CONSUMER PORTFOLIO SERVICES INC
Form S-3/A
July 20, 2006

As filed with the Securities and Exchange Commission on July 20, 2006

Registration No. 333-135357

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1 to Form S-3 Registration Statement
Under the Securities Act of 1933

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, Telephone: (949) 753-6800
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

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Approximate date of commencement of proposed sale to the public: **As soon as practicable after this Registration Statement becomes effective.**

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ¨

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	**Amount to Be Registered**	**Proposed Maximum Offering Price Per Unit (1)**	**Proposed Maximum Aggregate Offering Price (1)**	**Amount of Registration Fee (2)**
Common stock, no par value	4,600,000 shares (3)	$ 6.73	$ 30,958,000	$ 3,313
Common stock, no par value	575,000 shares	$ 6.77	$ 3,892,750	$ 417

(1)

Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act, based on the average of high and low prices reported for the registrant s Common stock by the Nasdaq National Market on June 20, 2006 ($6.73 per share) and on July 14, 2006 ($6.77 per share).

(2)

A filing fee of $3,313 was paid with the filing of the Registrant s Registration Statement on June 27, 2006. An additional filing fee in the amount of $417 is being paid with the filing of this Amendment.

(3)

Includes 1,000 shares of common stock underlying a warrant to be exercised immediately prior to the consummation of this offering.

The information in this prospectus is not complete and may be changed. We have filed a registration statement with the Securities and Exchange Commission relating to the common stock. The common stock may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus is not an offer to sell the common stock, and neither we nor the selling shareholders are soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED JULY 20, 2006

PRELIMINARY PROSPECTUS

Consumer Portfolio Services, Inc.
4,500,000 Shares
Common Stock

We are a specialty finance company engaged in sub-prime automobile finance, which includes the purchase and servicing of automobile contracts originated primarily by franchised automobile dealers. We indirectly provide financing to vehicle purchasers who typically have limited or impaired credit histories that restrict their ability to obtain financing through traditional lending sources.

We are offering 500,000 shares of our common stock and two selling shareholders, Levine Leichtman Capital Partners II, L.P. and Stanwich Financial Services Corp., are offering a total of 4,000,000 shares of our common stock. We will not receive any of the proceeds from the sale of shares of common stock by the selling shareholders. Levine Leichtman Capital Partners II, L.P., one of our principal shareholders, beneficially owned approximately 18.3% of our common stock as of June 30, 2006, and also holds $40.0 million of our outstanding secured senior indebtedness. As of June 30, 2006, Stanwich Financial Services Corp. beneficially owned approximately 2.5% of our common stock.

Our common stock is traded on the Nasdaq National Market under the symbol CPSS. On July 18, 2006, the last reported sale price of our common stock on the Nasdaq National Market was $7.00 per share.

Investing in our common stock involves a high degree of risk.
See Risk Factors beginning on page 8.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us (1)	$	$
Proceeds, before expenses, to the selling shareholders (2)	$	$

(1)

We estimate that we will incur approximately $170,000 in offering expenses in connection with this offering.

(2)

We will pay all offering expenses related to the offering and sale of shares of our common stock in this offering by the selling shareholders (other than the underwriting discounts and commissions of the selling shareholders).

Neither the Securities and Exchange Commission nor any state securities commission or regulatory authority has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

We and the selling shareholders have granted the underwriter a 30-day option to purchase up to an additional 675,000 shares of our common stock to cover over-allotments, if any, at the public offering price per share, less discounts and commissions.

The underwriter expects that the shares of our common stock will be ready for delivery to purchasers on or about , 2006.

JMP Securities

The date of this prospectus is , 2006

You should rely only upon the information contained in, or incorporated into, this prospectus. We have not authorized any other person to provide you with different information. We have supplied all information contained or incorporated by reference relating to Consumer Portfolio Services, Inc. and our subsidiaries. Each selling shareholder has supplied certain information contained in this prospectus relating to that selling shareholder. If anyone provides you with different or inconsistent information, you should not rely on it. Neither we nor the selling shareholders are making an offer to sell our common stock in any jurisdiction where the offer or sale is not permitted. You should assume the information appearing in this document is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

TABLE OF CONTENTS

PROSPECTUS SUMMARY

This summary provides a brief overview of certain information found in greater detail elsewhere in this prospectus. It does not contain all the information that may be important to you in making a decision to purchase our common stock. We urge you to read the entire prospectus carefully, including Risk Factors and our consolidated financial statements and related notes, before deciding to invest in our common stock. For more complete information, you should carefully read this prospectus and the documents referred to in Where You Can Find More Information and Documents Incorporated by Reference. Unless we indicate otherwise, all information in this prospectus assumes the underwriter will not exercise its over-allotment option. Unless otherwise indicated, all references to we, us and similar terms mean Consumer Portfolio Services, Inc. and its subsidiaries.

