CONSUMER PORTFOLIO SERVICES INC
Form 10-K
March 09, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
COMMISSION FILE NUMBER: 0-51027

CONSUMER PORTFOLIO SERVICES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CALIFORNIA	33-0459135
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

16355 LAGUNA CANYON ROAD, IRVINE, CALIFORNIA	92618
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (949) 753-6800

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Large accelerated filer [ ]   Accelerated filer [X]   Non-accelerated filer [ ]

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

The aggregate market value of the 13,522,700 shares of the registrant's common stock held by non-affiliates, based upon the closing price of the registrant's common stock of $6.71 per share reported by Nasdaq as of June 30, 2006, was approximately $90,737,317. For purposes of this computation, a registrant sponsored pension plan and all directors, executive officers, and beneficial owners of 10 percent or more of the registrant's common stock are deemed to be affiliates. Such determination is not an admission that such plan, directors, executive officers, and beneficial owners are, in fact, affiliates of the registrant. The number of shares of the registrant's Common Stock outstanding on February 27, 2007, was 21,530,054.

DOCUMENTS INCORPORATED BY REFERENCE

The proxy statement for registrant's 2007 annual shareholders meeting is incorporated by reference into Part III hereof.

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PART I

ITEM 1. BUSINESS

OVERVIEW

We are a specialty finance company engaged in purchasing and servicing retail automobile contracts originated primarily by franchised automobile dealers and, to a lesser extent, by select independent dealers in the United States in the sale of new and used automobiles, light trucks and passenger vans. Through our automobile contract purchases, we provide indirect financing to the customers of dealers, who have limited credit histories, low incomes or past credit problems, who we refer to as sub-prime customers. We serve as an alternative source of financing for dealers, facilitating sales to customers who otherwise might not be able to obtain financing from traditional sources, such as commercial banks, credit unions and the captive finance companies affiliated with major automobile manufacturers. We generally do not lend money directly to consumers. Rather, we purchase automobile contracts from dealers under several different financing programs. We are headquartered in Irvine, California, where all credit and underwriting functions are centralized. We service our automobile contracts from our California headquarters and from three servicing branches in Virginia, Florida and Illinois.

We direct our marketing efforts to dealers, rather than to consumers. We establish relationships with dealers through our employee marketing representatives who contact a prospective dealer to explain our automobile contract purchase programs, and thereafter provide dealer training and support services. The marketing representatives are obligated to represent our financing program exclusively. Our marketing representatives present the dealer with a marketing package, which includes our promotional material containing the terms offered by us for the purchase of automobile contracts, a copy of our standard-form dealer agreement, and required documentation relating to automobile contracts. As of December 31, 2006, we had 94 marketing representatives and we were a party to dealer agreements with over 8,600 dealers in 48 states. Approximately 90% of these dealers are franchised new car dealers that sell both new and used cars and the remainder are independent used car dealers. For the year ended December 31, 2006, approximately 87% of the automobile contracts purchased under our programs consisted of financing for used cars and 13% consisted of financing for new cars, as compared to 81% financing for used cars and 19% for new cars in the year ended December 31, 2005.

We purchase automobile contracts with the intention of financing them on a long-term basis through securitizations. Securitizations are transactions in which we sell a specified pool of contracts to a special purpose entity of ours, which in turn issues asset-backed securities to fund the purchase of the pool of contracts from us. Depending on the structure of the securitization, the transaction may, for financial accounting purposes, be treated as a sale of the contracts or as a secured financing. From inception through the third quarter of 2003, we generated revenue primarily from the gains recognized on the sale or securitization of automobile contracts, servicing fees earned on automobile contracts sold, interest earned on residual interests and interest on finance receivables. However, since the third quarter of 2003, we have structured our securitizations to be treated as secured financings rather than as sales of automobile contracts for financial accounting purposes. By accounting for these securitizations as secured financings, the contracts and asset-backed notes issued remain on our balance sheet with the interest income of the contracts in the trust and the related financing costs reflected over the life of the underlying pool of contracts.

We were incorporated and began our operations in March 1991. From inception through December 31, 2006, we have purchased a total of approximately $7.1 billion of automobile contracts from dealers. In addition, we obtained a total of approximately $605.0 million of automobile contracts in our 2002, 2003 and 2004 acquisitions, as described below. Our total managed portfolio, net of unearned interest on pre-computed automobile contracts, grew to approximately $1,565.9 million at December 31, 2006 from $1,122.0 million at December 31, 2005, $906.9 million as of December 31, 2004 and $743.5 million as of December 31, 2003.

HISTORICAL ACQUISITIONS

In March 2002, we acquired MFN Financial Corporation and its subsidiaries, or MFN, in a merger, which we refer to as the MFN merger. In May 2003, we acquired TFC Enterprises, Inc. and its subsidiaries, or TFC, in a second merger, which we refer to as the TFC merger. We acquired $381.8 million of automobile contracts in the MFN merger, and $152.1 million in the TFC merger. MFN and TFC were engaged in businesses similar to that of ours. MFN ceased acquiring automobile contracts in March 2002, while TFC continues to acquire automobile contracts under its TFC programs. Automobile contracts purchased by TFC during the year ended December 31, 2006 accounted for less than 4% of our total purchases during the year. In April 2004, we acquired $74.9 million in automobile contracts from SeaWest Financial Corporation and its subsidiaries. In addition, we were named servicer of approximately $111.8 million of automobile contracts that SeaWest had previously securitized, and which we do not own. We sometimes refer to those non-owned contracts as the SeaWest third-party portfolio.

SUB-PRIME AUTO FINANCE INDUSTRY

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

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

OUR OPERATIONS

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

ORIGINATIONS

When a retail automobile buyer elects to obtain financing from a dealer, the dealer takes a credit application to submit to its financing sources. Typically, a dealer will submit the buyer's application to more than one financing source for review. We believe the dealer's decision to choose a financing source is based primarily on: (i) the monthly payment; (ii) the purchase price offered for the contract; (iii) timeliness, consistency and predictability of response; (iv) funding turnaround time; and (v) any conditions to purchase. Dealers can send credit applications to us via the Internet or fax. For the year ended December 31, 2006, we received approximately 81% of all applications through DealerTrack (the industry leading dealership application aggregator), 9% via our website and 10% via fax. Our automated application decisioning system produced our response within minutes to about 88% of those applications.

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

Dealers with which we do business are under no obligation to submit any automobile contracts to us, nor are we obligated to purchase any automobile contracts from them. During the year ended December 31, 2006, no dealer accounted for more than 1% of the total number of automobile contracts we purchased. Automobile contracts purchased by TFC after the TFC merger under the TFC programs are purchased with a dealer marketing strategy that is similar to that of ours as described above, except that the marketing efforts are directed at independent used car dealers and the vehicle purchasers we are looking for are enlisted personnel of the U.S. Armed Forces. The following table sets forth the geographical sources of the automobile contracts purchased by us (based on the addresses of the customers as stated on our records) during the years ended December 31, 2006 and 2005.

Contracts Purchased During the Year Ended (1)

	December 31, 2006		December 31, 2005	
	Number	Percent (2)	Number	Percent (2)
Texas	7,004	10.9%	4,734	10.7%
California	5,887	9.2%	3,981	9.0%
Florida	5,100	7.9%	3,151	7.1%
Ohio	4,758	7.4%	3,311	7.5%
Pennsylvania	3,642	5.7%	2,732	6.2%
Illinois	2,950	4.6%	2,188	4.9%
North Carolina	2,864	4.5%	2,003	4.5%
Michigan	2,791	4.3%	1,883	4.2%
Louisiana	2,755	4.3%	2,268	5.1%
New York	2,732	4.3%	1,617	3.6%
Kentucky	2,180	3.4%	1,851	4.2%
Maryland	2,107	3.3%	1,933	4.4%
Virginia	1,678	2.6%	1,379	3.1%
New Jersey	1,543	2.4%	667	1.5%
Other States	16,210	25.2%	10,678	24.1%
Total	64,201	100.0%	44,376	100.0%

(1) AUTOMOBILE CONTRACTS PURCHASED BY TFC AFTER THE TFC MERGER ARE NOT INCLUDED BECAUSE SUCH PURCHASES ACCOUNTED FOR LESS THAN 10% OF THE TOTAL PURCHASES DURING THE YEAR.
(2) PERCENTAGES MAY NOT TOTAL TO 100.0% DUE TO ROUNDING.

