As filed with the Securities and Exchange Commission on February 6, 1997
No. 333-_____

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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	6153	33-0459135
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Number) Classification Code	(I.R.S. Employer Identification No.)

2 ADA
IRVINE, CALIFORNIA 92618
(714) 753-6800
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

CHARLES E. BRADLEY, JR.
President
Consumer Portfolio Services, Inc.
2 Ada
Irvine, California 92618
(714) 753-6800
(Name, address, including zip code, and telephone number, including area code, of agent for service)

WITH COPIES TO:

WILLIAM J. FEIS, ESQ.	DAVID S. KATZ, ESQ.
TROY & GOULD	ORRICK, HERRINGTON & SUTCLIFFE LLP
Professional Corporation	Washington Harbour
1801 Century Park East, Suite 1600	3050 K Street, N.W.
Los Angeles, California 90067	Washington, D.C. 20007
(310) 553-4441	(202) 339-8497
(310) 201-4746	(202) 339-8500

Approximate date of commencement of proposed sale to public: As soon as practicable after the effective date of this Registration Statement.
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, as amended, check the following box. /X/
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 this Form is filed to register additional securities for an offering pursuant to Rule 462(b) 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 post-effective amendment filed 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 delivery of the prospectus is expected to be made pursuant to Rule 434, please 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 security	Proposed maximum aggregate offering price(1)	Amount of registration fee
Participating Equity Notes-SM- due 2004 (partially convertible)	$40,250,000	100%	$40,250,000	$12,196.97
Common Stock, no par value	670,833 shares (2)	$15.00 (1)	$10,062,500 (3)	nil (3)

(1) Estimated solely for the purpose of calculating the registration fee.
(2) Such shares are issuable upon conversion of 25% of the principal amount of the Participating Equity Notes-SM- registered hereby, without payment of any additional consideration.

(3) Pursuant to subdivision (i) of Rule 457 promulgated under the Securities Act, no additional registration fee is due with respect to such common stock.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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- ----------

PROSPECTUS Subject to completion, dated February 6, 1997
DATED ____, 1997 $35,000,000

CONSUMER PORTFOLIO SERVICES, INC.

____% PARTICIPATING EQUITY NOTES-SM- DUE 2004

PENS-SM-

The ____% Participating Equity Notes-SM- ("PENs-SM-") due April __, 2004 (the "Notes") being offered hereby (the "Offering") will be unsecured general obligations of Consumer Portfolio Services, Inc., a California corporation (the "Company"). Interest on the Notes will be payable on the _____day of each month (each, an "Interest Payment Date"), commencing April __, 1997. The Notes will be subordinated to all existing and future Senior Indebtedness (as defined herein) of the Company. As of September 30, 1996, there was approximately $9.8 million of Senior Indebtedness outstanding.

The Notes are not redeemable at the option of the Company prior to April __, 2000. The Company may at its option elect to redeem the Notes from the registered holders of the Notes ("Holders"), in whole but not in part, at any time on or after April 15, 2000 at 100% of their principal amount, subject to limited conversion rights, plus accrued interest to and including the date of redemption. At maturity or upon the exercise by the Company of an optional redemption each Holder will have the right to convert into common stock of the Company ("Common Stock") 25% of the aggregate principal amount of the Notes held by such Holder and if a Special Redemption Event occurs, Holders who require the redemption of their Notes will have the right to convert up to 25% of the principal amount thereof into Common Stock. In such events, 25% of each Note will be convertible into Common Stock, at the conversion price of $_____ per share of Common Stock (equivalent to approximately ____ shares of Common Stock for each $250 portion of each $1,000 principal amount of Notes) as adjusted as described herein. The Company will be required, at the option of the Holder and at 100% of their principal amount plus accrued interest to and including the redemption date, to redeem Notes properly tendered following a Special Redemption Event. A Special Redemption Event is limited to certain events or transactions that result in a change of control of the Company. The Common Stock trades on the Nasdaq National Market under the symbol "CPSS." On February 5, 1997, the last reported sale price was $11.75 per share. See "Description of the Notes."

The Notes will be initially issued only in fully registered book-entry form. The minimum principal amount of Notes which may be purchased is $1,000. Application has been made by the Company to have the Notes approved for listing on the New York Stock Exchange, Inc. Although the Underwriters have each indicated an intention to make a market in the Notes, none of the Underwriters is obligated to make a market in the Notes and any market making may be discontinued at any time at the sole discretion of such Underwriter. See "Underwriting."

SEE "RISK FACTORS" BEGINNING ON PAGE 11 FOR CERTAIN INFORMATION THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE NOTES OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discount(1)	Proceeds To Company (2)
Per Note.	100%	%	%
Total(3).	$35,000,000	$	$

(1) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). See "Underwriting."
(2) Before deducting offering expenses payable by the Company estimated to be $_____.
(3) The Company has granted the Underwriters a 30-day option to purchase up to an aggregate principal amount of $5,250,000 of additional Notes on the same terms and conditions shown above, solely to cover over-allotments, if any. If the Underwriters exercise such option in full, the total Price to Public, Underwriting Discount and Proceeds to Company will be $40,250,000, $_____ and $_____, respectively. See "Underwriting."

The Notes are offered by the several Underwriters subject to prior sale when, as and if delivered to and accepted by the Underwriters and subject to their right to reject orders in whole or in part. It is expected that delivery of the Notes will be made at the offices of Piper Jaffray Inc. in Minneapolis, Minnesota on or about _____, 1997. The Notes will be issued initially as book-entry notes in the form of one fully registered global security deposited with or on behalf of The Depository Trust Company or its nominees ("DTC"). The Notes will not initially be issuable in definitive certificated form to any person other than DTC.

PIPER JAFFRAY INC.

LEGG MASON WOOD WALKER INCORPORATED

DAIN BOSWORTH INCORPORATED

THE ABOVE MAP HIGHLIGHTS THE STATES IN WHICH CONSUMER PORTFOLIO SERVICES, INC. (THE "COMPANY") CURRENTLY PURCHASES RETAIL AUTOMOBILE INSTALLMENT CONTRACTS.

The Company will make available, without charge, a copy of its Annual Report to Shareholders to each person who requests a copy of such report. Such requests should be directed to Corporate Secretary, Consumer Portfolio Services, Inc., 2 Ada, Irvine, CA 92618.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND CONSOLIDATED AND CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, AND THE RELATED NOTES THERETO, INCLUDED ELSEWHERE IN THIS PROSPECTUS. EXCEPT AS OTHERWISE INDICATED, ALL INFORMATION IN THIS PROSPECTUS ASSUMES THAT THE UNDERWRITERS' OVER-ALLOTMENT OPTION WILL NOT BE EXERCISED. THE COMPANY IN 1995 CHANGED ITS FISCAL YEAR END FROM MARCH 31 TO DECEMBER 31. UNLESS THE CONTEXT OTHERWISE REQUIRES, "FISCAL 1992," "FISCAL 1993," "FISCAL 1994" AND "FISCAL 1995" REFER TO THE COMPANY'S FISCAL YEARS ENDED MARCH 31, 1992, 1993, 1994 AND 1995, RESPECTIVELY, THE "NINE-MONTH TRANSITION PERIOD" REFERS TO THE NINE-MONTH PERIOD ENDED DECEMBER 31, 1995, AND "FISCAL 1996" REFERS TO THE YEAR ENDED DECEMBER 31, 1996. EFFECTIVE MARCH 7, 1996, THE COMPANY SPLIT ITS OUTSTANDING SHARES OF COMMON STOCK TWO-FOR-ONE. REFERENCES HEREIN TO NUMBERS OF SHARES HAVE BEEN ADJUSTED TO REFLECT THAT SPLIT. UNLESS THE CONTEXT INDICATES OTHERWISE, ALL REFERENCES HEREIN TO THE "COMPANY" REFER TO CONSUMER PORTFOLIO SERVICES, INC., AND ITS SUBSIDIARIES. EACH PROSPECTIVE INVESTOR IS URGED TO READ THIS PROSPECTUS IN ITS ENTIRETY.

THE COMPANY

Consumer Portfolio Services, Inc. (the "Company") is a consumer finance company specializing in the business of purchasing, selling and servicing retail automobile installment contracts ("Contracts") originated by dealers ("Dealers") in the sale of new and used automobiles, light trucks and passenger vans. Through its purchases, the Company provides indirect financing to borrowers with limited credit histories, low incomes or past credit problems ("Sub-Prime Borrowers"). The Company serves as an alternative source of financing for Dealers, allowing sales to customers who otherwise might not be able to obtain financing from more traditional sources of automobile financing such as banks, credit unions, or finance companies affiliated with major automobile manufacturers.

Since its founding in March 1991, the Company has experienced significant growth. Its "Servicing Portfolio" (the aggregate principal amount of Contracts for which the Company performs collection services) increased from $167.7 million at December 31, 1994 to $445.3 million at September 30, 1996. Total revenue increased from $22.5 million for fiscal 1995, to $36.2 million for the nine-month period ended September 30, 1996. The Company uses a combination of employee and independent Dealer marketing representatives to solicit Dealers to submit Contracts to the Company for purchase. In the nine months ended September 30, 1996, the Company increased its number of Dealer marketing representatives from 40 to 50 and the number of Dealers with which it has its standard form dealer agreements ("Dealer Agreements") from 800 in 30 states to 1,847 in 39 states. Approximately 92.7% of these Dealers operate franchised car dealerships. In the nine months ended September 30, 1996, the Company purchased Contracts at an average rate of approximately $28.3 million per month.

The Company believes the Contracts that it purchases have a larger principal balance and are secured by relatively newer cars than those purchased by many of the other finance companies in the sub-prime automobile market. Historically, the Company has charged Dealers a fixed acquisition fee and a percentage discount from the amount financed under the Contract ranging from 0% to 10%, depending on the perceived credit risk of the Contract. In the nine months ended September 30, 1996, the average original principal amount financed under Contracts purchased by the Company was approximately $12,550 and the Contracts were purchased at an average discount of approximately 3.0%. Effective January 10, 1997, the Company began purchasing all Contracts without a percentage discount, charging Dealers only a flat acquisition fee for each Contract purchased. The flat fees instituted in January 1997 are larger than the fees previously charged in conjunction with percentage discounts, resulting in a similar net purchase price on a typical Contract. The fees vary based on the perceived credit risk and, in some cases, the interest rate on the Contract. Approximately 12.2% of the automobiles securing Contracts purchased during the nine months ended September 30, 1996, were new. In the aggregate, the average age of the automobiles securing the Contracts purchased in the nine months ended September 30, 1996 was 3.5 years. The average original term and Annual Percentage Rate ("APR") on Contracts purchased during the past twelve months were approximately 53.6 months and 20.6%, respectively. Based on information contained in borrower applications, for Contracts purchased during the nine months ended September 30, 1996, the Company's average borrower at the time of purchase was 37.0 years old, with approximately $32,814 in average household income and an average of 4.6 years' history with his or her current employer.

The Company generates earnings and cash flow primarily from the servicing fees and gain on sale associated with the sales or securitizations of Contracts. In each securitization, the Company sells Contracts to a trust which, in turn, sells asset-backed securities to institutional investors ("Investors"). At the closing of each sale or securitization, the Company recognizes a gain on the sale of the Contracts to the trust. Over the life of the Contracts sold to trusts, the Company is eligible to receive excess cash flow distributions from the trust, in accordance with the terms of the related Spread Account (as defined herein), resulting from the difference between the interest received from the obligors on the Contracts and the interest paid to investors in the asset-backed securities, net of losses and expenses. As of September 30, 1996, the Company had sold $457.3 million of Contracts to Investors through the issuance of AAA-rated asset-backed securities, and had also sold an aggregate of $142.7 million of Contracts to General Electric Capital Corporation ("GECC") and Sun Life Insurance Company of America ("Sun Life") pursuant to purchase commitments. Since June 1996, the Company has sold its asset-backed securities in registered public offerings. The Company services all Contracts that it purchases and sells, for which it also receives monthly servicing fees. The Company occasionally purchases portfolios of Contracts in bulk ("Bulk Purchases") from other financial institutions. Contracts that were acquired in Bulk Purchases and not yet sold currently account for 0.3% of the Servicing Portfolio.

The Company currently operates from a centralized office in Irvine, California, and utilizes highly sophisticated, automated data processing and collection systems. This centralized structure, combined with significant servicing fees and gains on sales, enabled it to achieve an annualized return on average equity of 28.9% for the nine-month period ended September 30, 1996. To better accomodate increased servicing and collections demand relating to increases in its Servicing Portfolio, the Company plans to open in March 1997 a satellite collections facility in Chesapeake, Virginia.

The Company attributes its growth to its: (i) consistent and thorough underwriting practices; (ii) ability to pay Dealers competitive purchase prices for Contracts; (iii) reliability as a funding source and the timely communication of credit decisions to Dealers; and (iv) control of losses through an aggressive monitoring and collection program. The Company's high penetration autodialer telephone system and its interface to the Contract servicing computers provide portfolio performance monitoring capabilities and efficiency in contacting delinquent borrowers. At September 30, 1996, contractual delinquencies (greater than 30 days) as a percentage of the month-end gross Servicing Portfolio balance were 5.9% (excluding Bulk Purchases of Contracts not yet sold). Net annualized charge-offs (excluding Bulk Purchases and uninsured casualty losses) as a percentage of the average Servicing Portfolio (exluding Bulk Purchases of Contracts not yet sold) were 5.0%. The Company's senior management, including those with responsibility for underwriting, collections, Dealer marketing, systems and financial accounting, have an average of approximately 13 years of experience in the consumer finance industry and nine years of experience in Sub-Prime automobile finance.

The structures under which the Company sells its Contracts generally require that the Company establish and maintain certain credit enhancements on a pool-specific basis for the benefit of Investors in the asset-backed securities. Generally, the Company makes an initial cash deposit to an account (a "Spread Account") which is controlled by a trustee and which is pledged to support the asset-backed securities backed by the related Contracts. During the term of each securitization, cash flows in excess of those necessary to pay investor principal and interest and the expenses of the trust are deposited in the Spread Account related to that trust until such time as the Spread Account balance reaches a predetermined percentage of the outstanding related Contracts. To the extent cash in excess of the predetermined level is generated, such cash is either transferred to cover deficiencies, if any, in Spread Accounts for other pools, or is released to the Company. In each securitization transaction since June 1995, the Company has issued a subordinated class of securities (a "B Piece") representing 5.0% of the principal balance of the Contracts in each securitization pool. Cash flows payable on the B Piece are subordinate to those payable on the senior class of asset-backed securities, which represent 95% of the principal balance of the securitization pool. The aggregate of the Spread Accounts and B Pieces are recorded by the Company on its balance sheet as investments in credit enhancements, which equaled approximately 10.4% of the Servicing Portfolio at September 30, 1996. Structures for future securitization transactions may require higher or lower levels of credit enhancement than past structures.

The principal components of the Company's strategy are to (i) maintain consistent underwriting standards and portfolio performance; (ii) continue to expand the volume of Contracts purchased and serviced by increasing the number of Dealers, states and geographic areas the Company services; (iii) control and/or reduce its cost of funds; and (iv) maintain and strengthen its relationship with its Dealers through the development of other products and services for its Dealers.

The Company was incorporated as a California corporation in March 1991. The Company's offices are located at 2 Ada, Irvine, CA 92618, and its telephone number is (714) 753-6800.

THE OFFERING

Notes offered.	$35,000,000 aggregate principal amount of ___% Participating Equity Notes-SM-, ("PENs-SM-"),* due April 2004, (the "Notes"), plus an Underwriters' over-allotment option to purchase up to an additional $5,250,000 aggregate principal amount of Notes. See "Description of the Notes" for a more detailed description of the Notes offered hereby.
Denomination	$1,000 and any integral multiple thereof.
Maturity date.	April _____, 2004.
Interest	Interest at the rate of ___% per annum is payable monthly on the _____day of each month, commencing April _____, 1997. The first interest payment will represent interest from the date of original issuance to and including April _____, 1997.
Conversion	At maturity or in connection with a redemption of the Notes at the option of the Company or a redemption following a Special Redemption Event, 25% of the principal amount of each Note is convertible, in whole but not in part, at the option of the Holder, into Common Stock at the rate of $_____ per share, subject to adjustment under certain circumstances. See "Description of the Notes -- Conversion Rights".
Redemption at option of the Company	The Notes may not be redeemed at the Company's option prior to April _____, 2000. Thereafter, the Company may, at its option, elect to redeem the Notes, in whole but not in part, at any time, upon not less than 30 days' notice to the Holder. The redemption price will be 100% of the principal amount of any redeemed Notes, in each case plus accrued interest to and including the redemption date. See "Description of the Notes -- Redemption at Option of the Company."
Special Redemption . . .	In the event of a Special Redemption Event, each Holder will have the right, at the Holder's option, to require the Company to purchase the Holder's Notes, in whole but not in part, at 100% of the principal amount plus accrued interest to and including the date of redemption. The term Special Redemption Event is limited to certain events or transactions that result in a change of control of the Company. See "Description of the Notes -- Holders' Right to Redemption After Special Redemption Event."
Subordination.	The Notes are unsecured and subordinated in right of payment to all existing and future Senior Indebtedness of the Company, including amounts outstanding under the Company's existing Warehouse Line of Credit (as defined herein). With respect to any distributions that the Company might receive from its subsidiaries, the Notes are also effectively subordinated to the claims of the creditors of such subsidiaries. As of September 30, 1996, there was approximately $9.8 million of Senior Indebtedness outstanding. See "Description of the Notes -- Subordination."
Other Subordinated Debt	The Notes rank equally with $20 million of previously issued subordinated debt of the Company ("1995 Subordinated Debt"), all

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*"Participating Equity Notes" and "PENs" are service marks of Piper Jaffray Inc.

	of which remains outstanding. See "Description of Notes -- 1995 Subordinated Debt."
Rating	The Notes will be rated below investment grade by Duff & Phelps Credit Rating Co. ("Duff & Phelps"). Ratings are not a recommendation to purchase, hold or sell the Notes, as ratings do not comment as to market price or suitability for a particular investor. The ratings are based on current information furnished to Duff & Phelps by the Company and obtained from other sources. The ratings may be changed, suspended or withdrawn at any time as a result of changes in, or unavailability of, such information.
Listing.	The Company has applied for listing of the Notes on the New York Stock Exchange, Inc.
Certain covenants of the Company.	In the Indenture (as defined herein), the Company agrees to certain limitations on dividends and additional indebtedness and to certain restrictions on consolidation, merger or transfer of all or substantially all of its assets. See "Description of the Notes -- Restrictions on Additional Indebtedness," "-- Restrictions on Dividends and Other Distributions" and "-- Consolidation, Merger or Transfer."
Registration	The Notes will be initially issued only in fully registered book-entry form. The Notes will not initially be issuable in definitive certificated form to any person other than The Depository Trust Company or its nominees. See "Description of the Notes -- Book-Entry System."
Use of proceeds.	Proceeds from the sale of the Notes will be used to increase the amount of Contracts that the Company can acquire and hold for sale in securitization transactions, to fund credit enhancements for such transactions, for other working capital needs and for general corporate purposes. See "Use of Proceeds."
Trustee.	Bankers Trust Company, New York, New York.

	NINE-MONTH ENDED SEPTEMBER 30,		NINE MONTHS TRANSITION PERIOD ENDED	FISCAL YEAR ENDED MARCH 31,			
	1996	1995	12/31/95	1995	1994(1)	1993	1992
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)						
STATEMENT OF OPERATIONS DATA:							
Net gain on sale of Contracts.	$15,864	$9,942	$11,549	$9,455	$5,425	$523	$128
Servicing fees	12,939	7,106	6,983	7,201	3,556	1,538	779
Interest income.	7,348	5,385	5,722	5,849	1,443	400	119
Total revenue.	36,151	22,433	24,254	22,505	10,424	2,461	1,026
Operating expenses	19,081	10,805	11,597	11,358	11,712(1)	3,963	3,552
Income taxes	6,913	4,734	5,082	4,481	490	0	0
Net income (loss).	$10,157	$6,894	$7,575	$ 6,666	$ (1,778)	$ (1,502)	$ (2,526)
Primary net income (loss) per common share.	$ .69	$ .54	$ .53	$ .60	$ (.21)	$ (.24)	$ (.44)
Fully diluted net income (loss) per common share.	$ .67	$ .49	$ .52	$ .56	$ (.21)	$ (.24)	$ (.44)
OTHER DATA:							
Principal amount of Contracts purchased during period (excluding Bulk Purchases).	$254,322	$132,052	$150,943	$150,573	$ 53,103	$ 19,484	$ 3,777
Principal amount of Contracts sold during period	248,132	144,342	155,719	140,617	58,095	14,103	3,491
Outstanding Servicing Portfolio at end of period(2)	445,332	252,272	288,927	192,800	63,208	20,436	3,718
Net charge-offs(3)	13,615	7,363	8,568	4,349	964	276	0
Servicing fees as a percentage of average principal balance of Contracts being serviced(4)	4.7%	4.6%	6.4%	5.3%	7.5%	4.7%	5.4%
Delinquencies as a percentage of gross Servicing Portfolio at end of period(5)	5.9%	4.0%	5.1%	2.5%	1.3%	1.0%	0.0%
Net charge-offs as a percentage of average Servicing Portfolio(3)(4) . . .	5.0%	4.8%	4.7%	3.4%	2.5%	2.2%	0.0%
Operating expenses (before interest and provisions for credit losses) as a percentage of average Servicing Portfolio(4).	4.8%	4.6%	4.4%	5.4%	28.9%	31.5%	195.8%
Servicing subject to recourse provisions(6)	426,421	233,201	268,163	169,331	62,464	14,736	3,371
Discounted allowance for credit losses as a percentage of servicing subject to recourse provisions(7) . . .	9.9%	8.7%	8.7%	8.5%	8.1%	10.2%	10.2%
Ratio of earnings to fixed charges(8)(9)	4.8x	5.0x	5.5x	4.2x	-	-	-
Cash flows provided by (used in) operating activities.	$(9,326)	$(15,502)	$(18,533)	$(6,115)	$(2,816)	$(6,718)	$(1,880)

BALANCE SHEET DATA:

	AS OF SEPTEMBER 30, 1996	
	ACTUAL	PRO FORMA AND AS ADJUSTED (10)
	(IN THOUSANDS)	
Cash.	$ 145	$ 33,475
Investments in credit enhancements.	46,526	46,526
Contracts held for sale	17,773	17,773
Excess servicing receivables.	19,111	19,111
Total assets.	93,429	128,429
Total liabilities	41,100	73,100
Total shareholders' equity.	52,329	55,329

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(1) In October 1992, as a condition to the initial public offering of Common Stock of the Company, the then majority shareholder of the Company deposited 1,200,000 shares of Common Stock (the "Escrow Shares") in escrow. The escrow agreement provided that part or all of the Escrow Shares would be released if the Company's net income after taxes (as defined in the escrow agreement) or the average market price of the Common Stock for specified periods exceeded specified levels. The Company's net income (as defined in the escrow agreement) for fiscal 1994 (prior to the accounting effect of the release of the Escrow Shares) exceeded the specified level and, accordingly, all 1,200,000 Escrow Shares were released. The release of the Escrow Shares was deemed compensatory for accounting purposes, resulting in a one-time, non-cash charge of $6,450,000 against earnings for fiscal 1994. Without that charge, net income, primary net income per share and fully diluted net income per share for fiscal 1994 would have been $4,672,000, $.44 and $.41, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Fiscal Year Ended March 31, 1995 Compared to Fiscal Year Ended March 31, 1994 -- Expenses."

(2) Includes the outstanding principal amount of all Contracts purchased by the Company, including Contracts subsequently sold by the Company which it continues to service. Excludes Contracts serviced for third parties but not purchased by the Company. As of December 31, 1994, the Company had ceased servicing Contracts for third parties.

(3) 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). Post-liquidation amounts received on previously charged-off Contracts are applied to the period in which the related Contract was originally charged off. Excludes Bulk Purchases not yet sold and uninsured casualty losses.

(4) The percentages set forth for the nine months ended September 30, 1996 and September 30, 1995 and for the nine-month transition period ended December 31, 1995 are computed using annualized operating data, which do not necessarily represent comparable data for a full twelve-month period.

(5) The Company considers a Contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date and the vehicle securing the Contract has not been repossessed. All amounts and percentages are based on the full amount remaining to be repaid on each Contract, including, for rule of 78s Contracts, any unearned finance charges. Excludes Bulk Purchases not yet sold.

(6) Includes the outstanding principal amount of all Contracts purchased and subsequently sold by the Company which it continues to service. Excludes Contracts serviced for third parties and Contracts purchased but not yet sold by the Company.

(7) Discounted allowance for credit losses represents the discounted present value, calculated at a risk-free rate, of future estimated credit losses as determined by the Company in conjunction with the recognition of its gains on sale of Contracts.

(8) The ratio of earnings to fixed charges has been computed by dividing income before taxes and fixed charges by fixed charges. Fixed charges include interest expense and the portion of rent expense that is representative of the interest factor (deemed by the Company to be one-third).

(9) The Company incurred losses in fiscal 1994, fiscal 1993 and fiscal 1992. Earnings were inadequate to cover fixed charges by $1.3 million, $1.5 million and $2.5 million for fiscal 1994, fiscal 1993 and fiscal 1992, respectively. Adjusted to eliminate the one-time non-cash charge of $6,450,000 referred to in footnote (1) above, the ratio of earnings to fixed charges for fiscal 1994 would have been 10.1x.

(10) Adjusted to reflect (i) the conversion into 480,000 shares of Common Stock of an outstanding $3

million convertible subordinated note, which conversion was effected on January 17, 1997, and (ii) the sale of the Notes offered hereby and the application of the estimated net proceeds therefrom. See "Use of Proceeds."

RISK FACTORS

THE NOTES OFFERED HEREBY ARE SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK, INCLUDING, BUT NOT NECESSARILY LIMITED TO, THE RISK FACTORS DESCRIBED BELOW. EACH PROSPECTIVE INVESTOR SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS INHERENT IN AND AFFECTING THE BUSINESS OF THE COMPANY AND THE OFFERING BEFORE MAKING AN INVESTMENT DECISION. WHEN USED IN THIS PROSPECTUS, THE WORDS "MAY," "WILL," "EXPECT," "ANTICIPATE," "CONTINUE," "ESTIMATE," "PROJECT," "INTEND" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934 REGARDING EVENTS, CONDITIONS AND FINANCIAL TRENDS THAT MAY AFFECT THE COMPANY'S FUTURE PLANS OF OPERATIONS, BUSINESS STRATEGY, OPERATING RESULTS AND FINANCIAL POSITION. PROSPECTIVE INVESTORS ARE CAUTIONED THAT ANY FORWARD-LOOKING STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND ARE SUBJECT TO RISKS AND UNCERTAINTIES AND THAT ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE INCLUDED WITHIN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS. SUCH FACTORS ARE DESCRIBED UNDER THE HEADINGS "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS", AND "THE COMPANY" AND IN THE RISK FACTORS SET FORTH BELOW.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY. The Company requires significant operating cash to purchase Contracts. As a result of the Company's expansion since inception and its program of securitizing and selling Contracts, the Company's cash requirements have in the past exceeded cash generated from operations. The Company's primary operating cash requirements include the funding of (a) purchases of Contracts pending their pooling and sale, (b) Spread Accounts in connection with sales or securitizations of Contracts, (c) fees and expenses incurred in connection with its sales and securitizations of Contracts, (d) tax payments due in recognition of gains on sales of Contracts and (e) ongoing administrative and other operating expenses. Net cash used in operating activities during fiscal 1995, the nine-month transition period ended December 31, 1995, and the nine months ended September 30, 1996 was $6.1 million, $18.5 million, and $9.3 million, respectively. The Company has obtained these funds in three ways: (a) loans and warehouse financing arrangements, pursuant to which Contracts are financed on a temporary basis; (b) securitizations or sales of Contracts, pursuant to which Contracts are sold; and (c) external financing. At September 30, 1996 the Company had cash and cash equivalents of approximately $145,000. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

CASH FLOWS ASSOCIATED WITH SECURITIZATION TRUSTS. Under the financial structures the Company has used to date in its securitizations, certain excess servicing cash flows generated by the Contracts are retained in a Spread Account within the securitization trusts to provide liquidity and credit enhancement. While the specific terms and mechanics of the Spread Account can vary slightly depending on each transaction, the Company's agreements with Financial Security Assurance, Inc. ("FSA"), the financial guaranty insurer that has provided credit enhancements in connection with the Company's securitizations since June 1994, generally provide that the Company is not entitled to receive any excess servicing cash flows unless certain Spread Account balances have been attained and/or the delinquency or losses related to the Contracts in the pool are below certain predetermined levels. In the event delinquencies and losses on the Contracts exceed such levels, the terms of the securitization may require increased Spread Account balances to be accumulated for the particular pool; may restrict the distribution to the Company of excess cash flows associated with other pools in which asset-backed securities are insured by FSA; or, in certain circumstances, may require the transfer of servicing on some or all of the Contracts in FSA-insured pools to another servicer. The imposition by FSA of any of these conditions could materially adversely affect the Company's liquidity and financial condition. In the past, delinquency and loss levels on some pools have attained levels which temporarily resulted in increased Spread Account levels for those pools. As of December 31, 1996, all FSA-insured pools were performing within the guidelines required by their related insurance policies.