Our Company

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 histories, low incomes or past credit problems and who otherwise might not be able to obtain financing from traditional lending sources. We do not currently lend money directly to consumers but, rather, purchase automobile contracts from dealers under several different financing programs. We are headquartered in Irvine, California and have three additional strategically located servicing branches in Virginia, Florida and Illinois.

We began our operations in October 1991. From our inception through March 31, 2006, we have purchased, in aggregate, approximately $6.3 billion of automobile contracts from dealers. In addition, we obtained a total of approximately $605.0 million of automobile contracts in three acquisitions in 2002, 2003 and 2004. We establish our relationships with dealers through our marketing representatives. As of March 31, 2006, we had 84 marketing representatives and we had active contract relationships with over 7,300 dealers in 47 states. Approximately 92% 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, 2005, approximately 81% of the automobile contracts purchased under our programs consisted of financing for used cars and 19% consisted of financing for new cars.

We purchase automobile contracts with the intention of financing them on a long-term basis through securitizations. Depending on the structure of the securitization, the transaction may be treated as a sale of the contracts or as a secured financing for financial accounting purposes. Since the third quarter of 2003, we have structured our securitization transactions to be treated as secured financings for financial accounting purposes, which means the contracts and the asset-backed notes issued remain on our balance sheet, and the interest income from the contracts and the related financing costs of the asset-backed notes are recognized over the life of the underlying pool of contracts. As of March 31, 2006, we had a total managed automobile contract portfolio of approximately $1,240.0 million, which included $1,144.3 million of automobile contracts held by subsidiaries that are consolidated on our balance sheet and $95.6 million of automobile contracts held by subsidiaries that are not consolidated on our balance sheet.

Our net income was $1.8 million, or $0.07 per diluted share, for the three months ended March 31, 2006, and $3.4 million, or $0.14 per diluted share, for the year ended December 31, 2005. As of March 31, 2006, we had $75.6 million in shareholders equity and $1,354.2 million in total assets, of which $1,050.8 million were net automobile receivables. During the three months ended March 31, 2006 and the year ended December 31, 2005, we purchased a total of $255.6 million and $691.3 million, respectively, of automobile contracts.

Our Business Strategy

Our business objective is to maximize long-term profitability by efficiently purchasing and servicing sub-prime automobile contracts that generate strong and consistent risk-adjusted returns. We achieve this objective by employing our business strategy, which includes the following key elements:

Disciplined Growth in Automobile Contract Purchases and Total Managed Portfolio. We have focused on steady origination growth by expanding our network of marketing representatives. Since 2003, we have grown the number of marketing representatives from 42 as of December 31, 2003 to 84 as of March 31, 2006. We intend to continue to grow originations by further expansion of our marketing representative network, through increased dealer penetration (that is, increasing automobile contract purchases from our current dealer base), and by developing new dealer relationships. We intend to increase dealer penetration through our recent initiatives to improve dealer service levels by decreasing our application turnaround and funding times. Our annual automobile finance contract purchases have grown from $357.3 million in fiscal year 2003, to $447.2 million in fiscal year 2004, to $691.3 million in fiscal year 2005 and to $801.5 million for the twelve months ended March 31, 2006, representing a compounded annual growth rate of 43.2%. Additionally, our managed portfolio increased from $743.5 million as of December 31, 2003 to $906.9 million as of December 31, 2004, to $1,121.7 million as of December 31, 2005, and to $1,240.0 million as of March 31, 2006, representing a compounded annual growth rate of 25.5%.

Centralized Credit Underwriting Platform Focused on Disciplined Credit Management. We underwrite all of our automobile contract purchases through a centralized process at our corporate headquarters in Irvine, California. We believe that a centralized underwriting approach enables us to maintain close control over the credit quality of our managed portfolio. During our underwriting process, we utilize a proprietary automated decisioning system that we have developed and continually enhanced over the last seven years. A major component of our automated system is a scorecard that we developed using the historical credit performance of our managed receivables portfolio. We also rely, to a lesser extent, on the judgment of our trained credit analysts to make risk-based credit and pricing decisions. Our high level of automation enhances our ability to make consistent credit decisions in a growth environment. Our credit performance has shown significant improvement with net charge-offs as a percentage of our average managed receivables portfolio equal to 6.8% for the year ended December 31, 2003, 7.8% for the year ended December 31, 2004, 5.3% for the year ended December 31, 2005, and 4.8% for the three months ended March 31, 2006.