We purchase automobile contracts under our programs from dealers at a price generally equal to the total amount financed under the automobile contracts, adjusted for an acquisition fee, which may either increase or decrease the automobile contract purchase price paid by us. The amount of the acquisition fee, and whether it results in an increase or decrease to the automobile contract purchase price, is based on the perceived credit risk of and, in some cases, the interest rate on the automobile contract. For the years ended December 31, 2006, 2005 and 2004, the average acquisition fee charged per automobile contract purchased under our programs was $241, $150 and $226, respectively, or 1.6%, 1.0% and 1.6%, respectively, of the amount financed.

We offer seven different financing programs to our dealership customers, and price each program according to the relative credit risk. We offer programs covering a wide band of the credit spectrum. Our upper credit tier products, which are our Preferred, Super Alpha, Alpha Plus and Alpha programs accounted for approximately 78% and 82% of our new contract originations in 2006 and 2005, respectively, in each case measured by aggregate amount financed.

The following table identifies the credit program, sorted from highest to lowest credit quality, under which we purchased automobile contracts during the years ended December 31, 2006, 2005 and 2004.

	Contracts Purchased (1) During the Year Ended				
	December 31, 2006		December 31, 2005		Decem
	AMOUNT FINANCED	PERCENT (2)	AMOUNT FINANCED	PERCENT (2)	AMOUNT FINANCED
			(dollars in thousands)		

Preferred	$ 30,700	3.1%	$ 13,735	2.1%	$ 6,27
Super Alpha	120,118	12.2%	78,030	11.8%	34,13
Alpha Plus	178,371	18.1%	135,926	20.6%	70,78
Alpha	444,775	45.0%	314,444	47.6%	233,52
Standard	85,190	8.6%	67,293	10.2%	36,56
Mercury / Delta	77,481	7.8%	20,346	3.1%	9,98
First Time Buyer	50,893	5.2%	30,329	4.6%	17,65
	$ 987,528	100.0%	$ 660,103	100.0%	$ 408,91

(1) AUTOMOBILE CONTRACTS PURCHASED BY TFC AFTER THE TFC MERGER ARE NOT INCLUDED BECAUSE SUCH PURCHASES ACCOUNTED FOR LESS THAN 10% OF THE TOTAL PURCHASES DURING THE YEAR.
(2) PERCENTAGES MAY NOT TOTAL TO 100.0% DUE TO ROUNDING.

We attempt to control misrepresentation regarding the customer's credit worthiness by carefully screening the automobile contracts we purchase, by establishing and maintaining professional business relationships with dealers, and by including certain representations and warranties by the dealer in the dealer agreement. Pursuant to the dealer agreement, we may require the dealer to repurchase any automobile contract in the event that the dealer breaches our representations or warranties. There can be no assurance, however, that any dealer will have the willingness or the financial resources to satisfy our repurchase obligations to us.

In addition to our purchases of installment contracts from dealers, we purchased in 2006 an immaterial number of vehicle purchase money loans, evidenced by promissory notes and security agreements. A non-affiliated lender originated all such loans directly to vehicle purchasers, and sold the loans to us. We plan to begin financing vehicle purchases by direct loans to consumers in 2007, on terms similar to those that we offer through dealers, though without a down payment requirement. There can be no assurance as to the extent to which we will in fact make any such loans, nor as to their future performance.

UNDERWRITING

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

We believe that our underwriting criteria enable us to evaluate effectively the creditworthiness of sub-prime customers and the adequacy of the financed vehicle as security for an automobile contract. The underwriting criteria include standards for price, term, amount of down payment, installment payment and interest rate; mileage, age and type of vehicle; principal amount of the automobile contract in relation to the value of the vehicle; customer income level, employment and residence stability, credit history and debt service ability, as well as other factors. Specifically, the underwriting guidelines for our CPS programs generally limit the maximum principal amount of a purchased automobile contract to 115% of wholesale book value in the case of used vehicles or to 115% of the manufacturer's invoice in the case of new vehicles, plus, in each case, sales tax, licensing and, when the customer purchases such additional items, a service contract or a credit life or disability policy. We generally do not finance vehicles that are more than eight model years old or have in excess of 85,000 miles. Under most of our programs, the maximum term of a purchased contract is 72 months; a shorter maximum term may be applicable based on the mileage and age of the vehicle. Automobile contracts with the maximum term of 72 months may be purchased if the customer is among the more creditworthy of our obligors and the vehicle is generally not more than two model years old and has less than 45,000 miles. Automobile contract purchase criteria are subject to change from time to time as circumstances may warrant. Upon receiving the vehicle and customer information with the customer's application, our underwriters verify the customer's employment, residency, and credit information by contacting various parties noted on the customer's application, credit information bureaus and other sources. In addition, prior to purchasing an automobile contract, we contact each customer by telephone to confirm that the customer understands and agrees to the terms of the related automobile contract. During this "welcome call," we also ask the customer a series of open ended questions about his application and the contract to uncover any potential misrepresentations.

CREDIT SCORING. We use a proprietary scoring model to assign each automobile contract a "credit score" at the time the application is received from the dealer and the customer's credit information is retrieved from the credit reporting agencies. The credit score is based on a variety of parameters including the customer's credit history, employment and residence stability, income, and monthly payment amount,. Our score also considers the loan-to-value ratio and the age and mileage of the vehicle. We have developed the credit score utilizing statistical risk management techniques and historical performance data from our managed portfolio. We believe this improves our allocation of credit evaluation resources, and more effectively manages the risk inherent in the sub-prime market.

CHARACTERISTICS OF CONTRACTS. All of the automobile contracts purchased by us are fully amortizing and provide for level payments over the term of the automobile contract. All automobile contracts may be prepaid at any time without penalty. The average original principal amount financed, under the CPS programs and in the year ended December 31, 2006, was $15,382, with an average original term of 63 months and an average down payment amount of 12.3%. Based on information contained in customer applications for this 12-month period, the retail purchase price of the related automobiles averaged $15,667 (which

excludes tax, license fees and any additional costs such as a maintenance contract), the average age of the vehicle at the time the automobile contract was purchased was 3 years, and our customers averaged approximately 38 years of age, with approximately $40,440 in average annual household income and an average of 5 years history with his or her current employer. Because our TFC programs are directed towards enlisted military personnel, contracts purchased under the TFC programs tend to have smaller balances and the purchasers are generally younger and have lower incomes.

DEALER COMPLIANCE. The dealer agreement and related assignment contain representations and warranties by the dealer that an application for state registration of each financed vehicle, naming us as secured party with respect to the vehicle, was effected at the time of sale of the related automobile contract to us, and that all necessary steps have been taken to obtain a perfected first priority security interest in each financed vehicle in favor of us under the laws of the state in which the financed vehicle is registered.

SERVICING AND COLLECTION

We currently service all automobile contracts that we own as well as those automobile contracts that are included in portfolios that we have sold to off balance sheet securitization trusts or in the SeaWest third party portfolio. We organize our servicing activities based on the tasks performed by our personnel. Our servicing activities consist of mailing monthly billing statements; collecting, accounting for and posting of all payments received; responding to customer inquiries; taking all necessary action to maintain the security interest granted in the financed vehicle or other collateral; investigating delinquencies; communicating with the customer to obtain timely payments; repossessing and liquidating the collateral when necessary; collecting deficiency balances; and generally monitoring each automobile contract and the related collateral. We are typically entitled to receive a base monthly servicing fee between 2.5% and 3.5% per annum computed as a percentage of the declining outstanding principal balance of the non-charged-off automobile contracts in the securitization pools. The servicing fee is included in interest income for on balance sheet financings.

