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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 September 30, 1997

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.)

2 ADA, IRVINE, CALIFORNIA
(Address of principal executive offices)

92618
(Zip Code)

Registrant's telephone number: (714) 753-6800

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

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

As of November 13, 1997 the registrant had 14,409,442 common shares outstanding.

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Part I. Financial Information

Item 1. Financial Statements

Condensed consolidated balance sheets as of September 30, 1997 and December 31, 1996.

Condensed consolidated statements of income for the three and nine month periods ended September 30, 1997 and 1996.

Condensed consolidated statements of cash flows for the nine month periods ended September 30, 1997 and 1996.

Notes to condensed consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, ----- 1997 ----	December 31, ----- 1996 ----
ASSETS		
Cash	\$ 404,758	\$ 153,958
Contracts held for sale (note 2)	92,353,307	21,656,773
Servicing fees receivable	4,661,287	3,086,194
Residual interest in securitizations (note 3)	102,859,185	67,251,933
Furniture and equipment, net	2,138,733	629,774
Taxes receivable	--	610,913
Deferred financing costs	1,920,925	943,222
Investment in unconsolidated affiliate	3,662,877	2,263,768
Other assets	8,801,608	5,349,885
	----- \$ 216,802,680 =====	----- \$ 101,946,420 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable & accrued expenses	\$ 12,167,904	\$ 1,697,051
Warehouse line of credit	62,318,941	13,264,585
Taxes payable	5,434,481	--
Deferred tax liability	7,027,251	7,027,251
Notes payable	40,979,419	20,000,000
Convertible subordinated debt	--	3,000,000
Related party debt (note 6)	15,076,430	--
	----- 143,004,426	----- 44,988,887
Shareholders' Equity		
Preferred stock, \$1 par value; authorized 5,000,000 shares; none issued	--	--
Series A preferred stock, \$1 par value; authorized 5,000,000 shares; 3,415,000 shares issued; none outstanding	--	--
Common stock, no par value; authorized 30,000,000 shares; 14,408,642 and 13,779,242 shares issued and outstanding at September 30, 1997 and December 31, 1996, respectively	38,138,514	34,644,314
Retained earnings	35,659,740	22,313,219
	----- 73,798,254	----- 56,957,533
	----- \$ 216,802,680 =====	----- \$ 101,946,420 =====

See accompanying notes to condensed consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Revenues:				
Net gain on sale of contracts (note 5)	\$ 10,384,822	\$ 5,784,375	\$ 25,660,219	\$ 15,864,442
Servicing fees (note 4)	5,534,978	4,687,520	15,360,576	11,334,184
Interest	4,860,872	3,286,631	12,838,429	8,952,666
Other	503,255	--	1,793,046	--
	<u>21,283,927</u>	<u>13,758,526</u>	<u>55,652,270</u>	<u>36,151,292</u>
Expenses:				
Interest	3,034,776	1,597,213	6,693,716	4,309,859
Employee costs	4,388,270	2,363,903	10,920,959	6,121,280
General and administrative	3,330,432	1,791,236	9,549,582	5,004,394
Marketing	687,904	500,383	1,417,860	1,117,051
Occupancy	342,377	138,676	876,941	542,009
Depreciation and amortization	138,542	67,472	543,219	207,527
Provision for credit losses	1,052,550	848,346	2,649,024	1,779,330
	<u>12,974,851</u>	<u>7,307,229</u>	<u>32,651,301</u>	<u>19,081,450</u>
Income before income taxes	8,309,076	6,451,297	23,000,969	17,069,842
Income taxes	3,492,941	2,617,000	9,654,448	6,913,020
Net income	<u>\$ 4,816,135</u>	<u>\$ 3,834,297</u>	<u>\$ 13,346,521</u>	<u>\$ 10,156,822</u>
Net income per common and common equivalent share	<u>\$ 0.31</u>	<u>\$ 0.26</u>	<u>\$ 0.86</u>	<u>\$ 0.69</u>
Weighted average number of common and common equivalent shares	<u>15,777,133</u>	<u>14,828,719</u>	<u>15,513,201</u>	<u>14,746,930</u>
Fully diluted net income per common and common equivalent share	<u>\$ 0.30</u>	<u>\$ 0.25</u>	<u>\$ 0.84</u>	<u>\$ 0.67</u>
Fully diluted weighted average number of common and common equivalent shares	<u>16,605,014</u>	<u>15,520,106</u>	<u>16,206,695</u>	<u>15,452,640</u>

See accompanying notes to condensed consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	1997	1996
	-----	-----
Cash flows from operating activities:		
Net income	\$ 13,346,521	\$ 10,156,822
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	543,219	207,527
Amortization of net interest receivables	9,105,307	4,401,858
Amortization of deferred financing costs	187,248	117,906
Provision for credit losses	2,649,024	1,779,330
Gain on sale of contracts	(22,198,862)	(12,870,764)
Loss on sale of fixed asset	13,449	--
(Gain) loss on investment in unconsolidated affiliate	(712,656)	124,000
Changes in operating assets and liabilities:		
Purchases of contracts held for sale	(449,714,213)	(254,322,070)
Liquidation of contracts held for sale	376,368,654	254,785,278
Servicing fees receivable	(1,575,093)	(1,278,264)
Initial deposits to spread accounts	(13,009,116)	(9,020,145)
Deposits to spread accounts	(19,862,245)	(13,274,535)
Payments to over-collateralization account	(2,432,620)	--
Release of cash from spread accounts	12,790,284	6,246,909
Other assets	(410,557)	(1,082,063)
Accounts payable and accrued expenses	9,345,773	3,184,653
Warehouse line of credit	49,054,356	2,338,856
Income taxes	5,883,742	(821,000)
	-----	-----
Net cash used in operating activities	(30,627,785)	(9,325,702)
Cash flows from investing activities:		
Proceeds from sale of subordinated certificates	--	2,022,220
Investment in unconsolidated affiliate	(686,453)	(4,000,000)
Purchases of furniture and equipment	(1,585,179)	(289,512)
Payments received on subordinated certificates	--	152,446
Purchase of subsidiary	(80,000)	--
	-----	-----
Net cash used in investing activities	(2,351,632)	(2,114,846)
Cash flows from financing activities:		
Issuance of notes to related party	54,500,000	--
Issuance of long term notes	20,073,267	--
Repayment of notes payable	(609,299)	--
Repayment of related party debt	(40,063,000)	--
Payment of financing costs	(1,164,951)	--
Exercise of options and warrants	494,200	690,500
	-----	-----
Net cash provided by financing activities	33,230,217	690,500
	-----	-----
Increase (decrease) in cash	250,800	(10,750,048)
Cash at beginning of period	153,958	10,895,157
	-----	-----
Cash at end of period	\$ 404,758	\$ 145,109
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 5,979,348	\$ 3,766,359
Income taxes	\$ 3,703,740	\$ 6,679,000
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock upon conversion of debt	\$ 3,000,000	\$ --
Purchase of CPS Leasing, Inc.		
Assets acquired	\$ 2,698,625	\$ --
Liabilities assumed	(2,618,625)	--
	-----	-----
Net cash used to acquire business	\$ 80,000	\$ --
	=====	=====

See accompanying notes to condensed consolidated financial statements

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

Note 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 reclasses have been made to prior period financial statements for comparability to current period presentation. Results for the three and nine month periods ended September 30, 1997, 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, 1996.

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., and CPS Funding Corp. The consolidated financial statements also include the accounts of SAMCO Acceptance Corp., LINC Acceptance Company, LLC and CPS Leasing, Inc., all of which are 80% owned subsidiaries of 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.

Recent Accounting Developments

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS No. 128). This statement is effective for both interim and annual periods ending after December 15, 1997, and replaces the presentation of "primary" earnings per share with "basic" earnings per share and the presentation of "fully diluted" earnings per share with "diluted" earnings per share. Earlier application is not permitted. When adopted, all previously reported earnings per common share amounts must be restated based on the provisions of the new standard. Pro forma basic and diluted earnings per share, calculated in accordance with SFAS No. 128, are provided below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Basic earnings per share	\$ 0.34	\$ 0.28	\$ 0.94	\$ 0.76
Diluted earnings per share	\$ 0.30	\$ 0.25	\$ 0.85	\$ 0.68

Residual Interest in Securitizations

The Company has made a practice of selling its retail automobile installment contracts ("Contracts") in the form of asset-backed securities ("Securitization"). In these transactions, the Company sells Contracts to one of the Company's special purpose subsidiaries (the "SPS"), which subsequently transfers the Contracts to a grantor or owner trust (the "Trust") created in connection with the transaction. The Trust then issues interest-bearing, asset-backed securities ("Certificates"), which are purchased by institutional investors. In each Securitization, the Company is required to provide credit enhancements in the form of (i) a cash capital contribution to the SPS, held in a credit enhancement account ("Spread Account") and (ii) a Certificate guaranty insurance policy. In the case of the Certificates sold during the three month period ended September 30, 1997 ("Trust 97-3"), certain classes of such Certificates are entitled to accelerated payments of a portion of the principal amount of such Certificates. Cash deposited in the various Spread Accounts is pledged to the related Trust, which in turn invests the cash in high quality liquid investment securities.

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

Note 1: Summary of Significant Accounting Policies (Continued)

At the closing of each securitization, the Company removes from its balance sheet the Contracts held for sale and adds to its balance sheet (i) the cash received and (ii) the estimated fair value of the portion of the Contracts retained from the securitizations ("residuals"). The residuals consist of (a) the cash deposited by the Company into the Spread Account or overcollateralization account ("OC"), and (b) the net interest receivables, as defined below. The excess of the cash received and 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.

Net interest receivables ("NIRs") are calculated as the net present value of the excess of the weighted-average coupon on the Contracts sold over the sum of (i) the coupon on the Certificates, (ii) a base servicing fee paid to the servicer of the Contracts (currently, the Company), (iii) expected losses to be incurred on the portfolio of Contracts sold over their estimated lives and (iv) other expenses and revenues. The significant assumptions used by the Company to estimate NIRs cash flows are anticipated prepayments and estimated credit losses. The Company estimates prepayments by evaluating historical prepayment performance of comparable Contracts and the effect of trends in the industry. The Company estimates credit losses using available historical loss data for comparable Contracts and the specific characteristics of the Contracts included in the Company's securitizations.

The OC represents the portion of the loans which are held by the trust as overcollateralization for a certain class of senior certificates sold and along with a certificate guaranty insurance policy serves as credit enhancement to the senior certificate holders. The OC consists of the excess of the principal balance of the Contracts sold to the trust, less the principal balance of the certificates sold to investors. Cash flows received by the trust in excess of the obligations of the trust are used to accelerate the principal reduction of a certain class of senior certificates until the target OC percentage is reached. Once the target OC percentage is reached, distributions of excess cash are remitted to the Company subject to the requirements of the related Spread Account.

The Company allocates its basis in the Contracts between the portion of the Contracts sold in the securitization transaction and the residuals, based on the relative fair values of those portions on the date of the sale. The Company may recognize 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 in accordance with SFAS No. 115. The Company is not aware of an active market for the purchase or sale of the residuals; accordingly, the Company estimates fair value of the residuals by calculating the present value of the estimated expected future cash flows using a discount rate appropriate for the risks involved.

Each Spread Account consists of an initial cash deposit, made simultaneously with the purchase of the Certificates by the investors, and subsequent cash flows to the extent required by the terms of the various securitization agreements. In the event that the cash flows generated by the Contracts transferred to the Trust should be insufficient to pay the obligations of the Trust, including principal or interest due to Certificate holders or expenses of the Trust, the trustee would draw from the Spread Account an amount necessary to pay the obligations of the Trust. The securitization agreements require that the Spread Accounts be maintained at a specified percentage of the outstanding principal balance of the Certificates. The percentage can be increased significantly in the event delinquencies or losses exceed certain specified levels. In the event delinquencies or losses on the Contracts serviced exceed certain higher specified levels defined in the Company's securitization agreements, the Trust may require the transfer of servicing to another servicer.

As principal payments are made to the Certificate holders, and if the Spread Accounts are in excess of the specified percentage of the outstanding principal balance of the Certificates, the trustee releases to the SPS the portion of the pledged cash that is in excess of the amount necessary to maintain the Spread Account at the specified percentage of the outstanding principal balance of the certificates. To the extent cash in excess of the predetermined level is generated, such cash is either transferred to cover deficiencies, if any, in Spread Accounts for other Trusts, or is released to the Company. Except for releases in this manner, the cash in the Spread Accounts is restricted from use by the SPS or the Company.

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

Note 2: Contracts held for sale

On average, the Contracts that the Company purchases from Dealers provide for finance charges of approximately 20% per annum. Each Contract provides for full amortization, and equal monthly payments, and may be fully prepaid by the customer at any time without penalty. The Company has historically purchased Contracts from Dealers at discounts ranging from 0% to 10% of the total amount financed under the Contracts, depending on the perceived credit risk of the Contract, plus a flat acquisition fee, generally \$200, for each Contract purchased. Effective January 10, 1997, the Company began purchasing all Contracts without a percentage discount, charging Dealers only an acquisition fee ranging from zero to \$1,495 for each Contract purchased. The fees vary based on the perceived credit risk and, in some cases, the interest rate on the Contract. The acquisition fees instituted in January 1997 are larger, on average, than the acquisition fees previously charged in conjunction with percentage discounts, so as to result in a similar net purchase price on a typical Contract. SAMCO continues to purchase Contracts using a percentage discount. Contracts held for sale are stated at the lower of aggregate cost or market value, net of related reserves. At September 30, 1997, and December 31, 1996, the balance of Contracts held for sale consisted of the following components:

	September 30, 1997	December 31, 1996
	-----	-----
Gross receivable balance	\$ 110,764,015	\$ 28,095,461
Unearned finance charges	(14,957,607)	(5,268,107)
Dealer discounts	(657,831)	(509,266)
Deferred loan origination fees and costs, net	(1,186,469)	61,774
Allowance for credit losses	(1,608,801)	(723,089)
	-----	-----
Net contracts held for sale	\$ 92,353,307	\$ 21,656,773
	=====	=====

Note 3: Residual interest in securitizations

Residual interest in securitizations comprised the following components at September 30, 1997 and December 31, 1996:

	September 30, 1997	December 31, 1996
	-----	-----
Spread accounts	\$ 63,678,550	\$ 43,597,472
Over-collateralization accounts	2,432,620	-
NIRs	36,748,015	23,654,461
	-----	-----
	\$ 102,859,185	\$ 67,251,933
	=====	=====

The following table summarizes NIRs activity for the nine months ended September 30, 1997:

Beginning balance, December 31, 1996	\$ 23,654,461
NIRs portion of gains recognized	22,198,862
Amortization of NIRs	(9,105,307)

Ending balance, September 30, 1997	\$ 36,748,016
	=====

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

Included in NIRs balances are estimates of losses totaling the following:

	September 30, 1997	December 31, 1996
	-----	-----
Estimated credit losses	\$ 76,564,532	\$ 50,098,119
Servicing subject to recourse provisions	\$ 696,386,246	\$ 483,106,256
Estimated credit losses as percentage of servicing subject to recourse provisions	10.99%	10.37%

Spread Accounts consisted of the following components at September 30, 1997 and December 31, 1996:

	September 30, 1997	December 31, 1996
	-----	-----
Funds held by investors	\$ 719,800	\$ 1,263,660
Investment in subordinated certificates	959,236	1,530,950
US government securities	61,999,514	40,802,862
	=====	=====
	\$ 63,678,550	\$ 43,597,472
	=====	=====

Note 4: Servicing fees

Servicing fees are reported as income when earned, net of related amortization of NIRs. Servicing costs are charged to expense as incurred. Servicing fees for the three and nine month periods ended September 30, 1997 and 1996, consisted of the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
	-----	-----	-----	-----
Base servicing fees	\$ 3,763,612	\$ 2,080,235	\$ 9,894,212	\$ 5,393,476
Residual interest income	5,316,063	4,414,280	14,571,671	10,342,566
Amortization of NIRs	(3,544,697)	(1,806,995)	(9,105,307)	(4,401,858)
Net servicing fees	\$ 5,534,978	\$ 4,687,520	\$ 15,360,576	\$ 11,334,184

Note 5: Net gain on sale of contracts

Net gain on sale of contracts for the three and nine month periods September 30, 1997 and 1996, consisted of the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
	-----	-----	-----	-----
Dealer discounts and acquisition fees (net of acquisition costs)	\$ 2,158,814	\$ 1,547,259	\$ 6,139,753	\$ 5,063,853
NIRs portion of gains recognized	9,375,000	4,948,054	22,198,862	12,870,764
Expenses related to sales	(1,148,993)	(710,938)	(2,678,396)	(2,070,175)
	-----	-----	-----	-----
	\$ 10,384,821	\$ 5,784,375	\$ 25,660,219	\$ 15,864,442
	=====	=====	=====	=====

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

Note 6: Related party debt

In May 1997, the Company entered into two transactions with a related party: (i) the Company purchased \$14.5 million of preferred stock of Stanwich Holdings, Inc. ("Holdings"), with dividends cumulative at the rate of 9% per annum and redeemable at an aggregate price of \$14.6 million, plus accrued dividends, and (ii) the Company borrowed \$14.5 million with an interest rate of 8% per annum under a 60-day related party loan from Stanwich Financial Services Corp. ("SFSC"). Charles E. Bradley, Sr., Charles E. Bradley, Jr., and John G. Poole, who are officers and directors of the Company, collectively own 92.5% of the common stock of Holdings, and Mr. Bradley, Sr., is the president and a director of Holdings. In August 1997, the Company received \$14.9 million in redemption of its preferred stock of Holdings and repaid the 60-day related party loan in its entirety. SFSC is a wholly-owned subsidiary of Holdings.

In August 1997, the Company entered into a Line of Credit agreement with SFSC ("Stanwich Line"), to supplement its working capital resources. Under the Stanwich Line, SFSC agreed to lend up to \$25 million to the Company from time to time upon request, through December 19, 1997. Any amount outstanding at December 31, 1997 would be due at that time. Borrowings under the Stanwich Line bear interest at the rate of 10% per annum, and the Company paid a \$250,000 (one percent) commitment fee to SFSC in connection with opening the line of credit. The Company drew the full amount of the line at its inception, none of which remained outstanding at September 30, 1997.

The Company has also received long-term financing from SFSC. In June 1997 the Company borrowed \$15 million on an unsecured and subordinated basis from SFSC. This loan ("RPL") is due 2004, and has a fixed rate of interest of 9% per annum, payable monthly beginning July 1997. The Company may pre-pay the RPL without penalty at any time. The RPL is partially convertible into equity. At maturity or repayment of the RPL, the holder thereof will have an option to convert 20% of the principal amount into common stock of the Company, at a conversion rate of \$11.86 per share.

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. 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.

Residual Interest in Securitizations

The Company has made a practice of selling its Contracts in the form of asset-backed securities ("Securitization"). In these transactions, the Company sells Contracts to one of the Company's special purpose subsidiaries (the "SPS"), which subsequently transfers the Contracts to a grantor or owner trust (the "Trust") created in connection with the transaction. The Trust then issues interest-bearing, asset-backed securities ("Certificates"), which are purchased by institutional investors. In each Securitization, the Company is required to provide credit enhancements in the form of (i) a cash capital contribution to the SPS, held in a credit enhancement account ("Spread Account") and (ii) a Certificate guaranty insurance policy. In the case of the Certificates sold during the three month period ended September 30, 1997 ("Trust 97-3"), certain classes of such Certificates are entitled to accelerated payments of a portion of the principal amount of such Certificates. Cash deposited in the various Spread Accounts is pledged to the related Trust, which in turn invests the cash in high quality liquid investment securities.

At the closing of each securitization, the Company removes from its balance sheet the Contracts held for sale and adds to its balance sheet (i) the cash received and (ii) the estimated fair value of the portion of the Contracts retained from the securitizations ("residuals"). The residuals consist of (a) the cash deposited by the Company into the Spread Account or overcollateralization account ("OC"), and (b) the net interest receivables, as defined below. The excess of the cash received and 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.

Net interest receivables ("NIRs") are calculated as the net present value of the excess of the weighted-average coupon on the Contracts sold over the sum of (i) the coupon on the Certificates, (ii) a base servicing fee paid to the servicer of the Contracts (currently, the Company), (iii) expected losses to be incurred on the portfolio of Contracts sold over their estimated lives and (iv) other expenses and revenues. The significant assumptions used by the Company to estimate NIRs cash flows are anticipated prepayments and estimated credit losses. The Company estimates prepayments by evaluating historical prepayment performance of comparable Contracts and the effect of trends in the industry. The Company estimates credit losses using available historical loss data for comparable Contracts and the specific characteristics of the Contracts included in the Company's securitizations.

The OC represents the portion of the loans which are held by the trust as overcollateralization for a certain class of senior certificates sold and along with a certificate guaranty insurance policy serves as credit enhancement to the senior certificate holders. The OC consists of the excess of the principal balance of the Contracts sold to the trust, less the principal balance of the certificates sold to investors. Cash flows received by the trust in excess of the obligations of the trust are used to accelerate the principal reduction of a certain class of senior certificates until the target OC percentage is reached. Once the target OC percentage is reached, distributions of excess cash are remitted to the Company subject to the requirements of the related Spread Account.

The Company allocates its basis in the Contracts between the portion of the Contracts sold in the securitization transaction and the residuals, based on the relative fair values of those portions on the date of the sale. The Company may recognize 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 in accordance with SFAS No. 115. The Company is not aware of an active market for the purchase or sale of the residuals; accordingly, the Company estimates fair value of the residuals by calculating the present value of the estimated expected future cash flows using a discount rate appropriate for the risks involved.

Each Spread Account consists of an initial cash deposit, made simultaneously with the purchase of the Certificates by the investors, and subsequent cash flows to the extent required by the terms of the various securitization agreements. In the event that the cash flows generated by the Contracts transferred to the Trust should be insufficient to pay the obligations of the Trust, including principal or interest due to Certificate holders or expenses of the Trust, the trustee would draw from the Spread Account an amount necessary to pay the obligations of the Trust. The securitization agreements require that the Spread Accounts be maintained at a specified percentage of the outstanding principal balance of the Certificates. The percentage can be increased significantly in the event delinquencies or losses exceed certain specified levels. In the event delinquencies or losses on the Contracts serviced exceed certain higher specified levels defined in the Company's securitization agreements, the Trust may require the transfer of servicing to another servicer.

As principal payments are made to the Certificate holders, and if the Spread Accounts are in excess of the specified percentage of the outstanding principal balance of the Certificates, the trustee releases to the SPS the portion of the pledged cash that is in excess of the amount necessary to maintain the Spread Account at the specified percentage of the outstanding principal balance of the certificates. To the extent cash in excess of the predetermined level is generated, such cash is either transferred to cover deficiencies, if any, in Spread Accounts for other Trusts, or is released to the Company. Except for releases in this manner, the cash in the Spread Accounts is restricted from use by the SPS or the Company.

There can be no assurance that actual performance of any of the Company's securitized loan portfolios will be consistent with the Company's estimates and assumptions. To the extent that actual prepayments, losses or market discount rates materially differ from the Company's estimates, the estimated value of its residual interests may increase or decrease, which could have a material effect on the Company's results of operations, financial condition or liquidity.

Results of Operations

The three month period ended September 30, 1997 compared to the three month

 period ended September 30, 1996

Revenues. During the three months ended September 30, 1997, revenues increased \$7.5 million, or 54.7%, compared to the three month period ended September 30, 1996. Net gain on sale of Contracts includes (i) the excess of the amount realized on the sale of Contracts over the Company's net cost, (ii) the fair value of the residual interest in each securitization of sold Contracts, and (iii) the recognition of deferred acquisition fees paid by Dealers net of related acquisition costs. Net gain on sale of Contracts increased by \$4.6 million, or 79.5%, and represented 48.8% of total revenues for the three month period ended September 30, 1997. The increase in gain on sale is largely due to the increased volume of Contracts sold in the period. During the three month period ended September 30, 1997, the Company sold \$150.0 million in Contracts, compared to \$92.1 million in the three month period ended September 30, 1996.

Servicing fees increased by \$847,458, or 18.1%, and represented 26.0% of total revenues. Servicing fees consist primarily of base monthly servicing fees earned on Contracts sold and serviced by the Company and the excess of the weighted-average coupon earned on the Contracts sold over the sum of (i) the coupon of the Certificates, (ii) the base servicing fees paid to the servicer of the Contracts (currently the Company), (iii) any losses incurred during the period on the portfolio of Contracts sold, and (iv) any other expenses and revenues, net of amortization of NIRs. The increase in servicing fees is due to the Company's continued expansion of its Contract purchase, sale and servicing activities. As of September 30, 1997, the Company was earning servicing fees on 65,767 Contracts with aggregate outstanding principal balances approximating \$696.4 million, compared to 40,216 Contracts with aggregate outstanding principal balances approximating \$426.4 million as of September 30, 1996. In addition to the \$696.4 million in sold Contracts, on which servicing fees were earned, the Company was holding for sale and servicing an additional \$96.3 million in Contracts, for an aggregate total servicing portfolio of \$792.7 million.

Interest income on Contracts held for sale increased by \$1.6 million, or 47.9%, and represented 22.8% of total revenues for the three month period ended September 30, 1997. The increase is due to the increase in the volume of Contracts purchased and held for sale. During the three month period ended September 30, 1997, the Company purchased \$173.6 million in Contracts from Dealers, compared to \$94.0 million in the three month period ended September 30, 1996.

The growth in the Company's revenue and expenses is a result of increases in the volume of Contract purchases and in the Company's servicing portfolio. The Company has achieved these increases primarily by expanding into new geographic areas and increasing the number of marketing representatives and Dealers. At September 30, 1997, the Company had 65 marketing representatives servicing 2,583 Dealers, compared to 23 representatives servicing 1,864 Dealers at September 30, 1996.

Expenses. During the three month period ended September 30, 1997, operating expenses increased \$5.7 million, or 77.6%, compared to the three month period ended September 30, 1996. Employee costs increased by \$2.0 million, or 85.6%, and represented 33.8% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the Company's growth and certain increases in salaries of existing staff. General and administrative expenses increased by \$1.5 million, or 85.9% and represented 25.7% of total operating expenses. Increases in general and administrative expenses included increases in telecommunications, stationery, credit reports and other related items as a result of increases in the volume of purchasing and servicing of Contracts.

