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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1999

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-11416

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

CALIFORNIA  
(State or other jurisdiction of  
incorporation or organization)

33-0459135  
(IRS Employer  
Identification No.)

16355 LAGUNA CANYON ROAD, IRVINE, CALIFORNIA  
(Address of principal executive offices)

92618  
(Zip Code)

Registrant's telephone number: (949) 753-6800

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

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

As of May 14, 1999, the registrant had 18,773,501 common shares outstanding.

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## PART I - FINANCIAL INFORMATION

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

	March 31,	December 31,
	----- 1999 ----	----- 1998 ----
<b>ASSETS</b>		
Cash	\$ 382	\$ 1,940
Restricted cash	1,619	1,619
Contracts held for sale (note 2)	307,892	165,582
Servicing fees receivable	11,604	11,148
Residual interest in securitizations (note 3)	219,545	217,848
Furniture and equipment, net	3,979	4,272
Deferred financing costs	2,669	2,817
Investment in unconsolidated affiliates	3,826	4,145
Related party receivables	1,723	3,268
Other assets	19,773	19,323
	-----	-----
	\$ 573,012	\$ 431,962
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable & accrued expenses	\$ 27,095	\$ 9,267
Warehouse lines of credit	277,632	151,857
Taxes payable	27,498	29,068
Capital lease obligations	1,987	2,132
Notes payable	3,846	2,557
Residual financing	33,000	33,000
Subordinated debt	65,000	65,000
Related party debt	20,000	20,000
	-----	-----
	456,058	312,881
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, \$1 par value; authorized 5,000,000 shares; none issued	--	--
Series A preferred stock, \$1 par value; authorized 5,000,000 shares; 3,415,000 shares issued; none outstanding	--	--
Common stock, no par value; authorized 30,000,000 shares; 15,658,501 shares issued and outstanding at March 31, 1999 and December 31, 1998	52,533	52,533
Retained earnings	64,421	66,548
	-----	-----
	116,954	119,081
	-----	-----
	\$ 573,012	\$ 431,962
	=====	=====

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	1999	1998
	-----	-----
<b>REVENUES:</b>		
Gain (loss) on sale of contracts, net (note 4)	\$ (1,560)	\$ 10,245
Interest income (note 5)	14,601	9,071
Servicing fees	7,918	5,096
Other income (loss)	(135)	370
	-----	-----
	20,824	24,782
	-----	-----
<b>EXPENSES:</b>		
Employee costs	8,244	5,397
General and administrative	5,756	4,532
Interest	7,268	3,915
Marketing	1,882	448
Occupancy	710	481
Depreciation and amortization	533	332
Related party consulting fees	98	19
	-----	-----
	24,491	15,124
	-----	-----
Income (loss) before income taxes	(3,667)	9,658
Income taxes	(1,540)	4,055
	-----	-----
Net income (loss)	\$ (2,127)	\$ 5,603
	=====	=====
<b>Earnings (loss) per share (note 6):</b>		
Basic	\$ (0.14)	\$ 0.37
Diluted	\$ (0.14)	\$ 0.34
<b>Number of shares used in computing earnings per share (note 6):</b>		
Basic	15,659	15,210
Diluted	15,659	16,628

See accompanying notes to condensed consolidated financial statements

Consumer Portfolio Services, Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(In thousands)

	Three Months Ended March 31,	
	1999	1998
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (2,127)	\$ 5,603
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	533	332
Amortization of NIRs	10,270	4,952
Amortization of deferred financing costs	148	81
Provision for credit losses	1,378	2,537
NIR gains recognized	--	(10,750)
Equity net (income) loss in unconsolidated affiliates	319	(216)
Net deposits into trusts	(11,967)	(9,577)
Changes in assets and liabilities:		
Purchases of contracts held for sale	(158,186)	(254,189)
Liquidation of contracts held for sale	14,498	192,819
Net change in warehouse lines of credit	125,775	54,786
Other assets	(1,129)	(1,783)
Accrued taxes and expenses	16,258	11,971
	-----	-----
Net cash used in operating activities	(4,230)	(3,434)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Related party receivables	(2)	(157)
Repayment of related party receivables	1,547	2,114
Investment in unconsolidated affiliate	--	(65)
Purchases of furniture and equipment	(17)	(528)
	-----	-----
Net cash provided by investing activities	1,528	1,364
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of notes payable	1,395	990
Repayment of capital lease obligations	(145)	(154)
Repayment of notes payable	(106)	(229)
Exercise of options and warrants	--	500
	-----	-----
Net cash provided by financing activities	1,144	1,107
	-----	-----
Decrease in cash	(1,558)	(963)
Cash at beginning of period	1,940	1,745
	-----	-----
Cash at end of period	\$ 382	\$ 782
	=====	=====
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 6,969	\$ 3,546
Income taxes	\$ 32	\$ 200
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Furniture and equipment acquired through capital leases	\$ --	\$ 351

See accompanying notes to condensed consolidated financial statements

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles and include all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are, in the opinion of management, of a normal recurring nature. In addition, certain items in prior period financial statements have been reclassified for comparability to current period presentation. Results for the three month period ended March 31, 1999, are not necessarily indicative of the operating results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1998.

PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Alton Receivables Corp., CPS Receivables Corp., CPS Marketing, Inc., CPS Funding Corp., and CPS Warehouse Corp. The consolidated financial statements also include the accounts of SAMCO Acceptance Corp., LINC Acceptance Company, LLC and CPS Leasing, Inc., each of which is 80% owned by the Company. All significant intercompany transactions and balances have been eliminated. Investments in affiliates that are not majority owned are reported using the equity method. During the three month period ended March 31, 1999, the Company terminated all operations of SAMCO.

CONTRACTS HELD FOR SALE

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

ALLOWANCE FOR CREDIT LOSSES

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

CONTRACT ACQUISITION FEES AND DISCOUNTS

Upon purchase of a Contract from an automobile dealer ("Dealer"), the Company generally charges the Dealer an acquisition fee or purchases the Contract at a discount from its face value (some Contracts are purchased at face value). The acquisition fees and discounts associated with Contract purchases are deferred until the Contracts are sold. At that time the deferred acquisition fee or discount is recognized as a component of the gain on sale.

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

RESIDUAL INTEREST IN SECURITIZATIONS AND GAIN ON SALE OF CONTRACTS

The Company purchases Contracts with the primary intention of reselling them in securitization transactions as asset-backed securities. The securitizations are generally structured as follows: First, the Company sells a portfolio of Contracts to a wholly owned subsidiary ("SPS"), which has been established for the limited purpose of buying and reselling the Company's Contracts. The SPS then transfers the same Contracts to either a grantor trust or an owner trust (the "Trust"). The Trust in turn issues interest-bearing asset-backed securities (the "Certificates"), generally in an amount equal to the aggregate principal balance of the Contracts. The Company typically sells these Contracts to the Trust at face value and without recourse, except that representations and warranties similar to those provided by the Dealer to the Company are provided by the Company to the Trust. One or more investors purchase the Certificates issued by the Trust; the proceeds from the sale of the Certificates are then used to purchase the Contracts from the Company. The Company purchases a financial guaranty insurance policy, guaranteeing timely payment of principal and interest on the senior Certificates, from an insurance company (the "Certificate Insurer"). In addition, the Company provides a credit enhancement for the benefit of the Certificate Insurer and the investors in the form of an initial cash deposit to an account ("Spread Account") held by the Trust. The agreements governing the securitization transactions (collectively referred to as the "Servicing Agreements") require that the initial deposits to the Spread Accounts be supplemented by a portion of collections from the Contracts until the Spread Accounts reach specified levels, and then maintained at those levels. The specified levels are generally computed as a percentage of the principal amount remaining unpaid under the related Certificates. The specified levels at which the Spread Accounts are to be maintained will vary depending on the performance of the portfolios of Contracts held by the Trusts and on other conditions, and may also be varied by agreement among the Company, the SPS, the Certificate Insurer and the trustee. Such levels have increased and decreased from time to time based on performance of the portfolios, and have also been varied by agreement. The specified levels applicable to the Company's sold pools increased materially in 1998 and have recently been decreased. See note 7 - "Liquidity".

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

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

The Company receives periodic base servicing fees for the servicing and collection of the Contracts. In addition, the Company is entitled to the cash flows from the Residuals that represent collections on the Contracts in excess of the amounts required to pay principal and interest on the Certificates, the base servicing fees, and certain other fees (such as trustee and custodial fees). At the end of each collection period, the aggregate cash collections from the Contracts are allocated first to the base servicing fees and certain other fees such as trustee and custodial fees for the period, then to the Certificateholders for interest at the pass-through rate on the Certificates plus principal as defined in the Servicing Agreements. If the amount of cash required for the above allocations exceeds the amount collected during the collection period, the shortfall is drawn from the Spread Account. If the cash collected during the period exceeds the amount necessary for the above allocations, and there is no shortfall in the related Spread Account, the excess is released to the Company or in certain cases is transferred to other Spread Accounts that may be below their required levels. Pursuant to certain Servicing Agreements, excess cash collected during the period is used to make accelerated

principal paydowns on certain Certificates to create excess collateral (over-collateralization or OC account). If the Spread Account balance is not at the required credit enhancement level, then the excess cash collected is retained in the Spread Account until the specified level is achieved. The cash in the Spread Accounts is restricted from use by the Company. Cash held in the various Spread Accounts is invested in high quality, liquid investment securities, as specified in the Servicing Agreements. Spread Account balances are held by the Trusts on behalf of the Company as the owner of the Residuals. Such balances are generally defined as percentages of the principal amount remaining unpaid on the balance.