COLLECTION PROCEDURES. We believe that our ability to monitor performance and collect payments owed from sub-prime customers is primarily a function of our collection approach and support systems. We believe that if payment problems are identified early and our collection staff works closely with customers to address these problems, it is possible to correct many of problems before they deteriorate further. To this end, we utilize pro-active collection procedures, which include making early and frequent contact with delinquent customers; educating customers as to the importance of maintaining good credit; and employing a consultative and customer service approach to assist the customer in meeting his or her obligations, which includes attempting to identify the underlying causes of delinquency and cure them whenever possible. In support of our collection activities, we maintain a computerized collection system specifically designed to service automobile contracts with sub-prime customers and similar consumer obligations.

With the aid of our automatic dialer, as well as manual efforts made by collection staff, we attempt to make telephonic contact with delinquent customers from one to 15 days after their monthly payment due date, depending on our proprietary behavioral assessment of the customer's likelihood of payment during early stages of delinquency. Using coded instructions from a collection supervisor, the automatic dialer will attempt to contact customers based on their physical location, stage of delinquency, size of balance or other parameters. If the automatic dialer obtains a "no answer" or a busy signal, it records the attempt on the customer's record and moves on to the next call. If a live voice answers the automatic dialer's call, the call is transferred to a waiting collector as the customer's pertinent information is simultaneously displayed on the collector's workstation. The collector then inquires of the customer the reason for the delinquency and when we can expect to receive the payment. The collector will attempt to get the customer to make a promise for the delinquent payment for a time generally not to exceed one week from the date of the call. If the customer makes such a promise, the account is routed to a promise queue and is not contacted until the outcome of the promise is known. If the payment is made by the promise date and the account is no longer delinquent, the account is routed out of the collection system. If the payment is not made, or if the payment is made, but the account remains delinquent, the account is returned to the queue for subsequent contacts.

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

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

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

We generally charge off the balance of any contract by the earlier of the end of the month in which the automobile contract becomes five scheduled installments past due or, in the case of repossessions, the month that the proceeds from the liquidation of the financed vehicle are received by us or if the vehicle has been in repossession inventory for more than three months. In the case of repossession, the amount of the charge-off is the difference between the outstanding principal balance of the defaulted automobile contract and the net repossession sale proceeds.

CREDIT EXPERIENCE

Our financial results are dependent on the performance of the automobile contracts in which we retain an ownership interest. The tables below document the delinquency, repossession and net credit loss experience of all automobile contracts that we are servicing (excluding contracts from the SeaWest third party portfolio) as of the respective dates shown. Credit experience for us, 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.

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DELINQUENCY EXPERIENCE (1)
CPS, MFN, TFC AND SEAWEST COMBINED

	DECEMBER 31, 2006	DECEMBER 31, 2004	D

	NUMBER OF CONTRACTS	AMOUNT	NUMBER OF CONTRACTS	AMOUNT	NUMB CONT
DELINQUENCY EXPERIENCE			(DOLLARS IN THOUSANDS)		
Gross servicing portfolio (1)	126,574	$1,568,329	95,689	$1,116,534	
Period of delinquency (2)					
31-60 days	3,275	37,328	2,367	24,047	
61-90 days	1,367	14,903	1,057	10,156	
91+ days	1,035	10,301	1,031	7,946	
Total delinquencies (2)	5,677	62,532	4,455	42,149	
Amount in repossession (3)	2,148	24,135	1,335	13,531	
Total delinquencies and amount in repossession (2)	7,825	$ 86,667	5,790	$ 55,680	
Delinquencies as a percentage of gross servicing portfolio	4.5 %	4.0 %	4.7 %	3.8 %	
Total delinquencies and amount in repossession as a percentage of gross servicing portfolio	6.2 %	5.5 %	6.1 %	5.0 %	
EXTENSION EXPERIENCE					
Contracts with One Extension (4)	12,318	$ 128,386	10,602	$ 95,412	
Contracts with Two or More Extensions (4)	3,183	24,978	4,575	29,428	
Total Contracts with Extensions	15,501	$ 153,364	15,177	$ 124,840	

(1) ALL AMOUNTS AND PERCENTAGES ARE BASED ON THE AMOUNT REMAINING TO BE REPAID ON EACH AUTOMOBILE CONTRACT, INCLUDING, FOR PRE-COMPUTED AUTOMOBILE CONTRACTS, ANY UNEARNED INTEREST. THE INFORMATION IN THE TABLE REPRESENTS THE GROSS PRINCIPAL AMOUNT OF ALL AUTOMOBILE CONTRACTS WE PURCHASED, INCLUDING AUTOMOBILE CONTRACTS WE SUBSEQUENTLY SOLD IN SECURITIZATION TRANSACTIONS THAT WE CONTINUE TO SERVICE. THE TABLE DOES NOT INCLUDE THE SEAWEST THIRD PARTY PORTFOLIO (AUTOMOBILE CONTRACTS THAT WE SERVICE ON BEHALF OF SEAWEST SECURITIZATIONS, BUT DO NOT OWN).

(2) WE CONSIDER AN AUTOMOBILE CONTRACT DELINQUENT WHEN AN OBLIGOR FAILS TO MAKE AT LEAST 90% OF A CONTRACTUALLY DUE PAYMENT BY THE FOLLOWING DUE DATE, WHICH DATE MAY HAVE BEEN EXTENDED WITHIN LIMITS SPECIFIED IN THE SERVICING AGREEMENTS. THE PERIOD OF DELINQUENCY IS BASED ON THE NUMBER OF DAYS PAYMENTS ARE CONTRACTUALLY PAST DUE. AUTOMOBILE CONTRACTS LESS THAN 31 DAYS DELINQUENT ARE NOT INCLUDED.

(3) AMOUNT IN REPOSSESSION REPRESENTS THE CONTRACT BALANCE ON FINANCED VEHICLES THAT HAVE BEEN REPOSSESSED BUT NOT YET LIQUIDATED. THIS AMOUNT IS NOT NETTED WITH THE SPECIFIC RESERVE TO ARRIVE AT THE ESTIMATED ASSET VALUE LESS COSTS TO SELL.

(4) THE AGING CATEGORIES SHOWN IN THE TABLES REFLECT THE EFFECT OF EXTENSIONS.

EXTENSIONS

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

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

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
	(DOLLARS IN THOUSANDS)		
CPS, MFN, TFC and SeaWest Combined			
Average servicing portfolio outstanding............	$ 1,367,935	$ 966,295	$ 796,436
Net charge-offs as a percentage of average servicing portfolio (2)...........................	4.5 %	5.3 %	7.8 %

(1) ALL AMOUNTS AND PERCENTAGES ARE BASED ON THE PRINCIPAL AMOUNT SCHEDULED TO BE PAID ON EACH AUTOMOBILE CONTRACT, NET OF UNEARNED INCOME ON PRE-COMPUTED AUTOMOBILE CONTRACTS. THE INFORMATION IN THE TABLE REPRESENTS ALL AUTOMOBILE CONTRACTS SERVICED BY US, EXCLUDING THE SEAWEST THIRD PARTY PORTFOLIO (AUTOMOBILE CONTRACTS ORIGINATED BY SEAWEST FOR WHICH WE ARE THE SERVICER BUT HAVE NO EQUITY INTEREST).

(2) NET CHARGE-OFFS INCLUDE THE REMAINING PRINCIPAL BALANCE, AFTER THE APPLICATION OF THE NET PROCEEDS FROM THE LIQUIDATION OF THE VEHICLE (EXCLUDING ACCRUED AND UNPAID INTEREST) AND AMOUNTS COLLECTED SUBSEQUENT TO THE DATE OF CHARGE-OFF, INCLUDING SOME RECOVERIES WHICH HAVE BEEN CLASSIFIED AS OTHER INCOME IN THE ACCOMPANYING FINANCIAL STATEMENTS.