DEPENDENCE ON WAREHOUSE FINANCING. One of the Company's primary sources of financing is its $100.0 million warehouse line of credit (the "Warehouse Line of Credit"), under which the Company borrows against Contracts held for sale, pending their sale in securitization transactions. The Warehouse Line of Credit expires in 1998. The Company expects to be able to maintain existing warehouse arrangements (or to obtain replacement or additional financing) as current arrangements expire or become fully utilized; however, there can be no assurance that such financing will be obtainable on favorable terms.

To the extent that the Company is unable to maintain its existing Warehouse Line of Credit or is unable to arrange new warehouse lines of credit, the Company may have to curtail Contract purchasing activities, which could have a material adverse effect on the Company's financial condition and results of operations.

DEPENDENCE ON SECURITIZATION PROGRAM. The Company is dependent upon its ability to continue to pool and sell Contracts in order to generate cash proceeds for new purchases. Adverse changes in the market for securitized Contract pools, or a substantial lengthening of the warehousing period, would burden the Company's financing capabilities, could require the Company to curtail its purchase of Contracts, and could have a material adverse effect on the Company. In addition, as a means of reducing the percentage of cash collateral that the Company would otherwise be required to deposit and maintain in Spread Accounts, all of the Company's securitizations since June 1994 have utilized credit enhancement in the form of financial guaranty insurance policies issued by FSA to achieve "AAA/Aaa" ratings for the asset-backed securities that have been sold to investors. The Company believes that financial guaranty insurance policies reduce the costs of securitizations relative to alternative forms of credit enhancements available to the Company. FSA is not required to insure Company-sponsored securitizations and there can be no assurance that it will continue to do so or that future securitizations will be similarly rated. Similarly, there can be no assurance that any securitization transaction will be available on terms acceptable to the Company, or at all. The timing of any securitization transaction is affected by a number of factors beyond the Company's control, any of which could cause substantial delays, including, without limitation, market conditions and the approval by all parties of the terms of the securitization. Any delay in the sale of a pool of Contracts beyond a quarter-end could reduce the gain on sale recognized in such quarter and could result in decreased earnings or possible losses for such quarter being reported by the Company. See "Business -- Purchase and Sale of Contracts -- Securitization and Sale of Contracts to Institutional Investors."

ECONOMIC CONSIDERATIONS

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

CREDITWORTHINESS OF BORROWERS. The Company specializes in the purchase, sale and servicing of Contracts to finance automobile purchases by Sub-Prime Borrowers, which entail a higher risk of non-performance, higher delinquencies and higher losses than Contracts with more creditworthy borrowers. While the Company believes that the underwriting criteria and collection methods it employs enable it to control the higher risks inherent in Contracts with Sub-Prime Borrowers, no assurance can be given that such criteria and methods will afford adequate protection against such risks. Since inception, the Company has expanded its operations significantly and has rapidly increased its Servicing Portfolio. Because there is limited performance data available with respect to that portion of the Company's Servicing Portfolio purchased most recently, historical delinquency and loss statistics are not necessarily indicative of future performance. The Company has experienced fluctuations in the delinquency and charge-off performance of its Contracts, including an upward trend for each. The Company believes, however, that such fluctuations are normal and that the upward trend is the result of the seasoning of the Servicing Portfolio. In the event that portfolios of Contracts sold and serviced by the Company experience greater defaults, higher delinquencies or higher losses than anticipated, the Company's earnings could be negatively impacted. In addition, the Company bears the entire risk of loss on Contracts it holds for sale. A larger number of defaults than anticipated could also result in adverse changes in the structure of the Company's future securitization transactions, such as increased interest rates on the asset-backed securities issued in those transactions. See "Business -- Purchase and Sale of Contracts -- Contract Purchase Criteria" and "Business -- Servicing of Contracts."

GEOGRAPHIC CONCENTRATION OF BUSINESS. For the nine months ended September 30, 1996, the

Company purchased 27.5% of its Contracts from Dealers located in California, and its prospects are dependent, in part, upon economic conditions prevailing in this state. Such geographic concentration increases the potential impact of collection disruptions and casualty losses on the financed vehicles which could result from regional economic or catastrophic events. Although the percentage of the Servicing Portfolio purchased from Dealers in California has been declining as the Company's volume of Contract purchases has increased, an economic slowdown in California could result in a decline in the availability of Contracts for purchase by the Company as well as an increase in delinquencies and repossessions. Such conditions could have a material adverse effect on the Company's revenue and results of operations. See "Business -- Purchase and Sale of Contracts."

INCREASES IN INTEREST RATES. The Company's profitability is determined by, among other things, the difference between the rate of interest charged on the Contracts purchased by the Company and the pass-through rate of interest (the "Pass-Through Rate") payable to investors on portfolios of Contracts sold by the Company. The Contracts purchased by the Company generally bear the maximum finance charges permitted by applicable state law. The fixed Pass-Through Rates payable to investors on portfolios of Contracts sold by the Company are based on interest rates prevailing in the market at the time of sale. Consequently, increases in market interest rates tend to reduce the "spread" or margin between Contract finance charges and the Pass-Through Rates required by investors and, thus, the potential operating profits to the Company from the purchase, sale and servicing of Contracts. Operating profits expected to be earned by the Company on portfolios of Contracts previously sold are insulated from the adverse effects of increasing interest rates because the Pass-Through Rates on such portfolios were fixed at the time the Contracts were sold. Any future increases in interest rates would likely increase the Pass-Through Rates for future portfolios sold and could have a material adverse effect on the Company's results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

PREPAYMENT AND DEFAULT RISK. Gains from the sale of Contracts in securitization transactions have constituted a significant portion of the net earnings of the Company and are likely to continue to represent a significant portion of the Company's net earnings. A portion of the gains are based in part on management's estimates of future prepayment and default rates and other considerations in light of then-current conditions. If actual prepayments with respect to Contracts occur more quickly than was projected at the time such Contracts were sold, as can occur when interest rates decline, or if default rates are greater than projected at the time such Contracts were sold, a charge to earnings may be required and would be taken in the period of adjustment. If actual prepayments occur more slowly or if default rates are lower than estimated with respect to Contracts sold, total revenue would exceed previously estimated amounts.

COMPETITION

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

MANAGEMENT OF RAPID GROWTH

The Company has experienced rapid growth and expansion of its business. The Company's ability to support and manage continued growth is dependent upon, among other things, its ability to hire, train, supervise and manage the increased personnel. Furthermore, the Company's ability to manage portfolio delinquency and loss rates is dependent upon the maintenance of efficient collection procedures, adequate collection staffing, internal controls, and automated systems. There can be no assurance that the Company's personnel, procedures, staff, internal controls, or systems will be adequate to support such growth.

SUBORDINATION OF THE NOTES AND ENCUMBRANCES ON THE COMPANY'S ASSETS

The Notes are unsecured and subordinated in right of payment to all existing and future Senior Indebtedness of the Company, including indebtedness under the Warehouse Line of Credit, and indebtedness that may be incurred under the standby line of credit associated with the Warehouse Line of Credit. The standby line is secured by substantially all of the Company's assets. Therefore, in the event of the liquidation, dissolution, or reorganization of or any similar proceedings regarding the Company, the assets of the Company will be available to pay obligations on the Notes (and any other obligations ranking PARI PASSU with the Notes, including, without limitation, the presently existing subordinated debt) only after all Senior Indebtedness has been paid in full, and there may not be sufficient assets to pay any or all amounts due on the Notes. If the Company becomes insolvent or is liquidated, or if payment under the Warehouse Line of Credit or the associated standby line of credit is accelerated, the lenders under the lines of credit, as the holders of security interests in substantially all of the Company's assets, would be entitled to exercise the remedies available to a secured lender under applicable law and pursuant to these lines of credit. See "Description of the Notes." Any right of the Company to receive assets of any of its subsidiaries upon the latter's liquidation or reorganization (and the consequent right of the holders of the Notes to participate in those assets) will be effectively subordinated to the claims of creditors of such subsidiaries, including claims of warehouse lenders, FSA and any other credit enhancement providers, and holders of asset-backed securities that may be secured by Spread Accounts before such assets may be available for distribution to the Company. As a result, there can be no assurance that in such event there will be resources available to repay the holders of the Notes in whole or in part.

RESTRICTIONS IMPOSED BY THE TERMS OF THE COMPANY'S INDEBTEDNESS

The Warehouse Line of Credit and the indentures governing the Notes ("Indenture") and the 1995 Subordinated Debt ("1995 Indenture") contain covenants limiting, among other things, the nature and amount of additional indebtedness that the Company may incur. These covenants could limit the Company's ability to withstand competitive pressures or adverse economic conditions, make acquisitions or take advantage of business opportunities that may arise. Failure to comply with these covenants could, as provided in the Warehouse Line of Credit, permit the lender under the Warehouse Line of Credit to accelerate payment of the amounts borrowed under the facility or, as provided in the Indenture and the 1995 Indenture, permit the indenture trustee thereunder to accelerate payment of the 1995 Subordinated Debt. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

POTENTIAL FOR ADDITIONAL SENIOR INDEBTEDNESS

Under the Indenture and the 1995 Indenture, the Company will be permitted to incur substantial additional senior indebtedness. Based on the Company's consolidated stockholders' equity as of September 30, 1996, the Company would be permitted to borrow approximately $314 million in Senior Indebtedness. Effective January 17, 1997, the $3 million convertible subordinated note was converted into 480,000 shares of the Company's Common Stock. The sale of the Notes will increase the Company's outstanding subordinated indebtedness from $20.0 million to $55.0 million (assuming no exercise of the Underwriters' over-allotment option). The interest expense associated with the Notes and the potential interest expense associated with the maximum permitted Senior Indebtedness could substantially increase the Company's fixed charge obligations and could potentially limit the Company's ability to meet its obligations under the Notes.

ABILITY TO REPAY NOTES UPON ACCELERATED REDEMPTION

Upon the occurrence of a Special Redemption Event (certain events or transactions that result in a change in control of the Company), each Holder will have the right to require that the Company purchase the Holder's Notes at 100% of the principal amount plus accrued interest. If a Special Redemption Event should occur, there can be no assurance that the Company will have available funds sufficient to pay that purchase price for all of the Notes that might be delivered by Holders seeking to exercise such rights. In the event the Company is required to purchase outstanding Notes pursuant to a Special Redemption Event, the Company expects that it would seek third party financing to the extent it does not have available funds to meet its purchase obligations. However, there can be no assurance that the Company would be able to obtain such financing, and, if obtained, the terms of any such financing may be less favorable than the terms of the Notes.

LIMITED COVENANTS IN THE INDENTURE

The indenture pursuant to which the Notes will be issued (the "Indenture") contains financial and operating covenants including, among others, limitations on the Company's ability to pay dividends, to incur additional indebtedness and to engage in certain transactions, including consolidations, mergers or transfers of all or substantially all of its assets. The covenants in the Indenture are limited and are not designed to protect holders of the Notes in the event of a material adverse change in the Company's financial condition or results of operations. See "Description of the Notes."

LITIGATION

Because of the consumer-oriented nature of the industry in which the Company operates and the application of certain laws and regulations, industry participants are regularly named as defendants in class-action litigation involving alleged violations of federal and state laws and regulations and consumer law torts, including fraud. Many of these actions involve alleged violations of consumer protection laws. Although the Company is not involved in any material litigation, a significant judgment against the Company or within the industry in connection with any such litigation could have a material adverse effect on the Company's financial condition and results of operations. See "Business - Government Regulation."

DEPENDENCE ON DEALERS

The Company is dependent upon establishing and maintaining relationships with unaffiliated Dealers to supply it with Contracts. As of September 30, 1996 the Company was a party to Dealer Agreements with 1,847 Dealers. During the nine months ended September 30, 1996, no Dealer accounted for more than 2.4% of the Contracts purchased by the Company. The Dealer Agreements do not require Dealers to submit a minimum number of Contracts for purchase by the Company. The failure of Dealers to submit Contracts that meet the Company's underwriting criteria would have a material adverse effect on the Company's financial condition and results of operations. See "Business -- Purchase and Sale of Contracts -- Dealer Contract Purchase Program."

CONTRACTUAL RECOURSE BY PURCHASERS OF CONTRACTS

Purchasers of Contracts have recourse against the Company in the event of the Company's breach of its representations and warranties to the purchaser (relating to the enforceability and validity of the Contracts) or certain defaults with respect to the Contracts. In such cases, recourse is limited to requiring the Company to repurchase the Contracts in question. In the event the Company is required to repurchase a Contract, the Company will generally have similar recourse against the Dealer from which it purchased the Contract; however, there can be no assurance that any Dealer will have the financial resources to satisfy its repurchase obligations to the Company. Subject to any recourse against Dealers, the Company will bear any loss on repossession and resale of vehicles financed under Contracts repurchased by it from investors, which could have a material adverse effect on the financial condition and results of operations of the Company. See "Business -- Purchase and Sale of Contracts -- Sale of Contracts to Institutional Investors."

GOVERNMENT REGULATION

The Company's business is subject to numerous federal and state consumer protection laws and regulations, which, among other things: (i) require the Company to obtain and maintain certain licenses and qualifications; (ii) limit the interest rates, fees and other charges the Company is allowed to charge; (iii) limit or prescribe certain other terms of its Contracts; (iv) require the Company to provide specified disclosures; and (v) regulate certain servicing and collection practices and define its rights to repossess and sell collateral. An adverse change in existing laws or regulations, or in the interpretation thereof, the promulgation of any additional laws or regulations, the failure to comply with such laws and regulations or the expansion of the Company's business into jurisdictions with more stringent requirements could have a material adverse effect on the Company's financial condition and results of operations. See "Business -- Government Regulation."

OPERATING HISTORY

The Company incurred net losses for each of fiscal 1992, 1993 and 1994 of $2.5 million, $1.5 million, and $1.8 million, respectively. Losses incurred through the end of fiscal 1993 were attributable primarily to the Company's relatively high degree of fixed operating costs as compared to its revenue in those years. The net loss for fiscal 1994 was attributable entirely to a one-time, non-cash accounting charge reflecting the release of the Escrow Shares. Although the Company generated net income of $6.7 million for fiscal 1995, $7.6 million for the nine-month transition period ended December 31, 1995, and $10.2 million for the nine-month period ended September 30, 1996, there can be no assurance that the Company will not sustain losses in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations."

LIMITED MARKET

Prior to the Offering, there has been no market for the Notes. Although the Company has applied for listing of the Notes on the New York Stock Exchange, no assurance can be given that an active trading market in the Notes will develop or that Holders will be able to sell their Notes at or above par. The Company has been advised that the Underwriters currently intend to make a market in the Notes, but they are under no obligation to do so and may discontinue such market making activities at any time. Accordingly, in deciding whether or not to invest in the Notes, investors should take into account the possible illiquid and long-term nature of an investment in the Notes.

DEPENDENCE ON KEY PERSONNEL

The Company's success is largely dependent on the efforts of Charles E. Bradley, Jr., its President, Jeffrey P. Fritz, its Senior Vice President-Chief Financial Officer, and on Nicholas P. Brockman, William J. Brummund, Jr., Richard P. Trotter, Curtis K. Powell, and Mark A. Creatura, each of whom is a Senior Vice President responsible for a different aspect of the Company's operations. The Company has not entered into employment agreements with any of these individuals and the loss of the services of any of these individuals could have a material adverse effect on the Company. The Company has obtained "key man" life insurance on Messrs. Bradley and Fritz in the amount of $1.0 million each. See "Management."

CONTROL OF THE COMPANY

As of December 31, 1996, Charles E. Bradley, Jr., his father, Charles Bradley, Sr., and other members of his family beneficially owned 3,847,491 shares of outstanding Common Stock, and held options or other rights to acquire an additional 867,640 shares. Such shares represent approximately 27.0% of the outstanding Common Stock of the Company (or 31.2%, upon assumed exercise of all such options). As a result of their ownership of Common Stock, they and the other directors of the Company collectively are able, as a practical matter, to elect a majority of the Company's Board of Directors, to cause an increase in the authorized capital or the dissolution, merger or sale of the assets of the Company, and generally to direct the affairs of the Company. See "Principal Shareholders."

USE OF PROCEEDS

The net proceeds from the sale of the Notes (after deducting underwriting discounts and Offering expenses) are expected to be approximately $33.3 million (approximately $38.4 million if the Underwriters' over-allotment option is exercised in full). The primary purpose of the Offering is to provide the Company with additional capital to fund its growth, including increasing the amount of Contracts that the Company can acquire and hold for pooling and sale in the asset-backed securities market, to support securitization transactions, for other working capital needs and for general corporate purposes. Pending their ultimate application, the net proceeds will be used to reduce temporarily the Company's balances under its existing Warehouse Line of Credit. As of December 31, 1996, amounts outstanding under the Warehouse Line of Credit bore interest at an effective rate of 6.99% per annum.

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

The Company's Common Stock is traded on the Nasdaq National Market, under the symbol "CPSS." The following table sets forth the high and low sale prices of the Common Stock for the periods indicated.

	High	Low
January 1-March 31, 1995	$ 8.625	$ 6.625
April 1-June 30, 1995.	9.625	7.125
July 1-September 30, 1995.	13.25	9.375
October 1-December 31, 1995.	12.00	8.50
January 1-March 31, 1996	10.75	7.375
April 1-June 30, 1996.	10.50	8.25
July 1-September 30, 1996.	13.125	7.75
October 1-December 31, 1996.	14.75	10.625
January 1-January 31, 1997	13.875	10.625

On February 5, 1997 the last reported sale price for the Common Stock on the Nasdaq National Market was as reported on the cover page of this Prospectus. As of February _____, 1997, there were approximately _____ 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 earnings, its capital requirements and financial condition, and other relevant factors. The Company does not intend to declare any dividends on its Common Stock in the foreseeable future, but instead intends to retain any earnings for use in the Company's operations. See "Description of Capital Stock."

CAPITALIZATION

The following table sets forth the capitalization of the Company as of September 30, 1996 and as adjusted to give effect to (i) the conversion into 480,000 shares of Common Stock at $6.25 per share of the 9.5% Convertible Subordinated Note due November 16, 1998, which was effected on January 17, 1997, and (ii) the sale of the Notes offered hereby (assuming no exercise of the Underwriters' over-allotment option) and the application of the estimated net proceeds therefrom as described in "Use of Proceeds." The table should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes thereto included elsewhere in this Prospectus.

	AS OF SEPTEMBER 30, 1996	
	ACTUAL	PRO FORMA AS ADJUSTED
	(IN THOUSANDS)	
LIABILITIES:		
Warehouse Line of Credit.	$ 9,839	$ 9,839
Subordinated Notes due 2006	20,000	20,000
9.5% Convertible Subordinated Note due November 16, 1998	3,000	-
Other liabilities	8,261	8,261
___% Participating Equity Notes-SM- due 2004. .	-	35,000
Total liabilities.	$ 41,100	$ 73,100
SHAREHOLDERS' EQUITY:		
Preferred Stock, $1.00 par value, 5,000,000 shares authorized, none issued . . .	$ -	$ -
Common Stock, no par value, 30,000,000 shares authorized, 13,556,842 shares issued and outstanding and 14,036,842 shares pro forma as adjusted(1).	33,956	36,956
Retained earnings	18,373	18,373
Total shareholders' equity.	52,329	55,329
Total capitalization.	$ 93,429	$ 128,429

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(1) Does not include: (i) 14,000 shares of Common Stock reserved for issuance upon exercise of warrants issued in connection with the Company's 1992 initial public offering of Common Stock; (ii) 2,116,200 shares of Common Stock reserved for issuance upon exercise of stock options outstanding under the Company's 1991 Stock Option Plan, of which options to purchase 1,385,026 shares are currently exercisable; (iii) 97,000 shares of Common Stock reserved for issuance upon exercise of stock options available for future grant under the Company's 1991 Stock Option Plan; and (iv) 60,000 shares of Common Stock reserved for issuance upon the exercise of stock options granted to certain directors of the Company. See "Certain Transactions" and "Principal Shareholders."

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents certain summary consolidated financial information for the nine-month transition period ended December 31, 1995, and the fiscal years ended March 31, 1995, 1994, 1993 and 1992, which has been derived from the Company's Consolidated Financial Statements audited by KPMG Peat Marwick LLP, independent certified public accountants, certain of which have been included elsewhere herein. Also presented is certain summary consolidated financial information for the nine months ended September 30, 1996 and 1995, which has been derived from the Company's unaudited condensed consolidated financial information for such periods included elsewhere herein. In the opinion of management, such unaudited financial information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of such information for these periods. Results of operations for interim periods are not necessarily indicative of results to be expected for the full year. The following information should be read in conjunction with the Consolidated Financial Statements and related Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

	NINE MONTHS ENDED SEPTEMBER 30,		NINE-MONTH TRANSITION PERIOD ENDED	FISCAL YEAR ENDED MARCH 31,			
	1996	1995	12/31/95	1995	1994(1)	1993	1992
	(Dollars in thousands, except per share data)						
STATEMENT OF OPERATIONS DATA:							
Net gain on sale of Contracts	$ 15,864	$ 9,942	$ 11,549	$ 9,455	$ 5,425	$ 523	$ 128
Servicing fees	12,939	7,106	6,983	7,201	3,556	1,538	779
Interest income	7,348	5,385	5,722	5,849	1,443	400	119
Total revenue	36,151	22,433	24,254	22,505	10,424	2,461	1,026
Operating expenses (including a one-time charge of $6,450 in fiscal 1994)(1)	19,081	10,805	11,597	11,358	11,712	3,963	3,552
Income taxes	6,913	4,734	5,082	4,481	490	0	0
Net income (loss)	$ 10,157	$ 6,894	$ 7,575	$ 6,666	$ (1,778)	$ (1,502)	$ (2,526)
Primary net income (loss) per common share	$ .69	$ .54	$ .53	$ .60	$ (.21)	$ (.24)	$ (.44)
Weighted average common and common equivalent shares	14,746,930	12,837,934	14,323,592	11,143,268	8,520,548	6,378,082	5,800,000
Fully diluted net income (loss) per common share	$ .67	$ .49	$ .52	$ .56	$ (.21)	$ (.24)	$ (.44)
Fully diluted weighted average common and common equivalent shares	15,452,640	14,001,510	14,803,592	12,538,352	8,520,548	6,378,082	5,800,000
OTHER DATA:							
Principal amount of Contracts purchased during period (excluding Bulk Purchases)	$254,322	$132,052	$150,943	$150,573	$ 53,103	$ 19,484	$ 3,777
Principal amount of Contracts sold during period	248,132	144,342	155,719	140,617	58,095	14,103	3,491
Outstanding Servicing Portfolio at end of period(2)	445,332	252,272	288,927	192,800	63,208	20,436	3,718
Net charge-offs(3)	13,615	7,363	8,568	4,349	964	276	-
Servicing fees as a percentage of average principal balance of Contracts being serviced(4)	4.7%	4.6%	6.4%	5.3%	7.5%	4.7%	5.4%
Delinquencies as a percentage of gross Servicing Portfolio at end of period(5)	5.9%	4.0%	5.1%	2.5%	1.3%	1.0%	0.0%
Net charge-offs as a percentage of average Servicing Portfolio(3)(4)	5.0%	4.8%	4.7%	3.4%	2.5%	2.2%	0.0%
Operating expenses (before interest and provisions for credit losses) as a percentage of average Servicing Portfolio(4)	4.8%	4.6%	4.4%	5.4%	28.9%	31.5%	195.8%
Servicing subject to recourse provisions(6)	426,421	233,201	268,163	169,331	62,464	14,736	3,371
Discounted allowance for credit losses as a percentage of servicing subject to recourse provisions(7)	9.9%	8.7%	8.7%	8.5%	8.1%	10.2%	10.2%

	NINE MONTHS ENDED SEPTEMBER 30,		NINE-MONTH TRANSITION PERIOD ENDED	FISCAL YEAR ENDED MARCH 31,			
	1996	1995	12/31/95	1995	1994(1)	1993	1992
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)						
Ratio of earnings to fixed charges(8)(9).	4.8x	5.0x	5.5x	4.2x	-	-	-
Cash flows provided by (used in) operating activities	$(9,326)	$(15,502)	$(18,533)	$(6,115)	$(2,816)	$(6,718)	$ (1,880)

	AS OF SEPTEMBER 30, 1996	AS OF DECEMBER 31, 1995	1995	AS OF MARCH 31, 1994	1993
BALANCE SHEET DATA:			(IN THOUSANDS)		
Cash	$ 145	$ 10,895	$ 5,767	$ 2,089	$ 245
Investments in credit enhancements	46,526	30,478	23,201	10,497	0
Contracts held for sale	17,773	19,549	21,896	647	5,054
Excess servicing receivables	19,111	11,108	5,154	2,294	503
Total assets	93,429	77,878	57,976	16,538	6,922
Total liabilities	41,100	36,397	30,981	6,337	2,833
Total shareholders' equity	52,329	41,481	26,994	10,201	4,089

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(1) In October 1992, as a condition to the initial public offering of Common Stock of the Company, the then majority shareholder of the Company deposited 600,000 shares of Common Stock (the "Escrow Shares") in escrow. The escrow agreement provided that part or all of the Escrow Shares would be released if the Company's net income after taxes (as defined in the escrow agreement) or the average market price of the Common Stock for specified periods exceeded specified levels. The Company's net income (as defined in the escrow agreement) for fiscal 1994 (prior to the accounting effect of the release of the Escrow Shares) exceeded the specified level and, accordingly, all 600,000 Escrow Shares were released. The release of the Escrow Shares was deemed compensatory for accounting purposes, resulting in a one-time, non-cash charge of $6,450,000 against earnings for fiscal 1994. Without that charge, net income, primary net income per share and fully diluted net income per share for fiscal 1994 would have been $4,672,000, $.44 and $.41, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Fiscal Year Ended March 31, 1994 Compared to Fiscal Year Ended March 31, 1993 -- Expenses."

(2) Includes the outstanding principal amount of all Contracts purchased by the Company, including Contracts subsequently sold by the Company which it continues to service. Excludes loans serviced for third parties but not purchased by the Company. As of December 31, 1994, the Company had ceased servicing loans for third parties.

(3) 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). Post-liquidation amounts received on previously charged-off Contracts are applied to the period in which the related Contract was originally charged off. Excludes Bulk Purchases not yet sold and uninsured casualty losses.

(4) The percentages set forth for the nine months ended September 30, 1996 and September 30, 1995 and the nine-month transition period ended December 31, 1995, computed using annualized operating data, which do not necessarily represent comparable data for a full twelve-month period.

(5) The Company considers a Contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date and the vehicle securing the Contract has not been repossessed. All amounts and percentages are based on the full amount remaining to be repaid on each Contract, including, for rule of 78s Contracts, any unearned finance charges. Excludes Bulk Purchases not yet sold.

(6) Includes the outstanding principal amount of all Contracts purchased and subsequently sold by the Company which it continues to service. Excludes loans serviced for third parties and Contracts purchased but not yet sold by the Company.

(7) Discounted allowance for credit losses represents the discounted present value, calculated at a risk free rate, of future estimated credit losses as determined by the Company in conjunction with the recognition of its gains on sale of Contracts.

(8) The ratio of earnings to fixed charges has been computed by dividing income before taxes and fixed charges by fixed charges. Fixed charges include interest expense and the portion of rent expense that is representative of the interest factor (deemed by the Company to be one-third).

(9) The Company incurred losses in fiscal 1994, fiscal 1993 and fiscal 1992. Earnings were inadequate to cover fixed charges by $1.3 million, $1.5 million and $2.5 million for fiscal 1994, fiscal 1993 and fiscal 1992, respectively. Adjusted to eliminate the one-time non-cash charge of $6,450,000 referred to in footnote (1) above, the ratio of earnings to fixed charges for fiscal 1994 would have been 10.1x.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following analysis of the financial condition of the Company should be read in conjunction with "Selected Financial Data" and the Company's Consolidated and Condensed Consolidated Financial Statements and the Notes thereto and the other financial data included elsewhere in this Prospectus.

OVERVIEW

The Company specializes in the business of purchasing, selling and servicing retail automobile installment sales Contracts originated by Dealers in the sale of new and used automobiles, light trucks and passenger vans and has done so since its inception on March 8, 1991. Through its purchases, the Company provides indirect financing to borrowers with limited credit histories, low incomes or past credit problems.

