigation.

We are routinely involved in various legal proceedings resulting from our consumer finance activities and practices, both continuing and discontinued. We believe that there are substantive legal defenses to such claims, and intend to defend them vigorously. There can be no assurance, however, as to their outcomes. We have recorded a liability as of December 31, 2010 that we believe represents a sufficient allowance for legal contingencies. Any adverse judgment against us, if in an amount materially in excess of the recorded liability, could have a material adverse effect on our financial position or results of operations.

(13) Employee Benefits

The Company sponsors a pretax savings and profit sharing plan (the “401(k) Plan”) qualified under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, eligible employees are able to contribute up to 15% of their compensation (subject to stricter limitation in the case of highly compensated employees). We may, at our discretion, match 100% of employees’ contributions up to $1,500 per employee per calendar year. Our contributions to the 401(k) Plan were $74,000 for the year ended December 31, 2010. We did not make any contributions to the plan in 2009 rather we utilized the plan’s forfeiture account to match $438,000 in employee contributions.

We also sponsor the MFN Financial Corporation Pension Plan (the “Plan”). The Plan benefits were frozen June 30, 2001.

The following tables represents a reconciliation of the change in the plan’s benefit obligations, fair value of plan assets, and funded status at December 31, 2010 and 2009:

	December 31,	
	2010	**2009**
	(In thousands)	
Change in Projected Benefit Obligation		
Projected benefit obligation, beginning of year	$ 16,642	$ 16,085
Service cost	-	-
Interest cost	931	947
Actuarial gain (loss)	981	243
Settlements	(937)	-
Benefits paid	(560)	(633)
Projected benefit obligation, end of year	$ 17,057	$ 16,642
Change in Plan Assets		
Fair value of plan assets, beginning of year	$ 10,465	$ 8,515
Return on assets	1,391	2,626
Employer contribution	847	-
Expenses	(51)	(43)
Settlements	(937)	
Benefits paid	(560)	(633)
Fair value of plan assets, end of year	$ 11,155	$ 10,465
Funded Status at end of year	$ (5,902)	$ (6,177)

Additional Information

Weighted average assumptions used to determine benefit obligations and cost at December 31, 2010 and 2009 were as follows:

	December, 31	
	2010	2009
Weighted average assumptions used to determine benefit obligations		
Discount rate	5.45%	5.90%
Weighted average assumptions used to determine net periodic benefit cost		
Discount rate	5.90%	6.00%
Expected return on plan assets	8.50%	8.50%

Our overall expected long-term rate of return on assets is 8.50% per annum as of December 31, 2010. The expected long-term rate of return is based on the weighted average of historical returns on individual asset categories, which are described in more detail below.

	December 31,	
	2010	2009
	(In thousands)	
Amounts recognized on Consolidated Balance Sheet		
Other assets	$ -	$ -
Other liabilities	(5,902)	(6,177)
Net amount recognized	$ (5,902)	$ (6,177)
Amounts recognized in accumulated other comprehensive income consists of:		
Net loss (gain)	$ 8,575	$ 9,029
Unrecognized transition asset	-	-
Net amount recognized	$ 8,575	$ 9,029
Components of net periodic benefit cost		
Interest Cost	$ 931	$ 947
Expected return on assets	(851)	(697)
Amortization of transition asset	-	-
Amortization of net loss	475	675
Net periodic benefit cost	555	925
Settlement (gain)/loss	471	-
Total	$ 1,026	$ 925
Benefit Obligation Recognized in Other Comprehensive Income		
Net loss (gain)	$ (454)	$ (2,318)
Prior service cost (credit)	-	-
Amortization of prior service cost	-	-
Net amount recognized in other comprehensive income	$ (454)	$ (2,318)

The weighted average asset allocation of our pension benefits at December 31, 2010 and 2009 were as follows:

	December 31,	
	2010	2009
Weighted Average Asset Allocation at Year-End		
Asset Category		
Equity securities	81%	76%
Debt securities	19%	24%
Cash and cash equivalents	0%	0%
Total	100%	100%

Our investment policies and strategies for the pension benefits plan utilize a target allocation of 75% equity securities and 25% fixed income securities. Our investment goals are to maximize returns subject to specific risk

management policies. We address risk management and diversification by the use of a professional investment advisor and several sub-advisors which invest in domestic and international equity securities and domestic fixed income securities. Each sub-advisor focuses its investments within a specific sector of the equity or fixed income market. For the sub-advisors focused on the equity markets, the sectors are differentiated by the market capitalization and the relative valuation of the underlying issuer. For the sub-advisors focused on the fixed income markets, the sectors are differentiated by the credit quality and the maturity of the underlying fixed income investment. The investments made by the sub-advisors are readily marketable and can be sold to fund benefit payment obligations as they become payable.

Cash Flows

Estimated Future Benefit Payments (In thousands)	
2011	$ 666
2012	699
2013	749
2014	791
2015	899
Years 2016 - 2020	4,896
Anticipated Contributions in 2011	$ 653

The fair value of plan assets at December 31, 2010, by asset category, is as follows:

	Level 1 (1)	**Level 2 (2)**	**Level 3 (3)**	**Total**
		(in thousands)		
Core Bond	$ -	$ 1,371	$ -	$ 1,371
Fundamental Value	-	1,843	-	1,843
Mid Cap Growth	-	555	-	555
Focus Value	-	555	-	555
Small Co. Value	-	548	-	548
Growth	-	2,386	-	2,386
Income	-	290	-	290
International Growth	-	2,143	-	2,143
Inflation Protected Bond	-	371	-	371
Money Market	11	43	-	54
Company Common Stock	1,039	-	-	1,039
Total	$ 1,050	$ 10,105	$ -	$ 11,155

(1) Assets with quoted prices in active markets for identical assets

(2) Assets with significant observable inputs

(3) Assets with significant unobservable inputs

(14) Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157") (ASC 820 10 65). SFAS No. 157 (ASC 820 10 65) clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy.

SFAS No. 157 (ASC 820 10 65) defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The three levels are defined as follows: level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets; level 2 – inputs to the valuation

methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

In September 2008 we sold automobile contracts in a securitization that was structured as a sale for financial accounting purposes. In that sale, we retained both securities and a residual interest in the transaction that are measured at fair value. We describe below the valuation methodologies we use for the securities retained and the residual interest in the cash flows of the transaction, as well as the general classification of such instruments pursuant to the valuation hierarchy. The securities retained, which is included in Other Assets as of December 31, 2009, were sold in September 2010 in the re-securitization transaction described in Note 1. In the same transaction, the residual interest was reduced by $1.5 million. The residual interest in such securitization is $3.9 million as of December 31, 2010 and is classified as level 3 in the three-level valuation hierarchy. We determine the value of that residual interest using a discounted cash flow model that includes estimates for prepayments and losses. We use a discount rate of 20% per annum and a cumulative net loss rate of 13%. The assumptions we use are based on historical performance of automobile contracts we have originated and serviced in the past, adjusted for current market conditions. No gain or loss was recorded as a result of the re-securitization transaction described above.

Repossessed vehicle inventory, which is included in Other Assets on our balance sheet, is measured at fair value using Level 2 assumptions based on our actual loss experience on sale of repossessed vehicles. At December 31, 2010, the finance receivables related to the repossessed vehicles in inventory totaled $21.0 million. We have applied a valuation adjustment of $16.3 million, resulting in an estimated fair value and carrying amount of $4.7 million.

The table below presents a reconciliation for Level 3 assets measured at fair value on a recurring basis using significant unobservable inputs:

	2010	2009
Residual Interest in Securitizations:	**(in thousands)**	**(in thousands)**
Balance at January 1	$ 4,316	$ 3,582
Reduction of residual interest as a result of re-securitization	(1,497)	-
Included in earnings	1,022	734
Balance at December 31	$ 3,841	$ 4,316

The following summary presents a description of the methodologies and assumptions used to estimate the fair value of our financial instruments. Much of the information used to determine fair value is highly subjective. When applicable, readily available market information has been utilized. However, for a significant portion of our financial instruments, active markets do not exist. Therefore, 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, 2010 and 2009, 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, 2010 and 2009, were as follows:

	December 31,			
	2010		2009	
Financial Instrument	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
	(In thousands)			
Cash and cash equivalents	$ 16,252	$ 16,252	$ 12,433	$ 12,433
Restricted cash and equivalents	123,958	123,958	128,511	128,511
Finance receivables, net	552,453	551,652	840,092	806,154
Residual interest in securitizations	3,841	3,841	4,316	4,316
Accrued interest receivable	6,165	6,165	8,573	8,573
Warehouse lines of credit	45,564	45,564	4,932	4,932
Accrued interest payable	3,897	3,897	4,267	4,267
Residual interest financing	39,440	39,440	56,930	56,930
Securitization trust debt	567,722	593,041	904,833	942,075
Senior secured debt	44,873	44,873	26,118	26,118
Subordinated renewable notes	20,337	20,337	21,965	21,965

Cash, Cash Equivalents and Restricted Cash

The carrying value equals fair value.

Finance Receivables, net

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

Residual Interest in Securitizations

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

Accrued Interest Receivable and Payable

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

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

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

Securitization Trust Debt

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

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

Our business requires substantial cash to support purchases of automobile contracts and other operating activities. Our primary sources of cash have been cash flows from operating activities, including proceeds from term securitization transactions and other sales of automobile contracts, amounts borrowed under warehouse credit facilities, servicing fees on portfolios of automobile contracts previously sold in securitization transactions or serviced for third parties, customer payments of principal and interest on finance receivables, fees for origination of automobile contracts, and releases of cash from securitized portfolios of automobile contracts in which we have retained a residual ownership interest and from the spread accounts associated with such pools. Our primary uses of cash have been the purchases of automobile contracts, repayment of amounts borrowed under warehouse credit facilities and otherwise, operating expenses such as employee, interest, occupancy expenses and other general and administrative expenses, the establishment of spread accounts and initial overcollateralization, if any, and the increase of credit enhancement to required levels in securitization transactions, and income taxes. There can be no assurance that internally generated cash will be sufficient to meet our cash demands. The sufficiency of internally generated cash will depend on the performance of securitized pools (which determines the level of releases from

those portfolios and their related spread accounts), the rate of expansion or contraction in our managed portfolio, and the terms upon which we are able to purchase, sell, and borrow against automobile contracts.

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

On September 25, 2009 we established a $50 million secured revolving credit facility with Fortress Credit Corp., which will mature on September 25, 2011. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated subsidiary Page Four Funding LLC. The facility provides for advances up to 75% of eligible finance receivables and the notes under it accrue interest at a rate of one-month LIBOR plus 12.00% per annum, with a minimum rate of 14.00% per annum. At December 31, 2010, $45.6 million was outstanding under this facility. As part of the consideration given to Fortress for committing to make loans under this facility, we issued a 10-year warrant to purchase up to 1,158,087 of our common shares, at an exercise price of $0.879 per share (we refer to this as the Fortress Warrant). Issuance of the Fortress Warrant required an adjustment to the terms of an existing outstanding warrant regarding 1,564,324 shares, reducing the exercise price of that other warrant from $1.44 per share to $1.40702 per share and increasing the number of shares available for purchase to 1,600,991.

In December 2010 we entered into a $100 million two-year warehouse credit line with affiliates of Goldman, Sachs & Co. and Fortress Investment Group. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated subsidiary Page Six Funding, LLC. The facility provides for advances up to 75% of eligible finance receivables and the notes under it accrue interest at a rate of one-month LIBOR plus 5.00% per annum, with a minimum rate of 6.5% per annum. There were no amounts outstanding under this facility at December 31, 2010.

Subsequent to the reporting period covered by this report, on February 24, 2011, we entered into an additional $100 million two-year warehouse credit line with UBS Real Estate Securities, Inc. The facility revolves during the first year and amortizes during the second year. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by drawing against a floating rate variable funding note issued by our consolidated subsidiary Page Seven Funding, LLC. The facility provides for advances up to 76.5% of eligible finance receivables and the notes under it accrue interest at one-month LIBOR plus 6.00% per annum.

In March 2010, we entered into a $50 million term funding facility with a syndicate of note purchasers including affiliates of Angelo, Gordon & Co., L.P. and an affiliate of Cohen & Company Securities. Under the term funding facility, the note purchasers agreed to purchase up to $50 million in asset-backed notes through December 31, 2010, subject to collateral eligibility and other terms and conditions, through the end of 2010. Amounts outstanding bear interest at a fixed rate of 11.00%, which may be decreased to 9.00% should the notes receive investment grade ratings from at least two of the following three credit rating agencies: Moody's, Standard & Poor's, or Fitch. Principal payments on the notes are due as the underlying receivables are paid or charged off, and the final maturity is July 17, 2017. In connection with the establishment of this term funding facility, we paid a closing fee of $750,000 and issued to certain of the note purchasers or their designees warrants to purchase 500,000 shares of our common stock at an exercise price of $1.41 per share (we refer to this as the Page Five Warrant). Issuance of the Page Five Warrant required adjustments to the terms of two existing outstanding warrants. The first warrant related to 1,600,991 shares, on which the exercise price was decreased from $1.407 per share to $1.398 per share and the number of shares available for purchase was increased to 1,611,114. The second affected warrant related to 283,985 shares, which was increased to 285,781 shares. As of December 31, 2010, there was $42.5 million outstanding under the facility and no additional advances are expected to be made.

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

was originally due in July 2009. As of July 2008, we had drawn $26.8 million on the revolving note. The facility's revolving feature expired in July 2008. On July 10, 2008 we amended the terms of the combination term and revolving residual credit facility, (i) eliminating the revolving feature and increasing the interest rate, (ii) consolidating the amounts then owing on the Class A-1 note with the Class A-2 note, (iii) establishing an amortization schedule for principal reductions on the Class A-2 note, and (iv) providing for an extension, at our option if certain conditions were met, of the Class A-2 note maturity from June 2009 to June 2010. In June 2009 we met all such conditions and extended the maturity. In conjunction with the amendment, we reduced the principal amount outstanding to $70 million by delivering to the lender (i) warrants valued as being equivalent to 2,500,000 common shares, or $4,071,429, and (ii) cash of $12,765,244. The warrants represent the right to purchase 2,500,000 CPS common shares at a nominal exercise price, at any time prior to July 10, 2018. In May 2010, we extended the maturity date from June 2010 to May 2011. As of December 31, 2010 the aggregate indebtedness under this facility was $39.4 million.

On June 30, 2008, we entered into a series of agreements pursuant to which an affiliate of Levine Leichtman Capital Partners purchased a $10 million five-year, fixed rate, senior secured note from us. The indebtedness is secured by substantially all of our assets, though not by the assets of our special-purpose financing subsidiaries. In July 2008, in conjunction with the amendment of the combination term and revolving residual credit facility as discussed above, the lender purchased an additional $15 million note with substantially the same terms as the $10 million note. Pursuant to the June 30, 2008 securities purchase agreement, we issued to the lender 1,225,000 shares of common stock. In addition, we issued the lender two warrants: (i) warrants that we refer to as the FMV Warrants, which are exercisable for 1,611,114 shares of our common stock, at an exercise price of $1.39818 per share, and (ii) warrants that we refer to as the N Warrants, which are exercisable for 285,781 shares of our common stock, at a nominal exercise price. Both the FMV Warrants and the N Warrants are exercisable in whole or in part and at any time up to and including June 30, 2018. We valued the warrants using the Black-Scholes valuation model and recorded their value as a liability on our balance sheet because the terms of the warrants also included a provision whereby the lender could require us to purchase the warrants for cash. That provision was eliminated by mutual agreement in September 2008. The FMV Warrants were initially exercisable to purchase 1,500,000 shares for $2.573 per share, were adjusted in connection with the July 2008 issuance of other warrants to become exercisable to purchase 1,564,324 shares at $2.4672 per share, and were further adjusted in connection with a July 2009 amendment of our option plan to become exercisable at $1.44 per share. Upon issuance in September 2009 of the Fortress Warrant, the FMV Warrant was further adjusted to become exercisable to purchase 1,600,991 shares at an exercise price of $1.407 per share. Upon issuance in March 2010 of the Page Five Warrant, the FMV Warrant was further adjusted to become exercisable to purchase 1,611,114 shares at an exercise price of $1.39818 per share. In November 2009 we entered into an additional agreement with this lender whereby they purchased an additional $5 million note. The note accrued interest at 15.0% and was repaid in December 2010 at which time the lender purchased a new $27.8 million note under substantially the same terms as the $10 million and $15 million notes already outstanding. The $27.8 million note accrues interest at 16.0% and matures in December 2013. Concurrent with the issuance of the $27.8 million note, the terms of the $10 and $15 million notes were amended to change their maturity dates to December 2013. In conjunction with the issuance of the $27.8 million note, we issued to the lender 880,000 shares of common stock and 1,870 shares of Series B convertible preferred stock. Each share of the Series B convertible preferred stock may become exchangeable for 1,000 shares of our common stock, upon shareholder approval of such exchange, but not without shareholder approval. At the time of issuance, the value of the common stock and Series B preferred stock was $753,000 and $1.6 million, respectively.

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

We are and may in the future be limited in our ability to purchase automobile contracts due to limits on our capital. As of December 31, 2010, we had unrestricted cash of $16.3 million. We had $4.4 million available under our Fortress facility and $100 million available under the Goldman facility (in both facilities advances are subject to available eligible collateral). As stated above, we established a second $100 million revolving credit facility in

February 2011. In September 2010 we completed a securitization of previously securitized receivables, and we intend to complete securitizations regularly beginning in 2011, although there can be no assurance that we will be able to so. Our plans to manage our liquidity include maintaining our rate of automobile contract purchases at a level that matches our available capital, and, wherever appropriate, reducing our operating costs. If we are unable to complete such securitizations, we may be unable to increase our rate of automobile contract purchases, in which case our interest income and other portfolio related income would decrease.

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

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

The agreements under which we receive periodic fees for servicing automobile contracts in securitizations are terminable by the respective insurance companies upon defined events of default, and, in some cases, at the will of the insurance company. We have received waivers regarding the potential breach of certain such covenants relating to minimum net worth, financial loss in any one period and maintenance of active warehouse credit facilities. Without such waivers, certain credit enhancement providers would have had the right to terminate us as servicer with respect to certain of our outstanding securitization pools. Although such rights have been waived, such waivers are temporary, and there can be no assurance as to their future extension. We do, however, believe that we will obtain such future extensions because it is generally not in the interest of any party to the securitization transaction to transfer servicing. Nevertheless, there can be no assurance as to our belief being correct. Were an insurance company in the future to exercise its option to terminate such agreements, such a termination could have a material adverse effect on our liquidity and results of operations, depending on the number and value of the terminated agreements. Our note insurers continue to extend our term as servicer on a monthly and/or quarterly basis, pursuant to the servicing agreements.

The agreements for our residual interest financing, revolving credit facility and term funding facility include financial covenants which, if breached, would be an event of default. We have entered into an amendment that avoided the potential breach of a minimum net worth covenant on the revolving credit facility. Without such amendment, the lender could have, among other things, ceased providing funding to us for new contract purchases, terminated us as servicer of the pledged receivables and sold the pledged contracts to satisfy the debt.

Our plan for future operations and meeting the obligations of our financing arrangements includes returning to profitability by gradually increasing the amount of our contract purchases with the goal of increasing the balance of our outstanding managed portfolio. Our plans also include financing future contract purchases with credit facilities and term securitizations that offer a lower overall cost of funds compared to the facilities we used in 2009 and 2010. To illustrate, in the last six months of 2009 we purchased $6.1 million in contracts and our sole credit facility had a minimum interest rate of 14.00% per annum. By comparison, in 2010, we purchased $113.0 million in contracts and, in March 2010, entered into the $50 million term funding facility which has an interest rate of 11.00% per annum and the ability to decrease such rate to 9.00% per annum if certain conditions are met. In December 2010 we entered into a $100 million credit facility with an interest rate

of one-month LIBOR plus 5.00% per annum, with a minimum rate of 6.5% per annum and in February 2011, we added another $100 million credit facility with an interest rate of one-month LIBOR plus 6.00% per annum.

Moreover, the weighted average effective coupon of our September 2010 term securitization was 3.21% and did not include a financial guaranty policy. This transaction demonstrates our ability to access the lower cost of funds available in the current market environment without the financial guaranties we historically incorporated into our term securitization structures. We expect to complete one or more term securitizations in 2011. In addition, less competition in the auto financing marketplace has resulted in better terms for our recent contract purchases compared to prior years. For the years ended December 31, 2010, 2009 and 2008, the average acquisition fee we charged per automobile contract purchased under our CPS programs was $1,382, $1,508 and $592, respectively, or 9.2%, 11.7%, and 3.9%, respectively, of the amount financed. Similarly, the weighted average annual percentage rate of interest payable by our customers on newly purchased contracts has increased significantly: to 20.05% for 2010 from 19.9%, and 18.5% in 2009 and 2008, respectively.

We have and will continue to have a substantial amount of indebtedness. At December 31, 2010, we had approximately $717.9 million of debt outstanding. Such debt consisted primarily of $567.7 million of securitization trust debt, and also included $45.6 million of a warehouse line of credit, $39.4 million of residual interest financing, $44.9 million of senior secured related party debt and $20.3 million owed in subordinated notes. We are also currently offering the subordinated notes to the public on a continuous basis, and such notes have maturities that range from three months to 10 years. The residual interest financing facility matures in May 2011 and we are in discussions with the lender regarding the extension or restructuring of the facility, as to which there can be no assurance.

Our recent operating results include net losses of $33.8 million and $57.2 million in 2010 and 2009, respectively. We believe that our results have been materially and adversely affected by the disruption in the capital markets that began in the fourth quarter of 2007, by the recession that began in December 2007, and by related high levels of unemployment. Our ability to repay or refinance maturing debt may be adversely affected by prospective lenders' consideration of our recent operating losses.

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

REVOLVING CREDIT AGREEMENT

dated as of December 23, 2010

among

PAGE SIX FUNDING LLC,

CONSUMER PORTFOLIO SERVICES, INC.,

GOLDMAN SACHS BANK USA,

as Administrative Agent, Collateral Agent, a Lead Agent, and a Lender

and

FORTRESS CREDIT CORP.,

as a Lender and a Lead Agent

$100,000,000 Secured Revolving Credit Facility

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REVOLVING CREDIT AGREEMENT

This **REVOLVING CREDIT AGREEMENT**, dated as of December 23, 2010, is entered into by and among PAGE SIX FUNDING LLC, a Delaware limited liability company (the "**Borrower**"), **CONSUMER PORTFOLIO SERVICES, INC.,** a California corporation, ("**CPS**"), **GOLDMAN SACHS BANK USA** ("**Goldman Sachs Bank**"), as a Lender, Administrative Agent (in such capacity, the "**Administrative Agent**"), Collateral Agent (in such capacity, the "**Collateral Agent**"), and as a Lead Agent (in such capacity, a "**Lead Agent**"), and **FORTRESS CREDIT CORP.** ("**Fortress**"), as a Lender and as a Lead Agent (in such capacity, a "**Lead Agent**").

RECITALS:

WHEREAS, the Lenders have agreed to extend a credit facility (the "**Facility**") to the Borrower, consisting of up to $100,000,000 aggregate principal amount of Revolving Commitments, the proceeds of which will be used by the Borrower to acquire Receivables and to pay fees and expenses related to the foregoing; and

WHEREAS, the Borrower has agreed to secure all of its Obligations by granting to the Collateral Agent, for the benefit of the Secured Parties, a first priority Lien on all of its assets;

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

SECTION 1. DEFINITIONS AND INTERPRETATION

1.1. Definitions. The following terms used herein, including in the preamble, recitals, exhibits and schedules hereto, shall have the following meanings:

"**ABS Transaction**" means a securitization sponsored by the Originator, pursuant to which, the Originator sells Receivables to a special purpose entity which issues term securities backed by such Receivables in either a public offering or an offering pursuant to Rule 144A.

"**Act**" as defined in Section 4.23.

"**Adjusted LIBOR Rate**" means, for any Interest Period and any LIBOR Rate Loan made or continued during such Interest Period, the per annum rate equal to the greater of (i) 1.50% per annum and (ii) the rate obtained by dividing (a)(i) the rate per annum (rounded to the nearest 1/100 of 1%) equal to the rate determined by the Administrative Agent to be the offered rate which appears on the page of the Reuters Screen which displays an average British Bankers Association Interest Settlement Rate (such page currently being Reuters Screen LIBOR01 Page) for deposits (for delivery on the first day of such period) for a one-month period in Dollars, determined as of approximately 11:00 a.m. (London, England time) on the related Interest Rate Reset Date, or (ii) in the event the rate referenced in the preceding clause (i) does not appear on such page or service or if such page or service shall cease to be available, the rate per annum (rounded to the nearest 1/100 of 1%) equal to the rate determined by the Administrative Agent to be the offered rate on such other page or other service which displays an average British Bankers Association Interest Settlement Rate for deposits (for delivery on the first day of such period) for

a one-month period in Dollars, determined as of approximately 11:00 a.m. (London, England time) on the related Interest Rate Reset Date, or (iii) in the event the rates referenced in the preceding clauses (i) and (ii) are not available, the rate per annum (rounded to the nearest 1/100 of 1%) equal to the offered quotation rate to first class banks in the London interbank market for deposits by Goldman Sachs Bank or any other Lender selected by Administrative Agent (for delivery on the first day of the relevant period) in Dollars of amounts in same day funds comparable to the principal amount of the applicable Revolving Loan for which the Adjusted LIBOR Rate is then being determined with maturities equal to a one-month period as of approximately 11:00 a.m. (London, England time) on such Interest Rate Reset Date by (b) an amount equal to (i) one, minus (ii) the Applicable Reserve Requirement.

"**Adjusted Tangible Net Worth**" means, with respect to any fiscal quarter, the total shareholders' equity of CPS and its consolidated Subsidiaries that, in accordance with GAAP, is reflected on the consolidated balance sheet of CPS and its consolidated Subsidiaries as of the end of such fiscal quarter, minus the amount equal to the net deferred tax assets of CPS and its consolidated Subsidiaries reflected on such consolidated balance sheet, plus the amount equal to the net deferred tax assets of CPS and its consolidated Subsidiaries reflected on the consolidated balance sheet of CPS and its consolidated Subsidiaries as of December 31, 2008 (which amount is $52,727,000), minus the aggregate amount of the Servicer's and its consolidated Subsidiaries' intangible assets, including without limitation, goodwill, franchises, licenses, patents, trademarks, tradenames, copyrights and service marks.

"**Administrative Agent**" as defined in the preamble hereto.

"**Adverse Proceeding**" means, with respect to any Person, any action, suit, proceeding (whether administrative, judicial or otherwise), governmental investigation or arbitration (whether or not purportedly on behalf of such Person) at law or in equity, or before or by any Governmental Authority, domestic or foreign, whether pending or, to the knowledge of such Person, threatened against or affecting such Person or its properties.

"**Affected Lender**" as defined in Section 2.16(b).

"**Affected Loans**" as defined in Section 2.16(b).

"**Affected Person**" as defined in Section 2.17(b)(iii).

"**Affiliate**" means, as applied to any Person, any other Person directly or indirectly controlling (including any member of senior management of such Person), controlled by, or under common control with, that Person. For the purposes of this definition, "**control**" (including, with correlative meanings, the terms "**controlling,**" "**controlled by**" and "**under common control with**"), as applied to any Person, means the possession, directly or indirectly, of the power (a) to vote 20% or more of the Securities having ordinary voting power for the election of directors of such Person or (b) to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise.

"**Agent**" means each of the Administrative Agent and the Collateral Agent.

"**Aggregate Amounts Due**" as defined in Section 2.15.

"**Agreement**" means this Revolving Credit Agreement, dated as of December 23, 2010, as it may be amended, supplemented or otherwise modified from time to time in accordance with the terms hereof.

"**Applicable Margin**" is defined in the Fee Letter.

"**Applicable Reserve Requirement**" means, at any time, for any LIBOR Rate Loan, the maximum rate, expressed as a decimal, at which reserves (including, without limitation, any basic marginal, special, supplemental, emergency or other reserves) are required to be maintained with respect thereto against "Eurocurrency liabilities" (as such term is defined in Regulation D of the Board of Governors of the Federal Reserve System) under regulations issued from time to time by the Board of Governors of the Federal Reserve System or other applicable banking regulator. Without limiting the effect of the foregoing, the Applicable Reserve Requirement shall reflect any other reserves required to be maintained by member banks with respect to (i) any category of liabilities which includes deposits by reference to which the applicable Adjusted LIBOR Rate or any other interest rate of a Revolving Loan is to be determined, or (ii) any category of extensions of credit or other assets which include LIBOR Rate Loans. A LIBOR Rate Loan shall be deemed to constitute Eurocurrency liabilities and as such shall be deemed subject to reserve requirements without benefits of credit for proration, exceptions or offsets that may be available from time to time to the applicable Lender. The rate of interest on LIBOR Rate Loans shall be adjusted automatically on and as of the effective date of any change in the Applicable Reserve Requirement.