Interest expense increased \$1.4 million, or 90.0%, and represented 23.4% of total operating expenses. During the three month period ended September 30, 1997, interest expense consisted primarily of interest on (i) borrowings under a warehouse line of credit ("Warehouse Line") used to acquire Contracts and hold them pending securitization, (ii) \$20 million of outstanding Rising Interest Subordinated Redeemable Securities due 2006 ("RISRS"), (iii) \$20 million of outstanding Participating Equity Notes due 2004, (iv) \$15 million of unsecured related party debt due 2004, and (v) \$14.5 million of 60-day related party debt due July 1997. With respect to the Warehouse Line, the Company's cost of borrowed funds varies with market rates, and the total interest payable is affected in proportion to the amount of Contract purchases funded under the Warehouse Line and the average time such Contracts are held prior to securitization. With respect to the RISRS debt, the interest paid on the debt increases each calendar year from 10.25% at present to 12.00% in 2004, and then to 12.50% until maturity at December 31, 2005. The April 1997 issuance of \$20 million of PENS (discussed below), on which interest is payable at a fixed rate of 10.50% per annum, and the Company's June 1997 borrowing of \$15 million in an unsecured related party loan due 2004 (discussed below), on which interest is payable at a fixed rate of 9.0% per annum, can be expected to increase the Company's interest expense in future periods.

During the three month period ended September 30, 1997, the provision for losses on Contracts held for sale increased by \$204,204, or 24.1%, and represented 8.1% of total operating expenses. The provision for losses on Contracts held for sale and the related allowance for credit losses vary from quarter to quarter based on a number of factors, including (i) the dollar amount of Contracts held for sale at the end of the period, (ii) the relative age of those Contracts, (iii) the estimated credit risk of those Contracts, and (iv) the portion of Contracts that are seriously past due or are assigned for or in repossession.

In March 1997, the Company opened a satellite collections facility in Chesapeake, Virginia. In addition, the Company obtained additional leased space in the vicinity of its California headquarters in September 1997. Lease of such additional space resulted in increased occupancy and general and administrative expenses in the three month period ended September 30, 1997, which should be expected to increase further in future periods. In October 1997, the Company entered into an agreement to have constructed a building of approximately 115,000 square feet, and to lease that building for a ten-year period commencing with its completion. The Company intends to occupy the new building, located approximately two miles from the Company's current principal location, as its headquarters. Increased occupancy expenses commensurate with the increase in space leased should be anticipated for future periods.

The Company continues to expand its staff to accommodate increases in its purchases of Contracts and in its servicing portfolio. The Company therefore expects to incur commensurate additional employee costs in future periods.

CONSUMER PORTFOLIO SERVICES, INC.

The nine month period ended September 30, 1997 compared to the nine month period

ended September 30, 1996

Revenues. During the nine months ended September 30, 1997, revenues increased \$19.5 million, or 53.9%, compared to the nine month period ended September 30, 1996. Net gain on sale of Contracts increased by \$9.8 million, or 61.7%, and represented 46.1% of total revenues for the nine month period ended September 30, 1997. The increase in gain on sale is largely due to the increased volume of Contracts sold in the period. During the nine month period ended September 30, 1997, the Company sold \$371.1 million in Contracts, compared to \$248.1 million in the nine month period ended September 30, 1996.

Servicing fees increased by \$4.0 million, or 35.5%, and represented 27.6% of total revenues. The increase in servicing fees is due to the Company's continued expansion of its Contract purchase, sale and servicing activities.

Interest income on Contracts held for sale increased by \$3.9 million, or 43.4%, and represented 23.1% of total revenues for the nine month period ended September 30, 1997. The increase is due to the increase in the volume of Contracts purchased and held for sale. During the nine month period ended September 30, 1997, the Company purchased \$449.7 million in Contracts from Dealers, compared to \$254.3 million in the nine month period ended September 30, 1996.

Expenses. During the nine month period ended September 30, 1997, operating expenses increased \$13.6 million, or 71.1%, compared to the nine month period ended September 30, 1996. Employee costs increased by \$4.8 million, or 78.4%, and represented 33.4% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the Company's growth and certain increases in salaries of existing staff. General and administrative expenses increased by \$4.5 million, or 90.8% and represented 29.2% of total operating expenses. Increases in general and administrative expenses included increases in telecommunications, stationery, credit reports and other related items as a result of increases in the volume of purchasing and servicing of Contracts.

Interest expense increased \$2.4 million, or 55.3%, and represented 20.5% of total operating expenses. During the nine month period ended September 30, 1997, interest expense consisted primarily of interest on (i) borrowings under the Warehouse Line, (ii) \$20 million of outstanding RISRS, (iii) \$20 million of outstanding PENS, (iv) \$15 million of unsecured related party debt due 2004, and (v) \$14.5 million of 60-day related party debt due July 1997.

During the nine month period ended September 30, 1997, the provision for losses on Contracts held for sale increased by \$869,694, or 48.9%, and represented 8.1% of total operating expenses.

Financial Condition

Contracts held for sale increased \$70.7 million, or 326.4%, from December 31, 1996 to September 30, 1997. The number of Contracts held for sale at any specific date is dependent on both the volume of the Company's Contract origination activities, and the length of time since its most recent securitization transaction. Both volume and timing directly affect the amount of Contracts held for sale because the Company has made a practice of selling, in any securitization transaction, substantially all of its Contracts then held for sale.

Residual interest in securitizations increased \$35.6 million, or 52.9%, from December 31, 1996 to September 30, 1997. This increase results from (i) additions to net interest receivable resulting from gains recognized in conjunction with the securitization of Contracts, net of amortization, and (ii) increases in Spread Account balances resulting from initial deposits on new securitizations and deposits relating to prior securitizations, net of releases from Spread Accounts which have reached their required target levels.

The amount outstanding under the Warehouse Line increased from \$13.3 million at December 31, 1996, to \$62.3 million at September 30, 1997. This increase reflects a greater number of Contracts held for sale at the end of the quarter than at the end of the preceding fiscal year.

Liquidity and Capital Resources

The Company's primary sources of cash from operations include servicing fees it earns on portfolios of Contracts it has previously sold, proceeds from sales of Contracts, release of investments in Spread Accounts, and customer payments on Contracts held for sale. The Company's primary uses of cash are its normal operating expenses, purchases of Contracts, the establishment of Spread Accounts and the further contribution of cash to the Spread Accounts until they reach their maintenance levels, and payment of income taxes.

Net cash used in operating activities was \$30.6 million during the nine month period ended September 30, 1997, compared to net cash used of \$9.3 million during the nine month period ended September 30, 1996. Cash used for purchasing Contracts was \$449.7 million, an increase of \$195.4 million, or 76.8%, over cash used for purchasing Contracts in the prior year's period. Cash provided from the liquidation of Contracts was \$376.4 million, an increase of \$121.6 million, or 47.7%, over cash provided from the liquidation of Contracts in the prior year's period.

The Company's cash requirements have been and will continue to be significant. Each agreement under which the Company has securitized and sold its Contracts required the Company to make a significant initial cash deposit to a Spread Account, which is pledged to enhance the credit of the related Certificates and is invested in high quality liquid securities.

During the nine month period ended September 30, 1997, cash used for initial deposits to Spread Accounts was \$13.0 million, an increase of \$4.0 million, or 44.2%, from the amount of cash used for initial deposits to Spread Accounts in the prior year's period. Cash deposited to Spread Accounts for the nine month period ended September 30, 1997, was \$19.9 million, an increase of \$6.6 million, or 49.6%, over cash deposited to Spread Accounts in the prior year's period. Cash deposited to over-collateralization accounts for the nine month period ended September 30, 1997, was \$2.4 million. The over-collateralization account was established in conjunction with the Company's August 1997 securitization and represents the accelerated principal payments made to a certain class of Certificates in accordance with the terms of the related agreement. Cash released from Spread Accounts for the nine month period ended September 30, 1997, was \$12.8 million, an increase of \$6.5 million, or 104.7%, over cash released from Spread Accounts in the prior year's period. Changes in deposits to and releases from Spread Accounts are affected by the relative size and seasoning of the various pools of sold Contracts that make up the Company's servicing portfolio. In the prior year's period, certain securitized pools exceeded predetermined delinquency levels, which resulted in increases in the required levels for certain Spread Accounts and consequently, in less releases of cash from Spread Accounts. In November 1996, the Company restructured certain aspects of its financial guarantee insurance agreements with Financial Security Assurance, Inc. The Company experienced greater releases of cash from Spread Accounts for the nine month period ended September 30, 1997 than in the prior year's period.

On a day-to-day basis, the Company funds its purchases of Contracts from Dealers by drawing on the Warehouse Line, and pledges the purchased Contracts to the warehouse lender. The amount borrowed under the Warehouse Line increases until the Company sells the pledged Contracts in a securitization transaction, at which time the proceeds of the sale are used to pay down the balance of the Warehouse Line. Since June 1995, such securitization transactions have taken place on a quarterly basis. The Company expects to complete two securitization transactions in the fourth quarter of 1997. The Company has experienced continued growth in the levels of Contracts purchased and securitized and expects that such growth may continue. The amount of Contracts that the Company can hold for sale prior to a securitization is limited by its available cash and the \$100 million Warehouse Line. The Company is currently in discussions with another lender for an additional warehouse line of credit to accommodate its growth. There can be no assurance that such discussions will result in an additional warehouse line.

In August 1997, the Company entered into a Line of Credit agreement with SFSC ("Stanwich Line"), to supplement its working capital resources. Under the Stanwich Line, SFSC agreed to lend up to \$25 million to the Company from time to time upon request, through December 19, 1997. Any amount outstanding at December 31, 1997, would be due at that time. Borrowings under the Stanwich Line bear interest at the rate of 10% per annum, and the Company paid a \$250,000 (one percent) commitment fee to SFSC in connection with opening the line of credit. The Company drew the full amount of the line at its inception, none of which remained outstanding at September 30, 1997.

CONSUMER PORTFOLIO SERVICES, INC.

The Company funds the increase in its servicing portfolio through off balance sheet securitization transactions, and funds its other capital needs with cash from operations and with the proceeds from the issuance of long-term debt. From December 31, 1996, through September 30, 1997, the Company has engaged in three securitization transactions, has issued \$20 million of PENS (due 2004) and has borrowed \$15 million in an unsecured related party loan due 2004 ("RPL").

The PENS are long-term subordinated debt instruments issued in a registered public offering in April 1997. After deduction of underwriting commissions, the proceeds of that offering were \$19.2 million. The PENS have a fixed coupon rate of interest of 10.5% per annum, payable monthly beginning May 15, 1997. The fixed interest rate payable on the PENS may be considered comparable to the rising interest rate payable on the RISRS that the Company issued in 1995: the RISRS interest rate is 10.25% per annum throughout 1997 and will rise by .25% per annum in each calendar year through 2004, and then by an additional .50% per annum for the final year prior to maturity on December 31, 2005. The RISRS may be redeemed without premium at any time after January 1, 2000, and the PENS may be redeemed without premium at any time after April 15, 2000. The PENS are also partially convertible into equity. At maturity or earlier redemption of the PENS, the holders thereof will have the option to convert 25% of the principal amount into common stock of the Company, at a conversion rate of \$10.15 per share.

The RPL is long-term subordinated debt representing \$15 million borrowed in June 1997 from Stanwich Financial Services Corp. ("SFSC"). SFSC is a financial services company owned by Stanwich Holdings, Inc. ("Holdings"). Charles E. Bradley, Sr., Charles E. Bradley, Jr., and John G. Poole, who are officers and directors of the Company, collectively own 92.5% of the common stock of Holdings, and Mr. Bradley, Sr., is the president and a director of Holdings. The RPL has a fixed rate of interest of 9% per annum, payable monthly beginning July 1997. The Company may pre-pay the RPL without penalty at any time. The RPL is also partially convertible into equity. At maturity or early repayment of the RPL, the holder thereof will have the option to convert 20% of the principal amount into common stock of the Company, at a conversion rate of \$11.86 per share.

In conjunction with the RPL, in May 1997, the Company entered into two additional transactions; (i) the Company purchased \$14.5 million of preferred stock of Holdings, with dividends cumulative at the rate of 9% per annum and redeemable at an aggregate price of \$14.6 million, plus accrued dividends, and (ii) the Company borrowed \$14.5 million with interest at 8% per annum under a 60-day related party loan from SFSC. In August 1997, the Company received \$14.9 million in redemption of the preferred stock of Holdings and repaid the 60-day related party loan in its entirety.

As to the cost of off balance sheet financing, the interest rates payable on the senior Certificates issued in the Company's March, May, and August 1997 securitizations ranged from 6.10% to 6.65% as compared with 6.40% to 6.70% payable on the similar securities issued in the Company's March, June and September 1996 securitization transactions. The change in the rates is primarily due to changes in rates payable on U.S. Treasuries of similar maturities.

There can be no assurance that such financing will continue to be available to the Company, nor that the cost of any such financing will not increase materially in the future.

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

In January 1997, the Company acquired a company engaged in the equipment leasing business. Any material growth in that subsidiary's business will require significant capital resources, to allow that subsidiary to purchase equipment for lease. In March 1997, the leasing company obtained a \$5 million line of credit to purchase equipment for lease.

The descriptions of the Company's business and activities set forth in this Form 10-Q 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

CONSUMER PORTFOLIO SERVICES, INC.

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 or 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.

PART II - OTHER INFORMATION

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

The annual meeting of shareholders of the Company was held on July 10, 1997. Actions taken at that meeting were described in the Company's report on Form 10-Q for the quarter ended June 30, 1997.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

- 10.1 Line of Credit Note dated August 8, 1997.
- 10.2 Partially Convertible Subordinated Note dated June 12, 1997.
- 10.3 Registration Rights Agreement dated June 12, 1997.
- 10.4 Underwriting Agreement relating to the Company's August 1997 securitization transaction (filed as exhibit 1.1 to the Company's current report on Form 8-K filed November 12, 1997, and incorporated herein by reference).
- 10.5 Sale and Servicing Agreement relating to the Company's August 1997 securitization transaction (filed as exhibit 10.1 to the Company's current report on Form 8-K filed November 12, 1997, and incorporated herein by reference)
- 10.6 Receivables Purchase Agreement relating to receivables transferred by the Company in its August 1997 securitization transaction (filed as exhibit 10.2 to the Company's current report on Form 8-K filed November 12, 1997, and incorporated herein by reference)
- 10.7 Subsequent Receivables Purchase Agreement relating to receivables transferred by the Company in its August 1997 securitization transaction (filed as exhibit 10.5 to the Company's current report on Form 8-K filed November 12, 1997, and incorporated herein by reference)
- 10.8 Trust Agreement relating to the Company's August 1997 securitization transaction (filed as exhibit 4.1 to the Company's current report on Form 8-K filed November 12, 1997, and incorporated herein by reference).
- 10.9 Indenture related to the Company's August 1997 securitization transaction (filed as exhibit 4.2 to the Company's current report on Form 8-K filed November 12, 1997, and incorporated herein by reference).
- 10.10 Subsequent Transfer Agreement relating to receivables transferred by the Company in its August 1997 securitization transaction (filed as exhibit 10.4 to the Company's current report on Form 8-K filed November 12, 1997, and incorporated herein by reference).
- 10.11 Agreement to Build and Lease dated October 27, 1997.
- 10.12 Lease dated October 27, 1997.
- 11 Statement re computation of per share earnings.
- 27 Financial Data Schedule.

(b) During the quarter for which this report is filed, the Company filed one report on Form 8-K. Such report was dated August 15, 1997, and reported, under Item 5 thereof, information regarding the Company's August 1997 securitization transaction.

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: November 13, 1997

/s/ Charles E. Bradley, Jr.

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

Date: November 13, 1997

/s/ Jeffrey P. Fritz

Jeffrey P. Fritz
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

CONSUMER PORTFOLIO SERVICES, INC.
EXHIBIT INDEX

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CONSUMER PORTFOLIO SERVICES, INC.
PARTIALLY CONVERTIBLE SUBORDINATED 9% NOTE

\$15,000,000

June 12, 1997

For value received, CONSUMER PORTFOLIO SERVICES, INC., a California corporation ("Maker"), unconditionally promises to pay to the order of STANWICH FINANCIAL SERVICES CORP., a Rhode Island corporation ("Payee"), in the manner and at the place hereinafter provided, the principal amount of FIFTEEN MILLION DOLLARS AND NO CENTS (\$15,000,000), on June 12, 2004, subject to earlier redemption in certain circumstances, as provided herein.

Maker also promises to pay interest on the unpaid principal amount hereof from the date hereof until paid in full at the rate of 9.00% per annum, and interest shall be payable on the 12th day of each month commencing July 12, 1997. All computations of interest shall be made on the basis of a 360-day year and a 30-day month (including the first but excluding the last day). In no event shall the interest rate payable on this Note exceed the maximum rate of interest permitted to be charged under applicable law.

1. Payments on the Note. All payments of principal and interest in respect of this Note shall be made in lawful money of the United States of America in same day funds to the following wire account: Citibank FSB CT, 435 East Putnam Avenue, Cos Cob, CT 06807, ABA# 221172610, for the account of Stanwich Financial Services Corp., Account #45356924, or to such other place as shall be designated in a written notice delivered to Maker. Whenever any payment on this Note shall be stated to be due on a day that is not a business Day, such payment shall instead be made on the next succeeding Business Day, and such extension of time shall be included in the computation of interest payable on this Note.

2. Subordination.

(a) In General. This Note is issued subject to, and each Person holding this Note or any interest therein, whether upon original issue or upon transfer or assignment thereof, shall by acceptance hereof be deemed to have accepted and agreed to be bound by the provisions that the indebtedness evidenced by this Note is and shall be subordinated and subject in right of payment, to the extent and in the manner provided in this Section 2, to the prior payment in full of all Senior Debt. The terms of this Section 2 shall be construed whenever ambiguous so as to make the indebtedness evidenced by this Note of equal ranking with the indebtedness evidenced by the Maker's outstanding \$20,000,000 of Rising Interest Subordinated Redeemable Securities due 2004 and the Maker's outstanding \$20,000,000 of Participating Equity Notes due 2004.

(b) Permitted Payments. Until all Senior Indebtedness has been paid in full, the Holder shall be permitted to retain only the following payments of principal and interest paid by the

Maker on this Note (all such payments being referred to herein as "Permitted Payments"), and all such payments that are not Permitted Payments will be turned over by the Holder of this Note to the holder or holders of Senior Indebtedness or any agent therefor (a "Senior Agent") for the benefit of the holder or holders of Senior Indebtedness:

(i) principal payment of this Note, whether (A) at the Stated Maturity, (B) at the Maker's option provided that the holder or holders of Senior Indebtedness or any Senior Agent has received written notice from the Maker not later than 45 days prior to a Redemption Date, or (C) as a result of the occurrence of a Special Redemption Event provided that the holder or holders of Senior Indebtedness or any Senior Agent has received written notice from the Maker of the Special Redemption Event not later than 40 days after the occurrence of the Special Redemption Event; provided that all such principal payments are subject to the restrictions set forth in Section 2(c) hereof; and

(ii) payments of interest on this Note so long as no default has occurred and is then continuing with respect to the payment of principal of or interest on the Senior Indebtedness; for such purposes, any such default which has been cured by payment or which has been waived, shall not be deemed to be continuing;

(c) Suspension on Senior Debt Default. From and after the receipt by Maker of a written notice (the "Default Notice") from the holder or holders of not less than 51% in principal amount of the outstanding Senior Indebtedness or any Senior Agent specifying that any default in the payment of any obligation on any Senior Indebtedness when due, whether at the stated maturity of any such payment or by declaration of acceleration, call for redemption, mandatory repurchase, payment or prepayment or otherwise (a "Senior Payment Default") has occurred, Maker may not make any principal payments described in Section 2(b)(1), and the Holder of this Note may not accelerate the Maturity of this Note as provided in Section 11, until the first to occur of the following:

(i) such Senior Payment Default is cured, or

(ii) such Senior Payment Default is waived by the holders of such Senior Indebtedness or the Senior Agent, or

(iii) the expiration of 180 days after the date the Default Notice is received, if the maturity of such Senior Indebtedness has not been accelerated at such time or the holder or holders of not less than 51% in principal amount of the outstanding Senior Indebtedness or any Senior Agent has not exercised any judicial or non-judicial remedy with respect to any collateral securing such Senior Indebtedness at such time, and the provisions of this Section 2 otherwise permit the payment at such time.

Upon payment in full of the Senior Indebtedness, payment of

principal and interest may be made to the Holder of this Note, without restriction.

(d) Distributions in Bankruptcy. Upon a payment or distribution to creditors of the Maker in a liquidation, dissolution, or winding up of the Maker or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Maker or its property or an assignment for the benefit of Creditors or any marshaling of the Maker's assets and liabilities,

(i) the holders of the Senior Indebtedness shall be entitled to receive payment of the full amount of the Senior Indebtedness before the Holder of this Note is entitled to receive any payment with respect thereto; and

(ii) any payment by, or distribution of assets of, the Maker of any kind or character, whether in cash, property or securities (other than securities of the Maker as reorganized or readjusted or securities of the Maker or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinate, at least to the extent provided in this Section 2 with respect to this Note, to the payment of all Senior Indebtedness, provided that the right of the holders of Senior Indebtedness are not impaired by such reorganization or readjustment), to which the Holder of this Note would be entitled except for the provisions of this Section 2 shall be paid or delivered by the Person making such payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise, directly to the holder or holders of Senior Indebtedness or any Senior Agent, ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness held or represented by each, to the extent necessary to make payment in full of all Senior Indebtedness remaining unpaid after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness, before any payment or distribution is made to the Holder of this Note; and

(iii) in the event, notwithstanding the foregoing, any payment by, or distribution of assets of, the Maker of any kind or character, whether in cash, property or securities (other than securities of the Maker as reorganized or readjusted or securities of the Maker or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinate, at least to the extent provided in this Section 2 with respect to this Note, to the payment of all Senior Indebtedness, provided that the rights of the holders of Senior Indebtedness are not impaired by such reorganization or readjustment), shall be received by the Holder of this Note before all Senior Indebtedness is paid in full, such payment or distribution shall be paid over to the holder or holders of such Senior Indebtedness or any Senior Agent, ratably as aforesaid, for application to the payment of all Senior Indebtedness remaining unpaid until all such Senior Indebtedness shall have been paid in full, after giving effect to any concurrent payment

or distribution to the holders of such Senior Indebtedness.

(e) Exclusive Powers. The holders of Senior Indebtedness and the Holder of this Note, respectively, are entitled to exercise certain rights and powers with respect to the Maker from time to time, whether before or after an occurrence of an Event of Default, and the exercise of any such right or power by one creditor may preclude the exercise of a similar right or power by one or more other creditors (any such right or power being herein called an "Exclusive Power"). To the extent that any holder or holders of Senior Indebtedness or any Senior Agent actually exercises any Exclusive Power, then the Holder of this Note agrees to refrain from exercising any substantially similar Exclusive Power to the extent necessary to permit the holders of Senior Indebtedness to benefit from their actions.

(f) Modification of Senior Debt. No amendment, modification, extension, replacement, restatement or substitution of the Senior Indebtedness, or of any agreement or note now or hereafter in effect pertaining to such Senior Indebtedness, shall nullify, impair, limit, alter or modify the provisions of this Section 2.

(g) Expenses included in Senior Debt. For purposes of this Section 2, Senior Indebtedness shall include all fees, expenses and costs incurred by or on behalf of the holder or holders of the Senior Indebtedness or the Senior Agent in connection with the Senior Indebtedness.

(h) Notice to Senior Debt. Notices to holders of Senior Indebtedness shall be made to each holder of Senior Indebtedness or, if holders of Senior Indebtedness have appointed a Senior Agent, then to such Senior Agent, and shall be made in the manner specified in the document evidencing such holder's Senior Indebtedness if such a manner is so specified therein.

(i) Subrogation. Subject to the payment in full of all Senior Indebtedness, the Holder of this Note shall be subrogated to the rights of the holders of such Senior Indebtedness to receive payments or distributions of cash, property or securities of the Maker applicable to such Senior Indebtedness until all amounts owing on this Note shall be paid in full, and, as between the Maker, its creditors other than holders of Senior Indebtedness, and the Holder of this Note, no such payment or distribution made to the holders of Senior Indebtedness by virtue of this Section 2 which otherwise would have been made to the Holder of this Note shall be deemed to be a payment by the Maker on account of the Senior Indebtedness, it being understood that the provisions of this Section 2 are and are intended solely for the purpose of defining the relative rights of the Holder of this Note, on the one hand, and the holders of Senior Indebtedness, on the other hand.

(j) Obligations of Maker Unconditional. Nothing contained in this Section 2 or elsewhere in this Note is intended to or shall impair, as between the Maker, its creditors other than the

holders of Senior Indebtedness, and the Holder of this Note, the obligations of the Maker, which are absolute and unconditional, to pay to the Holder of this Note the principal of and interest on this Note as and when the same shall become due and payable in accordance with its terms, or is intended to or shall affect the relative rights of the Holder of this Note and creditors of the Maker other than the holders of Senior Indebtedness, nor shall anything herein or therein prevent the Holder of this Note from exercising all remedies otherwise permitted by applicable law upon default under this Note, subject to the rights, if any, under this Section 2 of the holders of Senior Indebtedness in respect of cash, property or securities of the Maker received upon the exercise of any such remedy.

Upon any payment or distribution of assets of the Maker referred to in this Section 2, the Holder of this Note shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which any such dissolution, winding up, liquidation or reorganization proceeding affecting the affairs of the Maker is pending or upon a certificate of the trustee in bankruptcy, receiver, assignee for the benefit of creditors, liquidating trustee or agent or other person making any payment or distribution, delivered to the Holder of this Note, for the purpose of ascertaining the persons entitled to participate in such payment or distribution, the holders of the Senior Indebtedness and other indebtedness of the Maker, the amount thereof or payable thereon, the amount paid or distributed thereon and all other facts pertinent thereto or to this Section 2.

3. Redemption.

(a) Date. This Note is not subject to redemption at the option of the Maker prior to June 12, 2000. On or after June 12, 2000 this Note may be redeemed at the option of the Maker, in whole but not in part, at any time at a redemption price of 100% of its principal amount plus accrued and unpaid interest thereon through and including the Redemption Date.

(b) Notice. Notice of redemption shall be given not less than 30 nor more than 60 days prior to the Redemption Date.

(c) Segregation. On or prior to any Redemption Date, the Maker shall segregate and hold in trust an amount of Money sufficient to pay the Redemption Price of, and any accrued interest on this Note.