The Company generates earnings and cash flow primarily from the servicing fees and gains associated with the sales or securitizations of Contracts. In each securitization, the Company sells Contracts to a trust which, in turn, sells asset-backed securities to Investors. The terms of the securitization transactions generally provide for the Company to earn a base servicing fee computed as a percentage of the outstanding balance of the Contracts as compensation for its duties as servicer. In addition, the Company is entitled to certain excess servicing fees which represent collections on the Contracts in excess of the amounts necessary to pay principal and interest to Investors and the expenses of the trust, including, primarily, base servicing fees.

The Company also recognizes gains on its sales of Contracts. Gains are determined based upon the difference between the sales proceeds for the portion of Contracts sold and the Company's recorded investment in the Contracts sold. The Company allocates the recorded investment in the Contracts between the portion of the Contracts sold and the portion retained based on the relative fair values of those portions on the date of the sale. In addition, the Company recognizes gains attributable to its estimates of excess servicing receivables for each pool of Contracts it securitizes. Excess servicing receivables are determined by computing the difference between the weighted average yield of the Contracts sold and the yield to the purchaser, adjusted for the normal servicing fee based on the agreements between the Company and the purchaser. The resulting differential is recorded as a gain at the time of sale equal to the present value of the estimated cash flows, net of any portion of the excess that may be due to the purchaser and adjusted for anticipated prepayments, repossessions, liquidations and other losses. To the extent that the actual future performance of the Contracts results in less excess cash flows than the Company estimated, the Company's excess servicing receivables will be adjusted at least quarterly, with corresponding charges recorded against income in the period in which the adjustment is made. To the extent that the actual cash flows exceed the Company's discounted estimates, the Company will record additional servicing fees in the periods in which the excess cash is received.

RESULTS OF OPERATIONS

THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 1996 COMPARED TO THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 1995

REVENUE. During the nine months ended September 30, 1996, revenue increased $13.7 million, or 61.2%, compared to the nine-month period ended September 30, 1995. Servicing fees increased by $5.8 million, or 82.1%, and represented 35.8% of total revenue. The increase in servicing fees is due to the Company's continued expansion of its Contract purchase, sale and servicing activities. As of September 30, 1996, the Company was earning servicing fees on 40,216 Contracts approximating $426.4 million compared to 22,062 Contracts approximating $233.2 million as of September 30, 1995. In addition to the $426.4 million in sold Contracts on which servicing fees were earned, the Company was holding for sale and servicing an additional $18.9 million in Contracts for an aggregate servicing portfolio of $445.3 million.

Net gain on sale of Contracts includes (i) the excess of the amount realized on the sale of Contracts over the Company's net cost, (ii) the net present value of estimated excess servicing fees on sold contracts, and (iii) the recognition of deferred acquisition fees paid by Dealers net of related acquisition costs. Net gain on sale of Contracts increased by $5.9 million, or 59.6%, and represented 43.9% of total revenue for the nine-month period ended September 30, 1996. The increase in gain on sale is largely due to the volume of Contracts which were sold in the period. During the nine-month period ended September 30, 1996, the Company sold $248.1 million in Contracts, compared to $144.3 million in the nine-month period ended September 30, 1995.

Interest income on Contracts held for sale increased by $2.0 million, or 36.4%, representing 20.3% of total revenues for the nine-month period ended September 30, 1996. The increase is due to the increase in the volume of contracts purchased and held for sale. During the nine-month period ended September 30, 1996, the Company purchased $254.3 million in Contracts from Dealers, compared to $132.1 million in the nine-month period ended September 30, 1995.

EXPENSES. During the nine-month period ended September 30, 1996, operating expenses increased $8.3 million, or 76.6%, compared to the nine-month period ended September 30, 1995. Employee costs increased by $3.0 million, or 98.3%, and represented 32.1% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the Company's growth and certain increases in salaries of existing staff. General and administrative expenses increased by $2.5 million, or 94.5% and represented 26.6% of total operating expenses. Increases in general and administrative expenses included increases in telecommunications, stationery, credit reports and other related items as a result of increases in the volume of purchasing and servicing of Contracts. Additionally, general and administrative expenses increased by $124,000 as a result of including the company's share of the loss incurred by MAB Asset Corporation, a 38% equity investment acquired by the Company on June 6, 1996.

Marketing expenses increased by $408,954, or 57.8%, and represented 5.9% of total expenses. The increase is primarily due to the increase in the volume of contracts purchased as marketing representatives are compensated directly in proportion to the number of Contracts the Company purchases from Dealers serviced by the marketing representative. Additional increases in marketing expense relate to other marketing expenses such as travel, promotion and convention expenses.

Interest expense increased $1.5 million, or 52.0%, and represented 22.6% of total operating expenses. The increase is primarily due to the interest paid on the $20.0 million in subordinated debt securities issued December 20, 1995. Interest expense was also impacted by the volume of Contracts held for sale as well as by the Company's cost of borrowed funds.

During the nine-month period ended September 30, 1996, the provision for losses on Contracts held for sale increased by $766,699, or 86.3%, and represented 8.7% of total operating expenses. The increase in the provision reflects a larger volume of Contracts held prior to sale when compared to the same period in the prior year.

NINE-MONTH TRANSITION PERIOD ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED MARCH 31, 1995

The Company changed its fiscal year-end from March 31 to December 31, effective with the nine-month transition period ended December 31, 1995. Accordingly, readers should take into account that the following discussion compares figures for a nine-month period to a full twelve-month year. The discussion below does not attempt to explain, for each item discussed, the extent to which the differing length of these periods has affected the figures.

REVENUES. During the nine months ended December 31, 1995, revenues increased $1.7 million, or 7.8%, compared to the year ended March 31, 1995. Servicing fees decreased by $217,807, or 3.0%, and represented 28.8% of total revenues. Servicing fees consist primarily of base and excess monthly servicing fees earned on Contracts sold and serviced by the Company, as well as servicing fees for certain third-party originated portfolios for which it has been engaged as servicer. Servicing fees have been impacted by the Company's continued expansion of its Contract purchase, sale and servicing activities. As of December 31, 1995, the Company was earning servicing fees on 25,398 Contracts and loans approximating $268.2 million

compared to 16,077 Contracts and loans approximating $169.3 million as of March 31, 1995. In addition to the $268.2 million in sold Contracts and loans on which servicing fees were earned, the Company was holding for sale and servicing an additional $20.8 million in Contracts for an aggregate total servicing portfolio of $288.9 million at December 31, 1995.

Net gain on sale of Contracts, which includes (i) the excess of the amount realized on the sale of Contracts over the Company's net cost, (ii) the net present value of estimated excess servicing fees on sold Contracts, and (iii) the recognition of acquisition fees paid by Dealers and deferred by the Company, increased by $2.1 million, or 22.2%, and represented 47.6% of total revenues for the nine months ended December 31, 1995. The increase in gain on sale is largely due to the volume of Contracts which were sold in the period. During the nine months ended December 31, 1995, the Company sold $150.8 million in Contracts, compared to $140.6 million in the year ended March 31, 1995.

Interest income on Contracts warehoused for sale decreased by $127,109, or 2.2%, representing 23.6% of total revenues for the nine months ended December 31, 1995. Interest income is closely related to the volume of Contracts purchased and the length of time they are held by the Company prior to their sale. During the nine months ended December 31, 1995, the Company purchased $151.0 million in Contracts from Dealers, compared to $150.6 million in the year ended March 31, 1995. In addition to Contracts purchased from Dealers, the Company made two bulk purchases of portfolios of Contracts having an aggregate principal balance of $9.2 million during the nine months ended December 31, 1995.

EXPENSES. During the nine months ended December 31, 1995, operating expenses increased $239,131, or 2.1%, compared to the year ended March 31, 1995. Employee costs increased by $318,886 or 10.7%, and represented 28.5% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the Company's growth in its business as well as certain increases in salaries of existing staff. General and administrative expenses increased by $894,444, or 46.9% and represented 24.1% of total operating expenses. Increases in general and administrative expenses included increases in telephone, stationery, credit bureaus and other related items as a result of increases in the volume of purchases and servicing of Contracts.

Marketing expenses decreased by $533,011 or 30.2%, and represented 10.6% of total expenses. The Company uses a combination of independent contractor and employee marketing representatives all of whom are compensated directly in proportion to the number of Contracts the Company purchases from Dealers serviced by the marketing representative. Marketing expense is further impacted by the Company's estimates for direct expenses made in accordance with deferring contract origination costs.

Interest expense decreased by $683,195, or 20.0%, and represented 23.5% of total operating expenses. During the nine-month period ended December 31, 1995 the Company's interest expense was affected by improved pricing on the Line, a more favorable interest rate environment, and less reliance on other short term financing, in part, as a result of the proceeds from the Company's issuance of two million shares of common stock in March 1995.

During the nine months ended December 31, 1995, the provision for losses on Contracts held for sale increased by $295,512 or 55.4% and represented 7.1% of total operating expenses. The increase in the provision reflects a larger volume of Contracts held for a longer period of time prior to sale when compared to the year ended March 31, 1995, and certain losses associated with Bulk Purchases in the nine months ended December 31, 1995.

FISCAL YEAR ENDED MARCH 31, 1995 COMPARED TO FISCAL YEAR ENDED MARCH 31, 1994

REVENUES. During the year ended March 31, 1995, revenues increased $12.1 million, or 115.9%, compared to the year ended March 31, 1994. Servicing fees increased by $3.6 million, or 102.5%, and represented 32.0% of total revenues. Servicing fees consist primarily of base and excess monthly servicing fees earned on Contracts sold and serviced by the Company, as well as servicing fees for certain third-party originated portfolios for which it has been engaged as servicer. The increase in servicing fees is due to the Company's continued expansion of its Contract purchase, sale and servicing activities. As of March 31, 1995, the Company was earning servicing fees on 16,077 Contracts and loans approximating $169.3 million

compared to 6,345 Contracts and loans approximating $64.4 million as of March 31, 1994. Contracts purchased and sold by the Company, which generate greater servicing revenues than loans serviced for third parties but not purchased by the Company, have become a more significant portion of the Company's overall portfolio of servicing, representing 100.0% of the amount of Contracts and loans serviced at March 31, 1995, compared to 97.0% of the amount of Contracts and loans serviced at March 31, 1994. In addition to the $169.3 million in sold Contracts and loans on which servicing fees were earned, the Company was holding for sale and servicing an additional $23.5 million in Contracts for an aggregate total servicing portfolio of $192.8 million.

Net gain on sale of Contracts, which includes (i) the excess of the amount realized on the sale of Contracts over the Company's net cost, (ii) the net present value of estimated excess servicing fees on sold Contracts, and (iii) the recognition of acquisition fees paid by Dealers and deferred by the Company, increased by $4.0 million, or 74.3%, and represented 42.0% of total revenues for the year ended March 31, 1995. The increase in gain on sale is largely due to the volume of Contracts which were sold in the period. During the year ended March 31, 1995, the Company sold $140.6 million in Contracts, compared to $58.1 million in the year ended March 31, 1994.

Interest income on Contracts warehoused for sale increased by $353,000, or 305.3%, representing 26.0% of total revenues for the year ended March 31, 1995. The increase is due to the increase in the volume of Contracts purchased and the length of time they were held by the Company prior to their sale. During the year ended March 31, 1995 the Company purchased $150.6 million in Contracts from Dealers, compared to $53.1 million in the year ended March 31, 1994. In addition to Contracts purchased from Dealers, the Company made two bulk purchases of portfolios of Contracts having an aggregate principal balance of $13.7 million during the year ended March 31, 1995.

EXPENSES. During the year ended March 31, 1995 operating expenses decreased $0.4 million, or 3.0%, compared to the year ended March 31, 1994. However, the Company's expenses for the year ended March 31, 1994 included a one-time, non-cash charge of $6.5 million, which resulted from the release from escrow of 1,200,000 shares of Common Stock. Without giving effect to this charge, the Company's expenses for fiscal 1995 increased by $6.1 million, or 115.9%, over fiscal 1994. Employee costs increased by $771,000 or 34.7%, and represented 26.3% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the Company's growth in its business as well as certain increases in salaries of existing staff. General and administrative expenses increased by $733,000, or 62.5% and represented 16.8% of total operating expenses. Increases in general and administrative expenses included increases in telephone, stationery, credit bureaus and other related items as a result of increases in the volume of purchases and servicing of Contracts.

Marketing expenses increased by $1.1 million or 157.1%, and represented 15.5% of total expenses. The Company uses a combination of independent contractor and employee marketing representatives all of whom are compensated directly in proportion to the number of Contracts the Company purchases from Dealers serviced by the marketing representative. The increase in marketing expense, therefore, is directly related to the increase in Contract purchases from $53.1 million in fiscal 1994 to $150.6 million in fiscal 1995, an increase of 183.5%.

Interest expense increased $3.0 million, or 663.3%, and represented 30.0% of total operating expenses. During the year ended March 31, 1995, interest expense consisted of interest accrued and/or paid on a $2 million convertible note issued March 11, 1993, a $3 million convertible note issued November 16, 1993, a $2 million short-term promissory note issued May 11, 1994, $3 million in two short-term promissory notes issued October 25, 1994, and the Warehouse Line of Credit.

During the year ended March 31, 1995, the provision for losses on Contracts held for sale increased by $503,000 or 1,676.0% and represented 4.7% of total operating expenses. The increase in the provision reflects a larger volume of Contracts held for a longer period of time prior to sale when compared to the same period in the previous fiscal year, and certain losses associated with Bulk Purchases in fiscal 1995.

In the prior year, the Company had a substantial net operating loss carryforward to offset most of that year's earnings and therefore had minimal income tax expense. As of March 31, 1994, the Company had

utilized all of the tax benefits associated with its net operating loss carryforward and as a result, the Company recognized an income tax provision of $4.5 million for the year ended March 31, 1995, versus $490,000 in the prior year.

Upon consummation of the Company's initial public offering which became effective on October 22, 1992, the Company's controlling shareholder, Holdings, deposited 1,200,000 shares of Common Stock (the "Escrow Shares") in escrow, subject to release upon attainment of certain net income goals or stock price levels. As of March 31, 1994, the Company exceeded the requisite levels. The release of the Escrow Shares was deemed compensatory and resulted in a one-time, non-cash charge for fiscal 1994 of $6.5 million which was equal to the market value of the Escrow Shares at the time of their release. This one-time, non-cash charge was offset by an identical increase in common stock and was not tax deductible. Consequently, there was no impact on total shareholders' equity on the Company's financial statements as a result of the release of the Escrow Shares and the corresponding charge.

The following table illustrates the impact of this charge on the Company's results for fiscal 1994.

	FISCAL YEAR ENDED MARCH 31, 1994		
	AS STATED	IMPACT OF CHARGE	WITHOUT CHARGE
		(IN THOUSANDS)	
REVENUES:			
Net gain on sale of Contracts	$ 5,425	$ --	$ 5,425
Servicing fees	3,556	--	3,556
Interest	1,443	--	1,443
	10,424	--	10,424
EXPENSES:			
Non-cash charge from release of Escrow Shares	6,450	(6,450)	--
Interest	447	--	447
Employee costs	2,219	--	2,219
General and administrative	1,173	--	1,173
Marketing	686	--	686
Related party consulting fees	350	--	350
Occupancy	171	--	171
Depreciation	186	--	186
Provision for credit losses	30	--	30
	11,712	(6,450)	5,262
Income (loss) before income taxes	(1,288)	6,450	5,162
Income taxes	490	--	490
Net income (loss)	$ (1,778)	$ 6,450	$ 4,672

The following is a summary of net income (loss) per common and common equivalent share for fiscal 1994 as stated and without the charge:

	AS STATED	WITHOUT CHARGE
Primary net income (loss) per common and common equivalent share	$ (.21)	$ .41
Weighted average number of common and common equivalent shares used in net income per share	8,520,548	10,398,508
Fully diluted net income (loss) per common and common equivalent share	$ (.21)	$ .44
Fully diluted weighted average number of common and common equivalent shares outstanding	8,520,548	11,220,398

The following table, summarizes the Company's results from operations on a calendar year basis for each of the years in the three year period ended December 31, 1995, giving effect to the previously mentioned change in fiscal year:

	12 Months Ended December 31,			
	1993	1994(1)	1994(2)	1995
	(In thousands, except per share data)			
REVENUES:				
Servicing fees	$ 3,008	$ 6,175	$ 6,175	$ 9,019
Net gain on sale of contracts	2,845	9,980	9,980	13,719
Interest	942	4,403	4,403	7,869
	6,795	20,558	20,558	30,607
EXPENSES:				
Charge from release of escrow shares	--	6,450	--	--
Employee costs	1,890	3,253	3,253	3,888
Selling, general and administrative	2,114	3,651	3,651	5,276
Related party consulting fees	350	350	350	350
Depreciation	181	169	169	209
Interest	229	2,520	2,520	3,842
Provision for losses	17	384	384	1,008
	4,781	16,777	10,327	14,573
Income before taxes	2,014	3,781	10,231	16,034
Income taxes	--	3,613	3,613	6,440
Net income	$ 2,014	$ 168	$ 6,618	$ 9,594
Primary income per share	$0.22	$0.02	$0.61	$0.71
Weighted average primary shares	9,699	10,932	10,932	13,431
Fully diluted income per share	$0.21	$0.02	$0.57	$0.70
Fully diluted weighted average shares	10,446	12,182	12,182	13,911

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(1) Results include the non-cash one time charge from the release of Escrow Shares.

(2) Results exclude the non-cash one time charge from the release of Escrow Shares.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of cash from operating activities include base and excess servicing fees it earns on portfolios of Contracts it has previously sold, proceeds on the sales of Contracts in excess of its recorded investment of the Contracts, amortization and release of investments in credit enhancement balances pledged in conjunction with the securitization of its Contracts, and borrower payments on Contracts held for sale. The Company's primary uses of cash include its normal operating expenses and the establishment and build-up of Spread Accounts used for credit enhancement to their maintenance levels.

Net cash used in operating activities was $9.3 million during the nine months ended September 30, 1996 compared to net cash used of $15.5 million during the nine months ended September 30, 1995. Cash used for purchasing Contracts was $254.3 million, an increase of $139.5 million, or 121.5%, over cash used for purchasing Contracts in the prior year's period. Cash provided from the liquidation of Contracts was $254.3 million, an increase of $136.4 million, or 115.7%, over cash provided from liquidation of Contracts in the prior year's period.

Net cash used in operating activities was $18.5 million during the nine months ended December 31, 1995, compared to net cash used of $6.1 million during the year ended March 31, 1995. Cash used for purchasing Contracts was $160.2 million, a decrease of $4.1 million, or 2.5%, over cash used for purchasing Contracts in the year ended March 31, 1995. Cash provided from the liquidation of Contracts was $156.9 million, an increase of $14.4 million, or 10.1%, over cash provided from liquidation of Contracts in the year ended March 31, 1995.

The Company's cash requirements have been and will continue to be significant. The agreements under which the Company has securitized and sold its Contracts required the Company to make a significant initial cash deposit, for purposes of credit enhancement, to a Spread Account which is pledged to support the related asset-backed securities, and is invested in high quality liquid securities. Excess cash flows from the securitized Contracts are deposited into the Spread Accounts until such time as the Spread Account balance reaches a specified percent of the outstanding balance of the related asset-backed securities. Since its June 1995 securitization, and, it is expected, on an ongoing basis, the Company altered the credit enhancement mechanism used in its securitizations to create a subordinated class of asset-backed securities (a "B Piece") in order to reduce the size of the required initial deposit to the Spread Accounts. This revised structure may, if the Company is able to continue to sell the B Piece, reduce the amount of cash that the Company must invest or set aside in Spread Accounts in future securitizations. The Company continues to hold the B Piece associated with its June 1995 transaction, but has sold and believes it will be able to continue to sell the B Pieces created in subsequent securitizations. The aggregate balances of the Spread Accounts associated with each securitization of Contracts, together with the one B Piece held by the Company, are reflected as "Investments in credit enhancements" on the Company's consolidated balance sheet.

During the nine month period ended September 30, 1996, cash used for initial deposits to Spread Accounts was $9.0 million, an increase of $1.8 million, or 24.2%, from the amount of cash used for initial deposits to Spread Accounts in the prior year's period. Cash from excess servicing deposited to Spread Accounts for the nine month period ended September 30, 1996, was $13.3 million, an increase of $6.6 million, or 97.5%, over cash from excess servicing deposited to Spread Accounts in the prior year's period. Cash released from Spread Accounts for the nine month period ended September 30, 1996, was $6.2 million, a decrease of $1.8 million, or 22.8%, over cash released from Spread Accounts in the prior year's period. Changes in deposits to and releases from Spread Accounts are impacted by the relative size, seasoning and performance of the various pools of sold Contracts that make up the Company's servicing portfolio. In the nine month period ended September 30, 1996, certain securitized pools exceeded predetermined delinquency levels which resulted in increased Spread Account levels, and consequently, less releases in cash from Spread Accounts. The Company believes that these increases in delinquency were due to changes in its strategy regarding the timing of repossessions of vehicles under its Contracts. The Company and the parties to the various securitization agreements recently made modifications to the agreements that provide for delinquency levels which are more reflective of the Company's experience. As a result, the Company anticipates greater releases of cash from Spread Accounts in the future.

During the nine month period ended September 30, 1996, the Company purchased 38% of the

outstanding common stock of NAB Asset Corporation for approximately $4 million. See "Business--Expansion and Diversification".

Net cash used in operating activities was $18.5 million during the nine months ended December 31, 1995 compared to net cash used of $6.1 million during the year ended March 31, 1995. Cash used for purchasing Contracts was $160.2 million, a decrease of $4.1 million, or 2.5%, over cash used for purchasing Contracts in the year ended March 31, 1995. Cash provided from the liquidation of Contracts was $156.9 million, an increase of $14.4 million, or 10.1%, over cash provided from liquidation of Contracts in the year ended March 31, 1995. The table below documents the Company's history of Contract securitizations.

STRUCTURED CONTRACT SECURITIZATIONS

PERIOD FUNDED	SECURITIZED DOLLAR AMOUNT	RATINGS(1)	RATING AGENCY	POOL NAME
	(IN THOUSANDS)			
April 1993	$4,990	A	Duff & Phelps	Alton Grantor Trust 1993-1
May 1993	3,933	A	Duff & Phelps	Alton Grantor Trust 1993-1
June 1993	3,467	A	Duff & Phelps	Alton Grantor Trust 1993-1
July 1993	5,575	A	Duff & Phelps	Alton Grantor Trust 1993-2
August 1993	3,336	A	Duff & Phelps	Alton Grantor Trust 1993-2
September 1993	3,578	A	Duff & Phelps	Alton Grantor Trust 1993-2
October 1993	1,921	A	Duff & Phelps	Alton Grantor Trust 1993-2
November 1993	1,816	A	Duff & Phelps	Alton Grantor Trust 1993-3
December 1993	6,694	A	Duff & Phelps	Alton Grantor Trust 1993-3
January 1994	1,998	A	Duff & Phelps	Alton Grantor Trust 1993-3
March 1994	20,787	A	Duff & Phelps	Alton Grantor Trust 1993-4
June 1994	24,592	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-1
September 1994	28,916	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-2
October 1994	13,136	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-3
December 1994	28,893	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-4
February 1995	20,084	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-1
June 1995	49,290	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-2
September 1995	45,009	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-3
September 1995	2,369	BB	S&P	CPS Auto Grantor Trust 1995-3
December 1995	53,634	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-4
December 1995	2,823	BB	S&P	CPS Auto Grantor Trust 1995-4
March 1996	63,747	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1996-1
March 1996	3,355	BB	S&P	CPS Auto Grantor Trust 1996-1
June 1996 (2)	84,456	Aaa/AAA	Moody's/S&P	Fasco Auto Grantor Trust 1996-1
June 1996	4,445	BB	S&P	Fasco Auto Grantor Trust 1996-1
September 1996	87,523	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1996-2
September 1996	4,606	BB	S&P	CPS Auto Grantor Trust 1996-2
December 1996	88,215	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1996-3
December 1996	4,643	BB	S&P	CPS Auto Grantor Trust 1996-3

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(1) Commencing with the securitization completed on June 28, 1994, the principal and interest due on the asset-backed securities issued by the various grantor trusts are guaranteed by Financial Security Assurance Inc. ("FSA"), enabling the issuer to obtain Aaa/AAA ratings for the asset-backed securities issued in such transactions. See "Business -- Purchase and Sale of Contracts -- Securitization and Sale of Contracts to Institutional Investors."

(2) Commencing with the securitization completed on June 27, 1996, asset-backed securities with Aaa/AAA ratings have been sold through public offerings pursuant to registration statements filed with the Securities and Exchange Commission.

Cash flows are impacted by the use of the Warehouse Line of Credit which is in turn impacted by the amount of Contracts the Company holds for sale. At September 30, 1996, the Warehouse Line of Credit had an outstanding balance of $9.8 million compared to $7.5 million at December 31, 1995. In June 1995 the Company entered into two new agreements which restructured the Warehouse Line of Credit and increased the maximum available amount to $100.0 million. The primary agreement provides for loans by Redwood Receivables Corporation ("Redwood") to the Company, to be funded by commercial paper issued by Redwood and secured by Contracts pledged periodically by the Company. The Redwood facility provides for a maximum of $100.0 million of advances to the Company, with interest at a variable rate tied to prevailing commercial paper rates. When the Company wishes to securitize these Contracts, a substantial part of the proceeds received from Investors is paid to Redwood, which simultaneously releases the pledged Contracts for transfer to a pass-through securitization trust. The second agreement is a standby line of credit with GECC, also with a $100.0 million maximum, which the Company may use only if and to the extent that Redwood does not provide funding as described above. The GECC line is secured by Contracts and substantially all the other assets of the Company. Both agreements extend through November 30, 1998. The two agreements are viewed as a single short-term warehouse line of credit, with advances varying according to the amount of pledged Contracts. All references in this Prospectus to the Warehouse Line of Credit refer, since June 1995, to the Redwood facility and, unless the context indicates otherwise, the standby line of credit with GECC.

Prior to October 29, 1992, the Company was dependent on capital contributions and loans by Holdings (which was then the sole shareholder of the Company) to satisfy its cash requirements. On October 29, 1992, the Company raised approximately $4.9 million (net of offering expenses) in an initial public offering. On March 12, 1993, the Company borrowed $2.0 million from Sun Life through the issuance of a convertible note in conjunction with an agreement by that investor to purchase up to $50.0 million of the Company's Contracts. On July 5, 1995, Sun Life converted this note into 533,334 shares of the Company's Common Stock. On November 16, 1993, the Company borrowed an additional $3.0 million from Sun Life through the issuance of a convertible note in conjunction with that investor's commitment to purchase an additional $50.0 million in Contracts. On January 17, 1997, Sun Life converted this note into 480,000 shares of Common Stock. On November 23, 1993, the Company issued and sold 333,334 shares of Common Stock in a private transaction at a price of $4.50 per share ($1.5 million in the aggregate). In May and October, 1994, the Company borrowed an aggregate of $5.0 million pursuant to three short term notes, all of which were repaid in March 1995 with proceeds from the March 7, 1995 public offering of 2.0million shares of the Company's stock at a price of $7.38 per share. In December 1995, the Company issued $20 million of debt in the form of Rising Interest Subordinated Redeemable Securities ("RISRS").

The Company anticipates that the proceeds from this offering, the funds available under the Warehouse Line of Credit, proceeds from the sale of Contracts, and cash from operations will be sufficient to satisfy the Company's estimated cash requirements for at least the next 12 months, assuming that the Company continues to have a means by which to sell its warehoused Contracts. If for any reason the Company is unable to sell its Contracts, or if the Company's available cash otherwise proves to be insufficient to fund operations (because of future changes in the industry, general economic conditions, unanticipated increases in expenses, or other factors), the Company may be required to seek additional financing.

On November 1, 1996, the Company began to rent an additional 7,000 square feet of contiguous office space in accordance with the Company's lease agreement. In addition, the Company recently acquired an additional, and significantly upgraded, IBM AS/400 computer. This hardware serves as the primary platform on which the Company processes its Contracts. The Company anticipates that it will incur certain limited capital expenditures during the next twelve months as its business continues to grow. The Company expects to incur occupancy expenses of approximately $50,000 per month in connection with its Chesapeake, Virginia satellite facility, which were not incurred in fiscal 1996. Personnel and other expenses may also increase, depending on the extent of any continuing growth in the Company's business (as to which there can be no assurance) and the availability of personnel.