"**APR**" means, with respect to a Receivable, the annual percentage rate of finance charges stated in such Receivable; provided that if the annual percentage rate with respect to such Receivable is reduced as a result of (i) an insolvency proceeding involving the related Obligor as debtor or (ii) pursuant to the Service members Civil Relief Act, the APR shall refer to such reduced rate.

"**Assignment Agreement**" means an Assignment and Assumption Agreement substantially in the form of Exhibit D, with such amendments or modifications as may be approved by the Administrative Agent.

"**Authorized Officer**" means, as applied to any Person, any individual holding the position of chairman of the board (if an officer), chief executive officer, president or one of its vice presidents (or the equivalent thereof), and such Person's chief financial officer or treasurer.

"**Average Delinquency Rate**" means, with respect to any Vintage Pool and any Reporting Date, the arithmetic average of the Delinquency Rate for each of the three (3) Collection Periods immediately preceding the month in which such Reporting Date occurs.

"**Average Elapsed Period**" means, with respect to any Vintage Pool and any Reporting Date, the number of months elapsed between (x) the first day of the second month of the applicable calendar quarter of origination with respect to such Vintage Pool and (y) the first day of the month in which such Reporting Date occurs.

"**Backup Servicer**" means Wells Fargo Bank, National Association, or any independent third party selected by the Lead Agents, in their reasonable discretion, to perform monitoring functions with respect to the Receivables.

"**Backup Servicing Agreement**" means that certain Backup Servicing Agreement, dated as of December 23, 2010, by and among the Backup Servicer, the Servicer and the Lead Agents, as Controlling Party, as may be further amended, modified or supplemented from time to time.

"**Backup Servicing Fees**" as defined in the Backup Servicing Agreement.

"**Bankruptcy Code**" means Title 11 of the United States Code entitled "Bankruptcy," as now and hereafter in effect, or any successor statute.

"**Base Rate**" means, for any day, a rate per annum equal to the greater of (i) 5% per annum, (ii) the Prime Rate in effect on such day, and (iii) the Federal Funds Effective Rate in effect on such day plus ½ of 1%. Any change in the Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective on the effective day of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

"**Base Rate Loan**" means a Revolving Loan bearing interest at a rate determined by reference to the Base Rate.

"**Borrower**" as defined in the preamble hereto.

"**Borrowing Base**" means, subject to Section 2.21(a), as of any date of determination, an amount equal to

(a) the sum of:

(i) the Maximum Advance for such date; plus

(ii) the aggregate amount then on deposit in the Collection Account representing collection of principal paid on Eligible Receivables;

minus

(b) the amount of any reserves the Lead Agents may establish from time to time in their commercially reasonable discretion as necessary or appropriate to reflect circumstances that adversely impact the Lead Agents' valuation of the Receivables (such reserves to be applied thirty (30) days after the Lead Agents have delivered written notice thereof to the Borrower).

"**Borrowing Base Certificate**" means a certificate, substantially in the form of Exhibit C, executed by an Authorized Officer of the Borrower and delivered to the Lead Agents, the Collateral Agent and the Administrative Agent, which sets forth the calculation of the Borrowing Base, including a calculation of each component thereof.

"**Borrowing Base Deficiency**" means the amount (if any) by which the Total Utilization of Revolving Commitments exceeds the lesser of (a) the Revolving Commitments then in effect and (b) the Borrowing Base. For the avoidance of doubt, a "Borrowing Base Deficiency" shall be deemed to exist at any time following the occurrence and continuance of an Event of Default, to the extent that any deficiency balance exists with respect to the Obligations remaining due and payable by the Borrower.

"**Business Day**" means (a) any day excluding Saturday, Sunday and any day which is a legal holiday under the laws of the State of New York, the State of Minnesota, the State of Texas, or the State of California or is a day on which banking institutions located in either such state are authorized or required by law or other governmental action to close, and (b) with respect to all notices, determinations, fundings and payments in connection with the Adjusted LIBOR Rate or any LIBOR Rate Loans, the term "**Business Day**" shall mean any day which is a Business Day described in clause (a) and which is also a day for trading by and between banks in Dollar deposits in the London interbank market.

"**Capital Lease**" means, as applied to any Person, any lease of any property (whether real, personal or mixed) by that Person (a) as lessee that, in conformity with GAAP, is or should be accounted for as a capital lease on the balance sheet of that Person or (b) as lessee which is a transaction of a type commonly known as a "synthetic lease" (i.e., a transaction that is treated as an operating lease for accounting purposes but with respect to which payments of rent are intended to be treated as payments of principal and interest on a loan for Federal income tax purposes).

"**Capital Stock**" means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation), including, without limitation, partnership interests and membership interests, and any and all warrants, rights or options to purchase or other arrangements or rights to acquire any of the foregoing.

"**Cash**" means money, currency or a credit balance in any demand or deposit account.

"**Cash Equivalents**" means, as at any date of determination, (a) marketable securities (i) issued or directly and unconditionally guaranteed as to interest and principal by the United States Government, or (ii) issued by any agency of the United States the obligations of which are backed by the full faith and credit of the United States, in each case maturing within one (1) year after such date; (b) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof, in each case maturing within one (1) year after such date and having, at the time of the acquisition thereof, a rating of at least A-1 from S&P or at least P-1 from Moody's; (c) commercial paper maturing no more than one (1) year from the date of creation thereof and having, at the time of the acquisition thereof, a rating of at least A-1 from S&P or at least P-1 from Moody's; (d) certificates of deposit or bankers' acceptances maturing within one (1) year after such date and issued or accepted by any Lender or by any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia that (i) is at least "**adequately capitalized**" (as defined in the regulations of its primary Federal banking regulator), and (ii) has Tier 1 capital (as defined in such regulations) of not less than

$100,000,000; and (e) shares of any money market mutual fund that (i) has substantially all of its assets invested continuously in the types of investments referred to in clauses (a) and (b) above, (ii) has net assets of not less than $500,000,000, and (iii) has the highest rating obtainable from either S&P or Moody's.

"**Change of Control**" means, at any time, (i) with respect to the Borrower, CPS shall cease to beneficially own and control 100% on a fully diluted basis of the economic and voting interest in the Capital Stock of the Borrower and (ii) with respect to CPS or the Servicer, the acquisition by any Person, or two (2) or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of outstanding shares of voting stock of CPS or the Servicer, as applicable, at any time if after giving effect to such acquisition such Person or Persons owns fifty percent (50%) or more of such outstanding voting stock.

"**Charge-Off Receivable**" means any Receivable (or any other automobile receivable acquired or originated by the Originator) with respect to which the earlier of any of the following shall have occurred (without duplication): (i) the Receivable has been liquidated by the Servicer through the sale of the Financed Vehicle, (ii) the related Obligor has failed to make a Scheduled Receivable Payment by its due date and such failure continues for one hundred and twenty (120) days (or, if the related Financed Vehicle has been repossessed, two hundred and ten (210) days), (iii) ninety (90) days following the repossession of the related Financed Vehicle by the Servicer, (iv) the related Obligor is subject to a proceeding under the Bankruptcy Code or other applicable Debtor Relief Laws and the related Receivable is not a performing Contract, (v) the related Obligor is deceased, (vi) proceeds have been received which, in the Servicer's good faith judgment, constitute the final amounts recoverable in respect of such Receivable, or (vii) the Servicer has otherwise determined, in accordance with its Collection Policy, that the related Receivable should be charged-off.

"**Closing Date**" means the date on which the initial Revolving Loans are made.

"**Closing Date Certificate**" means a Closing Date Certificate substantially in the form of Exhibit E-1.

"**Closing Date Material Adverse Change**" means a material adverse change in (i) the business operations, assets, condition (financial or otherwise), liabilities or prospects of any Credit Party or the Originator, since September 30, 2010; (ii) the ability of the Borrower to fully and timely perform its material Obligations under any of the Credit Documents to which it is a party, or the legality, validity, binding effect, or enforceability against the Borrower of any such Credit Documents; or (iii) the ability of CPS to fully and timely perform its material obligations under the Credit Documents to which it is a party, or the legality, validity, binding effect, or enforceability against CPS of any such Credit Documents.

"**Collateral**" means, collectively, all of the real, personal and mixed property in which Liens are purported to be granted pursuant to the Collateral Documents as security for the Obligations.

"**Collateral Agent**" as defined in the preamble hereto.

"**Collateral Documents**" means the Security Agreement, the Control Agreements and all other instruments, documents and agreements delivered by any Credit Party pursuant to this Agreement or any of the other Credit Documents in order to grant to the Collateral Agent, for the benefit of Secured Parties, a Lien on any real, personal or mixed property of that Credit Party, as the case may be, as security for the Obligations.

"**Collateral Receipt and Exception Report**" as defined in the Custodial Agreement.

"**Collection Account**" as defined in the Security Agreement.

"**Collection Period**" means, (i) with respect to the initial Settlement Date, the period beginning on the Closing Date and ending on the last day of the immediately preceding calendar month and (ii) with respect to any other Settlement Date, the immediately preceding calendar month.

"**Collection Policy**" as defined in the Servicing Agreement.

"**Collections**" means all collections on the Receivables, including, without limitation, all Scheduled Receivable Payments, all non-scheduled payments, all prepayments, all late fees, all other fees, all insurance proceeds, all Liquidation Proceeds, all Recoveries, investment earnings, rental payments, residual proceeds, payments received under any personal guaranty with respect to a Receivable and all other payments received with respect to the Receivables, but excluding sales and property tax payments.

“**Consumer Lender**” means a Person that is licensed under applicable law to originate consumer loans to natural persons resident in one or more of the United States of America and authorized by CPS to participate in its direct lending program, and includes the Originator.

"**Consumer Lender Receivable**" means any Receivable originated by the Originator or acquired by the Originator in the ordinary course of business from a Consumer Lender unaffiliated with the Originator and that is not a Dealer.

“**Contract**” means a motor vehicle retail installment sale contract or an installment promissory note and security agreement, in each case relating to the sale or refinancing of a Financed Vehicle.

"**Contractual Obligation**" means, as applied to any Person, any provision of any Security issued by that Person or of any indenture, mortgage, deed of trust, contract, undertaking, agreement or other instrument to which that Person is a party or by which it or any of its properties is bound or to which it or any of its properties is subject.

"**Control Agreements**" means, collectively, the Lockbox Account Control Agreement and the Controlled Account Control Agreement.

"**Controlled Account Bank**" means Wells Fargo Bank, National Association, in its capacity as account bank under the Controlled Account Control Agreement, and its successors and assigns.

"**Controlled Account Bank Fee**" as defined in the Controlled Account Control Agreement.

"**Controlled Account Control Agreement**" as defined in the Security Agreement.

"**CPS**" means Consumer Portfolio Services, Inc., a California corporation.

"CPS Receivables" means all automobile receivables purchased or originated by the Originator from time to time, including the Receivables.

"CPS Serviced Receivables" means all automobile receivables serviced by CPS from time to time (whether or not purchased or originated by CPS).

"**Credit Date**" means the date of a Credit Extension.

"**Credit Document**" means any of (a) this Agreement, the Fee Letter, the Revolving Loan Notes, if any, the Collateral Documents, the Intercreditor Agreement, the Related Agreements and the Limited Guaranty and (b) all other documents, instruments or agreements executed and delivered by a Credit Party for the benefit of any Agent or any Lender in connection herewith.

"**Credit Extension**" means the making of a Revolving Loan.

"**Credit Party**" means the Borrower and CPS.

"**Credit Score**" means the applicable credit score, for each primary Obligor, as determined by Equifax, Inc. or a comparable credit bureau.

"**Cumulative Net Loss Rate**" means, as of any Reporting Date and with respect to any Vintage Pool, a rate, expressed as a percentage equal to a fraction, (i) the numerator of which is the Cumulative Net Losses with respect to all automobile receivables acquired or originated by the Originator in the related Vintage Pool and (ii) the denominator of which is the aggregate principal balance of all automobile receivables acquired or originated by the Originator in the related Vintage Pool at the time of origination or acquisition by the Originator; provided that, if any sale or securitization of receivables by the Originator occurs on a servicing released basis, the Originator and the Administrative Agent shall negotiate in good faith to amend the calculation of Cumulative Net Loss Rate if such sale or securitization results in an inability to calculate the Cumulative Net Loss Rate because of lack of information upon which to make such calculation.

"**Cumulative Net Losses**" means, as of any date of determination and with respect to any Vintage Pool, the aggregate cumulative principal amount of automobile receivables acquired or originated by the Originator that have become Charge-Off Receivables during the period beginning on the applicable date of origination through the end of the Collection Period immediately preceding the month in which such date of determination occurs, net of all Net Liquidation Proceeds and Recoveries with respect to such receivables as of the end of the Collection Period immediately preceding the month in which such date of determination occurs.

"**Custodial Agreement**" means that certain Custodial and Collateral Agency Agreement dated as of December 23, 2010 by and among the Borrower, the Servicer, Custodian, the Collateral Agent and the Lead Agents, as may be further amended, modified or supplemented from time to time in accordance with the terms thereof.

"**Custodian**" means Wells Fargo Bank, National Association, in its capacity as custodian under the Custodial Agreement, or any successor thereto acceptable to the Lead Agents in their sole discretion.

"**Custodian Fee**" as defined in the Custodial Agreement.

"**Custodian Fee and Expenses**" as defined in the Custodial Agreement.

"**Dealer**" means, with respect to a Receivable, the seller of the related Financed Vehicle, who originated and assigned such Receivable to the Originator pursuant to a Dealer Agreement.

"**Dealer Agreement**" means each agreement between a Dealer and the Originator pursuant to which such Dealer assigned, sold or otherwise conveyed a Receivable to the Originator.

"**Debtor Relief Laws**" means the Bankruptcy Code, and all other applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, suspension of payments, readjustment of debt, marshalling of assets, assignment for the benefit of creditors or similar debtor relief laws of the United States, any state or any foreign country from time to time in effect, affecting the rights of creditors generally or the rights of creditors of banks.

"**Default**" means a condition or event that, after notice or lapse of time or both, would constitute an Event of Default.

"**Default Rate**" means the interest rate provided in Section 2.7.

"**Delinquency Rate**" means, with respect to any date of determination and any Vintage Pool, a rate, expressed as a percentage, equal to a fraction (i) the numerator of which is the aggregate outstanding principal balance of all CPS Receivables in such Vintage Pool that are more than 30 days past due as of the last day of the most recently ended Collection Period and (ii) the denominator of which is the aggregate outstanding principal balance of all CPS Receivables in such Vintage Pool as of the last day of the most recently ended Collection Period; provided that, if any sale or securitization of CPS Receivables by the Originator occurs on a servicing released basis, the Originator and the Administrative Agent shall negotiate in good faith to amend the calculation of Delinquency Rate if such sale or securitization results in an inability to calculate the Delinquency Rate because of lack of information upon which to make such calculation.

"**Delinquent Receivable**" means, with respect to any date of determination, an Eligible Receivable with respect to which the related Obligor is more than thirty (30) days but less than or equal to sixty (60) days past due with respect to 10% or more of a Scheduled Receivable Payment.

"**Depository Institution**" means, collectively, any "depository institution" or any "subsidiary" of a depository institution, as such terms are defined in the Federal Deposit Insurance Act of 1950, as amended to date.

"**Dollars**" and the sign "**$**" mean the lawful money of the United States of America.

"**Effective Advance Rate**" means a fraction (i) the numerator of which is equal to the Total Utilization of Revolving Commitments and (ii) the denominator of which is the aggregate principal balance of all Eligible Receivables.

"**Eligibility Criteria"** means the criteria set forth on Appendix C.

"Eligible Assignee" means (a) any Lender with Revolving Exposure or any Lender Affiliate (other than a natural person) of a Lender with Revolving Exposure, (b) a commercial bank organized under the laws of the United States, or any state thereof, and having total assets or net worth in excess of $100,000,000, (c) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development or a political subdivision of any such country and which has total assets or net worth in excess of $100,000,000, provided that such bank is acting through a branch or agency located in the United States, and (d) a finance company, insurance company, or other financial institution or fund that is engaged in making, purchasing, or otherwise investing in commercial loans in the ordinary course of its business and having (together with its Lender Affiliates) total assets or net worth in excess of $100,000,000; provided, (x) no Credit Party nor any Affiliate of a Credit Party shall, in any event, be an Eligible Assignee and (y) no Person owning or controlling any trade debt or Indebtedness of any Credit Party other than the Obligations or any Capital Stock of any Credit Party (in each case, unless approved by the Administrative Agent) shall, in any event, be an Eligible Assignee.

"**Eligible Dealer**" means a Dealer that satisfies the following criteria: (a) the related Dealer Agreement provides for full recourse to the Dealer in the event of any fraud or misrepresentation on the part of the Dealer, (b) to the extent applicable, the Dealer has obtained all applicable Governmental Authorizations, and (c) the Dealer otherwise qualifies as an "Eligible Dealer" in accordance with the Originator’s customary policies.

"**Eligible Obligor**" means an Obligor that (a) with respect to an Obligor for any Receivables other than a Section 341 Receivable, is not currently in bankruptcy, (b) as of the date of its application for credit from which the related Receivable arises, had not been the subject of more than one federal, state or other bankruptcy, insolvency or similar proceeding that has not completed a Section 341 Meeting, (c) is not a party to more than one (1) Contract with the Originator or any of its Affiliates, (c) is not an employee, or affiliated with any employee of, the Originator or any of its Affiliates and (d) is domiciled in the United States (as evidenced by proof of residency).

"**Eligible Receivable**" means a Receivable with respect to which the Eligibility Criteria are satisfied as of any date of determination.

"**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any successor thereto.

"**Event of Default**" means any of the conditions or events set forth in Section 7.1.

"**Excess Concentration Amounts**" means, each of the amounts set forth on Appendix D hereto, which amounts shall be excluded from the calculation of the aggregate unpaid principal balance of Eligible Receivables.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended to the date hereof and from time to time hereafter, and any successor statute.

"**Facility**" as defined in the preamble hereto.

"**Federal Funds Effective Rate**" means for any day, the rate per annum (expressed, as a decimal, rounded upwards, if necessary, to the next higher 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the next succeeding Business Day; provided, (a) if such day is not a Business Day, the Federal Funds Effective Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Effective Rate for such day shall be the average rate charged to Fortress on such day on such transactions as determined by the Administrative Agent.

"**Fee Letter**" means the letter agreement, dated as of the date hereof, by and among the Lead Agents, the Borrower and CPS.

"**Financed Vehicle**" means a new or used automobile, van, minivan, sport utility vehicle or light duty truck, together with all accessions thereto, securing an Obligor's indebtedness under a Receivable.

"**Fiscal Quarter**" means, with respect to a particular Fiscal Year, a fiscal quarter corresponding to such Fiscal Year.

"**Fiscal Year**" means for the Borrower, any consecutive twelve-month period commencing on the date following the last day of the previous Fiscal Year and ending on December 31.

"**Fortress**" as defined in the Preamble hereto.

"**Fortress Affiliate Lender**" as defined in Section 9.6(k).

"**Funding Notice**" means a notice substantially in the form of Exhibit A.

“**Funding Termination Event**” means the date on which any two (2) Key Employees cease to be involved in the day to day operations of the Originator or are unable to work for three (3) consecutive months and are not replaced by successors acceptable to the Administrative Agent within sixty (60) days.

"**GAAP**" means, subject to the limitations on the application thereof set forth in Section 1.2, United States generally accepted accounting principles in effect as of the date of determination thereof.

"**Goldman Sachs Bank**" as defined in the preamble hereto.

"**Governmental Authority**" means any federal, state, municipal, national or other government, governmental department, commission, board, bureau, court, agency or instrumentality or political subdivision thereof or any entity or officer exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to any government or any court, in each case whether associated with a state of the United States, the United States, or a foreign entity or government.

"**Governmental Authorization**" means any permit, license, authorization, plan, directive, consent order or consent decree of or from any Governmental Authority.

"**Grantor**" as defined in the Security Agreement.

"**Guarantor**" means CPS.

"**Highest Lawful Rate**" means the maximum lawful interest rate, if any, that at any time or from time to time may be contracted for, charged, or received under the laws applicable to any Lender which are presently in effect or, to the extent allowed by law, under such applicable laws which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow.

"**Increased-Cost Lender**" as defined in Section 2.20.

"**Indebtedness,**" as applied to any Person, means, without duplication, (a) all indebtedness for borrowed money; (b) that portion of obligations with respect to Capital Leases that is properly classified as a liability on a balance sheet in conformity with GAAP; (c) notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money; (d) any obligation owed for all or any part of the deferred purchase price of property or services (excluding any such obligations incurred under ERISA), which purchase price is (i) due more than six (6) months from the date of incurrence of the obligation in respect thereof or (ii) evidenced by a note or similar written instrument; (e) all indebtedness secured by any Lien on any property or asset owned or held by that Person regardless of whether the indebtedness secured thereby shall have been assumed by that Person or is nonrecourse to the credit of that Person; (f) the face amount of any letter of credit issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings; (g) the direct or indirect guaranty, endorsement (otherwise than for collection or deposit in the ordinary course of business), co-making, discounting with recourse or sale with recourse by such Person of the obligation of another; (h) any obligation of such Person the primary purpose or intent of which is to provide assurance to an obligee that the obligation of the obligor thereof will be paid or discharged, or any agreement relating thereto will be complied with, or the holders thereof will be protected (in whole or in part) against loss in respect thereof; (i) any liability of such Person for an obligation of another through any agreement (contingent or otherwise) (A) to purchase, repurchase or otherwise acquire such obligation or any security

therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise) or (B) to maintain the solvency or any balance sheet item, level of income or financial condition of another if, in the case of any agreement described under subclauses (A) or (B) of this clause (i), the primary purpose or intent thereof is as described in clause (h) above; and (j) all obligations of such Person in respect of any exchange traded or over the counter derivative transaction, whether entered into for hedging or speculative purposes.

"**Indemnified Liabilities**" means, collectively, any and all liabilities, obligations, losses, damages, penalties, claims, costs, expenses and disbursements of any kind or nature whatsoever (including the reasonable, documented, out-of-pocket fees and disbursements of counsel for Indemnitees in connection with any investigative, administrative or judicial proceeding commenced by any Person, whether or not any such Indemnitee shall be designated as a party or a potential party thereto, and any reasonable, documented, out-of-pocket fees or expenses incurred by Indemnitees in enforcing the indemnification provisions of Section 9.3), whether direct, indirect or consequential and whether based on any federal, state or foreign laws, statutes, rules or regulations (including securities and commercial laws, statutes, rules or regulations, on common law or equitable cause or on contract or otherwise) that may be imposed on, incurred by, or asserted against any such Indemnitee, in any manner relating to or arising out of this Agreement or the other Credit Documents or the transactions contemplated hereby or thereby (including the Lenders' agreement to make Credit Extensions or the use or intended use of the proceeds thereof, or any enforcement of any of the Credit Documents (including any sale of, collection from, or other realization upon any of the Collateral or the enforcement of the Limited Guaranty)); provided, however, that "Indemnified Liabilities" shall not include any liabilities, obligations, losses, damages, penalties, claims, costs, expenses and disbursements resulting from credit losses on or diminution in value of Receivables or other Collateral unless such credit loss or diminution in value was a result of the action or inaction of the Borrower or the Servicer in contravention of the Credit Documents.

"**Indemnitee**" as defined in Section 9.3(a).

"**Independent Accountants**" means (a) Crowe Horwath LLP or (b) a firm of independent certified public accountants registered with the Public Company Accounting Oversight Board and otherwise acceptable to the Administrative Agent.

"**Independent Manager**" means an employee of Lord Securities Corporation, or another natural person meeting the qualifications set forth in Section 6.15 and otherwise acceptable to the Lead Agents in their sole discretion.

"**Ineligible Receivable**" means any Receivable (i) with respect to which more than 10% of a Scheduled Receivable Payment is more than sixty (60) days contractually delinquent as of the end of the immediately preceding Collection Period or (B) is in bankruptcy (other than a Section 341 Receivable), (ii) the terms of which (excluding any extensions granted in accordance with the Collection Policy) have been modified, (iii) that is a Charge-Off Receivable, or (iv) for which the Custodian has not received a Lien Certificate (as defined in the Custodial Agreement), satisfactory to the Lead Agents, within 180 days from the date on which such Receivable was originated.

"**Insolvency Event**" means, with respect to a specified Person, (a) the institution of a proceeding or the filing of a petition against such Person seeking the entry of a decree or order for relief by a court having jurisdiction in the premises in respect of such Person or any substantial part of its property in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such Person or for any substantial part of its property, or ordering the winding-up or liquidation of such Person's affairs, and such proceeding or petition, decree or order shall remain unstayed or undismissed for a period of 60 consecutive days or an order or decree for the requested relief is earlier entered or issued; or (b) the commencement by such Person of a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by such Person to the entry of an order for relief in an involuntary case under any such law, or the consent by such Person to the appointment of or taking possession by, a receiver, liquidator, assignee, custodian, trustee, sequestrator, or similar official for such Person or for any substantial part of its property, or the making by such Person of any general assignment for the benefit of creditors, or the failure by such Person generally to pay its debts as such debts become due, or the taking of action by such Person in furtherance of any of the foregoing.

"**Intercreditor Agreement**" means an Intercreditor and Subordination Agreement with respect to the Subordinated Notes in form, scope and substance satisfactory to the Lead Agents.

"**Interest Period**" means, with respect to any Revolving Loans and any Settlement Date, (a) with regard to the first such period, the period commencing on (and including) the related Credit Date to but excluding such Settlement Date; and (b) thereafter, the period commencing on the immediately preceding Settlement Date to but excluding such Settlement Date; provided, no Interest Period with respect to any portion of the Revolving Loans shall extend beyond the Revolving Commitment Termination Date.

"**Interest Rate**" means, with respect to (i) any Revolving Loan that is a LIBOR Rate Loan and any Interest Period, the Adjusted LIBOR Rate plus the Applicable Margin for such Interest Period and (ii) any Revolving Loan that is a Base Rate Loan and any Interest Period, the Base Rate plus the Applicable Margin for such Interest Period.

"**Interest Rate Reset Date**" means, with respect to any Interest Period, the date that is two (2) Business Days prior to the first day of such Interest Period.

"**Internal Revenue Code**" means the Internal Revenue Code of 1986, as amended to the date hereof and from time to time hereafter, and any successor statute.

"**Investment**" means (a) any direct or indirect purchase or other acquisition by the Borrower of, or of a beneficial interest in, any of the Securities of any other Person; (b) any direct or indirect redemption, retirement, purchase or other acquisition for value, from any Person, of any Capital Stock of such Person; and (c) any direct or indirect loan, advance or capital contributions by the Borrower to any other Person, including all indebtedness and accounts receivable from that other Person that are not current assets or did not arise from sales to that other Person in the ordinary course of business. The amount of any Investment shall be

the original cost of such Investment plus the cost of all additions thereto, without any adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment.

“**Key Employee**” means each of Charles Bradley, Jr., Robert Riedl and Chris Terry or any successor thereto approved by the Administrative Agent in its sole discretion.

"**Lead Agents**" means (i) Fortress, so long as Fortress' and its Affiliates' aggregate Revolving Commitment is not less than $37,500,000 (or if the Revolving Commitments have terminated, not less than 25% of the outstanding principal balance of the Revolving Loans is owing to Fortress and its Affiliates) and (ii) Goldman Sachs Bank, so long as Goldman Sachs Bank’s and its Affiliates' aggregate Revolving Commitment is not less than $37,500,000 (or if the Revolving Commitments have terminated, not less than 25% of the outstanding principal balance of the Revolving Loans is owing to Goldman Sachs Bank and its Affiliates); provided that, if there are no Lead Agents, the voting and control rights held by the Lead Agents herein shall be exercised by the Administrative Agent.

"**Lender**" means each financial institution listed on the signature pages hereto as a Lender, and any other Person that becomes a party hereto pursuant to an Assignment Agreement.

"**Lender Affiliate**" means, as applied to any Lender or Agent, any Person directly or indirectly controlling (including any member of senior management of such Person), controlled by, or under common control with, such Lender. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power (a) to vote 10% or more of the Securities having ordinary voting power for the election of directors of such Person or (b) to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise.

"**LIBOR Rate Loan**" means a Revolving Loan bearing interest at a rate determined by reference to the Adjusted LIBOR Rate and maturing on the last day of each Interest Period (unless otherwise continued pursuant to Section 2.6).

"**LIBOR Unavailability**" as defined in Section 2.16(a).

"**Lien**" means (a) any lien, mortgage, pledge, assignment, security interest, charge or encumbrance of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, and any lease in the nature thereof) and any option, trust or other preferential arrangement having the practical effect of any of the foregoing and (b) in the case of Securities, any purchase option, call or similar right of a third party with respect to such Securities.

"**Limited Guaranty**" means that certain Guaranty dated as of December 23, 2010 by CPS in favor of the Administrative Agent, on behalf of the Lenders, as may be further amended, modified or supplemented from time to time in accordance with the terms thereof.