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

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

In future periods, the Company could recognize additional revenue from the Residuals if the actual performance of the Contracts were to be better than the original estimate, or the Company could increase the estimated fair value of the Residuals. If the actual performance of the Contracts were to be worse than the original estimate, then a downward adjustment to the carrying value of the Residuals would be required. Due to the inherent uncertainty of the future performance of the underlying Contracts, the Company during 1998, established a \$7.8 million allowance for losses on the Residuals which did not change during the three month period ended March 31, 1999.

(2) CONTRACTS HELD FOR SALE

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

	March 31, 1999	December 31, 1998
----- (in thousands) -----		
Gross receivable balance.....	\$ 333,553	\$ 183,876
Unearned finance charges.....	(15,757)	(10,949)
Deferred acquisition fees and discounts.....	(7,584)	(4,594)
Allowance for credit losses.....	(2,320)	(2,751)
Net contracts held for sale.....	\$ 307,892	\$ 165,582
	=====	=====

(3) RESIDUAL INTEREST IN SECURITIZATIONS

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

	March 31, 1999	December 31, 1998
----- (in thousands) -----		
Cash, commercial paper, US government securities and other qualifying investments (Spread Account).....	\$ 141,154	\$ 130,394
NIRs.....	44,530	54,800
OC accounts.....	33,099	31,836
Funds held by investor .....	500	480
Investments in subordinated certificates.....	262	338
Residual interest in securitizations:.....	\$ 219,545	\$ 217,848
	=====	=====

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

The following table presents the activity of the NIRs:

	Three Months Ended March 31,	
	1999	1998
	(in thousands)	
Balance, beginning of period.....	\$ 54,800	\$ 45,112
NIR gains recognized.....	--	10,750
Amortization of NIRs .....	(10,270)	(4,952)
Balance, end of period.....	<u>\$ 44,530</u>	<u>\$ 50,910</u>

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

	March 31, 1999	December 31, 1998
		(in thousands)
Undiscounted estimated credit losses.....	<u>\$ 140,821</u>	<u>\$ 169,110</u>
Servicing subject to recourse provisions.....	<u>\$ 1,219,246</u>	<u>\$ 1,362,801</u>
Undiscounted estimated credit losses as percentage of servicing subject to recourse provisions.....	<u>11.55%</u>	<u>12.41%</u>

(4) GAIN (LOSS) ON SALE OF CONTRACTS

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

	Three Months Ended March 31,	
	1999	1998
	(in thousands)	
NIRs gains recognized.....	\$ --	\$ 10,750
Deferred acquisition fees and discounts.....	--	2,925
Expenses related to sales.....	(182)	(893)
Provision for credit losses.....	(1,378)	(2,537)
Net gain (loss) on sale of contracts.....	<u>\$ (1,560)</u>	<u>\$ 10,245</u>

(5) INTEREST INCOME

The following table presents the components of interest income:

	Three Months Ended March 31,	
	1999	1998
	(in thousands)	
Interest on Contracts held for sale.....	\$ 12,659	\$ 7,838
Residual interest income.....	12,212	6,185

Amortization of NIRs.....	(10,270)	(4,952)
Net interest income.....	\$ 14,601	\$ 9,071
	=====	=====

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

(6) EARNINGS (LOSS) PER SHARE

Diluted loss per share for the three month period ending March 31, 1999, was calculated using the weighted average number of shares outstanding for the related period. Diluted earnings per share for the three month period ending March 31, 1998, was calculated using the weighted average number of diluted common shares outstanding including common stock equivalents which consist of certain outstanding dilutive stock options and warrants and incremental shares attributable to conversion of certain subordinated debt. The following table reconciles the number of shares used in the computations of basic and diluted earnings (loss) per share for the three month period ending March 31, 1999 and 1998:

	Three Months Ended March 31,	
	1999	1998
	(in thousands)	
Weighted average number of common shares outstanding during the period used to compute basic earnings per share.....	15,659	15,210
Incremental common shares attributable to exercise of outstanding options and Warrants.....	--	673
Incremental common shares attributable to conversion of subordinated debt.....	--	745
	15,659	16,628
Number of common shares used to compute diluted earnings (loss) per share.....	15,659	16,628

If the anti dilutive effects of common stock equivalents were not considered, additional shares included in diluted loss per share calculation for the three month period ended March 31, 1999, would have included an additional 2.2 million from outstanding stock options and warrants and an additional 2.4 million from incremental shares attributable to the conversion of certain subordinated debt, for an aggregate total of approximately 20.2 million diluted shares.