In November 1995, the FASB issued Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." This statement establishes financial accounting standards for stock-based employee compensation plans. SFAS 123 permits the Company to choose either a new fair value based method or the current APB Opinion 25 intrinsic value based method of accounting for its stock-based

compensation arrangements. The Company will continue to account for stock-based compensation under the APB Opinion 25 and, as a result, SFAS 123 will not have a material impact on the Company's operations.

On June 28, 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS No. 125). This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on consistent application of a financial-components approach that focuses on control. It distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. Under the financial-components approach, after a transfer of financial assets, an entity recognizes all financial and servicing assets it controls and liabilities it has incurred and derecognizes financial assets it no longer controls and liabilities that have been extinguished.

SFAS No. 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and is to be applied prospectively. Earlier or retroactive application is not permitted. Management is in the process of evaluating what future effect SFAS No. 125 will have on the Company's financial position and results of operations.

BUSINESS

GENERAL

The Company is a consumer finance company specializing in the business of purchasing, selling and servicing Contracts originated by Dealers in the sale of new and used automobiles, light trucks and passenger vans. Through its purchases, the Company provides indirect financing to Sub-Prime Borrowers. The Company serves as an alternative source of financing for Dealers, allowing sales to customers who otherwise might not be able to obtain financing from more traditional sources of automobile financing such as banks, credit unions or finance companies affiliated with major automobile manufacturers.

HISTORY

The Company was incorporated in March 1991 as a wholly owned subsidiary of CPS Holdings, Inc. ("Holdings") (formerly known as FWB Acceptance Corp.). Holdings was formed in April 1990 by Charles E. Bradley, Sr., the Chairman of the Board of the Company, in order to enter into the automobile financing business. Mr. Bradley believed that the Sub-Prime Borrower segment of this business had the potential for growth and profit due in part to the withdrawal from such business by many savings and loan associations and other financial institutions. In December 1995, Holdings was merged with and into the Company.

The period from March 8, 1991 (the Company's inception) through May 1991 was devoted to the start-up of the Company's operations. On May 31, 1991, the Company first acquired certain third-party loan servicing contracts and in June 1991 began earning servicing fee income. The Company thereafter added to its third-party loan servicing portfolio and, in October 1991, began acquiring Contracts and selling them to GECC. To date, the Company has sold $42.6 million in Contracts to GECC and an additional $100.1 million to Sun Life. Since June 1994, the Company has issued an additional $545.5 million of "AAA"-rated and $22.2 million of "BB"-rated certificates backed by Contracts to various institutional investors. Since June 1996, all sales of "AAA"-rated certificates have been made in public offerings pursuant to registration statements filed with the Securities and Exchange Commission. See "Servicing of Contracts--Third-Party Loan Servicing" and "Purchase and Sale of Contracts--Securitization and Sale of Contracts to Institutional Investors."

AUTOMOBILE FINANCING INDUSTRY

Automobile financing is the largest category, by dollar amount, of consumer installment debt in the United States. Most traditional sources of automobile financing, such as commercial banks, credit unions and captive finance companies affiliated with major automobile manufacturers, generally provide automobile financing for the most creditworthy, or so-called "prime" borrowers. The Company believes that the strong credit performance and large size of the market have led to intense price competition in the financing market for prime borrowers, and, in turn, low profit margins, effectively limiting this market to only the largest participants. In addition, special low-rate financing programs offered by automobile manufacturers' captive finance companies to promote the sale of specific automobiles have added to the competition within the prime borrower market.

Although prime borrowers represent the largest segment of the automobile financing market, there are many potential purchasers of automobiles who do not qualify as prime borrowers. Purchasers considered by the Company to be Sub-Prime Borrowers have limited credit histories, low incomes or past credit problems and, therefore, are unable to obtain credit from traditional sources of automobile financing, such as commercial banks, credit unions or captive finance companies affiliated with major automobile manufacturers. (The terms "prime" and "sub-prime" reflect the Company's categorization of borrowers and bear no relationship to the prime rate of interest or persons who are able to borrow at that rate.) The Company believes that, because these potential purchasers represent a substantial market, there is a demand by automobile dealers for Sub-Prime Borrower financing that has not been effectively served by traditional automobile financing sources.

According to the Board of Governors of the Federal Reserve System, as of March 1996, there was approximately $359 billion in automobile-related installment credit outstanding. The Company is unaware of

any authoritative estimates of the size of the "non-prime" portion of this market, although various sources have estimated that the potential loan base in this portion of the market is between $50 billion and $70 billion. Based on these figures, the Company's Servicing Portfolio represents less than one percent of the market.

BUSINESS STRATEGY

The Company's primary objective is to increase revenue and earnings through the expansion of its sales and servicing of Contracts purchased from Dealers. The Company has substantial operational and administrative capacity to expand its business. The Company's strategy is to:

- Maintain consistent underwriting standards and portfolio performance.

- Increase the number of Contracts it purchases from its existing Dealers.

- Expand its Dealer network, in part by entry into other geographic areas. During the nine months ended September 30, 1996, 69.9% of the Contracts acquired by the Company related to borrowers who resided in California, Florida, Illinois, Nevada, Pennsylvania and Texas (see "Purchase and Sale of Contracts--Dealer Contract Purchase Program").

- Control and/or reduce its cost of funds by proper structuring of its securitization offerings and by obtaining the necessary ratings from nationally recognized credit rating agencies.

- Evaluate opportunities to provide additional products and services, such as automobile insurance, credit cards and extended maintenance contracts.

EXPANSION AND DIVERSIFICATION

In March 1996, the Company formed Samco Acceptance Corp. ("Samco"), an 80 percent-owned subsidiary based in Dallas, Texas. Samco's business plan is to provide the Company's sub-prime auto finance products to rural areas through independently owned finance companies. The Company believes that many rural areas are not adequately served by other industry participants due to their distance from large metropolitan areas where a Dealer marketing representative is most likely to be based.

Samco employees call on independent finance companies ("IFCs"), primarily in the southeastern United States and present them with financing programs that are essentially identical to those which the Company markets directly to Dealers through its marketing representatives. The Company believes that a typical rural IFC has relationships with many local automobile purchasers as well as Dealers who, because of their financial resources or capital structure are generally unable to provide 36, 48 or 60 month financing for an automobile. IFCs may offer Samco's financing programs to borrowers directly or to local Dealers. Upon submission of applications to Samco, credit personnel who have been trained by the Company use the Company's proprietary systems to evaluate the borrower and the proposed Contract terms. Samco purchases Contracts from the IFCs after its credit personnel have performed all of the underwriting and verification procedures that the Company performs for Contracts it purchases from Dealers. Servicing and collection procedures on Samco Contracts are performed by the Company at its headquarters in Irvine, California. However, Samco may solicit aid from the IFC in collecting accounts that are seriously past due. As of September 30, 1996, Samco had purchased 156 Contracts with original balances of $1.7 million.

In May 1996, the Company formed LINC Acceptance Corp. ("LINC"), an 80 percent-owned subsidiary based in Norwalk, Connecticut. LINC's business plan is to provide the Company's sub-prime auto finance products to credit unions, banks and savings and loans ("Deposit Institutions"). The Company believes that credit unions, banks and savings and loans do not generally make loans to sub-prime borrowers, even though they may have relationships with Dealers and have sub-prime borrowers as deposit customers.

LINC proposes to have certain of its employees call on various Deposit Institutions and present them with a financing program that is similar to those which the Company markets directly to Dealers through its marketing representatives. The LINC program is intended to result in a slightly more creditworthy borrower

than the Company's regular programs by requiring slightly higher income and lower debt-to-income ratios. LINC's customers may offer its financing program to borrowers directly or to local Dealers. Unlike Samco, which has employees who evaluate applications and make decisions to purchase Contracts, LINC applications will be submitted by the Deposit Institution directly to the Company, where the approval, underwriting and purchase procedures will be performed by Company staff who will work with LINC as well as with the Company's Dealers. Servicing and collection procedures on LINC Contracts will be performed entirely by the Company at its headquarters in Irvine, California. As of September 30, 1996, LINC had not purchased any Contracts.

In June 1996, the Company acquired 38% of the outstanding shares of NAB Assets, Inc. ("NAB") for $4 million. At the time of the acquisition, NAB had approximately $3.5 million in cash and no significant operations. Subsequent to the Company's investment in NAB, NAB purchased Mortgage Portfolio Services, Inc. ("MPS") from the Company for $300,000. MPS is a Dallas, Texas-based mortgage broker-dealer which the Company formed in April 1996. MPS specializes in the origination and sale of sub-prime residential mortgages. In July 1996, NAB formed CARSUSA, Inc., which subsequently purchased a Mitsubishi dealership in Riverside, California. The Company provides CARS USA with an $800,000 line of credit for financing its vehicle inventory. In November 1996, NAB purchased Mack Financial Ltd, a small appliance "rent to own" company based in Dallas, Texas.

In January 1997, the Company purchased 80% of the outstanding shares of an equipment financing company, Stanwich Leasing, Inc. ("SLI"), from two directors of the Company, Charles E. Bradley, Sr. and John G. Poole. The purchase price was $100,000 in cash and the assumption of certain liabilities of SLI. As of September 30, 1996, SLI owned and serviced an outstanding equipment lease portfolio of $2.2 million. Its primary customers are companies affiliated with Charles E. Bradley, Sr.

PURCHASE AND SALE OF CONTRACTS

DEALER CONTRACT PURCHASE PROGRAM. As of September 30, 1996, the Company was a party to Dealer Agreements with 1,847 Dealers. Approximately 92.7% 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 nine months ended September 30, 1996, approximately 87.8% of the Contracts purchased by the Company consisted of financing for used cars and the remaining 12.2% for new cars. Most of these Dealers regularly submit Contracts to the Company for purchase, although such Dealers are under no obligation to submit any Contracts to the Company, nor is the Company obligated to purchase any Contracts. During the nine months ended September 30, 1996, no Dealer accounted for more than 2.4% of the total number of Contracts purchased by the Company. In addition, the Company continues to diversify geographically, and has reduced its concentration of Contract purchases in California from 36.1% for the nine months ended September 30, 1995, to 27.5% for the nine months ended September 30, 1996. The following table sets forth the geographical sources of the Contracts purchased by the Company (based on the addresses of the borrowers as stated on the Company's records) during each of the nine-month periods ended September 30, 1996 and September 30, 1995.

	CONTRACTS PURCHASED DURING NINE MONTHS ENDED			
	SEPTEMBER 30, 1996		SEPTEMBER 30, 1995	
	NUMBER	PERCENT	NUMBER	PERCENT
California	5,621	27.5%	3,601	36.1%
Florida	2,073	10.1%	1,008	10.1%
Pennsylvania	2,018	9.9%	981	9.8%
Texas	1,463	7.2%	624	6.3%
Illinois	953	4.7%	729	7.3%
Ohio	851	4.2%	87	0.9%
Nevada	798	3.9%	530	5.3%
New York	792	3.9%	251	2.5%
Louisiana	758	3.7%	143	1.4%
Tennessee	743	3.6%	76	0.8%
Alabama	686	3.4%	37	0.4%
Maryland	667	3.3%	49	0.5%
Michigan	570	2.8%	404	4.0%
New Jersey	422	2.1%	210	2.1%
Hawaii	344	1.7%	364	3.6%
Other states	1,672	8.2%	885	10.0%
Total	20,431		9,979	

When a retail automobile buyer elects to obtain financing from a Dealer, an application is taken for submission by the Dealer to its financing sources. Typically, a Dealer will submit the buyer's application to more than one financing source for review. The Company believes the Dealer's decision to finance the automobile purchase with the Company, rather than other financing sources, is based primarily upon an analysis of the discounted purchase price offered for the Contract, the timeliness, consistency and predictability of response, the cash resources of the financing source, and any conditions to purchase.

Upon receipt of an application from a Dealer, the Company's administrative personnel order a report containing information from the three major national credit bureaus on the applicant to document the buyer's credit history. If, upon review by a Company loan officer, it is determined that the application meets the Company's underwriting criteria, or would meet such criteria with modification, the Company requests and reviews further information and supporting documentation and, ultimately, decides whether to purchase the Contract. When presented with an application, the Company attempts to notify the Dealer within four hours as to whether it intends to purchase such Contract. The Company buys Contracts directly from Dealers and does not make loans directly to purchasers of automobiles.

The Company has historically purchased Contracts from Dealers at discounts ranging from 0% to 10% of the total amount financed under the Contracts, depending on the perceived credit risk of the Contract, plus a flat acquisition fee for each Contract purchased. Discounts averaged 4.5% and 3.0% for the nine months ended September 30, 1995 and 1996, respectively. The Company believes that the level of discounts and fees are a significant factor in the Dealer's decision to submit a Contract to the Company for purchase, and will continue to play such a role in the future. Effective January 10, 1997, the Company began purchasing all Contracts without a percentage discount, charging Dealers only a flat acquisition fee for each Contract purchased. The fees vary based on the perceived credit risk and, in some cases, the interest rate on the Contract. The flat fees instituted in January 1997 are larger than the fees previously charged in conjunction with percentage discounts, so as to result in a similar net purchase price on a typical Contract.

The Company attempts to control Dealer misrepresentation by carefully screening the Contracts it purchases, 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, the Company may require the Dealer to repurchase any Contract in the event that the Dealer breaches its representations or warranties or if a borrower fails, for any reason, to make timely payment of the first installment due under a Contract. There can be no assurance, however, that any Dealer will have the

financial resources to satisfy its repurchase obligations to the Company.

BULK PURCHASES. The Company has purchased portfolios of Contracts and assumed the servicing thereon in bulk from other companies that had previously purchased the Contracts from Dealers. To date, the Company has made four such bulk purchases aggregating approximately $22.9 million. In considering Bulk Purchases, the Company carefully evaluates the credit profile and payment history of each portfolio and negotiates the purchase price accordingly. The credit profiles of the Contracts in each of the portfolios purchased are similar to those in the underwriting standards used by the Company in its normal course of business. The Bulk Purchases were made at purchase prices ranging from 93.0% to 100.0% of the aggregate principal balance of the Contracts. The Company may consider the purchase of additional portfolios from third parties, but has not made any such purchases since August 1995. Contracts that were acquired in Bulk Purchases and not yet sold currently account for 0.3% of the Servicing Portfolio.

CONTRACT PURCHASE CRITERIA. To be eligible for purchase by the Company, a Contract must have been originated by a Dealer that has entered into a Dealer Agreement to sell Contracts to the Company. The Contracts must be secured by a first priority lien on a new or used automobile, light truck or passenger van and must meet the Company's underwriting criteria. In addition, each Contract requires the borrower to maintain physical damage insurance covering the financed vehicle and naming the Company as a loss payee. The Company or any purchaser of the Contract from the Company may, nonetheless, suffer a loss upon theft or physical damage of any financed vehicle if the borrower fails to maintain insurance as required by the Contract and is unable to pay for repairs to or replacement of the vehicle or is otherwise unable to fulfill its obligations under the Contract.

The Company believes that its objective underwriting criteria enable it to evaluate effectively the creditworthiness of Sub-Prime Borrowers and the adequacy of the financed vehicle as security for a Contract. These criteria include standards for price; term; amount of down payment, installment payment and add-on interest rate; mileage, age and type of vehicle; amount of the Contract in relation to the value of the vehicle; borrower's income level, job and residence stability, credit history and debt serviceability; and other factors. These criteria are subject to change from time to time as circumstances may warrant. Upon receiving this information with the borrower's application, the Company's underwriters will verify the borrower's employment, residency, insurance and credit information provided by the borrower by contacting various parties noted on the borrower's application, credit information bureaus and other sources. The Company typically completes its credit review and responds to the Dealer within four hours.

CREDIT SCORING. Since its inception the Company has purchased $632.2 million in Contracts and, as of September 30, 1996, has an outstanding servicing portfolio of $445.3 million. The Company's management information systems are structured to include a variety of credit and demographic data for each Contract as well as maintaining data which indicate each Contract's past or current performance characteristics. Furthermore, the Company's technical staff have the ability to interrogate the database to compare performing and non-performing Contracts and to ascertain which demographic and credit related data elements may be predictors of credit performance.

In November 1996, the Company implemented a scoring model which assigns each Contract a numeric value (a "credit score") at the time the application is received from the Dealer and the borrower's credit information is retrieved from the credit reporting agencies. The credit score is based on a variety of parameters such as the borrower's job and residence stability, the amount of the down payment, and the age and mileage of the vehicle. The Company has developed the credit score as a means of improving its productivity by identifying Contracts where the characteristics are so strong (or alternatively, so weak), that the initial notification to the Dealer can be given without the more extensive analysis that a Company loan officer would give to a more average scoring Contract. Regardless of the credit score a Contract originally receives, the Company's underwriters perform the same extensive review and verification procedures on all Contracts. In addition to productivity improvements, the credit score is used to identify Contracts for which review by a supervisor or manager prior to approval and purchase may be appropriate.

Once an application is approved, financing documents are generated by the Dealer and the Company obtains a certificate of title for the vehicle when a lien is recorded, and various other documents pertaining to

the borrower's credit application. After the documents are signed by the Dealer and the borrower, the Dealer sells the Contract to the Company. The borrower then receives monthly billing statements.

All of the Contracts purchased by the Company are fully amortizing and provide for level payments over the term of the Contract. The average original principal amount financed under Contracts purchased in the nine months ended September 30, 1996 was approximately $12,550, with an average original term of approximately 53.6 months and an average down payment of 15.5%. Based on information contained in borrower applications, for this nine month period, the retail purchase price of the related automobiles averaged $12,830 (which excludes tax and license fees, and any additional costs such as a maintenance contract), and the Company's average borrower at the time of purchase was 37.0 years old, with approximately $32,814 in average household income and an average of 4.6 years' history with his or her current employer.

All Contracts may be prepaid at any time without penalty. In the event a borrower elects to prepay a Contract in full, the payoff amount is calculated by deducting the unearned interest (as determined by the "Rule of 78s" method, where applicable) from the Contract balance. When a partial prepayment is made on a Contract originated in California, at the option of the borrower, the future monthly payments may be reduced pro rata by the aggregate amount of the prepayment, payment of the next succeeding regular monthly payments may be suspended, or the borrower may continue to make the regular monthly payments and thereby pay the Contract in full prior to its scheduled amortization. With respect to Contracts originated outside of California, the portion of each payment on the Contracts allocated to principal and interest and the payoff amount in the event of a full prepayment would be determined by the Rule of 78s method or such other interest amortization method as is permitted by applicable state law.

Each Contract purchased by the Company prohibits the sale or transfer of the financed vehicle without the Company's consent and allows for the acceleration of the maturity of a Contract upon a sale or transfer without such consent. In most circumstances, the Company will not consent to a sale or transfer of a financed vehicle unless the related Contract is prepaid in full.

The Company believes that the most important requirements to succeed in the sub-prime automobile financing market are the ability to control borrower and Dealer misrepresentation at the point of origination; the development and consistent implementation of objective underwriting criteria specifically designed to evaluate the creditworthiness of Sub-Prime Borrowers; and the maintenance of an active program to monitor performance and collect payments.

SECURITIZATION AND SALE OF CONTRACTS TO INSTITUTIONAL INVESTORS. The Company purchases Contracts with the intention of reselling them to Investors either as bulk sales or as asset-backed securities. Asset-backed securities are generally structured as follows: First, the Company sells a portfolio of Contracts to a wholly-owned subsidiary which has been established for the limited purpose of buying and reselling the Company's Contracts. The subsidiary then sells the same Contracts to a grantor trust, and the grantor trust in turn issues interest-bearing asset-backed securities in an amount equal to the aggregate principal balance of the Contracts. One or more Investors purchase these asset-backed securities, the proceeds of which are used by the grantor trust to purchase the Contracts from the subsidiary, which uses such proceeds to purchase the Contracts from the Company. In addition, the Company provides a credit enhancement for the benefit of investors in the form of an initial cash deposit to a specific trust account ("Spread Account") and a deposit of certain excess servicing cash flows. Since its September 1995 securitization, and, it is expected, on an ongoing basis in the future, the Company altered the credit enhancement mechanism used in its securitizations to create and sell a subordinated security ("B Piece") in order to reduce the size of the required initial deposit to the Spread Account. The B Piece provides an additional credit enhancement to the senior security holders because distributions of interest on the B Piece are subordinated in priority of payment to interest due on the senior certificates and distributions of principal on the B Piece are subordinated in priority of payment to interest and principal due on the senior certificates. This revised structure may, if the Company is able to continue to sell the B Piece, reduce the amount of cash effectively used in securitizations. The Company continues to hold the B Piece associated with the June 1995 securitization but has sold all subsequent B Pieces. The Company believes it will be able to continue to sell the B Pieces created in its future securitizations. Purchasers of the asset-backed securities receive a particular coupon rate (the "Pass-Through Rate") established at the time of the sale. The Company receives periodic base servicing fees for its duties relating

to the accounting for and collection of the Contracts. In addition, the Company is entitled to certain excess servicing fees that represent collections on the Contracts in excess of the amounts required to pay investor principal and interest, the base servicing fees and certain other fees such as trustee and custodial fees. Generally, the Company sells the Contracts at face value and without recourse except that the representations and warranties provided by the Dealer to the Company are similarly provided by the Company to the investor.

At the end of the month, the aggregate cash collections are allocated first to the base servicing fees and certain other fees such as trustee and custodial fees for the period, then to the asset-backed securities certificateholder in an amount equal to the interest accrued at the Pass-Through Rate on the portfolio plus the amount by which the portfolio balance decreased (due to payments, payoffs or charge-offs) during the period. If the amount of cash required for the above allocations exceeds the amount collected during the monthly period, the shortfall is drawn from the Spread Account. If the cash collected during the period exceeds the amount necessary for the above allocations, and there is no shortfall in the related Spread Account, the excess is returned to the Company or one of its subsidiaries. The excess cash flows are considered by the Company to be excess servicing fees, part of which the Company recognizes as a gain on sale based on an estimate of the discounted present value of the excess cash flows.

Each sale of asset-backed securities results in an increase in the Excess Servicing Receivables account on the Company's Consolidated Balance Sheet and the recognition of a "Net Gain on Sale of Contracts" on the Company's Consolidated Statement of Operations for the period in which the sale was made. The Excess Servicing Receivables account is increased by a portion of the gain recognized on each securitization which represents principally the net present value of estimated future cash flows relating to the Contracts which were sold, calculated as follows:

(i) the present value of all future interest and principal payments expected to be received by the Company over the remaining life of the Contracts;

less

(ii) the Contracts' principal payments which are required to be passed through to the investors in the period in which they were received plus interest payments required to be made to investors at the Pass-Through Rate established at the time of securitization, and certain other fees and expenses associated with the securitization transaction, including the base servicing fee paid to the Company in respect of its obligations to service the borrowers' Contracts.

Because the APR on the Contracts received by the Company is relatively high in comparison to the Pass-Through Rate paid to investors, the net present value described above can be significant. In calculating the net gain on sale described above, the Company must estimate the future rates of prepayments, delinquencies, defaults and default loss severity as they impact the amount and timing of the cash flows in the net present value calculation. The cash flows received by the Company are then discounted at an interest rate that the Company believes a third-party purchaser would require as a rate of return. Expected losses are discounted using a rate equivalent to the risk free rate for securities with a duration similar to that estimated for the underlying Contracts.

In future periods, the Company will recognize additional revenue in the Servicing Fees account if the actual performance of the Contracts is better than the original discounted estimate. Although the Company has never recognized a writedown against the Excess Servicing Receivables account, if the actual performance of the Contracts is worse than the original discounted estimate, then such a writedown would be required. The Company's actual excess servicing cash flows, however, historically have exceeded the Company's original discounted estimates.

The Company's first significant sales consisted of an aggregate of $17.6 million of Contracts sold from October 1, 1991 through January 31, 1993 to GECC pursuant to an agreement that expired on December 31, 1992. On April 7, 1993, the Company began selling Contracts to Sun Life pursuant to various agreements. On March 16, 1995, the Company sold an additional $25.0 million in Contracts to GECC for an aggregate total of $42.6 million sold to GECC. As of September 30, 1996, the Company had sold approximately

$100.1 million in Contracts to Sun Life, $42.1 million of which was sold in the form of "Aaa/AAA" rated securities, as discussed below. As of September 30, 1996, the unpaid balance of the Contracts sold to Sun Life was approximately $29.9 million and the unpaid balance of Contracts sold to GECC was approximately $13.1 million.

Contract sales to GECC were in the form of whole loan sales. All of the Contracts sold to Sun Life have been in the form of asset-backed securities issued by grantor trusts to which a wholly-owned subsidiary of the Company has sold the Contracts. The first $58.1 million of the certificates sold to Sun Life were rated "A" by Duff & Phelps Credit Rating Co. The principal and interest due on the remaining $42.0 million of the certificates sold to Sun Life are guaranteed by Financial Security Assurance Inc. ("FSA"), and, as a result, such certificates were rated "Aaa" by Moody's Investors Service and "AAA" by Standard & Poor's Corporation.

On June 23, 1994, the Company began using various investment banking firms to place its asset-backed securities issues. The certificates have been issued by grantor trusts to which a wholly owned subsidiary of the Company has sold the related Contracts. Through September 30, 1996, the Company had delivered approximately $516.9 million principal amount of Contracts (of which approximately $400.7 million was outstanding at September 30, 1996) to eleven grantor trusts pursuant to these arrangements. The principal and interest due on the certificates issued pursuant to these arrangements are guaranteed by FSA and, as a result, such certificates are rated "Aaa" by Moody's Investors Services and "AAA" by Standard & Poor's Corporation. Since June 1996, the Company has sold such "AAA"-rated certificates in public offerings pursuant to registration statements filed with the Securities and Exchange Commission.

In connection with the sale of the Contracts, the Company is required to make certain representations and warranties, which generally duplicate the substance of the representations and warranties made by Dealers in connection with the Company's purchase of the Contracts. If the Company breaches any of its representations or warranties to a purchaser of the Contracts, the Company will be obligated to repurchase the Contract from such purchaser at a price equal to such purchaser's purchase price less the related cash securitization reserve and any payments received by such purchaser on the Contract. In most cases, the Company would then be entitled under the terms of its Dealer Agreement to require the selling Dealer to repurchase the Contract at a price equal to the Company's purchase price, less any payments made by the borrower. Subject to any recourse against Dealers, the Company will bear the risk of loss on repossession and resale of vehicles under Contracts repurchased by it.

TERMS OF SERVICING AGREEMENTS. The Company currently services all Contracts sold and expects to service all Contracts that it purchases and sells in the future, whether structured as whole loan sales or sales of asset-backed securities. Pursuant to the Company's usual form of servicing agreement (the Company's servicing agreements are collectively referred to as the "Servicing Agreements"), the Company is obligated to service all Contracts sold to the investors or trusts in accordance with the Company's standard procedures. The Servicing Agreements generally provide that the Company will bear all costs and expenses incurred in connection with the management, administration and collection of the Contracts serviced. The Servicing Agreements also provide that the Company will take all actions necessary or reasonably requested by the investor to maintain perfection and priority of the investor's or the trust's security interest in the financed vehicles.

Upon the sale of a portfolio of Contracts to an investor or a trust, the Company mails to borrowers monthly billing statements directing them to mail payments on the Contracts to a lock-box account. The Company engages an independent lock-box processing agent to retrieve and process payments received in the lock-box account. This results in a daily deposit to the investor's or the trust's bank account of the entire amount of each day's lock-box receipts and the simultaneous electronic data transfer to the Company of borrower payment data for posting to the Company's computerized records. Pursuant to the Servicing Agreements, the Company is required to deliver monthly reports to the investor or the trust reflecting all transaction activity with respect to the Contracts. The reports contain, among other information, a reconciliation of the change in the aggregate principal balance of the Contracts in the portfolio to the amounts deposited into the investor's or the trust's bank account as reflected in the daily reports of the lock-box processing agent.

The Company is entitled under most of the Servicing Agreements to receive a base monthly servicing fee of 2.0% per annum computed as a percentage of the declining outstanding principal balance of each Contract in the portfolio that is not in default as of the beginning of the month. Each month, after payment of the Company's base monthly servicing fee and certain other fees, the investor receives the paid principal reduction of the Contracts in its portfolios and interest thereon at the Pass-Through Rate. If, in any month, collections on the Contracts are insufficient to pay such amounts and any principal reduction due to charge-offs, the shortfall is satisfied from the Spread Account established in connection with the sale of the portfolio. (If the Spread Account is not sufficient to satisfy a shortfall, then the investor or trust may suffer a loss to the extent that the shortfall exceeds the Spread Account.) If collections on the Contracts exceed such amounts, the excess is utilized, first, to build up or replenish the Spread Account to the extent required, next, to cover deficiencies in Spread Accounts for other portfolios, and the balance, if any, constitutes excess servicing fees, which are distributed to the Company. If, in any month, the Spread Account balance is in excess of that required under the commitment or the Servicing Agreements, the Company is entitled to receive such excess. The Servicing Agreements also provide that the Company is entitled to receive certain late fees collected from borrowers.