"**Liquidation Proceeds**" as defined in the Servicing Agreement.

"**Lockbox Account**" as defined in the Security Agreement.

"**Lockbox Account Control Agreement**" as defined in the Security Agreement.

"**Lockbox System**" as defined in Section 5.9(a)(i).

"**LTV**" means, with respect to any Receivable, the ratio, at the time of origination, of (i) the unpaid principal balance of such Receivable to (ii) the wholesale book value of the related Financed Vehicle as set forth in the Kelly Blue Book®, the NADA Official Used Car Guide® or the Black Book Wholesale Average Condition.

"**Margin Stock**" as defined in Regulation U of the Board of Governors of the Federal Reserve System as in effect from time to time.

"**Material Adverse Effect**" means, a material adverse effect on (a) the business operations, assets, condition (financial or otherwise), liabilities or prospects of a Credit Party, (b) the ability of a Credit Party to fully and timely perform its obligations under the Credit Documents (including, without limitation, the Obligations of the Borrower); (c) the legality, validity, binding effect, or enforceability against a Credit Party of any Credit Document to which it is a party; or (d) the rights, remedies and benefits available to, or conferred upon, any Agent, any Lead Agent, any Lender or any Secured Party under any Credit Document.

"**Material Contract**" means any contract or other arrangement to which a Credit Party is a party (other than the Credit Documents) for which breach, nonperformance, cancellation or failure to renew could reasonably be expected to have a Material Adverse Effect.

"**Maturity Date**" means the second (2nd) anniversary of the Closing Date.

"**Maximum Advance**" means, as of any date of determination, the lesser of (i) $100,000,000 and (ii) an amount equal to the sum of (x) the applicable Maximum Advance Rate multiplied by the aggregate unpaid principal balance of the Eligible Receivables that are not Delinquent Receivables minus any Excess Concentration Amounts in respect of such Receivables and (y) the applicable Maximum Advance Rate multiplied by the aggregate unpaid principal balance of the Eligible Receivables that are Delinquent Receivables minus any Excess Concentration Amounts in respect of such Receivables.

"**Maximum Advance Rate**" means,

(a) if no Event of Default or Tier 1 Trigger Event has occurred and is continuing,

(i) with respect to each Receivable that is an Eligible Receivable and is not a Delinquent Receivable, 75%; and

(ii) with respect to each Eligible Receivable that is a Delinquent Receivable, 30%;

(b) if a Tier 1 Trigger Event has occurred and is continuing,

(i) with respect to each Receivable that is an Eligible Receivable and is not a Delinquent Receivable, 70%; and

(ii) with respect to each Eligible Receivable that is a Delinquent Receivable, 0%; and

(c) if an Event of Default has occurred and is continuing, 0%.

"**Monthly Servicing Report**" means that Monthly Servicing Report in the form attached as Exhibit A to the Servicing Agreement.

"**Moody's**" means Moody's Investor Services, Inc., and any successor thereto.

"**Net Insurance Proceeds**" means an amount equal to: (a) any Cash payments or proceeds received by the Borrower under any casualty, business interruption or "key man" insurance policies in respect of any covered loss thereunder, minus (b) any actual and reasonable costs incurred by the Borrower in connection with the adjustment or settlement of any claims of the Borrower in respect thereof.

"**Net Liquidation Proceeds**" as defined in the Servicing Agreement.

"**Non-Consenting Lender**" as defined in Section 2.20.

"**Obligations**" means all obligations of every nature of the Borrower from time to time owed to the Agents (including former Agents), the Lead Agents, the Lenders or any of them, under any Credit Document, whether for principal, interest (including interest which, but for the filing of a petition in bankruptcy with respect to the Borrower, would have accrued on any Obligation, whether or not a claim is allowed against the Borrower for such interest in the related bankruptcy proceeding), fees, expenses, indemnification or otherwise.

"**Obligor**" means, with respect to a Receivable, the purchaser or co-purchasers of the related Financed Vehicle or any other Person who owes or may be liable for payments under such Receivable.

"**Organizational Documents**" means (a) with respect to any corporation, its certificate or articles of incorporation or organization, as amended, and its by-laws, as amended, (b) with respect to any limited partnership, its certificate of limited partnership, as amended, and its partnership agreement, as amended, (c) with respect to any general partnership, its partnership agreement, as amended, and (d) with respect to any limited liability company, its articles of organization, as amended, and its operating agreement, as amended. In the event any term or condition of this Agreement or any other Credit Document requires any Organizational Document to be certified by a secretary of state or similar governmental official, the reference to any such "**Organizational Document**" shall only be to a document of a type customarily certified by such governmental official.

"**Originator**" means CPS.

"**Permitted Expenses**" means the reasonable costs and expenses incurred by the Administrative Agent or the Lead Agents (and their respective agents or professional advisors) in connection with the preparation, administration, amendment and due diligence of this Agreement and the other Credit Documents and, which costs and expenses the Borrower shall reimburse to the Administrative Agent or the Lead Agents, as applicable, or shall pay or cause to be paid. "Permitted Expenses" shall include, without limitation, the expenses set forth in Sections 5.4, 5.5, 5.14 and 9.2 hereof.

"**Permitted Investments**" means the following, subject to qualifications hereinafter set forth:

(i) obligations of, or obligations guaranteed as to principal and interest by, the U.S. government or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America;

(ii) federal funds, unsecured certificates of deposit, time deposits, banker's acceptances, and repurchase agreements having maturities of not more than 365 days of any bank, the short-term debt obligations of which are rated A-1+ (or the equivalent) by each of the Rating Agencies and, if it has a term in excess of three (3) months, the long-term debt obligations of which are rated AAA (or the equivalent) by each of the Moody's and S&P;

(iii) deposits that are fully insured by the Federal Deposit Insurance Corp. (FDIC);

(iv) investments in money market funds (including those owned or managed by the Controlled Account Bank) rated in the highest investment category by each of the Moody's and S&P; and

(v) such other investments as to which each of the Lead Agents consents.

Notwithstanding the foregoing, "Permitted Investments" (i) shall exclude any security with the S&P's "r" symbol (or any other Rating Agency's corresponding symbol) attached to the rating (indicating high volatility or dramatic fluctuations in their expected returns because of market risk), as well as any mortgage-backed securities and any security of the type commonly known as "strips"; (ii) shall not have maturities in excess of one (1) year; (iii) shall be limited to those instruments that have a predetermined fixed dollar of principal due at maturity that cannot vary or change; and (iv) shall exclude any investment where the right to receive principal and interest derived from the underlying investment provides a yield to maturity in excess of 120% of the yield to maturity at par of such underlying investment. Interest may either be fixed or variable, and any variable interest must be tied to a single interest rate index plus a single fixed spread (if any), and move proportionately with that index. No investment shall be made which requires a payment above par for an obligation if the obligation may be prepaid at the option of the issuer thereof prior to its maturity. All investments shall mature or be redeemable upon the option of the holder thereof on or prior to the earlier of (x) three (3) months from the date of their purchase

or (y) the Business Day preceding the day before the date the amounts invested in those investments are required to be applied hereunder.

"**Permitted Liens**" means:

(i) Liens imposed by law for taxes, assessments or other governmental charges payable by the Borrower that are not yet due or are being contested in compliance with Section 5.3;

(ii) Liens arising in favor of the applicable financial institution under the Lockbox Account Control Agreement or the Controlled Account Control Agreement; and

(iii) Liens on Financed Vehicles that are junior in right to the Lien of the Borrower, or that are possessory liens (such as for storage or repair), tax liens (such as property taxes or registration fees), or statutory enforcement liens (such as for parking tickets).

"**Person**" means and includes natural persons, corporations, limited partnerships, general partnerships, limited liability companies, limited liability partnerships, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts or other organizations, whether or not legal entities, and Governmental Authorities.

"**Prime Rate**" means the rate of interest quoted in The Wall Street Journal, Money Rates Section as the Prime Rate (currently defined as the base rate on corporate loans posted by at least 75% of the nation's 30 largest banks), as in effect from time to time.

"**Principal Office**" means, for the Administrative Agent, 200 West Street, New York, New York 10282 (or such other location in the United States of America as the Administrative Agent may from time to time designate in writing to the Borrower and each Lender).

"**Pro Rata Share**" means with respect to all payments, computations and other matters relating to the Revolving Commitment or Revolving Loans of any Lender, the percentage obtained by dividing (i) the Revolving Exposure of that Lender, by (ii) the aggregate Revolving Exposure of all Lenders.

"**Proposed Facility**" as defined in Section 9.22.

"**Protective Advances**" as defined in Section 2.1(c).

"**Purchase Agreement**" means that certain Receivables Purchase Agreement dated as of December 23, 2010, by and among the Originator and the Borrower, as may be further amended, modified or supplemented from time to time in accordance with the terms thereof.

"**Qualifying ABS Repurchase Price**" means, with respect to any Receivable and any date of determination, the product of (x) the unpaid principal balance of such Receivable, and (y) the Maximum Advance Rate applicable to such Receivable at such date of determination, plus

(z) all accrued and unpaid interest on the unpaid principal balance of such Receivable at the applicable Interest Rate through the date on which such Receivable is repurchased.

“Qualifying ABS Transaction” means an ABS Transaction in which the Originator repurchases from the Borrower, and the Originator will immediately resell, Receivables at a price equal to the aggregate Qualifying ABS Repurchase Price for such Receivables; provided that, (i) no Default or Event of Default has occurred and is continuing at such time, (ii) the Receivables so repurchased are not selected in a manner adverse to the Lenders or the Facility and is otherwise in accordance with Section 5.15 and (iii) no Borrowing Base Deficiency exists at such time or would occur after giving effect to such repurchase.

"**Rating Agencies**" means each of Moody's and S&P.

"**Receivable**" means each non-cancelable, unconditional, fixed-rate Contract secured by a first priority, perfected security interest in a Financed Vehicle that was originated or acquired by the Originator, sold by the Originator to the Borrower.

"**Receivable File**" as defined in the Custodial Agreement.

"**Receivable Repurchase Event**" means (i) with respect to any Receivable, the failure of such Receivable to satisfy the Eligibility Criteria at the time of its pledge under the Security Agreement, (ii) any required repurchase of a Receivable pursuant to Section 3.2 of the Purchase Agreement or (iii) any required repurchase of a Section 341 Receivable pursuant to Section 5.14.

"**Receivable Repurchase Price**" means, with respect to any Receivable and any date of determination, the principal balance of such Receivable, plus all accrued and unpaid interest on the unpaid principal balance of such Receivable at the applicable Interest Rate through the date on which such Receivable is repurchased.

"**Recoveries**" means, with respect to a Receivable that is a Charge-Off Receivable, the monies collected from whatever source during any Collection Period following the Collection Period in which such Receivable became a Charge-Off Receivable, net of any amounts required by law to be remitted to the Obligor.

"**Register**" as defined in Section 2.4(a).

"**Related Agreements**" means, collectively, the Purchase Agreement, the Servicing Agreement, the Custodial Agreement, the Backup Servicing Agreement.

"**Replacement Lender**" as defined in Section 2.20.

"**Replacement Person**" as defined in Section 2.17(b)(iii).

"**Reporting Date**" means the tenth (10th) calendar day of each month (or if such day is not a Business Day, the immediately succeeding Business Day).

"**Requisite Lenders**" means one (1) or more Lenders having or holding Revolving Exposure and representing more than 50% of the aggregate Revolving Exposure of all Lenders.

"**Revolving Availability**" means, as of any date of determination, the difference of (i) the lesser of (a) the Revolving Commitments and (b) the Borrowing Base, minus (ii) the Total Utilization of Revolving Commitments.

"**Revolving Commitment**" means the commitment of a Lender to make or otherwise fund any Revolving Loan and "**Revolving Commitments**" means such commitments of all Lenders in the aggregate. The amount of each Lender's Revolving Commitment, if any, is set forth on Appendix A or in the applicable Assignment Agreement, subject to any adjustment or reduction pursuant to the terms and conditions hereof. The aggregate amount of the Revolving Commitments is $100,000,000.

"**Revolving Commitment Period**" means the period from the Closing Date to but excluding the Revolving Commitment Termination Date.

"**Revolving Commitment Termination Date**" means the earliest to occur of (a) the Maturity Date, (b) the date on which a Funding Termination Event occurs and (c) the date of the termination of the Revolving Commitments pursuant to Section 7.1.

"**Revolving Exposure**" means, with respect to any Lender as of any date of determination, (a) prior to the Revolving Commitment Termination Date, that Lender's Revolving Commitment (subject, in the case of Fortress and any Fortress Affiliate Lender, to the terms of clause (y) of the fourth proviso to Section 9.6(k), to the extent applicable); and (b) after the Revolving Commitment Termination Date, the aggregate outstanding principal amount of the Revolving Loans of such Lender.

"**Revolving Loan**" as defined in Section 2.1.

"**Revolving Loan Note**" means a promissory note substantially in the form of Exhibit B, as it may be amended, supplemented or otherwise modified from time to time in accordance with the terms thereof.

"**Right of First Refusal**" as defined in Section 9.22.

"**S&P**" means Standard & Poor's Ratings Services, Inc., a Standard & Poor's Financial Services, LLC business, and any successor thereto.

"**Scheduled Receivable Payment**" means, for any Collection Period and for any Receivable, the amount indicated in such Receivable as required to be paid by the Obligor in such Collection Period. If after the Closing Date the Obligor's obligation under such Receivable with respect to a Collection Period has been modified so as to differ from the amount specified in such Receivable as a result of (i) the order of a court in an insolvency proceeding involving the Obligor, (ii) pursuant to the Servicemembers Civil Relief Act or (iii) modifications or extensions of the Receivable permitted by the Credit Documents and the Servicing Agreement, the Scheduled Receivable Payment with respect to such Collection Period shall refer to the Obligor's payment obligation with respect to such Collection Period as so modified.

"**Section 341 Meeting**" means a meeting held pursuant to Section 341(a) of the Bankruptcy Code (as the same may be amended from time to time) in which an Obligor subject

to a Insolvency Event under Chapter 7 of the Bankruptcy Code has presented his/her plan to the bankruptcy court and all of his/her creditors.

"**Section 341 Receivable**" means a Receivable, the Obligor of which has completed a Section 341 Meeting. For the avoidance of doubt, a Receivable shall no longer be considered a "Section 341 Receivable" upon an Obligor's discharge from the related bankruptcy, insolvency or similar proceeding.

"**Secured Party**" as defined in the Security Agreement.

"**Securities**" means any stock, shares, partnership interests, limited liability company interests, voting trust certificates, certificates of interest or participation in any profit-sharing agreement or arrangement, options, warrants, bonds, debentures, notes, or other evidences of indebtedness, secured or unsecured, convertible, subordinated or otherwise, or in general any instruments commonly known as "**securities**" or any certificates of interest, shares or participations in temporary or interim certificates for the purchase or acquisition of, or any right to subscribe to, purchase or acquire, any of the foregoing.

"**Securities Act**" means the Securities Act of 1933, as amended to the date hereof and from time to time hereafter, and any successor statute.

"**Security Agreement**" means the Security Agreement, dated as of the date hereof, by and between the Borrower and the Collateral Agent on behalf of the Secured Parties, as it may be amended, supplemented or otherwise modified from time to time in accordance with the terms thereof.

"**Servicer**" means, initially CPS, subject to removal pursuant to the terms of the Servicing Agreement, and thereafter shall mean the Backup Servicer, or any successor servicer appointed pursuant to the Servicing Agreement.

"**Servicer Default**" as defined in the Servicing Agreement.

"**Servicing Agreement**" means that certain Servicing Agreement dated as of December 23, 2010, by and among the Borrower, the Servicer, the Administrative Agent and the Lead Agents, as may be further amended, modified or supplemented from time to time in accordance with the terms thereof.

"**Servicing Fee**" as defined in the Servicing Agreement.

"**Servicing Fee Rate**" as defined in the Servicing Agreement.

"**Settlement Date**" means (a) the fifteenth (15th) calendar day of each month (or if such day is not a Business Day, the immediately succeeding Business Day) beginning in the month of January 2011 and (b) the Maturity Date.

"**Solvency Certificate**" means a Solvency Certificate of the chief financial officer of CPS or the Borrower, as the case may be, substantially in the form of Exhibit E-2.

"**Solvent**" means, with respect the Borrower or CPS, that as of the date of determination, both (a) (i) the sum of such entity's debt (including contingent liabilities) does not exceed the present fair saleable value of such entity's present assets; (ii) such entity's capital is not unreasonably small in relation to its business as contemplated on the Closing Date; and (iii) such entity has not incurred and does not intend to incur, or believe (nor should it reasonably believe) that it will incur, debts beyond its ability to pay such debts as they become due (whether at maturity or otherwise); and (b) such entity is "**solvent**" within the meaning given that term and similar terms under applicable laws relating to fraudulent transfers and conveyances. For purposes of this definition, the amount of any contingent liability at any time shall be computed as the amount that, in light of all of the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability (irrespective of whether such contingent liabilities meet the criteria for accrual under Statement of Financial Accounting Standard No. 5).

"**Subordinated Note**" means any promissory note or other debt instrument, issued by the Borrower to a third party, (i) the payments on which may be secured by a pledge of Receivables that is subject to an Intercreditor Agreement, (ii) that is otherwise subordinate as set forth in the Intercreditor Agreement to the interest of the Collateral Agent, for the benefit of the Secured Parties, in such Receivables, and (iii) is in form, scope and terms satisfactory to the Lead Agents.

“**Subordinated Noteholder**” means the holder of any Subordinated Note.

"**Subsidiary**" means, with respect to any Person, any corporation, partnership, limited liability company, association, joint venture or other business entity of which more than 50% of the total voting power of shares of stock or other ownership interests entitled (without regard to the occurrence of any contingency) to vote in the election of the Person or Persons (whether directors, managers, trustees or other Persons performing similar functions) having the power to direct or cause the direction of the management and policies thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof; provided, in determining the percentage of ownership interests of any Person controlled by another Person, no ownership interest in the nature of a "**qualifying share**" of the former Person shall be deemed to be outstanding.

"**Tax**" means any present or future tax, levy, impost, duty, assessment, charge, fee or deduction or withholding in respect thereof of any similar nature and whatever called, imposed by a Governmental Authority, on whomsoever and wherever imposed, levied, collected, withheld or assessed; provided, "**Tax on the overall net income**" of a Person shall be construed as a reference to a Tax imposed by the jurisdiction in which that Person is organized or in which that Person's applicable principal office (and/or, in the case of a Lender, its lending office) is located or in which that Person (and/or, in the case of a Lender, its lending office) is deemed to be doing business on all or part of the net income, profits or gains (whether worldwide, or only insofar as such income, profits or gains are considered to arise in or to relate to a particular jurisdiction, or otherwise) of that Person (and/or, in the case of a Lender, its applicable lending office) and shall include any backup or other withholding tax that shall be eligible to be credited against any such Tax.

"**Terminated Lender**" as defined in Section 2.20.

"**Tier 1 Performance Trigger**" means the breach of any of the collateral performance tests set forth on Appendix E hereto.

"**Tier 1 Trigger Event**" means an uncured breach of a Tier 1 Performance Trigger; provided, that once a Tier 1 Performance Trigger has been breached, such Tier 1 Performance Trigger shall be deemed to be "uncured" until such time as such Tier 1 Performance Trigger has been cured for three (3) consecutive months.

"**Tier 2 Performance Trigger**" means the breach of any of the collateral performance tests set forth on Appendix F hereto.

"**Total Utilization of Revolving Commitments**" means, as of any date of determination, an amount equal to the aggregate principal amount of all outstanding Revolving Loans.

"**Transaction Costs**" means the fees, costs and expenses payable by CPS or the Borrower on or before the Closing Date in connection with the transactions contemplated by the Credit Documents, to the extent approved in writing by the Lead Agents.

"**Transfer of Servicing Percentage**" means, with respect to the transfer of servicing rights with respect to CPS Serviced Receivables, at any time and in a single transaction, the aggregate outstanding principal balance of CPS Serviced Receivables with respect to which servicing rights have been transferred from CPS to another party at such time, expressed as a percentage of all CPS Serviced Receivables serviced by CPS immediately prior to such time.

"**UCC**" means the Uniform Commercial Code (or any similar or equivalent legislation) as in effect in any applicable jurisdiction.

"**Underwriting Policies**" means the credit policies and practices and underwriting guidelines of the Originator in effect as of the date hereof and attached hereto as Exhibit F, as such guidelines may be amended from time to time.

"**Upfront Fee**" as defined in the Fee Letter.

"**Vintage Pool**" means, as of any date of determination occurring after the Closing Date, the pool of all automobile receivables originated, or acquired by the Originator during any completed calendar quarter. The first such calendar quarter to be measured will be the quarter ending June 30, 2008.

1.2. Accounting Terms.

(a) Generally. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing CPS' audited financial statements, except as otherwise specifically prescribed herein.

(b) Changes in GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Credit Document, and either the Borrower, CPS or the Lenders shall so request, the Administrative Agent, the Lenders, CPS and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP; provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) CPS and the Borrower shall provide to the Administrative Agent and the Lenders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

1.3. Interpretation, etc. Any of the terms defined herein may, unless the context otherwise requires, be used in the singular or the plural, depending on the reference. References herein to any Section, Appendix, Schedule or Exhibit shall be to a Section, an Appendix, a Schedule or an Exhibit, as the case may be, hereof unless otherwise specifically provided. The use herein of the word "**include**" or "**including,**" when following any general statement, term or matter, shall not be construed to limit such statement, term or matter to the specific items or matters set forth immediately following such word or to similar items or matters, whether or not no limiting language (such as "**without limitation**" or "**but not limited to**" or words of similar import) is used with reference thereto, but rather shall be deemed to refer to all other items or matters that fall within the broadest possible scope of such general statement, term or matter. The words "**hereof**", "**herein**", "**hereunder**" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. Unless the context requires otherwise or otherwise specified in any applicable Credit Document, (a) reference to any Person include that Person's successors and assignees, (b) any definition of or reference to any Credit Document, agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements, or modifications set forth herein or therein), and (c) any reference to any law or regulation herein shall refer to such law or regulation as amended, modified or supplemented from time to time.

SECTION 2. REVOLVING LOANS

2.1. Revolving Loans.

(a) Revolving Commitments. During the Revolving Commitment Period, subject to the terms and conditions hereof, each Lender severally agrees from time to time to make loans to the Borrower (each a "**Revolving Loan**" and collectively, the "**Revolving Loans**") in an aggregate amount up to but not exceeding its Revolving Commitment; provided, that after giving effect to the making of any Revolving Loans in no event shall the Total Utilization of Revolving Commitments exceed the lesser of (i) the Revolving Commitments then in effect and (ii) the Borrowing Base. Amounts borrowed pursuant to this Section 2.1(a) may be repaid and reborrowed during the Revolving Commitment Period. The Revolving Commitment shall expire on the Revolving Commitment Termination Date and all Revolving Loans and all other amounts

owed hereunder with respect to the Revolving Loans and the Revolving Commitments shall be paid in full no later than such date.

(b) Borrowing Mechanics for Revolving Loans.

(i) Revolving Loans shall be in an aggregate minimum amount of $500,000.

(ii) Whenever the Borrower desires that the Lenders make Revolving Loans, the Borrower shall deliver to the Administrative Agent and the Lead Agents a fully executed and delivered Funding Notice together with a Borrowing Base Certificate no later than 1:00 p.m. (New York City time) at least two (2) Business Days in advance of the proposed Credit Date. Each such Funding Notice shall be delivered reflecting sufficient Revolving Availability for the requested Revolving Loans.

(iii) Notice of receipt of each Funding Notice and Borrowing Base Certificate in respect of Revolving Loans, together with the amount of each Lender's Pro Rata Share thereof, if any, together with the applicable Interest Rate, shall be provided by the Administrative Agent to each applicable Lender by telefacsimile with reasonable promptness, but not later than 2:00 p.m. (New York City time) on the same day as the Administrative Agent's receipt of such Funding Notice from the Borrower (provided the Administrative Agent shall have received such notice from the Borrower by 1:00 p.m. (New York City time)).

(iv) Each Lender shall make the amount of its Revolving Loan available to the Administrative Agent not later than 12:00 p.m. (New York City time) on the applicable Credit Date by wire transfer of same day funds in Dollars, at the Administrative Agent's Principal Office. Except as provided herein, upon satisfaction or waiver by the Lead Agents of the conditions precedent specified herein, the Administrative Agent shall make the proceeds of such Revolving Loans available to the Borrower on the applicable Credit Date by causing an amount of same day funds in Dollars equal to the proceeds of all such Revolving Loans received by the Administrative Agent from the Lenders to be credited to the account of the Borrower at the Administrative Agent's Principal Office or such other account as may be designated in writing to the Administrative Agent by the Borrower.

(v) Unless otherwise permitted by the Lead Agents in each of their sole and absolute discretion and subject to an administration fee of $2,500 per Revolving Loan, no more than two (2) Revolving Loans shall be made per calendar week.

(c) Protective Advances. Subject to the limitations set forth below and in the proviso to the first sentence of Section 2.1(a), and whether or not an Event of Default or a Default shall have occurred and be continuing, the Administrative Agent is authorized by the Borrower and the Lenders, from time to time in the Administrative Agent's sole good faith discretion, with prior written approval from the Lead Agents (provided that the Administrative Agent shall have absolutely no obligation to act under this Section 2.1(c) upon receipt of such written approval from the Lead Agents), to make Revolving Loans to the Borrower on behalf of

the Lenders, which the Administrative Agent, in its sole discretion, deems necessary (i) to preserve or protect the Collateral, or any portion thereof, (ii) to enhance the likelihood of, or maximize the amount of, repayment of the Revolving Loans and other Obligations, or (iii) to pay any other amount chargeable to or required to be paid by the Borrower pursuant to the terms of this Agreement and the other Credit Documents, including, without limitation, payments of principal, interest, fees and reimbursable expenses (any of such Revolving Loans are herein referred to as "**Protective Advances**"). Notwithstanding anything to the contrary set forth herein, in no event shall the aggregate amount of Protective Advances made by the Administrative Agent pursuant to this Section 2.1(c) exceed $5,000,000. Protective Advances may be made even if the conditions precedent set forth in Section 3 have not been satisfied. The Protective Advances shall be secured by the Collateral and shall constitute Obligations. The Borrower shall pay the unpaid principal amount and all unpaid and accrued interest of each Protective Advance on the earlier of the Revolving Commitment Termination Date and within two (2) Business Days following demand for payment by the Administrative Agent. All Protective Advances shall be Base Rate Loans.

2.2. Pro Rata Shares; Availability of Funds.

(a) Pro Rata Shares. All Revolving Loans shall be made, and all participations purchased, by the Lenders simultaneously and proportionately to their respective Pro Rata Shares, it being understood that no Lender shall be responsible for any default by any other Lender in such other Lender’s obligation to make a Revolving Loan requested hereunder or purchase a participation required hereby nor shall any Revolving Commitment of any Lender be increased or decreased as a result of a default by any other Lender in such other Lender’s obligation to make a Revolving Loan requested hereunder or purchase a participation required hereby.

(b) Availability of Funds. Unless the Administrative Agent shall have been notified by any Lender prior to the applicable Credit Date that such Lender does not intend to make available to the Administrative Agent the amount of such Lender’s Revolving Loan requested on such Credit Date, the Administrative Agent may assume that such Lender has made such amount available to the Administrative Agent on such Credit Date and the Administrative Agent may, in its sole discretion, but shall not be obligated to, make available to the Borrower a corresponding amount on such Credit Date. If such corresponding amount is not in fact made available to the Administrative Agent by such Lender, the Administrative Agent shall be entitled to recover such corresponding amount on demand from such Lender together with interest thereon, for each day from such Credit Date until the date such amount is paid to the Administrative Agent, at the Federal Funds Effective Rate for three (3) Business Days and thereafter at the Base Rate. If such Lender does not pay such corresponding amount forthwith upon the Administrative Agent’s demand therefor, the Administrative Agent shall promptly notify the Borrower and the Borrower shall pay such corresponding amount to the Administrative Agent together with interest thereon within one (1) Business Day of demand for payment by the Administrative Agent, for each day from such Credit Date until the date such amount is paid to the Administrative Agent, at the rate payable hereunder for Base Rate Loans. Nothing in this Section 2.2(b) shall be deemed to relieve any Lender from its obligation to fulfill its Revolving Commitments hereunder or to prejudice any rights that the Borrower may have against any Lender as a result of any default by such Lender hereunder.

2.3. Use of Proceeds. The proceeds of the Revolving Loans, if any, made on the Closing Date shall be applied by the Borrower to finance the acquisition of Eligible Receivables from the Originator and to pay Transaction Costs. The proceeds of the Revolving Loans made after the Closing Date shall be applied by the Borrower to finance the acquisition of Eligible Receivables from the Originator pursuant to the Purchase Agreement, to pay distributions on its Capital Stock to CPS and to pay ongoing operating expenses of the Borrower. No portion of the proceeds of any Credit Extension shall be used in any manner that causes such Credit Extension or the application of such proceeds to violate Regulation T, Regulation U or Regulation X of the Board of Governors of the Federal Reserve System or any other regulation thereof or to violate the Exchange Act.