Geographically Focused Servicing Centers Allow Operating Flexibility and Drive Portfolio Performance. We maintain four strategically located servicing centers across the country in California, Virginia, Florida, and Illinois. All four servicing centers are linked on-line with our automated collections system and accounts can be allocated between the different facilities as needed to optimize resource allocation. This strategy affords us solid time zone coverage, the ability to leverage the employee base in our four servicing locations and provides back-up capabilities for disaster scenarios. We have used performance benchmarking of the centers and internal disclosure of comparative performance data to encourage competition among our centers and to improve processes. We believe these techniques have contributed to improved delinquencies and charge-offs for the total managed portfolio.

Securitization Funding Strategy and High-Quality Earnings. We purchase automobile contracts with the intention of financing them on a long-term basis through asset-backed term securitizations. We have been a regular issuer of asset-backed securities since 1994, completing 40 asset-backed term securitizations totaling over $4.3 billion through March 31, 2006. Our securitization funding strategy provides us with an attractive cost of matched funding and allows us to mitigate interest rate risk by locking in a fixed interest rate spread at the time of securitization, since the interest received on automobile contracts and interest paid for securitization notes payable are both fixed rate obligations. Additionally, since the third quarter of 2003, we have structured our securitizations to be treated for financial accounting purposes as secured financings, rather than as sales of automobile contracts. Generally, we expect that our revenues will grow proportionately to the size of our on-balance sheet portfolio of automobile contracts, thereby generating a recurring stream of interest income. We believe this securitization structure reduces the potential earnings volatility associated with accounting for securitizations as sales of automobile contracts, and as a result, has improved the quality of our earnings.

Improved Operating Efficiency Gains Through Economies of Scale and Investments in Technology. We believe that the use of technology in both our contract origination and servicing platforms has enabled us to achieve economies of scale as we have continued to grow our managed receivables portfolio. With our existing infrastructure, we expect to continue to be positioned to support future portfolio growth with slower increases in core operating expenses (that is, total expenses excluding provision for credit losses, interest expense and impairment loss on residual assets). Our core operating expenses as a percentage of average managed receivables have declined from 10.4% for the fiscal year 2003, to 8.4% for fiscal year 2004, 8.0% for fiscal year 2005 and 6.5% annualized for the three months ended March 31, 2006.

2

Recent Developments

Announcement of Second Quarter 2006 Financial Results

On July 17, 2006, we announced our unaudited financial results for the second quarter ended June 30, 2006. Net income for the quarter ended June 30, 2006 was $2.6 million, or $0.11 per diluted share, compared to net income of $545,000, or $0.02 per diluted share, for the quarter ended June 30, 2005. Total revenues for the three months ended June 30, 2006 were $67.2 million, an increase of $19.4 million, or 40.7%, compared to $47.8 million for the three months ended June 30, 2005. Total expenses for the three months ended June 30, 2006 were $64.6 million, an increase of $17.4 million, or 36.8%, compared to $47.2 million for the three months ended June 30, 2005.

Net income for the six months ended June 30, 2006 was $4.4 million, or $0.18 per diluted share, compared to net income of $306,000, or $0.01 per diluted share, for the six months ended June 30, 2005. Total revenues for the six months ended June 30, 2006 were $125.3 million, an increase of $35.7 million, or 39.8%, compared to $89.6 million for the six months ended June 30, 2005. Total expenses for the six months ended June 30, 2006 were $120.8 million, an increase of $31.5 million, or 35.3%, compared to $89.3 million for the six months ended June 30, 2005.

During the second quarter of 2006, we purchased $268.8 million of automobile contracts from dealers as compared to $255.6 million during the first quarter of 2006 and $153.9 million during the second quarter of 2005. As of June 30, 2006, our managed receivables totaled $1,375.3 million compared to $1,240.0 million as of March 31, 2006 and $966.2 million as of June 30, 2005.

Closing of Second Quarter 2006 Securitization

On June 29, 2006, we closed the term securitization transaction for CPS Auto Receivables Trust 2006-B, issuing $226.6 million of investment grade notes backed by $257.5 million of automotive receivables originated by us. The transaction utilized a pre-funding structure, in which we sold approximately $167.9 million of automobile receivables on June 29, 2006, and sold approximately $89.6 million of additional automobile receivables on July 12, 2006. The $226.6 million of notes, issued by CPS Auto Receivables Trust 2006-B, consisted of four classes and the weighted average effective coupon on those notes is approximately 5.77%.