Pursuant to the Servicing Agreements, the Company is generally required to charge off the balance of any Contract by the earlier of the end of the month in which the 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 the Company. In the case of a repossession, the amount of the charge-off is the difference between the outstanding principal balance of the defaulted Contract and the repossession sale proceeds. In the event collections on the Contracts are not sufficient to pay to the investor the entire principal balance of any Contracts charged off during the month, the Spread Account established in connection with the sale of the Contracts is reduced by the unpaid principal amount of such Contracts. Such amount would then have to be restored to the Spread Account from future collections on the Contracts remaining in the portfolio before the Company would again be entitled to excess servicing fees. In addition, the Company would not be entitled to receive any further base monthly servicing fees with respect to the defaulted Contracts. Subject to any recourse against the Company in the event of a breach of the Company's representations and warranties with respect to any Contracts and after any recourse to any FSA guarantees backing the certificates, the investor bears the risk of all charge-offs on the Contracts in excess of the Spread Account. However, the Company would experience a reduction of excess servicing fees in the event of greater than anticipated charge-offs or prepayments on Contracts sold and serviced by the Company.

The Servicing Agreements are terminable by the investor in the event of certain defaults by the Company and under certain other circumstances.

SERVICING OF CONTRACTS

GENERAL. The Company's servicing activities, both with respect to portfolios of Contracts sold by it and with respect to loans owned or originated by third parties, consist of collecting, accounting for and posting of all payments received; responding to borrower inquiries; taking all necessary action to maintain the security interest granted in the financed vehicle or other collateral; investigating delinquencies; communicating with the borrower to obtain timely payments; repossessing and reselling the collateral when necessary; and generally monitoring each Contract and any related collateral.

COLLECTION PROCEDURES. The Company believes that its ability to monitor performance and collect payments owed from Sub-Prime Borrowers is primarily a function of its collection approach and support systems. The Company believes that if payment problems are identified early and the Company's collection staff works closely with borrowers to address these problems, it is possible to correct many of them before they deteriorate further. To this end, the Company utilizes pro-active collection procedures, which include making early and frequent contact with delinquent borrowers; educating borrowers as to the importance of maintaining good credit; and employing a consultative and customer service approach to assist the borrower in meeting his or her obligations, which includes attempting to identify the underlying causes of delinquency and cure them whenever possible. In support of its collection activities, the Company maintains a computerized collection system specifically designed to service automobile installment sale contracts with Sub-Prime Borrowers and similar consumer loan contracts. See "Business -- Management Information Systems."

With the aid of its high penetration auto dialer, the Company typically attempts to make telephonic contact with delinquent borrowers on the sixth day after their monthly payment due date. Using coded instructions from a collection supervisor, the automatic dialer will attempt to contact borrowers based on their physical location, state 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 borrower'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 at the same time that the borrower's pertinent information is simultaneously displayed on the collector's workstation. The collector then inquires of the borrower the reason for the delinquency and when the Company can expect to receive the payment. The collector will attempt to get the borrower 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 borrower makes such a promise, the account is routed to a pending 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 automatic dialing queue for subsequent contacts.

If a borrower fails to make or keep promises for payments, or if the borrower 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 borrower's payment due date, but could occur sooner or later, depending on the specific circumstances.

If a decision to repossess is made by a supervisor, such assignment is given to one of many licensed, bonded repossession agents used by the Company. When the vehicle is recovered, the repossession agent delivers it to a wholesale auto auction where it is kept until it is liquidated, usually within 30 days of the repossession. Liquidation proceeds are applied to the borrower's outstanding obligation under the Contract and the borrower is advised of his obligation to pay any deficiency balance that remains. The Company uses all practical means available to collect deficiency balances, including filing for judgments against borrowers where applicable.

The goal of the Company's collection efforts under the Servicing Agreements is to minimize delinquencies, repossessions and charge-offs under the portfolios of Contracts serviced. If the situation so merits, the Company may extend or modify a Contract within parameters specified in the Servicing Agreement.

The Company's excess servicing fees are impacted by the relative performance of the portfolios of Contracts it has sold to institutional investors. The tables below document the delinquency, repossession and net credit loss experience of all Contracts originated by the Company since its inception:

DELINQUENCY EXPERIENCE(1)

	SEPTEMBER 30, 1996		DECEMBER 31, 1995		MARCH 31, 1995	
	NUMBER OF LOANS	AMOUNT	NUMBER OF LOANS	AMOUNT	NUMBER OF LOANS	AMOUNT
			(DOLLARS IN THOUSANDS)			
Gross Servicing Portfolio.	41,758	$535,737	27,113	$355,965	18,106	$247,642
Period of delinquency (2)						
31-60 days	1,526	18,473	909	11,520	298	3,865
61-90 days	674	8,334	203	2,654	63	885
91+ days	380	4,873	272	3,899	87	1,370
Total delinquencies.	2,580	31,680	1,384	18,073	448	6,120
Amount in repossession (3)	1,319	14,523	834	10,151	323	4,792
Total delinquencies and amount in repossession (2).	3,899	46,203	2,218	28,224	771	10,912
Delinquencies as a percent of gross Servicing Portfolio.	6.2%	5.9%	5.1%	5.1%	2.5%	2.5%
Total delinquencies and amount in repossession as a percent of gross Servicing Portfolio.	9.3%	8.6%	8.2%	7.9%	4.3%	4.4%

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(1) All amounts and percentages are based on the full amount remaining to be repaid on each Contract, including, for Rule of 78s Contracts, any unearned finance charges. The information in the table represents the principal amount of all Contracts purchased (excluding Bulk Purchases not yet sold) by the Company, including Contracts subsequently sold by the Company which it continues to service.

(2) The Company considers a Contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date. The period of delinquency is based on the number of days payments are contractually past due. Contracts less than 31 days delinquent are not included.

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

NET CHARGE-OFF EXPERIENCE(1)

	NINE MONTHS ENDED SEPTEMBER 30, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1995	TRANSITION PERIOD ENDED DECEMBER 31, 1995	FISCAL YEAR ENDED MARCH 31, 1995
	(DOLLARS IN THOUSANDS)			
Average Servicing Portfolio outstanding	$365,055	$206,262	$221,926	$129,174
Net charge-offs as a percent of average Servicing Portfolio(3)	5.0%	4.8%	4.8%	3.4%

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(1) All amounts and percentages are based on the principal amount scheduled to be paid on each Contract. The information in the table represents all Contracts purchased by the Company including Contracts subsequently sold by the Company which it continues to service.

(2) The percentages set forth for the nine months ended September 30, 1996 and September 30, 1995, and the nine-month transition period ended December 31, 1995, are computed using annualized operating data which do not necessarily represent comparable data for a full twelve-month period.

(3) 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). Post-liquidation amounts received on previously charged-off Contracts are applied to the period in which the related Contract was originally charged off. Excludes Bulk Purchases not yet sold and uninsured casualty losses.

MANAGEMENT INFORMATION SYSTEMS

The Company maintains sophisticated data processing support and management information systems. To support its collection efforts, the Company utilizes Digital Systems International's Intelligent Dialing System-TM-, a high-penetration automatic dialer, in conjunction with the American Management Systems' Computer Assisted Collection System software, which has been customized by the Company, and numerous accounting software programs. All systems are operated at the Company's offices on an Advance System IBM AS/400 computer.

The Company's high-penetration automatic dialer controls multiple telephone lines and automatically dials numbers from file records in accordance with programmed instructions established by management. If the dialer receives a busy signal or no answer, it will generally route the number for a subsequent re-call. The dialer has the ability to distinguish a pre-recorded voice and will leave the appropriate digitized human voice message on the borrower's answering machine. Generally, the dialer transfers the call to a collector only after it has determined that there is a live voice on the line. In most instances, this is accomplished so rapidly that the individual receiving the call is unaware that an automatic dialer has been used. The efficiency of the auto dialer allows the Company to place as many as 5,000 telephone calls per day.

The high-penetration automatic dialer also monitors telephone activity and activates more telephone lines when connect rates are low or shuts down lines when connect rates are high. Once a live call is passed to a collector, all relevant account information, including one of 99 account status codes, automatically appears on the collector's video screen. The Company believes the capabilities of the automatic dialer reduce the likelihood that an account will remain delinquent for a prolonged period without appropriate follow-up.

The Company's automation allows it to electronically sort and prioritize each collector's workload as well

as to implement specific collection strategies. Moreover, the Company has adopted certain procedural controls designed to ensure that certain important decisions, such as ordering a repossession, initiating legal action or materially modifying an account, are automatically routed to a supervisor for review and approval.

The Company believes that the capacity of its existing data processing support and management information systems is sufficient to allow the Company to substantially expand its business without significant additional capital expenditures.

COMPETITION

The automobile financing business is highly competitive. The Company competes with a number of national, local and regional finance companies with operations similar to those of the Company. 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 Credit Corporation and Nissan Motors Acceptance Corporation. Many of the Company's competitors and potential competitors possess substantially greater financial, marketing, technical, personnel and other resources than the Company. Moreover, the Company's future profitability will be directly related to the availability and cost of its capital in relation to the availability and cost of capital to its competitors. The Company's competitors and potential competitors include far larger, more established companies that have access to capital markets for unsecured commercial paper and investment grade-rated debt instruments and to other funding sources which may be unavailable to the Company. Many of these companies also have long-standing relationships with Dealers and may provide other financing to dealers, including floor plan financing for the Dealers' purchase of automobiles from manufacturers, which is not offered by the Company.

The Company believes that the principal competitive factors affecting a Dealer's decision to offer Contracts for sale to a particular financing source are the purchase price offered for the 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. The Company believes that it can obtain from Dealers sufficient Contracts for purchase at attractive prices by consistently applying reasonable underwriting criteria and making timely purchases of qualifying Contracts.

The Company believes that it can compete effectively for the interest of institutional investors in purchasing Contracts acquired by the Company based upon the historical performance of portfolios of Contracts sold and serviced by it and its willingness to establish substantial Spread Accounts for the benefit of investors and to derive a portion of its revenues from excess servicing fees paid on a monthly basis rather than up-front fees paid at the time of sale of the Contracts.

MARKETING

The Company establishes relationships with Dealers through Company representatives that contact a prospective Dealer to explain the Company's Contract purchases and thereafter provide Dealer training and support services. As of September 30, 1996, the Company had 50 representatives, 23 of whom are employees and 27 of whom are independent. The independent representatives are contractually obligated to represent the Company's financing program exclusively. The Company's representatives present the Dealer with a marketing package, which includes the Company's promotional material containing the current discount rate offered by the Company for the purchase of Contracts, a copy of the Company's standard-form Dealer Agreement, examples of monthly reports and required documentation relating to Contracts, but they have no authority relating to the decision to purchase Contracts from Dealers. The Company's acceptance of a Dealer is subject to its analysis of, among other things, the Dealer's operating history.

The Company has not actively advertised its automobile financing or third-party loan servicing businesses, although it may do so selectively in the future.

GOVERNMENT REGULATION

The Company intends to obtain and maintain all licenses necessary to the lawful conduct of its business and operations. The Company is not licensed to make loans directly to borrowers.

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 Contracts and impose certain other restrictions on 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 the federal government and various states provide certain rights to purchasers with respect to motor vehicles 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 borrower against a Dealer and its assignees, including the Company and purchasers of Contracts from the Company. The Dealer Agreement contains representations by the Dealer that, as of the date of assignment of Contracts, no such claims or defenses have been asserted or threatened with respect to the 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 Contracts that involve a breach of such warranty, there can be no assurance that the Dealer will have the financial resources to satisfy its repurchase obligations to the Company. Certain of these laws also regulate the Company's servicing activities, including its methods of collection.

Although the Company believes that it is currently in compliance with applicable statutes and regulations, there can be no assurance that the Company will be able to maintain such compliance. The failure to comply with such statutes and regulations could have a material adverse effect upon the Company. Furthermore, the adoption of additional statutes and regulations, changes in the interpretation and enforcement of current statutes and regulations or the expansion of the Company's business into jurisdictions that have adopted more stringent regulatory requirements than those in which the Company currently conducts business could have a material adverse effect upon the Company. In addition, due to the consumer-oriented nature of the industry in which the Company operates and the application of certain laws and regulations, industry participants are regularly named as defendants in litigation involving alleged violations of federal and state laws and regulations and consumer law torts, including fraud. Many of these actions involve alleged violations of consumer protection laws. Although the Company is not involved in any material litigation, a significant judgment against the Company or within the industry in connection with any such litigation could have a material adverse effect on the Company's financial condition and results of operations.

Upon the purchase of Contracts by the Company, the original Contracts and related title documents for the financed vehicles are delivered by the selling Dealers to the Company. Upon the sale of each portfolio of Contracts by the Company, a financing statement is filed under the Uniform Commercial Code as adopted in the applicable state (the "UCC") to perfect and give notice of the purchaser's security interest in the Contracts.

The Dealer Agreement and related assignment contain representations and warranties by the Dealer that an application for state registration of each financed vehicle, naming the Company as secured party with respect to the vehicle, was effected at the time of sale of the related Contract to the Company, and that all necessary steps have been taken to obtain a perfected first priority security interest in each financed vehicle in favor of the Company under the laws of the state in which the financed vehicle is registered. If a Dealer or the Company, because of clerical error or otherwise, has failed to take such action in a timely manner, or to maintain such interest with respect to a financed vehicle, neither the Company nor any purchaser of the related Contract from the Company would have a perfected security interest in the financed vehicle and its security interest may be subordinate to the interest of, among others, subsequent purchasers of the financed vehicle, holders of perfected security interests and a trustee in bankruptcy of the borrower. The security interest of the Company or the purchaser of a Contract may also be subordinate to the interests of third parties if the interest is not perfected due to administrative error by state recording officials. Moreover, fraud or forgery by the borrower could render a Contract unenforceable against third parties. In such events, the Company could be required by the purchaser to repurchase the Contract. In the event the Company is required to repurchase a Contract, it will generally have recourse against the Dealer from which it purchased

the Contract. This recourse will be unsecured except for a lien on the vehicle covered by the Contract, and there can be no assurance that any Dealer will have the financial resources to satisfy its repurchase obligations to the Company. Subject to any recourse against Dealers, the Company will bear any loss on repossession and resale of vehicles financed under Contracts repurchased by it from investors.

Under the laws of many states, liens for storage and repairs performed on a vehicle and for unpaid taxes take priority over a perfected security interest in the vehicle. Pursuant to its securitization purchase commitments, the Company generally warrants that, to the best of the Company's knowledge, no such liens or claims are pending or threatened with respect to a financed vehicle, which may be or become prior to or equal with the lien of the related Contracts. In the event that any of the Company's representations or warranties proves to be incorrect, the trust or the investor would be entitled to require the Company to repurchase the Contract relating to such financed vehicle.

The Company, on behalf of purchasers of Contracts, may take action to enforce the security interest in financed vehicles with respect to any related Contracts in default by repossession and resale of the financed vehicles. The UCC and other state laws regulate repossession sales by requiring that the secured party provide the borrower with reasonable notice of the date, time and place of any public sale of the collateral, the date after which any private sale of the collateral may be held and of the borrower's right to redeem the financed vehicle prior to any such sale and by providing that any such sale be conducted in a commercially reasonable manner. Financed vehicles repossessed generally are resold by the Company through unaffiliated wholesale automobile networks or auctions, which are attended principally by used car dealers.

In the event of a repossession and resale of a financed vehicle, after payment of outstanding liens for storage, repairs and unpaid taxes, to the extent those liens take priority over the Company's security interest, and after payment of the reasonable costs of retaking, holding and selling the vehicle, the secured party would be entitled to be paid the full outstanding balance of the Contract out of the sale proceeds before payments are made to the holders of junior security interests in the financed vehicles, to unsecured creditors of the borrower, or, thereafter, to the borrower. Under the UCC and other laws applicable in most states (including California), a creditor is entitled to obtain a deficiency judgment from a borrower for any deficiency on repossession and resale of the motor vehicle securing the unpaid balance of such borrower's Contract. However, some states impose prohibitions or limitations on deficiency judgments. If a deficiency judgment were granted, the judgment would be a personal judgment against the borrower for the shortfall, and a defaulting borrower may often have very little capital or few sources of income available following repossession. Therefore, in many cases, it may not be useful to seek a deficiency judgment against a borrower or, if one is obtained, it may be settled at a significant discount.

PROPERTY

The Company's headquarters are located in Irvine, California, where it leases approximately 51,400 square feet of general office space from an unaffiliated lessor. The annual rent is $524,596 through the year 2000, the final year of the lease. In addition, the Company pays the property taxes, maintenance and other common area expenses of the premises, currently at the approximate annual rate of $98,000. All such amounts are payable monthly. The Company has an option to extend the lease for an additional five years upon terms substantially similar to those of the existing lease.

The Company plans to establish a branch facility in Chesapeake, Virginia. The Company has agreed to lease approximately 18,600 square feet of general office space in Chesapeake at an initial annual rent of $260,666, increasing to $333,652 over a ten-year term. In addition, the Company is in discussions with its current landlord in California regarding a lease of a larger headquarters location or of additional space. Although the terms of any such lease have not been fixed as yet, the Company believes that adequate facilities are available.

EMPLOYEES

As of September 30, 1996, the Company had 286 full-time and 3 part-time employees, of whom 10 are management personnel, 89 are collections personnel, 104 are Contract origination personnel, 33 are marketing representatives, 46 are operations personnel, and 7 are accounting personnel. The Company believes that its relations with its employees are good. The Company is not a party to any collective bargaining agreement.

LEGAL PROCEEDINGS

As of the date of this Prospectus, the Company was not involved in any material litigation in which it is the defendant. The Company regularly initiates legal proceedings as a plaintiff in connection with its routine collection activities.

DIRECTORS AND EXECUTIVE OFFICERS

The current directors and executive officers of the Company are as follows:

Name	Age	Position
Charles E. Bradley, Sr.	67	Chairman of the Board of Directors
Charles E. Bradley, Jr.	37	President, Chief Executive Officer, and Director
William B. Roberts	59	Director
John G. Poole	54	Vice Chairman of the Board of Directors
Robert A. Simms	58	Director
Thomas L. Chrystie	63	Director
Jeffrey P. Fritz	37	Senior Vice President - Chief Financial Officer and Secretary
William L. Brummund, Jr.	43	Senior Vice President - Systems Administration
Nicholas P. Brockman	51	Senior Vice President - Asset Recovery & Liquidation
Richard P. Trotter	53	Senior Vice President - Contract Origination
Curtis K. Powell	39	Senior Vice President - Marketing
Mark A. Creatura	37	Senior Vice President - General Counsel

CHARLES E. BRADLEY, SR. has been the Chairman of the Board of the Company since its formation in March 1991. Mr. Bradley is one of the founders of Stanwich Partners, Inc. ("Stanwich"), a Connecticut investment firm which acquires controlling interests in companies in conjunction with the existing operating management of such companies, and has been President, a director and a shareholder of that company since its formation in 1982. He is also President and director of Reunion Industries, Inc., a publicly held company which manufactures precision plastic products and provides engineered plastics services. Mr. Bradley also served as President and a director of CPS Holdings, Inc., the Company's former parent corporation, from August 1989 until its merger into the Company in December 1995. He currently is a director of DeVlieg-Bullard, Inc., Chatwins Group, Inc., Texon Energy Corp., General Housewares Corp., NAB Asset Corporation (38% of whose outstanding shares of voting stock are held by the Company), Zydeco Exploration, Inc., Sanitas, Inc. and Triangle Corporation, all of which are publicly-held corporations or are required to file periodic reports under Section 13 or 15(d) of the Securities Exchange Act of 1934. Mr. Bradley is the father of Charles E. Bradley, Jr.

CHARLES E. BRADLEY, JR. has been the President and a director of the Company since its formation in March 1991. In January 1992, Mr. Bradley was appointed Chief Executive Officer of the Company. From March 1991 until December 1995 he served as Vice President and a director of CPS Holdings, Inc. 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, Jr. is currently serving as a director of NAB Asset Corporation, Chatwins Group, Inc., Texon Energy Corporation, Thomas Nix Distributor, Inc., and CARS USA. Charles E. Bradley, Sr. is his father.

WILLIAM B. ROBERTS has been a director of the Company since its formation in March 1991. Since 1981, he has been the President of Monmouth Capital Corp., an investment firm which specializes in management buyouts. Mr. Roberts serves on the board of directors of Atlantic City Racing Association, a publicly-held corporation, which owns and operates a race track.

JOHN G. POOLE has been a director of the Company since November 1993 and its Vice Chairman since January 1996. He was a co-founder of Stanwich in 1982 and has been a director, vice president and shareholder of that company since its formation. Mr. Poole is a director of Reunion Industries, Inc., Sanitas, Inc. and Chatwins Group, Inc. Mr. Poole served as a director and Vice President of CPS Holdings, Inc. from 1993 to 1995.

ROBERT A. SIMMS has been a director of the Company since April 1995. He has been the Chairman and Chief Executive Officer of Simms Capital Management, Inc. since 1984. He is also a director of New York Bancorp, The Halecrest Company, Arrhythmia Research Technology, Inc. and the National Football Foundation and Hall of Fame. Mr. Simms also serves on the Board of Overseers of Rutgers University and was formerly a partner in Bear Stearns & Co.

THOMAS L. CHRYSTIE has been a director of the Company since April 1995. He has been self-employed as an investor since 1988. His previous experience includes 33 years at Merrill Lynch & Co. in various capacities including heading Merrill Lynch's investment banking, capital markets and merchant banking activities. In addition, he served as Merrill Lynch & Co.'s Chief Financial Officer. He is also a director of Titanium Industries, Eonyx Corporation and Wyoming Properties.

JEFFREY P. FRITZ has been Senior Vice President - Chief Financial Officer and Secretary of the Company since March 1991. From December 1988 to March 1991, Mr. Fritz was Vice President and Chief Financial Officer of Far Western Bank. From 1985 to December 1988, Mr. Fritz was a management consultant for Price Waterhouse in St. Louis, Missouri.

WILLIAM L. BRUMMUND, JR. has been Senior Vice President - Systems Administration since March 1991. From 1986 to March 1991, Mr. Brummund was Vice President and Systems Administrator for Far Western Bank.

NICHOLAS P. BROCKMAN has been Senior Vice President - Asset Recovery & Liquidation since January 1996. He was Senior Vice President of Contract Originations from April 1991 to January 1996. From 1986 to March 1991, Mr. Brockman served as a Vice President and Branch Manager of Far Western Bank.

RICHARD P. TROTTER has been Senior Vice President-Contract Origination since January 1995. He was Senior Vice President of Administration from April 1995 to December 1995. From January 1994 to April 1995 he was Senior Vice President-Marketing of the Company. From December 1992 to January 1994, Mr. Trotter was Executive Vice President of Lange Financial Corporation, Newport Beach, California. From May 1992 to December 1992, he was Executive Director of Fabozzi, Prenovost & Normandin, Santa Ana, California. From December 1990 to May 1992 he was President/Chief Operating Officer of R. Thomas Ashley, Newport Beach, California. From April 1984 to December 1990, he was President/Chief Executive Officer of Far Western Bank, Tustin, California.

CURTIS K. POWELL has been Senior Vice President - Marketing of the Company since April 1995. He Joined the Company 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.

MARK A. CREATURA 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.

The Board of Directors has established an Audit Committee and Compensation and Stock Option Committee. The members of the Audit Committee are Robert A. Simms, Thomas L. Chrystie and William B. Roberts. The Audit Committee is empowered by the Board of Directors to review the financial books and records of the Company in consultation with the Company's accounting and auditing staff and its independent auditors and to review with the accounting staff and independent auditors any questions raised with respect to accounting and auditing policy and procedure.

The members of the Compensation and Stock Option Committee are Robert A. Simms, Thomas L. Chrystie and William B. Roberts. This Committee makes recommendations to the Board of Directors as to general levels of compensation for all employees of the Company, the annual salary of each of the executive officers of the Company, authorizes the grants options to employees under the Company's 1991 Stock Option Plan, and reviews and approves compensation and benefit plans of the Company.

CERTAIN TRANSACTIONS

On January 3, 1996, the Company and Stanwich (an affiliate of the Company) entered into an agreement pursuant to which Stanwich provides consulting services on a non-exclusive basis for a three year period ended December 31, 1998 for fee of $75,000 per year.

The Company has purchased 80% of the outstanding stock of Stanwich Leasing, Inc. ("SLI") from Charles E. Bradley, Sr., Chairman of the Board of Directors and a principal stockholder, and John G. Poole, a director of the Company, for a purchase price of $100,000. The transaction was considered and approved by the independent members of the Board of Directors of the Company, namely Messrs. Chrystie, Roberts and Simms.

The agreements and arrangements described above were not entered into between parties negotiating or dealing on an arm's length basis, but were entered into by the Company with the parties who personally benefited from such transactions and who had a control or fiduciary relationship with the Company.

PRINCIPAL SHAREHOLDERS

The following table sets forth the number and percentage of shares of Common Stock owned beneficially as of January 1, 1997: (i) by each person known to the Company to own more than 5% of the outstanding Common Stock, (ii) by each director and executive officer of the Company, and (iii) by all directors and officers of the Company as a group.

Except as otherwise indicated, and subject to applicable community property and similar laws, each of the persons named has sole voting and investment power with respect to the shares shown as beneficially owned by such persons. The address of Messrs. Bradley, Jr., Brockman, Fritz, Brummund, Trotter, Powell and Creatura is c/o Consumer Portfolio Services, Inc., 2 Ada, Irvine, CA 92618.

Name & Address of Beneficial Owner	Amount & Nature of Beneficial Ownership (1)	Percent of Class
Charles E. Bradley, Sr. c/o Stanwich Partners, Inc., 62 Southfield Avenue, Stamford, CT 06902	2,895,137 (2)	19.5%
William B. Roberts Monmouth Capital Corp., 126 East 56th Street, 12th Floor New York, NY 10022	1,233,982	8.5%
John G. Poole c/o Stanwich Partners, Inc., 62 Southfield Avenue, Stamford, CT 06902	294,360 (3)	2.1%
Thomas L. Chrystie, P.O. Box 640, Wilson, WY 83014	60,000 (4)	*
Robert A. Simms, 55 Railroad Ave., Plaza Suite Greenwich, CT 06830	217,144 (5)	1.5%
Charles E. Bradley, Jr.	1,572,920 (6)	10.8%
Nicholas P. Brockman	72,200	*
Jeffrey P. Fritz	72,200	*
William L. Brummund, Jr.	71,200	*
Richard P. Trotter	56,198	*
Curtis K. Powell	19,300	*
Mark A. Creatura	8,000	*
All officers and directors as a group (sixteen persons)	6,038,121 (7)	38.7%
Sun Life Insurance Company of America One Sun America Center, Los Angeles, CA 90067	1,013,332	7.1%
Robert T. Gilhuly and Kimball J. Bradley, Trustees c/o Cummings & Lockwood Two Greenwich Plaza, Box 2505, Greenwich, CT 06830	1,058,818 (8)	7.4%

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* Less than 1%

(1) Includes the following shares which are not currently outstanding but which the named individuals have the right to acquire currently or within 60 days of January 1, 1997 upon exercise of options: Charles E. Bradley, Sr. - 600,000 shares; William B. Roberts - 200,000 shares; Thomas L. Chrystie - 20,000 shares;

Robert A. Simms - 20,000 shares; Charles E. Bradley, Jr. - 267,640 shares; Jeffrey P. Fritz - 52,200 shares; William L. Brummund, Jr. - 31,200 shares; Richard P. Trotter - 35,686 shares; Curtis K. Powell - 19,300 shares; Mark A. Creatura - 8,000 shares; and all directors and officers as a group (16 persons) - 1,292,706 shares. The shares described in this note are deemed to be outstanding for the purpose of computing the percentage of outstanding Common Stock owned by such persons individually and by the group, but are not deemed to be outstanding for the purpose of computing the percentage of ownership of any other person.

(2) Includes 207,490 shares owned by the named person's spouse as to which he has no voting or investment power; and 600,000 shares that Mr. Bradley, Jr., has the presently exercisable right to acquire from Mr. Bradley, Sr.

(3) Includes 2,000 shares held by Mr. Poole as custodian for his children.

(4) Includes 40,000 shares held by the Thomas L. Chrystie Living Trust.

(5) Includes 16,944 shares owned by Mr. Simms' spouse as to which he has no voting or investment power.

(6) Includes 211,738 shares held by a trust of which Mr. Bradley is the beneficiary, as to which he has no voting or investment power. Also includes 600,000 shares that Mr. Bradley, Jr. has the presently exercisable right to acquire from Mr. Bradley, Sr.