2.4. Register; Notes.

(a) Register. The Administrative Agent shall maintain at its Principal Office a register for the recordation of the names and addresses of the Lenders and the Revolving Commitments and Revolving Loans from time to time (the "**Register**"). The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice to the Administrative Agent. The Administrative Agent shall record in the Register the Revolving Commitments and the Revolving Loans, and each repayment or prepayment in respect of the principal amount of the Revolving Loans, and any such recordation shall be conclusive and binding on the Borrower and each Lender, absent manifest error; provided, failure to make any such recordation, or any error in such recordation, shall not affect the Revolving Commitments or the Borrower's Obligations in respect of any Revolving Loan. The Borrower hereby designates the entity serving as Administrative Agent to serve as the Borrower's agent solely for purposes of maintaining the Register as provided in this Section 2.4, and the Borrower hereby agrees that, to the extent such entity serves in such capacity, the entity serving as Administrative Agent and its officers, directors, employees, agents and affiliates shall constitute "**Indemnitees.**"

(b) Revolving Loan Notes. If so requested by any Lender prior to the Closing Date, or upon two (2) Business Days prior written notice at any time after the Closing Date, the Borrower shall execute and deliver to such Lender (and/or, if applicable and if so specified in such notice, to any Person who is an assignee of such Lender pursuant to Section 9.6) on the Closing Date (or, if such notice is delivered after the Closing Date, promptly after the Borrower's receipt of such notice) a Revolving Loan Note or Revolving Loan Notes, as so requested, to evidence the Revolving Loan.

2.5. Interest on Revolving Loans.

(a) Except as otherwise set forth herein, each Revolving Loan shall bear interest on the unpaid principal amount thereof from the date made through repayment (whether by acceleration or otherwise) as follows: (i) if a Base Rate Loan, at the Base Rate plus the Applicable Margin; or (ii) if a LIBOR Rate Loan, at the Adjusted LIBOR Rate plus the Applicable Margin. Borrower shall indicate in the applicable Funding Notice whether a Revolving Loan shall be a Base Rate Loan or a LIBOR Rate Loan.

(b) Interest payable pursuant to Section 2.5(a) shall be computed on the basis of a 360-day year, in each case for the actual number of days elapsed in the period during which it accrues. In computing interest on any Revolving Loan, the related Credit Date or the first day of an Interest Period applicable to such Revolving Loan shall be included, and the date of payment of such Revolving Loan or the expiration date of an Interest Period applicable to such Revolving Loan shall be excluded; provided, if a Revolving Loan is repaid on the same day on which it is made, one (1) day's interest shall be paid on that Revolving Loan.

(c) Except as otherwise set forth herein, interest on each Revolving Loan shall be payable in arrears on (i) each Settlement Date applicable to that Revolving Loan; (ii) with respect to any prepayment in whole or in part of such Revolving Loan, whether voluntary or mandatory, the Settlement Date immediately following such prepayment in an amount equal to the interest accrued and unpaid on the amount so prepaid to the date of prepayment; and (iii) at maturity.

2.6. Continuation. Subject to Section 2.16 and so long as no Default or Event of Default shall have occurred and be continuing, upon the expiration of any Interest Period applicable to any LIBOR Rate Loan, such LIBOR Rate Loan shall automatically continue for an additional Interest Period at the Adjusted LIBOR Rate calculated as of the most recent Interest Rate Reset Date.

2.7. Default Interest. Upon the occurrence and during the continuance of an Event of Default, the principal amount of all Revolving Loans outstanding and, to the extent permitted by applicable law, any interest payments on the Revolving Loans or any fees or other amounts owed hereunder, shall thereafter bear interest (including post-petition interest in any proceeding under the Bankruptcy Code or other applicable Debtor Relief Laws) payable in accordance with the provisions of Section 2.11 or 2.13, as the case may be, at a rate that is 2% per annum in excess of the Interest Rate otherwise payable hereunder with respect to the applicable Revolving Loans until no Event of Default is then continuing. Payment or acceptance of the increased rates of interest provided for in this Section 2.7 is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of the Administrative Agent or any Lender.

2.8. Fees. The Borrower and CPS agree, jointly and severally, to pay each of the fees referred to in the Fee Letter.

2.9. Call Protection.

(a) The Facility shall not be terminated prior to the first (1st) anniversary of the Closing Date.

(b) If the Facility is terminated by the Borrower or CPS after the first (1st) anniversary of the Closing Date but prior to the Maturity Date by the Borrower or CPS, the Borrower shall pay to the Lenders, on the date of such termination, a fee equal to the product of (x) 2% and (y) the aggregate amount of the Revolving Commitments as of such termination date.

2.10. Mandatory Prepayments.

(a) Borrowing Base Deficiency. The Borrower shall prepay the Revolving Loans within one (1) Business Day of the earlier of (a) an Authorized Officer of the Borrower becoming aware that a Borrowing Base Deficiency exists and (b) receipt by the Borrower of notice from the Administrative Agent that a Borrowing Base Deficiency exists, in each case in an amount equal to such Borrowing Base Deficiency, which shall be applied to prepay the Revolving Loans.

(b) Insurance Proceeds. No later than the first Business Day following the date of receipt by the Borrower, or Collateral Agent as loss payee, of any Net Insurance Proceeds, the Borrower shall prepay the Revolving Loans in an aggregate amount equal to such Net Insurance Proceeds.

(c) Issuance of Equity Securities. On the date of receipt by the Borrower of any Cash proceeds from the issuance of any Capital Stock of the Borrower other than (a) issuances of Capital Stock of the Borrower to CPS or (b) for purposes approved in writing by Lead Agents, the Borrower shall prepay the Revolving Loans in an aggregate amount equal to 100% of such proceeds, net of underwriting discounts and commissions and other reasonable costs and expenses associated therewith, including reasonable legal fees and expenses.

(d) Issuance of Debt. On the date of receipt by the Borrower of any Cash proceeds from the incurrence of any Indebtedness of the Borrower (other than with respect to any Indebtedness permitted to be incurred pursuant to Section 6.1), the Borrower shall prepay the Revolving Loans in an aggregate amount equal to 100% of such proceeds, net of underwriting discounts and commissions and other reasonable costs and expenses associated therewith, in each case, paid to non-Affiliates, including reasonable legal fees and expenses.

(e) Qualifying ABS Transaction. Upon a repurchase of Receivables pursuant to a Qualifying ABS Transaction, the Borrower shall prepay the Revolving Loans in an amount equal to the aggregate Qualifying ABS Repurchase Price with respect to those Receivables.

(f) Tax Refunds. On the date of receipt by the Borrower of any tax refunds, the Borrower shall prepay the Revolving Loans in the amount of such tax refunds.

(g) Receivables Repurchase Events. Upon the occurrence of a Receivables Repurchase Event: (a) the Borrower shall cause the Originator to repurchase each affected Receivable at a price equal to the Receivable Repurchase Price and (b) the Borrower shall prepay the Revolving Loans in an amount equal to the Receivable Repurchase Price with respect to the related Receivable(s).

(h) Prepayment Certificate. Concurrently with any prepayment of the Revolving Loans pursuant to clauses (a)-(g) of this Sections 2.10, the Borrower shall deliver, or cause to be delivered, to the Administrative Agent and the Lead Agents a certificate of an Authorized Officer demonstrating the calculation of the amount of the applicable net proceeds.

2.11. Payments During Event of Default or Following a Funding Termination. Upon the occurrence and during the continuance of an Event of Default or a Funding Termination Event on each Settlement Date (a) all payments made hereunder and under the other Credit Documents (including in respect of proceeds from any Collateral) and (b) all amounts on

deposit in the Collection Account and any income and gains from investment of funds in the Collection Account that accrued during the immediately preceding Collection Period shall be applied by the Controlled Account Bank at the written direction of the Collateral Agent as follows:

(a) First, to the payment of, and in the same priority as, items (a) through (d) and (i) in Section 2.13 below;

(b) Second, to the Administrative Agent, for the ratable benefit of the Lenders, to reduce the outstanding principal balance on the Revolving Loans to zero;

(c) Third, to the Subordinated Noteholders, if any, until all amounts due and owing under the Subordinated Notes have been paid in full; and

(d) Fourth, to the Borrower, any remaining amounts.

2.12. Collection Account and Amounts.

(a) On or prior to the date hereof, the Borrower shall cause to be established and maintained, (i) a securities account at the Controlled Account Bank in the name of the Borrower designated as the Collection Account as to which the Collateral Agent for the benefit of the Lenders has control over such account within the meaning of Section 9-106 of the UCC pursuant to the Controlled Account Control Agreement, and (ii) deposit account at the Lockbox Account Bank in the name of the Borrower designated as the Lockbox Account as to which the Collateral Agent has control over such account for the benefit of the Lenders within the meaning of Section 9-104(a)(2) of the UCC pursuant to the Lockbox Account Control Agreement.

(b) So long as no Event of Default has occurred and shall be continuing, the Borrower or the Servicer shall be permitted to direct the investment of the funds from time to time held in the Collection Account in Permitted Investments and to sell or liquidate such Permitted Investments and reinvest proceeds from such sale or liquidation in other Permitted Investments (but none of the Collateral Agent, the Administrative Agent, or the Lenders shall have liability whatsoever in respect of any failure by the Controlled Account Bank to do so), with all such proceeds and reinvestments to be held in the Collection Account; provided, however, that the maturity of the Permitted Investments on deposit in the Collection Account shall be no later than the Business Day immediately preceding the date on which such funds are required to be withdrawn therefrom pursuant to this Agreement; and, provided further, that the Borrower shall remit into the Collection Account an amount equal to any losses realized on Permitted Investments contained therein. No Permitted Investment shall be liquidated at a loss at the direction of the Borrower except to the extent necessary to make a required payment as described herein. All income and gains from the investment of funds in the Collection Account shall be retained in the Collection Account from which they were derived, until the next Settlement Date, at which time such income and gains shall be applied in accordance with Section 2.11 or Section 2.13, as the case may be. As between the Borrower and the Collateral Agent, the Borrower shall treat all income, gains and losses from the investment of amounts in the Collection Account as its income or loss for federal, state and local income tax purposes.

(c) The Control Agreements will provide that all funds in the Lockbox will be swept daily into the Collection Account.

2.13. **Application of Collections**. To the extent no Event of Default or Funding Termination Event has occurred and is continuing, the Collateral Agent will instruct the Controlled Account Bank (or will instruct the Servicer to instruct the Controlled Account Bank pursuant to the Servicing Agreement), on each Settlement Date, to transfer collected funds held by the Controlled Account Bank in the Collection Account, in the following amounts and priority in accordance with the Monthly Servicing Report:

(a) on a pari passu basis, (1) to the Custodian, the Custodian Fees and Expenses accrued and unpaid as of the last day of the preceding month, (2) to the Backup Servicer, the Backup Servicing Fees and reimbursable expenses (including, without limitation, any transition costs) of the Backup Servicer accrued and unpaid as of the last day of the preceding month, and (3) to the Controlled Account Bank, the Controlled Account Bank Fees accrued and unpaid as of the last day of the preceding month;

(b) to the Servicer, any unpaid Servicing Fees;

(c) to the Administrative Agent, to pay any costs or fees due to the Administrative Agent, the Collateral Agent or the Lead Agents;

(d) to the Administrative Agent, for the ratable benefit of the Lenders, to pay any accrued but unpaid interest, fees and expenses in connection with this Agreement and any other Credit Document;

(e) provided that no Event of Default or a Tier 1 Trigger Event shall have occurred and be continuing, to the Subordinated Noteholders, if any, to pay any accrued but unpaid interest on the Subordinated Notes, if any, if after giving effect to such payment, no Borrowing Base Deficiency will exist;

(f) to the Administrative Agent, for the ratable benefit of the Lenders, any amounts necessary to reduce the Borrowing Base Deficiency, if any, to zero;

(g) to the extent not paid pursuant to clause (e) above, to the Borrower, to pay any accrued but unpaid interest on the Subordinated Notes, if any;

(h) to the Subordinated Noteholders, if any, to pay principal on the Subordinated Notes in accordance with the terms thereof;

(i) on a *pari passu* basis, (1) to the Custodian, any other amounts payable to the Custodian in its capacity as Custodian pursuant to this Agreement or the Custodial Agreement to the extent unpaid by the Borrower and not covered under item (a) above, (2) to the Backup Servicer, any other amounts payable to the Backup Servicer pursuant to this Agreement or the Backup Servicing Agreement to the extent unpaid by the Borrower and not covered under item (a) above, and (3) to the Controlled Account Bank, any other amounts payable to the Controlled Account Bank pursuant to this Agreement or the Control Agreements to the extent unpaid by the Borrower hereunder and not covered under item (a) above; and

(j) prior to the Maturity Date, and provided that no Borrowing Base Deficiency would occur after giving effect to such distribution, to the Borrower for its own account.

2.14. General Provisions Regarding Payments.

(a) All payments by the Borrower of principal, interest, fees and other Obligations shall be made in Dollars in immediately available funds, without defense, recoupment, setoff or counterclaim, free of any restriction or condition, and delivered to the Administrative Agent, for the account of the Lenders, not later than 3:00 p.m. (New York City time) on the date due via wire transfer of immediately available funds to account number 30627664 maintained by the Administrative Agent with Citibank, N.A. (ABA No. 021000089) in New York City (or at such other location or bank account within the City and State of New York as may be designated by the Administrative Agent from time to time); funds received by the Administrative Agent after that time on such due date shall be deemed to have been paid by the Borrower on the next Business Day (except to the extent such delay in payment results solely from the Controlled Account Bank's failure to distribute funds on deposit in the Collection Account and available for distribution as of 3:00 p.m. on such Business Day in accordance with Section 2.11 or 2.13).

(b) All payments in respect of the principal amount of any Revolving Loan (other than voluntary or mandatory prepayments of any Revolving Loan as provided in Section 2.5(c)) shall be accompanied by payment of accrued interest on the principal amount being repaid or prepaid.

(c) The Administrative Agent shall promptly distribute to each Lender at such address or via wire transfer as such Lender shall indicate in writing, such Lender's applicable Pro Rata Share of all payments and prepayments of principal and interest due hereunder, together with all other amounts due with respect thereto, including, without limitation, all fees payable with respect thereto, to the extent received by the Administrative Agent.

(d) Notwithstanding the foregoing provisions hereof, if any Affected Lender makes Base Rate Loans in lieu of its Pro Rata Share of any LIBOR Rate Loans, the Administrative Agent shall give effect thereto in apportioning payments received thereafter.

(e) Subject to the proviso set forth in the definition of "**Interest Period,**" whenever any payment to be made hereunder shall be stated to be due on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in the computation of the payment of interest hereunder.

(f) The Borrower hereby authorizes the Administrative Agent to charge the Borrower's accounts with the Administrative Agent or any of its Affiliates in order to cause timely payment to be made to the Administrative Agent of all principal, interest, fees and expenses due hereunder (subject to sufficient funds being available in its accounts for that purpose).

(g) The Administrative Agent shall give prompt telephonic notice to the Borrower and each Lender (confirmed in writing) if any payment is not made in conformity with

this Section 2.14. Interest shall continue to accrue on any principal as to which a non-conforming payment is made until such funds become available funds (but in no event less than the period from the date of such payment to the next succeeding applicable Business Day) at the Default Rate determined pursuant to Section 2.7 (if applicable) from the date such amount was due and payable until the date such amount is paid in full.

2.15. **Ratable Sharing**. The Lenders hereby agree among themselves that, except as otherwise provided in the Credit Documents, with respect to amounts realized from the exercise of rights with respect to Liens on the Collateral, if any of them shall, whether by voluntary payment (other than a voluntary prepayment of Revolving Loans made and applied in accordance with the terms hereof), through the exercise of any right of set-off or banker’s lien, by counterclaim or cross action or by the enforcement of any right under the Credit Documents or otherwise, or as adequate protection of a deposit treated as cash collateral under the Bankruptcy Code, receive payment or reduction of a proportion of the aggregate amount of principal, interest, fees and other amounts then due and owing to such Lender hereunder or under the other Credit Documents (collectively, the "**Aggregate Amounts Due**" to such Lender) which is greater than the proportion received by any other Lender in respect of the Aggregate Amounts Due to such other Lender, then the Lender receiving such proportionately greater payment shall (a) notify the Administrative Agent and each other Lender of the receipt of such payment and (b) apply a portion of such payment to purchase participations (which it shall be deemed to have purchased from each seller of a participation simultaneously upon the receipt by such seller of its portion of such payment) in the Aggregate Amounts Due to the other Lenders so that all such recoveries of Aggregate Amounts Due shall be shared by all Lenders in their proportions of Aggregate Amounts Due; provided, if all or part of such proportionately greater payment received by such purchasing Lender is thereafter recovered from such Lender upon the bankruptcy or reorganization of the Borrower or otherwise, those purchases shall be rescinded and the purchase prices paid for such participations shall be returned to such purchasing Lender ratably to the extent of such recovery, but without interest. The Borrower expressly consents to the foregoing arrangement and agrees that any holder of a participation so purchased may exercise any and all rights of banker’s lien, set-off or counterclaim with respect to any and all monies owing by the Borrower to that holder with respect thereto as fully as if that holder were owed the amount of the participation held by that holder.

2.16. **Making or Maintaining LIBOR Rate Loans.**

(a) Inability to Determine Applicable Interest Rate. In the event that the Administrative Agent shall have reasonably determined in good faith (which determination shall be final and conclusive and binding upon all parties hereto), on any Interest Rate Reset Date with respect to any LIBOR Rate Loans, that by reason of circumstances affecting the London interbank market adequate and fair means do not exist for ascertaining the interest rate applicable to such LIBOR Rate Loans on the basis provided for in the definition of Adjusted LIBOR Rate ("**LIBOR Unavailability**"), the Administrative Agent shall on such date give notice (by telefacsimile or by telephone confirmed in writing) to the Borrower and each Lender of such determination, whereupon (i) no Revolving Loans may be made as LIBOR Rate Loans until such time as the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (ii) the Borrower shall have the right to rescind any Funding Notice previously given by the Borrower with respect to the Revolving Loans in respect

of which such determination was made by giving notice (by telefacsimile or by telephone confirmed in writing) to the Administrative Agent of such rescission on the date on which the Administrative Agent gives notice of its determination as described above (which notice of rescission the Administrative Agent shall promptly transmit to the Lenders), (iii) all then-existing Revolving Loans shall convert automatically to Base Rate Loans at the end of the then-applicable Interest Period if such circumstances still exist at such time and (iv) any subsequent borrowings shall be made as Base Rate Loans until such circumstances no longer exist. At such time as the Administrative Agent shall notify the Borrower and the Lenders that any period of LIBOR Unavailability has ended, on the first day of the Interest Period next following such determination, all Base Rate Loans carried by the Lenders as a consequence of this Section 2.16(a) shall automatically convert to LIBOR Rate Loans having an initial Interest Period commencing on the first day of such Interest Period.

(b) Illegality or Impracticability of LIBOR Rate Loans. In the event that on any date any Lender shall have reasonably determined in good faith (which determination shall be final and conclusive and binding upon all parties hereto but shall be made only after consultation with the Borrower and the Administrative Agent) that the making or maintaining of its LIBOR Rate Loans (i) has become unlawful after the date hereof as a result of compliance by such Lender in good faith with any law, treaty, governmental rule, regulation, guideline or order (or would conflict with any such treaty, governmental rule, regulation, guideline or order not having the force of law even though the failure to comply therewith would not be unlawful), or (ii) has become impracticable, as a result of contingencies occurring after the date hereof which materially and adversely affect the London interbank market or the position of such Lender in that market, then, and in any such event, such Lender shall be an "**Affected Lender**" and it shall on that day give notice (by telefacsimile or by telephone confirmed in writing) to the Borrower and the Administrative Agent of such determination (which notice the Administrative Agent shall promptly transmit to each other Lender). Thereafter (1) the obligation of the Affected Lender to make Revolving Loans as LIBOR Rate Loans shall be suspended until such notice shall be withdrawn by the Affected Lender at such time as the circumstances giving rise to such notice no longer exist, (2) to the extent such determination by the Affected Lender relates to a LIBOR Rate Loan then being requested by the Borrower pursuant to a Funding Notice, the Affected Lender shall make such Revolving Loan (or continue such Revolving Loan) as a Base Rate Loan, (3) the Affected Lender's obligation to maintain its outstanding LIBOR Rate Loans (the "**Affected Loans**") shall be terminated at the earlier to occur of the expiration of the Interest Period then in effect with respect to the Affected Loans or when required by law, and (4) the Affected Loans shall automatically convert into Base Rate Loans on the date of such termination. Notwithstanding the foregoing, to the extent a determination by an Affected Lender as described above relates to a LIBOR Rate Loan then being requested by the Borrower pursuant to a Funding Notice, the Borrower shall have the option, notwithstanding anything to the contrary in Section 2.1(b)(ii), to rescind such Funding Notice as to all Lenders by giving notice (by telefacsimile or by telephone confirmed in writing) to the Administrative Agent of such rescission on the date on which the Affected Lender gives notice of its determination as described above (which notice of rescission the Administrative Agent shall promptly transmit to each Lender). Except as provided in the immediately preceding sentence, nothing in this Section 2.16(b) shall affect the obligation of any Lender other than an Affected Lender to make or maintain Revolving Loans as LIBOR Rate Loans in accordance with the terms hereof.

(c) Compensation for Breakage or Non-Commencement of Interest Periods. The Borrower shall compensate each Lender, upon written request by such Lender (which request shall set forth the basis for requesting such amounts), for all reasonable losses, expenses and liabilities (including any interest paid or calculated to be due and payable by such Lender to lenders of funds borrowed by it to make or carry its LIBOR Rate Loans and any loss, expense or liability sustained by such Lender in connection with the liquidation or re-employment of such funds but excluding loss of anticipated profits) which such Lender would sustain: (i) if for any reason (other than a default by such Lender) a borrowing of any LIBOR Rate Loan does not occur on a date specified therefor in a Funding Notice; (ii) if any prepayment or other principal payment of any of its LIBOR Rate Loans occurs on any day other than the last day of an Interest Period applicable to that Revolving Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise) or on the Maturity Date; or (iii) if any prepayment of any of its LIBOR Rate Loans is not made on any date specified in a notice of prepayment given by the Borrower.

(d) Booking of LIBOR Rate Loans. Any Lender may make, carry or transfer LIBOR Rate Loans at, to, or for the account of any of its branch offices or the office of an Affiliate of such Lender.

2.17. Increased Costs; Capital Adequacy.

(a) Compensation For Increased Costs and Taxes. Subject to the provisions of Section 2.18 (which shall be controlling with respect to the matters covered thereby), in the event that any Lender shall determine (which determination shall, absent manifest error, be final and conclusive and binding upon all parties hereto) that any law, treaty or governmental rule, regulation or order, or any change therein or in the interpretation, administration or application thereof (including the introduction of any new law, treaty or governmental rule, regulation or order), or any determination of a court or governmental authority, in each case that becomes effective after the date hereof, or compliance by such Lender with any guideline, request or directive issued or made after the date hereof by any central bank or other governmental or quasi-governmental authority (whether or not having the force of law): (i) subjects such Lender (or its applicable lending office) to any additional Tax (other than any Tax on the overall net income of such Lender) with respect to this Agreement or any of the other Credit Documents or any of its obligations hereunder or thereunder or any payments to such Lender (or its applicable lending office) of principal, interest, fees or any other amount payable hereunder; (ii) imposes, modifies or holds applicable any reserve (including any marginal, emergency, supplemental, special or other reserve), special deposit, compulsory loan, FDIC insurance or similar requirement against assets held by, or deposits or other liabilities in or for the account of, or advances or loans by, or other credit extended by, or any other acquisition of funds by, any office of such Lender (other than any such reserve or other requirements); or (iii) imposes any other condition (other than with respect to a Tax matter) on or affecting such Lender (or its applicable lending office) or its obligations hereunder or the London interbank market; and the result of any of the foregoing is to increase the cost to such Lender of agreeing to make, making or maintaining Revolving Loans hereunder or to reduce any amount received or receivable by such Lender (or its applicable lending office) with respect thereto; then, in any such case, the Borrower shall pay to such Lender within ten (10) Business Days of receipt of the statement referred to in the next sentence, such additional amount or amounts (in the form of an increased

rate of, or a different method of calculating, interest or otherwise as such Lender in its sole discretion shall determine) as may be necessary to compensate such Lender for any such increased cost or reduction in amounts received or receivable hereunder. Such Lender shall deliver to the Borrower (with a copy to the Administrative Agent and each Lead Agent) a written statement, setting forth in reasonable detail the basis for calculating the additional amounts owed to such Lender under this Section 2.17(a), which statement shall be conclusive and binding upon all parties hereto absent manifest error.

(b) Capital Adequacy Adjustment. In the event that any Lender shall have determined that the adoption, effectiveness, phase-in or applicability after the Closing Date of any law, rule or regulation (or any provision thereof) regarding capital adequacy, or any change therein or in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its applicable lending office) with any guideline, request or directive regarding capital adequacy (whether or not having the force of law) of any such Governmental Authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on the capital of such Lender or any corporation controlling such Lender as a consequence of, or with reference to, such Lender's Revolving Loans or Revolving Commitments or participations therein or other obligations hereunder with respect to the Revolving Loans to a level below that which such Lender or such controlling corporation could have achieved but for such adoption, effectiveness, phase-in, applicability, change or compliance (taking into consideration the policies of such Lender or such controlling corporation with regard to capital adequacy), then from time to time, within ten (10) Business Days after receipt by the Borrower from such Lender of the statement referred to in the next sentence, the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender or such controlling corporation on an after-tax basis for such reduction. Such Lender shall deliver to the Borrower (with a copy to the Administrative Agent and each Lead Agent) a written statement, setting forth in reasonable detail the basis for calculating the additional amounts owed to such Lender under this Section 2.17(b), which statement shall be conclusive and binding upon all parties hereto absent manifest error.

(c) Borrower Rights. If any Lender demands payment with respect to amounts owed under Section 2.17(a) or (b), the Borrower shall have the right, if no Default or Event of Default has occurred and is then continuing, within ninety (90) days after receipt of such demand, to remove such Lender (the "**Affected Person**") and to designate another lender (the "**Replacement Person**") reasonably acceptable to the Lead Agents to purchase the Affected Person's outstanding Revolving Loans and to assume the Affected Person's obligations under this Agreement; *provided* that increased costs incurred by such Lender prior to the date of its replacement shall have been paid as provided herein. The Affected Person agrees to sell to the Replacement Person its outstanding Loans (at par, with accrued interest through the date of purchase, in immediately available funds) and to delegate to the Replacement Person its obligations to the Borrower under this Agreement. Upon such sale and delegation by the Affected Person and the purchase and assumption by the Replacement Person, and compliance with the provisions of Section 9.6 hereof, the Affected Person shall cease to be a Lender hereunder and the Replacement Person shall become a Lender under this Agreement. Each Affected Person shall continue to be entitled to receive from the Borrower its share of interest,

fees, costs and other sums which have not been assigned by the Affected Person to the Replacement Person.

2.18. Taxes; Withholding, etc.

(a) Payments to Be Free and Clear. All sums payable by each Credit Party hereunder and under the other Credit Documents shall (except to the extent required by law) be paid free and clear of, and without any deduction or withholding on account of, any Tax (other than a Tax on the overall net income of any Lender) imposed, levied, collected, withheld or assessed by or within the United States of America or any political subdivision in or of the United States of America or any other jurisdiction from or to which a payment is made by or on behalf of a Credit Party or by any federation or organization of which the United States of America or any such jurisdiction is a member at the time of payment.

(b) Withholding of Taxes. If a Credit Party or any other Person is required by law to make any deduction or withholding on account of any such Tax from any sum paid or payable by any Credit Party in respect of interest paid or payable by the Borrower to the Administrative Agent or any Lender under any of the Credit Documents: (i) the Borrower shall notify the Administrative Agent as soon as practicable of any such requirement or any change in any such requirement as soon as the Borrower becomes aware of it; (ii) the Borrower shall pay any such Tax before the date on which penalties attach thereto, such payment to be made (if the liability to pay is imposed on any Credit Party) for its own account or (if that liability is imposed on the Administrative Agent or such Lender, as the case may be) on behalf of and in the name of the Administrative Agent or such Lender; (iii) the sum payable by any Credit Party in respect of which the relevant deduction, withholding or payment is required shall be increased to the extent necessary to ensure that, after the making of that deduction, withholding or payment, the Administrative Agent or such Lender, as the case may be, receives on the due date a net sum equal to what it would have received had no such deduction, withholding or payment been required or made; and (iv) within thirty (30) days (or as soon as practicable thereafter) after paying any sum from which it is required by law to make any deduction or withholding, and within thirty (30) days (or as soon as practicable thereafter) after the due date of payment of any Tax which it is required by clause (ii) above to pay, the Borrower shall use commercially reasonable efforts to deliver to the Administrative Agent evidence satisfactory to the other affected parties of such deduction, withholding or payment and of the remittance thereof to the relevant taxing or other authority; provided, no such additional amount shall be required to be paid to any Lender under clause (iii) above (and in the case of any payment required under clause (ii) above, such payment shall be treated as a payment under the Credit Documents to the Borrower, the Administrative Agent or the Lender(s) as the case may be) except to the extent that any change after the date hereof in any such requirement for a deduction, withholding or payment as is mentioned therein shall result in an increase in the rate of such deduction, withholding or payment from that in effect at the date hereof, in respect of payments to such Lender.

