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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2005**

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

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

**Commission file number: 1-11416**

**CONSUMER PORTFOLIO SERVICES, INC.**

(Exact name of registrant as specified in its charter)

California  
(State or other jurisdiction of  
incorporation or organization)

33-0459135  
(IRS Employer  
Identification No.)

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

92618  
(Zip Code)

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

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

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

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

As of May 11, 2005 the registrant had 21,632,228 common shares outstanding.

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**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES**  
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**For the Quarterly Period Ended March 31, 2005**

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**Item 1. Financial Statements****CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per share data)**

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
<b>ASSETS</b>		
Cash	\$ 9,730	\$ 14,366
Restricted cash	150,059	125,113
Finance receivables	666,586	592,806
Less: Allowance for finance credit losses	(46,284)	(42,615)
Finance receivables, net	620,302	550,191
Servicing fees receivable	2,876	2,791
Residual interest in securitizations	44,135	50,430
Furniture and equipment, net	1,412	1,567
Deferred financing costs	5,435	5,096
Accrued interest receivable	6,817	6,411
Other assets	9,767	10,634
	<u>\$ 850,533</u>	<u>\$ 766,599</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 16,836	\$ 18,153
Warehouse lines of credit	50,535	34,279
Tax liabilities, net	2,823	2,978
Notes payable	861	1,421
Residual interest financing	16,411	22,204
Securitization trust debt	619,430	542,815
Senior secured debt	59,829	59,829
Subordinated debt	14,000	15,000
	<u>780,725</u>	<u>696,679</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>Shareholders' Equity</b>		
Preferred stock, \$1 par value; authorized 5,000,000 shares; none issued	-	-
Series A preferred stock, \$1 par value; authorized 5,000,000 shares; 3,415,000 shares issued; none outstanding	-	-
Common stock, no par value; authorized 30,000,000 shares; 21,598,378 and 21,471,478 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively	66,521	66,283
Retained earnings	4,865	5,104
Accumulated other comprehensive loss	(1,202)	(1,017)
Deferred compensation	(376)	(450)
	<u>69,808</u>	<u>69,920</u>
	<u>\$ 850,533</u>	<u>\$ 766,599</u>

*See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.*

**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Revenues:</b>		
Interest income	\$ 36,172	\$ 20,423
Servicing fees	2,265	3,324
Other income	3,396	3,775
	41,833	27,522
 <b>Expenses:</b>		
Employee costs	10,450	9,653
General and administrative	5,138	3,966
Interest	10,384	5,912
Provision for credit losses	12,312	6,750
Marketing	2,799	1,533
Occupancy	782	943
Depreciation and amortization	207	172
	42,072	28,929
(Loss) before income tax benefit	(239)	(1,407)
Income tax benefit	-	-
(Loss)	\$ (239)	\$ (1,407)
 (Loss) per share:		
Basic	\$ (0.01)	\$ (0.07)
Diluted	(0.01)	(0.07)
 Number of shares used in computing (loss) per share:		
Basic	21,528	20,638
Diluted	21,528	20,638

*See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.*

**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Three Months Ended March 31,	
	2005	2004
<i>Cash flows from operating activities:</i>		
Net (loss)	\$ (239)	\$ (1,407)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of deferred acquisition fees	(2,614)	(1,022)
Amortization of discount on Class B Notes	281	-
Depreciation and amortization	207	171
Amortization of deferred financing costs	755	391
Provision for credit losses	12,312	6,750
Deferred compensation	56	2
Releases of cash from Trusts to Company	8,010	6,232
Net deposits to Trusts to increase Credit Enhancement	(3,234)	(635)
Interest income on residual assets	(1,683)	(4,078)
Cash received from residual interest in securitizations	7,980	10,305
Changes in assets and liabilities:		
Payments on restructuring accrual	(193)	(545)
Restricted cash	(29,720)	11,948
Other assets	346	230
Accounts payable and accrued expenses	(1,314)	40
Tax liabilities, net	(155)	961
Net cash provided by (used in) operating activities	(9,205)	29,343
<i>Cash flows from investing activities:</i>		
Purchases of finance receivables held for investment	(144,165)	(93,404)
Proceeds received on finance receivables held for investment	64,355	41,552
Purchase of furniture and equipment	(22)	(394)
Net cash used in investing activities	(79,832)	(52,246)
<i>Cash flows from financing activities:</i>		
Proceeds from issuance of residual financing debt	-	44,000
Proceeds from issuance of securitization trust debt	135,924	-
Net proceeds from warehouse lines of credit	16,256	42,267
Repayment of residual interest financing debt	(5,793)	(1,842)
Repayment of securitization trust debt	(59,590)	(33,935)
Repayment of senior secured debt	-	(15,137)
Repayment of subordinated debt	(1,000)	-
Repayment of notes payable	(560)	(665)
Payment of financing costs	(1,094)	(2,258)
Exercise of options and warrants	258	175
Net cash provided by (used in) financing activities	84,401	32,605
Increase (decrease) in cash	(4,636)	9,702
Cash at beginning of period	14,366	33,209
Cash at end of period	\$ 9,730	\$ 42,911
<i>Supplemental disclosure of cash flow information:</i>		
Cash paid during the period for:		
Interest	\$ 9,410	\$ 5,580
Income taxes	\$ 155	\$ 173

*See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.*

**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Summary of Significant Accounting Policies**

**Description of Business**

Consumer Portfolio Services, Inc. (“CPS”) was incorporated in California on March 8, 1991. CPS and its subsidiaries (collectively, the “Company”) specialize primarily in purchasing, selling and servicing retail automobile installment sale contracts (“Contracts” or “finance receivables”) originated by licensed motor vehicle dealers located throughout the United States (“Dealers”) in the sale of new and used automobiles, light trucks and passenger vans. Through its purchases, the Company provides indirect financing to Dealer customers for borrowers with limited credit histories, low incomes or past credit problems (“Sub-Prime Customers”). The Company serves as an alternative source of financing for Dealers, allowing sales to customers who otherwise might not be able to obtain financing. The Company does not lend money directly to consumers. Rather, it purchases installment Contracts from Dealers based on its financing programs (the “CPS Programs”).

**Basis of Presentation**

The unaudited Condensed Consolidated Financial Statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America, with the instructions to Form 10-Q and with Article 10 of Regulation S-X of the Securities and Exchange Commission, and include all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are, in the opinion of management, of a normal recurring nature. In addition, certain items in prior period financial statements may have been reclassified for comparability to current period presentation. Results for the three-month period ended March 31, 2005 are not necessarily indicative of the operating results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from these Unaudited Condensed Consolidated Financial Statements. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2004.

**Other Income**

Other Income consists primarily of recoveries on previously charged off MFN contracts. These Contracts were acquired in the MFN acquisition. No amounts were allocated for these assets acquired at the time of the acquisition. These recoveries totaled \$1.6 million and \$2.6 million for the periods ended March 31, 2005 and 2004, respectively. Other income also includes fees paid to the Company by Dealers for certain direct mail services the Company provides. Direct mail fees totaled \$1.2 million and \$761,000 for the three-month periods ended March 31, 2005 and 2004, respectively.