(7) Includes an aggregate of 1,347,818 shares which are not currently outstanding, but which may be acquired by officers and directors of the company within 60 days of January 1, 1997.

(8) These shares are held in trusts of which the beneficiaries are Charles E. Bradley, Sr.'s adult children, including, among others, Charles E. Bradley, Jr., (as to 211,738 shares) and Kimball J. Bradley (as to 211,802 shares).

DESCRIPTION OF THE NOTES

THE NOTES WILL BE ISSUED UNDER AN INDENTURE BETWEEN THE COMPANY AND BANKERS TRUST COMPANY, AS TRUSTEE (THE "TRUSTEE"), THE FORM OF WHICH HAS BEEN FILED AS AN EXHIBIT TO THE REGISTRATION STATEMENT OF WHICH THIS PROSPECTUS IS A PART. THE INDENTURE IS SUBJECT TO AND IS GOVERNED BY THE TRUST INDENTURE ACT OF 1939, AS AMENDED (THE "TRUST INDENTURE ACT"). THE FOLLOWING STATEMENTS, UNLESS THE CONTEXT OTHERWISE REQUIRES, ARE SUMMARIES OF THE SUBSTANCE OR GENERAL EFFECT OF CERTAIN PROVISIONS OF THE INDENTURE, DO NOT PURPORT TO BE COMPLETE AND ARE SUBJECT TO, AND QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO, THE INDENTURE, INCLUDING THE DEFINITIONS OF CERTAIN TERMS IN THE INDENTURE AND THOSE TERMS MADE A PART OF THE INDENTURE BY THE TRUST INDENTURE ACT. WHEREVER PARTICULAR PROVISIONS AND DEFINITIONS CONTAINED IN THE INDENTURE ARE REFERRED TO, SUCH PROVISIONS AND DEFINITIONS ARE INCORPORATED BY REFERENCE AS PART OF THE STATEMENTS MADE, AND THE STATEMENTS ARE QUALIFIED IN THEIR ENTIRETY BY THOSE REFERENCES. ARTICLE AND SECTION REFERENCES ARE TO ARTICLES AND SECTIONS OF THE INDENTURE. UNLESS OTHERWISE DEFINED HEREIN, CAPITALIZED TERMS HAVE THE SAME MEANINGS AS DEFINED IN THE INDENTURE. FOR DEFINITIONS OF CERTAIN TERMS USED IN THIS SECTION, SEE "-- CERTAIN DEFINITIONS" BELOW.

GENERAL

The Notes will be general, unsecured obligations of the Company and will be limited to $35,000,000 aggregate principal amount, plus up to an additional $5,250,000 aggregate principal amount if the Underwriters' over-allotment option is exercised in full. The Notes will be subordinated to all existing and future Senior Indebtedness of the Company as described under "Subordination" below. At September 30, 1996, there was approximately $9.8 million of Senior Indebtedness outstanding. The Notes will mature on April _____, 2004, unless redeemed earlier (i) at the option of the Company or (ii) at the option of Holders following the occurrence of a Special Redemption Event. See "-- Redemption at Option of the Company" and "-- Holders' Right to Redemption After Special Redemption Event."

Interest on the Notes will be payable on the final day of each month commencing _____, 1997 (each on Interest Payment Date) to the person who is the Holder as of the close of business on the seventh day of the month (whether or not a Business Day) immediately preceding an Interest Payment Date. Interest will accrue, at the rate per annum stated on the cover page of this Prospectus, from and including each Interest Payment Date (or, in the case of the first Interest Payment Date, from the date of issuance) to but excluding the next Interest Payment Date. In the event an Interest Payment Date falls on a day other than a Business Day, interest will be paid on the next succeeding Business Day and no interest on such payment shall accrue for the period from and after such Interest Payment Date to such next succeeding Business Day. The amount of interest payable on each Interest Payment Date will be computed on the basis of a 360-day year consisting of twelve 30-day months. (Sections 301, 307, 308, 310 and Supplement Sections 1.4 and 1.5) Principal and interest will be payable at an office or agency to be maintained by the Company in _____, _____. (Sections 301, 307, 1002 and Supplement Section 1.3)

The Company will issue the Notes in denominations of $1,000 and integral multiples thereof. (Section 302) The Notes will be initially issued only in fully registered book-entry form with The Depository Trust Company, as the book-entry depositary (the "Depositary"). Except as described in this Prospectus or in the Indenture, the Notes will not be issuable in definitive certificated form to any person other than the Depositary or its nominees (Article 2 and Supplement 1.3). See "-- Book-Entry System."

The Company will furnish to Holders annual reports containing financial statements of the Company audited by independent certified public accountants. (Section 704)

CONVERSION RIGHTS

At maturity or upon the exercise by the Company of an optional redemption, each Holder of Notes will have the right to convert into Common Stock 25% of the aggregate principal amount of the Notes held by such Holder and if a Special Redemption Event occurs, each Holder who elects to require the redemption of its Notes will have the right to convert into Common Stock 25% of the principal amount of its Notes. Accordingly, 25% of each Note when subject to conversion will be convertible into Common Stock, at the

conversion price of $_____ per share (equivalent to approximately _____ shares of Common Stock for each $250 portion of each $1,000 principal amount of Notes) provided that such price may be adjusted from time to time as provided in the Indenture. The right to convert a Note called for redemption or delivered for repurchase pursuant to a Special Redemption Event will terminate at the close of business on the second Business Day next preceding the redemption date for such Note (unless the Company shall default in making the redemption payment when due, in which case the conversion right shall terminate at the close of business on the date such default is cured or such Note is redeemed). Holders of the Notes will have the right to convert Notes called for redemption until terminated in accordance with the preceding sentence. (Supplement Sections 1.9 and 1.10)

The conversion price will be subject to adjustment in certain events, including (i) dividends (and other distributions) payable in Common Stock on any class of capital stock of the Company, (ii) the issuance to all holders of Common Stock of rights, options or warrants entitling them to subscribe for or purchase Common Stock (or securities convertible into Common Stock) at less than the then-current market price (as determined in accordance with the Notes) unless holders of Notes are entitled to receive the same upon conversion, (iii) subdivisions, combinations and reclassifications of Common Stock and (iv) distributions to all holders of Common Stock of evidences of indebtedness of the Company or assets (including securities, but excluding not only those rights, options, warrants, but also dividends and distributions referred to above, dividends and distributions paid in cash out of the retained earnings of the Company). In addition to the foregoing adjustments, in case the Company shall subdivide its outstanding shares of Common Stock into a greater number of shares, the Conversion Price in effect immediately prior to such subdivision shall be proportionately reduced, and, in case the outstanding shares of Common Stock of the Company shall be combined into a smaller number of shares, the conversion price in effect immediately prior to such combination shall be proportionately increased. In addition, if any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets to another corporation shall result in the holders of Common stock being entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then provision is to be made whereby the Holders shall have the right to purchase and receive such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for such Common Stock. Adjustments in the conversion price of less than $0.25 per share will not be required, but any adjustment that would otherwise be required to be made will be taken into account in the computation of any subsequent adjustment. Fractional shares of Common Stock are not to be issued or delivered upon conversion, but, in lieu thereof, a cash adjustment will be paid based upon the then-current market price of Common Stock. (Supplement Sections 1.11 and 1.12)

Subject to the foregoing, no payments or adjustments will be made upon conversion on account of accrued interest on the Notes or for any dividends or distributions on any shares of Common Stock delivered upon such conversion.

Conversion price adjustments or omissions in making such adjustments may, under certain circumstances, be deemed to be distributions that could be taxable as dividends under the Code to holders of Notes or of Common Stock.

In the event that the Company should merge with another company, become a party to a consolidation or sell or transfer all or substantially all of its assets to another company, each Note then outstanding would, without the consent of any Holder of Notes, become convertible only into the kind and amount of securities, cash and other property receivable upon the merger, consolidation or transfer by a holder of the number of shares of Common Stock into which such Note might have been converted immediately prior to such merger, consolidation or transfer. Such a transaction, or the securities, cash or other property received in such a transaction, could result in United States federal taxes being imposed on the Holder of a Note at a time or in a manner not anticipated at the time such Note was purchased by such Holder.

REDEMPTION AT OPTION OF THE COMPANY

The Notes may not be redeemed at the Company's option prior to April ___, 2000. The Notes are subject to redemption at the option of the Company, in whole but not in part, at any time, upon not less than 30 nor more than 90 days' notice mailed to the person in whose name the Note is registered, commencing on April ___, 2000 at the redemption price of 100% of the principal amount of the Notes. The redemption price will be paid with interest accrued to and including the date fixed for redemption. After the redemption date, interest will cease to accrue on the Notes. (Article 11 and Supplement Section 1.6)

HOLDERS' RIGHT TO REDEMPTION AFTER SPECIAL REDEMPTION EVENT

In the event of any Special Redemption Event, each Holder will have the right, at such Holder's option and subject to the terms and conditions, of the Indenture, to require the Company to redeem such Holder's Notes, in whole, but not in part, on the date that is 75 days after the occurrence of the Special Redemption Event at a price equal to 100% of the principal amount thereof, plus interest accrued to and including the date of redemption. Neither the Board of Directors of the Company nor the Trustee will have the ability to waive the Company's obligation to redeem a Holder's Notes upon request in the event of a Special Redemption Event. (Section 1303 and Supplement Section 1.7)

If a Special Redemption Event occurs, the Company is obligated to provide promptly, but in any event within three Business Days after expiration of a 40-day period following the occurrence of such event, notice to the Trustee, who shall promptly (within five days after receipt of notice from the Company) notify all Holders of the Special Redemption Event, which notice shall state among other things, (i) the occurrence of such Special Redemption Event, (ii) the date before which a Holder must notify the Trustee of such Holder's intention to exercise the redemption option (which date shall be no more than three Business Days prior to the date of redemption) and (iii) the procedure such Holder must follow to exercise such right. To exercise such right, the Holder must deliver to the Trustee on or before the close of business on the date of redemption, written notice of such Holder's redemption election and the Note(s) to be redeemed free of liens or encumbrances. (Section 1303)

The definition of "Special Redemption Event" is forth herein under the caption "Description of the Notes -- Certain Definitions."

Although there is a developing body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder to require the Company to redeem such Notes as a result of a conveyance, transfer or lease of less than all of the assets of the Company to another person may be uncertain.

Except as described above with respect to a Special Redemption Event, the Indenture does not contain any other provisions that permit the Holders to require that the Company redeem the Notes in the event of a takeover or similar transaction. Moreover, a recapitalization of the Company or a transaction entered into by the Company with management or their affiliates would not necessarily be included within the definition of a "Special Redemption Event." Accordingly, while such definition covers a wide variety of arrangements which have traditionally been used to effect highly leveraged transactions, the Indenture does not afford the Holders protection in all circumstances from highly leveraged transactions, reorganizations, restructurings, mergers or similar transactions involving the Company that may adversely affect Holders.

The Special Redemption Event redemption feature of the Notes may, in certain circumstances, make more difficult or discourage a takeover of the company and thus removal of incumbent management. The Special Redemption Event redemption feature, however, is not the result of management's knowledge of any specific effort to obtain control of the Company or part of a plan by management to adopt a series of antitakeover provisions. Rather, the terms of the Special Redemption Event redemption feature are a result of negotiations between the Company and the Underwriters.

To the extent that the right of redemption by a Holder in the event of a Special Redemption Event constitutes a tender offer under Section 14(d) of the Exchange Act and the rules promulgated thereunder, the

Company will comply with all applicable tender offer rules.

SUBORDINATION

The Notes will be subordinated, in the manner and to the extent set forth in the Indenture, to the prior payment in full of all Senior Indebtedness of the Company. (Article Fourteen)

From and after the receipt by the Trustee of a written notice (a "Default Notice") from the holder or holders of not less than 51% in principal amount of the outstanding Senior Indebtness specifying that any payment default under any Senior Indebtness has occurred (a "Senior Event of Default"), the Company may not make any principal payments to the holders of the Notes and neither the Trustee nor the holders of not less than 25% in principal amount of the outstanding notes may accelerate the maturity of the Notes until (i) such Senior Event of Default is cured, (ii) such Senior Event of Default is waived by the holders of such Senior Indebtness, or (iii) the expiration of 180 days after the date the Default Notice is received by the Trustee, if the maturity of such Senior Indebtness has not been accelerated at such time.

Upon payment in full of the Senior Indebtness, payment of principal may be made to the holders of the Notes.

Upon a distribution of assets, dissolution, winding up, liquidation or reorganization of the Company, upon an assignment for the benefit of creditors, or if the principal of the Notes has been declared due and payable and such declaration has not been rescinded or annulled, then in any such instance all Senior Indebtedness must be repaid in full before any payment of principal of interest on the Notes can be made. Any subordination will not prevent the occurrence of an Event of Default under the Indenture. See "-- Events of Default; Notice and Waiver."

As stated above, by reason of the subordination of the Notes, in the event of liquidation of the Company, the Holders of the Notes will not receive payment until the holders of Senior Indebtedness have been satisfied. Also, by reason of the subordination provisions, the Holders of the Notes may receive payments less ratably than other creditors of the Company. As of September 30, 1996, the Company had $9.8 million of outstanding Senior Indebtedness. Substantial additional Senior Indebtedness may be issued or incurred in the future, subject only to certain limitations on Indebtedness for Money Borrowed. See "-- Limitations on Additional Indebtedness."

LIMITATIONS ON ADDITIONAL INDEBTEDNESS

The Indenture provides that the Company will not, nor will it permit any Subsidiary to, create, incur, assume, guarantee or be liable with respect to any Indebtedness for Money Borrowed (other than Subordinated Indebtedness and [Nonrecourse Indebtedness]) if, immediately after giving effect thereto (including the retirement of any existing indebtedness from the proceeds of such additional Indebtedness for Money Borrowed), the aggregate amount of Indebtedness for Money Borrowed outstanding would exceed six times the sum of the Company's Consolidated Net Worth plus Subordinated Indebtedness and [Nonrecourse Indebtedness]. For purposes of the limitation on additional indebtedness set forth in this paragraph, Indebtedness for Borrowed Money shall not include the "Warehouse Indebtedness," and in calculating the Consolidated Net Worth, the Warehouse Indebtedness shall not be included as a liability. (Sections 101 and 1008) At September 30, 1996, the Company's Consolidated Net Worth was $52.3 million and Indebtedness for Money Borrowed other than Subordinated Indebtedness was $9.8 million and $20 million of Subordinated Indebtedness was outstanding.

The Indenture provides that the Company will not, nor will it permit any Subsidiary to, create, incur, assume, guarantee or be liable with respect to any Subordinated Indebtedness, if immediately after giving effect thereto (including the retirement of any existing indebtedness from the proceeds of such Subordinated Indebtedness), the aggregate amount of Subordinated Indebtedness outstanding would exceed the Company's Consolidated Net Worth. (Section 1009)

LIMITATION ON RANKING OF FUTURE INDEBTEDNESS

The Indenture provides that the Company may not, directly or indirectly, incur, create, assume or guarantee any Indebtedness for Money Borrowed which is not Senior Indebtedness other than Subordinated Indebtedness that is PARI PASSU or subordinate in right of payment to the Notes). (Section 1014)

LIMITATION ON RESTRICTED PAYMENTS

The Indenture provides that the Company shall not (i) declare or pay any dividend, either in cash or property, on any shares of its capital stock (except dividends or other distributions payable solely in shares of capital stock of the Company or warrants, options or other rights solely to acquire capital stock of the Company) or (ii) purchase, redeem or retire any shares of its capital stock or any warrants, rights or options to purchase or acquire any shares of its capital stock (except from employees in connection with the termination of their employment) or (iii) make any other payment or distribution, either directly or indirectly through any Subsidiary, in respect of its capital stock (such dividends, purchases, redemptions, retirements, payments and distributions being herein collectively called "Restricted Payments") if, after giving effect thereto,

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

(2) (A) the sum of (i) such Restricted Payment plus (ii) the aggregate amount of all Restricted Payments made during the period after September 30, 1996 would exceed (B) the sum of (i) $_____ million plus (ii) 50% of Consolidated Net Income for the period commencing September 30, 1996 and ending on the date of payment of such Restricted Payment, treated as one accounting period plus (iii) 100% of the cumulative cash and non-cash proceeds received by the Company from contributions to capital or the issuance or sale after [September 30, 1996] of capital stock of the Company or of any warrants, rights or other options to purchase or acquire its capital stock.

Notwithstanding the foregoing, the Company may make a previously declared Restricted Payment if at the date of the declaration, such Restricted Payment would have been permitted under this covenant. For purposes of this covenant, the amount of any Restricted Payment payable in property shall be deemed to be the fair market value of such property as determined by the Board of Directors of the Company. (Section 1007)

RESTRICTIONS ON SUBSIDIARIES

The Indenture provides that the Company will not organize and own directly or indirectly the Voting Stock of any Person that directly or indirectly owns or holds finance receivables (with an aggregate principal amount in excess of $1.0 million) originated by the Company or any Subsidiary unless (i) the net income and net worth of such Person is accounted for as a consolidated subsidiary of the Company in accordance with generally accepted accounting principles, (ii) the Company owns directly or indirectly at least 80% of the outstanding Voting Stock of such Person and (iii) the Company owns directly or indirectly stock or equity interests in such Person having a value equal to at least 80% of the total value of the stock or equity interests in such Person. For purposes of clause (iii), "stock" or "equity interests" shall not include preferred stock or any similar equity interest which (A) is not entitled to vote except as required by law, (B) is limited and preferred as to dividends or distributions and does not participate in the economic growth of the Person to any significant extent, (C) has, to the extent provided for, redemption rights and liquidation rights which do not exceed the issue price of such stock or equity interests (except for a reasonable redemption or liquidation premium), and (D) is not convertible into another class of stock or equity interest. (Section 1015)

LIMITATIONS ON TRANSACTIONS WITH AFFILIATES

The Indenture provides that the Company shall not, and shall not permit any of its Subsidiaries to, enter into or permit to exist any transaction (or series of related transactions), including, without limitation, any loan, advance, guarantee or capital contribution to, or for the benefit of, or any sale, purchase, lease, exchange or other disposition of any property or the rendering of any service, or any other direct or indirect

payment, transfer or other disposition (a "Transaction"), involving payments, with any Affiliate of the Company, on terms and conditions less favorable to the Company or such Subsidiary, as the case may be, than would be available at such time in a comparable Transaction in arm's-length dealings with an unrelated Person as determined by the Board of Directors, such approval to be evidenced by a Board Resolution.

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

(i) Restricted Payments otherwise permitted pursuant to the Indenture; or

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

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

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

(v) Transactions between or among any of the Company and its wholly owned subsidiaries. (Section 1016)

CONSOLIDATION, MERGER OR TRANSFER

The Indenture provides that except in connection with a sale, financing or securitization of receivables or transfers made in the ordinary course of business, the Company may not consolidate with, merge with or transfer all or substantially all of its assets to another entity (other than a wholly owned subsidiary) unless such other entity assumes the Company's obligations under the Indenture and unless, after giving effect thereto, no event shall have occurred and be continuing which, after notice or lapse of time, would become an Event of Default. (Section 801)

BOOK-ENTRY SYSTEM

Upon issuance of the Notes to the Depositary, the Depositary will credit on its book-entry registration and transfer system to the accounts of institutions that have accounts with the Depositary or the Depositary's nominee (the "Participants") the aggregate principal amounts of such Notes beneficially owned by such Participants. The accounts to be credited initially shall be designated by the Underwriters. Beneficial ownership of the Notes issued to the Depositary will be limited to the Participants or persons holding interests through the Participants. The Participants' beneficial ownership of the Notes will be shown on, and the transfer of such ownership interest will be effected only through, records maintained by the Depositary or its nominee. Beneficial ownership of the Notes by persons who hold through the Participants will be shown on, and the transfer of such ownership interest will be effected only through, records maintained by such Participant. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. Such laws and limits may impair a Holder's ability to transfer beneficial ownership in the Notes.

Except as set forth below, book-entry beneficial owners of the Notes will not be entitled to have such book-entry beneficial ownership registered in their names on the Security Register, will not receive or be entitled to receive physical delivery of the Notes beneficially owned by book-entry registration, and will not be deemed to be the registered holders of the Notes under the Indenture.

Accordingly, such person holding a book-entry beneficial interest in the Notes must rely upon the procedures of the Depositary and, if such person is not a Participant, on the procedures of the Participant through which such person owns its interest, to exercise any rights of a Holder of the Notes under the Indenture. The Indenture provides that the Depositary may grant proxies or otherwise authorize Participants to take any action which a registered holder of a Note under the Indenture is entitled to take. (Section 104) The Company understands that under existing industry practice, in the event that the Company requests any

action of registered holders of the Notes; under the Indenture or a book-entry beneficial owner of such Notes desires to take any action which a registered holder of a Note under the Indenture would be entitled to take, the Depositary would authorize the Participants to take any such action and the Participants would authorize the book-entry beneficial owners holding the Notes through such Participants to take such action or would otherwise act upon the instructions of the book-entry beneficial owners holding the Notes through them.

The total amount of any principal and/or interest due to book-entry beneficial owners with regard to the Notes on any Interest Payment Date, redemption date or upon maturity will be made available by the Company to the Paying Agent on such date. As soon as practicable thereafter, the Paying Agent will make such payments available to the Depositary in accordance with arrangements between the Paying Agent and the Depositary. The Company expects that the Depositary upon receipt of any payment of interest or principal in respect of the Notes will credit immediately the Participants' book-entry accounts in amounts proportionate to their respective book-entry beneficial interests in the Notes as reflected on the records of the Depositary. The Company also expects that payments by the Participants to the book-entry owners of beneficial interests in the Notes will be governed by standing instructions and customary practices, as is the case with any securities held for the accounts of customers in bearer form or registered in "street name." Neither the Company, the Paying Agent, the Trustee nor any agent of the Company, Paying Agent or Trustee will have any responsibility or liability for any aspect of such payments to the book-entry accounts by the Depositary or the Participants or for maintaining, supervising or reviewing any records relating to book-entry beneficial interests in the Notes.

Pursuant to the policies of the Depositary, the Notes held by the Depositary may not be transferred except as a whole by the Depositary to a nominee of such Depositary or by a nominee of such Depositary to such Depositary or another nominee of such Depositary or by the Depositary or such nominee to a successor depositary or its nominees. Book-entry beneficial interests in the Notes are exchangeable for Notes in denominations of $1,000 and integral multiples thereof and fully registered in such names as the Depositary directs if: (i) the Depositary holding the Notes notifies the Company that the Depositary is unwilling, unable or ineligible to continue as Depositary for the Notes and a successor depositary is not appointed by the Company within 60 days; (ii) the Company, executes and delivers to the Trustee a Company Order that such book-entry beneficial interests in the Notes be exchangeable for fully registered Notes; or (iii) an Event of Default occurs and shall be continuing as to the Notes. Subject to the foregoing, the book-entry beneficial interests in the Notes shall not otherwise be exchangeable for fully registered Notes. (Section 305)

EVENTS OF DEFAULT, NOTICE AND WAIVER

An Event of Default under the Indenture includes: (i) failure to pay the principal on the Notes when due at Maturity, upon redemption or upon repayment, as provided in the Indenture, or, with respect to any Securities issued under the Indenture which provides for sinking fund payments, failure to deposit a sinking fund payment and, in each case, which default continues for five days; (ii) failure to pay any interest on the Notes when due, which default continues for ten days; (iii) failure to perform any other covenant set forth in the Indenture for 30 days after receipt of written notice from the Trustee or holders of at least 25% in principal amount of the outstanding Securities under the Indenture specifying the default and requiring the Company to remedy such default; (iv) default in the payment at stated maturity of any Indebtedness for Money Borrowed of the Company or a Significant Subsidiary having an outstanding principal amount greater than $1,000,000 and such default having continued for a period of 30 days beyond any applicable grace period; (v) an event of default as defined in any mortgage, indenture or instrument of the Company or any Significant Subsidiary shall have happened and resulted in indebtedness in a principal amount in excess of $1,000,000 being accelerated, and such acceleration having continued for a period of 30 days after notice has been given to the Company by the Trustee or Holders of at least 25% in principal amount of the outstanding Securities under the Indenture requesting such acceleration be rescinded or annulled; (vi) certain events of insolvency, receivership, or reorganization of the Company or any Significant Subsidiary, and (vii) entry of a final judgment, decree or order against the Company or any Significant Subsidiary for the payment of money in excess of $5,000,000 in certain circumstances. (Section 501)

If an Event of Default shall occur and be continuing, the Trustee, in its discretion may, and, at the written request of Holders of at least 25% in aggregate principal amount of the outstanding Notes and upon

being indemnified to its satisfaction shall, proceed to protect and enforce its rights and the rights of the Holders. If an Event of Default shall occur and be continuing, subject to the subordination provisions of the Indenture, either the Trustee or the Holders of at least 25% in aggregate principal amount of outstanding Notes may accelerate the maturity of all such outstanding Notes. Prior to any judgment or decree for the payment of money being obtained, the Holders of a majority in aggregate principal amount outstanding Notes may waive an Event of Default resulting in acceleration of such Notes but only if all Events of Default have been remedied and all payments due, other than those due as a result of acceleration, have been made. (Sections 502, 503, 512 and 513)

The Company must furnish annually to the Trustee an Officers' Certificate stating whether, to the best of the knowledge of the officers executing such certificate, the Company is in default under any of the provisions of the Indenture, and specifying all such defaults, and the nature thereof, of which they have knowledge. (Section 1012)

A Holder will not have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless (i) such Holder shall have previously given to the Trustee written notice of a continuing Event of Default, (ii) the Holders of at least 25% in aggregate principal amount of the outstanding Notes shall have made a written request, and offered reasonable indemnity, to the Trustee to institute such proceedings, (iii) the Trustee shall have failed to institute such proceeding within 60 days and (iv) the Trustee shall not have received from the Holders of a majority in aggregate principal amount of the outstanding Notes a direction inconsistent with such request. (Section 507) However, the Holder of any Note will have an absolute right to receive payment of the principal of and interest on such Note on or after the respective due dates and to institute suit for the enforcement of any such payments. (Section 508)

MODIFICATION AND WAIVER

With certain limited exceptions which permit modification of the Indenture by the Company and Trustee only and without the consent of any holders of the Securities, the Indenture may be modified by the Company with the consent of Holders of not less than a majority in aggregate principal amount of outstanding Notes, if the Notes are affected thereby; provided, however, that no such changes shall without the consent of the Holder of each Note affected thereby (i) change the Maturity or the principal of, or the due date of any installment of principal or interest on, any Note, (ii) reduce the principal of, or the rate of interest on any Note, (iii) change the coin or currency it which any portion of the principal of, or interest on, any Note is payable, (iv) impair the right to institute suit for the enforcement of any such payment, (v) reduce the above-stated percentage of Holders of the outstanding Notes necessary to modify the Indenture, (vi) modify the foregoing requirements or reduce the percentage of outstanding Notes necessary to waive any past default, (vii) impair the Special Redemption Event or any optional right to redemption or repayment provided the Holders, or (viii) adversely affect a Holder's rights to convert 25% of the principal amount of its Notes into Common Stock. (Sections 513, 901 and 902)

The Holders of a majority in aggregate principal amount of outstanding Notes may waive compliance by the Company with certain restrictive provisions of the Indenture. (Section 1013)

SATISFACTION AND DISCHARGE OF INDENTURE; DEFEASANCE

The Indenture provides that the Company may terminate its obligations under the Indenture with respect to all Notes which have become due and payable, will become due and payable at their Stated Maturity within one year or are redeemable at the option of the Company within one year, by delivering to the Trustee, in trust for such purpose, money and/or Government Obligations which, through the payment of interest and principal in respect thereof in accordance with their terms, will provide on the due dates of any payment of principal and any premium, and interest with respect thereof, or a combination thereof, money in an amount sufficient to discharge the entire indebtedness on such Notes. Defeasance of the Notes is subject to delivery to the Trustee of an opinion of independent counsel that Holders of the outstanding Notes will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit and termination and certain other conditions. (Sections 401 and 402)

CERTAIN DEFINITIONS

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

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

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

"Consolidated Net Worth" means the excess, as determined in accordance with generally accepted accounting principles, after making appropriate deductions for any minority interest in the net worth of Subsidiaries of (i) the assets of the Company and its Subsidiaries over (ii) the liabilities of the Company and its Subsidiaries; provided, however, that any write-up in the book value of any assets owned subsequent to the date of the Indenture, other than as required for and at the time of assets acquired in connection with the purchase of a Person or business, shall not be taken into account.