(d) Effect of Notice. Notice of redemption having been given as aforesaid, this Note shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Maker shall default in the payment of the Redemption Price and accrued interest) this Note shall cease to bear interest. Upon surrender of this Note for redemption in accordance with said notice, this Note shall be paid by the Maker at the Redemption Price, together with any accrued interest to the Redemption Date subject to the exercise

by the Holder of its right to convert the principal amount or a portion thereof to Common Stock. If this Note shall not be so paid upon surrender thereof for redemption, the principal and any premium, until paid, shall bear interest from the Redemption Date at the rate prescribed herein.

4. Conversion Privilege.

(a) General. Subject to and upon compliance with the terms and limitations of this Section 4, the Holder of this Note may elect to convert up to 20% of the principal amount of this Note into Common Stock at the Conversion Price determined as hereinafter provided. Such right to elect to convert 20% of the principal amount of this Note into Common Stock is limited and may only be exercised by a Holder upon (i) the Stated Maturity of the principal of this Note on June 12, 2004, (ii) the redemption of this Note at the option of the Maker or (iii) the redemption of this Note at the option of the Holder following the occurrence of a Special Redemption Event. If the Holder does not exercise the option to convert 20% of the principal of this Note upon the occurrence of the first to occur of the foregoing (i), (ii) or (iii), such conversion right shall expire on the Stated Maturity, Redemption Date or Repayment Date, as applicable, unless the Maker defaults in making the payment due on such date.

(b) Procedure. In order to exercise the conversion privilege, the Holder shall surrender this Note accompanied by written notice that the Holder elects to convert 20% of the principal amount of this Note and stating the name or names (with address) in which the certificate or certificates for shares of Common Stock which shall be issuable on such conversion shall be issued, and by proper assignment thereof to the Maker. Maker shall issue and deliver to the Holder, or on the written order of the Holder, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion in accordance with the provisions of this Section 4(b) and cash, as provided in Section 4(c), in respect of any fraction of a share of Common Stock otherwise issuable upon such conversion. Such conversion shall be deemed to have been effected at the close of business on the Effective Date, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares represented thereby on such date; provided, however, that any such surrender on any date when the stock transfer books of the Maker shall be closed shall constitute the person or persons in whose name or names the certificate or certificates for such shares are to be issued as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open, and 20% of the Note surrendered shall not be deemed to have been converted until such time for all purposes, but such conversion shall be at the Conversion Price in effect at the close of business on the Effective Date. Anything contained in this Section 4(b) to the contrary notwithstanding, the Maker shall not be obligated to effect the transfer of any conversion shares upon conversion of this Note or

cause any conversion shares upon conversion of 20% of this Note to be registered in any name or names other than the name of the holder of this Note, unless the Holder delivers to the Maker an opinion of counsel reasonably satisfactory to the Maker to the effect that such transfer is in compliance with applicable securities laws.

The term "Effective Date" as used in this Section 4(b) means (i) if the conversion occurs on the Stated Maturity of this Note, the Stated Maturity Date, (ii) if the conversion occurs as a result of the redemption of this Note at the option of the Maker, the Redemption Date, and (iii) if the conversion occurs because of the occurrence of a Special Redemption Event and the Holders's election to require redemption of this Note, the Repayment Date.

Upon the conversion of 20% of this Note by a Holder, the remaining principal amount of this Note (plus the amount equal to any fraction of a share paid in cash as provided in Section 5 below) shall, upon surrender of this Note, be paid to the Holder. For the purpose of computation of interest in connection with a conversion of the Note, the entire principal amount of the Note shall be deemed outstanding until the Effective Date.

(c) Fractional Shares. The Maker shall not be required to issue fractions of a share or scrip representing fractional shares of Common Stock upon conversion of 20% of this Note by a Holder. If any fraction of a share of Common Stock would, except for the provisions of this Section be issuable on the conversion of this Note, the Maker shall pay a cash adjustment in respect of such fraction, equal to the value of such fraction based on the then Conversion Price.

(d) Conversion Price. The Conversion Price of Common Stock upon conversion of 20% of this Note or Notes shall be as provided in this Section.

(i) The price at which shares of Common Stock shall be delivered upon conversion (the "Conversion Price") shall initially be \$11.86 (Eleven Dollars and Eighty-Six Cents) per share of Common Stock.

(ii) The Conversion Price in effect or to be in effect at any time shall be subject to adjustment from time to time as provided in the following provisions of this Section 4.

The Conversion Price shall be subject to adjustment from time to time as follows:

A. In case the Maker shall at any time or from time to time after the date of this Note (I) distribute dividends (or other distributions) payable in Common Stock on any class of capital stock of the Maker, (II) issue to all holders of Common Stock rights, options or warrants entitling them to subscribe for

or purchase Common Stock (or securities convertible into Common Stock) at less than the then-current Market Price (as determined in accordance with the terms of this Note) unless the Holder of this Note is entitled to receive the same upon conversion, (III) subdivide, combine or reclassify Common Stock or (IV) distribute to all holders of Common Stock evidences of indebtedness of the Maker or assets (including securities, but excluding those rights, options, warrants, dividends and distributions referred to above and excluding dividends and distributions paid in cash out of the retained earnings of the Maker), then and thereafter successively upon each such issue, sale, dividend or other distribution or subdivision, combination or reclassification, the Conversion Price for each share of Common Stock in effect immediately prior to such issue, sale, dividend or other distribution or subdivision, combination or reclassification shall forthwith be reduced to a price (calculated to the nearest full cent by the Maker) equal to the quotient obtained by dividing (i) an amount equal to the sum of (a) the total number of shares of Common Stock outstanding immediately prior to such issue, sale, dividend or other distribution multiplied by such Conversion Price in effect immediately prior to such issue, sale, dividend or other distribution or subdivision, combination or reclassification, plus (b) in the case of such an issue or sale, the consideration, if any, received by the Maker upon such issue or sale, or minus (c) in the case of such a dividend or other distribution, the amount of such dividend or other distribution, by (ii) the total number of shares of Common Stock outstanding immediately after such issue, sale, dividend or other distribution or subdivision, combination or reclassification.

The Maker shall not be required to make any adjustment of the Conversion Price if the amount of such adjustment shall be less than \$0.25 per share, but in such case any adjustment that would otherwise be required then to be made shall be carried forward and shall be made at the time and together with the next subsequent adjustment, which, together with any adjustment so carried forward, shall amount to not less than \$0.25 per share.

For the purposes of any adjustment as provided in this subsection A, the following provisions shall also be applicable:

(i) In case of the issue of additional shares of Common Stock for cash, the consideration received by the Maker therefor shall be deemed to be the cash proceeds received by the Maker for such shares, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Maker in connection therewith.

(ii) In case at any time the Maker shall grant to all Holders of Common Stock any rights to subscribe for or to purchase, or any options for the purchase of, Common Stock or any stock or other securities convertible into or exchangeable for Common Stock (such convertible or exchangeable stock or securities being herein called "Convertible Securities"), whether or not such rights or options or the rights to convert or

exchange any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon the exercise of such rights or options or upon conversion or exchange of such Convertible Securities (determined by dividing (a) the total amount, if any, received or receivable by the Maker as consideration for the granting of such rights or options, plus the minimum aggregate amount of additional consideration payable to the Maker upon the exercise of such rights or options, plus, in the case of any such rights or options which relate to such Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the issue or sale of such Convertible Securities and upon the conversion or exchange thereof, by (b) the total maximum numbers of shares of Common Stock issuable upon the exercise of such rights or options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such rights or options) shall be less than the Market Price in effect immediately prior to the time of the granting of such rights or options, then the total maximum number of shares of Common Stock issuable upon the exercise of such rights or options or upon conversion or exchange of the total maximum amount of such Convertible Securities issuable upon the exercise of such rights or options shall (as of the date of granting of such rights or options) be deemed to be outstanding and to have been issued for such price per share. No further adjustments of the Conversion Price shall be made upon the actual issue of such Common Stock or of such Convertible Securities upon exercise of such rights or options or upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities. If any of such rights or options or the rights to convert or exchange any such Convertible Securities expire without being exercised, then if the Conversion Price was adjusted as a result of the granting of such rights or options, upon such expiration the Conversion Price shall be adjusted to what it would have been had those rights or options which expired not been granted.

(iii) In case at any time the Maker shall declare a dividend or make any other distribution upon any stock of the Maker payable in Common Stock or Convertible Securities, any Common Stock or Convertible Securities, as the case may be, issuable in payment of such dividend or distribution shall be deemed to have been issued or sold without consideration.

(iv) In case any shares of Common Stock or Convertible Securities or any rights or options to purchase any such Common Stock or Convertible Securities shall be issued or sold, in whole or in part, for a consideration other than cash, the amount of the consideration other than cash received by the Maker shall be deemed to be the fair value of such consideration as determined by the Board of Directors of the Maker.

(v) In case of the payment or making of a dividend or other distribution on Common Stock in property (other than in shares of Common Stock and securities convertible into or exchangeable for shares of Common Stock, but including all other

securities) such dividend or other distribution shall be deemed to have been paid or made at the close of business at the record date fixed for the determination of stockholders entitled to receive such dividend or other distribution and the amount of such dividend or other distribution shall be the amount of cash and, if in property other than cash, shall be deemed to be the value of such property as determined in good faith by the Board of Directors of the Maker at the time of the declaration of such dividend or other distribution.

(vi) The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Maker, and the disposition of any such shares shall be considered an issue or sale of Common Stock.

B. Anything to the contrary notwithstanding, the Maker shall not be required to make any adjustment of the Conversion Price as a result of the happening of any of the following:

(i) The issuance of this Note;

(ii) The issuance of shares of Common Stock upon the conversion of any portion of this Note;

(iii) The issuance of not more than 2,700,000 shares of Common Stock upon the exercise of options granted under the Maker's 1991 Stock Option Plan;

(iv) The issue of non-qualified stock options (and the issuance of shares upon the exercise thereof) by the Maker to its directors, officers and employees for not exceeding an aggregate of 1,000,000 shares of Common Stock; and

(v) Such additional shares as may be issuable upon the exercise of such options described in (iii) or (iv) above by reason of stock dividends, stock splits, and other changes in the capitalization of the Maker.

C. In case at any time the Maker shall subdivide its outstanding shares of Common Stock into a greater number of shares, the Conversion Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock of the Maker shall be combined into a smaller number of shares, the Conversion Price in effect immediately prior to such combination shall be proportionately increased.

D. If any capital reorganization or reclassification of the capital stock of the Maker, or consolidation or merger of the Maker with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock then, as a condition of such reorganization, reclassification, consolidation, merger or sale,

lawful and adequate provision shall be made whereby the Holder of this Note shall thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in this Note in lieu of the shares of the Common Stock (or other securities) of the Maker which would have been purchasable upon the exercise of the conversion rights hereunder, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of shares of such Common Stock (or such other securities) immediately theretofore purchasable and receivable upon the exercise of the conversion rights hereunder, had such reorganization, reclassification, consolidation, merger or sale not taken place, and in any such case appropriate provision shall be made with respect to the conversion rights hereunder to the end that the provisions hereof (including without limitation provisions for adjustments of the conversion price and of the number of shares purchasable upon the conversion of this Note) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon any conversion hereunder (including an immediate adjustment, by reason of such consolidation, merger or sale, of the conversion price, to the value for the Common Stock reflected by the terms of such consolidation, merger or sale if the value so reflected is less than the conversion price in effect immediately prior to such consolidation, merger or sale). The Maker shall not effect any such consolidation, merger or sale, unless prior to the consummation thereof the successor corporation (if other than the Maker) resulting from such consolidation or merger or the corporation purchasing such assets shall assume, by written instrument executed and mailed to the Holder of this Note at the address specified for notice under this Note, the obligation to deliver to the Holder such shares of stock, securities or assets, as, in accordance with the foregoing provisions, the Holder may be entitled to purchase. The successor corporation shall be deemed substituted for the Maker for all purposes of this Section and this Note.

The provisions of paragraph D above governing the substitution of another corporation for the Maker shall similarly apply to successive instances in which the corporation then deemed to be the Maker hereunder shall either sell all or substantially all of its properties and assets to any other corporation, shall consolidate with or merge into any other corporation or shall be the surviving corporation of the merger into it of any other corporation as a result of which the holders of any of its stock or other securities shall be deemed to have become the holders of, or shall become entitled to, the stock or other securities of any corporation other than the corporation at the time deemed to be the Maker hereunder.

E. For purposes of this Section 4, the "Market Price" per share of Common Stock on any date shall be deemed to be the average of the daily closing prices for the 15 consecutive Business Days selected by the Maker commencing not less than 20 nor more than 30 Business Days before the day in question. The

closing price for each day shall be the last reported sales price regular way or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way, in either case on the New York Stock Exchange or, if the Common Stock is not listed or admitted to trading on such Exchange, on the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, on the Nasdaq National Market or, if the Common Stock is not listed or admitted to trading on any national securities exchange or quoted on the Nasdaq National Market, the average of the closing bid and asked prices in the over-the-counter market as furnished by any New York Stock Exchange member firm selected from time to time by the Maker for that purpose.

(e) Stamp Tax. If Payee converts this Note, Maker shall pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of Common Stock upon the conversion.

(f) Reservation of Shares. Maker shall reserve out of its authorized but unissued Common Stock enough shares to permit the conversion of this Note. All shares of Common Stock which may be issued upon conversion of this Note shall be fully paid and non-assessable.

5. Special Redemption Events.

In the event that there shall occur a Special Redemption Event with respect to the Maker, the Holder shall have the right, at the Holder's option, to require the Maker to redeem this Note in whole but not in part on the Repayment Date that is seventy-five (75) days after the occurrence of the Special Redemption Event for consideration consisting of either (i) cash equal to 80% of the principal amount of this Note plus accrued but unpaid interest to the date of redemption plus the number of Shares of Common Stock into which 20% of this Note is convertible pursuant to Section 4, or (ii) cash equal to 100% of the principal amount of this Note plus accrued but unpaid interest to the date of redemption, but not both (i) and (ii). Within 45 days after the occurrence of a Special Redemption Event the Maker shall give notice to the Holder of the occurrence of such Special Redemption Event, which notice shall further state the date on or before which the Holder must notify the Maker of the Holder's intention to exercise the redemption option (which date shall be three (3) Business Days prior to the Repayment Date) and the procedures that Holder must follow to exercise its rights under this Section 5. To exercise such rights, the Holder must deliver to the Maker on or before the close of business on the third Business Day prior to the Repayment Date: (i) written notice of the Holder's redemption election pursuant to this Section 5, in form reasonably satisfactory to the Maker, signed by the Holder or its duly authorized representative, and (ii) this Note, free and clear of any liens or encumbrances of any kind.

6. Registration Rights. The shares issuable upon conversion of this Note pursuant to Section 4 hereof, shall be

entitled to the benefits of the Registration Rights Agreement dated the date hereof, and agreed by and between Maker and Payee.

7. Covenants. For so long as this Note has not been paid in full, Maker covenants and agrees as follows:

(a) Corporate Existence. The Maker shall do or cause to be done all things necessary to preserve and keep in full force and effect the corporate existence, rights (charter and statutory) and franchises of the Maker and its Subsidiaries, and shall comply with all material statutes, rules, regulations and orders of and restrictions imposed by governmental and administrative authorities and agencies applicable to the Maker and its Subsidiaries; provided, however, that the foregoing shall not obligate the Maker to preserve any such right or franchise if the Maker shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Maker and its Subsidiaries and that the loss thereof is not disadvantageous in any material respect to the Holder.

(b) Maintenance of Properties. The Maker will:

(i) cause its properties and the properties of its Significant Subsidiaries used or useful in the conduct of the business of the Maker and its Subsidiaries to be maintained and kept in good condition, repair and working order and supplied with all necessary facilities and equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Maker may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that the foregoing shall not prevent the Maker or a Subsidiary from discontinuing the operation and maintenance of any of its properties if such discontinuance is, in the judgment of the Maker, desirable in the conduct of its business and not disadvantageous in any material respect to the Holder; and

(ii) take all appropriate steps to preserve, protect and maintain the trademarks, trade names, copyrights, licenses and permits used in the conduct of the business of the Maker and its Subsidiaries; provided, however, that the foregoing shall not prevent the Maker or a Subsidiary from selling, abandoning or otherwise disposing of any such trademark, trade name, copyright, license or permit if such sale, abandonment or disposition is, in the judgment of the Maker, desirable in the conduct of its business and not disadvantageous in any material respect to any Holder.

(c) Limitation on Restricted Payments. The Maker shall not (i) declare or pay any dividend, either in cash or property, on any shares of its capital stock (except dividends or other distributions payable solely in shares of capital stock of the Maker, or warrants, options, or other rights solely to acquire solely capital stock of the Maker) or (ii) purchase, redeem or retire any shares of its capital stock or any warrants, rights or options to purchase or acquire any shares of its capital stock

(except from employees in connection with the termination of their employment) or (iii) make any other payment or distribution, either directly or indirectly through any Subsidiary, in respect of its capital stock (such dividends, purchases, redemptions, retirements, payments and distributions being herein collectively called "Restricted Payments") if, after giving effect thereto,

(i) an Event of Default would have occurred; or

(ii)(A) the sum of (i) such Restricted Payment plus the aggregate amount of all Restricted Payments made during the period after December 31, 1996 would exceed (B) the sum of (i) \$7,500,000 plus (ii) 50% of Consolidated Net Income for the period commencing December 31, 1996 and ending on the date of payment of such Restricted Payment, treated as one accounting period plus (iii) 100% of the cumulative cash and non-cash proceeds received by the Maker from contributions to capital or the issuance or sale after December 31, 1996 of capital stock of the Maker or of any warrants, rights or other options to purchase or acquire its capital stock.

Notwithstanding the foregoing, the Maker may make a previously declared Restricted Payment if at the date of the declaration, such Restricted Payment would have been permitted under this Section. For purposes of this Section, the amount of any Restricted Payment payable in property shall be deemed to be the fair market value of such property as determine by the Board of Directors of the Maker.

(d) Limitation on Indebtedness for Money Borrowed. The Maker will not, nor will it permit any Subsidiary to, create, incur, assume, guarantee or be liable with respect to any Indebtedness for Money Borrowed (other than Subordinated Indebtedness if, immediately after giving effect to any such creation, incurrence, assumption or guarantee (including the retirement of any existing indebtedness from the proceeds of such additional Indebtedness for Money Borrowed), the aggregate amount of Indebtedness for Money Borrowed outstanding would exceed six (6) times the sum of the Maker's Consolidated Net Worth plus Subordinated Indebtedness. For purposes of the limitation on additional indebtedness set forth in this Section 7(d), Indebtedness for Money Borrowed shall not include Warehouse Indebtedness, and in calculating the Consolidated Net Worth for purposes of this Section 7(d), Warehouse Indebtedness shall not be included as a liability.

(e) Limitation on Subordinated Indebtedness. The Maker will not, nor will it permit any Subsidiary to, create, incur, assume, guarantee or be liable with respect to any Subordinated Indebtedness if immediately after giving effect to any such creation, incurrence, assumption or guarantee (including the retirement of any existing indebtedness from the proceeds of such Subordinated Indebtedness), the aggregate amount of Subordinated Indebtedness outstanding would exceed the Maker's Consolidated

Net Worth.

(f) Payment of Taxes and Other Claims. The Maker will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all material taxes, assessments and governmental charges levied or imposed upon the Maker or any Subsidiary or upon the income, profits or property of the Maker or any Subsidiary and (ii) all material lawful claims for labor materials and supplies which, if unpaid, might by law become a lien upon the property of the Maker or any Subsidiary; provided, however, that the Maker shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

(g) Books and Records. The Maker shall, and shall cause each Subsidiary to, at all times keep proper books of record and account in which proper entries shall be made in accordance with generally accepted accounting principles and, to the extent applicable, regulatory accounting principles.

(h) Notice of Default. The Maker shall, so long as any portion of this Note remains unpaid, deliver to the Holder, within five days after the occurrence thereof, written notice of any event which after notice or lapse of time or both would become an Event of Default pursuant to Section 10(d).

(i) Limitation on Ranking of Future Indebtedness. The Maker will not, directly or indirectly, incur, create, assume or guarantee any Indebtedness for Money Borrowed which is not Senior Indebtedness (other than Subordinated Indebtedness that is pari passu or subordinate in right of payment to this Note).

(j) Subsidiaries that Own Finance Receivables. The Maker will not organize and own directly or indirectly the Voting Stock of any Person that directly or indirectly owns or holds finance receivables (with an aggregate principal amount in excess of \$1,000,000) originated by the Maker or any Subsidiary unless (i) the net income and net worth of such Person is accounted for as a consolidated subsidiary, of the Maker in accordance with the generally accepted accounting principles, (ii) the Maker owns directly or indirectly at least 80% of the outstanding Voting Stock of such Person and (iii) the Maker owns directly or indirectly stock or equity interests in such Person having a value equal to at least 80% of the total value of the stock or equity interests in such Person. For purposes of clause (iii), "stock" or "equity interests" shall not include preferred stock or any similar equity interest which (A) is not entitled to vote except as required by law, (B) is limited and preferred as to dividends or distributions and does not participate in the economic growth of the Person to any significant extent, (C) has, to the extent provided for, redemption rights and liquidation rights which do not exceed the issue price of such stock or equity interests (except for a reasonable redemption or liquidation premium), and (D) is not convertible into another

class of stock or equity interest.

(k) Limitations on Transactions with Affiliates. The Maker shall not, and shall not permit any of its Subsidiaries to, enter into permit to exist any transaction (or series of related transactions), including, without limitation, any loan, advance, guarantee or capital contribution to, or for the benefit of, or any sale, purchase, lease, exchange or other disposition of any property or the rendering of any service, or any other direct or indirect payment, transfer or other disposition (a "Transaction"), involving payments, with any Affiliate of the Maker, on terms and conditions less favorable to the Maker or such Subsidiary, as the case May be, than would be available at such time in a comparable Transaction in arm's length dealings with an unrelated Person as determined by the Board of Directors, such approval to be evidenced by a Board Resolution.

The provisions of the immediately preceding paragraph will not apply to:

(i) Restricted Payments otherwise permitted pursuant to this Note;

or

(ii) fees and compensation (including amounts paid pursuant to employee benefit plans) paid to, and indemnity provided on behalf of, officers, directors, employees or consultants of the Maker or any Subsidiary, as determined by the Board of Directors or the senior management thereof in the exercise of their reasonable business judgment; or

(iii) payments for goods and services purchased in the ordinary course of business on an arm's-length basis; or

(iv) Transactions which do not exceed \$200,000; or

(v) Transactions between or among any of the Maker and its wholly owned subsidiaries.

8. Representations and Warranties. Maker hereby represents and warrants to Payee that:

(a) Existence. It is a duly organized and validly existing corporation in good standing under the laws of the jurisdiction of its incorporation and has the corporate power and authority to own and operate its properties, to transact the business in which it is now engaged and to execute and deliver this Note;

(b) Binding Effect. This Note constitutes the duly authorized, legally valid and binding obligation of Maker, enforceable against Maker in accordance with its terms;

(c) Consents. All consents and grants of approval required to have been granted by any Person in connection with the

execution, delivery and performance of this Note have been granted;

(d) No Violation. The execution, delivery and performance by Maker of this Note will not (i) violate any law, governmental rule or regulation, court order or agreement to which it is subject or by which its properties are bound or the charter documents or bylaws of Maker, (ii) result in the creation of any lien or other encumbrance with respect to the property of Maker or (iii) violate any provision of the agreements governing any Senior Debt;

(e) Accuracy of Reports. The SEC Reports did not, as of the dates of filing thereof, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and as of the date of this Note, there has not been any material adverse change with respect to any material fact contained in the SEC Reports except as may have been disclosed to Payee on or prior to the date of this Note;

(f) No Litigation. There is no action, suit, proceeding or governmental investigation pending or, to the knowledge of Maker, threatened against Maker or any of its assets which if adversely determined would have a material adverse effect on the business, operations, properties, assets, condition (financial or otherwise) or prospects of Maker, taken as a whole, or the ability of Maker to comply with its obligations hereunder;

(g) Financial Statements. The balance sheet, income statement and statements of cash flow for Maker as of December 31, 1996, including the related schedules and notes, as reported on by KPMG Peat Marwick, true copies of which have been previously delivered to Payee, have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and fairly present the consolidated financial condition of Maker as at the date thereof;

(h) Financial Statements. It is not in default under any provisions of its charter documents or bylaws or under any provisions of any franchise, contract, agreement, lease or other instrument to which it is a party or by which it or its property is bound or in violation of any law, judgment, decree or governmental order, rule or regulation, which default or violation could affect adversely in any material manner the business, assets or financial condition of Maker; and

9. [intentionally omitted]

10. Events of Default. "Event of Default" means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or be effected by operation of law pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or

governmental body):

(a) default in the payment of any interest on or any Additional Amounts payable in respect of this Note when such interest becomes or such Additional Amounts become due and payable, and continuance of such default for a period of 10 days; or

(b) default in the payment of the principal of or any premium on this Note when it becomes due and payable at its Maturity, upon redemption or upon repayment and continuance of such default for a period of 5 days; or

(c) default in the performance, or breach, of any covenant or warranty of the Maker in this Note (other than a covenant or warranty a default in the performance or the breach of which is elsewhere in this Section specifically dealt with), and continuance of such default or breach for a period of 30 days after there has been given, by registered or certified mail, to the Maker by the Holder of this Note a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(d) default in the payment at stated maturity of an obligation for Indebtedness for Money Borrowed of the Maker or a Subsidiary in principal amount due at stated maturity in excess of \$1,000,000, and such default shall continue, without being cured, waived or consented to and without such indebtedness being discharged, for a period of 30 days beyond any applicable period of grace; or

(e) an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness for Money Borrowed of the Maker or any Subsidiary, whether such Indebtedness for Money Borrowed now exists or shall hereafter be created, shall happen and shall result in such Indebtedness for Money Borrowed in principal amount in excess of \$1,000,000 becoming or being declared due and payable prior to the date on which it would otherwise become due and payable, and such acceleration shall not be rescinded or annulled, or such indebtedness shall not have been discharged, within a period of 30 days after there shall have been given, by registered or certified mail, to the Maker by the Holder of this Note a written notice specifying such event of default and requiring the Maker to cause such acceleration to be rescinded or annulled or to cause such Indebtedness for Money Borrowed to be discharged and stating that such notice is a "Notice of Default" hereunder; or

(f) the entry by a court or agency or supervisory authority having competent jurisdiction of:

(i) a decree or order for relief in respect of the Maker or any Significant Subsidiary in an involuntary proceeding under any applicable bankruptcy, insolvency, reorganization or other similar law and such decree or order shall remain

unstayed and in effect for a period of 60 consecutive days; or

(ii) a decree or order adjudging the Maker or any Significant Subsidiary to be insolvent, or approving a petition seeking reorganization, arrangement, adjustment or composition of the Maker or any Significant Subsidiary and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

(iii) a decree or order appointing any other Person to act as a custodian, receiver, liquidator, assignee, trustee or other similar official of the Maker or any Significant Subsidiary or of any substantial part of the property of the Maker or any Significant Subsidiary, as the case may be, or ordering the winding up or liquidation of the affairs of the Maker or any Significant Subsidiary and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

(g) the commencement by the Maker or any Significant Subsidiary of a voluntary proceeding under any applicable bankruptcy, insolvency, reorganization or other similar law or of a voluntary proceeding seeking to be adjudicated insolvent or the consent by the Maker or any Significant Subsidiary to the entry of a decree or order for relief in an involuntary proceeding under any applicable bankruptcy, insolvency, reorganization or other similar law or to the commencement of any insolvency proceedings against it, or the filing by the Maker or any Significant Subsidiary of a petition or answer or consent seeking reorganization or relief under any applicable law, or the consent by the Maker or any Significant Subsidiary or the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee or similar official of the Maker or any Significant Subsidiary or any substantial part of the property of the Maker or any Significant Subsidiary or the making by the Maker or any Significant Subsidiary of an assignment for the benefit of creditors, or the taking of corporate action by the Maker or any Significant Subsidiary in furtherance of any such action; or

(h) a final judgment, judicial decree or order for the payment of money in excess of \$5,000,000 shall be rendered against the Maker or any Significant Subsidiary and such judgment, decree or order shall continue unsatisfied for a period of 30 days without a stay of execution; or

(i) any other Event of Default provided in this Note.