(7) LIQUIDITY

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

The Servicing Agreements call for the requisite levels of the various Spread Accounts to increase if the related receivables experience delinquencies, repossessions or net losses in excess of certain predetermined levels. At March 31, 1999, 18 of the Company's 21 securitized pools were at higher than original requisite levels due to the delinquency, repossession or net loss performance of 16 of the 21 securitized pools. Such Spread Account balances therefore included approximately \$34.8 million more than would have been required at the original requisite levels. The higher requisite Spread Account levels ranged from 30% to 100% of the related outstanding balance of the securitized pools. In April 1999, the Company entered into an amendment with the Certificate Insurer of the Company's asset-backed securities to cap the amount of cash retained in the Spread Accounts at 21% of the outstanding securities balance for 19 of the Company's 21 securitized pools. The effectiveness of the amendment is contingent upon approval of certain subordinated Certificateholders. This new cap on the Spread Accounts described above is expected to provide cash flows to the Company during 1999. The amendment is subject to certain performance measures that may

result in an increase in the cap from 21% to 25%. There can be no assurance that such cash flows will occur. In addition to requiring higher Spread Account levels, the Servicing Agreements provide the Certificate Insurer with certain other rights and remedies, which have been waived on a monthly basis by the Certificate Insurer.

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

On April 15, 1999, the Company issued \$5.0 million of subordinated promissory notes to an affiliate of Levine Leichtman Capital Partners, Inc., ("LLCP") and received proceeds (net of \$250,000 of capitalized issuance costs) of approximately \$4.75 million. The debt includes certain covenants, one of which is the agreement by Stanwich Financial Services Corp ("SFSC"), an affiliate of the chairman of the Company's board of directors, to provide additional capital to the Company of \$15.0 million during 1999. SFSC's commitment in turn has been collateralized by certain assets pledged by the chairman of the Company's board of directors and the president of the Company. Additionally, the \$5.0 million has been personally guaranteed by the chairman of the Company's board of directors and the president of the Company.

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

In the event the Company incurs a net loss in two consecutive quarters it would be in default of its agreements for the Residual Line. Unless waived by the lender, the default could result in acceleration of the Residual Line and a cross default on the Warehouse Lines. The lender would receive any releases from Spread Account to retire outstanding principal and interest. The Company believes that the lender would waive the default. Provided that the lender does waive such default, the Company believes that cash flows from operations would be sufficient to fund its obligations as they become due and payable. There can be no assurance, however, that lender would waive the default or that other cash flows will be sufficient to fund the Company's operations.

CONSUMER PORTFOLIO SERVICES, INC.

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

OVERVIEW

Consumer Portfolio Services, Inc. (the "Company") and its subsidiaries primarily engage in the business of purchasing, selling and servicing retail automobile installment sale contracts ("Contracts") originated by automobile dealers ("Dealers") located throughout the United States. In recent months, the Company has suspended its solicitation of Contract purchases in 27 states, and as of the date of this report is active in 22 states. There can be no assurance as to resumption of Contract purchasing activities in other states. Through its purchase of Contracts, the Company provides indirect financing to Dealer customers with limited credit histories, low incomes or past credit problems, who generally would not be expected to qualify for financing provided by banks or by automobile manufacturers' captive finance companies.

The major components of the Company's revenue are gains recognized on the sale or securitization of its Contracts, servicing fees earned on Contracts sold, and interest earned on Contracts held for sale. Because the servicing fees are dependent in part on the collections received on sold Contracts, the Company's income is affected by losses incurred on Contracts, whether such Contracts are held for sale or have been sold in securitizations.

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

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

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

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

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

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

The structure described above is applicable to securitization transactions conducted at least once quarterly from June 1994 through December 1998. The Company did not sell any Contracts in securitization transactions in the first quarter of 1999, and there can be no assurance as to when it will next sell Contracts using the structure described above.



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RESULTS OF OPERATIONS

The three month period ended March 31, 1999 compared to the three month period ended March 31, 1998

REVENUES. During the three months ended March 31, 1999, revenues decreased \$4.0 million, or 16.0%, compared to the three month period ended March 31, 1998. Gain on sale of Contracts decreased by \$11.8 million, or 115.2%, from a \$10.2 million gain on sale in the first quarter of 1998 to a \$1.6 million loss in the first quarter of 1999. Although no Contracts were sold in the quarter, expenses of approximately \$182,000 were incurred related to previous securitization transactions, including the amortization of a warrant issued to the Certificate Insurer in November 1998. In addition, for the three month period ended March 31, 1999 and 1998, the Company charged against gain on sale \$1.4 million and \$2.5 million, respectively, of provision for losses on Contracts held for sale.

Interest income increased by \$5.5 million, or 61.0%, and represented 70.0% of total revenues for the three month period ended March 31, 1999. The increase is primarily due to an increase in the average aggregate balance of Contracts held for sale, and thus earning interest, during the three month period ended March 31, 1999, compared to the same period in the prior year. That increase in average aggregate balance, in turn, was due primarily to the Company's not having sold any Contracts in the first quarter of 1999.