New Stock Option Plan

On June 15, 2006, our shareholders approved a new long-term equity incentive plan, under which we may issue stock options or other equity incentives to our directors, officers and other employees, with respect to up to 1,500,000 shares of our common stock. We have not granted any incentives under this plan as of the date of this prospectus.

The Selling Shareholders

Levine Leichtman Capital Partners II, L.P.

Levine Leichtman Capital Partners II, L.P., or Levine Leichtman, is one of our principal shareholders, and as of June 30, 2006 beneficially owned approximately 18.3% of the outstanding shares of our common stock. Levine Leichtman also holds $40.0 million of our outstanding secured senior debt securities. Levine Leichtman was formed in 1997 and acquired its shares of our common stock in connection with a series of purchases of our debt securities beginning in October 1998. We entered into a registration rights agreement, as subsequently amended and restated, with Levine Leichtman to provide registration rights covering such shares. For more information, see Selling Shareholders Registration Rights Agreement.

Stanwich Financial Services Corp.

As of June 30, 2006, Stanwich Financial Services Corp., or Stanwich, beneficially owned approximately 2.5% of the outstanding shares of our common stock. Stanwich purchased a majority of its shares of our common stock from us in a private transaction in July 1998, and acquired additional shares in March 2000 in connection with the restructuring of certain of our debt obligations to Stanwich. We entered into various registration rights agreements, as subsequently amended and consolidated, with Stanwich to provide registration rights covering such shares. For more information, see Selling Shareholders Registration Rights Agreement.

For information regarding the beneficial ownership of our common stock by the selling shareholders as of June 30, 2006 and as adjusted to reflect the sale of the common stock in this offering by the selling shareholders, see Principal and Selling Shareholders.

General Information

Our principal executive offices are located at 16355 Laguna Canyon Road, Irvine, California 92618, and our telephone number is (949) 753-6800. Our website is www.consumerportfolio.com. None of the information on or hyperlinked from our website is incorporated by reference into this prospectus.

The Offering

Common stock offered by us	500,000 shares (1)
Common stock offered by the selling shareholders	4,000,000 shares (1) (2)
Common stock to be outstanding after the offering	22,300,322 shares (1)(2) (3)
Use of proceeds	We will receive the net proceeds from the sale of 500,000 shares of our common stock, and intend to use such net proceeds for the purchase of automobile contracts and for general corporate purposes. We will not receive any proceeds from the sale of shares by the selling shareholders.
Nasdaq National Market symbol	CPSS

(1)

Excludes a 30-day option granted to the underwriter by us and by the selling shareholders to purchase up to 675,000 additional shares of common stock to cover over-allotments, if any. We granted an option to purchase up to 140,483 shares and the selling shareholders granted an option to purchase up to 534,517 shares.

(2)

Levine Leichtman is offering 3,500,000 shares and Stanwich is offering 500,000 shares of our common stock. In addition, Levine Leichtman granted to the underwriter an option to purchase up to 487,558 shares and Stanwich granted an option to purchase up to 46,959 shares of our common stock. The shares offered by Levine Leichtman include 1,000 shares that it may acquire upon exercise of a warrant.

(3)

Based on shares outstanding as of June 30, 2006. This share information does not include (a) 4,498,499 shares of common stock issuable upon the exercise of stock options outstanding as of June 30, 2006 at a weighted average exercise price of $3.44 per share, (b) 272,000 shares issuable upon exercise of a warrant at an exercise price of $4.85 per share, and (c) 1,657,131 additional shares reserved for future grants or issuances under our stock option plans. The number of shares issuable is subject to adjustment upon certain events, such as stock splits.

4

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Summary Consolidated Financial Data

The following table presents our summary 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 summary consolidated financial data together with Capitalization, Selected Consolidated Financial Data, 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 prospectus.