SECURITIZATION OF AUTOMOBILE CONTRACTS

We purchase automobile contracts with the intention of financing them on a long-term basis through securitizations. All such securitizations have involved identification of specific automobile contracts, sale of those automobile contracts (and associated rights) to a special purpose subsidiary, and issuance of asset-backed securities to fund the transactions. Upon the securitization of a portfolio of automobile contracts, we retain the obligation to service the contracts, and receive a monthly fee for doing so. We have been a regular issuer of asset-backed securities since 1994, completing 43 securitizations totaling over $5.0 billion through December 31, 2006. Depending on the structure of the securitization, the transaction may be treated as a sale of the automobile contracts or as a secured financing for financial accounting purposes. Since the third quarter of 2003, we have structured our securitizations as secured financings rather than as sales of contracts.

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

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

Prior to a securitization transaction, we fund our automobile contract purchases primarily with proceeds from warehouse credit facilities. As of December 31, 2006, we had $400 million in warehouse credit capacity, in the form of two $200 million facilities. Both warehouse credit facilities provide funding for automobile contracts purchased under the CPS programs, while one facility also provides funding for automobile contracts purchased under the TFC programs. Up to 83% of the principal balance of the automobile contracts may be advanced to us under these facilities, subject to collateral tests and certain other conditions and covenants. Subsequent to year-end, we amended our warehouse facilities to permit issuance of subordinated debt to additional lenders. The result is to increase the effective advance rate to as high as 93%. Long-term financing for the automobile contract purchases is achieved through securitization transactions and the proceeds from such securitization transactions are used primarily to repay the warehouse credit facilities.

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

Whether a securitization is treated as a secured financing or as a sale for financial accounting purposes, the related special purpose subsidiary may be unable to release excess cash to us if the credit performance of the securitized automobile contracts falls short of pre-determined standards. Such releases represent a material portion of the cash that we use to fund our operations. An unexpected deterioration in the performance of securitized automobile contracts could therefore have a material adverse effect on both our liquidity and results of operations, regardless of whether such automobile contracts are treated as having been sold or as having been financed. For estimation of the magnitude of such risk, it may be appropriate to look to the size of our "managed portfolio," which represents both financed and sold automobile contracts as to which such credit risk is retained. Our managed portfolio as of December 31, 2006 was approximately $1.6 billion (this amount includes $3.8 million related to the SeaWest third party portfolio, on which we earn only servicing fees and have no credit risk).

COMPETITION

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

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

REGULATION

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

Although we believe that we are currently in material compliance with applicable statutes and regulations, there can be no assurance that we will be able to maintain such compliance. The past or future failure to comply with such statutes and regulations could have a material adverse effect upon us. Furthermore, the adoption of additional statutes and regulations, changes in the interpretation and enforcement of current statutes and regulations or the expansion of our business into jurisdictions that have adopted more stringent regulatory requirements than those in which we currently conduct business could have a material adverse effect upon us. In addition, due to the consumer-oriented nature of the industry in which we operate and the application

of certain laws and regulations, industry participants are regularly named as defendants in litigation involving alleged violations of federal and state laws and regulations and consumer law torts, including fraud. Many of these actions involve alleged violations of consumer protection laws. A significant judgment against us or within the industry in connection with any such litigation could have a material adverse effect on our financial condition, results of operations or liquidity.

EMPLOYEES

As of December 31, 2006, we had 789 employees. The breakdown of the employees is as follows: 6 are senior management personnel, 420 are collections personnel, 168 are automobile contract origination personnel, 113 are marketing personnel (94 of whom are marketing representatives), 56 are operations and systems personnel, and 26 are administrative personnel. We believe that our relations with our employees are good. We are not a party to any collective bargaining agreement.

ITEM 1A. RISK FACTORS

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

RISKS RELATED TO OUR BUSINESS

WE REQUIRE A SUBSTANTIAL AMOUNT OF CASH TO SERVICE OUR SUBSTANTIAL DEBT.

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

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

Depending upon the outcome of one or more of these factors, we may not be able to generate sufficient cash flow from operations or obtain sufficient funding to satisfy all of our obligations. If we were unable to pay our debts, we would be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring our indebtedness or selling additional equity capital. These alternative strategies might not be feasible at the time, might prove inadequate or could require the prior consent of our secured and unsecured lenders.

WE NEED SUBSTANTIAL LIQUIDITY TO OPERATE OUR BUSINESS.

We have historically funded our operations principally through internally generated cash flows, sales of debt and equity securities, including through securitizations and warehouse credit facilities, borrowings under senior subordinated debt agreements and sales of subordinated notes. However, we may not be able to obtain sufficient funding for our future operations from such sources. If we were unable to access the capital markets or obtain other acceptable financing, our results of operations, financial condition and cash flows would be materially and adversely affected. We require a substantial amount of cash liquidity to operate our business. Among other things, we use such cash liquidity to:

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

OUR RESULTS OF OPERATIONS WILL DEPEND ON OUR ABILITY TO SECURE AND MAINTAIN ADEQUATE CREDIT AND WAREHOUSE FINANCING ON FAVORABLE TERMS.

We depend on warehouse credit facilities to finance our purchases of automobile contracts. Our business strategy requires that these warehouse credit facilities continue to be available to us from the time of purchase or origination of an automobile contract until it is financed through a securitization.

Our primary sources of day-to-day liquidity are our warehouse credit facilities, in which we sell and contribute automobile contracts, as often as twice a week, to affiliated special-purpose entities, where they are "warehoused" until they are securitized, at which time funds advanced under one or more warehouse credit facilities are repaid from the proceeds of the securitizations. The special-purpose entities obtain the funds to purchase these contracts by pledging the contracts to a trustee for the benefit of warehouse lenders, who advance funds to our affiliated special-purpose entities based on the dollar amount of the contracts pledged. We depend substantially on two warehouse credit facilities: (i) a $200 million warehouse credit facility, which we established in November 2005 and, unless earlier renewed or terminated upon the occurrence of certain events, which will expire in November 2007; and (ii) a $200 million warehouse credit facility, which we established in June 2004 and which, unless renewed or earlier terminated upon the occurrence of certain events, will expire in June 2007. Each of these facilities may be renewed by mutual agreement between the lender and us. These warehouse credit facilities will remain available to us only if, among other things, we comply with certain financial covenants contained in the documents governing these facilities. These warehouse credit facilities may not be available to us in the future and we may not be able to obtain other credit facilities on favorable terms to fund our operations.

If we were unable to arrange new warehousing or other credit facilities or renew our existing warehouse credit facilities when they come due, our results of operations, financial condition and cash flows would be materially and adversely affected.

OUR RESULTS OF OPERATIONS WILL DEPEND ON OUR ABILITY TO SECURITIZE OUR PORTFOLIO OF AUTOMOBILE CONTRACTS.

We are dependent upon our ability to continue to finance pools of automobile contracts in securitizations in order to generate cash proceeds for new purchases of automobile contracts. We have historically depended on securitizations of automobile contracts to provide permanent financing of those contracts. By "permanent financing" we mean financing that extends to cover the full term during which the underlying contracts are outstanding. By contrast, our warehouse credit facilities permit us to borrow against the value of such receivables only for limited periods of time. Our past practice and future plan has been and is to repay loans made to us under our warehouse credit facilities with the proceeds of securitizations. There can be no assurance that any securitization transaction will be available on terms acceptable to us, or at all. The timing of any securitization transaction is affected by a number of factors beyond our control, any of which could cause substantial delays, including, without limitation:

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

Adverse changes in the market for securitized pools of automobile contracts may result in our inability to securitize automobile contracts and may result in a substantial extension of the period during which our automobile contracts are financed through our warehouse credit facilities, which would burden our financing capabilities, could require us to curtail our purchase of, or find an alternative source of financing for, such automobile contracts and would have a material adverse effect on our results of operations.

OUR RESULTS OF OPERATIONS WILL DEPEND ON CASH FLOWS FROM OUR RESIDUAL INTERESTS IN OUR SECURITIZATION PROGRAM AND OUR WAREHOUSE CREDIT FACILITIES.