Servicing fees increased by \$2.8 million, or 55.4%, and represented 38.0% of total revenues. The increase in servicing fees is due to the increase in the servicing portfolio. As of March 31, 1999, the Company was earning servicing fees on 119,699 sold Contracts with aggregate outstanding principal balances approximating \$1,219.2 million, compared to 87,833 Contracts with aggregate outstanding principal balances approximating \$935.7 million as of March 31, 1998. In addition to the \$1,219.2 million in sold Contracts, on which servicing fees were earned, the Company was holding for sale and servicing an additional \$321.2 million in Contracts, for an aggregate total servicing portfolio of \$1.5 billion. The Company expects a decline in the outstanding servicing portfolio during 1999, and a comparable decrease in servicing fees.

EXPENSES. During the three month period ended March 31, 1999, operating expenses increased \$9.4 million, or 61.9%, compared to the three month period ended March 31, 1998. Employee costs increased by \$2.8 million, or 52.8%, and represented 33.7% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the increase in the Company's servicing portfolio, to increases in the cost of fringe benefits provided to employees, and to certain increases in salaries of existing staff. General and administrative expenses increased by \$1.2 million, or 27.0% and represented 23.5% of total operating expenses. Increases in general and administrative expenses included increases in telecommunications, stationery, credit reports and other related items as a result of increases in the Company's servicing portfolio.

Interest expense increased \$3.4 million, or 85.6%, and represented 29.7% of total operating expenses. The increase is due primarily to the increase in average aggregate borrowings incurred to hold Contracts for sale and to increases in the interest rates payable with respect to such borrowings. See "Liquidity and Capital Resources." The increase is also due in part to the interest paid on an additional \$30.0 million in subordinated debt securities and \$33.0 million of senior secured debt, all of which was issued by the Company at various times after March 31, 1998, and all of which was outstanding throughout the first quarter of 1999.

The Company expects to purchase and hold for sale fewer Contracts in 1999 than it did in 1998, which would be expected to result in a decrease in interest earned on Contracts held for sale, and a decrease in interest expense incurred. Furthermore, the Company plans to terminate one of its two warehouse lines of credit (discussed below), which may result in an increase in the average effective interest rate at which the Company borrows to finance purchases of Contracts held for sale.

LIQUIDITY AND CAPITAL RESOURCES

The Company's business requires substantial cash to support its operating activities. The Company's primary sources of cash from operating activities are amounts borrowed under its various warehouse lines, servicing fees on portfolios of Contracts previously sold, proceeds from the sales of Contracts, customer payments of principal and interest on Contracts held for sale, and releases of cash from Spread Accounts. The Company's primary uses of cash are the purchases of Contracts, repayment of amounts borrowed under its various warehouse lines, operating expenses such as employee, interest, and



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Accounts and income taxes. As a result, the Company is dependent on its warehouse lines of credit to purchase Contracts, and on the availability of capital from outside sources in order to finance its continued operations. If the Company's warehouse lenders decided to terminate or not to renew any of these credit facilities with the Company, or if other capital were to be unavailable, the loss of borrowing capacity or the unavailability of capital would have a material adverse effect on the Company's results of operations unless the Company found a suitable alternative source or sources.

Net cash used in operating activities was \$4.2 million during the three month period ended March 31, 1999, compared to \$3.4 million for the three month period ended March 31, 1998. Net cash deposited into trusts was \$12.0 million, an increase of \$2.4 million, or 25.0%, over net cash deposited into trusts in the three month period ended March 31, 1998.

On a day-to-day basis, the Company funds its purchases of Contracts from Dealers by drawing on either of two warehouse lines of credit (collectively referred to as the "Warehouse Lines"), and pledges the purchased Contracts to one or the other warehouse lender. The amount borrowed under the Warehouse Lines increases until the Company sells the pledged Contracts, at which time the majority of the proceeds of the sale are used to pay down the related balance of the Warehouse Lines. Securitization transactions have been completed on approximately a quarterly basis from June 1994 through December 1998, but the Company has not sold Contracts in a securitization transaction since December 1998, and there can be no assurance as to when the Company next will sell Contracts or the terms of any such sale. The amount of Contracts the Company can hold for sale prior to their sale is limited by its available cash and the Warehouse Lines, which as currently structured permit borrowings of up to a maximum total of \$300.0 million.

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

Under one of the Company's two Warehouse Lines, an affiliate of First Union National Bank lends to the Company, with the loans funded by commercial paper issued by that affiliate, and secured by Contracts pledged periodically by the Company. The First Union line has a maximum lending amount of \$200.0 million, will terminate no later than July 16, 1999, and may terminate earlier. See "Defaults on Senior Securities" in this report. Under the Company's second warehouse line of credit, the Company borrows from General Electric Capital Corporation ("GECC"). The GECC line was entered into in November 1998, and replaced a prior line of credit arrangement under which an affiliate of GECC lent money to the Company in a structure similar to that of the First Union line. The GECC line has an aggregate maximum lending amount of \$100.0 million, and will terminate on November 30, 1999, unless renewed. The two lines together had an outstanding balance of \$277.6 million at March 31, 1999, as compared to \$151.9 million at December 31, 1998. The Company uses the two Warehouse Lines in tandem, pledging specific Contracts to each lender alternatively.