11. Remedies.

(a) Upon the occurrence of any Event of Default specified in Sections 10(f) or 10(g) above, the principal amount of this Note together with accrued interest thereon shall become immediately due and payable, without presentment, demand, notice, protest or other requirements of any kind (all of which are hereby expressly waived by Maker), and upon the occurrence and during the continuance of any other Event of Default the holder

of this Note may, by written notice to Maker, declare the principal amount of this Note together with accrued interest thereon to be due and payable, and the principal amount of this Note together with such interest shall thereupon immediately become due and payable without presentment, further notice, protest or other requirements of any kind (all of which are hereby expressly waived by Maker.

(b) If any Event of Default shall occur and be continuing, the holder of this Note may proceed to protect and enforce its rights under the Note by exercising such remedies as are available to such holder in respect hereof under applicable law, either by suit in equity or by action at law, or both, whether for specific performance of any covenant or agreement contained in this Note or in the aid of the exercise of any power granted in this Note. No remedy conferred in this Note upon the holder of this Note is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy conferred herein or now or otherwise existing at law or in equity or by statute or otherwise.

12. Definitions. Except as otherwise expressly provided in this Note or unless the context otherwise clearly requires, for all purposes of this Note:

(a) the terms defined in this Section have the meanings assigned to them in this Section and include the plural as well as the singular;

(b) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(c) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles in the United States and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted in the United States at the date of such computation;

(d) the word "herein," "hereof," "hereto" and "hereunder" and other words of similar import refer to this Note as a whole and not to any particular Section or other subdivision; and

(e) the word "or" is always used inclusively (for example, the phrase "A" or "B" means "A or B or both", not "either A or B but not both").

Certain terms used principally in certain Sections hereof are defined in those Sections.

"Additional Amounts" means any additional amounts which are by the terms of Note to be paid to the Holder, and which are

owing to the Holder.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control," when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have the meanings correlative to the foregoing.

"Board of Directors" means the board of directors of the Maker or any committee of that board duly authorized to act generally or in any particular respect for the Maker hereunder.

"Business Day" with respect to any Place of Payment or other location, means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a Legal Holiday in such Place of Payment or other location.

"Capitalized Lease Obligations" means, as to any Person, the obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) real or personal property which obligations are required to be classified and accounted for as capital lease obligations on a balance sheet of such Person under generally accepted accounting principles and, for purposes of this Note, the amount of such obligations at any date shall be the capitalized amount thereof at such date, determined in accordance with generally accepted accounting principles.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, as amended.

"Common Stock" means the common shares of the capital stock of the Maker.

"Consolidated Net Income" means the amount of net income (loss) of the Maker and its Subsidiaries determined in accordance with generally accepted accounting principles; provided, however, that there shall not be included in Consolidated Net Income any net income (loss) of any Person acquired or disposed of in a pooling of interests transaction for any period prior to the acquisition thereof or subsequent to the disposition thereof.

"Consolidated Net Worth" means the excess, as determined in accordance with generally accepted accounting principles, after making appropriate deductions for any minority interest in the net worth of Subsidiaries, of (i) the assets of the Maker and its Subsidiaries over (ii) the liabilities of the Maker and its Subsidiaries; provided, however, that any write-up in the book value of any assets owned subsequent to the date of this Note, other than as required for and at the time of assets acquired in

connection with the purchase of a Person or business, shall not be taken into account.

"Corporation" includes corporations, associations, companies and business trusts.

"Event of Default" has the meaning specified in Section 10.

"Holder" means, with respect to this Note, the Payee named on the first page of this Note, except that after any transfer that is permitted under Section 14 of this Note Holder means the transferee of the prior Holder's interest in this Note; with respect to the Common Stock or any other securities, "Holder" means the registered holder of such securities.

"Indebtedness for Money Borrowed" means any of the following obligations of the Maker or any Subsidiary which by its terms matures at or is extendable or renewable at the sole option of the obligor without requiring the consent of the obligee to a date more than twelve months after the date of the creation or incurrence of such obligation: (i) any obligations, contingent or otherwise, for borrowed money or for the deferred purchase price of property, assets, securities, or services (including, without limitation, any interest accruing subsequent to an Event of Default), (ii) all obligations (including this Note) evidenced by bonds, notes, debentures, letters of credit, or other similar instruments, (iii) all indebtedness created or rising under any conditional sale or other title retention agreement with respect to property acquired (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property) except any such obligation that constitutes a trade payable and an accrued liability arising in the ordinary course of business, if and to the extent any of the foregoing indebtedness would appear as a liability upon a balance sheet prepared in accordance with generally accepted accounting principles, (iv) all Capitalized Lease Obligations, (v) all indebtedness of the type referred to in Clause (i), (ii), (iii) or (iv) above secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any lien upon or in property of the Maker (including, without limitation, accounts and contract rights), even though the Maker has not assumed or become liable for the payment of such indebtedness, and (vi) any guaranty or endorsement (other than for collection or deposit in the ordinary course of business) or discount with recourse of, or other agreement, contingent or otherwise, to purchase, repurchase, or otherwise acquire, to supply, or advance funds or become liable with respect to, any indebtedness or any obligation of the type referred to in any of the foregoing clauses (i) through (v), regardless of whether such obligation would appear on a balance sheet; provided, however, that Indebtedness for Money Borrowed shall not include (x) Interest Rate Swap Obligations with respect to any obligations included in the foregoing clauses (i) through (vi) or any guarantees of any such Interest Rate Swap Obligations or (y) amounts due under or represented by asset-backed securities or other interest-bearing certificates issued by

trusts formed by Subsidiaries in connection with the securitization of automobile installment sale contracts or other receivables.

"Independent Public Accountants" means a nationally recognized firm of accountants that, with respect to the Maker and any other obligor under the Note, are independent public accountants within the meaning of the Securities Act of 1933, as amended, and the rules and regulations promulgated by the Commission thereunder, who may be the independent public accountants regularly retained by the Maker or who may be other independent public accountants. Such accountants or firm shall be entitled to rely upon any Opinion of Counsel as to the interpretation of any legal matters relating to this Note or certificates required to be provided hereunder.

"Interest Payment Date" means the Stated Maturity of an installment of interest on this Note.

"Interest Rate Swap Obligations" means the obligation of the Maker or any Subsidiary pursuant to any interest rate swap agreement, interest rate collar agreement, forward rate agreement, interest rate cap insurance, option or futures contract or other similar agreement or arrangement, and any renewal or extension thereof, designed to protect the Maker or any of its Subsidiaries against interest rate risk.

"Legal Holiday" with respect to any Place of Payment or other location, means a Saturday, a Sunday or a day on which banking institutions or trust companies in such Place of Payment or other location are not authorized or obligated to be open.

"Maker" means the Person named as the "Maker" in the first paragraph of this Note until a successor Person shall have become such pursuant to the applicable provisions of this Note, and thereafter "Maker" shall mean such successor Person, and any other obligor upon this Note.

"Maturity" with respect to this Note, means the date on which the principal of this Note becomes due and payable as provided in this Note, whether at the Stated Maturity or by declaration of acceleration, notice of redemption, notice of option to elect repayment or otherwise, and includes the Redemption Date.

"Money" with respect to any payment, deposit or other transfer pursuant to or contemplated by the terms hereof, means United States dollars or other equivalent unit of legal tender for payment of public or private debts in the United States of America.

"Officer" means the Chairman of the Board, a Vice Chairman of the Board, the President, any Vice President, the Chief Financial Officer, the Chief Executive Officer, the Chief Operating Officer, the Treasurer, and the Secretary, or the

Controller of the Maker.

"Person" means any individual, corporation, association, company, business trust, partnership, joint venture, joint-stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment," with respect to this Note, means the place or places where the principal of, or any premium or interest on, or any Additional Amounts with respect to this Note is payable.

"Redemption Date," with respect to this Note or portion thereof to be redeemed, means the date fixed for such redemption by or pursuant to this Note.

"Redemption Price," with respect to this Note or portion thereof to be redeemed, means the price at which it is to be redeemed as determined by or pursuant to this Note.

"Repayment Date," with respect to this Note or portion thereof to be repaid pursuant to Section 7, means the date fixed for such repayment by or pursuant to this Note.

"Repayment Price," with respect to this Note or portion thereof to be repaid pursuant to Section 7, means the price at which it is to be repaid pursuant to this Note.

"Restricted Payment" has the meaning specified in Section 7(c).

"SEC Reports" means the following documents filed by Maker pursuant to the requirements of Sections 13 and 14 of the Securities Exchange Act on or before the date of this Note: report on Form 10-K filed March 31, 1997 (as amended by amendments thereto filed April 14 and April 30, 1997), report on Form 10-Q filed May 15, 1997, and definitive proxy materials filed June 11, 1997.

"Senior Indebtedness" means the principal amount of, premium, if any, and interest on (i) any Indebtedness for Money Borrowed, whether now outstanding or hereafter created, incurred, assumed or guaranteed, unless in the instrument creating or evidencing such Indebtedness for Money Borrowed or pursuant to which such Indebtedness for Money Borrowed is outstanding it is provided that such Indebtedness for Money Borrowed is subordinate in right of payment or in rights upon liquidation to any other Indebtedness for Money Borrowed of the Maker and (ii) refundings, renewals, extensions, modifications, restatements, and increases of any such indebtedness.

"Significant Subsidiary" means any Subsidiary which accounted for more than 10% of the Maker's Consolidated Net Worth or more than 10% of the Maker's consolidated revenue, in each case as of the end of the Maker's most recent fiscal year.

"Special Redemption Event" means the occurrence of any one or more of the following: (i)(x) the Maker shall consolidate with or merge into any other Person, (y) the Maker shall convey, transfer or lease all or substantially all of its assets to any Person or (z) any Person shall consolidate with or merge into the Maker pursuant to a transaction in which the outstanding common stock of the Maker is reclassified, changed or exchanged; provided that the following shall be excluded from the operation of this clause (i): a transaction which is part of a sale, financing or securitization of receivables, entered into in the ordinary course of business; a transaction between the Maker and one or more of its wholly-owned Subsidiaries; or a transaction of the type described in clause (i) (x) or (i) (z) above unless immediately after giving effect to such transaction, a Person or "group" (as such term is used for purposes of Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) other than any Person who is a director of the Maker or a "related Person" on the date of this Note, is or becomes the "beneficial owner", directly or indirectly, of more than fifty percent (50%) of the total voting power in the aggregate normally entitled to vote in the election of directors; and (ii) any Person or "group" (as such term is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended) other than any Person who is a director of the Maker or a "related Person" on the date of this Note, shall purchase or otherwise acquire in one or more transactions or series of transactions beneficial ownership of fifty percent (50%) or more of the outstanding common stock of the Maker on the date immediately prior to the last such purchase or other acquisition. For purposes of this definition, "related Person" means, in addition to such director, (a) any relative or spouse of such director, or any relative of such spouse, (b) any trust or estate in which such Person or any of the Persons specified in clause (a) collectively own fifty percent (50%) or more of the total beneficial interest or (c) any corporation or other organization (other than the Maker) in which such director or any of the Persons specified in clause (a) or (b) are the beneficial owners collectively of fifty percent (50%) or more of the voting power.

"Stated Maturity," with respect to any installment of principal or interest payable on this Note or any Additional Amounts with respect thereto, means the date established by or pursuant to this Note as the fixed date on which the principal or such installment of principal or interest is or such Additional Amounts are due and payable.

"Subordinated Indebtedness" means Indebtedness for Money Borrowed that is not Senior Indebtedness.

"Subsidiary" means any corporation of which at the time of determination the Maker or one or more Subsidiaries owns or controls directly or indirectly more than 50% of the shares of Voting Stock.

"United States" except as otherwise provided herein or in any Note, means the United States of America (including the states thereof and the District of Columbia), its territories and possessions and other areas subject to its jurisdiction.

"United States Alien," except as otherwise provided in or pursuant to this Note, means any Person who, for United States federal income tax purposes, is a foreign corporation, a non resident alien individual, a non-resident alien fiduciary of a foreign estate or trust, or a foreign partnership one or more of the members of which is, for United States federal income tax purposes, a foreign corporation, a non-resident alien individual or a non-resident alien fiduciary of a foreign estate or trust.

"Vice President," when used with respect to the Maker, means any Senior or Executive Vice President, whether or not designated by a number or a word or words added before or after the title "Vice President."

"Voting Stock" means stock of a corporation of the class or classes having general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers, or trustees of such corporation, provided that, for the purposes hereof, stock which carries only the right to vote conditionally on the happening of an event shall not be considered Voting Stock whether or not such event shall have happened.

"Warehouse Indebtedness" means Indebtedness for Money Borrowed outstanding under the warehouse line of credit which line of credit the Maker has in place on the date of this Note and any replacement or additional facility under which the Maker borrows money against contracts held for sale, pending their sale in securitization transactions.

13. Transfer. This Note may be transferred in whole but not in part by Payee and each subsequent Holder of this Note so long as such transfer will not violate any federal securities laws or state "blue sky" laws.

14. Miscellaneous.

(a) Except as otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing (including telecopier communication) and mailed, telecopied, or delivered as follows: if to Maker, at its address specified opposite its signature below; and if to Payee, c/o Stanwich Partners, Inc., One Stamford Landing, 62 Southfield Ave., Stamford, CT 06902; Attention: President, Fax No. (203) 967-3923; or in each case at such other address as shall be designated by Payee or Maker in a written notice to the other. All such notices and communications shall, when mailed, telecopied or sent by overnight courier, be effective when deposited in the mails, delivered to the overnight courier or sent by telecopier, as the case may be.

(b) No failure or delay on the part of Payee or any other holder of this Note to exercise any right, power or privilege under this Note and no course of dealing between Maker and Payee or any other holder of this Note shall impair such right, power or privilege or operate as a waiver of any default or an acquiescence therein, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein expressly provided are cumulative to, and not exclusive of, any rights or remedies which Payee or any other holder of this Note would otherwise have. No notice to or demand on Maker in any case shall entitle Maker to any other or further notice or demand in similar or other circumstances or constitute a waiver of the right of Payee or any other holder of this Note to any other or further action in any circumstances without notice or demand.

(c) Maker and any endorser of this Note hereby consent to renewals and extensions of time at or after the maturity hereof, without notice, and hereby waive diligence, presentment, protest, demand and notice of every kind and, to the full extent permitted by law, the right to plead any statute of limitations as a defense to any demand hereunder.

(d) THIS NOTE AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA.

(e) Any legal action of proceeding with respect to this Note may be brought in the courts of the state of California or of the United States of America for the Central District of California and, by execution and delivery of this Note, Maker hereby accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts. Maker further irrevocably consents to the service of process out of any of the aforementioned courts in any action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to Maker at its address set forth below its signature hereto, such service to become effective seven days after such mailing. Nothing herein shall affect the right of Payee or any Holder of this Note to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against Maker in any other jurisdiction. Maker hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Note brought in the courts referred to above and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

(f) Maker agrees to indemnify Holder against any losses, claims, damages and liabilities and related expenses, including counsel fees and expenses, incurred by Holder arising out of or

in connection with or as a result of the transactions contemplated by this Note. In particular, Maker promises to pay all costs and expenses, including reasonable attorneys' fees, incurred in connection with the collection and enforcement of this Note. In addition, Maker agrees to pay, and to save Holder harmless from all liability for, any stamp or the documentary taxes which may be payable in connection with Maker's execution or delivery of this Note.

(g) MAKER AND, BY THEIR ACCEPTANCE OF THIS NOTE, PAYEE AND ANY SUBSEQUENT HOLDER OF THIS NOTE, HEREBY IRREVOCABLY AGREE TO WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS NOTE OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS NOTE AND 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 without limitation contract claims, tort claims, breach of duty claims and all other common law and statutory claims. Maker and, by their acceptance of this Note, Payee and any subsequent Holder of this Note, each (i) acknowledges that this waiver is a material inducement to enter into a business relationship, that each has already relied on this waiver in their related future dealings and (ii) further warrants and represents that each has reviewed this waiver with its legal counsel and that each 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, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS OF THIS NOTE. In the event of litigation, this provision may be filed as a written consent to a trial by the court.

IN WITNESS WHEREOF, Maker has caused this Note to be executed and delivered by its duly authorized officer as of the day and year and at the place first above written.

CONSUMER PORTFOLIO SERVICES, INC.

By
Name:
Title:
Address:
2 Ada
Irvine, California 92618
Attention: Charles E. Bradley, Jr.
Fax Number: (714) 753-6804

Agreed to and accepted by
STANWICH FINANCIAL SERVICES CORP.

By
Name:
Title:

EXHIBIT A
FORM OF
CONVERSION NOTICE
To Be Delivered Upon Conversion
of Convertible Note

The undersigned hereby exercises its right to convert the attached Partially Convertible Subordinated 9% Note (the "Note"; defined terms used herein without definition shall have the meaning set forth in the Note), according to the terms and conditions thereof, and hereby requests Maker to convert the Note into shares of Common Stock at the conversion rate set forth in the Note. The undersigned requests that certificate(s) for such Common Stock be issued in the name set forth below.

Date:

[NAME OF HOLDER]

By:

Name in which shares
are to be issued:

Name

Address:

(Please Print or Type)

Social Security Number or
other identifying number:

REGISTRATION RIGHTS AGREEMENT

AGREEMENT made as of June 12, 1997, between CONSUMER PORTFOLIO SERVICES, INC., a California corporation (the "Company"), and STANWICH FINANCIAL SERVICES, CORP., a Rhode Island corporation ("Purchaser").

RECITALS

This Agreement is made pursuant to the \$15,000,000 Partially Convertible Note (the "Note"), dated June 12, 1997, between the Company and the Purchaser, under which the Company has agreed, among other things, upon certain terms and conditions contained in the Note, that 20% of the face amount of the Note is convertible into shares of common stock of the Company.

To induce the Purchaser to provide funds to the Company pursuant to the terms of the Note, the Company has agreed to provide the registration rights set forth in this Agreement. This Agreement shall become effective upon the issuance of any shares of common stock of the Company to the Purchaser (or any other holder of the Note) pursuant to the terms of the Note.

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Certain Definitions. As used in this Agreement, the following terms

shall have the following respective meanings:

(a) "Agreement" shall mean this Registration Rights Agreement.

(b) "Exchange Act" shall mean the Securities Exchange Act of 1934, as the same has been or may hereafter be amended.

(c) "Holder" means any person owning or having the right to acquire the Shares.

(d) "Indemnified Party" shall mean a party entitled to indemnification under Section 7 of this Agreement.

(e) "Indemnifying Party" shall mean the party required to provide indemnification under Section 7 of this Agreement.

(f) "Other Shareholders" shall mean, collectively, officers or directors of the Company who own common stock of the Company or other holders of the Company common stock who are entitled, by contract with the Company, to have their common stock included in a registration of the Company securities.

(g) "Register", "registered" and "registration" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Securities Act, and applicable rules and regulations thereunder, and such registration statement becoming effective.

(h) "Registration Expenses" shall mean all expenses incurred by the Company in compliance with Sections 2 and 3, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses and the expense of any special audits incident to or required by any such registration, but excluding fees and disbursements of counsel to,

or other experts retained by, any Holder.

(i) "Securities Act" shall mean the Securities Act of 1933, as the same has been or may hereafter be amended.

(j) "Selling Expenses" shall mean all underwriting discounts and selling commissions applicable to the sale of securities registered.

(k) "Shares" shall mean the shares of the common stock of the Company issued upon exercise of the conversion rights of the Note, and any shares of the Company's common stock issued in respect of or exchange for such shares, whether by stock split, stock dividend or otherwise.

2. Registration under Securities Act, etc.

2.1 Demand Registration.

(a) Request. At any time on or after the date of this Agreement, upon

the written request of the Purchaser, or an assignee of Shares as provided in Section 9, that the Company effect the registration under the Securities Act of all or part of the Shares specifying the number of Shares to be registered and the intended method of disposition thereof, the Company will give prompt written notice of such request to all registered holders of the Shares, and thereupon the Company will use its best efforts to effect the registration under the Securities Act of:

(i) those Shares that the Company has been requested to register by the Purchaser, and

(ii) all other Shares that the Company has been requested to register by written request of the Holders thereof given to the Company within 30 days after the giving of the aforesaid written notice by the Company (specifying the intended method of disposition of such Shares), all to the extent requisite to permit the intended disposition of the Shares to be so registered.

(b) Registration of Other Securities. Whenever the Company shall

effect a registration pursuant to this Section 2.1 in connection with an underwritten offering by one or more Holders of the Shares, no securities other than the Shares shall be included among the securities covered by such registration unless (i) the managing underwriter of such offering shall have advised the Purchaser in writing that the inclusion of such other securities would not adversely affect such offering or (ii) the Purchaser shall have consented in writing to the inclusion of such other securities.

(c) Registration Statement Form. Registrations under this Section 2.1

shall be on such appropriate registration form of the Commission (i) as shall be selected by the Company and as shall be reasonably acceptable to the Purchaser and (ii) as shall permit the disposition of the Shares in accordance with the intended method or methods of disposition specified in the request for such registration. The Company agrees to include in any such registration statement all information which, in the opinion of counsel to the Purchaser and counsel to the Company, is required to be included.

(d) Effective Registration Statement. A registration statement

requested pursuant to this Section 2.1 shall not be deemed to have been effected and will not be considered a demand registration which may be requested pursuant to this Agreement (i) unless a registration statement with respect thereto has become effective, (ii) if after it has become effective, it does not remain effective for a period of at least 180 days (unless the Shares registered thereunder have been sold or disposed of prior to the expiration of such 180 day period) or such registration is interfered with by any stop order, injunction or other order or requirement of the Commission or other governmental agency or court for any reason and has not thereafter become effective, or (iii) if the conditions to closing specified in the underwriting agreement entered into in

connection with such registration are not satisfied or waived other than by reason of the failure or refusal of a Holder of Shares to satisfy or perform a condition to such closing.

(e) Priority in Demand Registrations. If a demand registration

pursuant to this Section 2.1 involves an underwritten offering, and the managing underwriter shall advise the Company in writing (with a copy sent to each Holder of the Shares requesting registration) that the number of securities requested to be included in such registration exceeds the number which can be sold in such offering within a price range acceptable to the Purchaser, or such other Person demanding registration pursuant to Section 9 hereof, such registration will include only that number of the Shares which the Company is so advised can be sold in such offering, drawn pro rata from the Holders of the Shares requesting such registration on the basis of the percentage of Shares held by the Holders of Shares which have requested that such securities be included. In connection with any such registration, no securities other than the Shares shall be covered by such registration.

(f) Demand Registration. Without limiting the ability of other Holders

of Shares to have such securities registered once a demand registration has been requested, a demand registration may only be requested by the Purchaser and any other Person entitled to demand registration pursuant to Section 9 hereof, and notwithstanding anything in this Section 2.1 to the contrary, the Company shall not be required to effect more than one registration pursuant to this Section 2.1; provided, however, that the Purchaser, or any other Person entitled to

demand registration pursuant to Section 9 hereof, shall be entitled to one additional demand registration if all of the Shares which the Purchaser or such other Person requested to be included in any prior demand registration were not, for whatever reason, sold pursuant to such prior demand registration.

2.2 Company Registration.

(a) If at any time during the period commencing on the date on which the Shares are issued pursuant to exercise of the conversion right under the Note and ending on the third anniversary of such date, the Company proposes to register (including for this purpose a registration effected by the Company for shareholders other than the Holders) any of its stock or other securities under the Securities Act in connection with the public offering of such securities solely for cash (other than a registration of securities to be offered by employees pursuant to an employee benefit plan on Form S-8, a registration in connection with an exchange offer or any acquisition or a registration on any form which does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Shares), the Company shall, each such time, give each Holder written notice of such proposed registration at least twenty (20) days prior to filing the registration statement respecting such proposed registration. Upon the written request of any Holder given within fifteen (15) days after mailing of such notice by the Company, the Company shall cause to be registered under the Securities Act all of the Shares that each such Holder has requested to be registered, subject to Section 5 hereof.

(b) Priority in Incidental Registrations. In a registration pursuant to

this Section 2.2 involving an underwritten offering of the securities so being registered, whether or not for sale for the account of the Company by or through one or more underwriters of recognized standing, if the managing underwriter of such underwritten offering shall inform the Company and the Holders of the Shares requesting registration in such offering by letter of its belief that the number or type of securities to be included in such registration would materially adversely affect its ability to effect such offering, then the Company will be required to include in such registration only that number, if any, and type of Shares which it is so advised can be sold in such offering, drawn pro rata from the Holders of the Shares requesting such registration on the basis of the percentage of the Shares held by the Holders of Shares which have requested that such securities be included.

3. Obligations of the Company. Whenever required under this Agreement to

effect the registration of any Shares, the Company shall use its best efforts to, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC a registration statement with respect to such Shares and use its best efforts to cause such registration statement to become effective.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(c) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Shares owned by them.