"Indebtedness for Money Borrowed" means any of the following obligations of the Company or any Subsidiary which by its terms matures at or is extendable or renewable at the sole option of the obligor without requiring the consent of the obligee to a date more than twelve months after the date of the creation or incurrence of such obligation: (i) any obligations, contingent or otherwise, for borrowed money or for the deferred purchase price of property, assets, securities, or services (including, without limitation, any interest accruing subsequent to an Event of Default), (ii) all obligations (including the Notes) evidenced by bonds, notes, debentures, letters of credit, or other similar instruments, (iii) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), except any such obligation that constitutes a trade payable and an accrued liability arising in the ordinary course of business, if and to the extent any of the foregoing indebtedness would appear as a liability on a balance sheet prepared in accordance with generally accepted accounting principles, (iv) all Capitalized Lease Obligations, (v) all indebtedness of the type referred to in clause (i), (ii), (iii) or (iv) above secured by (or for which the holder of such indebtedness has an existing

right, contingent or otherwise, to be secured by) any lien upon or in property of the Company (including, without limitation, accounts and contract rights), even though the Company has not assumed or become liable for the payment of such indebtedness, and (vi) any guaranty or endorsement (other than for collection or deposit in the ordinary course of business) or discount with recourse of, or other agreement, contingent or otherwise, to purchase, repurchase, or otherwise acquire, to supply or advance funds, or become liable with respect to, any indebtedness or any obligation of the type referred to in any of the foregoing clauses (i) through (v), regardless of whether such obligation would appear on a balance sheet; provided, however, that Indebtedness for Money Borrowed shall not include (x) Interest Rate Swap Obligations with respect to any obligations included in the foregoing clauses (i) through (vi), or any guarantees of any such Interest Rate Swap Obligations or (y) amounts due under or represented by asset-backed securities or other interest-bearing certificates issued by trusts formed by Subsidiaries in connection with the securitization of automobile installment sale contracts or other receivables.

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

"Nonrecourse Indebtedness" means an obligation, the payment or performance of which is secured by a security interest in any property or asset if recourse by the obligee under such obligation upon the non-payment or non-performance thereof is limited to realization pursuant to such security interest upon such property or asset.

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

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

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

more the voting power.

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

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

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

"Warehouse Indebtedness" means the Warehouse Line of Credit and any replacement or additional facility under which the Company borrows money against Contracts held for sale, pending their sale in securitization transactions.

RATING

The Notes are rated "_____" by Duff & Phelps Credit Rating Co. ("Duff & Phelps"), which is below investment grade. Ratings are not a recommendation to purchase, hold or sell the Notes, as ratings do not comment as to market price or suitability for a particular investor. The ratings are based on current information furnished to Duff & Phelps by the Company and obtained from other sources. The ratings may be changed, suspended or withdrawn at any time as a result of changes in, or unavailability of, such information.

THE TRUSTEE

Bankers Trust Company is the Trustee under the Indenture. Its principal corporate trust office is located at _____.

DESCRIPTION OF COMMON STOCK

The holders of Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders, except that holders of Common Stock are entitled to cumulate their votes in the election of directors if they comply with the provisions of the Company's Bylaws as to cumulative voting. In cumulative voting, each holder is permitted to cast such number of votes in the aggregate as equals the number of shares of stock held multiplied by the number of directors to be elected. The holders may cast the whole number of such votes for one nominee for director or distribute the votes among two or more nominees as the holder sees fit. The shareholders of the Company have approved a proposal to change the Company's state of incorporation to Delaware. If that change is made, then directors will be elected by a simple plurality, and no cumulative voting rights will apply.

Holders of Common Stock are entitled to such dividends as the Company's Board of Directors, in its discretion, may declare out of funds available therefore, subject to the terms of any outstanding shares of preferred stock and other restrictions. In the event of liquidation of the Company, holders of the Common Stock are entitled to receive, pro rata, all of the assets of the Company available for distribution after payment of any liquidation preference to the holders of any preferred stock then outstanding. No shares of preferred stock are presently outstanding. Holders of the shares of Common Stock have no conversion or preemptive or other subscription rights and there are no redemption or sinking fund provisions applicable to the Common Stock. All of the outstanding shares of Common Stock are, and the shares of Common Stock issuable upon conversion of the Notes offered hereby will be, validly issued, fully paid and nonassessable.

UNDERWRITING

Subject to the terms and conditions set forth in the Purchase Agreement between the Company and the Underwriters named below, the Underwriters have severally agreed to purchase from the Company the respective principal amounts of the Notes set forth opposite their names below.

Underwriters	Principal Amount of Notes
Piper Jaffray Inc.	$
Legg Mason Wood Walker Incorporated	$
Dain Bosworth Incorporated	$
Total	$35,000,000

The Purchase Agreement provides that the obligations of the several Underwriters are subject to certain conditions precedent set forth therein and that the Underwriters must purchase all of the Notes if they purchase any Notes.

The Underwriters have advised the Company that they propose initially to offer the Notes to the public at the Price to Public and to selected dealers at such price less a concession of not more than ___% of the principal amount of the Notes. The Underwriters may allow, and such dealers may reallow, concessions not in excess of ___% of the principal amount of the Notes to certain other brokers and dealers. After the initial distribution of the Notes has been completed, the Price to Public and other selling terms may be changed by the Underwriters.

The Offering of the Notes is made for delivery when, as and if accepted by the Underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offer without notice. The Underwriters reserve the right to reject any order for the purchase of the Notes.

The Company has granted the Underwriters an option, exercisable within 30 days from the date of this Prospectus, to purchase up to an additional $5,250,000 in aggregate principal amount of Notes at the Price to Public less the Underwriting Discount. The Underwriters may exercise such option solely for the purpose of covering over-allotments, if any, incurred in the sale of the Notes offered hereby. To the extent that the Underwriters exercise this option, each Underwriter will be obligated, subject to certain conditions, to purchase a principal amount of Notes approximately proportionate to that Underwriter's initial commitment, and the Company will be obligated, pursuant to the option, to sell such Notes to the Underwriters.

The Company has applied to have the Notes approved for listing on the New York Stock Exchange. The Underwriters have indicated an intention to make a market in the Notes as permitted by applicable laws and regulations. No Underwriter, however, is obligated to make a market in the Notes, and any such market making may be discontinued at any time at the sole discretion of such Underwriter. There can be no assurance that an active trading market for the Notes will develop. If the Notes are traded after their initial issuance, they may trade at a discount from their principal amount.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments which the Underwriters may be required to make in respect thereof.

Piper Jaffray Inc. has provided certain investment banking services to the Company from time to time and has received compensation customary for such services.

LEGAL MATTERS

The legality of the Notes offered hereby is being passed upon for the Company by Troy & Gould Professional Corporation, Los Angeles, California. Certain legal matters in connection with the sale of the Notes offered hereby will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Washington, D.C.

EXPERTS

The consolidated financial statements of Consumer Portfolio Services, Inc. and subsidiaries as of December 31, 1995 and March 31, 1995, and for the nine-month period ended December 31, 1995 and for each of the years in the two-year period ended March 31, 1995, have been included herein and in the Registration Statement in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

There are hereby incorporated by reference herein (i) the Company's Annual Report on Form 10-KSB for the nine-month transition period ended December 31, 1995, (ii) the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 1996, (iii) the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 1996, (iv) the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 1996, (v) the Company's current report on Form 8-K dated September 20, 1996, (vi) the Company's current report on Form 8-K dated September 26, 1996, (vii) the Company's current report on Form 8-K dated December 11, 1996, (viii) the Company's current report on Form 8-K dated December 19, 1996, and (ix) the description of the Common Stock contained in the Company's registration statement on Form 8-A filed September 4, 1992, as amended on October 21, 1992, and December 6, 1995.

The Company will provide, without charge, to each person to whom a copy of this Prospectus is delivered, on the written or oral request of such person, a copy of any or all of the documents incorporated herein by reference (other than exhibits thereto, unless such exhibits are specifically incorporated by reference into the information that this Prospectus incorporates). Written or telephone requests for such copies should be directed to the Company's principal office: Consumer Portfolio Services, Inc., 2 Ada, Suite 100, Irvine, California 92618, Attention: Corporate Secretary, (714) 753-6800.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "SEC") a registration statement (as amended, the "Registration Statement") under the Securities Act with respect to the securities offered by this Prospectus. This Prospectus, which constitutes a part of the Registration Statement, does not contain all the information set forth in the Registration Statement. For further information with respect to the Company and the securities offered hereby, reference is made to the Registration Statement and to the exhibits filed therewith, which may be inspected without charge at the principal office of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549, and copies of the material contained therein may be obtained from the SEC upon payment of applicable copying charges. Statements contained in this Prospectus as to the contents of any contract or other document referred to are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference.

The Company is subject to the reporting and other informational requirements of the Exchange Act and, in accordance therewith, files reports and other information with the SEC. Such reports, proxy statements and other information filed by the Company can be inspected and copied at the public reference facilities maintained by the SEC at the offices of the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC's regional offices at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511 and 7 World Trade Center, New York, New York

10048. The SEC also maintains a Web site on the Internet that contains reports, proxy and information statements and other information regarding issuers, including the Company, that file electronically with the SEC. The address of such site is http://www.sec.gov. Copies of such materials can also be obtained by written request to the Public Reference Section of the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Consumer Portfolio Services, Inc.

We have audited the accompanying consolidated balance sheets of Consumer Portfolio Services, Inc. and subsidiaries (the "Company") as of December 31, 1995 and March 31, 1995, and the related consolidated statements of operations, shareholders' equity and cash flows for the nine-month period ended December 31, 1995 and for each of the years in the two-year period ended March 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Consumer Portfolio Services, Inc. and subsidiaries as of December 31, 1995 and March 31, 1995 and the results of their operations and their cash flows for the nine-month period ended December 31, 1995 and for each of the years in the two-year period ended March 31, 1995, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Orange County, California
February 22, 1996

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 1995	March 31, 1995
ASSETS (note 11)		
Cash	$ 10,895,157	$ 5,767,372
Contracts held for sale (notes 5 and 11)	19,548,842	21,896,386
Servicing fees receivable	1,454,707	796,322
Investment in subordinated certificates (note 2)	2,174,666	--
Investments in credit enhancements (note 2)	30,477,793	23,201,485
Excess servicing receivables (note 7)	11,108,251	5,154,361
Furniture and equipment, net (note 3)	548,535	459,594
Deferred tax asset (note 10)	--	555,814
Deferred financing costs (note 11)	1,100,430	--
Other assets	569,944	144,249
	$ 77,878,325	$ 57,975,583
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Accounts payable & accrued expenses	$ 1,341,905	$ 1,473,288
Warehouse line of credit (note 11)	7,500,000	19,730,389
Taxes payable	2,912,084	4,777,548
Deferred tax liability (note 10)	1,643,254	--
Notes payable (note 11)	20,000,000	--
Convertible subordinated debt (note 11)	3,000,000	5,000,000
	36,397,243	30,981,225
SHAREHOLDERS' EQUITY (notes 8 and 11)		
Preferred stock, $1 par value; authorized 5,000,000 shares; none issued	--	--
Series A preferred stock, $1 par value; authorized 5,000,000 shares; 3,415,000 shares issued; none outstanding (note 8)	--	--
Common stock, no par value; authorized 30,000,000 shares; 13,298,642 and 10,820,800 shares issued and outstanding at December 31, 1995 and March 31, 1995, respectively	33,265,239	26,353,637
Retained earnings	8,215,843	640,721
	41,481,082	26,994,358
Commitments and contingencies (notes 2, 4, 5, 6, 7, 8, 9 and 12)		
Subsequent event (note 14)		
	$ 77,878,325	$ 57,975,583

See accompanying notes to consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Nine Months Ended December 31,	Year Ended March 31,	
	1995	1995	1994
REVENUES:			
Net gain on sale of contracts (note 7)	$ 11,549,413	$ 9,454,620	$ 5,424,584
Servicing fees (note 6)	6,983,255	7,201,062	3,556,019
Interest	5,722,045	5,849,154	1,443,083
Total revenues	24,254,713	22,504,836	10,423,686
EXPENSES:			
Charge from release of escrow shares (note 8)	--	--	6,450,000
Interest	2,724,403	3,407,598	446,402
Employee costs	3,309,139	2,990,253	2,219,199
General and administrative	2,799,599	1,905,155	1,172,414
Marketing	1,231,110	1,764,121	686,118
Occupancy	267,641	254,845	171,362
Related party consulting fees (note 4)	262,500	350,000	350,000
Depreciation	174,555	153,355	186,226
Provision for credit losses (note 5)	828,458	532,947	30,008
Total expenses	11,597,405	11,358,274	11,711,729
Income (loss) before income taxes	12,657,308	11,146,562	(1,288,043)
Income taxes (note 10)	5,082,186	4,480,932	490,026
Net income (loss)	$ 7,575,122	$ 6,665,630	$ (1,778,069)
Net income (loss) per common and common equivalent share	$ 0.53	$ 0.60	$ (0.21)
Weighted average number of common and common equivalent shares	14,323,592	11,143,268	8,520,548
Fully diluted net income (loss) per common and common equivalent share	$ 0.52	$ 0.56	$ (0.21)
Fully diluted weighted average number of common and common equivalent shares	14,803,592	12,538,352	8,520,548

See accompanying notes to consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Series A Preferred Stock		Common Stock		Retained Earnings (Accumulated)	
	Shares	Amount	Shares	Amount	Deficit)	Total
Balance at March 31, 1993	3,415,000	$ 3,415,000	8,400,000	$ 4,920,686	$ (4,246,840)	$ 4,088,846
Common stock issuance, net of offering costs of $60,000	--	--	333,334	1,440,003	--	1,440,003
Value of Escrow Shares released (note 8)	--	--	--	6,450,000	--	6,450,000
Net Loss	--	--	--	--	(1,778,069)	(1,778,069)
Balance at March 31, 1994	3,415,000	$ 3,415,000	8,733,334	$ 12,810,689	$ (6,024,909)	$ 10,200,780
Common stock issued upon exercise of warrants	--	--	39,466	118,398	--	118,398
Common stock issued upon exercise of options	--	--	48,000	120,000	--	120,000
Common stock issuance, net of offering costs of $1,445,450	--	--	2,000,000	13,304,550	--	13,304,550
Redemption of Preferred Stock (note 8)	(3,415,000)	(3,415,000)	--	--	--	(3,415,000)
Net income	--	--	--	--	6,665,630	6,665,630
Balance at March 31, 1995	--	$ --	10,820,800	$ 26,353,637	$ 640,721	$ 26,994,358
Common stock issued upon exercise of warrants	--	--	100,534	301,602	--	301,602
Common stock issued upon exercise of options	--	--	1,843,974	4,610,000	--	4,610,000
Common stock issued upon conversion of debt (note 11)	--	--	533,334	2,000,000	--	2,000,000
Net income					7,575,122	7,575,122
Balance at December 31, 1995	--	$ --	13,298,642	$ 33,265,239	$ 8,215,843	$ 41,481,082

See accompanying notes to consolidated financial statements

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

	Nine Months Ended December 31,	Year Ended March 31,	
	1995	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 7,575,122	$ 6,665,630	$ (1,778,069)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Charge from release of escrow shares (note 8)	--	--	6,450,000
Depreciation	174,555	153,355	186,226
Amortization of purchased and excess servicing	2,023,938	1,210,120	240,114
Amortization of financing costs	5,265		
Provision for credit losses	828,458	532,947	30,008
Gain on sale of contracts from excess servicing receivables	(7,977,828)	(4,065,899)	(1,994,307)
Changes in operating assets and liabilities:			
Purchases of contracts held for sale	(160,150,781)	(164,263,577)	(53,102,819)
Liquidation of contracts held for sale	156,890,700	142,472,028	57,443,126
Prepaid committment fees	--	--	100,000
Servicing fees receivable	(658,385)	(615,063)	29,586
Prepaid related party expenses	--	233,333	(233,333)
Initial deposits to credit enhancement accounts	(4,931,325)	(13,237,454)	(10,457,138)
Excess servicing deposited to credit enhancement accounts	(7,553,086)	(5,390,422)	(1,953,489)
Release of cash from credit enhancement accounts	7,693,839	5,923,201	1,913,817
Deferred taxes	2,199,068	(381,616)	(174,198)
Other assets	(425,695)	3,810	(18,787)
Accounts payable and accrued expenses	(131,382)	528,256	111,893
Warehouse line of credit	(12,230,389)	19,730,389	--
Taxes payable	(1,865,464)	4,385,724	391,824
Net cash used in operating activities:	(18,533,390)	(6,115,238)	(2,815,546)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of furniture and equipment	(263,496)	(334,458)	(80,072)
Advances to affiliate on note receivable	--	--	(714,494)
Payments from affiliate on note receivable	--	--	1,014,494
Payments received on subordinated certificates	118,764	--	--
Net cash provided by (used in) investing activities	(144,732)	(334,458)	219,928
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of convertible subordinated debt	--	--	3,000,000
Issuance of promissory notes	2,000,000	5,000,000	--
Issuance of promissory note to related party	2,000,000	--	--
Issuance of long term notes	20,000,000	--	--
Payment of financing costs	(1,105,695)	--	--
Repayment of promissory notes	(2,000,000)	(5,000,000)	--
Repayment of promissory note to related party	(2,000,000)	--	--
Issuance of common stock	--	13,304,550	1,440,003
Redemption of preferred stock	--	(3,415,000)	--
Exercise of options and warrants	4,911,602	238,398	--
Net cash provided by financing activities	23,805,907	10,127,948	4,440,003
Increase in cash	5,127,785	3,678,252	1,844,385
Cash at beginning of period	5,767,372	2,089,120	244,735
Cash at end of period	$ 10,895,157	$ 5,767,372	$ 2,089,120
Supplemental disclosure of cash flow information:			
Cash paid during the period			
Interest	$ 2,542,718	$ 3,288,848	$ 136,244
Income taxes	$ 4,759,050	$ 523,000	$ 167,400
Supplemental disclosure of non-cash investing and financing activities:			
Issuance of common stock upon conversion of debt	$ 2,000,000	$ --	$ --

See accompaying notes to consolidated financial statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

Consumer Portfolio Services, Inc. ("the Company") was incorporated in California on March 8, 1991. The Company and its subsidiaries engage primarily in the business of purchasing, selling and servicing retail automobile installment sale contracts ("Contracts") originated by dealers located throughout the US and predominantly in California. The Company specializes in Contracts with borrowers who generally would not be expected to qualify for traditional financing such as that provided by commercial banks or automobile manufacturers' captive finance companies. Because of the Company's concentration of dealers located in California, a significant decline in regional economic conditions, or some other regional catastrophe, could result in fewer Contracts available for purchase by the Company and ultimately a decline in gain on sale of contracts and servicing fees. Moreover, such an event or events could affect the ability of borrowers to make timely scheduled principal and interest payments on the Company's Contracts held for sale. The Company's maximum potential loss in such an event, could be equal to the amount of California Contracts held for sale at the time of the event, restricted cash and the excess servicing receivables. At December 31, 1995, approximately 19.4% of the Company's Contracts held for sale were California Contracts.

The automobile financing business is highly competitive. The Company competes with a number of national, local and regional finance companies with operations similar to those of the Company. 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 Credit Corporation and Nissan Motors Acceptance Corporation. Many of the Company's competitors and potential competitors possess substantially greater financial, marketing, technical, personnel and other resources than the Company. Moreover, the Company's future profitability will be directly related to the availability and cost of its capital in relation to the availability and cost of capital to its competitors. The Company's competitors and potential competitors include far larger, more established companies that have access to capital markets for unsecured commercial paper and investment grade-rated debt instruments and to other funding sources which may be unavailable to the Company. Many of these companies also have long-standing relationships with dealers and may provide other financing to dealers, including floor plan financing for the dealers' purchase of automobiles from manufacturers, which is not offered by the Company.

The Company purchases Contracts with the intent to re-sell them to institutional investors either as bulk sales or in the form of securities backed by the Contracts. Purchasers of the Contracts receive a pass through rate of interest set at the time of the sale and the Company receives a base servicing fee for its duties relating to the accounting for and collection of the Contracts. In addition, the Company is entitled to certain excess servicing fees which represent collections on the Contracts in excess of those required to pay investor principal and interest, and the base servicing fees.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Consumer Portfolio Services, Inc. and its wholly-owned subsidiaries, G&A Financial Services, Inc. ("G&A"), a consumer loan servicing company, Alton Receivables Corp. ("Alton") , CPS Receivables Corp. ("CPSRC") and CPS Funding Corp. ("CPSFC"). Alton, CPSRC and CPSFC are limited purpose corporations formed to accommodate the structures under which the Company sells its Contracts. All significant intercompany balances and transactions have been eliminated in consolidation.

CONTRACTS HELD FOR SALE

The Contracts which the Company purchases from dealers provide for annual percentage rates of approximately 20%, in most cases. Each Contract provides for full amortization, equal monthly payments and can be fully prepaid by the borrower at any time without penalty. The Company typically purchases the Contracts from dealers at a discount from the amount financed under the Contract. Contracts are generally sold to institutional investors at par. In the case of whole loan sales, the investor withholds a portion of the purchase price as an initial credit enhancement. In the case of Contracts sold in the form of asset backed securities, the Company pledges certain cash balances as an initial credit enhancement. Contracts are generally sold by the Company within one to three months of their purchase, although they may be held longer.

Contracts held for sale are stated at the lower of cost or market value. Market value is determined by purchase commitments from investors and prevailing market prices. Gains and losses are recorded as appropriate when contracts are sold.

ALLOWANCE FOR CREDIT LOSSES

The Company provides an allowance for credit losses which management believes provides adequately for current and possible future losses that may develop in the Contracts held for sale. Management evaluates the adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio, the value of underlying collateral, and general economic conditions and trends.

CONTRACT ACQUISITION FEES AND COSTS

The Company generally receives an acquisition fee from the dealer for each Contract purchased. Fee proceeds are used to offset the direct expenses associated with the purchase of the Contracts, with any excess amount deferred until the Contracts are sold at which time the deferred portions are recognized as a component of the gain on sale.

INVESTMENTS

The Company determines the appropriate classification of its investments in debt securities at the time of purchase or creation. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available for sale. Securities available for sale are carried at fair value, with unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity. At December 31, 1995, the Company had no investments that qualified as trading or held to maturity.

The amortized cost of debt securities classified as available for sale is adjusted for amortization of premiums and accretion of discounts, over the estimated life of the security. Such amortization and interest are included in interest income.

GAIN ON SALE OF CONTRACTS

Gains or losses are determined based upon the difference between the sales proceeds for the portion of Contracts sold and the Company's recorded investment in the Contracts sold. The Company allocates the recorded investment in the Contracts between the portion of the Contracts sold and the portion retained based on the relative fair values of those portions on the date of sale.

EXCESS SERVICING RECEIVABLES

Excess servicing receivables ("ESR") result from the sale of Contracts on which the Company retains servicing rights and all, or a portion of, the excess cash flows. ESRs are determined by computing the difference between the weighted average yield of the Contracts sold and the yield to the purchaser, adjusted for the normal servicing fee based on the agreements between the Company and the purchaser. The resulting differential is recorded as a gain at the time of the sale equal to the present value of the estimated cash flows, net of any portion of the excess that may be due to the purchaser and adjusted for anticipated prepayments, repossessions, liquidations and other losses. The excess servicing cash flows are only available to the Company to the extent that there is no impairment of the credit enhancement that is established at the time the Contracts are sold to the purchaser. The excess servicing cash flows over the estimated remaining life of the Contracts have been calculated for all applicable periods using estimates for prepayments, losses (charge-offs) and weighted average discount rates, which the Company expects market participants would use for similar instruments. Losses are discounted at an assumed risk free rate. The ESRs are amortized using the interest method and are offset against servicing fees. To the extent that the actual future performance of the Contracts results in less excess cash flows than the Company estimated, the Company's ESRs will be adjusted at least quarterly, with corresponding charges recorded against income in the period in which the adjustment is made. To the extent that the actual cash flows exceed the Company's estimates the Company will record additional servicing fees.

FURNITURE AND EQUIPMENT

Furniture and equipment are stated at cost net of accumulated depreciation which is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the related lease term.

SERVICING

Servicing fees are reported as income when earned, net of related amortization of purchased and excess servicing. Servicing costs are charged to expense as incurred.

NET INCOME (LOSS) PER SHARE

The computation of net income (loss) per common and common equivalent share is based upon the Treasury Stock Method using the weighted average number of common shares outstanding during the period plus (in periods in which they have a dilutive effect) the effect of common shares contingently issuable, primarily from stock options and warrants. The fully diluted net income per share computation reflects the effect of common shares contingently issuable upon the conversion of convertible debt in which such conversion would cause dilution. Fully diluted net income per common share also reflects additional dilution related to stock options and warrants due to the use of the market price at the end of the period, when higher than the average price for the period.

INCOME TAXES

The Company and its subsidiaries file a consolidated Federal income and combined state franchise tax return on a fiscal year basis. The Company utilizes the asset and liability method of accounting for income taxes under which deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has accounted for income taxes in this manner since its inception.

STOCK SPLIT

On February 16, 1996, the Board of Directors authorized a two-for-one stock split to be distributed on or about March 14, 1996, to shareholders of record on March 7, 1996. All references in the consolidated financial statements to number of shares, per share amounts and market prices of the Company's common stock have been retroactively restated to reflect the increased number of common shares outstanding.

CURRENT ACCOUNTING PRONOUNCEMENTS

In November 1995, the FASB issued Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." This statement establishes financial accounting standards for stock-based employee compensation plans. SFAS 123 permits the Company to choose either a new fair value based method or the current APB Opinion 25 intrinsic value based method of accounting for its stock-based compensation arrangements. SFAS 123 requires pro forma disclosures of net income and earnings per share computed as if the fair value based method had been applied in financial statements of companies that continue to follow current practice in accounting for such arrangements under Opinion 25. SFAS 123 applies to all stock-based employee compensation plans in which an employer grants shares of its stock or other equity instruments to employees except for employee stock ownership plans. SFAS 123 also applies to plans in which the employer incurs liabilities to employees in amounts based on the price of the employer's stock, i.e., stock option plans, stock purchase plans, restricted stock plans, and stock appreciation rights. The statement also specifies the accounting for transactions in which a company issues stock options or other equity instruments for services provided by non-employees or to acquire goods or services from outside suppliers or vendors. The recognition provisions of SFAS 123 for companies choosing to adopt the new fair value based method of accounting for stock-based compensation arrangements may be adopted immediately and will apply to all transactions entered into in fiscal years that begin after December 15, 1995. The disclosure provisions of SFAS 123 are effective for fiscal years beginning after December 15, 1995; however, disclosure of the pro forma net income and earnings per share, as if the fair value method of accounting for stock-based compensation had been elected, is required for all awards granted in fiscal years beginning after December 31, 1994. The Company will continue to account for stock-based compensation under APB Opinion 25 and, as a result, SFAS 123 will not have a material impact on the Company's operations.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of income and expenses during the reported periods. Specifically, a number of estimates were made in connection with the recording of excess servicing receivables and the related gain. Actual results could differ from those estimates.

RECLASSIFICATION

Certain amounts for the prior periods have been reclassified to conform to the current presentation.