(c) The Borrower shall not be required to pay any additional amounts to any Lender in respect of United States federal withholding taxes pursuant to Section 2.18(b) above if the obligation to pay such additional amounts would not have arisen but for a failure by such Lender to comply with the provisions of Section 2.18(d) hereof. In the event the Borrower has

actual knowledge that it is required to, or there arises, in the Borrower's reasonable opinion, a substantial likelihood that the Borrower will be required to, pay an increased amount or otherwise indemnify such Lender for or on account of any Taxes pursuant to Section 2.18(b), the Borrower shall promptly notify such Lender of the nature of such Taxes and shall furnish such information to such Lender as it may reasonably request. In the event the Borrower provides the notice described in the previous sentence, such Lender shall consult with the Borrower in good faith to determine what action may be required to avoid or reduce such Taxes and shall use reasonable efforts to avoid or reduce such Taxes, *provided* that no action shall be required to be taken that would be disadvantageous to such Lender and would result in significantly increased cost to such Lender.

(d) If any Lender is not incorporated under the laws of the United States, any state thereof or the District of Columbia, prior to the first payment to such Lender under this Agreement, such Lender shall deliver to the Borrower (i) two duly completed copies of United States Internal Revenue Service Form W-8BEN or Form W-8ECI (or applicable successor form and any related forms as may from time to time be adopted to document a claim to which such form relates), and (ii) a duly completed copy of United States Internal Revenue Service Form W-8 or W-9 (or applicable successor form and any related forms as may from time to time be adopted to document a claim to which such form relates). Such Lender shall certify that (x) in the case of any form provided pursuant to clause (i) of the preceding sentence it is entitled to receive payments hereunder without deduction or withholding of any United States federal income taxes and (y) in the case of any form provided pursuant to clause (ii) of the preceding sentence it is entitled to receive payments hereunder without deduction or withholding of any United States federal backup withholding taxes. Such Lender also agrees to deliver further copies of said Form W-8BEN, W-8ECI or W-9 (or applicable successor form and any related forms as may from time to time be adopted to document a claim to which such form relates), and any related certification as described in the preceding sentence, as the case may be, (i) on or before the date that any such form previously provided expires or becomes obsolete, (ii) after the occurrence of any event requiring a change in the most recent form previously provided unless a change in a treaty, law or regulation has occurred prior to the date on which delivery would otherwise be required that renders all such forms inapplicable or that would prevent such Lender from duly completing and delivering any such form with respect to it and such Lender so advises the Borrower and (iii) upon reasonable request of the Borrower.

2.19. <u>Obligation to Mitigate</u>.

(a) Each Lender agrees that, as promptly as practicable after the officer of such Lender responsible for administering its Revolving Loans becomes aware of the occurrence of an event or the existence of a condition that would cause such Lender to become an Affected Lender or that would entitle such Lender to receive payments under Section 2.16, 2.17 or 2.18, it will, to the extent not inconsistent with the internal policies of such Lender and any applicable legal or regulatory restrictions, use commercially reasonable efforts to (a) make, issue, fund or maintain its Credit Extensions, including any Affected Loans, through another office of such Lender, or (b) take such other measures as such Lender may deem reasonable if, as a result thereof, the circumstances which would cause such Lender to be an Affected Lender would cease to exist or the additional amounts which would otherwise be required to be paid to such Lender pursuant to Section 2.16, 2.17 or 2.18 would be materially reduced and if, as determined by such

Lender in its sole discretion, the making, issuing, funding or maintaining of such Revolving Commitments or Revolving Loans through such other office or in accordance with such other measures, as the case may be, would not otherwise adversely affect such Revolving Commitments or Revolving Loans or the interests of such Lender; provided, such Lender will not be obligated to utilize such other office pursuant to this Section 2.19 unless the Borrower agrees to pay all reasonable, documented, out-of-pocket incremental expenses incurred by such Lender as a result of utilizing such other office as described above. A certificate as to the amount of any such expenses payable by the Borrower pursuant to this Section 2.19 (setting forth in reasonable detail the basis for requesting such amount) submitted by such Lender to the Borrower (with a copy to the Administrative Agent) shall be conclusive absent manifest error.

(b) If the Administrative Agent or any Lender determines, in its sole and reasonable discretion, that it has received a refund of any Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to Section 2.18, it shall pay to the Borrower an amount equal to such refund, as determined in good faith by the Administrative Agent or such Lender in its sole and reasonable discretion (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under Section 2.18 with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses incurred by the Administrative Agent or such Lender, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); *provided* that the Borrower, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender in the event the Administrative Agent or such Lender is required to repay such refund to such governmental authority. This subsection shall not be construed to require the Administrative Agent or such Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

2.20. **Removal or Replacement of a Lender**. Anything contained herein to the contrary notwithstanding, in the event that: (a) (i) any Lender (an "**Increased-Cost Lender**") shall give notice to the Borrower that such Lender is an Affected Lender or that such Lender is entitled to receive payments under Section 2.16, 2.17(c) or 2.18, (ii) the circumstances which have caused such Lender to be an Affected Lender or which entitle such Lender to receive such payments shall remain in effect, and (iii) such Lender shall fail to withdraw such notice within five (5) Business Days after the Borrower's request for such withdrawal; or (b) in connection with any proposed amendment, modification, termination, waiver or consent with respect to any of the provisions hereof as contemplated by Section 9.5(b), the consent of the Administrative Agent, Lead Agents and Requisite Lenders shall have been obtained but the consent of one (1) or more of such other Lenders (each a "**Non-Consenting Lender**") whose consent is required shall not have been obtained; then, with respect to each such Increased-Cost Lender or Non-Consenting Lender (the "**Terminated Lender**"), the Administrative Agent (y) shall, if requested by the Borrower in writing, which notice shall identify a Replacement Lender (as defined below) and (z) may (but in the case of an Increased-Cost Lender, only after receiving written request from the Borrower to remove such Increased-Cost Lender), in each case, by giving written notice to the Borrower and any Terminated Lender of the Borrower's or the Administrative Agent’s election to do so, instruct such Terminated Lender (and such Terminated Lender hereby irrevocably agrees) to assign its outstanding Revolving Loans and its Revolving

Commitments, if any, in full to one (1) or more Eligible Assignees designated by the Borrower or the Administrative Agent, as the case may be, (each a "**Replacement Lender**") in accordance with, and subject to the provisions of, Section 9.6 and such Terminated Lender shall pay any fees payable thereunder in connection with such assignment; provided, (1) on the date of such assignment, the Replacement Lender shall pay to such Terminated Lender an amount equal to the principal of, and all accrued interest on, all outstanding Revolving Loans of such Terminated Lender; (2) on the date of such assignment, the Borrower shall pay any amounts payable to such Terminated Lender pursuant to Section 2.17(c) or 2.18; and (3) in the event such Terminated Lender is a Non-Consenting Lender, each Replacement Lender shall consent, at the time of such assignment, to each matter in respect of which such Terminated Lender was a Non-Consenting Lender. Upon the prepayment of all amounts owing to any Terminated Lender and the termination of such Terminated Lender's Revolving Commitments, if any, such Terminated Lender shall no longer constitute a "**Lender**" for purposes hereof; provided, any rights of such Terminated Lender to indemnification hereunder shall survive as to such Terminated Lender.

2.21. Determination of Borrowing Base. The Borrowing Base at any time shall be determined by reference to the most recent Borrowing Base Certificate delivered to the Administrative Agent and the Eligibility Criteria.

SECTION 3. CONDITIONS PRECEDENT

3.1. Closing Date. The obligation of the Administrative Agent, the Collateral Agent and each of the Lead Agents to enter into this Agreement are subject to the satisfaction, or waiver in accordance with Section 9.5, of the following conditions on or before the Closing Date:

(a) Credit Documents. The Administrative Agent shall have received copies of each Credit Document originally executed and delivered by each applicable Credit Party.

(b) Organizational Documents; Incumbency. The Administrative Agent shall have received copies of (i) each Organizational Document executed and delivered by each Credit Party, as applicable, and, to the extent applicable, certified as of a recent date by the appropriate governmental official, each dated the Closing Date or a recent date prior thereto; (ii) signature and incumbency certificates of the officers of such Person executing the Credit Documents to which it is a party; (iii) resolutions of the board of directors, board of managers or similar governing body of each Credit Party approving and authorizing the execution, delivery and performance of this Agreement and the other Credit Documents to which it is a party or by which it or its assets may be bound as of the Closing Date, certified as of the Closing Date by its secretary or an assistant secretary as being in full force and effect without modification or amendment; (iv) a good standing certificate from the applicable Governmental Authority of each Credit Party's jurisdiction of incorporation, organization or formation, each dated a recent date prior to the Closing Date; and (v) such other documents as the Administrative Agent or the Lead Agents may reasonably request.

(c) Consummation of Transactions Contemplated by Related Agreements. The Administrative Agent shall have received a fully executed or conformed copy of each Related Agreement and any documents executed in connection therewith. Each Related

Agreement shall be in full force and effect, shall include terms and provisions reasonably satisfactory to the Lead Agents and no provision thereof shall have been modified or waived in any respect determined by the Lead Agents to be material, in each case without the consent of the Lead Agents.

(d) Reserved.

(e) Governmental Authorizations and Consents. Each Credit Party shall have obtained all Governmental Authorizations and all consents of other Persons, in each case that are necessary or advisable in connection with the transactions contemplated by the Credit Documents and each of the foregoing shall be in full force and effect and in form and substance reasonably satisfactory to the Lead Agents. All applicable waiting periods shall have expired without any action being taken or threatened by any competent authority which would restrain, prevent or otherwise impose adverse conditions on the transactions contemplated by the Credit Documents or the financing thereof and no action, request for stay, petition for review or rehearing, reconsideration, or appeal with respect to any of the foregoing shall be pending, and the time for any applicable agency to take action to set aside its consent on its own motion shall have expired.

(f) Collateral. In order to create in favor of the Collateral Agent, for the benefit of Secured Parties, a valid, perfected first priority Lien in the Collateral and in the Capital Stock of the Borrower, the Collateral Agent shall have received:

(i) evidence satisfactory to the Lead Agents of the compliance by each of the Originator and the Borrower of their obligations under the Security Agreement and the other Collateral Documents (including, without limitation, their obligations to authorize or execute, as the case may be, and deliver UCC financing statements, originals of securities, instruments and chattel paper and any agreements governing deposit accounts as provided therein);

(ii) the results of a recent search of all effective UCC financing statements (or equivalent filings) made with respect to any personal or mixed property of the Originator in California and the Borrower in Delaware together with copies of all such filings disclosed by such search, which shall be provided by CPS;

(iii) UCC termination statements (or similar documents) duly approved by all applicable Persons for filing in all applicable jurisdictions as may be necessary to terminate any effective UCC financing statements (or equivalent filings) disclosed in such search with respect to the Collateral;

(iv) evidence that the Originator and the Borrower shall have taken or caused to be taken any other action, executed and delivered or caused to be executed and delivered any other agreement, document and instrument and made or caused to be made any other filing and recording (other than as set forth herein) reasonably required by the Collateral Agent or the Lead Agents;

(v) opinions of counsel (which counsel shall be reasonably satisfactory to the Collateral Agent) with respect to the creation and perfection of the security

interests in favor of the Collateral Agent in such Collateral and such other matters governed by the laws of each jurisdiction in which the Borrower or the Collateral is located as the Lead Agents may reasonably request, in each case in form and substance reasonably satisfactory to the Lead Agents; and

(vi) evidence that any Indebtedness (other than the Obligations) secured by the Collateral has been paid in full.

(g) Financial Statements; Forecasts. The Lead Agents shall have received from CPS (i) any historical financial information regarding the Credit Parties requested by the Lead Agents, (ii) any financial projections with respect to the Credit Parties requested by the Lead Agents and (iii) any other financial information regarding the Credit Parties as the Lead Agents, in their sole discretion, may request.

(h) Evidence of Insurance. The Collateral Agent shall have received a certificate from the Servicer's insurance broker, or other evidence satisfactory to it that all insurance required to be maintained hereunder and under the Servicing Agreement is in full force and effect, and the Lead Agents shall have completed its review of the insurance coverage for CPS and the Borrower and the results of such review shall be satisfactory to the Lead Agents.

(i) Opinions of Counsel to Credit Parties. The Lead Agents shall have received originally executed copies of the favorable written opinions of Andrews Kurth LLP, counsel for CPS and the Borrower, and internal counsel for CPS and the Borrower, and as to such matters as the Lead Agents may reasonably request, dated as of the Closing Date and otherwise in form and substance reasonably satisfactory to the Lead Agents and their counsel (and CPS and the Borrower hereby instruct counsel for CPS and the Borrower to deliver such opinions to the Agents and the Lenders).

(j) Upfront Fee. CPS shall have paid to each Lender, pro rata based on their Revolving Commitments, the Upfront Fee and the applicable portion of the Lead Agent Fee pursuant to the Fee Letter.

(k) Solvency Certificates. On the Closing Date, the Administrative Agent shall have received Solvency Certificates from the Borrower and CPS dated as of the Closing Date and addressed to the Administrative Agent and Lenders, substantially in the form of Exhibit E-2, attesting that before and after giving effect to the consummation of the transactions contemplated by the Credit Documents, each of the Borrower and CPS, as the case may be, is Solvent.

(l) Closing Date Certificates. Each of CPS and the Borrower shall have delivered to the Lead Agents an originally executed Closing Date Certificate, together with all attachments thereto.

(m) No Litigation. There shall not exist any action, suit, investigation, litigation or proceeding or other legal or regulatory developments, pending or threatened in any court or before any arbitrator or Governmental Authority that, in the reasonable opinion of the Lead Agents, singly or in the aggregate, materially impairs the transactions contemplated by the Credit Documents, or that could reasonably be expected to have a Material Adverse Effect,

except has been previously disclosed in writing to the Administrative Agent or in CPS' public reports filed under the Exchange Act, provided that CPS has notified the Lead Agents of such filing.

(n) No Closing Date Material Adverse Change. A Closing Date Material Adverse Change shall not have occurred.

(o) No New Information. Neither of the Lead Agents shall have become aware, since September 30, 2010, of any new information or other matters not previously disclosed to such Lead Agent relating to the Borrower, CPS or its Subsidiaries or the transactions contemplated herein which such Lead Agent, in its reasonable judgment, deems inconsistent in a material and adverse manner with the information or other matters previously disclosed to such Lead Agent relating to the Borrower, CPS or its Subsidiaries.

(p) Delivery of Receivable Files to Custodian; Collateral Receipt. In accordance with the terms of the Custodial Agreement, the Borrower shall have delivered, or caused to be delivered, to the Custodian, the related Receivable File and each Lead Agent has received a Collateral Receipt and Exception Report from the Custodian, which Collateral Receipt and Exception Report is acceptable to the Lead Agents in their sole discretion.

(q) Service of Process. On the Closing Date, the Administrative Agent shall have received evidence that each of CPS and the Borrower has appointed an agent in New York City for the purpose of service of process in New York City and such agent shall agree in writing to give the Administrative Agent notice of any resignation of such service agent or other termination of the agency relationship.

(r) Borrowing Base Confirmation. The Lead Agents shall have received a Borrowing Base Certificate evidencing that there is sufficient Revolving Availability with respect to the initial Credit Extension requested by the Borrower.

(s) Servicing Report. The Lead Agents shall have received a pro forma Monthly Servicing Report as of November 30, 2010, acceptable to the Lead Agents in their sole discretion.

(t) Diligence.

(i) The Lead Agents shall have completed their diligence, including but not limited to, legal diligence and due diligence on the Credit Parties and the results of such diligence are satisfactory to the Lead Agents in their sole discretion;

(ii) The Lead Agents shall be satisfied, in their sole discretion, with the results of background investigations, if any, performed on principals and employees of any Credit Party, including, without limitation, Charles Bradley, Jr.; and

(iii) The Lead Agents shall be satisfied, in their sole discretion, with the Credit Parties' cash management systems and the Servicer's procedures and systems.

(u) Backup Servicing. The Backup Servicer shall have completed all required data mapping as set forth in the Backup Servicing Agreement.

(v) Additional Capital Funding. The Lead Agents shall have received confirmation of the funding of new capital instruments of the Originator, having such terms as are reasonably satisfactory to the Lead Agents, pursuant to which the Originator receives at least $20,000,000 in new capital.

3.2. Conditions to Each Credit Extension.

(a) Conditions Precedent. The obligation of each Lender to make any Revolving Loan, on any Credit Date, including the Closing Date, are subject to the satisfaction, or waiver in accordance with Section 9.5, of the following conditions precedent:

(i) the Lead Agents shall have received a fully executed and delivered Funding Notice together with a Borrowing Base Certificate two (2) Business Days prior to such Credit Date, evidencing sufficient Revolving Availability with respect to the requested Revolving Loan together with a schedule of Receivables listing the Receivables to be pledged in connection with the Revolving Loan, such schedule to (a) be in an electronic file format reasonably satisfactory to the Administrative Agent, and (b) set forth the information required and requested by the Administrative Agent and the Custodian to value and administer the Receivables described therein, including, without limitation, the information with respect to each related Contract required to calculate the Excess Concentration Amount and identification of each such Contract by (i) the account number; (ii) Obligor name and (iii) the outstanding principal balance of the Receivable evidenced by such Contract as of the Credit Date related to such Revolving Loan;

(ii) after making the Credit Extensions requested on such Credit Date, the Total Utilization of Revolving Commitments as of such Credit Date shall not exceed the lesser of (A) the Revolving Commitments then in effect and (B) the Borrowing Base;

(iii) as of such Credit Date, the representations and warranties made by each of the Credit Parties contained herein and in the other Credit Documents shall be true and correct in all material respects on and as of that Credit Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects on and as of such earlier date;

(iv) as of such Credit Date, after giving effect to such Revolving Loan, no event shall have occurred and be continuing or would result from the consummation of the applicable Credit Extension that would constitute an Event of Default or a Default;

(v) as of such Credit Date, the Collateral Agent shall have received satisfactory evidence of the valid transfer of the Eligible Receivables comprising the Borrowing Base to the Borrower; and

(vi) in accordance with the terms of the Custodial Agreement, the Borrower has delivered, or caused to be delivered, to the Custodian, the related Receivable File and each Lead Agent has received a Collateral Receipt and Exception Report from the Custodian, which Collateral Receipt and Exception Report is acceptable to the Lead Agents in their sole discretion.

Any Agent or Lead Agent shall be entitled, but not obligated to, request and receive, prior to the making of any Credit Extension, additional information reasonably satisfactory to the requesting party confirming the satisfaction of any of the foregoing if, in the good faith judgment of such Agent or Lead Agent such request is warranted under the circumstances.

(b) Funding Notices. Any Funding Notice shall be executed by an Authorized Officer of the Borrower and delivered to the Lead Agents. In lieu of delivering a Funding Notice, the Borrower may give the Administrative Agent telephonic notice by the required time of any proposed borrowing; provided each such notice shall be promptly confirmed in writing by delivery of the applicable Funding Notice and Borrowing Base Certificate to the Lead Agents on or before the applicable Credit Date. Neither the Administrative Agent nor any Lender shall incur any liability to the Borrower in acting upon any telephonic notice referred to above that the Administrative Agent believes in good faith to have been given by a duly Authorized Officer of the Borrower.

SECTION 4. REPRESENTATIONS AND WARRANTIES

In order to induce the Agents, the Lead Agents and the Lenders to enter into this Agreement and to make each Credit Extension to be made thereby, each of the Borrower and CPS (with respect to itself) represents and warrants, to each Agent, each Lead Agent and each Lender, on the Closing Date and on each Credit Date, that the following statements are true and correct (it being understood and agreed that the representations and warranties made on the Closing Date are deemed to be made concurrently with the consummation of the transactions contemplated by the Credit Documents):

4.1. Organization; Requisite Power and Authority; Qualification; Other Names»

. Each of the Borrower and CPS (a) is duly organized or formed, validly existing and in good standing under the laws of the State of its organization, (b) has all requisite power and authority to own and operate its properties, to carry on its business as now conducted and as proposed to be conducted, to enter into the Credit Documents to which it is a party, and to carry out the transactions contemplated thereby and fulfill its Obligations thereunder, (c) is qualified to do business and in good standing in every jurisdiction where its assets are located and wherever necessary to carry out its business and operations, except in jurisdictions where the failure to be so qualified or in good standing has not had, and could not be reasonably expected to have, a Material Adverse Effect. The Borrower does not operate or do business under any assumed, trade or fictitious name. The Borrower has no Subsidiaries.

4.2. Capital Stock and Ownership. CPS owns all of the outstanding and issued Capital Stock of the Borrower. The Capital Stock of the Borrower has been duly authorized and validly issued and is fully paid and non-assessable. There is no existing option, warrant, call, right, commitment or other agreement to which the Borrower is a party requiring, and there is no

Capital Stock of the Borrower outstanding which upon conversion or exchange would require, the issuance by the Borrower of Capital Stock of the Borrower or other Securities convertible into, exchangeable for or evidencing the right to subscribe for or purchase, Capital Stock of the Borrower.

4.3. **Due Authorization**. The execution, delivery and performance of the Credit Documents to which each Credit Party is a party have been duly authorized by all necessary action on the part of such Credit Party.

4.4. **No Conflict**. The execution, delivery and performance by each Credit Party of the Credit Documents to which it is a party and the consummation of the transactions contemplated by the Credit Documents do not and will not (a) (i) violate any provision of any law or any governmental rule or regulation applicable to such Credit Party, (ii) violate any of the Organizational Documents of such Credit Party, or (iii) violate any order, judgment or decree of any court or other agency of government binding on such Credit Party; (b) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any Contractual Obligation of such Credit Party, except as could not reasonably be expected to result in a Material Adverse Effect; (c) result in or require the creation or imposition of any Lien upon any of the properties or assets of such Credit Party (other than any Liens created under any of the Credit Documents in favor of the Collateral Agent, on behalf of the Secured Parties); or (d) require any approval of stockholders, members or partners or any approval or consent of any Person under any Contractual Obligation of such Credit Party, except for such approvals or consents which will be obtained on or before the Closing Date and disclosed in writing to the Lead Agents.

4.5. **Governmental Consents**. The execution, delivery and performance by each Credit Party of the Credit Documents to which it is a party and the consummation of the transactions contemplated by the Credit Documents do not and will not require any registration with, consent or approval of, or notice to, or other action to, with or by, any Governmental Authority, except for filings and recordings with respect to the Collateral to be made, or otherwise delivered to the Collateral Agent for filing and/or recordation, as of the Closing Date.

4.6. **Binding Obligation**. Each Credit Document to which each Credit Party is a party has been duly executed and delivered by such Credit Party and is the legally valid and binding obligation of such Credit Party and is in full force and effect, enforceable against such Credit Party in accordance with its respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

4.7. **Receivables**. Each Receivable is a bona fide existing payment obligation of a Obligor, owed to the Borrower without defenses, disputes, offsets, counterclaims, or rights of return or cancellation. Each Receivable that is identified by the Borrower as an Eligible Receivable on a Borrowing Base Certificate or Funding Notice, or by the Servicer on a Monthly Servicing Report, satisfies the Eligibility Criteria. No Depository Institution assisted in the origination of any Receivable and at no time has any Receivable been owned, purchased, or serviced by a Depository Institution.

4.8. No Adverse Selection.

(a) The Receivables sold or transferred by the Originator to the Borrower are of no lesser quality than (i) the CPS Receivables considered as a whole or (ii) the CPS Receivables pledged under any other financing facility under which CPS is a borrower, either directly or indirectly (acting through a special purpose borrowing entity, or otherwise indirectly), in each case, as of the time of that transfer, and no selection procedures adverse to the Borrower or the Lenders have been used (i) in selecting any Receivable from all other similar CPS Receivables or (ii) in allocating CPS Receivables among any financing facility under which CPS is a borrower.

4.9. No Material Adverse Effect. Since September 30, 2010, no event, circumstance or change has occurred that has caused or evidences, either individually or in the aggregate, a Material Adverse Effect.

4.10. Adverse Proceedings, etc. There are no Adverse Proceedings pending, individually or in the aggregate, that could reasonably be expected to have a Material Adverse Effect. No Credit Party is (a) in violation of any applicable laws that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect, or (b) subject to or in default with respect to any final judgments, writs, injunctions, decrees, rules or regulations of any court or any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

4.11. Payment of Taxes. Except as otherwise permitted under Section 5.3, all tax returns and reports of the Borrower required to be filed have been timely filed, and all taxes shown on such tax returns to be due and payable and all assessments, fees and other governmental charges upon the Borrower and upon its properties, assets, income, businesses and franchises which are due and payable have been paid when due and payable. The Borrower knows of no proposed tax assessment against it which is not being actively contested by the Borrower in good faith and by appropriate proceedings; provided, such reserves or other appropriate provisions, if any, as shall be required in conformity with GAAP shall have been made or provided therefor.

4.12. Title to Assets. The Borrower has good and valid title to all of its assets reflected in the most recent financial statements delivered pursuant to Section 5.11. Except as permitted by this Agreement, all such properties and assets are free and clear of Liens, other than Permitted Liens.

4.13. No Indebtedness. The Borrower does not have any Indebtedness, other than Indebtedness incurred under (or contemplated by) the terms of this Agreement, the other Credit Documents or otherwise permitted hereunder.

4.14. No Defaults. Other than the defaults set forth on Schedule 1 hereto, no Credit Party is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any of its Contractual Obligations, and to each Credit Party's knowledge no condition exists which, with the giving of notice or the lapse of time or

both, could constitute such a default, except where, (a) such defaults have been waived, or (b) individually or in the aggregate, the consequences, direct or indirect, of such default or defaults, if any, could not reasonably be expected to have a Material Adverse Effect.

4.15. Governmental Regulation. The Borrower is not subject to regulation under the Investment Company Act of 1940 or under any other federal or state statute or regulation which may limit its ability to incur Indebtedness or which may otherwise render all or any portion of the Obligations unenforceable. The Borrower is not a "**registered investment company**" or a company "**controlled**" by a "**registered investment company**" or a "**principal underwriter**" of a "**registered investment company**" as such terms are defined in the Investment Company Act of 1940.

4.16. Margin Stock. The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying any Margin Stock. No part of the proceeds of the Revolving Loans made to the Borrower will be used directly or indirectly to purchase or carry any such Margin Stock, for the purpose of reducing or retiring any Indebtedness which was originally incurred to purchase or carry Margin Stock, to extend credit to others for the purpose of purchasing or carrying any such Margin Stock or for any purpose that violates, or is inconsistent with, the provisions of Regulation T, U or X of the Board of Governors of the Federal Reserve System.

4.17. [Reserved].

4.18. Certain Fees. No broker's or finder's fee or commission will be payable by the Borrower with respect hereto or any of the transactions contemplated hereby.

4.19. Solvency and Fraudulent Conveyance. The Borrower is and, upon the incurrence of any Credit Extension by the Borrower on any date on which this representation and warranty is made, will be, Solvent. Neither the Borrower nor CPS is transferring any Collateral with any intent to hinder, delay or defraud any of its creditors. Neither the Borrower nor CPS shall use the proceeds from the transactions contemplated by this Agreement to give preference to any class of creditors. The Borrower has given fair consideration and reasonably equivalent value in exchange for the sale of the Receivables under the Purchase Agreement.

4.20. Credit Documents.

(a) Delivery. The Borrower has delivered, or caused to be delivered, to the Administrative Agent complete and correct copies of (i) each Credit Document and of all exhibits and schedules thereto as of the date hereof, and (ii) copies of any material amendment, restatement, supplement or other modification to or waiver of each Credit Document entered into after the date hereof.

(b) Representations and Warranties. Except to the extent otherwise expressly set forth herein or in the schedules hereto, and subject to the qualifications set forth therein, each of the representations and warranties given by each of the Borrower and CPS in any Credit Document is true and correct in all material respects as of the Closing Date (or as of any earlier date to which such representation and warranty specifically relates). Notwithstanding anything in the Credit Document to the contrary, the representations and warranties of each of the

Borrower and CPS set forth in any Credit Document shall, solely for purposes hereof, survive the Closing Date for the benefit of the Lenders.

(c) Governmental Approvals. All Governmental Authorizations and all other authorizations, approvals and consents of any other Person required by the Credit Documents or to consummate the transactions contemplated therein have been obtained and are in full force and effect.