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

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

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

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

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

IF WE ARE UNABLE TO OBTAIN CREDIT ENHANCEMENT FOR OUR SECURITIZATIONS OR OUR WAREHOUSE CREDIT FACILITIES UPON FAVORABLE TERMS, OUR RESULTS OF OPERATIONS WOULD BE IMPAIRED.

In our securitizations, we typically utilize credit enhancement in the form of one or more financial guaranty insurance policies issued by financial guaranty insurance companies. Each of these policies unconditionally and irrevocably guarantees certain interest and principal payments on the senior classes of the securities issued in our securitizations. These guarantees enable these securities to achieve the highest credit rating available. This form of credit enhancement reduces the costs of our securitizations relative to alternative forms of credit enhancement currently available to us. None of such financial guaranty insurance companies is required to insure future securitizations. As we pursue future securitizations, we may not be able to obtain:

- credit enhancement in any form from financial guaranty insurance companies or any other provider of credit enhancement on terms acceptable to us, or at all; or
- similar ratings for senior classes of securities to be issued in future securitizations.

If We Were Unable to Obtain Such Enhancements or Such Ratings, We Would Expect To Incur Increased Interest Expense, Which Would adversely Affect Our Results of Operations.

IF WE ARE UNABLE TO SUCCESSFULLY COMPETE WITH OUR COMPETITORS, OUR RESULTS OF OPERATIONS MAY BE IMPAIRED.

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

IF OUR DEALERS DO NOT SUBMIT A SUFFICIENT NUMBER OF SUITABLE AUTOMOBILE CONTRACTS TO US FOR PURCHASE, OUR RESULTS OF OPERATIONS MAY BE IMPAIRED.

We are dependent upon establishing and maintaining relationships with a large number of unaffiliated automobile dealers to supply us with automobile contracts. During the year ended December 31, 2006, no dealer accounted for more than 1.0% of the contracts we purchased. The agreements we have with dealers to purchase contracts do not require dealers to submit a minimum number of contracts for purchase. The failure of dealers to submit contracts that meet our underwriting criteria could result in reductions in our revenues or the cash flows available to us, and, therefore, could have an adverse effect on our results of operations.

IF A SIGNIFICANT NUMBER OF OUR AUTOMOBILE CONTRACTS PREPAY OR EXPERIENCE DEFAULTS, OUR RESULTS OF OPERATIONS MAY BE IMPAIRED.

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

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

Our servicing income can also be adversely affected by prepayment of, or defaults under, automobile contracts in our non-consolidated servicing portfolio. Our contractual servicing revenue is based on a percentage of the outstanding principal balance of the automobile contracts in our servicing portfolio. If automobile contracts are prepaid or charged off, then our servicing revenue will decline, while our servicing costs may not decline proportionately. In addition unexpected levels of defaults or losses may trigger changes in the terms applicable to our securitizations and warehouse credit facilities, which could adversely affect our cash flows, our revenues, or both.

The value of our residual interest in the securitized assets in each securitization treated as a sale for financial accounting purposes (securitizations entered into prior to the beginning of the third quarter of 2003) reflects our estimate of expected future credit losses and prepayments for the automobile contracts included in that securitization. If actual rates of credit loss or prepayments, or both, on such automobile contracts exceed our estimates, the value of our residual interest and the related cash flow would be impaired, and we would be required to record an impairment charge, which would reduce our earnings. We periodically review our credit loss and prepayment assumptions relative to the performance of the securitized automobile contracts and to market conditions. Our results of operations and liquidity could be adversely affected if actual credit loss or prepayment levels on securitized automobile contracts substantially exceed anticipated levels.

Higher credit losses than anticipated could also result in adverse changes in the structure of future securitization transactions, such as a requirement of increased cash collateral or other credit enhancement in such transactions.

IF WE LOSE SERVICING RIGHTS ON OUR PORTFOLIO OF AUTOMOBILE CONTRACTS, OUR RESULTS OF OPERATIONS WILL BE IMPAIRED.

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

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

The loss of our servicing rights could materially and adversely affect our results of operations, financial condition and cash flows. Our results of operations, financial condition and cash flows, would be materially and adversely affected if we were to be terminated as servicer with respect to a material portion of the automobile contracts for which we are receiving servicing fees.

IF WE LOSE KEY PERSONNEL, OUR RESULTS OF OPERATIONS MAY BE IMPAIRED.

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

IF WE FAIL TO COMPLY WITH REGULATIONS, OUR RESULTS OF OPERATIONS MAY BE IMPAIRED.

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

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

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

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

IF WE EXPERIENCE UNFAVORABLE LITIGATION RESULTS, OUR RESULTS OF OPERATIONS MAY BE IMPAIRED.

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

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

IF WE EXPERIENCE PROBLEMS WITH OUR ORIGINATIONS, ACCOUNTING OR COLLECTION SYSTEMS, OUR RESULTS OF OPERATIONS MAY BE IMPAIRED.

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

WE HAVE SUBSTANTIAL INDEBTEDNESS.

We have and will continue to have a substantial amount of indebtedness. At December 31, 2006, we had approximately $1,586.0 million of debt outstanding. Such debt consisted primarily of $1,443.0 million of securitization trust debt, and also included $73.0 million of warehouse indebtedness, $31.4 million of residual interest financing, $25.0 million owed to a related party, and $13.6 million owed under a subordinated notes program. We are also currently offering the subordinated notes to the public on a continuous basis, and such notes have maturities that range from three months to ten years.

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

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

Although we believe we are able to service and repay such debt, there is no assurance that we will be able to do so. If we do not generate sufficient operating profits, our ability to make required payments on our debt would be impaired. Further, our ability to repay when due the $25.0 million owed to a related party is dependent on our ability to obtain replacement financing prior to its May 2007 maturity, or to extend the maturity date. Failure to pay that debt when due could have a material adverse effect.

BECAUSE WE ARE SUBJECT TO MANY RESTRICTIONS IN OUR EXISTING CREDIT FACILITIES AND SECURITIZATION TRANSACTIONS, OUR ABILITY TO PAY DIVIDENDS OR ENGAGE IN SPECIFIED TRANSACTIONS MAY BE IMPAIRED.

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

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

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

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

RISKS RELATED TO GENERAL FACTORS

IF THE ECONOMY OF ALL OR CERTAIN REGIONS OF THE UNITED STATES SLOWS OR ENTERS INTO A RECESSION, OUR RESULTS OF OPERATIONS MAY BE IMPAIRED.

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

OUR RESULTS OF OPERATIONS MAY BE IMPAIRED AS A RESULT OF NATURAL DISASTERS.

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

IF AN INCREASE IN INTEREST RATES RESULTS IN A DECREASE IN OUR CASH FLOW FROM EXCESS SPREAD, OUR RESULTS OF OPERATIONS MAY BE IMPAIRED.

Our profitability is largely determined by the difference, or "spread," between the effective interest rate received by us on the automobile contracts that we acquire and the interest rates payable under our warehouse credit facilities and on the asset-backed securities issued in our securitizations.

Several factors affect our ability to manage interest rate risk. Specifically, we are subject to interest rate risk during the period between when automobile contracts are purchased from dealers and when such contracts are sold and financed in a securitization. Interest rates on our warehouse credit facilities are adjustable while the interest rates on the automobile contracts are fixed. Therefore, if interest rates increase, the interest we must pay to the lenders under our warehouse credit facilities is likely to increase while the interest realized by us from those warehoused automobile contracts remains the same, and thus, during the warehousing period, the excess spread cash flow received by us would likely decrease. Additionally, contracts warehoused and then securitized during a rising interest rate environment may result in less excess spread cash flow realized by us under those securitizations as,

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historically, our securitization facilities pay interest to security holders on a fixed rate basis set at prevailing interest rates at the time of the closing of the securitization, which may be several months after the securitized contracts were originated and entered the warehouse, while our customers pay fixed rates of interest on the contracts, set at the time they purchase the underlying vehicles. A decrease in excess spread cash flow could adversely affect our earnings and cash flow.