(d) Make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of a registration statement, or the lifting of any suspension of the qualification of any of the Shares for sale in any jurisdiction, at the earliest possible moment;

(e) Register and qualify the securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as shall be reasonably requested by the Holders provided that in no event shall: the Company be required to qualify to do business in any state or to take any action which would subject it to general or unlimited service of process in any state where it is not now so subject, any stockholder be required to escrow their shares of capital stock of the Company, or the Company or any stockholder be required to comply with any other requirement which they deem unduly burdensome; and

(f) Otherwise use its best efforts to comply with all applicable rules and regulations of the Commission and make generally available to its security holders earnings statements satisfying the provisions of Section 11(a) of the Securities Act, no later than 90 days after the end of any 12-month period (i) commencing at the end of any fiscal quarter in which Shares are sold to underwriters in a firm or best efforts underwriting offering and (ii) beginning with the first day of the Company's first fiscal quarter next succeeding each sale of Shares after the effective date of a registration statement, which statements shall cover said 12-month periods;

The Company may require each holder of Shares as to which any registration is being effected to furnish to the Company such information regarding such Holder and the distribution of such Shares as the Company may from time to time reasonably request in writing in order to comply with the Securities Act. Each Holder of Shares as to which any registration is being effected agrees to notify the Company as promptly as practicable of any inaccuracy or change in information previously furnished by such Holder to the Company or of the happening of any event in either case as a result of which any prospectus relating to such registration contains an untrue statement of a material fact regarding such holder or the distribution of such Shares or omits to state any material fact regarding such holder or the distribution of such Shares required to be stated therein or necessary to make the statement therein not misleading in light of the circumstances then existing, and to promptly furnish to the Company any additional information required to correct and update any previously furnished information or required such that such prospectus shall not contain, with respect to such Holder or the distribution of such Shares, an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing.

Each Holder of Shares agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 3(d) hereof, or notice from the Company that revision or

correction of any of the information contained in such registration statement or prospectus is then required, such Holder will forthwith discontinue disposition of such Shares covered by such registration statement or prospectus until such Holder's receipt of the copies of the supplemented or amended prospectus relating to such registration statement or prospectus, or until it is advised in writing by the Company that the use of the applicable prospectus may be resumed, and has received copies of any additional or supplemental filings which are incorporated by reference in such Prospectus, and, if so directed by the Company, such Holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Holder's possession, of the prospectus covering the Shares current at the time of receipt of such notice.

(g) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement with terms generally satisfactory to the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

4. Furnish Information. It shall be a condition precedent to the

obligations of the Company to take any action pursuant to this Agreement, that the selling Holders shall furnish to the Company such information regarding themselves, the Shares held by them, and the intended method of disposition of such securities as shall be required to effect the registration of their Shares.

5. Expenses Of Registration. All expenses incurred in connection with any

registration pursuant to this Agreement (other than underwriter's commissions and fees or any fees of others employed by a selling Holder, including attorneys' fees), including without limitation all registration, filing and qualification fees, printers' and accounting fees, and fees and disbursements of counsel for the Company, shall be borne by the Company.

6. Underwriting Requirements. In connection with any offering involving

an underwriting of securities being issued by the Company, the Company shall not be required under Section 2 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between the Company and the underwriters selected by it, and then only in such quantity, if any, as will not, in the opinion of the underwriters, jeopardize or in any way reduce the success of the offering by the Company. If the total amount of Shares that all Holders with registration rights under Section 2 request to be included in such offering exceed the amount of such securities that the underwriters reasonably believe compatible with the success of the offering, then the Company shall be required to include in the offering only that number of Shares of the Holders that the underwriters believe will not jeopardize the success of the offering; provided that the Shares to be included in such case shall be apportioned pro rata among the Holders according to the total amount of Shares requested to be registered.

7. Indemnification. In the event any Shares are included in a

registration statement under this Agreement:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the officers and directors of each Holder, any underwriter (as defined in the Exchange Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or Securities Exchange Act of 1934, as amended ("Exchange Act") against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or any state securities law or regulation, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not

misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law; and the Company will reimburse each such Holder, officer or director, underwriter or controlling person for any legal or other expenses reasonably incurred by them in a connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this paragraph 7(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, underwriter or controlling person or his or their representative or agent.

(b) To the extent permitted by law, each selling Holder will indemnify and hold harmless the Company, each of its directors and officers, any underwriter (as defined in the Securities Act) for the Company, each person, if any, who controls the Company or any such underwriter within the meaning of the Securities Act or the Exchange Act, and any other holder selling securities in such registration statement or any of its directors or officers or any person who controls such Holder, against any losses, claims, damages, or liabilities (or actions in respect thereto) which arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder or his representative or agent expressly for use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, any person who controls the Company, any underwriter or controlling person of any such underwriter, any other such Holder, officer, director, or controlling person in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this paragraph 7(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder (which consent shall not be unreasonably withheld), and provided further that the obligations of each selling Holder hereunder shall be limited to an amount equal to the proceeds of each such selling Holder of the shares sold by such selling Holder pursuant to such registration.

(c) Promptly after receipt by an indemnified party under this Section 7 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 7, notify the indemnifying party in writing of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to notify an indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability that it may have to any indemnified party otherwise than under this Section 7.

8. Reports Under the Exchange Act. With a view to making available to the

Holders the benefits of Rule 144 promulgated under the Securities Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration form which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC, the Company agrees that it shall, for at least three (3) years from the date on which the Shares are issued pursuant to exercise of the conversion

right under the Note:

(a) Make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times;

(b) File with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(c) Furnish to any Holder, so long as the Holder owns any Shares, forthwith upon reasonable request (i) a written statement by the Company that it has complied with the reporting requirements of the Exchange Act (at any time after it has become subject to such reporting requirements), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC permitting the selling of any such securities without registration or pursuant to such form.

9. Assignment of Registration Rights. The rights to cause the Company to

register Shares pursuant to this Agreement may be assigned by a Holder to a transferee or assignee of such securities by providing the Company, within a reasonable time after such transfer, with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; provided, however, that such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Securities Act, (i) such transferee explicitly accepts all obligations of the transferor hereunder, and (ii) such transfer is of not less than 50% of the total number of the Company Shares initially issued.

10. Exceptions to Registration. Notwithstanding any other provision of

this Agreement, the Company shall not be required to register any of the Shares if and to the extent that the Holder may at such time dispose of all of such Shares pursuant to Rule 144 promulgated under the Securities Act, or pursuant to any currently effective registration statement previously filed by the Company.

11. Nominees for Beneficial Owners. In the event that any Shares are held

by a nominee for the beneficial owner thereof, the beneficial owner thereof may, at its election, be treated as the holder of such securities for purposes of any request or other action by any holder or holders of securities pursuant to this Agreement or any determination of any number or percentage of shares of securities held by any holder or holders of securities contemplated by this Agreement. If the beneficial owner of any Shares so elects, the Company may require assurances reasonably satisfactory to it of such owner's beneficial ownership of such Shares.

12. Legend. Prior to the sale of the Shares pursuant to a registration

under the Securities Act, a legend in substantially the following form will be placed on all documents or certificates evidencing the Shares:

"THE SECURITIES EVIDENCED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION. THE SECURITIES MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED."

13. Transfer of Note and/or Shares. The Purchaser hereby represents that

the Note and the Shares are being acquired solely for investment purposes, for the Purchaser's own account and not for the interest of any other Person and not with a view to the resale or distribution thereof other than pursuant to an exemption under the Securities Act and in compliance with the terms hereof.

14. GENERAL AND MISCELLANEOUS

14.1 Survival Of Warranties. The warranties, representations and

covenants of the parties contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement.

14.2 Entire Agreement. This Agreement constitutes the entire agreement

among the parties concerning registration of the Shares, and no party shall be liable or bound to any other party in any manner by any warranties, representations, guarantees or covenants except as specifically set forth in this Agreement. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

14.3 Governing Law. This Agreement shall be governed by and construed

under the internal laws of the State of California without regard to conflicts of law.

14.4 Counterparts. This Agreement may be executed in two or more

counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

14.5 Notices. Except as otherwise provided herein, all notices, demands

and requests that any party is required or elects to give to any other shall be in writing, or by a telecommunications device capable of creating a written record, and any such notice shall become effective (a) upon personal delivery thereof, including, but not limited to, delivery by overnight mail and courier service, (b) three (3) days after it shall have been mailed by United States mail, first class, certified or registered, return receipt requested, with postage prepaid, or (c) in the case of notice by such a telecommunications device, when properly transmitted, in each case addressed to the party to be notified as follows:

If to Purchaser: Stanwich Financial Services Corp.
c/o Stanwich Partners, Inc.
One Stamford Landing
62 Southfield Ave.
Stamford, CT 06902
Attention: Chief Executive Officer

If to the Company: Consumer Portfolio Services, Inc.
2 Ada
Irvine, CA 92618
Attention: Chief Executive Officer

or to such other address as each party may designate for itself by like notice.

14.6 Severability. If one or more provisions of this Agreement are held

to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first written.

CONSUMER PORTFOLIO SERVICES, INC.
a California corporation

By: _____

Its: _____

STANWICH FINANCIAL SERVICES CORP.
a Rhode Island corporation

By: _____

Its: _____

AGREEMENT TO BUILD AND LEASE

dated as of October 27, 1997

between

NIKKO CAPITAL CORP.,
a California corporation
("Owner")

and

CONSUMER PORTFOLIO SERVICES, INC.,
a California corporation
("Tenant")

regarding

Property located in

Irvine, California

AGREEMENT TO BUILD AND LEASE

This Agreement to Build and Lease (this "Agreement") is made as of October 27, 1997 by and between NIKKO CAPITAL CORP., a California corporation ("Owner") and CONSUMER PORTFOLIO SERVICES, INC., a California corporation ("Tenant").

RECITALS

I. Owner is the record owner of a certain parcel of land in the City of Irvine, County of Orange, State of California, more particularly described on Schedule 1 (the "Land").

II. Tenant desires to occupy on the Land a 115,000 square foot office building and related on and off site improvements, including structured parking (the "Improvements") as depicted on Schedule 2.

III. Owner, on the terms and subject to the conditions set forth herein, is willing to construct the Improvements on the Land and lease the Land and the Improvements (collectively the "Property") to Tenant.

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

1. DEFINITIONS: As used herein, the following terms have the following

respective meanings:

Base Improvements. That portion of the Improvements described as the

Base Improvements on Schedule 3 attached hereto.

Improvements: As described in Recital II.

Land: As described in Recital I.

Lease: The Lease of even date herewith between Owner as Lessor and

Tenant as Tenant.

Final Plans and Specifications: The plans and specification prepared

based on the Preliminary Plans and Specifications and approved by Owner and Tenant as set forth in Section 2.1.

Preliminary Plans and Specifications: The preliminary plans and

outline specifications for the Improvements prepared by the Project Architect, approved by Owner and Tenant and listed on Schedule 3.

Project Architects: Lee & Sakahara Architects or such other firm of

architects selected by Owner and approved by Tenant.

Project Contractor: Nielson Dillingham Builders or such other general

contractor selected by Owner and approved by Tenant.

Property: The Land and the Improvements

Tenant Improvements: That portion of the Improvements not included

with the Base Improvements.

Term Commencement Date: As defined in Section 2.5.

Unavoidable Delays: Delays due to strikes, acts of God, inclement

weather, governmental restrictions, enemy action, riots, civil commotion, fire,
unavoidable casualty, shortage of materials or other causes beyond the control
of Owner or the Project Contractor. Lack of funds shall not be deemed to be a
cause beyond the control of Owner.

2. DESIGN AND CONSTRUCTION OF THE IMPROVEMENTS. -----

2.1 Plans and Specifications. Owner and Tenant have approved the

Preliminary Plans and Specifications for the Improvements. Owner shall engage
the Project Architect to prepare plans and specifications for the Improvements
in conformity with the Preliminary Plans and Specifications. Tenant shall have
a period of ten (10) business days after receipt of the plans and specifications
to approve or disapprove the same. Any disapproval shall be in writing and
shall be accompanied by a detailed statement of what changes could be
incorporated in the plans and specifications to obtain Tenant's approval. Owner
shall have ten (10) days after receipt of Tenant's timely notice of disapproval
to notify Tenant whether Tenant's requested changes to the plans and
specifications will be incorporated into the design of the Improvements and, if
any requested changes will not be incorporated, the reasons therefore. Owner
shall make any changes requested by Tenant which are necessary in order to make
the Final Plans and Specifications consistent with the Preliminary Plans and
Specifications. Tenant may, within five (5) business days after receipt of
Owner's notice indicating any of Tenant's required changes will not be
incorporated, cancel this Agreement. If Tenant objects to items which were in
the Preliminary Plans and Specifications and cancels this Agreement, the cost of
preparing the Final Plans and Specifications shall be borne by Tenant. Owner
shall provide to Tenant, as and when prepared, all plans, specifications and
other materials regarding or in connection with the Improvements.

2.2 Construction of the Improvements. Owner shall, upon approval of

Final Plans and Specifications for the Improvements, engage the Project
Contractor to construct the Improvements on the Land, pursuant to two (2)
construction contracts, one for the Base Improvements and one for the Tenant
Improvements. Both construction contracts shall include construction warranties
consistent with the warranties described in the Preliminary Plans and
Specifications and otherwise reasonably satisfactory to Tenant and the
construction contract for the Tenant Improvements shall be subject to Tenant's
approval. The construction contracts, among other things, shall require the
Project Contractor to cause the Improvements to be constructed substantially in
accordance with the Final Plans and Specifications, in a good and workmanlike
manner and using only materials complying with the Plans and Specifications and,
subject to Unavoidable Delays and delays due to Change Orders, to be complete
(as set forth in section 2.4) 270 days after commencement of construction.

2.3 Payment of Costs of the Improvements. Owner shall pay all costs

relating to the construction of the Base Improvements and the cost of the Tenant Improvements up to \$2,340,000.00. All cost for Tenant Improvements in excess of \$2,340,000.00 shall be paid by Tenant with the first \$575,000.00 being deducted from the moving and discretionary improvement allowance referred to in the next sentence and the balance paid by Tenant as contracts are entered into or amended, by change order or as otherwise approved by Tenant, for such cost. In addition, on the Term Commencement Date (as defined in the Lease), Owner shall pay to Tenant \$575,000.00 (subject to reduction as provided in the preceding sentence) as an allowance for moving and discretionary improvements and if the cost of the Tenant Improvements is less than \$2,340,000.00, 50% of the amount by which the cost of the Tenant Improvements is less than \$2,340,000.00. If after the construction contract for the Tenant Improvements is entered into by Owner, there are additional costs for the Tenant Improvements solely because of a failure to properly integrate the Tenant Improvements with the Base Improvements, such additional cost shall be borne by Owner.

2.4 Completion of the Improvements. The Improvements shall be deemed

complete when (i) substantially completed in accordance with the Final Plans and Specifications (excluding items of finish and detail or not otherwise necessary for the normal use and occupancy of the Improvements for their intended purpose) and are ready for occupancy as evidenced by a certificate of substantial completion of the Project Architect and (ii) the City of Irvine has issued a Certificate of Occupancy and cleared the Property for utility services. Tenant, Project Contractor and a representative of Owner shall inspect the Improvements on a date within thirty (30) days of the date the Improvements are substantially complete specified by Owner by at least five (5) business days prior notice to Tenant for the purpose of preparing a list of items of finish and detail or not otherwise necessary for the normal use and occupancy of the Improvements for its intended purpose so these items can be completed following the date the Improvements are deemed complete as provided in this Section. Owner shall cause Contractor to complete all such items as soon as practicable following the date of the inspection but, subject to Unavoidable Delays, within ninety (90) days following the date of the inspection.

2.5 Execution and Delivery of an Amendment to Lease/Occupancy of

Improvements. Owner shall give Tenant at least thirty (30) days' prior written

notice of the anticipated date of completion of the Improvements and shall give Tenant written notice of any delays in the anticipated occupancy date for such improvements as such delays become apparent. Within thirty (30) days after completion of the Improvements, Owner and Tenant shall enter into an Amendment to the Lease in substantially the form of Exhibit A and an Amendment to Memorandum of Lease in substantially the form of Exhibit B, completed so that the Lease Term commences on the date thirty (30) days after the Improvements are complete as set forth in Section 2.4 or, if earlier, the date Tenant opens for business on the Property ("Term Commencement Date"). The Lease Term will commence on such date whether or not the Amendments are executed by Tenant.

2.6 Early Possession and Entry.

(A) After the Improvements are complete, Owner shall deliver Tenant exclusive possession of the Property for the purpose of installing trade fixtures, furniture, equipment and business records and supplies, provided that Owner shall have the right to enter the Property from time to time to inspect construction and as otherwise reasonably necessary. Tenant will be responsible for any injury to or death of persons or loss of or damage to property, including the Improvements while Tenant has possession of the Property

pursuant to this Section 2.6A following the delivery of possession of the Property to Tenant but prior to the Term Commencement Date. Tenant will protect, indemnify and hold Owner, its agents, employees, contractors or invitees harmless from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs, loss and expenses (including, without limitation, reasonable attorneys' fees and expenses), imposed upon or incurred by or asserted against Owner or, its agents, employees, contractors or invitees or the Property by reason of the occurrence or existence of any of the following unless caused by the gross negligence, willful misconduct of, Owner, its agents or employees: (a) any accident, injury to or death of persons or loss of or damage to property occurring on or about the Property or any part thereof, or (b) performance of any labor or services or the furnishing of any materials or other property in respect of the Property or any part thereof at the request of Tenant or (c) the presence, storage, use or handling of Hazardous Materials on or about the Property other than those present on the date Tenant takes possession of the Property.

(B) Prior to the delivery of possession of the Property to Tenant as contemplated in Section 2.6(A), Tenant may with the prior approval of Owner and the Project Contractor, enter the Property for the purpose of installing Tenant's equipment provided that such entry does not interfere with or delay the construction of the Improvements. In addition, Tenant and Tenant's agents may enter onto the Property as provided in Section 6.9. In connection with any such entry, Tenant will protect, indemnify and hold Owner, its agents, employees, contractors or invitees harmless from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs, loss and expenses (including, without limitation, reasonable attorneys' fees and expenses), imposed upon or incurred by or asserted against Owner or its agents, employees, contractors or invitees or the Property by reason of the occurrence or existence of any of the following unless caused by the gross negligence, willful misconduct of Owner, its agents or employees: (a) any accident, injury to or death of persons or loss of or damage to property occurring on or about the Property or any part thereof caused by Tenant, its agents, employees, contractors or invitees, or (b) performance of any labor or services or the furnishing of any materials or other property in respect of the Property or any part thereof at the request of Tenant or (c) the storage, use or handling of Hazardous Materials on or about the Property by Tenant.

(C) In case any action, suit or proceeding is brought against Owner, its agents, employees, contractors or invitees by reason of any such occurrence Owner will notify Tenant of such action, suit or proceeding, and Tenant may resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel selected by Tenant and acceptable to Owner. The obligations of Tenant under this Section 2.6 shall survive any termination of this Agreement.

2.7 Assignment of Improvements Warranties. Upon execution of the

Amendment, Owner shall assign to Tenant for the Lease Term, all warranties, guaranties and other claims obtained in connection with the construction of the Improvements, including (i) the warranties of the Project Contractor and all subcontractors, (ii) rights on claims against the Project Architect in connection with the design and construction of the Improvements and (iii) rights on claims against any other person relating to the design or construction of the Improvements. Upon termination of the Lease for any reason, all such warranties shall to the extent not being enforced by Tenant revert to the benefit of Owner.

2.8 Damages. If, within ninety (90) days, (as extended because of

Unavoidable Delays) after the date specified in Section 2.2 for completion of the Improvements, Owner fails to complete the Improvements (as specified in Section 2.4), Owner agrees to credit Tenant with one (1) day of Basic Rent under the Lease for each day

after the ninetieth (90th) day (as extended because of Unavoidable Delays) after the date specified in Section 2.2 for completion of the Improvements to the date the Improvements are so complete.

3. CHANGE ORDERS: After approval of Final Plans and Specifications for the

Improvements, Tenant may, by written request to Owner, request reasonable changes to be made to the Improvements; provided such changes do not, without the consent of Owner, change the general exterior character of the Property, reduce the gross area of the Improvements or affect the structural portions or mechanical systems. Owner shall request the Project Architect and Project Contractor (after Owner's approval if Owner's approval is required) to review the Change Order and to (i) determine the additional costs of construction, if any, caused by the Change Order and (ii) determine the time delay, if any, caused by the Change Order and (iii) to submit a written statement thereof to Owner and Tenant. Thereafter, Tenant may by written notice to Owner, elect to have any requested Change Order incorporated into the Improvements provided Tenant pays any additional cost caused by the Change Order. The time for completion of such Improvements will be extended by any time delays caused by the Change Order. The additional cost and/or time delays caused by the Change Order shall include not only the actual cost or time delay occasioned directly by implementing the Change Order, but also all costs or time delays indirectly caused by the Change Order because of scheduling differences, removal of work or modifications of work already in place and additional costs for review of the change orders by the Project Architect, the Project Contractor and any construction lender.

4. CONDITION TO OWNER'S OBLIGATION TO CONSTRUCT. Owner's obligation to

commence construction of the Improvements shall be subject the condition that Final Plans and Specifications for the Improvements shall be complete and approved by Tenant and Owner and Owner and Tenant shall have received (i) a certificate from the Project Architect stating that the Improvements, when constructed in accordance with the approved Plans and Specifications, shall comply with all applicable laws, rules and regulations of all governmental authorities applicable thereto, and (ii) a certificate from the structural engineers engaged in the design of the Improvements, as to the adequacy of the structural design of the Improvements (iii) all governmental approvals and approvals from The Irvine Company under instruments of record necessary for the construction of the Improvements in accordance with the Final Plans and Specifications.

5. CONDITION TO TENANT'S OBLIGATION. Tenant's obligation under this Agreement

and the Lease is subject to fulfillment of the following conditions:

5.1. Title. Tenant shall have received a policy of title insurance

issued at Tenant's expense by First American Title Insurance Company in a form and in an amount and subject to such exceptions as are reasonably satisfactory to Tenant (or a commitment of First American Title Insurance Company to issue such a policy). If such policy or commitment is not received by Tenant within ten (10) days from the date of this Agreement, Tenant may cancel this Agreement and the Lease by written notice to Owner given within two (2) business days after the expiration of this ten (10) day period.

5.2 Environmental. Tenant shall have thirty days after the date of

this agreement to have a Phase I environmental review done for the Property. If the environmental review concludes that there are Hazardous Materials (as defined in the Lease), Tenant may cancel this Agreement and the Lease by written notice to Owner given within this thirty (30) day period. Owner represents and warrants to Tenant (which representation and warranty will survive the commencement of the Lease) that Owner has not disposed of

any Hazardous Materials on or under the Land and to Owners knowledge, there are no Hazardous Materials on or under the Land.

5.3. Permits and Approvals. All governmental approvals and approvals

from The Irvine Company or other third parties under instruments of record in the Orange County Recorder's Office necessary for commencement of construction of the Improvements in accordance with Final Plans and Specifications shall have been issued and Owner shall have commenced construction on the Improvements on or before November 1, 1997. Tenant may elect, at its option, to cancel this Agreement and the Lease by reason of nonfulfillment of the foregoing condition by written notice to Owner given at any time after November 1, 1997 and prior to commencement of construction of the Improvements.

5.4. Completion of the Improvements. The Improvements shall be

substantially complete as provided in Section 2.4 within three hundred ten (310) days after the date specified in Section 2.2 for completion of the Improvements, Tenant may elect, at its option, to cancel this Agreement by reason of nonfulfillment of the foregoing condition by written notice to Owner given at any time thereafter and prior to substantial completion of the Improvements.

6. MISCELLANEOUS.

6.1 Notices. All notices, requests, demands and other communications

given or required to be given hereunder shall be sent as set forth in Section 39 of the Lease. Owner shall direct that Tenant be given a copy of any notice given to Owner under any of the Permitted Exceptions (as defined in the Lease) which require that notices be given to Owner as the owner of the Property.

6.2 Assignment. This Agreement shall be binding upon the parties

hereto and their respective heirs, successors or representatives and this Agreement may not be assigned by either party without the prior written consent of the other party which consent shall not be unreasonably withheld. A sale of a majority of the common stock of Tenant shall be deemed to be an assignment of the Lease. Owner agrees to consent to any assignment of the Lease in connection with the business combination; provided that: (i) the surviving entity and the consolidated group, if any, which Tenant becomes a part, has a net worth, after such business combination, at least equal to the net worth of Tenant prior to such business combination or (ii) the parent corporation in any such consolidated group guarantees the obligations of Tenant under the Lease.

6.3 Brokerage Fees. Owner and Tenant each represent and warrant to

the other that no broker, agent or finder, licensed or otherwise has been engaged by it, respectively, in connection with the transaction contemplated by this Agreement, other than Lee & Associates representing Owner and John Virtue representing Tenant, who shall be paid a commission in accordance with a separate agreement with Owner. Owner shall be solely responsible for such commission. In the event of any additional claims for broker's, agent's or finder's fee or commission in connection with the negotiation, execution or consummation of the transaction contemplated by this Agreement or of the Lease, the party upon whose alleged statement, representation or agreement such claim or liability arises shall indemnify, hold harmless and defend the other party from and against such claims, including, without limitation, any reasonable attorneys' fees and court costs.

6.4 Waiver, Modification, Etc. The waiver of any breach or condition

of any provision hereunder by Owner or Tenant shall not be deemed to be a waiver of any

preceding or subsequent breach or condition hereunder. No failure or delay of any party in the exercise of any right given hereunder shall constitute a waiver hereof nor shall any partial exercise of any right preclude the further exercise thereof.

6.5 Severability. If any paragraph, section, sentence, clause or

phrase contained in this Agreement shall become illegal, null or void against public policy, or otherwise unenforceable, for any reason, or shall be held in any court of competent jurisdiction to be illegal, null or void, against public policy, or otherwise unenforceable, the remaining paragraphs, sections, sentences, clauses or phrases contained in this Agreement shall not be affected thereby.

6.6 Time of Essence. Time is of the essence in this Agreement as to

all dates and time periods as set forth herein.

6.7 Amendment; Headings; Counterparts. This Agreement may be

changed, waived, or terminated only by an instrument in writing signed by both Owner and Tenant. The headings of this Agreement are for purposes of reference only, and shall not limit or define the meaning hereof. This Agreement may be executed in any number of counterparts, each of which is an original, but all of which constitute one instrument.