The amount of cash that the Company needs for daily operations is most heavily dependent on (i) its level of Contract purchases, and (ii) the amount that the Company may borrow under its Warehouse Lines, secured by the Contracts purchased. The First Union Line allows the Company to borrow a varying percentage (not in excess of 95%) of Contract balances, depending on the performance of Contracts pledged to that lender. The advance rate under the First Union Line decreased during 1998 to an average of approximately 91% in the fourth quarter, and remained at 91% for the first quarter of 1999. However, the advance rate has decreased during the second quarter to 90%. The Company has no expectation that it will be able to borrow at a higher advance rate with respect to Contracts pledged to the First Union Line in the immediate future. The GECC Line (entered into in November 1998) allows the Company to borrow no more than 88% of the principal amount of the pledged Contracts.

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

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During the three month period ended March 31, 1999, the Company did not complete a securitization transaction, and therefore, did not use any cash for initial deposits to Spread Accounts, compared to \$6.5 million used during the three month period ended March 31, 1998. During 1998, the cash required for initial Spread Account deposits was significantly increased from 3.5% in the prior year's transactions to 8.0% in the transaction completed in the third quarter of 1998, with an additional credit enhancement of 2.0% over-collateralization. The Company subsequently reached an agreement, discussed below, that allowed a reduced initial cash deposit of 3.0% in the Company's fourth quarter 1998 securitization transaction. Cash used for subsequent deposits to Spread Accounts for the three month period ended March 31, 1999, was \$12.5 million, a decrease of \$456,000, or 3.5%, over cash used for subsequent deposits to Spread Accounts in the three month period ended March 31, 1998. Such subsequent deposits into Spread Accounts in the first quarter of 1999 include \$1.3 million of cash used to pay down certain senior series of Certificates to create excess collateral in an over-collateralization account. Cash released from Spread Accounts for the three month period ended March 31, 1999, was \$577,000, a decrease of \$9.4 million, or 94.2%, over cash released from Spread Accounts in the three month period ended March 31, 1998. Changes in deposits to and releases from Spread Accounts are affected by the relative size, seasoning and performance of the various pools of sold Contracts that make up the Company's Servicing Portfolio.

As of March 31, 1999, 16 of the 21 Trusts incurred cumulative net losses as a percentage of the original contract balance in excess of the predetermined levels specified in the respective Servicing Agreements. Accordingly, pursuant to the Servicing Agreements, the specified credit enhancement levels were increased. As a result of this and certain cross collateralization arrangements, excess cash flows that would otherwise have been released to the Company were retained in the Spread Accounts to bring the balance of those Spread Accounts up to a higher level. Funding such balance increases has materially increased the Company's capital requirements. In addition to requiring higher Spread Account levels, the Servicing Agreements provide the Certificate Insurer with certain other rights and remedies, which have been waived on a monthly basis by the Certificate Insurer. Due to the increase in the Spread Account requirements, there have been no significant releases of cash from the Trusts since June 1998. As a result, approximately \$34.8 million of cash flows were delayed and retained in the Spread Accounts as of March 31, 1999. The higher requisite Spread Account levels ranged from 30% to 100% of the related outstanding balance of the securitized pools. In April 1999, the Company entered into an amendment with the Certificate Insurer of the Company's asset-backed securities to cap the amount of cash retained in the Spread Accounts at 21% of the outstanding securities balance for 19 of the Company's 21 securitized pools. The agreement is subject to certain performance measures that may result in an increase in the maximum level to 25% of the outstanding principal balance of the securities. The effectiveness of the amendment is contingent upon approval of certain subordinated Certificateholders. As of April 30, 1999, the aggregate Spread Account balance of the related 19 securitized pools was 16.8% of the outstanding principal balance of the securities.

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

As the first step in the plan, the Company in November 1998 and April 1999, issued \$25.0 million and \$5.0 million, respectively, of subordinated promissory notes (aggregately the "LLCP Notes"), to LLCP due 2004, and bearing interest at the rate of 14.5% per annum. Net proceeds received from the issuances were approximately \$28.5 million. In conjunction with the LLCP Notes, the Company issued warrants to purchase up to 4,450,000 shares of common stock at \$0.01 per share, 3,115,000 of which were exercised in April 1999. The effective cost of this new capital represents a material increase in the cost of capital to the Company. As part of the agreements of the LLCP Notes, are agreements by Stanwich Financial Services Corp. ("SFSC") to purchase an additional \$15.0 million of notes, and of the Company to sell such notes. The chairman and the president of the Company are the principal shareholders of

SFSC, and the Company's chairman is the chief executive officer of SFSC. The terms of such additional notes are to be not less favorable to the Company than (i) those that would be available in a transaction with a non-affiliate, and (ii) those applicable to the LLC Notes. Sale of such additional notes would likely therefore involve some degree of equity participation, which could be dilutive to other holders of the Company's common stock. SFSC's commitment in turn has been collateralized by certain assets pledged by the chairman of the Company's board of directors and the president of the Company. Additionally, \$5.0 million of the LLC Notes have been personally guaranteed by the chairman of the Company's board of directors and the president of the Company.