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

THE EFFECTS OF TERRORISM AND MILITARY ACTION MAY IMPAIR OUR RESULTS OF OPERATIONS.

The long-term economic impact of the events of September 11, 2001, possible future terrorist attacks or other incidents and related military action, or current or future military action by United States forces in Iraq and other regions, could have a material adverse effect on general economic conditions, consumer confidence, and market liquidity in the United States. No assurance can be given as to the effect of these events on the performance of our automobile contracts. Any adverse impact resulting from these events could materially affect our results of operations, financial condition and cash flows. In addition, activation of a substantial number of U.S. military reservists or members of the National Guard may significantly increase the proportion of contracts whose interest rates are reduced by the application of the Servicemembers' Civil Relief Act, which provides, generally, that an obligor who is covered by that act may not be charged interest on the related contract in excess of 6% annually during the period of the obligor's active duty.

RISKS RELATED TO OUR COMMON STOCK

OUR COMMON STOCK IS THINLY-TRADED.

Our stock is thinly-traded, which means investors will have limited opportunities to sell their shares of common stock in the open market. Limited trading of our common stock also contributes to more volatile price fluctuations. Because there historically has been low trading volume in our common stock, there can be no assurance that our stock price will not decline as additional shares are sold in the public market. As of December 31, 2006, all of our directors and executive officers and a related party beneficially owned 8,449,114 shares of our common stock, or approximately 28%.

WE DO NOT INTEND TO PAY DIVIDENDS ON OUR COMMON STOCK.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. Even if we were to change our intention, the terms of our secured debt prohibit us from paying any dividends to our shareholders without the consent of the holder of such secured debt, which may be withheld in its sole discretion. See "Dividend Policy. "

FORWARD-LOOKING STATEMENTS

Discussions of certain matters contained in this report may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Exchange Act, and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the business environment in which we operate, projections of future performance, perceived opportunities in the market and statements regarding our mission and vision. You can generally identify forward-looking statements as statements containing the words "will," "would," "believe," "may," "could," "expect," "anticipate," "intend," "estimate," "assume" or other similar expressions. Our actual results, performance and achievements may differ materially from the results, performance and achievements expressed or implied in such forward-looking statements. The discussion under "Risk Factors" identifies some of the factors that might cause such a difference, including the following:

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTY

The Company's headquarters are located in Irvine, California, where it leases approximately 115,000 square feet of general office space from an unaffiliated lessor. The annual base rent was approximately $1.9 million through October 2003, and increased to $2.1 million for the following five years. In addition to base rent, the Company pays the property taxes, maintenance and other expenses of the premises.

In March 1997, the Company established a branch collection facility in Chesapeake, Virginia. The Company leases approximately 28,000 square feet of general office space in Chesapeake, Virginia, at a base rent that is currently $489,228 per year, increasing to $501,542 over a 10-year term.

The remaining two regional servicing centers occupy a total of approximately 51,000 square feet of leased space in Maitland, Florida; and

Hinsdale, Illinois. The termination dates of such leases range from 2008 to 2010.

ITEM 3. LEGAL PROCEEDINGS

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

CPS subsequently settled the cross-claim of Bankers Trust by payment of $3.24 million, in February 2005. Pursuant to that settlement, the court has dismissed the cross-claim, with prejudice.

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

CPS has reached an agreement in principle with the representative of creditors in the Stanwich bankruptcy to resolve the adversary action. Under the agreement in principle, CPS would pay the bankruptcy estate $625,000 and abandon its claims against the estate, while the estate would abandon its adversary action against Mr. Pardee. A hearing to consider that agreement is scheduled for

March 2007. If approved, CPS expects that the agreement will result in (i) limitation of its exposure to Mr. Pardee to no more than some portion of his attorneys fees incurred and (ii) stays in Rhode Island being lifted, causing those cases to become active again. There can be no assurance as to these expectations nor as to whether the court will approve the proposed agreement.

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

OTHER LITIGATION. On June 2, 2004, Delmar Coleman filed a lawsuit in the circuit court of Tuscaloosa, Alabama, alleging that plaintiff Coleman was harmed by an alleged failure to refer, in the notice given after repossession of her vehicle, to the right to purchase the vehicle by tender of the full amount owed under the retail installment contract. Plaintiff seeks damages in an unspecified amount, on behalf of a purported nationwide class. CPS removed the case to federal bankruptcy court, and filed a motion for summary judgment as part of its adversary proceeding against the plaintiff in the bankruptcy court. The federal bankruptcy court granted the plaintiff's motion to send the matter back to Alabama state court. CPS appealed that ruling to the federal district court. That court ordered the bankruptcy court to decide whether the plaintiff has standing to pursue her claims, and, if standing is found, to reconsider its remand decision. The matter is currently pending before the bankruptcy court. Although we believe that we have one or more defenses to each of the claims made in this lawsuit, no discovery has yet been conducted and the case is still in its earliest stages. Accordingly, there can be no assurance as to its outcome.

In June 2004, Plaintiff Jeremy Henry filed a lawsuit against the Company in the California Superior Court, San Diego County, alleging improper practices related to the notice given after repossession of a vehicle that he purchased. Plaintiff's motion for a certification of a class has been denied, and is the subject of an appeal now before the California Court of Appeal. Irrespective of the outcome of that appeal, as to which there can be no assurance, the Company has a number of defenses that may dispose of the claims of plaintiff Henry.

In August and September 2005, two plaintiffs represented by the same law firm filed substantially identical lawsuits in the federal district court for the northern district of Illinois, each of which purports to be a class action, and each of which alleges that CPS improperly accessed consumer credit information. CPS has reached agreements in principle to settle these cases. One of the settlements has received final approval from the court and the other has received preliminary approval. Notice of the settlements has been sent to the class.

The Company has recorded a liability as of December 31, 2006 that it believes represents a sufficient allowance for legal contingencies. Any adverse judgment against the Company, if in an amount materially in excess of the recorded liability, could have a material adverse effect on the financial position of the Company.

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

No matters were submitted to our shareholders during the fourth quarter of 2006.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

CHARLES E. BRADLEY, JR., 47, has been our President and a director since our formation in March 1991, and was elected Chairman of the Board of Directors in July 2001. In January 1992, Mr. Bradley was appointed Chief Executive Officer. From April 1989 to November 1990, he served as Chief Operating Officer of Barnard and Company, a private investment firm. From September 1987 to March 1989, Mr. Bradley, Jr. was an associate of The Harding Group, a private investment banking firm. Mr. Bradley does not currently serve on the board of directors of any other publicly-traded companies.

MARK A. CREATURA, 47, has been Senior Vice President - General Counsel since October 1996. From October 1993 through October 1996, he was Vice President and General Counsel at Urethane Technologies, Inc., a polyurethane chemicals formulator. Mr. Creatura was previously engaged in the private practice of law with the Los Angeles law firm of Troy & Gould Professional Corporation, from October 1985 through October 1993.

JEFFREY P. FRITZ, 47, has been Senior Vice President - Chief Financial Officer since April 2006. He was Senior Vice President - Accounting from August 2004 through March 2006. He served as a consultant to us from May 2004 to August 2004. Previously, he was the Chief Financial Officer of SeaWest Financial Corp. from February 2003 to May 2004, and the Chief Financial Officer of AFCO Auto

Finance from April 2002 to February 2003. He practiced public accounting with Glenn M. Gelman & Associates from March 2001 to April 2002 and was Chief Financial Officer of Credit Services Group, Inc. from May 1999 to November 2000. He previously served as our Chief Financial Officer from our inception through May 1999.

CURTIS K. POWELL, 50, has been Senior Vice President - Contract Origination since June 2001. Previously, he was our Senior Vice President - Marketing, from April 1995. He joined us in January 1993 as an independent marketing representative until being appointed Regional Vice President of Marketing for Southern California in November 1994. From June 1985 through January 1993, Mr. Powell was in the retail automobile sales and leasing business.