**Stock Based Compensation**

As permitted by Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”), the Company accounts for stock-based employee compensation plans in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” and related interpretations, whereby stock options are recorded at intrinsic value equal to the excess of the share price over the exercise price at the date of grant. The Company provides the pro forma net (loss), pro forma earnings (loss) per share, and stock based compensation plan disclosure requirements set forth in SFAS No. 123. The Company accounts for repriced options as variable awards.

**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Compensation cost has been recognized for certain stock options in the Unaudited Condensed Consolidated Financial Statements in accordance with APB Opinion No. 25. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock Based Compensation," the Company's net income (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below.

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands, except per share data)</b>	
Net (loss), as reported.....	\$ (239)	\$ (1,407)
Stock-based employee compensation expense, fair value method, net of tax.....	(200)	(186)
Previously recorded stock-based employee compensation expense, intrinsic value method, net of tax.....	32	1
Pro forma net (loss).....	\$ (407)	\$ (1,592)
Net (loss) per share.....		
Basic, as reported.....	\$ (0.01)	\$ (0.07)
Diluted, as reported.....	\$ (0.01)	\$ (0.07)
Pro forma Basic.....	\$ (0.02)	\$ (0.08)
Pro forma Diluted.....	\$ (0.02)	\$ (0.08)

**Purchases of Company Stock**

During the three-month periods ended March 31, 2005 and 2004, the Company did not purchase any shares of its common stock.

**New Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board ("FASB") published FASB Statement No. 123 (revised 2004), "Share-Based Payment" ("FAS 123(R)" or the "Statement"). FAS 123 (R) requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options, be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. FAS 123(R) permits entities to use any option-pricing model that meets the fair value objective in the Statement. Modifications of share-based payments will be treated as replacement awards with the cost of the incremental value recorded in the financial statements.

During 2005 the SEC amended the effective date of FAS 123(R) which will now require the Company to adopt the Statement beginning January 1, 2006. As of the effective date, the Company will apply the Statement using a modified version of prospective application. Under that transition method, compensation cost is recognized for (1) all awards granted after the required effective date and to awards modified, cancelled, or repurchased after that date and (2) the portion of prior awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated for pro forma disclosures under SFAS 123.

The impact of this Statement on the Company in 2006 and beyond will depend upon various factors, among them being our future compensation strategy. The pro forma compensation costs presented (in the table above) and in prior filings for the Company have been calculated using a Black-Scholes option pricing model and may not be indicative of amounts which should be expected in future periods.

**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(2) Finance Receivables**

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

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
	<b>(In thousands)</b>	
Finance Receivables		
Automobile		
Simple Interest.....	\$ 605,221	\$ 522,346
Pre-compute, net of unearned interest.....	77,516	86,932
Finance Receivables, net of unearned interest.....	682,737	609,278
Less: Unearned acquisition fees and discounts.....	(16,151)	(16,472)
Finance Receivables.....	<u>\$ 666,586</u>	<u>\$ 592,806</u>

The following table presents a summary of the activity for the allowance for credit losses for the three-month periods ended March 31, 2005 and 2004:

	<b>March 31, 2005</b>	<b>March 31, 2004</b>
	<b>(In thousands)</b>	
Balance at beginning of period.....	\$ 42,615	\$ 35,889
Provision for credit losses.....	12,312	6,750
Charge offs.....	(11,436)	(8,411)
Recoveries.....	2,793	2,373
Balance at end of period.....	<u>\$ 46,284</u>	<u>\$ 36,601</u>

**(3) Residual Interest in Securitizations**

The residual interest in securitizations represents the discounted sum of expected future cash flows from securitization trusts. The following table presents the components of the residual interest in securitizations and are shown at their discounted amounts:

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
	<b>(In thousands)</b>	
Cash, commercial paper, United States government securities and other qualifying investments (Spread Accounts).....	\$ 16,733	\$ 17,776
Receivables from Trusts (NIRs).....	10,839	12,483
Overcollateralization.....	13,487	16,644
Investment in subordinated certificates.....	3,076	3,527
Residual interest in securitizations.....	<u>\$ 44,135</u>	<u>\$ 50,430</u>

**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The following table presents estimated remaining undiscounted credit losses included in the fair value estimate of the Residuals as a percentage of the Company's managed portfolio held by non-consolidated subsidiaries subject to recourse provisions:

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
<b>(Dollars in thousands)</b>		
Undiscounted estimated credit losses.....	\$ 17,014	\$ 23,588
Managed portfolio held by non-consolidated subsidiaries.....	193,823	233,621
Undiscounted estimated credit losses as percentage of managed portfolio held by non-consolidated subsidiaries.....	8.8%	10.1%

The key economic assumptions used in measuring all residual interest in securitizations as of March 31, 2005 and December 31, 2004 are included in the table below. The pre-tax discount rate remained constant at 14%, except for certain cash flows from charged off receivables related to the Company's securitizations from 2001 to 2003 where the Company has used a discount rate of 25%.

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
Prepayment speed (Cumulative).....	20.0% - 33.0%	20.0% - 30.5%
Net credit losses (Cumulative).....	12.9% - 20.4%	13.0% - 20.5%

**(4) Securitization Trust Debt**

The Company has completed a number of securitization transactions that are structured as secured borrowings for financial accounting purposes. The debt issued in these transactions is shown on the Company's Unaudited Condensed Consolidated Balance Sheets as "Securitization Trust Debt," and the components of such debt are summarized in the following table:

<b>Series</b>	<b>Issue Date</b>	<b>Final Scheduled Payment Date (1)</b>	<b>Initial Principal</b>	<b>Outstanding Principal at March 31, 2005</b>	<b>Outstanding Principal at December 31, 2004</b>	<b>Weighted Average Interest Rate at March 31, 2005</b>
MFN 2001-A	June 28, 2001	June 15, 2007	\$ 301,000	\$ 1,831	\$ 3,382	5.07%
TFC 2002-1	March 19, 2002	August 15, 2007	64,552	1,366	2,574	4.23%
TFC 2002-2	October 9, 2002	March 15, 2008	62,589	6,581	9,152	2.95%
TFC 2003-1	May 20, 2003	January 15, 2009	52,365	14,249	17,703	2.69%
CPS 2003-C	September 30, 2003	March 15, 2010	87,500	47,164	53,456	3.03%
CPS 2003-D	December 16, 2003	October 15, 2010	75,000	44,581	50,722	3.07%
CPS 2004-A	May 5, 2004	October 15, 2010	82,094	60,028	66,737	3.21%
PCR 2004-1	June 24, 2004	March 15, 2010	76,257	42,900	52,633	3.29%
CPS 2004-B	August 2, 2004	February 15, 2011	96,369	77,080	84,185	4.17%
CPS 2004-C	September 30, 2004	April 15, 2011	100,000	86,724	93,071	3.71%
CPS 2004-D	December 21, 2004	December 15, 2011	120,000	111,802	109,200	4.34%
CPS 2005-A	March 31, 2005	October 15, 2011	125,124	125,124	N/A	4.23%
			<u>\$ 1,242,850</u>	<u>\$ 619,430</u>	<u>\$ 542,815</u>	