6.8 ARBITRATION OF DISPUTES. ALL DISPUTES ARISING UNDER THIS

AGREEMENT SHALL BE RESOLVED BY SUBMISSION TO BINDING ARBITRATION AT THE ORANGE COUNTY OFFICE OF JAMS/ENDISPUTE ("JAMS") IN ACCORDANCE WITH ITS RULES AND PROCEDURES REGARDING COMMERCIAL DISPUTES, EXCEPT TO THE EXTENT SUCH RULES OR PROCEDURES VARY FROM THE FOLLOWING PARAGRAPHS (A) THROUGH (H):

(A) NOTICE. THE PARTY DESIRING TO INITIATE ARBITRATION CAN DO

SO BY DELIVERING A NOTICE OF AN INTENTION TO ARBITRATE TO THE OTHER PARTY AND TO JAMS. THE NOTICE MUST CONTAIN A DESCRIPTION OF THE DISPUTE, THE AMOUNT OF MONEY INVOLVED, AND THE REMEDIES SOUGHT.

(B) ARBITRATOR. THE PARTIES SHALL ATTEMPT TO AGREE ON A RETIRED

JUDGE FROM THE JAMS PANEL TO ACT AS THE ARBITRATOR HEREUNDER. IF THE PARTIES ARE UNABLE TO AGREE, JAMS SHALL PROVIDE A LIST OF THREE AVAILABLE JUDGES TO EACH PARTY AND EACH PARTY MAY STRIKE ONE. THE REMAINING JUDGE SHALL SERVE AS THE ARBITRATOR. THE PARTIES AGREE THE ARBITRATION MUST BE INITIATED WITHIN ONE YEAR AFTER THE CLAIMED BREACH OCCURRED OR ONE YEAR AFTER THE BREACH WAS DISCOVERED OR SHOULD HAVE BEEN DISCOVERED AND THAT THE FAILURE TO INITIATE ARBITRATION WITHIN THE ONE YEAR PERIOD CONSTITUTES AN ABSOLUTE BAR TO THE INSTITUTION OF ANY ARBITRATION OR ANY JUDICIAL PROCEEDING ON ANY DISPUTE SET FORTH IN THE NOTICE OF INTENT TO ARBITRATE.

(C) PRE-HEARING CONFERENCE. ONCE AN ARBITRATOR IS ASSIGNED TO

HEAR THE MATTER, THE ARBITRATOR SHALL SCHEDULE A PRE-HEARING CONFERENCE TO REACH AGREEMENT ON PROCEDURAL MATTERS, ARRANGE FOR THE EXCHANGE OF

INFORMATION, OBTAIN STIPULATIONS, AND ATTEMPT TO NARROW THE ISSUES.

(D) DISCOVERY. IT IS THE PARTIES' OBJECTIVE TO EXPEDITE THE

ARBITRATION PROCEEDINGS BY COOPERATING IN ALL DISCOVERY AS SET FORTH IN CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1283.05 EXCEPT THAT THE LIMITATION IMPOSED BY SECTION 1283.05(e) SHALL NOT BE APPLICABLE. ALL DISCOVERY DISPUTES SHALL BE DECIDED IN THE SOLE DISCRETION OF THE ARBITRATOR.

(E) BRIEFS AND HEARING. THE PARTIES MUST FILE BRIEFS WITH THE

ARBITRATOR AT LEAST THREE DAYS BEFORE THE ARBITRATION HEARING, SPECIFYING THE FACTS EACH INTENDS TO PROVE AND ANALYZING THE APPLICABLE LAW. THE PARTIES HAVE THE RIGHT TO REPRESENTATION BY LEGAL COUNSEL THROUGHOUT THE ARBITRATION PROCEEDINGS. THE PRESENTATION OF EVIDENCE AT THE ARBITRATION HEARING SHALL BE GOVERNED BY THE CALIFORNIA EVIDENCE CODE. WITHIN REASONABLE LIMITATIONS, BOTH SIDES AT THE HEARING MAY CALL AND EXAMINE WITNESSES FOR RELEVANT TESTIMONY, INTRODUCE RELEVANT EXHIBITS OR OTHER DOCUMENTS, CROSS-EXAMINE OR IMPEACH WITNESSES WHO SHALL HAVE TESTIFIED ORALLY ON ANY MATTER RELEVANT TO THE ISSUES, AND OTHERWISE REBUT EVIDENCE, AS LONG AS THESE RIGHTS ARE EXERCISED IN AN EFFICIENT AND EXPEDITIOUS MANNER IN THE SOLE DISCRETION OF THE ARBITRATOR. ORAL EVIDENCE GIVEN AT THE ARBITRATION HEARING SHALL BE GIVEN UNDER OATH. ANY PARTY DESIRING A STENOGRAPHIC RECORD MAY SECURE A COURT REPORTER TO ATTEND THE ARBITRATION PROCEEDINGS. THE PARTY REQUESTING THE COURT REPORTER MUST NOTIFY THE OTHER PARTY AND THE ARBITRATOR OF THE ARRANGEMENT IN ADVANCE OF THE HEARING, AND MUST PAY FOR THE COST INCURRED.

(F) DECISION. THE ARBITRATOR'S DECISION SHALL BE BASED ON THE

EVIDENCE INTRODUCED AT THE HEARING, INCLUDING ALL LOGICAL AND REASONABLE INFERENCES THEREFROM. THE ARBITRATOR MAY GRANT ANY REMEDY OR RELIEF WHICH IS JUST AND EQUITABLE. THE AWARD MUST BE MADE IN WRITING AND SIGNED BY THE ARBITRATOR. IT SHALL CONTAIN A CONCISE STATEMENT OF THE REASONS IN SUPPORT OF THE DECISION. THE AWARD MUST BE MAILED PROMPTLY TO THE PARTIES, BUT NO LATER THAN THIRTY DAYS FROM THE CLOSING OF THE HEARING. THE AWARD CAN BE JUDICIALLY ENFORCED (CONFIRMED, CORRECTED OR VACATED) PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1285 ET SEQ. THE AWARD IS FINAL

-- --
AND BINDING AND THERE IS NO DIRECT APPEAL FROM THE AWARD ON THE GROUNDS OF ERROR IN THE APPLICATION OF THE LAW.

(G) COSTS. EACH PARTY TO THE ARBITRATION MUST PAY ITS OWN

WITNESS FEES. EACH PARTY MUST PAY ITS PRO-RATA SHARE OF THE ARBITRATOR'S FEES. THE ARBITRATOR MUST AWARD TO THE PREVAILING PARTY ATTORNEYS' FEES AND COSTS ACTUALLY AND REASONABLY INCURRED.

NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO ARBITRATE IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE " ARBITRATION OF DISPUTES" PROVISION TO NEUTRAL ARBITRATION.

OWNER'S INITIALS

TENANT'S INITIALS

6.9 Tenant Participation. Tenant and Tenant's agents shall be

entitled to participate in all meetings with the Project Architects or Project Contractor relating to the design and construction of the Improvements. Owner will endeavor to give Tenant at least twenty four (24) hours prior notice (which need not be in writing) of the time and place of all such meetings and will furnish Tenant with copies of any minutes of any such meeting. Tenant and Tenant's agents shall have the right to enter the Property from time to time at reasonable times to inspect the progress of the construction provided that such entry shall not delay the course of construction nor shall Tenant interfere in any fashion with the course of construction. Any entry by Tenant hereunder shall be covered by the indemnity set forth in Section 2.6(B) of this Agreement.

6.10 Standard for Consents and Approvals. Any consent or approval to

be given by Owner or Tenant shall not be unreasonably withheld or delayed, and if withheld, shall be in writing and be accompanied by a written explanation of the reasons such consent or approval was withheld.

6.11 Termination. In the event this Agreement and the Lease are

terminated, Tenant hereby agrees to execute, acknowledge and deliver to Owner all documents as Owner may reasonably deem necessary to evidence any such termination including, but not limited to, such instrument or instruments satisfactory to Lessor as may be necessary to eliminate the effect of the Memorandum of Lease referred to in Section 40 of the Lease and to indemnify Owner from all loss, cost or expense caused by Tenant's failure to execute, acknowledge and deliver any such instrument including, but not limited to (i) reasonable attorneys' fees arising as a result of such failure and all cost of prosecuting any action or actions to expunge or remove the effect of such Memorandum of record and (ii) all consequential damages or loss resulting from such Memorandum being of record such as lost profits or opportunities as a result of the slander of title arising out of such failure.

6.12 Exhibits. All exhibits and schedules referenced herein are

attached hereto and hereby made a part of this Agreement by reference.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year first above written.

OWNER

NIKKO CAPITAL CORP.,
a California corporation

By:

Toshiaki Ueno, President

TENANT

CONSUMER PORTFOLIO SERVICES, INC., a California
corporation

By:

Its:

EXHIBIT A

AMENDMENT TO LEASE

This amendment is made as of _____, 1998 by and between NIKKO CAPITAL CORP., a California corporation ("Lessor") and CONSUMER PORTFOLIO SERVICES, INC., a California corporation ("Tenant") to the Lease dated October 27, 1997 between Lessor and Tenant of the Property at _____, Irvine, California as follow:

1. The Term Commencement Date as referred to in Section 1 of the Lease shall be _____, 1998.
2. As hereby amended, the Lease is and shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date and year first above written.

TENANT

CONSUMER PORTFOLIO SERVICES, INC.,
a California corporation

By: _____

Its: _____

By: _____

Its: _____

LESSOR

NIKKO CAPITAL CORP.,
a California corporation

By: _____

Toshiaki Ueno,
President

EXHIBIT B

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

Nikko Capital Corp.
3961 MacArthur Boulevard, Suite 105
Newport Beach, CA 92660

=====

AMENDMENT TO MEMORANDUM OF LEASE

THIS AMENDMENT TO MEMORANDUM OF LEASE is made as of the _____ day of _____, 199__ by and between Nikko Capital Corp., a California corporation (hereinafter "Landlord"), and Consumer Portfolio Services, Inc., a California corporation (hereinafter "Tenant"), in order to amend that certain Memorandum of Lease between Landlord and Tenant dated _____, 1997 ("Memorandum of Lease") recorded with the Office of the Recorder of Orange County, California on _____, 199__ as Instrument No. _____.

The term of the lease referred to in the Memorandum of Lease commences on _____, 199__.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment to Memorandum of Lease as of the day and year first written above.

LANDLORD:

Nikko Capital Corp., a California corporation

By: _____
Its: _____

TENANT:

Consumer Portfolio Services, Inc.,
a California corporation

By: _____
Its: _____

STATE OF CALIFORNIA)
) SS:
COUNTY OF _____)

On _____, before me, _____, a Notary
Public in and for said State, personally appeared
_____, personally known to me (or proved to
me on the basis of satisfactory evidence) to be the person(s) whose name(s)
is/are subscribed to the within instrument and acknowledged to me that
he/she/they executed the same in his/her/their authorized capacity(ies), and
that by his/her/their signature(s) on the instrument the person(s), or the
entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

(SEAL)

STATE OF CALIFORNIA)
) SS:
COUNTY OF _____)

On _____, before me, _____, a Notary
Public in and for said State, personally appeared
_____, personally known to me (or proved to
me on the basis of satisfactory evidence) to be the person(s) whose name(s)
is/are subscribed to the within instrument and acknowledged to me that
he/she/they executed the same in his/her/their authorized capacity(ies), and
that by his/her/their signature(s) on the instrument the person(s), or the
entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

(SEAL)

Schedule 1

LEGAL DESCRIPTION

ALL THAT REAL PROPERTY IN THE CITY OF IRVINE, COUNTY OF ORANGE, STATE OF CALIFORNIA MORE PARTICULARLY DESCRIBED AS FOLLOWS:

PARCEL 1:

Parcel 1 of Parcel Map No. 89-343 in the City of Irvine, County of Orange, State of California, as per map filed April 30, 1990 in Book 251, Page(s) 4 through 7 inclusive of Parcel Maps, in the office of the County Recorder of said County.

EXCEPTING THEREFROM all oil, oil rights, minerals, mineral rights, natural gas rights and other hydrocarbons by whatsoever name known that may be within or under the parcel of land hereinabove described, together with the perpetual right of drilling, mining, exploring and operating therefor, and storing in and removing the same from said land or any other land, including the right to whipstock or directionally drill and mine from land other than those hereinabove described, oil or gas wells, tunnels and shafts into, through or across the subsurface of the land hereinabove described, and to bottom such whipstocked or directionally drilled wells, tunnels and shafts under and beneath or beyond the exterior limits thereof, and to redrill, retunnel, equip, maintain, repair, deepen and operate any such wells or mines, without, however, the right to drill, mine, store, explore and operate through the surface or the upper 500 feet of the subsurface of the land hereinabove described.

PARCEL 2:

An appurtenant non-exclusive easement for common driveway, drainage and utility purposes, as described in the "Declaration Creating and Reserving Common Driveway Easements" recorded May 9, 1990 as Instrument No. 90-243479 of Official Records of said County, over the North 29.00 feet of Parcel 2, in the City of Irvine, County of Orange, State of California, as per map filed in Book 251, Pages 4 through 7 inclusive of Parcel Maps, in the office of the County Recorder of said County.

EXCEPT THEREFROM that portion lying within the easement for road purposes to the City of Irvine per Deed recorded December 1, 1988 as Instrument No. 88-625562 of official Records.

SCHEDULE 2
SITE PLAN
and
BUILDING LAYOUT
15

SCHEDULE 3

Description of the Improvements

and

List of Plans and Specifications

Description of Base Improvements

Description of Tenant Improvements

LEASE

dated as of October 27, 1997

between

NIKKO CAPITAL CORP.,
a California corporation
("Lessor")

and

CONSUMER PORTFOLIO SERVICES, INC.,
a California corporation
("Tenant")

regarding

Property located in
Irvine, California

LEASE

THIS LEASE, dated as of October 27, 1997 between NIKKO CAPITAL CORP., a California corporation ("Lessor"), having a place of business at 3961 MacArthur Boulevard, Newport Beach, California 92660, and CONSUMER PORTFOLIO SERVICES, INC., a California corporation ("Tenant"), having a place of business at 2 Ada, Irvine, California 92618.

1. PROPERTY: LEASE TERM.

Upon and subject to the conditions and limitations set forth below, Lessor leases to Tenant, and Tenant rents from Lessor, the following property (the "Property", which term and certain other capitalized terms are defined in Section 36).

1.1 All of the land described in Schedule 1 attached hereto and by this reference made a part hereof (the "Land").

1.2 All buildings, structures and other improvements now or hereafter constructed or maintained on the Land (the "Improvements").

1.3 All rights-of-way or of use, servitudes, licenses, tenements, hereditaments, appurtenances and easements now or hereafter belonging or pertaining to any of the foregoing subject to the Permitted Exceptions as at the time are in effect and applicable to any of the foregoing.

TO HAVE AND TO HOLD for a term (the "Lease Term") commencing on a date specified by Lessor and Tenant in an amendment to this Lease (the "Term Commencement Date"), and expiring ten (10) years thereafter, or the date, if any, to which the Lease Term has been extended pursuant to Section 4, unless the Lease Term shall sooner terminate as hereinafter provided. (Neither Lessor or Tenant will have any obligations hereunder unless and until the Lease Term commences) That portion of the Lease Term expiring ten (10) years after the Term Commencement Date is hereinafter referred to as the "Fixed Term".

2. BASIC RENT, ETC.

2.1 Basic Rent. Tenant will pay to Lessor as net minimal annual rent ("Basic Rent") during the Fixed Term commencing on the Term Commencement Date the sum of ONE MILLION NINE HUNDRED FOUR THOUSAND FOUR HUNDRED and 00/100ths DOLLARS (\$1,904,400.00) for the first five years of the Lease Term and TWO MILLION AND NINETY SEVENTY THOUSAND SIX HUNDRED and 00/100ths DOLLARS (\$2,097,600.00) for the second five (5) years of the Lease Term. Basic Rent shall be payable in advance in twelve (12) equal installments on the first (1st) day of each calendar month commencing on the Term Commencement Date. Each date on which rent is payable hereunder is called a "Rent Payment Date." If the Term Commencement Date is other than the first day of a calendar month, Basic Rent for the first month in which Basic Rent is payable and the last month of the Lease Term and for the month in which an adjustment occurs shall be in appropriate prorated amounts.

2.2 Basic Rent Net; Manner of Payment. Basic Rent and all other sums

payable to Lessor hereunder shall be paid in such coin or currency (or, subject to collection, by good check payable in such coin or currency) of the United States of America as at the time shall be legal tender for the payment of public and private debts, at the office of Lessor located at 3961 MacArthur Boulevard, Suite 105, Newport Beach, California 92660, or at such place and to such Person as Lessor from time to time may designate. Basic Rent shall be absolutely net to Lessor so that this Lease shall yield to Lessor the full amount of the installments of Basic Rent throughout the Lease Term without deduction.

3. ADDITIONAL RENT.

Tenant will also pay from time to time as provided in this Lease as additional rent ("Additional Rent"): (a) all other amounts and obligations which Tenant herein assumes or agrees to pay, provided that, if under the terms and conditions set forth in this Lease, Tenant is to satisfy such obligation to one other than Lessor, Lessor shall have no claim to said amount as Additional Rent unless Lessor, to protect its rights, shall have satisfied such obligation and demanded reimbursement from Tenant; (b) interest at the Default Rate on such of the foregoing amounts and obligations as are payable to Lessor and are not paid on the due date (or, if a demand therefor is required by the terms of this Lease, then within ten (10) days after the date of such demand), from the due date or the date of such demand, as the case may be, until payment thereof; (c) interest at the Default Rate on all installments of Basic Rent not paid on the due date, from the due date thereof until payment; and (d) a late charge in an amount equal to five percent (5%) of any installment of Basic Rent not paid within ten (10) days after the due date. In the event of any failure on the part of Tenant to pay any Additional Rent, Lessor shall have all rights, powers and remedies provided for in this Lease or at law or in equity or otherwise in the case of non-payment of Basic Rent.

4. RENEWAL TERM.

4.1 Renewal Periods. Upon Tenant's written notice to Lessor at least six

(6) but not more than twelve (12) months prior to the expiration of the then current term, the Lease Term may be extended beyond the Fixed Term by two (2) successive periods of five (5) years each, provided that no Event of Default has occurred and is continuing, as of the date of the exercise of the option and as of the commencement of the Renewal Term.

4.2 Terms of Renewal. The term during which this Lease shall have been

extended ("Renewal Term") shall be upon the terms and conditions as are contained herein for the Fixed Term, except that during each Renewal Term Tenant will pay to Lessor as Basic Rent an annual amount equal to the fair rental value of the Property (determined under the provisions of Section 38.1) as of the commencement of such Renewal Term but not less than the Basic Rent payable the end of the then current term. If the amount of Basic Rent for the Renewal Term is not known on the commencement of such Renewal Term, Tenant shall pay the Basic Rent in effect for the immediately preceding year of the Lease Term and when Basic Rent for such Renewal Term is

determined, Tenant shall pay to Lessor any amounts owed to Lessor for periods prior to such determination within thirty (30) days following such determination.

5. NO COUNTERCLAIM, ABATEMENT, ETC.

Basic Rent, Additional Rent and all other sums payable by Tenant hereunder shall be paid without notice, demand, counterclaim, setoff, deduction or defense, and without abatement, suspension, deferment, diminution or reduction, and the obligations and liabilities of Tenant hereunder shall in no way be released, discharged or otherwise affected for any reason (except as expressly provided herein). Except as expressly provided herein, Tenant waives all rights now or hereafter conferred by statute or otherwise to quit, terminate or surrender this Lease or the Property or any part thereof, or to any abatement, suspension, deferment, diminution or reduction of Basic Rent, Additional Rent or any other sums payable by Tenant hereunder.

6. USE OF PROPERTY.

Tenant shall use the Property for general office use and other incidental uses reasonably related thereto. Tenant will not do or permit any act or thing which is contrary to any Legal Requirement or Insurance Requirement, or which constitutes a public or private nuisance or waste.

7. MAINTENANCE AND REPAIRS.

Tenant at its expense will (i) keep the Property in good and clean order and condition, (ii) promptly make or cause others to make all necessary or appropriate repairs, replacements or renewals to the Property, whether interior or exterior, ordinary or extraordinary, foreseen or unforeseen, (iii) keep in effect all service and warranties on all the mechanical systems by complying with the service contracts or warranty agreement applicable thereto and (iv) cause the Property (including the roof, mechanical system and landscaped areas) to be inspected annually by appropriately qualified persons selected by Tenant and satisfactory to Lessor and do or cause to be done any preventive maintenance recommended as a result of each inspection. All repairs, replacements and renewals shall be substantially equal in quality and class to the original work. Tenant shall furnish Lessor with a written inspection reports within ten (10) day after completion of each inspection and with evidence that any recommended preventive maintenance work has been satisfactorily completed within ten (10) days after completion. Tenant waives any rights created by any law now or hereafter in force to make repairs to the Property at Lessor's expense. Tenant, at its expense, will do or cause others to do every act necessary or appropriate for the preservation and safety of the Property by reason of or in connection with any other building operation upon the Property.

8. ALTERATIONS AND ADDITIONS.

If not at the time in Default under this Lease, Tenant at its expense may make reasonable alterations of and additions to the Property or any part thereof provided that any alteration or

addition (a) shall not without the prior written consent of Lessor, (i) change the general exterior character of the Property or reduce the gross area of the Improvements, (ii) affect the structural portions or mechanical systems (excluding distribution systems within the Improvements) of the Improvements, (iii) exceed for any specific alteration or addition \$25,000 in cost, or (iv) would require Lessor to install capital improvements to comply with any Legal Requirements, (b) is effected with due diligence, in good and workmanlike manner and in compliance with all Legal Requirements, Insurance Requirements and the Permitted Exceptions, and (c) is promptly and fully paid for by Tenant. Within thirty (30) days after completion of any alteration or additions, Tenant shall furnish Lessor drawings showing any alterations or additions. Tenant shall not be obligated to remove such alterations or additions or restore the Property, except to the extent necessary to surrender the Property to Lessor at the expiration or earlier termination of the Lease Term in the condition specified in Section 34.

9. IMPOSITIONS.

Subject to Section 12 relating to contests, Tenant will pay all Impositions before any interest, penalty, fine or cost may be added for non-payment, and will furnish to Lessor for inspection within thirty (30) days after written request, official receipts of the appropriate taxing authority or other proof satisfactory to Lessor evidencing such payment. Any Imposition relating to the fiscal period of the taxing authority, part of which is included within the Lease Term and a part of which is before the Term Commencement Date or extends beyond the Lease Term shall be apportioned between Lessor and Tenant as of the Term Commencement Date or the expiration of the Lease Term, as the case may be.

10. COMPLIANCE WITH REQUIREMENTS, ETC.

Subject to Section 12 relating to contests, Tenant at its expense (except as provided below) will promptly and diligently (a) comply with all Legal Requirements and Insurance Requirements, (b) procure, maintain and comply with all permits, licenses, franchises and other authorizations required for any use of the Property or any part thereof then being made, and (c) comply with any Permitted Exceptions of record and at the time in force affecting the Property or any part thereof and pay all amounts charged with respect to the Property or any part thereof under any such Permitted Exceptions. In the event any capital improvements are required to be made to the Property as a result of the application of any Legal Requirements and the useful life of the capital improvements exceeds the remainder of the Lease Term, Tenant will give Lessor prompt written notice thereof. If the Property cannot continue as a non-conforming use without such capital improvements, provided no Event of Default has occurred and is continuing and provided, further, that such capital improvements are not required due to the unique use of the Property by Tenant as opposed to general office use, Lessor will pay to Tenant on the expiration or earlier termination of the Lease Term that portion of the reasonable cost of the required capital improvements approved by Lessor not amortized on a straight line basis over the remainder of the Lease Term.

11. DISCHARGE OF LIENS.

Tenant will not directly or indirectly create or permit to be created or to remain, and will discharge any mortgage, lien, security interest, encumbrance or charge on, pledge of or conditional sale or other title retention agreement with respect to the Property or any part thereof, or with respect to Basic Rent, Additional Rent or any other sums payable under this Lease, other than (a) this Lease; (b) liens for Impositions not yet payable, or payable without the addition of any fine, penalty, interest or cost for non-payment, or being contested as permitted by Section 12; (c) liens of mechanics, materialmen, suppliers or vendors, or rights thereto, incurred in the ordinary course of business for sums which under the terms of the related contracts are not at the time due, provided that adequate provision for the payment thereof shall have been made; and (d) the lien of a mortgage or deed of trust placed on the Property by Lessor or otherwise arising solely from the conduct of Lessor.

12. PERMITTED CONTESTS.

Tenant at its expense may contest, by appropriate legal proceedings conducted in good faith and with due diligence, the amount or validity or application, in whole or in part, of any Imposition or any Legal Requirement or the application of any instrument of record referred to in Section 10, or the validity of any lien referred to in Section 11, provided that (a) Tenant shall first make all contested payments, under protest if it desires, unless such proceedings shall suspend the collection thereof from Lessor, or from Basic Rent, Additional Rent and any other sums payable under this Lease or from the Property; (b) neither the Property nor any part thereof or interest therein nor any such rents or other sums would be in any danger of being sold, forfeited, lost or interfered with; (c) in the case of a Legal Requirement, Lessor would not be in any danger of any civil or any criminal liability for failure to comply therewith and the Property would not be subject to the imposition of any lien as a result of such failure; and (d) Tenant shall have furnished such security, if any, as may be required in the proceedings or reasonably requested by Lessor. Lessor agrees to cooperate in good faith and with due diligence with Tenant to the extent necessary to permit Tenant to make any such contest, provided that Lessor shall not be obligated to incur any costs or liabilities in connection with such cooperation.

13. NO CLAIMS AGAINST LESSOR, ETC.

Nothing contained in this Lease shall constitute any consent or request by Lessor, express or implied, for the performance of any labor or services or the furnishing of any materials or other property in respect of the Property or any part thereof, or, except as expressly permitted in this Lease, as giving Tenant any right, power or authority to contract for or permit the performance of any labor or services or the furnishing of any materials or other property in such fashion as would permit the making of any claim against Lessor or its interest in the Property.

14. INDEMNIFICATION.

14.1 Indemnification By Tenant. Tenant will protect, indemnify and hold

Lessor, its agents, employees, contractors or invitees harmless from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs, loss and expenses (including, without limitation, reasonable attorneys' fees and expenses), imposed upon or incurred by or asserted against Lessor, its agents, employees, contractors or invitees or the Property by reason of the occurrence or existence of any of the following unless caused by the gross negligence, willful misconduct of, or breach of this lease by, Lessor, its agents or employees: (a) any accident, injury to or death of persons or loss of or damage to property occurring on or about the Property or any part thereof, (b) any failure on the part of Tenant to perform or comply with any of the terms of this Lease, or (c) performance of any labor or services or the furnishing of any materials or other property in respect of the Property or any part thereof at the request of Tenant or (d) the presence, storage, use or handling of Hazardous Materials on or about the Property other than those present on the Term Commencement Date. In case any action, suit or proceeding is brought against Lessor, its agents, employees, contractors or invitees by reason of any such occurrence Lessor will notify Tenant of such action, suit or proceeding, and Tenant may resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel selected by Tenant and acceptable to Lessor. The obligations of Tenant under this Section shall survive any termination of this Lease.