ROBERT E. RIEDL, 43, has been Senior Vice President - Chief Investment Officer since April 2006. Mr. Riedl was Senior Vice President - Chief Financial Officer from August 2003 until assuming his current position. Mr. Riedl joined the Company as Senior Vice President - Risk Management in January 2003. Previously, Mr. Riedl was a Principal at Northwest Capital Appreciation ("NCA"), a middle market private equity firm, from 2000 to 2002. For a year prior to joining Northwest Capital, Mr. Riedl served as Senior Vice President for one of NCA's portfolio companies, SLP Capital. Mr. Riedl was an investment banker for ContiFinancial Services Corporation from 1995 until joining SLP Capital in 1999.

CHRISTOPHER TERRY, 39, has been Senior Vice President - Servicing since May 2005, and prior to that was Senior Vice President - Asset Recovery since January 2003. He joined us in January 1995 as a loan officer, held a series of successively more responsible positions, and was promoted to Vice President - Asset Recovery in June 1999. Mr. Terry was previously a branch manager with Norwest Financial from 1990 to October 1994.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

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

	HIGH	LOW
January 1 - March 31, 2005	5.50	4.26
April 1 - June 30, 2005	5.38	3.50
July 1 - September 30, 2005	5.45	4.14
October 1 - December 31, 2005	6.50	4.82
January 1 - March 31, 2006	8.50	5.30
April 1 - June 30, 2006	8.84	6.04
July 1 - September 30, 2006	7.53	5.08
October 1 - December 31, 2006	7.46	5.30

As of February 5, 2007, there were 77 holders of record of the Company's Common Stock. To date, the Company has not declared or paid any dividends on its Common Stock. The payment of future dividends, if any, on the Company's Common Stock is within the discretion of the Board of Directors and will depend upon the Company's income, its capital requirements and financial condition, and other relevant factors. The instruments governing the Company's outstanding debt place certain restrictions on the payment of dividends. The Company does not intend to declare any dividends on its Common Stock in the foreseeable future, but instead intends to retain any cash flow for use in the Company's operations.

The table below presents information regarding outstanding options to purchase the Company's Common Stock as of December 31, 2006:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	N securit availab issuanc compe
Equity compensation plans approved by security holders	5,352,199	$ 4.11	
Equity compensation plans not approved by security holders	--	--	
Total	5,352,199	$ 4.11	

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ISSUER PURCHASES OF EQUITY SECURITIES IN THE FOURTH QUARTER

Period(1)	Total Number of Shares Purchased	Average Price Paid per Share	Total number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Appr Value May Y Unde
October 2006	113,667	$ 6.15	113,667	$
November 2006	152,028	7.12	152,028	
December 2006	74,300	6.64	74,300	
Total	339,995	$ 6.69	339,995	

(1) EACH MONTHLY PERIOD IS THE CALENDAR MONTH.
(2) OUR BOARD OF DIRECTORS HAS AUTHORIZED THE PURCHASE OF UP TO $5 MILLION OF OUR OUTSTANDING SECURITIES, WHICH PROGRAM WAS FIRST ANNOUNCED IN OUR ANNUAL REPORT FOR THE YEAR 2002, FILED ON MARCH 26, 2003. ALL PURCHASES DESCRIBED IN THE TABLE ABOVE WERE UNDER THE PLAN ANNOUNCED IN MARCH 2003, WHICH HAS NO FIXED EXPIRATION DATE. ON FEBRUARY 8, 2007, THE BOARD OF DIRECTOR'S AUTHORIZED THE PURCHASE OF AN ADDITIONAL $5 MILLION OF OUR SECURITIES, CONTINGENT UPON CONSENT FROM THE RELATED PARTY SENIOR SECURED LENDER.

ITEM 6. SELECTED FINANCIAL DATA

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

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

			As of
		For the Year End	
(dollars in thousands, except per share data)	2006	2005	200
Statement of Operations Data			
Revenues:			
Interest income	$ 263,566	$ 171,834	$ 105
Servicing fees	2,894	6,647	12
Net gain on sale of contracts	--	--	
Other income	12,403	15,216	14
Total revenues	278,863	193,697	132
Expenses:			
Employee costs	38,483	40,384	38
General and administrative	42,011	39,285	33
Interest expense	93,112	51,669	32
Provision for credit losses	92,057	58,987	32
Impairment loss on residual assets (1)	--	--	11
Total expenses	265,663	190,325	148
Income (loss) before income tax benefit	13,200	3,372	(15
Income tax benefit	(26,355)	--	
Extraordinary item, unallocated negative goodwill	--	--	
Net income (loss)	$ 39,555	$ 3,372	$ (15
Earnings (loss) per share before extraordinary item-basic	$ 1.82	$ 0.16	$ (
Earnings (loss) per share before extraordinary item-diluted	$ 1.64	$ 0.14	$ (
Earnings (loss) per share-basic	$ 1.82	$ 0.16	$ (
Earnings (loss) per share-diluted	$ 1.64	$ 0.14	$ (
Pre-tax income (loss) per share-basic (2)	$ 0.61	$ 0.16	$ (
Pre-tax income (loss) per share-diluted (3)	$ 0.55	$ 0.14	$ (
Weighted average shares outstanding-basic	21,759	21,627	21
Weighted average shares outstanding-diluted	24,052	23,513	21
BALANCE SHEET DATA			
Total assets	$ 1,728,341	$ 1,155,144	$ 766

Cash and cash equivalents	14,215	17,789	14
Restricted cash and equivalents	193,001	157,662	125
Finance receivables, net	1,401,414	913,576	550
Residual interest in securitizations	13,795	25,220	50
Warehouse lines of credit	72,950	35,350	34
Residual interest financing	31,378	43,745	22
Securitization trust debt	1,442,995	924,026	542
Long-term debt	38,574	58,655	74
Shareholders' equity	111,512	73,589	69

		As of For the Year End	
(dollars in thousands, except per share data)	2006	2005	200
CONTRACT PURCHASES/SECURITIZATIONS			
Automobile contract purchases	$ 1,019,018	$ 691,252	$ 447
Automobile contract acquisitions (4)	--	--	74
Automobile contracts securitized - structured as sales	--	--	
Automobile contracts securitized - structured as secured financings	957,681	674,421	479
MANAGED PORTFOLIO DATA			
Contracts held by consolidated subsidiaries	$ 1,527,285	$ 1,000,597	$ 619
Contracts held by non-consolidated subsidiaries	34,850	103,130	233
SeaWest third party portfolio (5)	3,770	18,018	53
Total managed portfolio	$ 1,565,905	$ 1,121,745	$ 906
Average managed portfolio	1,376,781	997,697	861
Weighted average fixed effective interest rate (total managed portfolio) (6)	18.5%	18.6%	
Core operating expense (% of average managed portfolio) (7)	5.8%	8.0%	
Allowance for loan losses	$ 79,380	$ 57,728	$ 42
Allowance for loan losses (% of total contracts held by consolidated subsidiaries)	5.2%	5.8%	
Total delinquencies (6) (8)	4.0%	3.8%	
Total delinquencies and repossessions (6) (8)	5.5%	5.0%	
Net charge-offs (6) (9)	4.5%	5.3%	

(1) THE IMPAIRMENT LOSS WAS RELATED TO OUR ANALYSIS AND ESTIMATE OF THE EXPECTED ULTIMATE PERFORMANCE OF OUR PREVIOUSLY SECURITIZED POOLS THAT WERE HELD BY OUR NON-CONSOLIDATED SUBSIDIARIES AND THE RESIDUAL INTEREST IN SECURITIZATIONS. THE IMPAIRMENT LOSS WAS A RESULT OF THE ACTUAL NET LOSS AND PREPAYMENT RATES EXCEEDING OUR PREVIOUS ESTIMATES FOR THE AUTOMOBILE CONTRACTS HELD BY OUR NON-CONSOLIDATED SUBSIDIARIES.