(1) The Final Scheduled Payment Date represents final legal maturity of the securitization trust debt. Securitization trust debt is

**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*expected to become due and to be paid prior to those dates, based on amortization of the finance receivables pledged to the Trusts. Expected payments, which will depend on the performance of such receivables, as to which there can be no assurance, are \$184.1 million in 2005, \$182.6 million in 2006, \$116.8 million in 2007, \$76.5 million in 2008, \$45.2 million in 2009, and \$14.2 million in 2010.*

All of the securitization trust debt was sold in private placement transactions to qualified institutional buyers. The debt was issued through wholly-owned bankruptcy remote subsidiaries of CPS, TFC or MFN, and is secured by the assets of such subsidiaries, but not by other assets of the Company. Principal and interest payments are guaranteed by financial guaranty insurance policies issued by third party financial institutions.

The terms of the various Securitization Agreements related to the issuance of the securitization trust debt require that certain delinquency and credit loss criteria be met with respect to the collateral pool, and require that the Company maintain minimum levels of liquidity and net worth and not exceed maximum leverage levels and maximum financial losses. As a result of waivers and amendments to these covenants throughout 2004 and during the first quarter of 2005, the Company was in compliance with all such covenants as of March 31, 2005. Without the waivers and amendments obtained in the first quarter of 2005, the Company would have been in breach of covenants related to maintaining a minimum level of net worth as of March 31, 2005. In addition, certain securitization and non-securitization related debt contain cross-default provisions, which would allow certain creditors to declare default if a default were declared under a different facility.

The Company is responsible for the administration and collection of the Contracts. The Securitization Agreements also require certain funds be held in restricted cash accounts to provide additional collateral for the borrowings or to be applied to make payments on the securitization trust debt. As of March 31, 2005, restricted cash under the various agreements totaled approximately \$143.2 million. Interest expense on the securitization trust debt is composed of the stated rate of interest plus amortization of additional costs of borrowing. Additional costs of borrowing include facility fees, insurance and amortization of deferred financing costs. Deferred financing costs related to the securitization trust debt are amortized in proportion to the principal distributed to the noteholders. Accordingly, the effective cost of borrowing of the securitization trust debt is greater than the stated rate of interest.

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

**(5) Interest Income**

The following table presents the components of interest income:

**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>	
Interest on Finance Receivables.....	33,985	17,199
Residual interest income.....	1,683	2,744
Other interest income.....	504	480
Net interest income.....	36,172	20,423

**(6) (Loss) Per Share**

Diluted (loss) per share for the three-month period ended March 31, 2005 and 2004 were calculated using the weighted average number of shares outstanding for the related period. The following table reconciles the number of shares used in the computations of basic and diluted (loss) per share for the three-month period ended March 31, 2005 and 2004:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>	
Weighted average number of common shares outstanding during the period used to compute basic (loss) per share.....	21,528	20,638
Incremental common shares attributable to exercise of outstanding options and warrants.....	-	-
Incremental common shares attributable to convertible debt.....	-	-
Weighted average number of common shares used to compute diluted (loss) per share.....	21,528	20,638

If the anti-dilutive effects of common stock equivalents were considered, additional shares included in the diluted (loss) per share calculation for the three-month period ended March 31, 2005 and March 31, 2004 would have included an additional 2.0 million and 1.7 million shares, respectively, attributable to the exercise of outstanding options and warrants. Similarly, additional shares included in the diluted (loss) per share calculation for the three-month period ended March 31, 2004 would have included an additional 1.1 million, attributable to the conversion of certain subordinated debt.

**(7) Income Taxes**

As of December 31, 2004, the Company had net deferred tax assets of \$9.9 million, which included a valuation allowance of \$43.9 million against gross deferred tax assets of \$53.8 million. There were also offsetting gross deferred tax liabilities of \$9.9 million. Tax liabilities, net, at March 31, 2005 and December 31, 2004 were \$2.8 million and \$3.0 million, respectively. The Company increased its valuation allowance by the income tax benefit for the period to result in no net income tax provision for the three-month period ended March 31, 2005. The Company has evaluated its deferred tax assets and believes that it is more likely than not that certain deferred tax assets will not be realized due to limitations imposed by the Internal Revenue Code and expected future taxable income.

**CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(8) Legal Proceedings**

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

**(9) Employee Benefits**

The Company sponsors the MFN Financial Corporation Benefit Plan (“the Plan”). Plan benefits were frozen June 30, 2001. No contributions were paid during the three months ended March 31, 2005 and none are expected to be paid during the remainder of 2005. The table below sets forth the Plans net periodic benefit cost for the three months ended March 31, 2005 and the year ended December 31, 2004.

	Three months ended March 31,	
	2005	2004
<b>Components of net periodic benefit cost</b>		
Service cost.....	\$ -	\$ -
Interest Cost.....	211	205
Expected return on assets.....	(292)	(260)
Amortization of transition (asset)/obligation.....	(9)	(9)
Amortization of prior service cost.....	-	-
Recognized net actuarial loss.....	12	17
Net periodic benefit cost.....	<u>\$ (78)</u>	<u>\$ (47)</u>

**(10) Comprehensive (Loss)**

The components of comprehensive (loss) are as follows:

	Three months ended March 31,	
	2005	2004
<b>Components of Comprehensive (Loss)</b>		
Net (loss).....	\$ (239)	\$ (1,407)
Minimum pension liability, net of tax.....	(185)	-
Net periodic benefit cost.....	<u>\$ (424)</u>	<u>\$ (1,407)</u>

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

### **General**

Consumer Portfolio Services, Inc. ("CPS," and together with its subsidiaries, the ("Company")) is a consumer finance company specializing in purchasing, selling and servicing retail automobile installment purchase contracts ("Contracts") originated by licensed motor vehicle dealers ("Dealers") in the sale of new and used automobiles, light trucks and passenger vans. Through its purchases, the Company provides indirect financing to Dealer customers with limited credit histories, low incomes or past credit problems ("Sub-Prime Customers"). The Company serves as an alternative source of financing for Dealers, allowing sales to customers who otherwise might not be able to obtain financing. The Company does not lend money directly to consumers. Rather, it purchases installment Contracts from Dealers.

CPS was incorporated and began its operations in 1991. In March 2002, CPS acquired by merger (the "MFN Merger") MFN Financial Corp. and its subsidiaries. In May 2003, CPS acquired by merger (the "TFC Merger") TFC Enterprises Inc. and its subsidiaries. Both MFN Financial Corp and TFC Enterprises Inc., through their respective subsidiaries, were engaged in businesses substantially similar to that of CPS, and in each merger CPS acquired a portfolio of receivables that had been held by the acquired company. Each merger was accounted for as a purchase. The indirect financing programs of subsidiaries of TFC Enterprises, Inc. were directed principally to members of the United States armed forces. The Company has continued to offer such financing programs (the "TFC Programs") subsequent to the TFC merger, in addition to its other financing programs (the "CPS Programs").