(d) Conditions Precedent. On the Closing Date, all of the conditions to effecting or consummating the transactions described herein and set forth in the Credit Documents have been duly satisfied or, with the consent of the Lead Agents, waived, and the transactions described set forth in the Credit Documents, have been consummated in accordance with the Related Documents

4.21. Compliance with Statutes, etc. Each Credit Party is in compliance with all applicable statutes, regulations and orders of, and all applicable restrictions imposed by, all Governmental Authorities, in respect of the conduct of its business and the ownership of its property, except such non-compliance that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

4.22. Disclosure. The representations and warranties of each of the Borrower and CPS contained in any Credit Document or in any other documents, certificates or written statements furnished to any Lender by or on behalf of CPS or any of its Subsidiaries for use in connection with the transactions contemplated hereby, taken as a whole, do not contain any untrue statement of a material fact or omit to state a material fact (known to CPS or the Borrower, in the case of any document not furnished by either of them) necessary in order to make the statements contained herein or therein not misleading in light of the circumstances in which the same were made. Any projections and pro forma financial information contained in such materials are based upon good faith estimates and assumptions by the preparer thereof believed to be reasonable at the time made, it being recognized by the Lenders that such projections as to future events are not to be viewed as facts and that actual results during the period or periods covered by any such projections may differ from the projected results. There are no facts known (or which should upon the reasonable exercise of diligence be known) to the Borrower (other than matters of a general economic nature) that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect and that have not been disclosed herein or in such other documents, certificates and statements furnished to the Lenders for use in connection with the transactions contemplated hereby.

4.23. Money Control Acts/FCPA. To the extent applicable, each of the Borrower and CPS is in compliance, in all material respects, with the (a) Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 C.F.R., Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, and (b) Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA Patriot Act of 2001) (the "**Act**"). No part of the proceeds of the Revolving Loans will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to

obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

SECTION 5. AFFIRMATIVE COVENANTS

Each of CPS and the Borrower covenants and agrees that so long as any Revolving Commitment is in effect and until payment in full of all of the Obligations (other than contingent indemnification obligations), CPS and/or the Borrower, as applicable, shall perform all covenants in this Section 5.

5.1. Reports. Unless otherwise provided below, the Borrower shall deliver, or cause to be delivered, to the Administrative Agent and the Lead Agents:

(a) Collateral Reporting. On each Credit Date and at such other times as the Lead Agents shall request, the Borrower shall deliver a Borrowing Base Certificate to the Lead Agents, in form and substance satisfactory to the Lead Agents. Each Borrowing Base Certificate delivered to the Lead Agents shall bear a signed statement by an Authorized Officer certifying the accuracy and completeness of all information included therein. The execution and delivery of a Borrowing Base Certificate shall in each instance constitute a representation and warranty by the Borrower to the Lenders that each Eligible Receivable included therein satisfies the Eligibility Criteria. In the event any Funding Notice with respect to a Revolving Loan or other information required by this Section 5.1(a) is delivered to the Lead Agents by the Borrower electronically or otherwise without signature, such Funding Notice or other information shall, upon such delivery, be deemed to be signed and certified on behalf of the Borrower by an Authorized Officer and constitute a representation to the Lead Agents as to the authenticity thereof. The Lead Agents shall have the right to review and adjust any such calculation of the Borrowing Base in accordance with Section 2.21 hereof;

(b) Notice of Default. Promptly upon any Authorized Officer of CPS or the Borrower obtaining knowledge (i) of any condition or event that constitutes a Default or an Event of Default; (ii) that any Person has given any notice to CPS or the Borrower or taken any other action with respect to any event or condition set forth in Section 7.1(b) (captioned "Cross-Defaults"); or (iii) of the occurrence of any event or change that has caused or evidences, either individually or in the aggregate, a Material Adverse Effect, a certificate of its Authorized Officers specifying the nature and period of existence of such condition, event or change, or specifying the notice given and action taken by any such Person and the nature of such claimed Event of Default, Default, default, event or condition, and what action CPS or the Borrower, as applicable, has taken, is taking and proposes to take with respect thereto;

(c) Notice of Litigation. Promptly upon any Authorized Officer of CPS or the Borrower obtaining knowledge of (i) the institution of, or non-frivolous threat of, any Adverse Proceeding not previously disclosed in writing by CPS or the Borrower to the Lenders, or (ii) any material development in any Adverse Proceeding that, in the case of either clause (i) or (ii) if adversely determined, is reasonably likely to result in a judgment in an amount in excess of $250,000, or seeks to enjoin or otherwise prevent the consummation of, or to recover any damages or obtain relief as a result of, the transactions contemplated hereby, written notice

thereof together with such other information as may be reasonably available to CPS or the Borrower, as applicable, to enable the Lenders and its counsel to evaluate such matters;

(d) [Reserved].

(e) Breach of Representations and Warranties. Promptly upon CPS or the Borrower becoming aware of a material breach with respect to any representation or warranty made or deemed made by CPS or the Borrower in any Credit Document or in any certificate at any time given by CPS or the Borrower in writing pursuant hereto or thereto or in connection herewith or therewith, a certificate of its Authorized Officers specifying the nature and period of existence of such breach and what action CPS or the Borrower, as applicable, has taken, is taking and proposes to take with respect thereto;

(f) Information Regarding Collateral. The Borrower will furnish to the Collateral Agent prior written notice of any change (i) in its corporate name, (ii) in its identity, corporate structure or jurisdiction of organization, or (iii) in its Federal Taxpayer Identification Number. The Borrower agrees not to effect or permit any change referred to in the preceding sentence unless all filings have been made under the UCC or otherwise that are required in order for the Collateral Agent to continue at all times following such change to have a valid, legal and perfected security interest in all the Collateral. The Borrower also agrees promptly to notify the Collateral Agent if any material portion of the Collateral is damaged or destroyed; and

(g) Tax Returns. As soon as practicable and in any event within fifteen (15) days following the filing thereof, the Borrower shall provide to the Administrative Agent copies of each federal income tax return filed by or on behalf of the Borrower.

5.2. Existence. Each of CPS and the Borrower shall at all times preserve and keep in full force and effect its existence and all rights and franchises, licenses and permits material to its business.

5.3. Payment of Taxes and Claims. The Borrower shall pay all Taxes imposed upon it or any of its properties or assets or in respect of any of its income, businesses or franchises before any penalty or fine accrues thereon, and all claims (including claims for labor, services, materials and supplies) for sums that have become due and payable and that by law have or may become a Lien upon any of its properties or assets, prior to the time when any penalty or fine shall be incurred with respect thereto; provided, no such Tax or claim need be paid if it is being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, so long as (a) adequate reserve or other appropriate provision, as shall be required in conformity with GAAP shall have been made therefor, and (b) in the case of a Tax or claim which has or may become a Lien against any of the Collateral, such contested proceedings conclusively operate to stay the sale of any portion of the Collateral to satisfy such Tax or claim. The Borrower shall not file or consent to the filing of any consolidated income tax return with any Person (other than CPS or any of its Subsidiaries).

5.4. Audits of CPS Receivables. Each of CPS and the Borrower shall, at any time and as frequently as may be reasonably requested by the Lead Agents, at the Borrower's expense, permit the Lead Agents, or its agents or professional advisors, at reasonable times during

business hours and upon reasonable notice to CPS or the Borrower, as applicable, to visit the premises and property of CPS and the Borrower and/or to audit the CPS Receivables, whether in person or by requests for information, and to inspect, audit, copy, run comparative analysis on, and take extracts from its and their financial and accounting records, and to discuss its and their affairs, financings and accounts with any Person, including, without limitation, employees of the Borrower or CPS and independent public accountants. The Borrower agrees to pay the reasonable out-of-pocket expenses incurred by the Lead Agents in connection with its field examinations and audits and the preparation of reports thereof performed or prepared. Based on the results of any such examination or audit, the Administrative Agent may redetermine the value of Eligible Receivables based on any such audits, or updates of audits, and, as a result, redetermine the Borrowing Base in accordance with clause (b) of the definition thereof.

5.5. Annual Meetings. Each of CPS and the Borrower will, upon the request of the Administrative Agent, Lead Agents or Requisite Lenders, participate in a meeting of the Administrative Agent and the Lenders once during each Fiscal Year to be held at the Borrower's corporate offices (or at such other location as may be agreed to by CPS, the Borrower, the Administrative Agent and the Lenders) at such time as may be agreed to by CPS, the Borrower, the Administrative Agent and the Lenders.

5.6. Compliance with Laws. Each of CPS and the Borrower shall comply with the requirements of all applicable laws, rules, regulations and orders of any Governmental Authority noncompliance with which could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

5.7. Further Assurances. At any time or from time to time upon the request of the Administrative Agent, each of CPS and the Borrower will, at its expense, promptly execute, acknowledge and deliver such further documents and do such other acts and things as the Lead Agents, the Administrative Agent or the Collateral Agent may reasonably request in order to effect fully the purposes of the Credit Documents, including providing the Lenders with any information reasonably requested pursuant to Section 9.19.

5.8. Separateness. The Borrower acknowledges that the Lenders are entering into this Agreement in reliance upon the Borrower's identity as a legal entity that is separate from any other Person. Therefore, from and after the date of this Agreement, the Borrower shall take all reasonable steps, including without limitation, all steps that the Lenders may from time to time reasonably request, to maintain the Borrower's identity as a separate legal entity and to make it manifest to third parties that the Borrower is a separate legal entity. Without limiting the generality of the foregoing, the Borrower agrees that it has not and shall not:

(a) engage, either directly or indirectly, in any business or activity other than the acquisition, ownership, financing and disposition of the Receivables in accordance with the Credit Documents and activities incidental thereto;

(b) acquire or own any material asset other than the Collateral and proceeds thereof;

(c) merge into or consolidate with any Person or entity or dissolve, terminate or liquidate in whole or in part, transfer or otherwise dispose of all or substantially all of its assets or change its legal structure, without in each case, to the extent permitted by law, the Lead Agents' consent;

(d) fail to preserve its existence as an entity duly organized, validly existing and in good standing (if applicable) under the laws of the jurisdiction of its formation, or without the prior written consent of the Lead Agents, amend, modify, change, repeal, terminate or fail to comply with the provisions of the Borrower's certificate of formation, or its limited liability company agreement, as the case may be; provided, however, the Borrower may amend its operating agreement without the Lead Agents' consent (i) to cure any ambiguity, (ii) with respect to administrative matters, or (iii) to convert or supplement any provision in a manner consistent with the intent of this Agreement or the other Credit Documents;

(e) own any Subsidiary or make any investment in, any Person or entity without the consent of the Lead Agents;

(f) commingle its assets with the assets of any of its general partners, members, Affiliates, principals or any other Person or entity;

(g) incur any Indebtedness except the Obligations and the Subordinated Notes;

(h) fail to remain Solvent;

(i) fail to maintain its records, books of account and bank accounts, separate and apart from those of the general partners, members, principals and Affiliates of the Borrower or the Affiliates of a general partner or member of the Borrower or any other Person;

(j) except for the Credit Documents, and as otherwise expressly permitted by the Credit Documents, enter into any contract or agreement with any general partner, member, principal or Affiliate of the Borrower, CPS, or any general partner, member, principal or Affiliate thereof, except with the Lead Agents' consent and upon terms and conditions that are intrinsically fair and substantially similar to those that would be available on an arms-length basis with third parties other than any general partner, member, principal or affiliate of the Borrower, CPS, or any general partner, member, principal or Affiliate thereof or fail to maintain separate financial statements from those of its general partners, members, principles and Affiliates; provided, however, the Borrower's financial position, assets, liabilities, net worth and operating results may be included in the consolidated financial statements of CPS and its Affiliates; provided that such consolidated financial statements disclose that the Borrower is a separate legal entity and that its assets are not generally available to satisfy the claims of creditors of CPS;

(k) seek the dissolution or winding up, in whole or in part, of the Borrower or take any action that would cause the Borrower to become insolvent;

(l) fail to take reasonable efforts to correct any misunderstanding known to the Borrower regarding the separate identity of the Borrower;

(m) maintain its assets in such a manner that it will be costly or difficult to segregate, ascertain or identify its individual assets from those of any other Person;

(n) except as provided in the Credit Documents, assume or guaranty the debts of any other Person, hold itself out to be responsible for the debts of any other Person, or otherwise pledge its assets for the benefit of any other Person or hold out its credit as being available to satisfy the obligations of any other Person;

(o) except as provided in the Credit Documents, make any loans or advances to any third party, including any general partner, member, principal or affiliate of the Borrower, or any general partner, member, principal or Affiliate thereof;

(p) fail either to hold itself out to the public as a legal entity separate and distinct from any other entity or Person or to conduct its business solely in its own name in order not (i) to mislead others as to the identity with which such other party is transacting business, or (ii) to suggest that the Borrower is responsible for the debts of any third party (including any general partner, member, principal or Affiliate of the Borrower, or any general partner, member, principal or Affiliate thereof);

(q) fail to maintain adequate capital for the normal obligations reasonably foreseeable in a business of its size and character and in light of its contemplated business operations;

(r) file or consent to the filing of any petition, either voluntary or involuntary, to take advantage of any applicable insolvency, bankruptcy, liquidation or reorganization statute, or make an assignment for the benefit of creditors;

(s) hold itself out as or be considered as a department or division (other than for tax purposes) of any general partner, principal, member or Affiliate of the Borrower or any other Person or entity;

(t) fail to allocate fairly and reasonably shared expenses (including, without limitation, shared office space and services performed by an employee of an Affiliate) among the Persons sharing such expenses and to use separate stationery, invoices and checks;

(u) acquire obligations or securities of its partners, members, shareholders of other Affiliates, as applicable;

(v) violate or cause to be violated the assumptions made with respect to the Borrower in any opinion letter pertaining to substantive consolidation delivered to the Lenders in connection with the Credit Documents;

(w) [Reserved];

(x) fail to have Organizational Documents that provide that, so long as the Obligations of the Borrower shall be outstanding, the Borrower shall not (i) seek the dissolution or winding up in whole, or in part, of the Borrower or (ii) file or consent to the filing of any petition, either voluntary or involuntary, or commence a case under any applicable insolvency,

bankruptcy, liquidation or reorganization statute, or make an assignment for the benefit of creditors without the consent of the Independent Manager;

(y) fail to observe all requisite organizational formalities under Delaware law;

(z) account for or treat (whether in financial statements or otherwise) the transactions contemplated by the Purchase Agreement in any manner other than the sale of the Receivables to the Borrower or in any other respect account for or treat the transactions contemplated therein in any manner other than as a sale of Receivables to the Borrower; provided, that the Receivables may be reflected on the consolidated balance sheets of CPS in accordance with GAAP.

(aa) make any revision or amendment to the Purchase Agreement without the consent of the Lead Agents; and

(bb) fail to cause its members, managers, directors, officers, agents and other representatives to act at all times with respect to the Borrower consistently and in furtherance of the foregoing and in the best interests of the Borrower.

In the event of any inconsistency between the covenants set forth in this Section 5.8 or the other covenants set forth in this Agreement, or in the event that any covenant set forth in this Section 5.8 poses a greater restriction or obligation than is set forth elsewhere in this Agreement, the covenants set forth in this Section 5.8 shall control.

5.9. Cash Management Systems. The Borrower shall establish and maintain cash management systems as set forth below.

(a) Lockbox System.

(i) The Borrower has established, or has caused the Servicer to establish, pursuant to the Control Agreements for the benefit of the Collateral Agent, on behalf of the Secured Parties, a lockbox and Lockbox Account as described in Section 2.12 (the "**Lockbox System**") into which all Collections shall be deposited.

(ii) The Borrower shall not establish any new lockbox or lockbox arrangement without consent of the Lead Agents in their sole discretion, and prior to establishing any such new lockbox or lockbox arrangement, the Borrower shall cause each bank or financial institution with which it seeks to establish such a lockbox or lockbox arrangement to enter into a control agreement with respect thereto.

(iii) Without the prior written consent of the Lead Agents, the Borrower shall not, in a manner adverse to the Lenders, (A) change the general instructions given to the Servicer in respect of payments on account of Receivables to be deposited in the Lockbox System or (B) change any instructions given to any bank or financial institution which in any manner redirects the proceeds of any collections in the Lockbox System to any account which is not a Collection Account.

(iv) The Borrower acknowledges and agrees that (A) the funds on deposit in the Lockbox System shall continue to be collateral security for the Obligations secured thereby, (B) upon the occurrence and during the continuance of an Event of Default, the funds on deposit in the Lockbox System shall be applied as provided in Section 2.11 and (C) the Control Agreements will provide that all funds in the Lockbox will be swept daily into the Collection Account.

(b) Payment Collection. The Borrower has directed, and will at all times hereafter direct, the Servicer to direct each of the Obligors to forward all payments on account of Receivables directly to the Lockbox System in accordance with Section 2.12. The Borrower agrees (i) to instruct the Servicer to instruct each Obligor to make all payments with respect to Receivables directly to the Lockbox System and (ii) promptly (and, except as set forth in the proviso to this Section 5.9(b), in no event later than two (2) Business Days following receipt) to deposit all payments received by it on account of Receivables, whether in the form of cash, checks, notes, drafts, bills of exchange, money orders or otherwise, in the Lockbox System in precisely the form in which they are received (but with any endorsements of the Borrower necessary for deposit or collection), and until they are so deposited to hold such payments in trust for and as the property of the Collateral Agent; provided, however, that with respect to any payment received that does not contain sufficient identification of the account number to which such payment relates or cannot be processed due to an act beyond the control of the Servicer, such deposit shall be made no later than the second Business Day following the date on which such account number is identified or such payment can be processed, as applicable.

5.10. Insurance. From the period commencing on the Closing Date until the termination of this Agreement, CPS shall maintain in force an "errors and omissions" insurance policy and an employee fidelity insurance policy, in each case, (i) in an amount not less than $1,000,000, (ii) in a form reasonably acceptable to the Administrative Agent and the Lead Agents, (iii) with an insurance company reasonably acceptable to the Administrative Agent and the Lead Agents and (iv) naming the Administrative Agent, for the benefit of the Lenders, as beneficiary and loss payee. Unless otherwise directed by the Administrative Agent and the Lead Agents, CPS shall prepare and present, on behalf of itself, the Administrative Agent and the Lenders, claims under any such policy in a timely fashion in accordance with the terms of such policy, and upon the filing of any claim on any policy described in this Section 5.10, CPS shall promptly notify the Administrative Agent of such claim and deposit, or cause to be deposited, the proceeds of any such claim into the Collection Account. CPS shall deliver copies of such policies to the Administrative Agent on or prior to the Closing Date together with a certification from the applicable insurance company that such policy is in force on such date. CPS shall deliver proof of maintenance of such policies and payment of premiums no less frequently than annually, in form and substance reasonably acceptable to the Administrative Agent, on the six-month anniversary from the Closing Date and on each succeeding twelve month anniversary thereafter (or if such day is not a Business Day, the next succeeding Business Day).

5.11. Financial Statements

(a) As soon as available and no later than ninety (90) days after the end of each fiscal year of the Borrower, the Borrower shall deliver to the Administrative Agent one (1) copy of: (A) the audited balance sheet of the Borrower as of the end of the fiscal year, setting forth in comparative form the figures for the previous fiscal year and accompanied by an opinion of the Independent Accountants stating that such balance sheet presents fairly the

financial condition of the companies being reported upon and has been prepared in accordance with GAAP consistently applied (except for changes in application in which such accountants concur); and (B) audited statements of income, stockholders' equity and cash flow of the Borrower for such fiscal year; in each case setting forth in comparative form the figures for the previous fiscal year and accompanied by an opinion of the Independent Accountants stating that such financial statements present fairly the financial condition of the Borrower and have been prepared in accordance with GAAP consistently applied (except for changes in application in which such accountants concur).

(b) As soon as available and no later than thirty (30) days after the end of each fiscal month in each fiscal year of CPS, the Borrower shall deliver, or cause to be delivered, to the Administrative Agent one (1) copy of: (A) the unaudited consolidated balance sheet of CPS and its consolidated Subsidiaries (including the Borrower) as of the end of such fiscal month, which balance sheet shall be prepared and presented in accordance with, and provide all necessary disclosure required by, GAAP and shall be accompanied by a certificate signed by the financial vice president, treasurer, chief financial officer, chief investment officer or controller of CPS stating that such balance sheet presents fairly the financial condition of CPS and has been prepared in accordance with GAAP consistently applied; and (B) the unaudited consolidated statements of income, stockholders' equity and cash flow of CPS and its consolidated Subsidiaries (including the Borrower) for such fiscal month, which such statements shall be prepared and presented in accordance with, and provide all necessary disclosure required by, GAAP and shall be accompanied by a certificate signed by the financial vice president, treasurer, chief financial officer, chief investment officer or controller of CPS stating that such financial statements present fairly the financial condition and results of operations of CPS and have been prepared in accordance with GAAP consistently applied.

(c) As soon as available and no later than forty-five (45) days after the end of each fiscal quarter in each fiscal year of CPS, the Borrower shall deliver, or cause to be delivered, to the Administrative Agent one (1) copy of: (A) the unaudited consolidated balance sheet of CPS and its consolidated Subsidiaries (including the Borrower) as of the end of such fiscal quarter, which such balance sheet shall be prepared and presented in accordance with, and provide all necessary disclosure required by GAAP and shall be accompanied by a certificate signed by the financial vice president, treasurer, chief financial officer, chief investment officer or controller of CPS or another officer of CPS acceptable to the Administrative Agent stating that such balance sheet presents fairly the financial condition of the companies being reported upon and has been prepared in accordance with GAAP consistently applied; and (B) the unaudited consolidated statements of income, stockholders' equity and cash flow of CPS and its consolidated Subsidiaries (including the Borrower) for such fiscal quarter, which such statements shall be prepared and presented in accordance with, and provide all necessary disclosure required by, GAAP and shall be accompanied by a certificate signed by the financial vice president, treasurer, chief financial officer, chief investment officer or controller of CPS or another officer of CPS acceptable to the Administrative Agent stating that such financial statements present fairly the financial condition and results of operations of the companies being reported upon and have been prepared in accordance with GAAP consistently applied;

(d) As soon as available and no later than ninety (90) days after the end of each fiscal year of CPS, the Borrower shall deliver, or cause to be delivered, to the

Administrative Agent one (1) copy of: (A) the audited consolidated balance sheet of CPS and its consolidated Subsidiaries (including the Borrower) as of the end of the fiscal year, setting forth in comparative form the figures for the previous fiscal year and accompanied by an opinion of the Independent Accountants stating that such balance sheet presents fairly the financial condition of the companies being reported upon and has been prepared in accordance with GAAP consistently applied (except for changes in application in which such accountants concur); and (B) the audited consolidated statements of income, stockholders' equity and cash flow of CPS and its consolidated Subsidiaries (including the Borrower) for such fiscal year; in each case setting forth in comparative form the figures for the previous fiscal year and accompanied by an opinion of the Independent Accountants stating that such financial statements present fairly the financial condition of the companies being reported upon and have been prepared in accordance with GAAP consistently applied (except for changes in application in which such accountants concur).

(e) For so long as CPS is subject to the periodic reporting obligations of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, Borrower and CPS may comply with the covenants set forth in the preceding paragraphs (c) and (d) by electronic filing of the annual and quarterly reports required by such act; provided, that the Borrower and/or CPS shall notify, or cause to be notified, the Administrative Agent promptly upon any such electronic filing.

5.12. Due Diligence; Access to Certain Documentation. The Lead Agents and the Administrative Agent (and their respective agents or professional advisors) shall have the right under this Agreement, from time to time, at their discretion and upon reasonable prior notice to the relevant party, to examine and audit, during business hours or at such other times as might be reasonable under applicable circumstances, any and all of the books, records, financial statements, credit and collection policies, legal and regulatory compliance, operating and reporting procedures and information systems, their respective directors, officers and employees, or other information and information systems (including without limitation customer service and/or whistleblower hotlines) of the Credit Parties, or held by another for a Credit Party or on its behalf, concerning or otherwise affecting the Receivables or this Agreement. The Lead Agents and the Administrative Agent (and their respective agents and professional advisors) shall treat as confidential any information obtained during the aforementioned examinations which is not already publicly known or available; provided, however, that the Lead Agents and the Administrative Agent (and their respective agents or professional advisors) may disclose such information if required to do so by law or by any regulatory authority.

Upon notice and during regular business hours, each Credit Party agrees to promptly provide the Lead Agents and the Administrative Agent (and their respective agents or professional advisors) with access to, copies of and extracts from any and all documents, records, agreements, instruments or information (including, without limitation, any of the foregoing in computer data banks and computer software systems) the Lead Agents and the Administrative Agent (and their respective agents or professional advisors) may reasonably require in order to conduct periodic due diligence relating to the Credit Parties in connection with the Receivables and this Agreement.

Each Credit Party will make available to the Lead Agents and the Administrative Agent (and their respective agents or professional advisors) knowledgeable financial, accounting, legal and compliance officers for the purpose of answering questions with respect to the Credit Parties and the Receivables and to assist in the Lead Agents' and Administrative Agent's diligence. In addition, the Borrower shall provide, or shall cause the Servicer to provide, the Lead Agents and the Administrative Agent with remote access to any electronic Receivable Files and any related documents to the extent CPS or the Borrower provides such access to any Person. Each of CPS and the Borrower agrees that the Lead Agents and the Administrative Agent will have the right to confirm any information relating to the Receivables directly with the applicable Obligors.

All reasonable costs and expenses incurred by a Lead Agent or the Administrative Agent (and their respective agents or professional advisors) in connection with the due diligence and other matters outlined in this Section 5.12 shall be Permitted Expenses, which the Borrower shall reimburse to the Lead Agents or the Administrative Agent, as the case may be, or shall pay or cause to be paid.

Without limiting the generality of the foregoing, the Borrower acknowledges that the Lenders shall make Revolving Loans to the Borrower based solely upon the information provided by the Credit Parties to the Administrative Agent and the Lead Agents and the representations, warranties and covenants contained herein, and that the Administrative Agent and the Lead Agents have the right at any time and from time to time to conduct a partial or complete due diligence review, at their option and, to the extent that the expense of such review exceeds the Permitted Expenses discussed above, at their expense, on some or all of the Receivables, including, without limitation, re-generating the information used to originate such Receivables.

5.13. **Financial Covenants**. CPS shall maintain (i) as of the end of any fiscal quarter, an Adjusted Tangible Net Worth of at least $25,000,000, (ii) at each month end, unrestricted Cash of at least $8,500,000, and (iii) as of the end of any fiscal quarter, a ratio of Indebtedness (exclusive of nonrecourse debt) to Adjusted Tangible Net Worth of no more than 2.5:1

5.14. **Repurchase of Section 341 Receivables; Section 341 Meeting**. CPS shall repurchase any Section 341 Receivable if (i) the Insolvency Event related to the Section 341 Meeting has not been discharged pursuant to Section 727 of the Bankruptcy Code within 120 days of the related Credit Date of such Section 341 Receivable, or (ii) CPS or the Borrower discovers or receives written notice that the related Obligor does not qualify under clause (b) of the definition of "Eligible Obligor", in each case within thirty (30) days from the date on which CPS or the Borrower discovers or receives written notice of such event.

5.15. **Qualifying ABS Transaction**. Any Receivables sold or transferred by the Borrower to the Originator in connection with a Qualifying ABS Transaction will not be selected or sold in a manner adverse to the Lenders or the Facility. No less than five (5) Business Days prior to a proposed transfer or sale by the Borrower of Receivables in preparation for or in connection with a Qualifying ABS Transaction, the Borrower shall provide to the Administrative Agent a schedule of the Receivables proposed to be transferred or sold (and a related schedule of the Receivables held by the Borrower), which schedules shall include such additional

information that will reasonably identify that the proposed transfer or sale will not be adverse to the Lenders or the Facility.

5.16. Minimum Revolving Loans

The Borrower will borrow, in accordance with the terms hereof, Revolving Loans in an initial principal amount of not less than $5,000,000 no later than January 10, 2011.

5.17. Facility Rating

Administrative Agent may elect, at any time, upon written notice to the Borrower, that such Administrative Agent intends to request public ratings of this Facility from one or more credit rating agencies selected by such Administrative Agent. CPS and the Borrower agree that each of them shall cooperate with the Administrative Agent's efforts to obtain such ratings, and shall provide the applicable credit rating agencies (either directly or through distribution to the Administrative Agent), access to their respective books, records, financial statements, policies, directors, officers and employees, or other information, in each case, as requested by such credit rating agencies for the purpose of providing and monitoring such ratings; provided, however, that in no event shall the Borrower or CPS have any obligation to pay any costs, fees or expenses payable to the credit rating agencies for providing such ratings, and the payment of any and all costs, fees and expenses payable to any such credit rating agency for providing such ratings shall be the sole obligation of the Administrative Agent.