(2) INCOME (LOSS) BEFORE INCOME TAX BENEFIT DIVIDED BY WEIGHTED AVERAGE SHARES OUTSTANDING-BASIC. INCLUDED FOR ILLUSTRATIVE PURPOSES BECAUSE SOME OF THE PERIODS PRESENTED INCLUDE SIGNIFICANT INCOME TAX BENEFITS WHILE OTHER PERIODS HAVE NEITHER INCOME TAX BENEFIT NOR EXPENSE.

(3) INCOME (LOSS) BEFORE INCOME TAX BENEFIT DIVIDED BY WEIGHTED AVERAGE SHARES OUTSTANDING-DILUTED. INCLUDED FOR ILLUSTRATIVE PURPOSES BECAUSE SOME OF THE PERIODS PRESENTED INCLUDE SIGNIFICANT INCOME TAX BENEFITS WHILE OTHER PERIODS HAVE NEITHER INCOME TAX BENEFIT NOR EXPENSE.

(4) REPRESENTS AUTOMOBILE CONTRACTS NOT PURCHASED DIRECTLY FROM DEALERS, BUT ACQUIRED AS A RESULT OF OUR ACQUISITIONS OF MFN IN 2002, TFC IN 2003 AND OF CERTAIN ASSETS OF SEAWEST IN 2004.
(5) RECEIVABLES RELATED TO THE SEAWEST THIRD PARTY PORTFOLIO, ON WHICH WE EARN ONLY A SERVICING FEE.
(6) EXCLUDES RECEIVABLES RELATED TO THE SEAWEST THIRD PARTY PORTFOLIO.
(7) TOTAL EXPENSES EXCLUDING PROVISION FOR CREDIT LOSSES, INTEREST EXPENSE AND IMPAIRMENT LOSS ON RESIDUAL ASSETS.
(8) FOR FURTHER INFORMATION REGARDING DELINQUENCIES AND THE MANAGED PORTFOLIO, SEE THE TABLE CAPTIONED "DELINQUENCY EXPERIENCE," IN ITEM 1, PART I OF THIS REPORT AND THE NOTES TO THAT TABLE.
(9) NET CHARGE-OFFS INCLUDE THE REMAINING PRINCIPAL BALANCE, AFTER THE APPLICATION OF THE NET PROCEEDS FROM THE LIQUIDATION OF THE VEHICLE (EXCLUDING ACCRUED AND UNPAID INTEREST) AND AMOUNTS COLLECTED SUBSEQUENT TO THE DATE OF THE CHARGE-OFF, INCLUDING SOME RECOVERIES WHICH HAVE BEEN CLASSIFIED AS OTHER INCOME IN THE ACCOMPANYING FINANCIAL STATEMENTS. FOR FURTHER INFORMATION REGARDING CHARGE-OFFS, SEE THE TABLE CAPTIONED "NET CHARGE-OFF EXPERIENCE," IN ITEM I, PART I OF THIS REPORT AND THE NOTES TO THAT TABLE.

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

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

OVERVIEW

We are a specialty finance company engaged in purchasing and servicing new and used retail automobile contracts originated primarily by franchised automobile dealerships and to a lesser extent by select independent dealers of used automobiles in the United States. We serve as an alternative source of financing for dealers, facilitating sales to sub-prime customers, who have limited credit history, low income or past credit problems and who otherwise might not be able to obtain financing from traditional sources. We are headquartered in Irvine, California and have three additional servicing branches in Virginia, Florida and Illinois.

On March 8, 2002, we acquired MFN Financial Corporation and its subsidiaries in a merger. On May 20, 2003, we acquired TFC Enterprises, Inc. and its subsidiaries in a second merger. Each merger was accounted for as a purchase. MFN Financial Corporation and its subsidiaries and TFC Enterprises, Inc. and its subsidiaries were engaged in businesses similar to ours: buying automobile contracts from dealers and servicing those automobile contracts. MFN Financial Corporation and its subsidiaries ceased acquiring automobile contracts in May 2002; TFC continues to acquire automobile contracts under its "TFC Programs," which provide financing exclusively for vehicle purchases by members of the United States Armed Forces.

On April 2, 2004, we purchased a portfolio of automobile contracts and certain other assets from SeaWest Financial Corporation and its subsidiaries. In addition, we were named the successor servicer of three term securitization transactions originally sponsored by SeaWest. We do not offer financing programs similar to those previously offered by SeaWest.

From inception through June 2003, we generated revenue primarily from the gains recognized on the sale or securitization of automobile contracts, servicing fees earned on automobile contracts sold, interest earned on residuals interests retained in securitizations, and interest earned on finance receivables. Since July 2003, we have not recognized any gains from the sale of automobile contracts. Instead, since July 2003 our revenues have been derived from interest on finance receivables and, to a lesser extent, servicing fees and interest earned on residual interests in securitizations.

SECURITIZATION AND WAREHOUSE CREDIT FACILITIES

GENERALLY

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

When structured to be treated as a secured financing for accounting purposes, the subsidiary is consolidated with us. Accordingly, the sold automobile contracts and the related debt appear as assets and liabilities, respectively, on our consolidated balance sheet. We then periodically: (i) recognize interest and fee income on the contracts, (ii) recognize interest expense on the securities issued in the transaction, and (iii) record as expense a provision for credit losses on the contracts.

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

CHANGE IN POLICY

Beginning in the third quarter of 2003, we began to structure our securitization transactions so that they would be treated for financial accounting purposes as secured financings, rather than as sales. All subsequent securitizations of automobile contracts have been so structured. Prior to the third quarter of 2003, we had structured our securitization transactions to be treated as sales of automobile contracts for financial accounting purposes. In our acquisitions of MFN and TFC, we acquired automobile contracts that these companies had previously securitized in securitization transactions that were treated as secured financings for financial accounting purposes. As of December 31, 2006, our consolidated balance sheet included net finance receivables of $1.9 million related to automobile contracts acquired in the two mergers, out of totals of net finance receivables of $1,401.4 million.

CREDIT RISK RETAINED

Whether a sale of automobile contracts in connection with a securitization or warehouse credit facility is treated as a secured financing or as a sale for financial accounting purposes, the related special-purpose subsidiary may be unable to release excess cash to us if the credit performance of the related automobile contracts falls short of pre-determined standards. Such releases represent a material portion of the cash that we use to fund our operations. An unexpected deterioration in the performance of such automobile contracts could therefore have a material adverse effect on both our liquidity and our results of operations, regardless of whether such automobile contracts are treated for financial accounting purposes as having been sold or as having been financed. For estimation of the magnitude of such risk, it may be appropriate to look to the size of our "managed portfolio," which represents both financed and sold automobile contracts as to which such credit risk is retained. Our managed portfolio as of December 31, 2006 was approximately $1,565.9 million (this amount includes $3.8 million of automobile contracts securitized by SeaWest, on which we earn only servicing fees and have no credit risk).

CRITICAL ACCOUNTING POLICIES

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

ALLOWANCE FOR FINANCE CREDIT LOSSES

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

RESIDUAL INTEREST IN SECURITIZATIONS AND GAIN ON SALE OF AUTOMOBILE CONTRACTS

In transactions prior to the third quarter of 2003, we recognized gain on sale on the disposition of automobile contracts either outright, in securitization transactions, and in certain of our warehouse credit facilities. In those securitization transactions and in the warehousing transactions that were treated as sales for financial accounting purposes, we, or one of our wholly-owned, consolidated subsidiaries, retain a residual interest in the automobile contracts that were sold to a wholly-owned, unconsolidated special purpose subsidiary.

The line item "residual interest in securitizations" on our consolidated balance sheet represents the residual interests in securitizations completed prior to the third quarter of 2003. This line represents the discounted sum of expected future cash flows from these securitization trusts. Accordingly, the valuation of the residual interest is heavily dependent on estimates of future performance of the automobile contracts included in the securitizations.

We structured all subsequent securitizations and warehouse credit facilities as secured financings. The warehouse credit facilities are accordingly reflected in the line items "Finance receivables" and "Warehouse lines of credit" on our consolidated balance sheet, and the securitizations are reflected in the line items "Finance receivables" and "Securitization trust debt."

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The key economic assumptions