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

### **Securitization**

#### *Generally*

Throughout the periods for which information is presented in this report, the Company has purchased Contracts with the intention of repackaging them in securitizations. All such securitizations have involved identification of specific Contracts, sale of those Contracts (and associated rights) to a special purpose subsidiary of the Company, and issuance of asset-backed securities to fund the transactions. Depending on the structure of the securitization, the transaction may be properly accounted for as a sale of the Contracts, or as a secured financing.

When the transaction is structured as a secured financing, the subsidiary is consolidated with the Company. Accordingly, the sold Contracts and the related securitization trust debt appear as assets and liabilities, respectively, of the Company on its Unaudited Condensed Consolidated Balance Sheet. The Company then periodically (i) recognizes interest and fee income on the receivables (ii) recognizes interest expense on the securities issued in the securitization, and (iii) records as expense a provision for credit losses on the receivables.

When structured as a sale, the subsidiary is not consolidated with the Company. Accordingly, the securitization removes the sold Contracts from the Company's Unaudited Condensed Consolidated Balance Sheet, the asset-backed securities (debt of the non-consolidated subsidiary) do not appear as debt of the Company, and the Company shows as an asset a retained residual interest in the sold Contracts. The residual interest represents the discounted value of what the Company expects will be the excess of future collections on the Contracts over principal and interest due on the asset-backed securities. That residual interest appears on the Company's

balance sheet as “Residual interest in securitizations,” and the determination of its value is dependent on estimates of the future performance of the sold Contracts.

#### *Change in Policy*

In August 2003, the Company announced that it would structure its future securitization transactions related to Contracts purchased under the CPS Programs as secured financings for financial accounting purposes. Its seven subsequent term securitizations of finance receivables have been so structured. Prior to August 2003, the Company had structured its term securitization transactions related to the CPS Programs as sales for financial accounting purposes. In the MFN Merger and in the TFC Merger the Company acquired finance receivables that had been previously securitized in term securitization transactions that were reflected as secured financings. As of March 31, 2005, the Company’s Unaudited Condensed Consolidated Balance Sheet included net finance receivables of approximately \$60.5 million and securitization trust debt of \$24.0 million related to finance receivables acquired in the two mergers and the SeaWest Asset Acquisition, out of totals of net finance receivables of approximately \$620.3 million and securitization trust debt of approximately \$619.4 million.

#### *Credit Risk Retained*

Whether a securitization is treated as a secured financing or as a sale for financial accounting purposes, the related special purpose subsidiary may be unable to release excess cash to the Company if the credit performance of the securitized Contracts falls short of pre-determined standards. Such releases represent a material portion of the cash that the Company uses to fund its operations. An unexpected deterioration in the performance of securitized Contracts could therefore have a material adverse effect on both the Company’s liquidity and its results of operations, regardless of whether such Contracts are treated as having been sold or as having been financed. For estimation of the magnitude of such risk, it may be appropriate to look to the size of the Company’s “managed portfolio,” which represents both financed and sold Contracts as to which such credit risk is retained. The Company’s managed portfolio as of March 31, 2005 was approximately \$926.3 million (this amount includes \$40.5 million related to the SeaWest Third Party Portfolio on which the Company earns only servicing fees and has no credit risk).

### **Results of Operations**

#### *Effects of Change in Securitization Structure*

The Company’s decision in the third quarter of 2003 to structure securitization transactions as borrowings secured by receivables for financial accounting purposes, rather than as sales of receivables, has affected and will affect the way in which the transactions are reported. The major effects are these: (i) the finance receivables are shown as assets of the Company on its balance sheet; (ii) the debt issued in the transactions is shown as indebtedness of the Company; (iii) cash deposited to enhance the credit of the securitization transactions (“Spread Accounts”) is shown as “Restricted cash” on the Company’s balance sheet; (iv) cash collected from borrowers and other sources related to the receivables prior to making the required payments under the Securitization Agreements is also shown as “Restricted cash” on the Company’s balance sheet; (v) the servicing fee that the Company receives in connection with such receivables is recorded as a portion of the interest earned on such receivables in the Company’s statements of operations; (vi) the Company has initially and periodically recorded as expense a provision for estimated credit losses on the receivables in the Company’s statements of operations; and (vii) of scheduled payments on the receivables and on the debt issued in the transactions, the portion representing interest is recorded as interest income and expense, respectively, in the Company’s statements of operations.

These changes collectively represent a deferral of revenue and acceleration of expenses, and thus a more conservative approach to accounting for the Company’s operations compared to the previous term securitization transactions, which were accounted for as sales at the consummation of the transaction. The changes have resulted in the Company’s reporting lower earnings than it would have reported if it had continued to structure its securitizations to require recognition of gain on sale. As a result, reported earnings



an outstanding principal balance approximating \$738.3 million as of March 31, 2004. As the portfolios of Contracts acquired in the MFN Merger and the TFC Merger decrease, the portfolio of Contracts originated under the CPS Programs continues to expand. At March 31, 2005 and 2004, the managed portfolio composition was as follows:

	March 31, 2005		March 31, 2004	
	Amount	%	Amount	%
<b>Originating Entity</b>	(\$ in millions)			
CPS.....	\$ 760.1	82.1%	\$ 572.1	77.5%
TFC.....	83.5	9.0%	112.7	15.3%
MFN.....	11.1	1.2%	53.5	7.2%
SeaWest.....	31.1	3.4%	-	0.0%
SeaWest Third Party Portfolio.....	40.5	4.4%	-	0.0%
Total.....	\$ 926.3	100.0%	\$ 738.3	100.0%

Other income decreased \$378,000, or 10.0%, to \$3.4 million in the three month period ended March 31, 2005 from \$3.8 million during the same period a year earlier. The period over period decrease resulted primarily from decreases in recoveries on MFN Contracts (\$951,000) and decreases revenue on certain leased property (\$46,000), these decreases were somewhat offset by increased revenue on the Company's direct mail products (\$476,000), increased sales tax refunds (\$94,000) and an increase in fees generated from electronic check payments (\$49,000).

*Expenses.* The Company's operating expenses consist primarily of employee costs and other operating expenses, which are incurred as applications and Contracts are received, processed and serviced. Factors that affect margins and net income include changes in the automobile and automobile finance market environments, and macroeconomic factors such as interest rates and the unemployment level.

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

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

Total operating expenses were \$42.1 million for the three months ended March 31, 2005, compared to \$28.9 million for the same period a year earlier, an increase of \$13.1 million, or 45.4%. The increase is primarily due to increases in provision for credit losses and interest expense, which increased by \$5.6 million and \$4.5 million, or 82.4% and 75.6% respectively. Both interest expense and provision for credit losses are directly impacted by the growth in the Company's portfolio of Contracts held by consolidated affiliates.