5.18. New York Receivables

Notwithstanding anything to the contrary in this Agreement, any Receivable originated in the State of New York, shall not be purchased by the Borrower under the Purchase Agreement or otherwise, unless and until CPS obtains a lender's license or similar qualification from the State of New York sufficient to allow CPS to conduct lending activities within the State of New York in accordance with the Underwriting Policies. Borrower will notify the Lead Agents upon CPS receiving the New York license and will provide copies of all relevant materials.

SECTION 6. NEGATIVE COVENANTS

Each of CPS and the Borrower covenants and agrees that, so long as any Revolving Commitment is in effect and until payment in full of all Obligations (other than contingent indemnification obligations), CPS and/or the Borrower, as applicable, shall perform all covenants in this Section 6.

6.1. Indebtedness». The Borrower shall not directly or indirectly, create, incur, assume or guaranty, or otherwise become or remain directly or indirectly liable with respect to any Indebtedness, except (i) the Obligations and (ii) the Subordinated Notes, if any; *provided* that, the aggregate principal amount of the Subordinated Notes shall not exceed 10% of the aggregate outstanding principal balance of the Eligible Receivables pledged under the Facility.

6.2. Liens. The Borrower shall not, directly or indirectly, create, incur, assume or permit to exist any Lien on or with respect to any property or asset of any kind (including any document or instrument in respect of goods or accounts receivable) of the Borrower, whether now owned or hereafter acquired, or any income or profits therefrom, or file or permit the filing of, or permit to remain in effect, any financing statement or other similar notice of any Lien with respect to any such property, asset, income or profits under the UCC of any State or under any similar recording or notice statute, except (i) Liens in favor of the Collateral Agent for the benefit of Secured Parties granted pursuant to any Credit Document; (ii) Permitted Liens (provided, that the existence of a non-Permitted Lien on a Financed Vehicle shall not be a breach of this Section 6.2 to the extent that the resulting removal of the related Receivable from the Borrowing Base does not then result in an uncured Borrowing Base Deficiency); (iii) Liens securing debt arising under the Subordinated Notes to the extent permitted under Section 6.1, and so long as such Liens are subject to an Intercreditor Agreement, and (iv) financing statements (w) naming Consumer Portfolio Services, Inc. as debtor and Page Six Funding LLC as secured party in accordance with the Purchase Agreement, (x) naming Page Six Funding LLC as debtor and Goldman Sachs Bank USA., as Collateral Agent, as the secured party in accordance with the Security Agreement, (y) assigning any of the above to Page Six Funding LLC or Goldman Sachs Bank USA., as Collateral Agent, as the case may be, in accordance with the Security Agreement or (z) filed in connection with other Permitted Liens.

6.3. [Reserved]

6.4. Investments. The Borrower shall not make or own any Investment, except Investments in Cash, Cash Equivalents and Receivables, and Permitted Investments in the Collection Account.

6.5. Fundamental Changes; Disposition of Assets; Acquisitions. The Borrower shall not (i) enter into any transaction of merger or consolidation, or liquidate, wind-up or dissolve itself (or suffer any liquidation or dissolution), or (ii) convey, sell, lease or sub-lease (as lessor or sublessor), exchange, transfer or otherwise dispose of, in one transaction or a series of transactions, all or any part of its business, assets (including, but not limited to, the Receivables) or property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible, whether now owned or hereafter acquired, except pursuant to a Qualifying ABS Transaction conducted in accordance with Section 5.15 and in connection with which a prepayment is made as required by Section 2.10, or (iii) acquire by purchase or otherwise the business, property or fixed assets of, or stock or other evidence of beneficial ownership of, any Person or any division or line of business or other business unit of any Person, except Investments made in accordance with Section 6.4. CPS shall not enter into any transaction of merger or consolidation in which CPS is not the surviving entity, liquidate, wind-up or dissolve itself (or suffer any liquidation or dissolution) without the prior written consent of the Administrative Agent (such consent not to be unreasonably withheld or delayed).

6.6. Material Contracts and Organizational Documents. The Borrower shall not (a) enter into any Material Contract with any Person; (b) agree to any material amendment, restatement, supplement or other modification to, or waiver of, any of its material rights under any Related Agreement after the Closing Date or (c) amend or permit any amendments to its Organizational Documents (other than as permitted by Section 5.8(d)), without in each case

obtaining the prior written consent of each of the Lead Agents to such entry, amendment, restatement, supplement, modification or waiver, as the case may be.

6.7. **Sales and Lease-Backs**. The Borrower shall not directly or indirectly become or remain liable as lessee or as a guarantor or other surety with respect to any lease of any property (whether real, personal or mixed), whether now owned or hereafter acquired, which the Borrower (a) has sold or transferred or is to sell or to transfer to any other Person, or (b) intends to use for substantially the same purpose as any other property which has been or is to be sold or transferred by the Borrower to any Person in connection with such lease.

6.8. **Transactions with Shareholders and Affiliates**. The Borrower shall not directly or indirectly, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property or the rendering of any service) with CPS, any holder of 5% or more of any class of Capital Stock of CPS or any of its Subsidiaries or with any Affiliate of CPS or of any such holder other than the transactions contemplated by the Credit Documents.

6.9. **Conduct of Business**. From and after the Closing Date, the Borrower shall not engage in any business other than the businesses engaged in by the Borrower on the Closing Date.

6.10. **Fiscal Year**. The Borrower shall not change its Fiscal Year-end.

6.11. **Accounts**. The Borrower shall not establish or maintain a deposit account or a securities account that is not the Lockbox Account or a Collection Account and the Borrower shall not, nor direct any Person to, deposit Collections in a deposit account or a securities account that is not the Lockbox Account or a Collection Account.

6.12. **[Reserved]**.

6.13. **Prepayments of Certain Indebtedness**. The Borrower shall not, directly or indirectly, voluntarily purchase, redeem, defease or prepay any principal of, premium, if any, interest or other amount payable in respect of any Indebtedness prior to its scheduled maturity, other than the Obligations.

6.14. **Servicing Agreement and Backup Servicing Agreement**. The Borrower shall not (a) terminate the Servicing Agreement or Backup Servicing Agreement or (b) select a replacement servicer, in each case without the consent of each of the Lead Agents.

6.15. **Independent Manager.** The Borrower shall not fail at any time to have at least one (1) Independent Manager that is not and has not been for at least five (5) years, either (i) a shareholder (or other equity owner) of, or an officer, director, partner, manager, member (other than as a special member in the case of single member Delaware limited liability companies), employee, attorney or counsel of, the Borrower or any of its Affiliates; (ii) a customer or creditor of, or supplier to, the Borrower or any of its Affiliates who derives any of its purchases or revenue from its activities with the Borrower or any Affiliate thereof (other than a *de minimis* amount); (iii) a person who controls or is under common control with any such officer, director, partner, manager, member, employee, supplier, creditor or customer; or (iv) a member of the immediate family of any such officer, director, partner, manager, member, employee, supplier,

creditor or customer; provided that the foregoing subclause (i) shall not apply to any Person who serves as an independent director or an independent manager for any Affiliate of the Borrower; provided, further, that upon the death or incapacity of such Independent Manager, the Borrower will have a period of ten (10) Business Days following such event to appoint a replacement Independent Manager; provided, further, that the Borrower shall cause the Independent Manager not to resign until a replacement independent manager has been appointed; and provided, further, that before any Independent Manager is replaced, removed, resigns or otherwise ceases to serve (for any reason other than the death of incapacity of such Independent Manager), the Borrower shall provide written notice to the Lenders no later than 2 Business Days prior to such replacement, removal or effective date of cessation of service and of the identity and affiliations of the proposed replacement Independent Manager.

6.16. Sales of Receivables. The Borrower shall not sell Receivables, except in connection with (a) a Qualifying ABS Transaction conducted in accordance with Section 5.15 or (b) a Receivables Repurchase Event, in each case in connection with which a prepayment is made as required by Section 2.10.

6.17. Changes in Underwriting Policies. CPS shall not make any material changes or modifications to the Underwriting Policies without the prior written consent of the Lead Agents (such consent not to be unreasonably withheld or delayed). CPS shall provide written notice to the Lead Agents of any other change or modification to the Underwriting Policies within ten (10) Business Days of the implementation of any such change or modification.

SECTION 7. EVENTS OF DEFAULT

7.1. Events of Default. If any one or more of the following conditions or events shall occur:

(a) Failure to Make Payments When Due. Other than with respect to a Borrowing Base Deficiency, the failure by CPS or the Borrower to make payments of any principal, interest, premiums or fees due to the Administrative Agent, the Collateral Agent, the Lead Agents or the Lenders under any Credit Documents within two (2) Business Days of the date such payment is due or, if any such payment is due on the Maturity Date, such failure to make that payment on the Maturity Date ; or

(b) Failure to Make Other Payments When Due. Other than with respect to a Borrowing Base Deficiency, the failure by CPS, the Borrower or the Servicer to make any payment or deposit required (other than payments of any principal, interest, premiums or fees due to the Administrative Agent, the Collateral Agent, the Lead Agents or the Lenders under any Credit Document or the Servicing Agreement) within ten (10) Business Days of the date on which written notice of the same being due was delivered to CPS, the Borrower or the Servicer, as the case maybe; or

(c) Cross Defaults. (i) Failure of a Credit Party to pay when due any principal of or interest on or any other amount payable in respect of one or more items of Indebtedness in excess of $1,000,000 (other than Indebtedness in respect of the Obligations or other non-recourse debt of the Borrower) beyond the grace period, if any, provided therefor; or (ii) breach or default

by a Credit Party with respect to any other material term of (1) one or more items of the Indebtedness referred to in clause (i) above, or (2) any loan agreement, mortgage, indenture or other agreement relating to such item(s) of Indebtedness, in each case beyond the grace period, if any, provided therefor, as a result of such breach or default, that Indebtedness has been declared (in writing, to the extent required by the related loan agreement, mortgage, indenture or other agreement) or has automatically become due and payable (or subject to a compulsory repurchase or redeemable) prior to its stated maturity or the stated maturity of any underlying obligation, as the case may be; or

(d) Transfer of Servicing. As of any date of determination, the sum of each of the Transfer of Servicing Percentages for all transfers of servicing effected by CPS on or after the Closing Date is greater than 25%; or

(e) Breach of Certain Covenants. Failure of a Credit Party to perform or comply with any covenant or other agreement contained in Section 5.2, Section 5.6, Section 5.8, Section 5.9, Section 5.11, Section 5.13 or Section 6; or

(f) Breach of Representations, etc. Any representation, warranty, certification or other statement made or deemed made by any Credit Party in any Credit Document or in any statement or certificate at any time given by any Credit Party or any of its Subsidiaries in writing pursuant hereto or thereto or in connection herewith or therewith shall be false in any material respect as of the date made or deemed made and which adversely affects the interests of any Lender or any Agent and shall not have been remedied or waived within ten (10) Business Days after the earlier of (i) an Authorized Officer of the applicable Credit Party becoming aware of such falsity, or (ii) receipt by the Borrower of written notice from the Administrative Agent or any Lender of such falsity; or

(g) Other Defaults Under Credit Documents. Any Credit Party shall default in the performance of or compliance with any covenant or other term contained herein or any of the other Credit Documents, other than any such term referred to in any other provision of this Section 7.1, and such default adversely affects the interests of any Lender or any Agent and shall not have been remedied or waived within ten (10) Business Days after the earlier of (i) an Authorized Officer of such Credit Party becoming aware of such default, or (ii) receipt by the Borrower of written notice from the Administrative Agent or any Lender of such default; or

(h) Involuntary Bankruptcy; Appointment of Receiver, etc. (i) A court of competent jurisdiction shall enter a decree or order for relief (other than a decree or order described in clause (ii)) in respect of any Credit Party or the Servicer in an involuntary case under the Bankruptcy Code or under any other applicable bankruptcy, insolvency or similar law now or hereafter in effect, which decree or order is not stayed; or any other similar relief shall be granted under any applicable federal or state law; or (ii) an involuntary case shall be commenced against any Credit Party or the Servicer under the Bankruptcy Code or under any other applicable bankruptcy, insolvency or similar law now or hereafter in effect; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over such Credit Party or the Servicer, as applicable, shall have been entered; or there shall have occurred the involuntary appointment of an interim receiver, trustee or other custodian of such Credit Party or the

Servicer, as applicable, and any such event described in this clause (ii) shall continue for sixty (60) days without having been dismissed, bonded or discharged; or

(i) Voluntary Bankruptcy; Appointment of Receiver, etc. (i) Any Credit Party or the Servicer shall commence a voluntary case under the Bankruptcy Code or under any other applicable bankruptcy, insolvency or similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case, or to the conversion of an involuntary case to a voluntary case, under any such law, or shall consent to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; or the Borrower shall make any assignment for the benefit of creditors; or (ii) any Credit Party or the Servicer shall be unable, or shall fail generally, or shall admit in writing its inability, to pay its debts as such debts become due; or the board of directors (or similar governing body) of such Credit Party or the Servicer, as applicable, (or any committee thereof) shall adopt any resolution or otherwise authorize any action to approve any of the actions referred to herein or in Section 7.1(h); or

(j) Judgments and Attachments. Any money judgment, writ or warrant of attachment or similar process involving (i) with respect to the Borrower, in the aggregate at any time an amount in excess of $250,000 or (ii) with respect to CPS, in the aggregate at any time an amount in excess of $1,000,000 (in either case to the extent not adequately covered by insurance as to which a solvent and unaffiliated insurance company has not denied coverage) shall be entered or filed against the Borrower or CPS, as applicable, or any of their respective assets and (A) shall remain undischarged, unvacated, unbonded or unstayed for a period of sixty (60) days (or in any event later than five (5) days prior to the date of any proposed sale thereunder in connection with any enforcement proceedings commenced by a creditor upon such judgment, writ, warrant of attachment or similar process) or (B) a decree or order is entered for the appointment of a receiver, liquidator, sequestrator, trustee, custodian assignee for the benefit of creditors (or other officer having similar powers) over such assets ; or

(k) Dissolution. Any order, judgment or decree shall be entered against any Credit Party decreeing the dissolution or split up of the Borrower and such order shall remain undischarged or unstayed for a period in excess of sixty (60) days; or

(l) Change of Control. A Change of Control shall occur with respect to any Credit Party or the Servicer, without the prior written consent of the Lead Agents; or

(m) Collateral Documents and other Credit Documents. At any time after the execution and delivery thereof, (i) this Agreement or any Collateral Document ceases to be in full force and effect (other than by reason of a release of Collateral in accordance with the terms hereof or thereof or the satisfaction in full of the Obligations in accordance with the terms hereof) or shall be declared null and void or the enforceability thereof shall be impaired in any material respect, or the Collateral Agent shall not have or shall cease to have a valid and perfected Lien in any Collateral purported to be covered by the Collateral Documents with the priority required by the relevant Collateral Document, in each case for any reason other than the failure of the Collateral Agent or any Secured Party to take any action within its control; or (ii) any of the Credit Documents identified in clause (a) of the definition thereof for any reason, other than the satisfaction in full of all Obligations (other than contingent indemnification

obligations), shall cease to be in full force and effect (other than in accordance with its terms) or shall be declared to be null and void or a party thereto, as the case may be, shall repudiate its obligations thereunder or shall contest the validity or enforceability of any Credit Document in writing; or

(n) Servicing Agreement. A Servicer Default shall have occurred and be continuing; or

(o) Defaults Under Guaranties. A default in CPS' obligations under the Limited Guaranty shall have occurred; or

(p) Borrowing Base Deficiency. Failure by the Borrower to pay any Borrowing Base Deficiency within two (2) Business Days after the due date thereof, provided that, if such Borrowing Base Deficiency occurs due the occurrence of a Tier 1 Performance Trigger, such Event of Default will only arise thirty (30) days after the occurrence thereof; or

(q) Maturity Date. Failure of the Borrower to pay the unpaid principal amount of and accrued interest on the Revolving Loans and all other Obligations on the Maturity Date; or

(r) Financial Statements. The auditor’s opinion accompanying the audited financial statements of any Credit Party delivered hereunder is qualified in any manner; or

(s) Performance Triggers. The breach of a Tier 2 Performance Trigger; or

(t) Material Exceptions. A material exception in any audit conducted pursuant to Section 5.4 which is not cured within ten (10) Business Days of the earlier to occur of an Authorized Officer of CPS or of the Borrower having knowledge thereof or an Authorized Officer of CPS or of the Borrower receiving written notice thereof from either Lead Agent;

THEN, (A) upon the occurrence of any Event of Default described in Section 7.1(h), 7.1(i), or 7.1(j) automatically, and (B) upon the occurrence of any other Event of Default, at the request of (or with the consent of) the Lead Agents and the Requisite Lenders, upon written notice to the Borrower and the Backup Servicer by the Administrative Agent, (x) the Revolving Commitments, if any, shall immediately terminate; (y) each of the following shall immediately become due and payable, in each case without presentment, demand, protest or other requirements of any kind, all of which are hereby expressly waived by each Credit Party: (1) the unpaid principal amount of and accrued interest on the Revolving Loans and (2) all other Obligations; and (z) the Administrative Agent shall cause the Collateral Agent to enforce any and all Liens and security interests created pursuant to the Collateral Documents.

SECTION 8. AGENTS

8.1. Appointment of Agents. Goldman Sachs Bank is hereby appointed Administrative Agent and Collateral Agent hereunder and under the other Credit Documents and each Lender hereby authorizes Goldman Sachs Bank, in such capacity, to act as its agent in accordance with the terms hereof and the other Credit Documents. Each Agent hereby agrees to

act upon the express conditions contained herein and the other Credit Documents, as applicable. The provisions of this Section 8 are solely for the benefit of Agents and the Lenders and the Borrower shall not have any rights as a beneficiary of any of the provisions thereof. In performing its functions and duties hereunder, each Agent shall act solely as an agent of the Lenders and does not assume and shall not be deemed to have assumed any obligation towards or relationship of agency or trust with or for the Borrower.

8.2. **Powers and Duties**. Each Lender irrevocably authorizes each Agent to take such action on such Lender's behalf and to exercise such powers, rights and remedies hereunder and under the other Credit Documents as are specifically delegated or granted to such Agent by the terms hereof and thereof, together with such powers, rights and remedies as are reasonably incidental thereto. Each Agent shall have only those duties and responsibilities that are expressly specified herein and the other Credit Documents. Each Agent may exercise such powers, rights and remedies and perform such duties by or through its agents or employees. No Agent shall have, by reason hereof or any of the other Credit Documents, a fiduciary relationship in respect of any Lender; and nothing herein or any of the other Credit Documents, expressed or implied, is intended to or shall be so construed as to impose upon any Agent any obligations in respect hereof or any of the other Credit Documents except as expressly set forth herein or therein.

8.3. **Collateral Documents and Guaranties**. Each Lender hereby further authorizes the Administrative Agent or the Collateral Agent, as applicable, on behalf of and for the benefit the Lenders, to be the agent for and representative of the Lenders with respect to the Limited Guaranty, the Collateral and the Collateral Documents. Subject to Section 9.5, without further written consent or authorization from the Lenders, the Administrative Agent or the Collateral Agent, as applicable may execute any documents or instruments necessary to release any Lien encumbering any item of Collateral that is the subject of a sale or other disposition of assets permitted hereby or to which the Requisite Lenders (or such other Lenders as may be required to give such consent under Section 9.5) have otherwise consented, or with respect to which the Requisite Lenders or the Lead Agents (or such other Lenders as may be required to give such consent under Section 9.5) have otherwise consented.

SECTION 9. MISCELLANEOUS

9.1. **Notices**. Unless otherwise specifically provided herein, any notice or other communication herein required or permitted to be given to CPS, the Borrower, any other Credit Party, the Collateral Agent or the Administrative Agent shall be sent to such Person's address as set forth on Appendix B or in the other relevant Credit Document, and in the case of any Lender, the address as indicated on Appendix B or otherwise indicated to the Administrative Agent in writing. Each notice hereunder shall be in writing and may be personally served, sent by telefacsimile (with telephonic confirmation of receipt) or courier service and shall be deemed to have been given when delivered in person or by courier service and signed for against receipt thereof, upon receipt of telefacsimile; provided, no notice to any Agent shall be effective until received by such Agent.

9.2. **Expenses**. Subject to a cap not to exceed $200,000 with respect to any actual and reasonable, documented, out-of-pocket costs and expenses incurred by or on behalf of any Agent or Lead Agent on or prior to the Initial Funding Date, whether or not the transactions

contemplated hereby shall be consummated, the Borrower agrees to pay promptly (a) all the Agents' and Lead Agents' actual and reasonable, documented, out-of-pocket costs and expenses of preparation of the Credit Documents and any consents, amendments, waivers or other modifications thereto; (b) all the reasonable, documented fees, expenses and disbursements of counsel to the Agents and the Lead Agents in connection with the negotiation, preparation, execution and administration of the Credit Documents and any consents, amendments, waivers or other modifications thereto and any other documents or matters requested by the Borrower; (c) all the actual costs and reasonable, documented, out-of-pocket expenses of creating and perfecting Liens in favor of the Collateral Agent, for the benefit of the Secured Parties, including filing and recording fees, expenses and taxes, stamp or documentary taxes, search fees, title insurance premiums and reasonable fees, expenses and disbursements of counsel to each Agent; (d) each of the Agent's or Lead Agents' actual costs and reasonable documented, out-of-pocket fees, expenses for, and disbursements of any of such Agent's or Lead Agents', auditors, accountants, consultants or appraisers whether internal or external, and all reasonable, documented attorneys' fees (including expenses and disbursements of outside counsel) incurred by such Agent or Lead Agent; (e) all the actual costs and reasonable, documented, out-of-pocket expenses (including the reasonable fees, expenses and disbursements of any appraisers, consultants, advisors and agents employed or retained by the Collateral Agent and its counsel) in connection with the custody or preservation of any of the Collateral; (f) all other actual and reasonable, documented out-of-pocket costs and expenses incurred by each Agent and Lead Agent in connection with the syndication of the Revolving Loans and Commitments and the negotiation, preparation and execution of the Credit Documents and any consents, amendments, waivers or other modifications thereto and the transactions contemplated thereby; provided, that such costs and expenses shall not exceed $10,000 unless such syndication is in connection with an increase in the Revolving Commitment; and (g) after the occurrence of a Default or an Event of Default, all documented costs and expenses, including reasonable attorneys' fees and costs of settlement, incurred by any Agent and the Lenders in enforcing any Obligations of or in collecting any payments due from any Credit Party hereunder or under the other Credit Documents by reason of such Default or Event of Default (including in connection with the sale of, collection from, or other realization upon any of the Collateral or the enforcement of the Limited Guaranty) or in connection with any refinancing or restructuring of the credit arrangements provided hereunder in the nature of a "**work-out**" or pursuant to any insolvency or bankruptcy cases or proceedings.

9.3. Indemnity.

(a) IN ADDITION TO THE PAYMENT OF EXPENSES PURSUANT TO SECTION 9.2, WHETHER OR NOT THE TRANSACTIONS CONTEMPLATED HEREBY SHALL BE CONSUMMATED, EACH OF CPS AND THE BORROWER AGREES, SEVERALLY BUT NOT JOINTLY, TO DEFEND (SUBJECT TO INDEMNITEES' SELECTION OF COUNSEL), INDEMNIFY, PAY AND HOLD HARMLESS, EACH AGENT, EACH LEAD AGENT AND EACH LENDER, THEIR AFFILIATES AND THEIR RESPECTIVE OFFICERS, PARTNERS, DIRECTORS, TRUSTEES, EMPLOYEES AND AGENTS OF EACH AGENT, EACH LEAD AGENT AND EACH LENDER (EACH, AN "**INDEMNITEE**"), FROM AND AGAINST ANY AND ALL INDEMNIFIED LIABILITIES, IN ALL CASES, WHETHER OR NOT CAUSED BY OR ARISING, IN WHOLE OR IN PART, OUT OF THE COMPARATIVE, CONTRIBUTORY, OR SOLE NEGLIGENCE OF

SUCH INDEMNITEE; PROVIDED, NEITHER CPS NOR THE BORROWER SHALL HAVE ANY OBLIGATION TO ANY INDEMNITEE HEREUNDER WITH RESPECT TO ANY INDEMNIFIED LIABILITIES TO THE EXTENT SUCH INDEMNIFIED LIABILITIES ARISE FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH INDEMNITEE, AS DETERMINED BY A COURT OF COMPETENT JURISDICTION IN A FINAL NON-APPEALABLE ORDER OR JUDGMENT. TO THE EXTENT THAT THE UNDERTAKINGS TO DEFEND, INDEMNIFY, PAY AND HOLD HARMLESS SET FORTH IN THIS SECTION 9.3 MAY BE UNENFORCEABLE IN WHOLE OR IN PART BECAUSE THEY ARE VIOLATIVE OF ANY LAW OR PUBLIC POLICY, CPS OR THE BORROWER, AS APPLICABLE, SHALL CONTRIBUTE THE MAXIMUM PORTION THAT IT IS PERMITTED TO PAY AND SATISFY UNDER APPLICABLE LAW TO THE PAYMENT AND SATISFACTION OF ALL INDEMNIFIED LIABILITIES INCURRED BY INDEMNITEES OR ANY OF THEM.

(b) To the extent permitted by applicable law, neither CPS nor the Borrower shall assert, and each of CPS and the Borrower hereby waives, any claim against the Lenders, the Agents and their respective Affiliates, directors, employees, attorneys or agents, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) (whether or not the claim therefor is based on contract, tort or duty imposed by any applicable legal requirement) arising out of, in connection with, as a result of, or in any way related to, this Agreement or any Credit Document or any agreement or instrument contemplated hereby or thereby or referred to herein or therein, the transactions contemplated hereby or thereby, any Revolving Loan or the use of the proceeds thereof or any act or omission or event occurring in connection therewith, and each of CPS and the Borrower hereby waives, releases and agrees not to sue upon any such claim or any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

9.4. **Set-Off**. In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence of any Event of Default, each Lender and its Affiliates each is hereby authorized by the Borrower at any time or from time to time subject to the consent of the Administrative Agent, without notice to the Borrower or to any other Person (other than the Administrative Agent) except to the extent required by applicable law, any such notice being hereby expressly waived to the maximum extent under applicable law, and subject to any requirements or limitations imposed by applicable law, to set off and to appropriate and to apply any and all deposits (general or special, including Indebtedness evidenced by certificates of deposit, whether matured or unmatured, but not including trust accounts (in whatever currency)) and any other Indebtedness at any time held or owing by such Lender to or for the credit or the account of the Borrower (in whatever currency) against and on account of the obligations and liabilities of the Borrower to such Lender arising hereunder or under the other Credit Documents, including all claims of any nature or description arising out of or connected hereto or with any other Credit Document, irrespective of whether or not (a) such Lender shall have made any demand hereunder, (b) the principal of or the interest on the Revolving Loans or any other amounts due hereunder shall have become due and payable pursuant to Section 2 and although such obligations and liabilities, or any of them, may be contingent or unmatured or (c) such obligation or liability is owed to a branch or office of such Lender different from the branch or office holding such deposit or obligation or such Indebtedness.

9.5. Amendments and Waivers.

(a) Requisite Lenders' Consent. Subject to Sections 9.5(b) and 9.5(c), no amendment, modification, termination or waiver of any provision of the Credit Documents, or consent to any departure by any Credit Party therefrom, shall in any event be effective without the written concurrence of each Credit Party that is party thereto, the Administrative Agent, the Requisite Lenders, and the Lead Agents (for so long as any Lead Agent exists).

(b) Affected Lenders' Consent. Without the written consent of each Lender that would be affected thereby, no amendment, modification, termination, or consent shall be effective if the effect thereof would:

(i) extend the scheduled final maturity of any Revolving Loan or Revolving Loan Note;

(ii) waive, reduce or postpone any scheduled repayment;

(iii) reduce the rate of interest on any Revolving Loan (other than any waiver of any increase in the interest rate applicable to any Revolving Loan pursuant to Section 2.7) or any fee payable hereunder;

(iv) extend the time for payment of any such interest or fees;

(v) reduce the principal amount of any Revolving Loan;

(vi) (A) amend the definition of "**Borrowing Base**" in a manner that increases the Revolving Availability to the Borrower or (B) amend, modify, terminate or waive any provision of this Section 9.5(b) or Section 9.5(c);

(vii) amend the definition of "Lead Agents", "Requisite Lenders" or "Pro Rata Share"; *provided*, with the consent of the Administrative Agent and the Requisite Lenders, additional extensions of credit pursuant hereto may be included in the determination of "Requisite Lenders" or "Pro Rata Share" on substantially the same basis as the Revolving Commitments and the Revolving Loans are included on the Closing Date;

(viii) release all or substantially all of the Collateral, the Guarantor from the Limited Guaranty, except as expressly provided in the Credit Documents; or

(ix) consent to the assignment or transfer by any Credit Party of any of its rights and obligations under any Credit Document.