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Also in November 1998, as the second step in its plan, the Company reached an agreement with the Certificate Insurer regarding initial cash deposits. In this agreement, the Certificate Insurer has committed to insure asset-backed securities issued by the Trusts with respect to at least \$560.0 million of Contracts, while requiring an initial cash deposit of 3% of principal. The commitment is subject to underwriting criteria and market conditions. Of the \$560.0 million committed, \$310.0 million was used in the Company's December 1998 securitization transaction. The Company expects to use the balance of that commitment in its next securitization transaction. The Company's agreement with the Certificate Insurer also required that the Company issue to the Certificate Insurer or its designee warrants to purchase common stock at \$3.00 per share, exercisable through the fifth anniversary of the warrant's issuance. Such warrants are exercisable with respect to 2,525,114 of the Company's common shares, subject to standard anti-dilution adjustments.

As a third part of its plan, the Company reduced its planned level of Contract purchases initially to not more than \$200.0 million per quarter beginning November 1998. In the first quarter of 1999, the Company purchased \$158.0 million of Contracts. During the second quarter of 1999, Contract purchases have been further reduced and are expected not to exceed \$100.0 million for the quarter. Such reductions in Contract purchases will reduce materially the Company's capital requirements.

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

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

### YEAR 2000

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

The Company predominantly uses accounting and installment loan application processing software against defined relational database files. Most financial software has long ago been forced to deal with a four byte date field due to long term maturity dates, bond yield calculations and mortgage amortization schedules. The Company has been cognizant of Year 2000 considerations since late 1994, when contracts with maturity dates in the year 2000 were first purchased.

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

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

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

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

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

## FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains certain "forward-looking statements," including, without limitation, the statements to the effect that (i) the cap on Spread Account levels is expected to provide cash flows to the Company in 1999, (ii) the Company expects to use the balance of its Certificate Insurer's commitment in the Company's next securitization transaction, (iii) the Company may sell Contracts on a servicing-released basis in a transaction that would yield cash, and (iv) the lenders under its Residuals Line may waive a default occasioned by two consecutive quarterly losses. That the cap on Spread Account levels would provide cash flows to the Company in 1999 is dependent on the consent of certain holders of subordinated interest in the related securitization trusts, and on the performance of the receivables included in such trusts. Such holders may give or withhold such consent in their discretion, and may or may not agree that is in their best interest to do so. The performance of the receivables in the trusts is dependent on various factors, including their inherent credit quality and the effectiveness of the Company's collection efforts. The Company's liquidity shortage identified herein could impair the effectiveness of its collection efforts. Although the Company expects to use the balance of its Certificate Insurer's commitment in the Company's next securitization transaction, there can be no assurance that the Company will have the liquidity or capital resources to enable it to post the reserves required for credit enhancement of such a transaction, or that the securitization markets will be receptive at the time that the Company seeks to engage in such a transaction. Although the Company expects to sell up to \$300.0 million of Contracts, servicing-released, in a transaction that would release cash to the Company, no definitive agreements relating to such a transaction have been executed. The prospective purchaser might decline to purchase any Contracts, in its discretion, or the Company and the purchaser might be unable to reach mutually acceptable terms. Although the lenders under the Company's Residuals Line may agree to waive any default, including a default occasioned by two consecutive quarterly losses, their decision whether or not to waive acceleration of the entire balance will be determined by their evaluation of their own interest, and there can be no assurance that any such waivers will be granted.

In addition to the statements identified above, descriptions of the Company's business and activities set forth in this report and in other past and future reports and announcements by the Company may contain forward-looking

statements and assumptions regarding the future activities and results of operations of the Company. Actual results may be adversely affected by various factors including the following: increases in unemployment or other changes in domestic economic conditions which adversely affect the sales of new and used automobiles and may result in increased delinquencies, foreclosures and losses on Contracts; adverse economic conditions in geographic areas in which the Company's business is concentrated; changes in interest rates, adverse changes in the market for securitized receivables pools, or a substantial lengthening of the Company's warehousing period, each of which could restrict the Company's ability to obtain cash for new Contract originations and purchases; increases in the amounts required to be set aside in Spread Accounts or to be expended for other forms of credit enhancement to support future securitizations; the reduction or unavailability of warehouse lines of credit which the Company uses to accumulate Contracts for securitization transactions; increased competition from other automobile finance sources; reduction in the number and amount of acceptable Contracts submitted to the Company by its automobile Dealer network; changes in government regulations affecting consumer credit; and other economic, financial and regulatory factors beyond the Company's control.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

#### INTEREST RATE RISK

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



PART II - OTHER INFORMATION

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company has been in default of its First Union Warehouse Line, its LLCP Debt, and its Residual Line. All of such defaults have been waived or cured.