Employee costs increased to \$10.5 million during the three months ended March 31, 2005, representing 24.5% of total operating expenses, from \$9.7 million for the same period a year earlier, or 33.4% of total operating expenses. The slight increase is primarily the result of staff additions related to increased Contract purchases during the previous 12 months. The decrease as a percentage of total operating expenses reflects the higher total of operating expenses, primarily a result of the increased provision for credit losses and interest expense.

General and administrative expenses increased \$1.2 million, or 29.6% and represented 12.0% of total operating expenses in the three month period ending March 31, 2005, as compared to the prior year period when general

and administrative expenses represented 13.7% of total operating expenses. The decrease as a percentage of total operating expenses reflects the higher operating expenses primarily a result of the provision for credit losses and interest expense.

Interest expense for the three month period ended March 31, 2005 increased \$4.5 million, or 75.6%, to \$10.4 million, compared to \$5.9 million in the same period of the previous year. The increase is primarily the result of changes in the amount and composition of securitization trust debt carried on the Company's Consolidated Balance Sheet. Such debt increased as a result of the change in securitization structure implemented beginning in July 2003 and the SeaWest Asset Acquisition in April 2004 (a combined increase of approximately \$5.3 million), partially offset by the decrease in the balance of the securitization trust debt acquired in the MFN Merger and the TFC Merger (resulting in a decrease of approximately \$773,000 in interest expense).

Marketing expenses increased by \$1.3 million, or 82.6%, and represented 6.6% of total operating expenses. The increase is primarily due to the increase in Contracts purchased by the Company during the three months ended March 31, 2005 as compared to the prior year period.

Occupancy expenses decreased by \$161,000, or 17.1%, and represented 1.9% of total operating expenses. The decrease is primarily due to the closure and sub-leasing during 2004 of certain facilities acquired in the MFN Merger and the TFC Merger.

Depreciation and amortization expenses increased by \$35,000, or 20.3%, to \$207,000 from \$172,000.

### Credit Experience

The Company's financial results are dependent on the performance of the Contracts in which it retains an ownership interest. The table below documents the delinquency, repossession and net credit loss experience of all Contracts that the Company was servicing (excluding Contracts from the SeaWest Third Party Portfolio) as of the respective dates shown. Credit experience for CPS, MFN (since the date of the MFN Merger), TFC (since the date of the TFC Merger) and SeaWest (since the date of the SeaWest Asset Acquisition) is shown on a combined basis in the table below. The Company attributes the decrease in delinquencies from December 31, 2004 to March 31, 2005 to charge offs of previously delinquent Contracts and normal seasonality and to charge offs during the three-months ended March 31, 2005.

#### Delinquency Experience (1) CPS, MFN, TFC and SeaWest Combined

	March 31, 2005		December 31, 2004	
	Number of Contracts	Amount	Number of Contracts	Amount
	(Dollars in thousands)			
<i>Delinquency Experience</i>				
Gross servicing portfolio (1).....	83,588	\$ 904,557	83,018	\$ 873,880
Period of delinquency (2)				
31-60 days.....	1,015	8,997	2,106	19,010
61-90 days.....	577	4,610	1,069	8,051
91+ days.....	762	4,908	1,176	7,758
Total delinquencies (2).....	2,354	18,515	4,351	34,819
Amount in repossession (3).....	1,095	10,602	1,408	14,090
Total delinquencies and amount in repossession (2).....	3,449	\$ 29,117	5,759	\$ 48,909
Delinquencies as a percentage of gross servicing portfolio.....	2.8 %	2.1 %	5.2 %	4.0 %
Total delinquencies and amount in repossession as a percentage of gross servicing portfolio.....	4.1 %	3.2 %	6.9 %	5.6 %

(1) All amounts and percentages are based on the amount remaining to be repaid on each Contract, including, for pre-computed Contracts, any unearned interest. The information in the table represents the gross principal amount of all Contracts purchased by the Company on an other than flow basis, including Contracts subsequently sold by the Company in securitization

transactions that it continues to service. The table does not include Contracts from the SeaWest Third Party Portfolio.

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

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

**Net Charge-Off Experience (1)**  
**CPS, MFN, TFC and SeaWest Combined**

	<b>March 31,</b>	<b>December 31,</b>
	<b>2005</b>	<b>2004</b>
	<b>(Dollars in thousands)</b>	
Average servicing portfolio outstanding.....	\$ 870,875	\$ 796,436
Net charge-offs as a percentage of average servicing portfolio (2).....	6.6 %	7.8 %

(1) All amounts and percentages are based on the principal amount scheduled to be paid on each Contract, net of unearned income on pre-computed Contracts. The information in the table represents all Contracts serviced by the Company (excluding Contracts from the SeaWest Third Party Portfolio).

(2) Net charge-offs include the remaining principal balance, after the application of the net proceeds from the liquidation of the vehicle (excluding accrued and unpaid interest) and amounts collected subsequent to the date of charge-off. March 31, 2005 percentage represents three-months ended March 31, 2005, annualized. December 31, 2004 represents twelve months ended December 31, 2004.

**Liquidity and Capital Resources**

The Company's business requires substantial cash to support its purchases of Contracts and other operating activities. The Company's primary sources of cash have been cash flows from operating activities, including proceeds from sales of Contracts, amounts borrowed under various revolving credit facilities (also sometimes known as warehouse credit facilities), servicing fees on portfolios of Contracts previously sold in securitization transactions or serviced for third parties, customer payments of principal and interest on finance receivables, and releases of cash from securitized pools of Contracts in which the Company has retained a residual ownership interest and from the Spread Accounts associated with such pools. The Company's primary uses of cash have been the purchases of Contracts, repayment of amounts borrowed under lines of credit and otherwise, operating expenses such as employee, interest, occupancy expenses and other general and administrative expenses, the establishment of Spread Accounts and initial overcollateralization, if any, and the increase of Credit Enhancement to required levels in securitization transactions, and income taxes. There can be no assurance that internally generated cash will be sufficient to meet the Company's cash demands. The sufficiency of internally generated cash will depend on the performance of securitized pools (which determines the level of releases from those pools and their related Spread Accounts), the rate of expansion or contraction in the Company's managed portfolio, and the terms upon which the Company is able to acquire, sell, and borrow against Contracts.

Net cash used in operating activities for the three-month period ended March 31, 2005 was \$8.6 million compared to net cash provided by operating activities for the three-month period ended March 31, 2004 of \$29.3 million. Cash from operating activities is generally provided by the net releases from the Company's securitization Trusts and cash received from residual interests in securitizations.

Net cash used in investing activities for the three-month periods ended March 31, 2005 and 2004 was \$80.4 million and \$52.2 million, respectively. Cash used in investing activities has generally related to purchases of Contracts.

Net cash provided by financing activities for the three months ended March 31, 2005 and 2004, was \$84.4 million and \$32.6 million respectively. Cash used or provided by financing activities is primarily attributable to the repayment or issuance of debt.