(c) Other Consents. No amendment, modification, termination or waiver of any provision of the Credit Documents, or consent to any departure by any Credit Party therefrom, shall:

(i) increase the Revolving Commitment of any Lender without the consent of such Lender;

(ii) amend, modify, terminate or waive any provision of Section 3.2(a) with regard to any Credit Extension without the consent of the Lenders;

(iii) amend, modify, terminate or waive any provision of Section 8 as the same applies to any Agent, or any other provision hereof as the same applies to the rights or obligations of any Agent, in each case without the consent of such Agent; or

(iv) adversely affect the Controlled Account Bank, the Lockbox Account Bank, the Backup Servicer or the Custodian without the consent of such affected party.

(d) Execution of Amendments, etc. The Administrative Agent may, but shall have no obligation to, with the concurrence of any Lender, execute amendments, modifications, waivers or consents on behalf of such Lender. Any waiver or consent shall be effective only in the specific instance and for the specific purpose for which it was given. No notice to or demand on a Credit Party in any case shall entitle such Credit Party to any other or further notice or demand in similar or other circumstances. Any amendment, modification, termination, waiver or consent effected in accordance with this Section 9.5 shall be binding upon each Lender at the time outstanding, each future Lender and, if signed by a Credit Party, upon such Credit Party. Notwithstanding anything to the contrary contained in this Section 9.5, if the Lead Agents and the Credit Parties shall have jointly identified an obvious error or any error or omission of a technical nature, in each case that is immaterial (as determined by the Lead Agents in their sole discretion), in any provision of the Credit Documents, then the Lead Agents (as applicable, and in their respective applicable capacities thereunder as Lead Agent, the Administrative Agent or Collateral Agent) and the Credit Parties shall be permitted to amend such provision and such amendment shall become effective without any further action or consent by the Requisite Lenders if the same is not objected to in writing by the Requisite Lenders within five (5) Business Days following receipt of notice thereof.

9.6. Successors and Assigns; Participations.

(a) Generally. This Agreement shall be binding upon the parties hereto and their respective successors and assigns and shall inure to the benefit of the parties hereto and the successors and assigns of the Lenders. None of CPS' nor the Borrower's rights or obligations hereunder nor any interest herein may be assigned or delegated without the prior written consent of all Lenders. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, Indemnitees under Section 9.3, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, Lender Affiliates of each of the Agents and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Register. The Borrower, CPS, the Administrative Agent and the Lenders shall deem and treat the Persons listed as "Lenders" in the Register as the holders and owners of the corresponding Revolving Commitments and Revolving Loans listed therein for all purposes hereof, and no assignment or transfer of any such Revolving Commitment or Revolving Loan shall be effective, in each case, unless and until an Assignment Agreement effecting the assignment or transfer thereof shall have been delivered to and accepted by the Administrative

Agent and recorded in the Register as provided in Section 9.6(e). Prior to such recordation, all amounts owed with respect to the applicable Revolving Commitment or Revolving Loan shall be owed to the Lender listed in the Register as the owner thereof, and any request, authority or consent of any Person who, at the time of making such request or giving such authority or consent, is listed in the Register as a Lender shall be conclusive and binding on any subsequent holder, assignee or transferee of the corresponding Revolving Commitments or Revolving Loans.

(c) Right to Assign. Each Agent and each Lender shall have the right at any time to sell, assign or transfer all or a portion of its rights and obligations under this Agreement, including, without limitation, all or a portion of its Revolving Commitment or Revolving Loans owing to it or other Obligations:

(i) to any Person meeting the criteria of clause (a) of the definition of the term of "Eligible Assignee" upon the giving of notice to the Borrower and Administrative Agent; and

(ii) to any Person otherwise constituting an Eligible Assignee with the consent of the Administrative Agent; provided, each such assignment pursuant to this Section shall be in an aggregate amount of not less than $1,000,000 (or such lesser amount as may be agreed to by the Borrower and Administrative Agent or as shall constitute the aggregate amount of the Revolving Commitments and Revolving Loans of the assigning Lender).

(d) Mechanics. The assigning Lender and the assignee thereof shall execute and deliver to Administrative Agent and, if the assignee is not a Lender Affiliate, the Borrower an Assignment Agreement, together with such forms, certificates or other evidence, if any, with respect to United States federal income tax withholding matters as the assignee under such Assignment Agreement may be required to deliver to Administrative Agent.

(e) Rating Agencies. Each of the Borrower and CPS agrees that the Lenders and the Administrative Agent shall have the right to disclose the terms of this Agreement and the transactions contemplated hereby to any Rating Agency. In addition, each of the Borrower and CPS agrees to provide, or cause to be provided, to the Rating Agencies any information, books, records, financial statements or other documents as reasonably requested by the Rating Agencies.

(f) Notice of Assignment. Upon its receipt and acceptance of a duly executed and completed Assignment Agreement, any forms, certificates or other evidence required by this Agreement in connection therewith, the Administrative Agent shall record the information contained in such Assignment Agreement in the Register, shall give prompt notice thereof to CPS and the Borrower and shall maintain a copy of such Assignment Agreement.

(g) Representations and Warranties of Assignee. Each assignee of any Lender, upon executing and delivering an Assignment Agreement, represents and warrants as of the applicable Effective Date (as defined in the applicable Assignment Agreement) that (i) it has experience and expertise in the making of or investing in commitments or loans such as the applicable Revolving Commitments or Revolving Loans, as the case may be; (ii) it will make or

invest in, as the case may be, its Revolving Commitments or Revolving Loans for its own account in the ordinary course of its business and without a view to distribution of such Revolving Commitments or Revolving Loans within the meaning of the Securities Act or the Exchange Act or other federal securities laws (it being understood that, subject to the provisions of this Section 9.6, the disposition of such Revolving Commitments or Revolving Loans or any interests therein shall at all times remain within its exclusive control); and (iii) such assignee does not own or control, or own or control any Person owning or controlling, any trade debt or Indebtedness of CPS or the Borrower other than the Obligations or any Capital Stock of CPS or the Borrower.

(h) Effect of Assignment. Subject to the terms and conditions of this Section 9.6, as of the "Effective Date" specified in the applicable Assignment Agreement: (i) the assignee thereunder shall have the rights and obligations of a "Lender" hereunder to the extent such rights and obligations hereunder have been assigned to it pursuant to such Assignment Agreement and shall thereafter be a party hereto and a "Lender" for all purposes hereof; (ii) the assigning Lender thereunder shall, to the extent that rights and obligations hereunder have been assigned thereby pursuant to such Assignment Agreement, relinquish its rights (other than any rights which survive the termination hereof under Section 9.8) and be released from its obligations hereunder (and, in the case of an Assignment Agreement covering all or the remaining portion of an assigning Lender's rights and obligations hereunder, such Lender shall cease to be a party hereto; provided, anything contained in any of the Credit Documents to the contrary notwithstanding, such assigning Lender shall continue to be entitled to the benefit of all indemnities hereunder as specified herein with respect to matters arising out of the prior involvement of such assigning Lender as a Lender hereunder); (iii) the Revolving Commitments shall be modified to reflect the Revolving Commitment of such assignee and any Revolving Commitment of such assigning Lender, if any; and (iv) if any such assignment occurs after the issuance of any Revolving Loan Note hereunder, the assigning Lender shall, upon the effectiveness of such assignment or as promptly thereafter as practicable, surrender its applicable Revolving Loan Notes to the Administrative Agent for cancellation, and thereupon the Borrower shall issue and deliver new Revolving Loan Notes, if so requested by the assignee and/or assigning Lender, to such assignee and/or to such assigning Lender, with appropriate insertions, to reflect the new Revolving Commitments and/or outstanding Revolving Loans of the assignee and/or the assigning Lender.

(i) Participations. Each Lender shall have the right at any time to sell one or more participations to any Person (other than CPS, any of its Subsidiaries or any of its Affiliates) in all or any part of its Revolving Commitments, Revolving Loans or in any other Obligation; provided, however, that notwithstanding the foregoing, no participations may be sold to any Person acquiring such participation with the assets of, or for the benefit of, any employee benefit plan subject to Title I of ERISA, any "plan" subject to Section 4975 of the Internal Revenue Code, or any entity whose underlying assets include plan assets by reason of a plan's investment in such entity. The holder of any such participation, other than a Lender Affiliate of the Lender granting such participation, shall not be entitled to require such Lender to take or omit to take any action hereunder except with respect to any amendment, modification or waiver that would (i) extend the final scheduled maturity of any Revolving Loan or Revolving Loan Note in which such participant is participating, or reduce the rate or extend the time of payment of interest or fees thereon (except in connection with a waiver of applicability of any post-default increase in

interest rates) or reduce the principal amount thereof, or increase the amount of the participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or Event of Default or of a mandatory reduction in the Revolving Commitment shall not constitute a change in the terms of such participation, and that an increase in any Revolving Commitment or Revolving Loan shall be permitted without the consent of any participant if the participant's participation is not increased as a result thereof), (ii) consent to the assignment or transfer by CPS or the Borrower of any of its rights and obligations under this Agreement, or (iii) release all or substantially all of the Collateral under the Collateral Documents, the Guarantor from the Limited Guaranty (in each case, except as expressly provided in the Credit Documents) supporting the Revolving Loans hereunder in which such participant is participating. Each of CPS and the Borrower agrees that each participant shall be entitled to the benefits of Sections 2.15 and 2.16 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to clause (c) of this Section 9.6; provided, (i) a participant shall not be entitled to receive any greater payment under Section 2.17 and 2.18 than the applicable Lender would have been entitled to receive with respect to the participation sold to such participant, unless the sale of the participation to such participant is made with the Borrower's prior written consent, (ii) a participant that would be a Non-US Lender if it were a Lender shall not be entitled to the benefits of Section 2.18 unless the Borrower is notified of the participation sold to such participant and such participant complies with Section 2.18 as though it were a Lender and (iii) such participant complies with the written statement and notice requirements therein. To the extent permitted by law, each participant also shall be entitled to the benefits of Section 9.4 as though it were a Lender. Notwithstanding any participation made hereunder (i) such selling Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the Borrower for the performance of its obligations hereunder, and (iii) except as set forth above, the Credit Parties, the Agents and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, and such Lender shall retain the sole right to enforce the obligations of the Credit Parties relating to the Obligations and to approve, without the consent of or consultation with any participant, any amendment, modification or waiver of any provision of this Agreement. Each Lender that sells a participation shall maintain a register on which it enters the name and address of each participant and the amounts of each participant's participation (the "**Participant Register**"). The entries in the Participant Register shall be conclusive, absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(j) Certain Other Assignments. In addition to any other assignment permitted pursuant to this Section 9.6, any Lender may assign, pledge and/or grant a security interest in, all or any portion of its Revolving Loans, the other Obligations owed by or to such Lender, and its Revolving Loan Notes, if any, to secure obligations of such Lender including, without limitation, any Federal Reserve Bank as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any operating circular issued by such Federal Reserve Bank; provided, such Lender, as between the Borrower and the Lender, shall not be relieved of any of its obligations hereunder as a result of any such assignment and pledge, and provided further, in no event shall the applicable Federal Reserve Bank, pledgee or trustee be considered to be a "**Lender**" or be entitled to require the assigning Lender to take or omit to take any action hereunder.

(k) Fortress Affiliate Lenders. Notwithstanding anything to the contrary set forth in this Section 9.6, each party hereto acknowledges and agrees that (a) Fortress and/or its Lender Affiliates may, in its sole discretion, at any time, and from time to time, in connection with any assignment to be made hereunder to any Lender Affiliates of Fortress (each such Lender Affiliate, a "**Fortress Affiliate Lender**"), (i) assign to any Fortress Affiliate Lender all or any portion of Fortress' or any Fortress Affiliate Lender's Revolving Loans then existing and/or Fortress' or any such Fortress Affiliate Lender's Revolving Commitments then outstanding in such percentages or fixed dollar amounts as Fortress or any such Fortress Affiliate Lender shall determine in their respective sole discretion, and (ii) in furtherance of the foregoing, request the Borrower to, and the Borrower shall, execute and deliver to Fortress or such Fortress Affiliate Lender, as the case may be, any Revolving Loan Note (or replacement therefor) requested pursuant to Section 2.4(b) to reflect such assignment and (b) Fortress and one or more Fortress Affiliate Lenders may enter into agreements by and among Fortress and such Fortress Affiliate Lenders and (if applicable) the Administrative Agent with respect to such assignments, including, without limitation, the ability to create a sequential pay feature amongst Fortress and such Fortress Affiliate Lenders; provided that the terms of any such agreements do not affect the terms of the Credit Documents (other than the Assignment Agreement to the extent required to reflect such agreements) or the Borrower's rights or obligations under any Credit Document; provided, further, that (1) the percentage or fixed dollar amount of such assignment is set forth in the related Assignment Agreement, (2) the aggregate Revolving Commitment amongst Fortress and such Fortress Affiliate Lenders immediately following any such assignment remains unchanged from the aggregate Revolving Commitments of Fortress and the Fortress Affiliate Lenders immediately prior to such assignment and (3) no such assignment shall increase any of the Borrower's Obligations hereunder; and provided, further, that (x) any such Fortress Affiliate Lender subject to any such assignment for any such percentage or fixed dollar amount (whether such assignment is solely of the existing Revolving Loans or the outstanding Revolving Commitments, or both) shall be a "Lender" for all purposes hereunder, under the other Credit Documents subject, solely as among Fortress and the Fortress Affiliate Lenders, to such restrictions set forth amongst Fortress and any such Fortress Affiliate Lenders set forth in the related Assignment Agreement (including the ability for any such assignee to not be assigned any future funding obligations in respect of Revolving Commitments other than to the extent of any repayments received by such assignee on the principal balance of the assigned Revolving Loan (provided that such Assignment Agreement shall also provide that the relevant assignor expressly retains any such future funding obligations beyond principal repayments to such assignee on the principal balance of such assigned Revolving Loan)) and (y) following any such assignment of solely an existing Revolving Loan, (1) such assignee's "Revolving Exposure" for purposes of clause (a) of such definition shall be deemed equal to the outstanding amount of such Revolving Loan as of the date of such assignment and (2) the related assignor's Revolving Exposure for purposes of clause (a) of such definition shall be reduced by the amount of such Revolving Loan as of the date of such assignment.

9.7. Independence of Covenants. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or would otherwise be within the limitations of, another covenant shall not avoid the occurrence of a Default or an Event of Default if such action is taken or condition exists.

9.8. Survival of Representations, Warranties and Agreements. All representations, warranties and agreements made herein shall survive the execution and delivery hereof and the making of any Credit Extension. Notwithstanding anything herein or implied by law to the contrary, the agreements of the Borrower set forth in Sections 2.15, 2.16, 9.2, 9.3, 9.4 and 9.10 shall survive the payment of the Revolving Loans and the termination hereof.

9.9. No Waiver; Remedies Cumulative. No failure or delay on the part of any Agent or any Lender in the exercise of any power, right or privilege hereunder or under any other Credit Document shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other power, right or privilege. The rights, powers and remedies given to each Agent and each Lender hereby are cumulative and shall be in addition to and independent of all rights, powers and remedies existing by virtue of any statute or rule of law or in any of the other Credit Documents. Any forbearance or failure to exercise, and any delay in exercising, any right, power or remedy hereunder shall not impair any such right, power or remedy or be construed to be a waiver thereof, nor shall it preclude the further exercise of any such right, power or remedy.

9.10. Marshalling; Payments Set Aside. Neither any Agent nor any Lender shall be under any obligation to marshal any assets in favor of the Borrower or any other Person or against or in payment of any or all of the Obligations. To the extent that any Credit Party makes a payment or payments to the Administrative Agent or the Lenders (or to the Administrative Agent, on behalf of the Lenders), or the Administrative Agent, the Collateral Agent or the Lenders enforce any security interests or exercise their rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, any other state or federal law, common law or any equitable cause, then, to the extent of such recovery, the obligation or part thereof originally intended to be satisfied, and all Liens, rights and remedies therefor or related thereto, shall be revived and continued in full force and effect as if such payment or payments had not been made or such enforcement or setoff had not occurred.

9.11. Severability. In case any provision or obligation hereunder or any Revolving Loan Note or other Credit Document shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

9.12. Headings. Section headings herein are included herein for convenience of reference only and shall not constitute a part hereof for any other purpose or be given any substantive effect.

9.13. APPLICABLE LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES

(OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW) THEREOF.

9.14. <u>CONSENT TO JURISDICTION</u>.

(a) ALL JUDICIAL PROCEEDINGS BROUGHT AGAINST CPS OR THE BORROWER ARISING OUT OF OR RELATING HERETO OR ANY OTHER CREDIT DOCUMENT, OR ANY OF THE OBLIGATIONS, MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT OF COMPETENT JURISDICTION IN THE STATE, COUNTY AND CITY OF NEW YORK. BY EXECUTING AND DELIVERING THIS AGREEMENT, EACH OF CPS AND THE BORROWER, FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, IRREVOCABLY (i) ACCEPTS GENERALLY AND UNCONDITIONALLY THE NONEXCLUSIVE JURISDICTION AND VENUE OF SUCH COURTS; (ii) WAIVES ANY DEFENSE OF FORUM NON CONVENIENS; (iii) AGREES THAT SERVICE OF ALL PROCESS IN ANY SUCH PROCEEDING IN ANY SUCH COURT MAY BE MADE BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO THE APPLICABLE CREDIT PARTY AT ITS ADDRESS PROVIDED IN ACCORDANCE WITH SECTION 9.1 AND TO ANY PROCESS AGENT SELECTED IN ACCORDANCE WITH SECTION 3.1(q) ABOVE IS SUFFICIENT TO CONFER PERSONAL JURISDICTION OVER CPS OR THE BORROWER, AS APPLICABLE, IN ANY SUCH PROCEEDING IN ANY SUCH COURT, AND OTHERWISE CONSTITUTES EFFECTIVE AND BINDING SERVICE IN EVERY RESPECT; AND (iv) AGREES THAT AGENTS AND THE LENDERS RETAIN THE RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO BRING PROCEEDINGS AGAINST CPS OR THE BORROWER, AS APPLICABLE, IN THE COURTS OF ANY OTHER JURISDICTION.

(b) EACH OF CPS AND THE BORROWER HEREBY AGREES THAT PROCESS MAY BE SERVED ON IT BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO THE ADDRESSES PERTAINING TO IT AS SPECIFIED IN SECTION 9.1, AND HEREBY APPOINTS CT CORPORATION SYSTEM, 111 8TH AVENUE, NEW YORK, NEW YORK 10011, AS ITS AGENT TO RECEIVE SUCH SERVICE OF PROCESS. ANY AND ALL SERVICE OF PROCESS AND ANY OTHER NOTICE IN ANY SUCH ACTION, SUIT OR PROCEEDING SHALL BE EFFECTIVE AGAINST CPS OR THE BORROWER, AS APPLICABLE, IF GIVEN BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, OR BY ANY OTHER MEANS OR MAIL WHICH REQUIRES A SIGNED RECEIPT, POSTAGE PREPAID, MAILED AS PROVIDED ABOVE. IN THE EVENT CT CORPORATION SYSTEM. SHALL NOT BE ABLE TO ACCEPT SERVICE OF PROCESS AS AFORESAID AND IF CPS OR THE BORROWER, AS APPLICABLE, SHALL NOT MAINTAIN AN OFFICE IN NEW YORK CITY, SUCH CREDIT PARTY SHALL PROMPTLY APPOINT AND MAINTAIN AN AGENT QUALIFIED TO ACT AS AN AGENT FOR SERVICE OF PROCESS WITH RESPECT TO THE COURTS SPECIFIED IN THIS SECTION 9.14 ABOVE, AND ACCEPTABLE TO THE ADMINISTRATIVE AGENT, AS CPS' OR THE BORROWER'S, AS APPLICABLE, AUTHORIZED AGENT TO ACCEPT AND ACKNOWLEDGE ON THE BORROWER'S BEHALF SERVICE OF ANY AND ALL PROCESS WHICH MAY BE SERVED IN ANY SUCH ACTION, SUIT OR PROCEEDING.

9.15. **WAIVER OF JURY TRIAL**. EACH OF CPS AND THE BORROWER HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING HEREUNDER OR UNDER ANY OF THE OTHER CREDIT DOCUMENTS OR ANY DEALINGS BETWEEN IT RELATING TO THE SUBJECT MATTER OF THIS LOAN TRANSACTION OR THE LENDER/BORROWER RELATIONSHIP THAT IS BEING ESTABLISHED. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. EACH OF CPS AND THE BORROWER ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT IT HAS ALREADY RELIED ON THIS WAIVER IN ENTERING INTO THIS AGREEMENT, AND THAT IT WILL CONTINUE TO RELY ON THIS WAIVER IN ITS RELATED FUTURE DEALINGS. EACH OF CPS AND THE BORROWER FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING (OTHER THAN BY A MUTUAL WRITTEN WAIVER SPECIFICALLY REFERRING TO THIS SECTION 9.15 AND EXECUTED BY EACH OF THE PARTIES HERETO), AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS HERETO OR ANY OF THE OTHER CREDIT DOCUMENTS OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE REVOLVING LOANS MADE HEREUNDER. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

9.16. **Usury Savings Clause**. Notwithstanding any other provision herein, the aggregate interest rate charged or agreed to be paid with respect to any of the Obligations, including all charges or fees in connection therewith deemed in the nature of interest under applicable law shall not exceed the Highest Lawful Rate. If the rate of interest (determined without regard to the preceding sentence) under this Agreement at any time exceeds the Highest Lawful Rate, the outstanding amount of the Revolving Loans made hereunder shall bear interest at the Highest Lawful Rate until the total amount of interest due hereunder equals the amount of interest which would have been due hereunder if the stated rates of interest set forth in this Agreement had at all times been in effect. In addition, if when the Revolving Loans made hereunder are repaid in full the total interest due hereunder (taking into account the increase provided for above) is less than the total amount of interest which would have been due hereunder if the stated rates of interest set forth in this Agreement had at all times been in effect, then to the extent permitted by law, the Borrower shall pay to the Administrative Agent an amount equal to the difference between the amount of interest paid and the amount of interest which would have been paid if the Highest Lawful Rate had at all times been in effect. Notwithstanding the foregoing, it is the intention of the Lenders and the Borrower to conform strictly to any applicable usury laws. Accordingly, if any Lender contracts for, charges, or receives any consideration which constitutes interest in excess of the Highest Lawful Rate, then any such excess shall be cancelled automatically and, if previously paid, shall at such Lender's

option be applied to the outstanding amount of the Revolving Loans made hereunder or be refunded to the Borrower. In determining whether the interest contracted for, charged, or received by the Administrative Agent or a Lender exceeds the Highest Lawful Rate, such Person may, to the extent permitted by applicable law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest, throughout the contemplated term of the Obligations hereunder.

9.17. **Counterparts**. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Delivery of an executed signature page to this Agreement by facsimile transmission or other electronic image scan transmission (e.g., "PDF" or "tif" via email) shall be as effective as delivery of a manually signed counterpart of this Agreement.

9.18. **Effectiveness**. This Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto and receipt by the Borrower and the Administrative Agent of written or telephonic notification of such execution and authorization of delivery thereof.

9.19. **Money Control Act**. Each Lender and the Administrative Agent (for itself and not on behalf of the Lenders) hereby notifies CPS and the Borrower that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies CPS and the Borrower, which information includes the name and address of each of CPS and the Borrower and other information that will allow the Lenders or the Administrative Agent, as applicable, to identify CPS and the Borrower in accordance with the Act.

9.20. **Prior Agreements**. This Agreement and the other Credit Documents contain the entire agreement of the parties hereto and thereto in respect of the transactions contemplated hereby and thereby, and all prior agreements among or between such parties, whether oral or written, are superseded by the terms of this Agreement and the other Credit Documents and unless specifically set forth in a writing contemporaneous herewith the terms, conditions and provisions of any and all such prior agreements do not survive execution of this Agreement.

9.21. **Third Party Beneficiaries**. The Backup Servicer, the Custodian, the Controlled Account Bank and the Lockbox Account Bank shall be express third party beneficiaries of the provisions of Section 2.11(a), Section 2.13(a) and Section 2.13(i).

9.22. **Exclusivity; Right of First Refusal**.

(a) CPS shall notify each Lead Agent of its intention to enter into as a borrower, either directly or indirectly (acting through a special purpose borrowing entity, or otherwise indirectly) any receivable financing facility to be entered into after the execution of the CPS financing facility next succeeding this Facility (any such facility, a "**Proposed Facility**"). Within ten (10) days of receipt of such notice, each Lead Agent shall have the right to provide such financing in an amount equal to $12,500,000 each (which right may be exercised independently by each Lead Agent) on all of the same material terms as the Proposed Facility

(such right, the "**Right of First Refusal**"). In no event shall the Borrower enter into any financing facility other than the Facility contemplated by this Agreement.

(b) In the event that the Lead Agents choose not to provide such financing, the Credit Parties (other than the Borrower) may enter into the Proposed Facility.

9.23. Confidentiality. Each Credit Party agrees that the terms included in this Agreement and disclosed in connection with the consummation of the transactions contemplated hereby shall be kept strictly confidential, shall not be reproduced or disclosed (except as required by law, including, without limitation, the filing requirements of the Exchange Act), and shall not be used by either Credit Party other than in connection with the transaction described herein except with the prior written consent of the Lead Agents; provided, however, that the Lead Agents hereby consents to each Credit Party's disclosure of (i) this Agreement to its respective officers, directors, employees, attorneys, accountants, agents and advisors who are directly involved in the implementation of the terms and conditions of this Agreement to the extent such persons agree to hold the same in confidence, (ii) this Agreement, to any prospective Subordinated Noteholder and its counsel and other advisors, (iii) this Agreement, to any rating agency in connection with the rating of this Facility pursuant to Section 5.17, (iv) this Agreement as required by applicable law or compulsory legal process (in which case each Credit Party agrees to inform the Lead Agents promptly thereof) and (v) the terms of this Agreement upon and after its filing by CPS in accordance with the Exchange Act.

[Remainder of page intentionally left blank]

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

PAGE SIX FUNDING LLC
By: ______________________________
Name:
Title:

CONSUMER PORTFOLIO SERVICES, INC.
By: ______________________________
Name:
Title:

GOLDMAN SACHS BANK USA,a New York State-Chartered Bank, as Administrative Agent, Collateral Agent, a Lead Agent and as a Lender

By: ______________________________
Name:
Title:

FORTRESS CREDIT CORP.,
as a Lender and a Lead Agent
By: ______________________________
Name:
Title:

Exhibit 21 *- Subsidiaries of the Registrant.*

The following corporations and limited liabilities are direct or indirect subsidiaries of the registrant. None does business other than under its own name.

Name	State or other jurisdiction of incorporation or organization
CPS Leasing, Inc.	DE
CPS Marketing, Inc.	CA
CPS Receivables LLC	CA
CPS Receivables Two LLC	DE
TFC Enterprises LLC	DE
CPS Receivables Three LLC	DE
CPS Receivables Four LLC	DE
CPS Receivables Five LLC	DE
CPS Residual Corp.	DE
Page Funding LLC	DE
Page Three Funding LLC	DE
Page Four Funding LLC	DE
Page Five Funding LLC	DE
Page Six Funding LLC	DE
Page Seven Funding LLC	DE
Canyon Receivables LLC	DE
Folio Funding LLC	DE
Folio Funding Three LLC	DE
CALT SPE LLC	DE
Mercury Finance Corporation of Alabama	AL
Mercury Finance Company of Colorado	DE
Gulfco Investment, Inc.	LA
Gulfco Finance Company	LA
Midland Finance Co.	IL
Mercury Finance Company LLC	DE

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-168976 on Form S-1, No. 333-152969 on Form S-3 and Nos. 333-35758, 333-58199, 333-75594, 333-115622, 333-135907, 333-161448 on Form S-8 of Consumer Portfolio Services, Inc. of our report dated March 30, 2011, relating to the financial statements, appearing in this Annual Report on Form 10-K.

/s/ Crowe Horwath LLP

Costa Mesa, California
March 30, 2011

CERTIFICATION

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

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 31, 2011

By: /s/ CHARLES E. BRADLEY, JR.
Charles E. Bradley, Jr.
PRESIDENT AND CHIEF EXECUTIVE OFFICER

CERTIFICATION

I, Jeffrey P. Fritz, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 31, 2011

By: /s/ JEFFREY P. FRITZ
Jeffrey P. Fritz
SR. VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

CERTIFICATION

Each of the undersigned hereby certifies, for the purposes of Section 1350 of chapter 63 of title 18 of the United States Code, in his capacity as an officer of Consumer Portfolio Services, Inc., that, to his knowledge, the Annual Report of Consumer Portfolio Services, Inc. on Form 10-K for the year ended December 31, 2010 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Consumer Portfolio Services, Inc.

March 31, 2011 By: /s/ CHARLES E. BRADLEY, JR.
Charles E. Bradley, Jr.
PRESIDENT AND CHIEF EXECUTIVE OFFICER

March 31, 2011 By: /s/ JEFFREY P. FRITZ
Jeffrey P. Fritz
CHIEF FINANCIAL OFFICER