The Company went into default on its LLCP Debt on January 1, 1999, when it failed to obtain, by December 31, 1998, repayment of approximately \$2.1 million owed to it by Nab Asset Corp., by reason of cross-default provisions in the Residual Line, GECC Warehouse Line and the First Union Warehouse Line, such other indebtedness was also placed in default.

All of such defaults were waived concurrently with Company's issuance of \$5.0 million of new 14.50% Senior Subordinated Notes to LLCP on April 15, 1999.

The Company is also in default under the First Union Warehouse Line due to its not having sold Contracts since December 1998. Among the terms of the First Union Warehouse line is a requirement that any Contract pledged to secure borrowings thereunder not have been pledged in excess of 180 days. Certain Contracts that the Company acquired prior to its December 1998 securitization, which were not included in that transaction, have been pledged in the First Union Warehouse Line for in excess of 180 days, causing such Contracts to become ineligible as collateral, and thus causing the amount outstanding under the line to exceed the amount that is deemed properly secured. Such default has been waived in consideration of payment of certain fees and modification of other terms of the First Union Warehouse Line.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are filed as a part of this report.

- 10.31 First Amendment dated as of April 15, 1999, to Securities Purchase Agreement dated as of November 17, 1998, between the Company and Levine Leichtman Capital Partners II, L.P. ("LLCP"). (said Securities Purchase Agreement, as amended, is referred to below as the "Amended SPA")\*
- 10.32 Senior Subordinated Primary Note in the principal amount of \$25,000,000, as amended and restated pursuant to the Amended SPA.\*
- 10.33 Primary Warrant to Purchase 3,115,000 Shares of Common Stock, as amended and restated pursuant to the Amended SPA.\*
- 10.34 Securities Purchase Agreement dated as of April 15, 1999, between the Company and LLCP.\*
- 10.35 Senior Subordinated Note in the principal amount of \$5,000,000.\*
- 10.36 Warrant to Purchase 1,335,000 Shares of Common Stock.\*
- 10.37 First Amendment to Investors Rights Agreement, dated as of April 15, 1999, by and among LLCP, the Company, Charles E. Bradley, Sr., Charles E. Bradley, Jr. and Jeffrey P. Fritz.\*
- 10.38 First Amendment to Registration Rights Agreement, dated as of April 15, 1999, between LLCP and the Company.\*
- 10.39 Investment Agreement and Continuing Guaranty, dated as of April 15, 1999, by and among LLCP, the Company, Charles E. Bradley, Sr., Charles E. Bradley, Jr. and Stanwich Financial Services Corp., a Rhode Island corporation.\*
- 27 Financial Data Schedule
- \* Incorporated by reference to an exhibit filed with the amended statement on Schedule 13D filed by LLCP and others on April 21, 1999.

(b) During the quarter for which this report is filed, the Company filed three reports on Form 8-K. Such reports were dated January 15, February 15, and March 15, 1999. Each was filed solely to include as an exhibit thereto, Item 7, the Company's monthly Servicer Report with respect to certain securitization trusts. The assets of such trusts consist of automotive receivables serviced by the Company. No financial statements were filed with any of such reports.

CONSUMER PORTFOLIO SERVICES, INC.

SIGNATURES

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

Consumer Portfolio Services, Inc.  
(Registrant)

Date: May 17, 1999

/s/ Charles E. Bradley, Jr.

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

Date: May 17, 1999

/s/ Jeffrey P. Fritz

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

EXHIBIT INDEX

- 10.31 First Amendment dated as of April 15, 1999, to Securities Purchase Agreement dated as of November 17, 1998, between the Company and Levine Leichtman Capital Partners II, L.P. ("LLCP"). (said Securities Purchase Agreement, as amended, is referred to below as the "Amended SPA")\*
- 10.32 Senior Subordinated Primary Note in the principal amount of \$25,000,000, as amended and restated pursuant to the Amended SPA.\*
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3-MOS	3-MOS	3-MOS	3-MOS
DEC-31-1999	DEC-31-1999	DEC-31-1998	DEC-31-1998
JAN-01-1999	JAN-01-1999	JAN-31-1998	JAN-31-1998
MAR-31-1999	MAR-31-1999	MAR-31-1998	MAR-31-1998
	2,001		3,559
	0		0
319,496		176,730	
2,340		2,751	
	0		0
0	3,979	0	4,272
2,936		2,626	
573,012		431,962	
332,225		190,192	
	40,000		40,000
0		0	
	0		0
	52,533		52,533
573,012	64,421		66,548
	431,962		
	0		0
	20,824		24,782
			0
	24,491		15,124
	0		0
	0		0
7,268		3,915	
(3,667)		9,658	
(1,540)		4,055	
(2,127)		5,603	
	0		0
	0		0
	0		0
	0		0
	(2,127)		5,603
	(0.14)		0.37
	(0.14)		0.34