Statement of Operations Data	**As of and For the Three Months Ended March 31,**		**As of and For the Year Ended December 31,**		
(Dollars in thousands, except per share data)	**2006**	**2005**	**2005**	**2004**	**2003**
	(unaudited)				
Revenues:					
Interest income	$ 54,527	$ 36,172	$ 171,834	$ 105,818	$ 58,164
Servicing fees	1,005	2,264	6,647	12,480	17,058
Net gain on sale of contracts					10,421
Other income	2,492	3,397	15,216	14,394	19,343
Total revenues	58,024	41,833	193,697	132,692	104,986
Expenses:					
Employee costs	9,357	10,450	40,384	38,173	37,141
General and administrative	9,743	8,926	39,285	33,936	31,581
Interest expense	18,035	10,384	51,669	32,147	23,861
Provision for credit losses	19,099	12,312	58,987	32,574	11,390
Impairment loss on residual assets (1)				11,750	4,052
Total expenses	56,234	42,072	190,325	148,580	108,025
Income (loss) before income tax benefit	1,790	(239)	3,372	(15,888)	(3,039)
Income tax benefit					(3,434)
Net income (loss)	$ 1,790	$ (239)	$ 3,372	$ (15,888)	$ 395
Earnings (loss) per share basic	$ 0.08	$ (0.01)	$ 0.16	$ (0.75)	$ 0.02
Earnings (loss) per share diluted	$ 0.07	$ (0.01)	$ 0.14	$ (0.75)	$ 0.02
Weighted average shares outstanding basic	21,732	21,528	21,627	21,111	20,263

Weighted average shares outstanding diluted	24,188	21,528	23,513	21,111	21,578
Balance Sheet Data					
Total assets	$ 1,354,223	$ 850,533	$ 1,155,144	$ 766,599	$ 492,470
Cash and cash equivalents	25,504	9,730	17,789	14,366	33,209
Restricted cash and equivalents	212,428	150,059	157,662	125,113	67,277
Finance receivables, net	1,050,825	620,302	913,576	550,191	266,189
Residual interest in securitizations	22,608	44,135	25,220	50,430	111,702
Warehouse lines of credit	75,056	50,535	35,350	34,279	33,709
Residual interest financing	37,728	16,411	43,745	22,204	
Securitization trust debt	1,100,606	619,430	924,026	542,815	245,118
Long-term debt	46,314	73,829	58,655	74,829	102,465
Shareholders equity	$ 75,626	$ 69,808	$ 73,589	$ 69,920	$ 82,160

(Dollars in thousands, except per share data)	**As of and For the Three Months Ended March 31,**		**As of and For the Year Ended December 31,**		
	2006	**2005**	**2005**	**2004**	**2003**
	(unaudited)				
Contract Purchases/Securitizations					
Automobile contract purchases	255,586	144,165	691,252	447,232	357,320
Automobile contract acquisitions (2)				74,901	152,143
Automobile contracts securitized structured as sales					254,436
Automobile contracts securitized structured as secured financings	245,000	137,390	698,353	491,269	162,488
Managed Portfolio Data					
Contracts held by consolidated subsidiaries	$ 1,144,340	$ 691,967	$ 1,000,597	$ 619,794	$ 317,952
Contracts held by non-consolidated subsidiaries	83,162	193,823	103,130	233,621	425,534
SeaWest third party portfolio (3)	12,456	40,501	18,018	53,463	
Total managed portfolio	$ 1,239,958	$ 926,291	$ 1,121,745	$ 906,878	$ 743,485
Average managed portfolio	1,191,132	915,547	997,697	861,261	674,523
Weighted average fixed effective interest rate (total managed portfolio) (4)	18.6 %	19.0 %	18.6 %	19.2 %	19.7 %
Core operating expense (% of average managed portfolio) (5)	6.5 %	8.5 %	8.0 %	8.4 %	10.4 %
Allowance for loan losses	$ 63,846	$ 46,284	$ 57,728	$ 42,615	$ 35,889
Allowance for loan losses (% of total contracts held by consolidated subsidiaries)	5.6 %	6.7 %	5.8 %	6.9 %	11.3 %
Total delinquencies (% of total managed portfolio) (6)	1.8 %	2.1 %	3.8 %	4.0 %	4.7 %
Total delinquencies and repossessions (% of total managed portfolio) (6)	2.7 %	3.2 %	5.0 %	5.6 %	6.2 %
Net charge-offs (% of average	4.8 %	6.6 %	5.3 %	7.8 %	6.8 %

managed portfolio) (4)(7)

(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)

Represents automobile contracts not purchased directly from dealers, but acquired as a result of our acquisitions of TFC in 2003 and of certain assets of SeaWest in 2004.

(3)

Receivables related to the SeaWest third party portfolio, on which we earn only a servicing fee.

(4)

Excludes receivables related to the SeaWest third party portfolio.

(5)

Total expenses excluding provision for credit losses, interest expense and impairment loss on residual assets.

(6)

For further information regarding delinquencies and the managed portfolio, see the table captioned Delinquency Experience, at page 45 of this prospectus and the notes to that table.

(7)

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. For further information regarding charge-offs, see the table captioned Net Charge-Off Experience, at page 46 of this prospectus and the notes to that table.

RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus and the information incorporated by reference before deciding to invest in our common stock. 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 from the selling shareholders 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 obta