Contracts are purchased from Dealers for a cash price generally approximating their principal amount, and generate cash flow over a period of years. As a result, the Company has been dependent on warehouse credit facilities to purchase Contracts, and on the availability of cash from outside sources in order to finance its continuing operations, as well as to fund the portion of Contract purchase prices not financed under warehouse credit facilities. As of March 31, 2005 the Company had \$225 million in warehouse credit capacity, in the form of a \$125 million facility and a \$100 million facility. The first facility provides funding for Contracts purchased under the TFC Programs while both warehouse facilities provide funding for Contracts purchased under the CPS Programs.

The \$125 million warehouse facility is structured to allow the Company to fund a portion of the purchase price of Contracts by drawing against a floating rate variable funding note issued by CPS Warehouse Trust. This facility was established on March 7, 2002, in the maximum amount of \$100 million. Such maximum amount was increased to \$125 million in November 2002. Up to 76.5% of the principal balance of Contracts may be advanced to the Company under this facility, subject to collateral tests and certain other conditions and covenants. Notes under this facility bear interest at a rate of one-month commercial paper plus 1.50% per annum. This facility was renewed on April 12, 2005 and expires on April 11, 2006.

The \$100 million warehouse facility is similarly structured to allow CPS to fund a portion of the purchase price of Contracts by drawing against a floating rate variable funding note issued by Page Funding LLC. Approximately 73.5% of the principal balance of Contracts may be advanced to the Company under this facility, subject to collateral tests and certain other conditions and covenants. Notes under this facility accrue interest at a rate of one-month LIBOR plus 1.50% per annum. This facility was entered into on June 30, 2004, and expires on June 30, 2007. The lender has annual termination options at its sole discretion on each June 30, through 2007, at which time the agreement expires.

These facilities are independent of each other. With the two currently existing facilities, two different financial institutions purchase the notes issued by these facilities, and two different insurers insure the notes (each a "Note Insurer"). The lenders are the controlling party on each facility. Up through June 30, 2003, sales of Contracts to the special purpose subsidiaries ("SPS") related to two of the three then existing facilities had been treated as sales for financial accounting purposes. The Company, therefore, removed these securitized Contracts and related debt from its Unaudited Condensed Consolidated Balance Sheet and recognized a gain on sale in the Company's Unaudited Condensed Consolidated Statement of Operations. Indebtedness related to Contracts funded by the third facility, however, was retained on the Company's Unaudited Condensed Consolidated Balance Sheet and no gain on sale has ever been recognized in the Company's Unaudited Condensed Consolidated Statement of Operations. During July 2003, each of the first two facilities was amended, with the effect that subsequent use of such facilities is treated for financial accounting purposes as a borrowing secured by such receivables, rather than as a sale of receivables. The effects of that amendment are similar to those discussed above with respect to the change in securitization structure.

For the portfolio owned by consolidated subsidiaries, cash used to increase Credit Enhancement amounts to required levels for the three-month periods ended March 31, 2005 and 2004 was \$3.2 million and \$635,000, respectively. Cash released from Trusts and their related Spread Accounts to the Company for the three-month periods ended March 31, 2005 and 2004, was \$8.0 million and \$6.2 million, respectively. Changes in the amount of Credit Enhancement required for term securitization transactions and releases from Trusts and their related Spread Accounts are affected by the relative size, seasoning and performance of the various pools of Contracts securitized that make up the Company's managed portfolio to which the respective Spread Accounts are related. The Company did not make any initial deposits to Spread Accounts or fund initial overcollateralization related to term securitization transactions owned by non-consolidated subsidiaries during the three months ended March 31, 2005 or March 31, 2004.

The acquisition of Contracts for subsequent sale in securitization transactions, and the need to fund Spread Accounts and initial overcollateralization, if any, and increase Credit Enhancement levels when those transactions take place, results in a continuing need for capital. The amount of capital required is most heavily dependent on the rate of the Company's Contract purchases, the advance rate on the warehouse facilities, the required level of initial Credit Enhancement in securitizations, and the extent to which the previously established Trusts and their related Spread Accounts either release cash to the Company or capture cash from collections on securitized Contracts. The Company is limited in its ability to purchase Contracts by its available cash and the capacity of its warehouse facilities. As of March 31, 2005, the Company had unrestricted cash on hand of \$9.7 million and available Contract purchase commitments financing from its warehouse credit facilities of \$174.5 million, subject to collateral availability. The Company's plans to manage its need for liquidity include the completion of additional term securitizations that would provide additional credit availability from the warehouse credit facilities, and matching its levels of Contract purchases to its availability of cash. There can be no assurance that the Company will be able to complete term securitizations on favorable economic terms or that the Company will be able to complete term securitizations at all. If the Company is unable to complete such securitizations, interest income and other portfolio related income would decrease.

The Company's primary means of ensuring that its cash demands do not exceed its cash resources is to match its levels of Contract purchases to its availability of cash. The Company's ability to adjust the quantity of Contracts that it purchases and securitizes will be subject to general competitive conditions and the continued availability of warehouse credit facilities. There can be no assurance that the desired level of Contract acquisition can be maintained or increased. While the specific terms and mechanics of each Spread Account vary among transactions, the Company's Securitization Agreements generally provide that the Company will receive excess cash flows only if the amount of Credit Enhancement has reached specified levels and/or the delinquency, defaults or net losses related to the Contracts in the pool are below certain predetermined levels. In the event delinquencies, defaults or net losses on the Contracts exceed such levels, the terms of the securitization: (i) may require increased Credit Enhancement to be accumulated for the particular pool; (ii) may restrict the distribution to the Company of excess cash flows associated with other pools; or (iii) in certain circumstances, may permit the insurers to require the transfer of servicing on some or all of the Contracts to another servicer. There can be no assurance that collections from the related Trusts will continue to generate sufficient cash.

Certain of the Company's securitization transactions and the warehouse credit facilities contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels and maximum financial losses. As a result of waivers and amendments to these covenants throughout 2004 and during the first quarter of 2005, the Company was in compliance with all such covenants as of March 31, 2005. Without the waivers and amendments obtained in the first quarter of 2005, the Company would have been in breach of covenants related to maintaining a minimum level of net worth as of March 31, 2005. In addition, certain securitization and non-securitization related debt contain cross-default provisions, which would allow certain creditors to declare default if a default were declared under a different facility.

The Securitization Agreements of the Company's term securitization transactions and one of the warehouse credit facilities are terminable by the Note Insurers in the event of certain defaults by the Company and under certain other circumstances. Similar termination rights are held by the lender in the other warehouse credit facility. Were a Note Insurer (or the lender in such warehouse facility) in the future to exercise its option to terminate the Securitization Agreements, such a termination would have a material adverse effect on the Company's liquidity and results of operations. The Company continues to receive Servicer extensions on a monthly and/or quarterly basis, pursuant to the Securitization Agreements.