14.2 Indemnification By Lessor. Lessor will protect, indemnify and hold

Tenant, its agents, employees, contractors or invitees harmless from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs, loss and expenses (including, without limitation, reasonable attorneys' fees and expenses), imposed upon or incurred by or asserted against Tenant, its agents, employees, contractors or invitees by reason of the occurrence or existence of any accident, injury to or death of persons or loss of or damage to property occurring on or about the Property or any part thereof caused solely by Lessor, its agents or employees, while on the Property unless caused by the gross negligence, willful misconduct of, or breach of this Lease by Tenant, its agents or employees. In case any action, suit or proceeding is brought against Tenant, its agents, employees, contractors or invitees by reason of any such occurrence, Tenant will notify Lessor of such action, suit or proceeding, and Lessor may resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel selected by Lessor and acceptable to Tenant. The obligations of Lessor under this Section shall survive any termination of this Lease.

15. UTILITY SERVICES.

Tenant will pay or cause to be paid all charges for all public or private utility services and all sprinkler systems and protective services at any time rendered to or in connection with the Property or any part thereof and will do all other things required for the maintenance and continuance of all such services. In the event (i) utility services for water, electricity and sanitary sewer cease to be available through no fault of Tenant (ii) substitute services reasonably

acceptable to Tenant are not available and (iii) the unavailability of such utility services continues unabated for a period of two (2) years after Tenant gives written notice of such unavailability to Lessor and has a material adverse effect on Tenant's use of the Property in the ordinary course of its business, Tenant may cancel this Lease by giving at least ninety (90) days prior written notice to Lessor.

16. QUIET ENJOYMENT.

Lessor covenants that Tenant, upon paying the Basic Rent, Additional Rent and all other charges herein provided for and upon performing and complying with all covenants, agreements, terms and conditions of this Lease on its part to be performed or complied with, shall not be disturbed by Lessor, its employees or agents or any Person claiming through Lessor in its peaceful and unmolested possession of the Property subject to Permitted Exceptions.

17. TENANT'S EQUIPMENT.

All Tenant's Equipment shall be the property of Tenant, provided that any of Tenant's Equipment not removed by Tenant at its expense within thirty (30) days after any repossession of the Property upon expiration or earlier termination of the Lease Term shall be considered abandoned by Tenant and may be appropriated, sold, destroyed or otherwise disposed of by Lessor without notice to Tenant and without obligation to account therefor; and Tenant will pay Lessor, upon demand, all costs and expenses incurred by Lessor in removing, storing or disposing of any of Tenant's Equipment. Tenant will immediately repair at its expense all damage to the Property caused by any removal of Tenant's Equipment therefrom, whether effected by Tenant or any other Person (except if caused by the gross negligence of Lessor in removing Tenant's Equipment). Lessor shall not be responsible for any loss of or damage to Tenant's Equipment.

18. INSURANCE.

18.1 Risks to be Insured. Tenant at its expense will maintain with

insurers licensed to do business in the State of California and approved by Lessor: (a) insurance with respect to the Improvements against loss or damage (including rental interruption insurance in an amount equal to Basic Rent and Additional Rent for a period of not less than twelve (12) months or such longer period as may be reasonably required by any mortgagee of Lessor's interest on the Property) by fire, lightning, windstorm, commotion, aircraft, vehicles, smoke and other risks from time to time included under "all risk" policies and flood damage, and earthquake damage in an amount equal to at least one hundred percent (100%) of the full replacement cost (or such lesser amount as Lessor may approve in writing), and in any event in an amount sufficient to prevent Lessor or Tenant from becoming a co-insurer of any partial loss under the applicable policies; (b) public liability and property damage insurance applicable to the Property in minimum amounts comparable to the amounts normally required to be carried by Institutional Investors as lenders or lessors of similar building in the area of the Land (which amounts as of the date hereof are

\$5,000,000 per person, and \$5,000,000 per accident and \$1,000,000 in the case of property damage); (c) explosion and boiler and machinery catastrophe breakdown insurance in respect of any steam and pressure boilers or similar apparatus located on the Property in amounts approved by Lessor; (d) appropriate workers' compensation or other insurance against liability arising from claims of worker employed by Tenant with respect to and during the period of any work on or about the Property; and (e) such other insurance normally required to be carried by Institutional Investors as lessors or lenders on similar buildings in the area of the Land as Lessor may require Tenant to maintain.

18.2 Policy Provisions. All insurance maintained by Tenant pursuant to

Section 18.1 shall: (a) except for workers' compensation insurance, name Lessor and any lender on the Property, their respective agents, employees, contractors, invitees and Tenant as insureds, as their respective interests may appear, and shall include an effective waiver by the issuer of all rights of subrogation against any named insured or such insured's interest in the Property or any income derived therefrom; (b) Provide that all insurance proceeds for losses of less than \$25,000 shall be adjusted by Tenant and all insurance proceeds for losses of such amount or more, (except for public liability and property damage and workers' compensation insurance which shall be adjusted by Tenant) shall be adjusted by Lessor and Tenant jointly; (c) provide that, except in the case of public liability and property damage and workers' compensation insurance (or liability insurance obtained in lieu of workers' compensation insurance), insurance proceeds with respect to the Improvements shall be payable to the Depository for the benefit of Lessor and Tenant, as their respective interests may appear, (provided, however, in all cases insurance proceeds with respect to Tenant's Equipment shall be payable to Tenant alone); (d) provide that any losses shall be payable notwithstanding any act or failure to act or negligence of Lessor or Tenant or any other Person; and (e) provide that no cancellation, reduction in amount or material change in coverage thereof shall be effective until at least thirty (30) days after mailing of written notice thereof to Lessor.

18.3 Delivery of Policies. On the Term Commencement Date and thereafter

not less than ten (10) days prior to the expiration date of any policy delivered pursuant to this Section 18, Tenant will deliver to Lessor the original of any policy or renewal policy, as the case may be, required by this Lease, bearing notations evidencing the payment of premiums, except that, in lieu of any such policy, Tenant may deliver a certificate of the insurer, satisfactory to Lessor in substance and in form, as to the issuance and effectiveness of such policy and the amount of coverage afforded thereby, accompanied by a copy of such policy.

18.4 Depository. The Depository shall be the mortgagee of Lessor's

interest in the Property, provided such mortgagee is an Institutional Investor, or, a bank or trust company appointed by Tenant and approved by Lessor which has its principal place of business in California having a combined capital, surplus and undivided profits (according to its most recent published statement) of at least \$50,000,000. The Depository shall be entitled to rely upon any certificate believed by it to be genuine and to have been signed by the proper party as conclusive evidence of any fact or as to any matter therein set forth. Such certificate shall be full warrant,

authority and protection to the Depository in acting thereon. The fees and expenses of the Depository shall be paid by Tenant.

19. DAMAGE TO OR DESTRUCTION OF PROPERTY

19.1 Tenant to Give Notice. In case of any material damage to or

destruction of the Property or any part thereof, Tenant will promptly give written notice thereof to Lessor generally describing the nature and extent of such damage or destruction.

19.2 Restoration. Except as provided in Section 19.5 below, in case of

any damage to or destruction of the Property or any part thereof, Tenant, whether or not the insurance proceeds, if any, on account of such damage or destruction shall be sufficient for the purpose, at its expense, upon compliance with the provisions of Section 8(b) and (c) shall promptly commence and (subject to Unavoidable Delays) complete the restoration, replacement or rebuilding of the Property as nearly as possible to its condition and character immediately prior to such damage or destruction, with such alterations and additions as may be made at Tenant's election pursuant to Section 8 (such restoration, replacement, repairing, alterations and additions, together with any temporary repairs and property protection pending completion of the work, being herein called "Restoration").

19.3 Application of Insurance Proceeds. Insurance proceeds, if any,

received by the Depository on account of any damage to or destruction of the Property or any part thereof shall be applied as follows:

(a) Net insurance proceeds received on account of any damage to or destruction of the Property or any part thereof shall, unless Tenant is in Default hereunder, be paid to Tenant or as Tenant may direct, from time to time as Restoration progresses, to pay (or, if Tenant has paid such cost, to reimburse Tenant for) the cost of Restoration, upon written bequest of Tenant accompanied by a certificate of an independent architect or engineer reasonably satisfactory to Lessor to the effect that the amount requested has been paid or is then due and payable and is properly a part of such cost, and that the balance of said proceeds after making the payment requested will be sufficient to pay the balance of the cost of Restoration. Upon receipt by Lessor of evidence that Restoration has been completed and the cost thereof paid in full, and that there are no mechanics' or similar liens for labor or materials supplied in connection therewith, the balance, if any, of such proceeds shall be paid to Tenant or as Tenant may direct;

(b) Any insurance proceeds with respect to the Improvements held by the Depository on any termination of the Lease Term and not required to be paid to Tenant pursuant to this Section 19.3 shall be paid to and retained by Lessor.

19.4 Abatement of Rent. Payment of Basic Rent shall be abated following

any damage or destruction only for the period and to the extent of proceeds of the rental interruption

insurance required under Section 18.1.

19.5 Limitation on Tenant's Obligations. If the Property or any part

thereof is damaged or destroyed as a result of an event which was not covered by insurance required to be carried by Tenant under the provisions of Section 18.1, Restoration by Tenant shall not be required if (i) the damage or destruction was not caused in whole or in part by Tenant, (ii) the cost of Restoration exceeds more than 5% of the replacement value of the Improvements (determined under the provisions of Section 38) if such damage or destruction occurs during the last year of the Lease Term, which percentage shall increase by five percent (5%) for each additional year remaining in the Lease Term when such damage or destruction occurs to a maximum of twenty percent (20%), and (iii) no Event of Default has occurred and is continuing under this Lease. If Restoration is not required by Tenant as provided above, Tenant may terminate this Lease as of a date specified by Tenant by at least ninety (90) days prior written notice to Lessor; provided, however, that Lessor may, within sixty (60) days after such notice, elect to pay the cost of Restoration in excess of the percentage specified above, in which case this Lease will remain in full force and effect, and Restoration by Tenant will be required so long as Lessor deposits with Depository Lessor's share of the costs of Restoration.

20. TAKING.

20.1 Tenant Notice, Etc. In case of a Taking of all or any part of the

Property, or the commencement of any proceedings or negotiations which might result in such Taking, Tenant will promptly give written notice thereof to Lessor generally describing the nature and extent of such Taking or the nature of such proceedings and negotiations and the nature and extent of the Taking which might result therefrom, as the case may be. Lessor and Tenant may each file and prosecute their respective claims for an award, but all awards and other payments on account of a Taking shall be paid to the Depository (provided however, any separate award for Tenant's Equipment shall be payable to Tenant alone).

20.2 Total Taking. In case of a Taking of the fee of the entire Property,

this Lease shall terminate as of the date of such Taking. In case of a Taking of (a) such perpetual easement on the entire Property, or (b) such a substantial part of the Property as shall result in the Property remaining after such Taking (even if Restoration were made) being unsuitable for Tenant's use of the Property as determined in good faith by the Board of Directors of Tenant and evidenced by a certificate delivered to Lessor prior to such Taking), Tenant may, at its option, terminate this Lease by written notice to Lessor given prior to such Taking, as of either the date of such Taking or a date specified in such notice within ninety (90) days after such Taking and the Lease shall continue in effect after said Taking to the date specified in such notice. Any Taking of the Property of the character referred to in this section 20.2 is referred to as a "Total Taking".

20.3 Partial Taking. In case of a Taking of Property other than a Total

Taking (a) this Lease shall remain in full force and effect as to the portion of the Property remaining immediately after such Taking, without any abatement or reduction of Basic Rent, Additional

Rent or any other sum payable hereunder, except as provided in Section 20.5; and (b) Tenant, whether or not the awards or payments, if any, on account of such Taking shall be sufficient for the purpose, at its expense, will promptly commence and complete, subject to Unavoidable Delays, Restoration of the Property as nearly as possible to its condition and character immediately prior to such Taking, except for any reduction in area caused thereby. In the event (i) the cost required to be paid by Tenant for the Restoration exceeds more than 5% of the replacement value of the Improvements (determined under the provisions of Section 38) if such Taking occurs during the last year of the Lease Term, which percentage shall increase by five percent (5%) for each additional year remaining in the Lease Term when such Taking occurs to a maximum of twenty percent (20%), and (ii) no Event of Default has occurred and is continuing under this Lease, Tenant shall not be required to carry out the Restoration. If Restoration is not required by Tenant as provided above, Tenant may terminate this Lease as of a date at specified by Tenant by at least ninety (90) days prior written notice, provided, however, that Lessor may, within sixty (60) days after such notice, elect to pay the cost of Restoration otherwise payable by Tenant which is in excess of the percentage specified above, in which case this Lease will remain in full force and effect, and Restoration by Tenant will be required so long as Lessor deposits with Depository Lessor's share of the costs of Restoration. In case of a Taking for temporary use, Tenant shall not be required to effect Restoration until such Taking is terminated.

20.4 Application of Awards and Other Payments. Awards and other payments

on account of a Taking (less costs, fees and expenses incurred by the Lessor and Tenant in the collection thereof) ("net awards and payments") shall be applied as follows:

(a) Net awards and payment received on account of a Taking other than a Total Taking or Taking for temporary use shall be held and applied to pay the cost of Restoration of the Property; and if such funds are paid to the Depository under the provisions of Section 20.1, such application shall be made substantially as provided in Section 19.3(a), with respect to insurance proceeds. The balance, if any, of such awards and payments with respect to the Property shall be paid to Lessor.

(b) Net awards and payments received on account of a Taking for temporary use shall be held and applied to the payment of Basic Rent and Additional Rent becoming due hereunder, until such Taking for temporary use is terminated and Restoration, if any, has been completed, provided that, if any portion of any such award or payment is made by reason of any damage to or destruction of the Property, such portion shall be held and applied as provided in the first sentence of Section 20.4(a). The balance, if any, of such awards and payments with respect to the Property shall be paid to Lessor.

(c) Net awards and payments received on account of a Total Taking paid First: to Lessor, an amount equal to the fair market value of Lessor's interest in the Property subject to this Lease determined as of the date of such Taking as provided in Section 38 but in no event less than \$20,000,000.00 (less any amounts received by Lessor pursuant

to the last sentence of Section 20.4(a)); Second: to Tenant an amount equal to the fair market value of Tenant's interest under this Lease determined as of the date of such Taking as provided in Section 38 and Third: the balance, if any, to Lessor.

20.5 Reduction of Basic Rent. In the event of a Taking other than a Total

Taking or Taking for temporary use, each monthly installment of Basic Rent commencing with the first Rent Payment Date following the date of such Taking shall be reduced by an amount computed by multiplying such monthly installment in effect prior to such date by a fraction the numerator of which is the amount received by Lessor on account of such Taking and the denominator of which is fair market value of the Property immediately prior to such Taking (determined under the provisions of Section 38).

21. ASSIGNMENTS AND SUBLETTING.

Tenant may not, without the prior written consent of Lessor which consent shall not be unreasonably withheld or delayed, (a) assign, hypothecate, or encumber all or any portion of its interest under this Lease to any other Person or (b) sublease all or any portion of the Property. Any such sublease, and the right of the subtenant thereunder, shall be subject to the provisions of this Lease. No assignment, hypothecation, encumbrance or sublease by Tenant shall relieve Tenant of any of its obligations hereunder or reduce, diminish or impair such obligations. A sale of a majority of the common stock of Tenant shall be deemed to be an assignment of the Lease. Owner agrees to consent to any assignment of the Lease (a) in connection with the business combination; provided that: (i) the surviving entity and the consolidated group, if any, which Tenant becomes a part, has a net worth, after such business combination, at least equal to the net worth of Tenant prior to such business combination or (ii) the parent entity in any such consolidated group guarantees the obligations of Tenant under this Lease or (b) to any entity controlling, controlled by or under common control with Tenant. Control means the ownership of 51% of the equity and voting interests in an entity.

22. EVENTS OF DEFAULT.

If any one or more of the following events ("Events of Default") shall occur:

22.1 if Tenant shall fail to pay any Basic Rent or Additional Rent when and as the same becomes due and payable and such failure continues for a period of ten (10) days after written notice from Lessor;

22.2 if Tenant shall fail to perform or comply with any other term hereof and such failure shall continue for more than thirty (30) days after written notice thereof from Lessor, and Tenant shall not, subject to Unavoidable Delays, within such period commence with due diligence and dispatch the curing of such Default, or having so commenced, shall thereafter fail or neglect, for reasons other than Unavoidable Delays, to prosecute or complete with diligence and dispatch the curing of such Default;

22.3 if Tenant shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts as they become due or shall file a petition in bankruptcy, or shall be adjudicated a bankrupt or insolvent, or shall file a petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, or shall file an answer admitting or shall fail reasonably to contest the material allegations of a petition filed against it in any such proceeding, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of Tenant or any material part of its assets; or

22.4 if within ninety (90) days after the commencement of any proceeding against Tenant seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such proceeding shall not have been dismissed, or Tenant has failed to commence defense of such action and thereafter continue to prosecute such defense, or if, within ninety (90) days after the appointment without the consent or acquiescence of Tenant, of any trustee, receiver or liquidator of Tenant, or of any material part of its assets, such appointment shall not have been vacated, or Tenant has failed to commence defense of such action and thereafter continue to prosecute such defense of such action and thereafter continue to prosecute such defense.

Then, and in any such event, Lessor, at any time thereafter may exercise any of the rights and remedies specified in Sections 23 and 24. Tenant shall reimburse Lessor for all reasonable costs and expenses incurred by or on behalf of Lessor (including, without limitation, reasonable attorneys' fees and expenses) occasioned by any Default by Tenant under this Lease.

23. REMEDIES.

If there exists an Event of Default, then, in addition to all other rights or remedies:

23.1 Re-Entry and Termination. Lessor shall have the immediate right to

re-enter the Property and terminate Tenant's right to possession of the Property and may, but shall have no obligation to, remove all persons and property therefrom. Such property may be removed and stored in a warehouse or elsewhere at the expense and risk of and for the account of Tenant. Should Lessor elect to re-enter as herein provided, or should Lessor terminate Tenant's right to possession pursuant to legal proceedings or to any notice provided for by law, this Lease shall terminate.

23.2 Enforcement of Tenant's Obligations. Lessor may, at its option,

enforce all of its rights and remedies under this Lease, including the right to recover the Basic Rent, Additional Rent and all other sums payable hereunder as the same become due hereunder. Additionally, Lessor shall be entitled to recover from Tenant all costs of maintenance and preservation of the Property, and all reasonable costs, including attorneys' and receivers' fees, incurred in connection with the appointment of or performance by a receiver to protect the Property and Lessor's interest under this Lease.

24. DAMAGES.

In the event this Lease is terminated pursuant to Section 23.1, in addition to all other rights or remedies it may have, Lessor may recover from Tenant:

24.1 The worth at the time of award of the unpaid Basic Rent, Additional Rent and all other sums payable hereunder which are due, owing and unpaid by Tenant to Lessor at the time of termination; and

24.2 The worth at the time of award of the amount by which unpaid Basic Rent, Additional Rent and all other sums payable hereunder which would have come due after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided for the same period; and

24.3 The worth at the time of award of the amount by which unpaid Basic Rent, Additional Rent and all other sums payable hereunder for the balance of the Lease Term from the time of the award to the end of the Lease Term exceed the amount of such rental loss that Tenant proves could be reasonably avoided; and

24.4 All other amounts necessary to compensate Lessor for all the detriment proximately caused by Tenant's failure to perform its obligations under the Lease or which in the ordinary course of things are likely to result therefrom, which shall specifically include all reasonable costs, including attorneys' fees, of repossession, removing persons or property from the Property, repairs, reletting, including leasing commissions, and reasonable alterations of the Property in connection with reletting, if any.

All computations of the worth at the time of award of amounts in Sections 24.1, 24.2 and 24.4 above shall be computed by allowing interest at the Default Rate.

The computation of worth at the time of the award of the amount in Section 24.3 shall be made by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award plus one percent (1%).

25. SURVIVAL OF TENANT'S OBLIGATIONS: LESSOR'S EQUITABLE RELIEF.

No expiration or termination of this Lease pursuant to Section 23.1 or by operation of law or otherwise, and no repossession of the Property or any part thereof pursuant to Section 23.1, or otherwise, shall relieve either Tenant or Lessor of their respective liabilities and obligations hereunder, all of which shall survive such expiration, termination or repossession, including without limitation, the right of Lessor or Tenant for indemnification for liability, arising prior to termination of this Lease, for personal injuries or property damage, nor shall anything in this Lease be deemed to affect the right of Lessor or Tenant to equitable relief where such relief is appropriate.

26. NO WAIVER, ETC. BY LESSOR OR TENANT.

No failure by Lessor or Tenant to insist upon the strict performance of any term hereof or to exercise any right, power or remedy consequent upon a breach thereof, and no submission by Tenant or acceptance by Lessor of full or partial rent during the continuance of any such breach shall constitute a waiver of any such breach or of any such term. No waiver of any breach shall affect or alter this Lease, which shall continue in full force and effect, or the respective rights of Lessor or Tenant with respect to any other then existing or subsequent breach.

27. REMEDIES, ETC., CUMULATIVE.

Each right, power and remedy of Lessor or Tenant provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power or remedy provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by Lessor or Tenant of any one or more of the rights, powers or remedies provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise shall not preclude the simultaneous or later exercise by Lessor or Tenant of any or all such other rights, powers or remedies.

28. ENTRY BY LESSOR.

Lessor and its respective authorized representative shall have the right to enter the Property at all reasonable times upon prior notice to Tenant and subject to Tenant's normal security requirements and, if required, accompanied at all times by a representative of Tenant for the purpose of inspecting the same or for the purpose of doing any work hereunder, and to take all such action thereon as may be necessary or appropriate for any such purpose (but nothing herein contained in this Lease shall create or imply any duty on the part of Lessor to make any such inspection or to do any such work). No such entry shall constitute an eviction of Tenant. In connection with any such entry, Lessor will use its best efforts not to disrupt or interfere with the normal operation of Tenant's business.

29. PERFORMANCE ON BEHALF OF TENANT.

In the event that Tenant shall fail to make any payment or performance of any act required hereunder to be made or performed by Tenant, then Lessor may, but shall be under no obligation to, after such written notice to Tenant, if any, as may be reasonable under the circumstances, make such payment or perform such act with the same effect as if made or performed by Tenant. Entry by Lessor upon the Property for such purpose shall not waive or release Tenant from any obligation or Default hereunder. Tenant shall reimburse (with interest at the Default Rate) Lessor for all sums so paid by Lessor and all costs and expenses incurred by Lessor in connection with the performance of any such act.

30. ACCEPTANCE OF SURRENDER.

No modification, termination or surrender of this Lease or surrender of the Property or any part thereof or of any interest therein by Tenant (except surrender upon expiration or earlier termination of the Lease Term) shall be valid or effective unless agreed to and accepted in writing by Lessor and no act by any representative or agent of Lessor, other than such a written agreement and acceptance by Lessor, shall constitute an acceptance thereof.

31. ESTOPPEL CERTIFICATE BY TENANT.

Tenant will promptly, and in any event within twenty (20) days after request by Lessor execute, acknowledge and deliver to Lessor a certificate certifying (a) that this Lease is unmodified and in full force and effect (or if there have been modifications, that the Lease is in full force and effect as modified, and stating the modification); (b) the dates, if any, to which Basic Rent, Additional Rent and other sums payable hereunder have been paid; (c) that no notice has been received by Tenant of any Default which has not been cured, except as to Defaults specified in said certificate; and (d) as to such other matters related to this Lease, the Property or the Tenant as may be reasonably requested by Lessor or any prospective purchaser or mortgagee of the Property. Any such certificate may be relied upon by any prospective purchaser or mortgagee of the Property or any part thereof. Tenant further agrees to provide such evidence of Tenant's credit worthiness as may be reasonably requested by Lessor in connection with the financing or sale of the Property.

32. ESTOPPEL CERTIFICATE BY LESSOR.

Lessor will promptly, and in any event within twenty (20) days after requested by Tenant, execute, acknowledge and deliver to Tenant, a certificate certifying (a) that this Lease is unmodified and in full force and effect (or if there have been modifications, that the Lease is in full force and effect as modified, and stating the modification); (b) the dates, if any, to which Basic Rent, Additional Rent and other sums payable hereunder have been paid; and (c) whether or not to the knowledge of Lessor there are then existing any Defaults under this Lease (and if so, specifying the same). Any such certificate may be relied upon by any prospective transferee of Tenant's interest under this Lease.

33. CONVEYANCE BY LESSOR.

In case the original or any successor Lessor shall convey or otherwise dispose of the Property or its interest therein, it shall thereupon be released from all liabilities and obligations of Lessor under this Lease (except those accruing prior to such conveyance or other disposition) and such liabilities and obligations shall be binding solely on the then owner of the Property.

34. END OF LEASE TERM.

Upon the expiration or other termination of the Lease Term, Tenant shall quit and surrender to Lessor the Property, at the option of Lessor, restored to be usable as a general purpose office facility of the same type and quality of the original Improvements without any specialized or single purpose tenant improvements and in a good order and condition and free of all Hazardous Materials (other than Hazardous Materials on the Property at the Term Commencement Date), ordinary wear and tear excepted and any damage or destruction the Restoration of which is required by Tenant hereunder provided Tenant pays to Lessor the cost of such Restoration at the end of the Lease Term. Tenant hereby agrees to execute, acknowledge and deliver to Lessor all documents as Lessor may reasonably deem necessary to evidence any such termination including, but not limited to, such instrument or instruments satisfactory to Lessor as may be necessary to eliminate the effect of the Memorandum of Lease referred to in Section 40 and to indemnify Lessor from all loss, cost or expense caused by Tenant's failure to execute, acknowledge and deliver any such instrument including, but not limited to (i) reasonable attorneys' fees arising as a result of such failure and all cost of prosecuting any action or actions to expunge or remove the effect of such Memorandum of record and (ii) all consequential damages or loss resulting from such Memorandum being of record such as lost profits or opportunities as a result of the slander of title arising out of such failure. Any holding over by Tenant after the expiration or termination of this Lease shall not constitute renewal hereof or give Tenant any rights hereunder or in the Property, except with the prior written consent of Lessor and during such holding over, whether or not with the consent of Lessor, Tenant should pay to Lessor a Basic Rent, 125% of the Basic Rent payable immediately prior to the expiration or other termination of the Lease Term and Additional Rent at the terms and in the manner otherwise provided in the Lease.