## **Critical Accounting Policies**

### *(a) Allowance for Finance Credit Losses*

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

### *(b) Treatment of Securitizations*

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

As of March 31, 2005 and December 31, 2004 the line item "Residual interest in securitizations" on the Company's Unaudited Consolidated Balance Sheet represents the residual interests in certain term securitizations that were accounted for as sales. Warehouse securitizations accounted for as secured financings are accordingly reflected in the line items "Finance receivables" and "Warehouse lines of credit" on the Company's Unaudited Condensed Consolidated Balance Sheet, and the term securitizations accounted for as secured financings are reflected in the line items "Finance receivables" and "Securitization trust debt." The "Residual interest in securitizations" represents the discounted sum of expected future releases from securitization trusts. Accordingly, the valuation of the residual is heavily dependent on estimates of future performance.

### *(c) Income taxes*

The Company and its subsidiaries file consolidated federal income and combined state franchise tax returns. The Company utilizes the asset and liability method of accounting for income taxes, under which deferred income taxes are recognized for the future tax consequences attributable to the differences between the financial statement values of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has estimated a valuation allowance against that portion of the deferred tax asset whose utilization in future periods is not more than likely.

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

## Forward Looking Statements

This report on Form 10-Q includes certain “forward-looking statements,” including, without limitation, the statements or implications to the effect that prepayments as a percentage of original balances will approximate 20.1% to 33.0% cumulatively over the lives of the related Contracts, that charge-offs as a percentage of original balances will approximate 17.1% to 26.3% cumulatively over the lives of the related Contracts, with recovery rates approximating 3.1% to 5.9% of original principal balances. Other forward-looking statements may be identified by the use of words such as “anticipates,” “expects,” “plans,” “estimates,” or words of like meaning. As to the specifically identified forward-looking statements, factors that could affect charge-offs and recovery rates include changes in the general economic climate, which could affect the willingness or ability of obligors to pay pursuant to the terms of Contracts, changes in laws respecting consumer finance, which could affect the ability of the Company to enforce rights under Contracts, and changes in the market for used vehicles, which could affect the levels of recoveries upon sale of repossessed vehicles. Factors that could affect the Company’s revenues in the current year include the levels of cash releases from existing pools of Contracts, which would affect the Company’s ability to purchase Contracts, the terms on which the Company is able to finance such purchases, the willingness of Dealers to sell Contracts to the Company on the terms that it offers, and the terms on which the Company is able to complete term securitizations once Contracts are acquired. Factors that could affect the Company’s expenses in the current year include competitive conditions in the market for qualified personnel, and interest rates (which affect the rates that the Company pays on Notes issued in its securitizations). The statements concerning the Company structuring future securitization transactions as secured financings and the effects of such structures on financial items and on the Company’s future profitability also are forward-looking statements. Any change to the structure of the Company’s securitization transaction could cause such forward-looking statements not to be accurate. Both the amount of the effect of the change in structure on the Company’s profitability and the duration of the period in which the Company’s profitability would be affected by the change in securitization structure are estimates. The accuracy of such estimates will be affected by the rate at which the Company purchases and sells Contracts, any changes in that rate, the credit performance of such Contracts, the financial terms of future securitizations, any changes in such terms over time, and other factors that generally affect the Company’s profitability.

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

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

*Dependence on Securitization Program.* The Company is dependent upon its ability to continue to finance pools of Contracts in term securitizations in order to generate cash proceeds for new purchases. Adverse changes in the market for securitized Contract pools, or a substantial lengthening of the warehousing period, would burden the Company’s financing capabilities, could require the Company to curtail its purchase of Contracts, and could have a material adverse effect on the Company. In addition, as a means of reducing the percentage of cash collateral that the Company would otherwise be required to deposit and maintain in Spread Accounts, all of the Company’s securitizations since June 1994 have utilized credit enhancement in the form of financial guaranty insurance policies issued by monoline financial guaranty insurers. The Company believes that financial guaranty insurance policies reduce the costs of securitizations relative to alternative forms of credit enhancements available to the Company. No insurer is required to insure Company-sponsored securitizations and there can be no assurance that any will continue to do so. Similarly, there can be no assurance that any securitization transaction will be available on terms acceptable to the Company, or at all.

The timing of any securitization transaction is affected by a number of factors beyond the Company's control, any of which could cause substantial delays, including, without limitation, market conditions and the approval by all parties of the terms of the securitization.

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

*Dependence on Performance of Securitized Contracts.* Under the financial structures the Company has used to date in its term securitizations, certain excess cash flows generated by the Contracts sold in the term securitizations are used to increase overcollateralization or are retained in a Spread Account within the securitization trusts to provide liquidity and credit enhancement. While the specific terms and mechanics of each Spread Account vary among transactions, the Company's Securitization Agreements generally provide that the Company will receive excess cash flows only if the amount of Credit Enhancement has reached specified levels and/or the delinquency or losses related to the Contracts in the pool are below certain predetermined levels. In the event delinquencies and losses on the Contracts exceed such levels, the terms of the securitization: (i) may require increased Credit Enhancement to be accumulated for the particular pool; (ii) may restrict the distribution to the Company of excess cash flows associated with other pools; or (iii) in certain circumstances, may permit the insurers to require the transfer of servicing on some or all of the Contracts to another servicer. Any of these conditions could materially adversely affect the Company's liquidity, financial condition and operations.

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

*Probable Increase in Cost of Funds.* The Company's profitability is determined by, among other things, the difference between the rate of interest charged on the Contracts purchased by the Company and the rate of interest payable to purchasers of Notes issued in securitizations. The Contracts purchased by the Company generally bear finance charges close to or at the maximum permitted by applicable state law. The interest rates payable on such Notes are fixed, based on interest rates prevailing in the market at the time of sale. Consequently, increases in market interest rates tend to reduce the "spread" or margin between Contract finance charges and the interest rates required by investors and, thus, the potential operating profits to the Company from the purchase, securitization and servicing of Contracts. Operating profits expected to be earned by the Company on portfolios of Contracts previously securitized are insulated from the adverse effects of increasing interest rates because the interest rates on the related Notes were fixed at the time the Contracts were sold. With interest rates near historical lows as of the date of this report, it is reasonable to expect that interest rates will increase in the near to intermediate term. Any future increases in interest rates would likely increase the interest rates on Notes issued in future term securitizations and could have a material adverse effect on the Company's results of operations and liquidity.

*Prepayments and Credit Losses.* Gains from the sale of Contracts in the Company's past securitization transactions structured as sales for financial accounting purposes have constituted a significant portion of the revenue of the Company. A portion of the gains is based in part on management's estimates of future prepayments and credit losses and other considerations in light of then-current conditions. If actual prepayments with respect to Contracts occur more quickly than was projected at the time such Contracts were sold, as can occur when interest rates decline, or if credit losses are greater than projected at the time such Contracts were sold, a charge to income may be required and would be recorded in the period of adjustment. If actual prepayments occur more slowly or if net losses are lower than estimated with respect to Contracts sold, total revenue would exceed previously estimated amounts.

Provisions for credit losses are recorded in connection with the origination and throughout the life of Contracts that are held on the Company's Unaudited Condensed Consolidated Balance Sheet. Such provisions are based on management's estimates of future credit losses in light of then-current conditions. If actual credit losses in a given period exceed the allowance for credit losses, a bad debt expense during the period would be required.

*Competition.* The automobile financing business is highly competitive. The Company competes with a number of national, local and regional finance companies. In addition, competitors or potential competitors include other types of financial services companies, such as commercial banks, savings and loan associations, leasing companies, credit unions providing retail loan financing and lease financing for new and used vehicles and captive finance companies affiliated with major automobile manufacturers such as General Motors Acceptance Corporation and Ford Motor Credit Corporation. Many of the Company's competitors and potential competitors possess substantially greater financial, marketing, technical, personnel and other resources than the Company. Moreover, the Company's future profitability will be directly related to the availability and cost of its capital relative to that of its competitors. The Company's competitors and potential competitors include far larger, more established companies that have access to capital markets for unsecured commercial paper and investment grade rated debt instruments, and to other funding sources which may be unavailable to the Company. Many of these companies also have long-standing relationships with Dealers and may provide other financing to Dealers, including floor plan financing for the Dealers' purchases of automobiles from manufacturers, which is not offered by the Company. There can be no assurance that the Company will be able to continue to compete successfully.

*Litigation.* Because of the consumer-oriented nature of the industry in which the Company operates and the application of certain laws and regulations, industry participants are regularly named as defendants in class-action litigation involving alleged violations of federal and state laws and regulations and consumer law torts, including fraud. Many of these actions involve alleged violations of consumer protection laws. Although the Company is not involved in any such material consumer protection litigation, a significant judgment against the Company or within the industry in connection with any such litigation, or an adverse outcome in the litigation identified under the caption "Legal Proceedings" in this report and in the Company's most recently filed report on Form 10-K, could have a material adverse effect on the Company's financial condition, results of operations and liquidity.

*Dependence on Dealers.* The Company is dependent upon establishing and maintaining relationships with unaffiliated Dealers to supply it with Contracts. During the three- and nine-month periods ended March 31, 2005, no Dealer accounted for as much as 1.0% of the Contracts purchased by the Company. The Dealer Agreements do not require Dealers to submit a minimum number of Contracts for purchase by the Company. The failure of Dealers to submit Contracts that meet the Company's underwriting criteria would have a material adverse effect on the Company's financial condition, results of operations and liquidity.

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

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

### **Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

#### **Interest Rate Risk**

The Company is subject to interest rate risk during the period between when Contracts are purchased from Dealers and when such Contracts become part of a term securitization. Specifically, the interest rates on the warehouse facilities are adjustable while the interest rates on the Contracts are fixed. Historically, the Company's term securitization facilities have had fixed rates of interest. To mitigate some of this risk, the Company has in the past, and intends to continue to, structure certain of its securitization transactions to include pre-funding structures, whereby the amount of Notes issued exceeds the amount of Contracts initially sold to the Trusts. In pre-funding, the proceeds from the pre-funded portion are held in an escrow account until the Company sells the additional Contracts to the Trust in amounts up to the balance of the pre-funded escrow account. In pre-funded securitizations, the Company locks in the borrowing costs with respect to the Contracts it subsequently delivers to the Trust. However, the Company incurs an expense in pre-funded securitizations equal to the difference between the money market yields earned on the proceeds held in escrow prior to subsequent delivery of Contracts and the interest rate paid on the Notes outstanding, the amount as to which there can be no assurance.

There have been no material changes in market risks since December 31, 2004.

### **Item 4. *Controls and Procedures***

CPS maintains a system of internal controls and procedures designed to provide reasonable assurance as to the reliability of its published financial statements and other disclosures included in this report. As of the end of the period covered by this report, CPS evaluated the effectiveness of the design and operation of such disclosure controls and procedures. Based upon that evaluation, the principal executive officer (Charles E. Bradley, Jr.) and the principal financial officer (Robert E. Riedl) concluded that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, material information relating to CPS that is required to be included in its reports filed under the Securities Exchange Act of 1934. There have been no significant changes in our internal controls over financial reporting during our most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. *Legal Proceedings*

The information provided under the caption “Legal Proceedings” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2004, is incorporated herein by reference. In addition, the reader should be aware of the following:

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

### Item 2. *Registered Sales of Equity Securities and Use of Proceeds*

During the three months ended March 31, 2005, the Company did not purchase any shares of its common stock.

### Item 6. *Exhibits*

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

- 10.1 Second Amended and Restated Sale and Servicing Agreement dated April 13, 2005 by and among CPS Warehouse Trust (CPSWT), CPS, Wells Fargo Bank, National Association (WFBNA) and WestLB AG (WLBAG) (filed as Exhibit 10.29 to the registrant's registration statement on Form S-2, file no. 333-121913, and incorporated herein by reference)
- 10.2 Second Amended and Restated Annex A to Agreement filed as Exhibit 10.1 (filed as Exhibit 10.30 to the registrant's registration statement on Form S-2, file no. 333-121913, and incorporated herein by reference)
- 10.3 Second Amended and Restated Indenture dated as of April 13, 2005 by and among CPSWT, WLBAG and WFBNA (filed as Exhibit 10.31 to the registrant's registration statement on Form S-2, file no. 333-121913, and incorporated herein by reference)
- 10.4 Second Amended and Restated Note Purchase Agreement dated April 13, 2005 by and among CPSWT, CPS, Paradigm Funding LLC and WLBAG (filed as Exhibit 10.33 to the registrant's registration statement on Form S-2, file no. 333-121913, and incorporated herein by reference)
- 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer of the registrant.
- 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer of the registrant.
- 32 Section 1350 Certifications.\*

\* These Certifications shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. These Certifications shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registration statement specifically states that such Certifications are incorporated therein.

## SIGNATURES

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

CONSUMER PORTFOLIO SERVICES, INC.

(Registrant)

Date: May 16, 2005

/s/ CHARLES E. BRADLEY, JR.

Charles E. Bradley, Jr.

*President and Chief Executive Officer*

(Principal Executive Officer)

Date: May 16, 2005

/s/ ROBERT E. RIEDL

Robert E. Riedl

*Senior Vice President and Chief Financial Officer*

(Principal Financial Officer)

**CERTIFICATION**

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

1. I have reviewed this quarterly report on Form 10-Q of Consumer Portfolio Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2005

/s/ CHARLES E. BRADLEY, JR.

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Chief Executive Officer

**CERTIFICATION**

I, Robert E. Riedl, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Consumer Portfolio Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2005

/s/ ROBERT E. RIEDL

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Chief Financial Officer

**Certification Pursuant To  
18 U.S.C. Section 1350,  
As Adopted Pursuant To  
Section 906 of The Sarbanes-Oxley Act Of 2002**

In connection with the Quarterly Report on Form 10-Q of Consumer Portfolio Services, Inc. (the "Company") for the quarterly period ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Charles E. Bradley, Jr., as Chief Executive Officer of the Company, and Robert E. Riedl, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CHARLES E. BRADLEY, JR.

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Charles E. Bradley, Jr.  
Chief Executive Officer  
May 16, 2005

/s/ ROBERT E. RIEDL

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Robert E. Riedl  
Chief Financial Officer  
May 16, 2005

This certification accompanies each Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.