35. PROVISIONS SUBJECT TO APPLICABLE LAW.

All rights, powers and remedies provided herein may be exercised only to the extent that exercise thereof does not violate any applicable law, and are intended to be limited to the extent necessary so that they will not render this Lease invalid, unenforceable or not entitled to be recorded under any applicable law. If any term of this Lease shall be held to be invalid, illegal or unenforceable, the validity of the other terms of this Lease shall in no way be affected thereby.

36. DEFINITIONS.

Additional Rent: as defined in Section 3.

Basic Rent: as defined in Section 2.

Default: any condition or event which constitutes or which, after notice

or lapse of time or both, would constitute an Event of Default.

Default Rate: The Default Rate shall be a rate of interest equal to the

greater of (a) ten percent (10%) per annum or (b) five (5) percent per annum plus the prevailing rate on the 25th day of the month preceding the event which caused such interest to be payable established by the Federal Reserve Bank of San Francisco on advances to member banks under Section 13 and 13a of the Federal Reserve Act as now in effect or hereafter from time to time amended (or such other rate as may from time to time be specified in Section 1(1) (b) of Article XV of the California Constitution as in effect on the date hereof).

Depository: as defined in Section 18.4.

Event of Default: as defined in Section 22.

Hazardous Material: any material now or hereafter defined or designated as

a hazardous or toxic substance, material or waste under any law, statute, codes, acts, ordinances, orders, judgment decrees, injunctions, rules, regulations, permits, licenses, authorizations or requirements of any governments, departments, commissions, boards, courts, authorities, agencies, officials or officers now or hereafter applicable to the Property.

Impositions: all taxes, assessments due during the Lease Term, including,

without limitation, all assessments for public improvements or benefits, whether or not commenced or completed prior to the date hereof and whether or not to be completed within the term hereof (except for that portion of any assessments for public improvements or benefits which are in excess of the proportionate benefit to the Property and which are initiated or levied after the Term Commencement Date and are consented to by the Lessor and not approved by Tenant) and any assessments made under the Permitted Exceptions, water, sewer or similar rents, rates and charges, excises, levies, license fees, permit fees, inspection fees and other authorization fees and other charges in each case, whether general or special, ordinary or extraordinary, foreseen or unforeseen, of every character (including all interest and penalties thereon), which at any time during or in respect of the Lease Term may be assessed, levied, confirmed or imposed on or in respect of or be a lien upon (a) the Property or any part thereof or any rent therefrom specifically including Basic Rent, Additional Rent and any other sums payable hereunder or any estate, right or interest therein, or (b) any occupancy, use or possession of or activity conducted on the Property or any part thereof, specifically including any tax imposed on or in respect of acting or being a landlord or as a condition to the right of engaging in such business measured by the receipts or income from the Property by Lessor, but excluding any income or excess profit tax, franchise taxes or other similarly imposed taxes of Lessor determined on the basis of general income or revenue or any interest or penalties in respect thereof, all as may from time to time be due during the Lease Term.

Improvements: all buildings, structures or improvements now or hereafter

constructed or maintained on the Land or any alterations or additions thereto, except for Tenant's Equipment.

Insurance Requirements: all terms of an insurance policy covering or

applicable to the Property or any part thereof, all requirements of the issuer of any such policy, and all orders, rules, regulations and other requirements of the National Board of Fire Underwriters (or any other body exercising similar functions) applicable to or affecting the Property or any part thereof or any use or condition of the Property or any part thereof.

JAMS: JAMS/Endispute, Inc. in Orange County, California, or if the

JAMS/Endispute, Inc. no longer exists in Orange County, California, by another private dispute resolution service selected by Lessor.

Land: as defined in Section 1.1.

Institutional Investor: an insurance company, savings bank, commercial bank (acting as trustee or otherwise), savings and loan association chartered by the United States or any estate thereof, trust company, or any retirement or pension trust or any other person designated by Lessor and approved by Tenant as such.

Lease: this Lease, as at the time amended, modified or supplemented.

Lease Term: as defined in Section 1, except that if the option to renew granted under Section 4 is exercised and the Lease extends into the Renewal Term, then the Lease Term as used in this Agreement shall include the Renewal Term; prior to that occurrence, however, the Lease Term contemplates only that period set out in Section 1.

Legal Requirements: all laws, statutes, codes, acts, ordinances, orders, judgments, decrees, injunctions, rules, regulations, permits, licenses, authorizations, directions, traffic management plans and requirements of all governments, departments, commissions, board, courts, authorities, agencies, officials and officers, foreseen or unforeseen, ordinary or extraordinary (including, without limitation, any relating to the use, handling and storage of Hazardous Materials) which now or at any time hereafter may be applicable to the Property or any part thereof or any of the adjoining sidewalks, curbs, streets or ways, or any use or condition of the Property or any part thereof.

Permitted Exceptions: The items set forth as Permitted Exception on Schedule 1 hereto and any other matters to which Lessee has consented to or subordinated its interest under this Lease.

Person: any individual, corporation, association, partnership, joint venture, organization, or other business entity, or a governmental or political unit or agency.

Property: as defined in Section 1.

Renewal Term: as defined in Section 4.

Rent Payment Date: as defined in Section 2.1.

Restoration: as defined in Section 19.2.

Taking: a transfer during the term hereof of all or any part of the

Property, or any leasehold or other interest therein or right accruing thereto,
as the result of condemnation or eminent domain.

Term Commencement Date: as defined in Section 1.

Tenant's Equipment: all fixtures, machinery, apparatus, furniture,

furnishing and other equipment and all temporary or auxiliary structures
installed by or at the request of Tenant in or about the Property or any part
thereof which are not used and are not procured for use, in whole or in part, in
connection with the maintenance or protection of the Property.

Total Taking: as defined in Section 20.2.

Unavoidable Delays: delays due to strikes, acts of God, governmental

restrictions, enemy action, riot, civil commotion, fire, unavoidable casualty or
other causes beyond the control of Tenant, provided that no delay shall be
deemed an Unavoidable Delay if the Property or any part thereof or interest
therein, the Basic Rent, Additional Rent or any other sums payable under the
Lease would be in any danger of being sold, forfeited, lost or possession
obtained by some third party, or if Lessor would be in danger of incurring any
civil or criminal liability for failure to perform the required act. Lack of
funds shall not be deemed a cause beyond the control of Tenant.

37. SUBORDINATION.

Tenant agrees to and does hereby subordinate its interest in the Property
with respect to any mortgage or deed of trust now or hereafter encumbering the
Property or any part thereof; provided (i) the mortgage or deed of trust
provides for the disposition of insurance proceeds and awards for Takings
substantially in the same manner as set forth in Sections 19 and 20,
respectively, and (ii) the mortgagee or beneficiary agrees with Tenant, pursuant
to a written agreement in recordable form, for itself and any successor and
assign, and any purchaser under a sale held pursuant to the mortgage or deed of
trust that so long as no Default has occurred and is continuing, Tenant's right
to possession of the Property pursuant to this Lease and all of Tenant's other
rights hereunder shall survive any such sale and shall be binding on the
mortgagee or beneficiary and any such successor or assign, or any purchaser at
any such sale. Tenant shall execute such subordination agreement as the holder
of such mortgage or deed of trust may reasonably request. In the event of
enforcement by either the trustee or the beneficiary of any mortgage or deed of
trust now or hereafter encumbering the Property, Tenant will, if requested by
the beneficiary of such mortgage or deed of trust or any other Person succeeding
to the interest of the trustor or mortgagee of such mortgage or deed of trust,
as the result of said enforcement, automatically become the Tenant of any
successor in interest, without any change in the terms or

provisions of this Lease; provided, however, that any such successor in interest shall not be bound by (i) any payment of basic rental for more than one (1) month in advance, or (ii) any amendment or modification of this Lease made without the consent of such beneficiary or any successor in interest. Upon request by such successor in interest, Tenant shall execute and deliver an instrument or instruments confirming its attornment.

38. APPRAISAL; ARBITRATION.

38.1. Appraisal. When the value or fair rental value of the Property or

Lessor's or Tenant's interest therein or the replacement cost of the Improvements, are to be determined in accordance with this Section, such value shall be determined by agreement of Lessor and Tenant, or in absence of such agreement, by one independent appraiser selected by Lessor and Tenant, or at the written request of either party, Lessor and Tenant within fifteen (15) days after such notice shall each appoint one appraiser to make such determination, and notice of such appointment shall be given to the other party. If either party shall fail or refuse so to appoint an appraiser and given notice thereof within such period, the appraiser appointed by the other party shall within thirty (30) days thereafter individually make such determination. If the parties have each so appointed an appraiser within such thirty (30) day period, the appraisers thus appointed shall proceed to determine such value within thirty (30) days after notice of their appointment. If such two appraisers shall be unable to agree on such value within such thirty (30) days, they shall within fifteen (15) days thereafter, join to appoint a third appraiser. If such two appraisers fail to appoint the third appraiser within such period, the third appraiser shall be appointed by JAMS upon application of Lessor, and such third appraiser shall then determine such value. The average of the values of the appraisers whose values are closest to each other shall be averaged and the value so computed shall be binding upon each of the parties. All appraisers appointed hereunder shall be competent, qualified by training and experience, disinterested and independent and shall be members in good standing of the American Institute of Real Estate Appraisers or its successor and all appraisal reports shall be rendered in writing and signed by the appraiser or appraisers making the report. Each party shall pay the costs, fees and expenses of the appraiser appointed by it and all reasonable costs, fees and expenses of a third appraiser and of the private dispute resolution service shall be borne equally by Tenant and Lessor.

38.2. ARBITRATION OF DISPUTES. EXCEPT FOR AN UNLAWFUL DETAINER ACTION

BROUGHT BY LESSOR UNDER SECTION 1161 ET.SEQ OF THE CALIFORNIA CODE OF CIVIL PROCEDURE, ALL DISPUTES ARISING UNDER THIS LEASE SHALL BE RESOLVED BY SUBMISSION TO BINDING ARBITRATION WITH JAMS IN ACCORDANCE WITH ITS RULES AND PROCEDURES REGARDING COMMERCIAL DISPUTES, EXCEPT TO THE EXTENT SUCH RULES OR PROCEDURES VARY FROM THE FOLLOWING PARAGRAPHS (A) THROUGH (H):

(A) NOTICE. THE PARTY DESIRING TO INITIATE ARBITRATION CAN DO SO BY

DELIVERING A NOTICE OF AN INTENTION TO ARBITRATE TO THE OTHER

PARTY AND TO JAMS. THE NOTICE MUST CONTAIN A DESCRIPTION OF THE DISPUTE, THE AMOUNT OF MONEY INVOLVED, AND THE REMEDIES SOUGHT.

(B) ARBITRATOR. THE PARTIES SHALL ATTEMPT TO AGREE ON A RETIRED JUDGE FROM

THE JAMS PANEL TO ACT AS THE ARBITRATOR HEREUNDER. IF THE PARTIES ARE UNABLE TO AGREE, JAMS SHALL PROVIDE A LIST OF THREE AVAILABLE JUDGES TO EACH PARTY AND EACH PARTY MAY STRIKE ONE. THE REMAINING JUDGE SHALL SERVE AS THE ARBITRATOR. THE PARTIES AGREE THE ARBITRATION MUST BE INITIATED WITHIN ONE YEAR AFTER THE CLAIMED BREACH OCCURRED AND THAT THE FAILURE TO INITIATE ARBITRATION WITHIN THE ONE YEAR PERIOD CONSTITUTES AN ABSOLUTE BAR TO THE INSTITUTION OF ANY ARBITRATION OR ANY JUDICIAL PROCEEDING ON ANY DISPUTE SET FORTH IN THE NOTICE OF INTENT TO ARBITRATE.

(C) PRE-HEARING CONFERENCE. ONCE AN ARBITRATOR IS ASSIGNED TO HEAR THE

MATTER, THE ARBITRATOR SHALL SCHEDULE A PRE-HEARING CONFERENCE TO REACH AGREEMENT ON PROCEDURAL MATTERS, ARRANGE FOR THE EXCHANGE OF INFORMATION, OBTAIN STIPULATIONS, AND ATTEMPT TO NARROW THE ISSUES.

(D) DISCOVERY. IT IS THE PARTIES' OBJECTIVE TO EXPEDITE THE ARBITRATION

PROCEEDINGS BY COOPERATING IN ALL DISCOVERY AS SET FORTH IN CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1283.05 EXCEPT THAT THE LIMITATION IMPOSED BY SECTION 1283.05(e) SHALL NOT BE APPLICABLE. ALL DISCOVERY DISPUTES SHALL BE DECIDED IN THE SOLE DISCRETION OF THE ARBITRATOR.

(E) BRIEFS AND HEARING. THE PARTIES MUST FILE BRIEFS WITH THE ARBITRATOR

AT LEAST THREE DAYS BEFORE THE ARBITRATION HEARING, SPECIFYING THE FACTS EACH INTENDS TO PROVE AND ANALYZING THE APPLICABLE LAW. THE PARTIES HAVE THE RIGHT TO REPRESENTATION BY LEGAL COUNSEL THROUGHOUT THE ARBITRATION PROCEEDINGS. THE PRESENTATION OF EVIDENCE AT THE ARBITRATION HEARING SHALL BE GOVERNED BY THE CALIFORNIA EVIDENCE CODE. WITHIN REASONABLE LIMITATIONS, BOTH SIDES AT THE HEARING MAY CALL AND EXAMINE WITNESSES FOR RELEVANT TESTIMONY, INTRODUCE RELEVANT EXHIBITS OR OTHER DOCUMENTS, CROSS-EXAMINE OR IMPEACH WITNESSES WHO SHALL HAVE TESTIFIED ORALLY ON ANY MATTER RELEVANT TO THE ISSUES, AND OTHERWISE REBUT EVIDENCE, AS LONG AS THESE RIGHTS ARE EXERCISED IN AN EFFICIENT AND EXPEDITIOUS MANNER IN THE SOLE DISCRETION OF THE ARBITRATOR. ORAL EVIDENCE GIVEN AT THE ARBITRATION HEARING SHALL BE GIVEN UNDER OATH. ANY PARTY DESIRING A STENOGRAPHIC RECORD MAY SECURE A COURT REPORTER TO ATTEND THE ARBITRATION PROCEEDINGS. THE

PARTY REQUESTING THE COURT REPORTER MUST NOTIFY THE OTHER PARTY AND THE ARBITRATOR OF THE ARRANGEMENT IN ADVANCE OF THE HEARING, AND MUST PAY FOR THE COST INCURRED.

(F) DECISION. THE ARBITRATOR'S DECISION SHALL BE BASED ON THE EVIDENCE

INTRODUCED AT THE HEARING, INCLUDING ALL LOGICAL AND REASONABLE INFERENCES THEREFROM. THE ARBITRATOR MAY GRANT ANY REMEDY OR RELIEF WHICH IS JUST AND EQUITABLE. THE AWARD MUST BE MADE IN WRITING AND SIGNED BY THE ARBITRATOR. IT SHALL CONTAIN A CONCISE STATEMENT OF THE REASONS IN SUPPORT OF THE DECISION. THE AWARD MUST BE MAILED PROMPTLY TO THE PARTIES, BUT NO LATER THAN THIRTY DAYS FROM THE CLOSING OF THE HEARING. THE AWARD CAN BE JUDICIALLY ENFORCED (CONFIRMED, CORRECTED OR VACATED) PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1285 ET SEQ. THE AWARD IS FINAL AND BINDING AND THERE IS NO DIRECT

APPEAL FROM THE AWARD ON THE GROUNDS OF ERROR IN THE APPLICATION OF THE LAW.

(G) COSTS. EACH PARTY TO THE ARBITRATION MUST PAY ITS OWN WITNESS FEES.

EACH PARTY MUST PAY ITS PRO-RATA SHARE OF THE ARBITRATOR'S FEES. THE ARBITRATOR MUST AWARD TO THE PREVAILING PARTY ATTORNEYS' FEES AND COSTS ACTUALLY AND REASONABLY INCURRED.

NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO ARBITRATE IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE " ARBITRATION OF DISPUTES" PROVISION TO NEUTRAL ARBITRATION.

LESSOR'S INITIALS

TENANT'S INITIALS

39. NOTICES, ETC.

All notices and other communications hereunder shall be in writing and shall be deemed to have been given when delivered or on the second business day after having been mailed by first-class registered or certified mail, return receipt requested, postage prepaid, addressed (a) if

to Lessor at 3691 MacArthur Boulevard, Suite 105, Newport Beach, CA 92660, facsimile no. (714) 852-9009 (b) if to Tenant at 2 Ada, Irvine, California 92618, Attention: William L. Brummund, Jr., facsimile no. (714)753-6805. Any such notice may be given and shall be deemed delivered as follows: (a) if personally delivered, the date of delivery to the address of the person to receive such notice; (b) if sent by Federal Express or other overnight delivery service, the date of delivery to the address of the person to receive such notice; (c) if sent by facsimile transmission, the date transmitted to the person to receive such notice if sent by 3:00 p.m. California time, and the next business day if sent after 3:00 p.m. California time; or (d) if mailed by certified mail, return receipt requested, three (3) calendar days after depositing same in the mail. Any notice sent by facsimile transmission must be confirmed by personally delivering or mailing a copy of the notice sent by facsimile transmission. Any party may change its address, facsimile number or the addressee for notice by written notice given to the other at least five (5) calendar days before the effective date of any such change in the manner provided in this Section. Lessor shall direct that Tenant be given a copy of any notice given to Lessor under any of the Permitted Exceptions which require that notices be given to Lessor as the owner of the Property.

40. MISCELLANEOUS.

This Lease may be changed, waived, or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Lease shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto. The headings of this Lease are for purposes of reference only and shall not limit or define the meaning hereof. This Lease may be executed in any number of counterparts, each of which is an original, but all of which shall constitute one instrument. This Lease shall not be recorded but a memorandum hereof, executed and acknowledged by Lessor and Tenant, is being recorded in the office of the County Recorder of Orange County, California.

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the day and year first above written.

"LESSOR"

NIKKO CAPITAL CORP., a California corporation

By: _____
Toshiaki Ueno, President

"TENANT"

CONSUMER PORTFOLIO SERVICES, INC.,
a California corporation

By: _____
Its: _____

By: _____
Its: _____

Schedule 1

LEGAL DESCRIPTION

ALL THAT REAL PROPERTY IN THE CITY OF IRVINE, COUNTY OF ORANGE, STATE OF CALIFORNIA MORE PARTICULARLY DESCRIBED AS FOLLOWS:

PARCEL 1:
- - - - -

Parcel 1 of Parcel Map No. 89-343 in the City of Irvine, County of Orange, State of California, as per map filed April 30, 1990 in Book 251, Page(s) 4 through 7 inclusive of Parcel Maps, in the office of the County Recorder of said County.

EXCEPTING THEREFROM all oil, oil rights, minerals, mineral rights, natural gas rights and other hydrocarbons by whatsoever name known that may be within or under the parcel of land hereinabove described, together with the perpetual right of drilling, mining, exploring and operating therefor, and storing in and removing the same from said land or any other land, including the right to whipstock or directionally drill and mine from land other than those hereinabove described, oil or gas wells, tunnels and shafts into, through or across the subsurface of the land hereinabove described, and to bottom such whipstocked or directionally drilled wells, tunnels and shafts under and beneath or beyond the exterior limits thereof, and to redrill, retunnel, equip, maintain, repair, deepen and operate any such wells or mines, without, however, the right to drill, mine, store, explore and operate through the surface or the upper 500 feet of the subsurface of the land hereinabove described.

PARCEL 2:
- - - - -

An appurtenant non-exclusive easement for common driveway, drainage and utility purposes, as described in the "Declaration Creating and Reserving Common Driveway Easements" recorded May 9, 1990 as Instrument No. 90-243479 of Official Records of said County, over the North 29.00 feet of Parcel 2, in the City of Irvine, County of Orange, State of California, as per map filed in Book 251, Pages 4 through 7 inclusive of Parcel Maps, in the office of the County Recorder of said County.

EXCEPT THEREFROM that portion lying within the easement for road purposes to the City of Irvine per Deed recorded December 1, 1988 as Instrument No. 88-625562 of official Records.

SUBJECT, HOWEVER, TO THE FOLLOWING PERMITTED EXCEPTIONS:

1. Impositions (as defined in the Lease) which are or may become a lien;
2. An Easement for Public Utility and Incidental Purposes recorded in Book 6486, Page 148 of Official Records.

3. An instrument entitled "Aircraft Notification Irvine Bioscience Center" recorded April 28, 1987 as Instrument No. 87-232892.
4. Pipeline easements for water purposes shown on Parcel Map Nos. 85-0405 and 89-343 and as set forth in that certain easement recorded February 17, 1976 in Book 11648, Page 1817 of Official Records and subject to the condition set forth in the Map filed in Book 218, Pages 38 to 43 of Parcel Maps.
5. Irvine Spectrum 4 (Irvine Bioscience Center) Declaration of Covenants, Conditions and Restrictions recorded as Instrument No. 87-134994 as modified by recorded Instrument Nos. 87-714747 and 90-077721.
6. Amended and Restated Declaration of Covenants, Conditions and Restrictions, Irvine Spectrum Transportation Management Association set forth in an instrument recorded as Instrument No. 86-047979 as amended by Instruments recorded as Instruments No. 86-063943, 88-251674 and 90-077722.
7. The Irvine Spectrum 4 Declaration of Special Land Use Restrictions, Mortgage Lien and Option to Repurchase and Right of First Refusal recorded as Instrument No. 88-587306, as amended by Documents recorded as Instrument No. 90-077724, 90-118984, 90-218238, 90-566894, 92-342655, 19960440587 and Instrument No. 1997293078 and a Sixth Amendment thereto dated October 23, 1997.
8. Easement for Landscaping, Irrigation Systems, Monuments, Signs, Utility Easement, Sanitary Sewer Lines, Roadways, Ingress and Egress Access as reserved in a Deed recorded as Instrument No. 88-587307, re-recorded as Instrument No. 90-240705.
9. An Easement for Public Utilities and Incidental Purposes recorded as Instrument No. 90-063114.
10. A Declaration Creating and Reserving Common Driveway Easements recorded as Instrument No. 90-243479, as modified by an instrument recorded as 19960440590.
11. An Easement for Private Storm Drain and Maintenance Agreement recorded as Instrument No. 90-547448, as modified by a Document recorded as Instrument No. 19960440589.
12. An Easement for Public Utilities and Incidental Purposes recorded as Instrument No. 91-668464.

13. The following matters disclosed by an A.L.T.A. survey by Michael A. Murphy & Associates, signed by Michael A. Murphy, R.C.E. No. 23132, dated June 19, 1996:

A. The fact that trees located on the northerly and easterly portions of the land lie within the easement dedicated to the Irvine Ranch Water District per Parcel Map No. 85-0405.

B. An unrecorded easement or lesser right for a Pacific Bell manhole located on the southeasterly portion of the land.

C. An unrecorded easement or lesser right for an electrical pullbox located on the northeasterly portion of the land.

D. The fact that the location of the as built improvements for the common driveway, drainage and utility purposes described in the Declaration Creating and Reserving Common Driveway Easements recorded May 9, 1990 as Instrument No. 90-243479 of Official Records, extend to a maximum of 0.05 feet northerly beyond the limits as set forth and defined in said Declaration.

E. The fact that the location of the as built improvements for the storm drain and maintenance purposes recorded October 15, 1990 as Instrument No. 90-547448 of Official Records, extend outside the limits as set forth and defined in said document.

EXHIBIT 11

CONSUMER PORTFOLIO SERVICES, INC.
COMPUTATION OF PER SHARE EARNINGS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Primary Earnings Per Share				

Computation for Statement of Income:				
Net earnings	\$ 4,816,134	\$ 3,834,297	\$ 13,346,521	\$ 10,156,822
	=====	=====	=====	=====
Weighted-average number of shares outstanding	14,343,505	13,542,331	14,270,835	13,432,911
Net shares issuable from assumed exercise of warrants and options	1,433,628	1,286,388	1,242,366	1,314,019
	-----	-----	-----	-----
Total shares	15,777,133	14,828,719	15,513,201	14,746,930
	=====	=====	=====	=====
Primary earnings per share	\$ 0.31	\$ 0.26	\$ 0.86	\$ 0.69
	=====	=====	=====	=====
Fully Diluted Earnings Per Share				

Computation for Statement of Income:				
Net earnings	\$ 4,816,134	\$ 3,834,297	\$ 13,346,521	\$ 10,156,822
Interest on borrowings, net of tax effect on assumed conversion of convertible subordinated debt	117,837	42,394	195,219	127,181
	-----	-----	-----	-----
Net earnings as adjusted	\$ 4,933,971	\$ 3,876,691	\$ 13,541,740	\$ 10,284,003
	=====	=====	=====	=====
Weighted-average number of shares outstanding	14,343,505	13,542,331	14,270,835	13,432,911
Net shares issuable from assumed exercise of warrants and options	1,515,947	1,497,775	1,506,316	1,539,729
Shares issuable from assumed conversion of subordinated debt	745,562	480,000	429,544	480,000
	-----	-----	-----	-----
Total shares	16,505,014	15,520,106	16,206,695	15,452,640
	=====	=====	=====	=====
Fully diluted earnings per share	\$ 0.30	\$ 0.25	\$ 0.84	\$ 0.67
	=====	=====	=====	=====

3-MOS	3-MOS	3-MOS
DEC-31-1996	DEC-31-1995	DEC-31-1995
JUL-01-1997	JUL-01-1996	JUL-01-1996
SEP-30-1997	SEP-30-1996	SEP-30-1996
404,758	153,958	
0	0	
97,014,594	24,742,967	
1,608,801	723,889	
0	0	
0	0	
3,749,351	1,727,353	
1,561,442	1,097,579	
216,802,680	101,946,420	
0	0	
40,000,000	20,000,000	
0	0	
0	0	
38,138,514	34,644,314	
35,659,741	22,313,219	
216,802,680	101,946,420	
21,283,927	13,758,526	
21,283,927	13,758,526	
0	0	
12,974,851	7,307,229	
0	0	
1,052,550	848,346	
3,034,776	1,597,213	
8,309,076	6,451,297	
3,492,941	2,617,000	
4,816,135	3,834,297	
0	0	
0	0	
0	0	
4,816,135	3,834,297	
0.31	0.26	
0.30	0.25	