(2) INVESTMENTS

The Company is a party to various agreements with institutional investors and investment banks for the sale of the Company's Contracts. The agreements call for the Company to sell Contracts to one of its special purpose corporation subsidiaries, either Alton or CPSRC (the "SPCs"), which subsequently transfer the Contracts to various grantor trusts (the "Trusts") which then issue interest bearing certificates which are purchased by institutional investors. The terms of the agreements provide that simultaneous with each purchase of certificates by the investor, the Company is required to provide a credit enhancement in the form of a cash capital contribution to the SPC equal to a specified percentage of the

amount of the certificates purchased by the investor. The SPC then deposits the initial cash deposit, and subsequent excess servicing cash flows as required by the terms of the various agreements, to an account held by a trustee (the "Spread Account") and pledges the cash to the Trust, which in turn invests the cash in high quality liquid investment securities as defined by the various agreements. In the securitizations since June 1995, the Company altered the credit enhancement mechanism to create a subordinated class of asset-backed securities ("B Piece") in order to reduce the size of the required initial deposit to the Spread Account. The Company's June 1995 securitization was structured to include a B Piece with an initial principal balance of $2,485,736 as a component of the Spread Account. The Company's September and December 1995 securitizations were structured with B Pieces separate from the Spread Accounts and had initial principal balances of $2,293,430 and $2,822,863, respectively. These B Pieces are accounted for as available for sale and, when originated, are treated as non-cash investing activities in the Company's consolidated statement of cash flows. The B Piece of the December 1995 securitization was sold at the time of securitization. The carrying value of the September 1995 B Piece was $2,174,666 at December 31, 1995. In the event that the cash flows generated by the Contracts transferred to the Trust are insufficient to pay obligations of the Trust, including principal or interest due to certificateholders or expenses of the Trust, the trustee will draw an amount necessary for the Spread Accounts to pay the obligations of the Trust. The agreements provide that the Spread Accounts shall be maintained at a specified percent of the principal balance of the certificates, which can be increased in the event delinquencies and/or losses exceed certain specified levels. In the event delinquencies and/or losses on the Contracts serviced exceed specified levels defined in certain of the Company's securitization agreements, the terms of those securitizations may require the transfer of servicing to another servicer. Consequently, as principal payments are made to the certificateholders, and if the Spread Accounts are in excess of the specified percent of the principal balance of the certificates, the trustee shall release to the SPC the portion of the pledged cash that is in excess of the amount necessary to equal the specified percent of the principal balance of the certificates. Except for releases in this manner, the cash in the Spread Accounts is restricted from use by the SPC or the Company. Spread Account balances for the periods shown were made up of the following components:

	December 31, 1995	March 31, 1995
Cash	$ --	$ 145,006
Funds held by investor	2,211,363	2,473,260
Investment in subordinated certificates	2,137,333	--
Commercial paper	--	7,706,661
US government securities	26,129,097	12,876,558
	$ 30,477,793	$ 23,201,485

(3) FURNITURE AND EQUIPMENT

Furniture and equipment consists of the following:

	December 31, 1995	March 31, 1995
Furniture and fixtures	$ 629,613	$ 603,133
Computer equipment	682,541	489,921
Leasehold improvements	65,103	20,707
	1,377,257	1,113,761
Less accumulated depreciation	(828,722)	(654,167)
	$ 548,535	$ 459,594

(4) RELATED PARTY TRANSACTIONS

Prior to December 11, 1995 the Company was a majority-owned subsidiary of CPS Holdings, Inc., a Delaware corporation ("Holdings"). In September 1995, the shareholders of the Company approved the merger of Holdings into the Company, as well as a change in the Company's state of incorporation from California to Delaware. The merger was completed on December 11, 1995 and had no effect on the Company's consolidated finanical statements. Management of the Company anticipates that the reincorporation into the state of Delaware will be completed in April 1996. Prior to the merger, Charles E. Bradley, Sr., the Company's Chairman of the Board, was the principal shareholder of Holdings.

The Company is a party to a consulting agreement with Stanwich Partners, Inc. ("SPI") that called for monthly payments of $29,167 through December 31, 1995. Included in the accompanying consolidated statements of operations for the nine months ended December 31, 1995 and for the years ended March 31, 1995 and 1994 is $262,500, 350,000 and $350,000, respectively, of consulting expense related to this consulting agreement. In December 1995, a new consulting agreement was signed for $75,000 per year for three years beginning January 1, 1996. The Chairman of the Board of Directors of the Company is a principal shareholder of SPI.

During the years ended March 31, 1995 and 1994, the Company advanced to Holdings $714,494 and $300,000, respectively, pursuant to various notes which were to mature on or before July 1, 1995. As of March 31, 1995 all principal and interest under the notes had been paid in full.

On September 27, 1995, the Company borrowed $2 million through a promissory note to Charles E. Bradley, Sr., Chairman of the Board of Directors. Interest accrues as 11.5% and was payable on the maturity date, December 31, 1995, or upon the exercise of an option by CPS Holdings, Inc., for the purchase of 1,800,000 shares of the Company's common stock at $2.50 per share, whichever is earlier. On December 6, 1995, Holdings exercised its option and the note was repaid in full.

(5) CONTRACTS HELD FOR SALE

The balance of Contracts held for sale was made up of the following components:

	December 31, 1995	March 31, 1995
Gross receivable balance	$ 24,694,964	$ 30,358,454
Unearned finance charges	(3,820,267)	(6,889,231)
Dealer discounts	(1,054,776)	(1,123,726)
Deferred loan origination fees (net of related costs)	59,077	(125,480)
Allowance for credit losses	(330,156)	(323,631)
Net contracts held for sale	$ 19,548,842	$ 21,896,386

Activity in the allowance for credit losses consisted of the following:

	December 31,	Year ended March 31,	
	1995	1995	1994
Balance, beginning of period	$ 323,631	$ 50,169	$ 17,446
Provisions	828,458	532,947	30,008
Charge-offs	(1,076,982)	(386,408)	(7,788)
Recoveries	255,049	126,923	10,503
Balance, end of period	$ 330,156	$ 323,631	$ 50,169

The Company is required to represent and warrant certain matters with respect to the Contracts sold to the investors, which generally duplicate the substance of the representations and warranties made by the dealers in connection with the Company's purchase of the Contracts. In the event of a breach by the Company of any representation or warranty, the Company is obligated to repurchase the Contracts from the investors at a price equal to the investors' purchase price less the related credit enhancement and any principal payments received from the borrower. In most cases, the Company would then be entitled under the terms of its agreements with its dealers to require the selling dealer to repurchase the Contracts at the Company's purchase price less any principal payments received from the borrower.

As of December 31, 1995, March 31, 1995 and March 31, 1994, the Company had commitments to purchase approximately $910,325, $706,720 and $309,343, respectively of Contracts from Dealers. The Company signed an agreement with an investment bank for the placement of up to $65.0 million in securities backed by its Contracts. The Company expects to fulfill this commitment in March 1996 and further expects that the terms associated with this securitization will be similar to the terms of the December 1995 securitization.

(6) SERVICING

Servicing fees are reported as income when earned, net of related amortization of purchased and excess servicing. Servicing costs are charged to expense as incurred. Servicing fees for the periods shown included the following components:

	Nine months ended December 31, 1995	Year ended March 31, 1995	Year ended March 31, 1994
Gross loan servicing fees	$ 9,007,193	$ 8,411,182	$ 3,796,133
Amortization of purchased servicing	--	(4,849)	(36,243)
Amortization of excess servicing	(2,023,938)	(1,205,271)	(203,871)
Net Servicing fees	$ 6,983,255	$ 7,201,062	$ 3,556,019

For the year ended March 31, 1994, servicing fees for the two clients to whom the Company had sold its Contracts accounted for approximately 32% of its total revenues.

Contracts serviced for the Company's largest servicing client were $49.2 million at December 31, 1995. The Company services Contracts and loans to borrowers residing in approximately 50 states, with the largest concentrations of loans in California, Florida, Pennsylvania, Texas, Illinois and Nevada. Servicing balances for the periods shown were made up of the following components:

	December 31, 1995	March 31, 1995	March 31, 1994
Third party servicing	$ --	$ --	$ 1,958,592
Contracts held for sale	20,764,205	23,469,223	744,210
Servicing subject to recourse provisions:			
Whole loan portfolios	21,213,050	29,754,103	9,604,485
Alton Receivables Corp.	22,732,021	35,324,463	52,859,416
CPS Receivables Corp.	224,218,079	104,252,042	--
	$288,927,355	$192,799,831	$ 65,166,703

(7) EXCESS SERVICING RECEIVABLES

The following table summarizes ESR activity for the periods shown:

	Nine months ended December 31, 1995	Year ended March 31, 1995	Year ended March 31, 1994
Balance, beginning of period	$ 5,154,361	$ 2,293,733	$ 503,297
ESR gains recognized	7,977,828	4,065,899	1,994,307
Amortization of ESR	(2,023,938)	(1,205,271)	(203,871)
Balance, end of period	$ 11,108,251	$ 5,154,361	$ 2,293,733

	December 31,	March 31,	
	1995	1995	1994
Present value of future cash flows	$ 34,538,442	$ 19,551,370	$ 7,319,713
Discounted allowance for credit losses	(23,430,191)	(14,397,009)	(5,025,980)
Net ESR balance	$ 11,108,251	$ 5,154,361	$ 2,293,733
Servicing subject to recourse provisions	$ 268,163,150	$ 169,330,608	$ 62,463,901
Discounted allowance as percentage of servicing subject to recourse provisions	8.74%	8.50%	8.05%

(8) SHAREHOLDERS' EQUITY

PREFERRED STOCK

The holders of the Series A Preferred Stock were entitled to receive non-cumulative annual dividends equal to 6% of par value, payable quarterly in cash (or, at the option of the Company, in-kind in additional shares of Series A Preferred Stock), when and as declared by the Board of Directors, after the Company's cumulative net income from the date of the Company's initial public offering reached $5,000,000. No dividends or other distributions may be made with respect to the common stock until accrued dividends have been declared and paid (or reserved for payment) on the Series A Preferred Stock. Upon liquidation, the Series A Preferred Stock is entitled to receive, in preference to any payment on the common stock, an amount equal to par value plus any accrued and unpaid dividends. After March 31, 1994, the Series A Preferred Stock was subject to redemption at the option of the Company at a price of $1.00 per share plus accrued and unpaid dividends. On March 15, 1995 the company redeemed, for an aggregate price of $3.4 million, all of the outstanding Series A Preferred stock with proceeds from the March 7, 1995 public offering of 2,000,000 shares of its common stock.

COMMON STOCK

On October 29, 1992 the Company completed its initial public offering of 2,400,000 shares of common stock. On November 12, 1992 the underwriter executed its option to sell an additional 200,000 shares of the Company's common stock. Net of related expenses, the Company raised $4,910,686 in the offering. On November 19, 1993 the Company sold 333,334 shares of its common stock in a private placement resulting in net proceeds of $1,440,003. On March 7, 1995 the Company completed a public offering of 2,000,000 shares of its common stock. Net of related expenses, the company raised $13,304,550 in this offering.

Holders of the common stock are entitled to such dividends as the Company's Board of Directors, in its discretion, may declare out of funds available, subject to the terms of any outstanding shares of preferred stock and other restrictions. In the event of liquidation of the Company, holders of common stock are entitled to receive, pro rata, all of the assets of the Company available for distribution, after payment of any liquidation preference to the holders of outstanding shares of preferred stock. Holders of the shares of common stock have no conversion or preemptive or other subscription rights and there are no redemption or sinking fund provisions applicable to the common stock.

Upon the consummation of the Company's initial public offering which became effective on October 22, 1992, Holdings deposited 1,200,000 shares of common stock (the "Escrow Shares") in escrow with the Company's transfer agent for the common stock, pursuant to an agreement by and among Holdings, the Company, the escrow agent and Whale Securities Co., LP. During the escrow period, Holdings may vote, but may not transfer, the Escrow Shares. While in escrow, the Escrow Shares have been excluded from computations of primary earnings per common and common equivalent share due to the contingent nature of their release. The escrow agreement provided for the Escrow Shares to be released either in their entirety or in increments of 600,000 depending on the Company's attainment of certain net income levels for the fiscal years ending March 31, 1994 and March 31, 1995, or, alternatively, if the Company's common stock trades above certain levels for a specified period of time during the fiscal years ending March 31, 1994 and March 31, 1995. The release of the Escrow Shares is deemed to be compensatory and results in a charge to the Company equal to the fair market value of the Escrow Shares as of the date on which they are released. This charge related to the release of the shares is not deductible for income tax purposes.

As of March 31, 1994, the Company had exceeded the target in the escrow agreement which provided for the release of all of the Escrow Shares in the event that the Company's net income for the fiscal year ended March 31, 1994 exceeded $2.9 million. For purposes of the escrow agreement, net income is measured after full provision for taxes, without benefit from any net operating loss carryforwards, and without consideration for any compensation charges associated with the release of the Escrow Shares.

The release of the Escrow Shares was deemed compensatory and resulted in a one-time expense for the year ended March 31, 1994 of $6,450,000, or the estimated fair market value of the Escrow Shares at the time of their release. This one-time charge is offset by an increase in common stock. There was no impact on total shareholders' equity on the Company's financial statements as a result of the release of the Escrow Shares and the corresponding charge.

OPTIONS AND WARRANTS

The Board of Directors of the Company adopted the 1991 Stock Option Plan (the "Plan") on December 16, 1991 that was subsequently approved by the Company's then sole shareholder. In September 1995, the Board of Directors and Shareholders approved a 500,000 share increase to the Plan increasing the total number of shares reserved for issuance pursuant to the Plan to 2,700,000. The Plan provides for the grant of options to purchase shares of Common Stock to officers and other key employees of the Company. The Plan is administered by a committee of the Board of Directors. Options granted under the Plan may or may not be incentive stock options as defined in section 422 of the Internal Revenue Code, depending upon the terms agreed by the Board of Directors at the time of the grant. The Plan is effective for ten years.

The following table summarizes option activity for the periods shown:

	Options Outstanding	
	Number of Shares	Price Per Share
Options outstanding March 31,1993	1,352,520	$2.50
Granted	355,720	$2.50 - $4.38
Exercised	--	--
Canceled	30,400	$2.50
Options outstanding March 31, 1994	1,677,840	$2.50 - $4.38
Granted	415,200	$5.38 - $6.63
Exercised	48,000	$2.50
Canceled	--	--
Options outstanding March 31, 1995	2,045,040	$2.50 - $6.63
Granted	84,160	$7.25
Exercised	44,000	$2.50
Canceled	--	--
Options outstanding December 31, 1995	2,085,200	$2.50 - $7.25

Vesting schedules and expiration dates vary with each grant. As of December 31, 1995, 1,276,786 options were vested and exerciable and 522,800 shares were available for grant under the Plan.

On August 21, 1992, the Board of Directors approved the grant to Holdings of a non-qualified option to purchase 1,800,000 shares of common stock at an exercise price of $2.50 per share, the estimated fair market value at the date of grant. This option is in addition to and is not part of the Plan. This option vests in full on the date of grant and expires ten years from the date of grant. On December 6, 1995, Holdings exercised its option in full.

In connection with the Company's initial public offering, the Company has sold to the underwriter of the offering, for an aggregate price of $120, warrants to purchase up to 240,000 shares of the Company's common stock at an exercise price of $3.00 per share. The warrants are exercisable during the four year period commencing one year from the date of the offering. The shares represented by the warrants have been registered by the Company. During the nine months ended December 31, 1995, and the year ended March 31, 1995, the underwriter exercised 100,534 and 39,466 warrants, respectively, leaving a balance of 100,000 at December 31, 1995.

(9) COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases its facilities and certain computer equipment under non-cancelable operating leases which expire through 2001. Future minimum lease payments at December 31, 1995 under these leases are as follows:

1996	$ 648,826
1997	685,675
1998	611,290
1999	590,169
2000	590,169
Thereafter	87,433
	$ 3,213,562

Rent expense for the nine months ended December 31, 1995 and the years ended March 31, 1995 and 1994 was $186,483, $219,835 and $157,203, respectively. The Company's facility lease contains certain rental concessions and escalating rental payments which are recognized as adjustments to rental expense and are amortized on a straight-line basis over the term of the lease.

LITIGATION

The Company is subject to lawsuits which arise in the ordinary course of its business. Management is of the opinion, based in part upon consultation with its counsel, that the liability of the Company, if any, arising from existing and threatened lawsuits would not have a material adverse effect on the Company's financial position and results of operations.

(10) INCOME TAXES

Income taxes are comprised of the following:

	Nine months ended December 31,	Year ended March 31,	
	1995	1995	1994
Current			
Federal	$ 2,156,799	$ 3,718,390	$ 326,668
State	726,319	1,144,158	337,556
Current tax expense	2,883,118	4,862,548	664,224
Deferred			
Federal	1,683,960	(353,739)	1,327,087
State	515,108	(27,877)	234,614
	2,199,068	(381,616)	1,561,701
Change in valuations allowance	--	--	(1,735,899)
Deferred tax benefit	2,199,068	(381,616)	(174,198)
Total tax expense	$ 5,082,186	$ 4,480,932	$ 490,026

The Company's effective tax expense differs from the amount determined by applying the statutory Federal rate of 35% for the nine months ended December 31, 1995, and the year ended March 31, 1995, and 34% for the year ended March 31, 1994, to income (loss) before income taxes as follows:

	Nine months ended December 31,	Year ended March 31,	
	1995	1995	1994
Expense at Federal tax rate	$ 4,430,058	$ 3,901,297	$ (437,935)
California franchise tax, net of Federal income tax benefit	737,192	727,267	470,860
Change in valuation allowance	--	--	(1,735,899)
Escrow share expense	--	--	2,580,000
Other	(85,064)	(147,632)	(387,000)
	$ 5,082,186	$ 4,480,932	$ 490,026

The tax effected cumulative temporary differences that give rise to deferred tax assets and liabilities as of December 31, 1995 and March 31, 1995 are as follows:

	December 31, 1995	March 31, 1995
Deferred Tax Assets:		
Accruals	$ 77,716	$ 11,793
Furniture and equipment	52,938	28,337
Provision for credit losses	33,727	142,398
State taxes	489,856	375,046
	654,237	557,574
Valuation allowance	--	--
Total tax asset	654,237	557,574
Deferred Tax Liabilities:		
Excess servicing receivables	(2,297,491)	--
Organization costs	--	(1,760)
Net deferred tax asset (liability)	$ (1,643,254)	$ 555,814

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

The Company believes that the deferred tax asset will more likely than not be realizable due to the reversal of the deferred tax liability and expected future taxable income.

(11) DEBT

At March 31, 1995 the Company had a $50 million warehouse line of credit (the "Line") with General Electric Capital Corp. The Line provides the Company with an interim financing facility to hold Contracts for sale in greater numbers and for longer periods of time prior to their sale to other institutional investors. In June 1995 the Company entered into two new agreements which restructured the Line and increased the maximum available amount to $100.0 million. The primary agreement provides for loans by Redwood Receivables Corporation ("Redwood") to the Company, to be funded by commercial paper issued by Redwood and secured by Contracts pledged periodically by the Company. The Redwood facility provides for a maximum of $100.0 million of advances to the Company, with interest at a variable rate tied to prevailing commercial paper rates. When the Company wishes to securitize these Contracts, a substantial part of the proceeds received from Investors is paid to Redwood, which simultaneously releases the pledged Contracts for transfer to a pass-through securitization trust. The second agreement is a standby line of credit with GECC, also with a $100.0 million maximum, which the Company may use only if and to the extent that Redwood does not provide funding as described above. The GECC line is secured by Contracts and substantially all the other assets of the Company. Both agreements extend through November 30, 1998. The two agreements are viewed as a single short-term warehouse line of credit, with advances varying according to the amount of pledged Contracts. At December 31, 1995 and March 31, 1995, there was $7.5 million and $19.7 million, respectively, outstanding under the Line which was secured by contracts held for sale.

On December 20, 1995, the Company issued $20.0 million in rising interest subordinated redeemable securities due January 1, 2006 ("the Notes"). The Notes are unsecured general obligations of the Company. Interest on the Notes will be payable on the first day of each month, commencing February 1, 1996, at an annual interest rate of 10.0% per annum. The interest rate increases 0.25% on each January 1 for the first nine years and 0.50% in the last year. In connection with the issuance of the Notes, the Company incurred and capitalized issuance costs of $1,105,695. The Company recognizes interest and amortization expense related to the Notes using a method which approximates the effective interest method over the expected redemption period. At December 31, 1995, there was $1,100,430 of unamortized deferred financing costs related to the Notes. The Notes are subordinated to certain existing and future indebtedness of the Company as defined in the indenture agreement. The Company is required to redeem, subject to certain adjustments, $1.0 million of the aggregate principal amount of the Notes through the operation of a sinking fund on each of January 1, 2000, 2001, 2002, 2003, 2004 and 2005. The Notes are not redeemable at the option of the Company prior to January 1, 1998. The Company may at its option elect to redeem the Notes from the registered holders of the Notes, in whole or in part, at any time, on or after January 1, 1998 and prior to January 1, 1999 at 102% of their principal amount, on or after January 1, 1999 and prior to January 1, 2000 at 101% of their principal amount, and on or after January 1, 2000 at 100% of their principal amount, in each case plus accrued interest to and including the date of redemption.

On March 12, 1993, the Company issued a $2 million Five Year Convertible Subordinated Note ("Note 1") to an institutional investor in conjunction with an agreement by that investor to commit to purchase up to $50 million of the Company's Contracts. Interest accrues at 11% and is payable semi-annually. At any time prior to the maturity date, and subject to a full pre-payment of Note 1, the holder may convert it, in its entirety, to 533,334 shares of common stock, at $3.75 per share, of the Company. On July 5, 1995, the holder converted Note 1. On November 16, 1993, the Company issued a $3 million Five Year Convertible Subordinated Note ("Note 2") to the same institutional investor in conjunction with an agreement by that investor to commit to purchase an additional $50 million of the Company's Contracts. Interest accrues at 9.5% and is payable semi-annually. At any time prior to the maturity date, and subject to a full pre-payment of Note 2, the holder may convert it, in its entirety, to 480,000 shares of common stock, at $6.25 per share, of the Company. At December 31, 1995, $71,250 of interest related to the notes is included in accounts payable and accrued expenses

The terms of Note 2 provide that the Company shall not make any distributions to holders of its common stock (other than dividends or distributions payable in common stock of the Company) or purchase, redeem or otherwise acquire or retire for value any of its common stock or any warrants, rights or options, if at the time of such action the Company is in default on Note 2, or if it would be in default after giving effect to such action. Note 2 is subordinate to all other debt of the Company. The Company is in compliance with all of the terms and conditions of Note 2.

On May 15, 1994 the Company issued a promissory note in the amount of $2 million to the same institutional investor who holds Note 2. On October 25, 1994, the Company borrowed an additional $3 million under two new promissory notes from two different institutional investors. These Promissory notes bear interest at 400 basis points over the Citibank Base Rate and mature on February 28, 1995, with provisions for extensions to April 30, 1995, at the option of the Company. The Company repaid each of these notes with the proceeds from its March 7, 1995 public common stock offering.

On July 6, 1995, the Company borrowed $2.0 million from the same investor who holds Note 2 pursuant to a promissory note which bears interest at the rate which Citibank, NA announces from time to time as its base rate plus 2.00% and which matures on December 31, 1995. On December 6, 1995, the note was repaid in full. On September 27, 1995, the Company borrowed $2.0 million from Charles E. Bradley, Sr., which was repaid on December 6, 1995.

(12) EMPLOYEE BENEFITS

The Company sponsors a pretax savings and profit sharing plan under section 401(k) of the Internal Revenue Code (the "Plan"). Under the Plan, eligible employees are able to contribute up to 1% to 15% of their compensation. The Company matches 20% of employees contributions up to $400 per employee per calendar year. The Company's contribution to the Plan was $13,811 and $16,245 for the nine months ended December 31, 1995 and the year ended March 31, 1995, respectively.

(13) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following summary presents a description of the methodologies and assumptions used to estimate the fair value of the Company's financial instruments. Much of the information used to determine fair value is highly subjective. When applicable, readily available market information has been utilized. However, for a significant portion of the Company's financial instruments, active market values do not exist. Therefore, considerable judgments were required in estimating fair value for certain items. The subjective factors include, among other things, the estimated timing and amount of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of December 31, 1995, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different. The estimated fair values of financial assets and liabilities at December 31, 1995, were as follows:

Financial Instrument	Carrying Value	Fair Value
Cash	$ 10,895,157	$ 10,895,157
Contracts held for sale	19,548,842	20,700,000
Investment in subordinated certificates	2,174,666	2,174,666
Investment in credit enhancements	30,477,793	30,477,793
Excess servicing receivable	11,108,251	11,108,251
Warehouse line of credit	7,500,000	7,500,000
Notes payable	20,000,000	20,000,000
Convertible subordinated debt	$ 3,000,000	$ 3,000,000

CASH

The carrying value approximates fair value.

CONTRACTS HELD FOR SALE

The fair value of the Company's contracts held for sale is determined in the aggregate based upon current investor yield requirements and by discounting the future cash flows using the current credit and discount rates that the Company believes reflect the estimated credit, interest rate and prepayment risks associated with similar types of instruments.

INVESTMENTS IN SUBORDINATED CERTIFICATES

The fair value is estimated by discounting future cash flows using credit and discount rates that the Company believes reflect the estimated credit, interest rate and prepayment risks associated with similar types of instruments.

INVESTMENTS IN CREDIT ENHANCEMENTS

The fair value is estimated by discounting future cash flows using credit and discount rates that the Company believes reflect the estimated credit, interest rate and prepayment risks associated with similar types of instruments.

EXCESS SERVICING RECEIVABLES

The fair value is estimated by discounting future cash flows using credit and discount rates that the Company believes reflect the estimated credit, interest rate and prepayment risks associated with similar types of instruments.

WAREHOUSE LINE OF CREDIT

The carrying value approximates fair value because the warehouse line of credit is short-term in nature and the related interest rates are estimated to reflect current market conditions for similar types of instruments.

NOTES PAYABLE

The fair value is estimated based on quoted market prices and on current rates for similar debt with similar remaining maturities.

CONVERTIBLE SUBORDINATED DEBT

The carrying value approximates fair value because the related interest rates are estimated to reflect current market conditions for similar types of instruments.

(14) SUBSEQUENT EVENT

In February 1996, the Company entered into an agreement to acquire 1.6 million shares (approximately 38%) of NAB Asset Corporation ("NAB"), for $2.50 per share.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	September 30, 1996	December 31, 1995
ASSETS		
Cash	$ 145,109	$ 10,895,157
Contracts held for sale (note 3)	17,772,503	19,548,842
Servicing fees receivable	2,732,971	1,454,707
Investment in subordinated certificates (note 2)	--	2,174,666
Investments in credit enhancements (note 2)	46,525,564	30,477,793
Excess servicing receivables	19,110,958	11,108,251
Furniture and equipment, net	630,520	548,535
Deferred financing costs	982,524	1,100,430
Other assets	5,528,007	569,944
	$ 93,428,156	$ 77,878,325
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Accounts payable & accrued expenses	$ 4,526,558	$ 1,341,905
Warehouse line of credit	9,838,856	7,500,000
Taxes payable	2,091,084	2,912,084
Deferred tax liability	1,643,254	1,643,254
Notes payable	20,000,000	20,000,000
Convertible subordinated debt	3,000,000	3,000,000
	41,099,752	36,397,243
SHAREHOLDERS' EQUITY		
Preferred stock, $1 par value; authorized 5,000,000 shares; none issued	--	--
Series A preferred stock, $1 par value; authorized 5,000,000 shares; 3,415,000 shares issued; none outstanding	--	--
Common stock, no par value; authorized 30,000,000 shares; 13,556,842 and 13,298,642 shares issued and outstanding at September 30, 1996 and December 31, 1995, respectively	33,955,739	33,265,239
Retained earnings	18,372,665	8,215,843
	52,328,404	41,481,082
Subsequent event (note 5)		
	$ 93,428,156	$ 77,878,325

See accompanying notes to condensed consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Nine Months Ended September 30,	
	1996	1995
REVENUES:		
Net gain on sale of contracts	$15,864,442	$ 9,941,674
Servicing fees (note 4)	12,939,146	7,105,684
Interest	7,347,704	5,384,990
	36,151,292	22,432,348
EXPENSES:		
Interest	4,309,859	2,835,237
Employee costs	6,121,280	3,087,263
General and administrative	5,072,144	2,607,669
Marketing	1,117,051	708,097
Occupancy	542,009	271,411
Related party consulting fees	56,250	262,500
Depreciation and amortization	207,527	143,898
Provision for credit losses	1,655,330	888,631
	19,081,450	10,804,706
Income before income taxes	17,069,842	11,627,642
Income taxes	6,913,020	4,733,542
Net income	$10,156,822	$ 6,894,100
Net income per common and common equivalent share	$ 0.69	$ 0.54
Weighted average number of common and common equivalent shares	14,746,930	12,837,934
Fully diluted net income per common and common equivalent share	$ 0.67	$ 0.49
Fully diluted weighted average number of common and common equivalent shares	15,452,640	14,001,510

See accompanying notes to condensed consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Nine Months Ended September 30,	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 10,156,822	$ 6,894,100
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	207,527	143,898
Amortization of excess servicing receivables	4,401,858	1,617,628
Amortization of deferred financing costs	117,906	--
Provision for credit losses	1,655,330	888,631
Gain on sale of contracts from excess servicing receivables	(12,404,565)	(6,198,271)
Loss on investment in NAB Asset Corporation	124,000	--
Changes in operating assets and liabilities:		
Purchases of contracts held for sale	(254,322,070)	(114,803,980)
Liquidation of contracts held for sale	254,443,079	117,891,066
Servicing fees receivable	(1,278,264)	(1,099,273)
Prepaid related party expenses	--	(30,834)
Initial deposits to credit enhancement accounts	(9,020,145)	(7,262,503)
Excess servicing deposited to credit enhancement accounts	(13,274,535)	(6,721,998)
Release of cash from credit enhancement accounts	6,246,909	8,087,419
Deferred taxes	--	(381,616)
Other assets	(1,082,063)	304,931
Accounts payable and accrued expenses	3,184,653	288,795
Warehouse line of credit	2,338,856	(15,416,779)
Taxes payable	(821,000)	329,681
Deferred rent	--	(33,677)
Net cash used in operating activities:	(9,325,702)	(15,502,782)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of subordinated certificates	2,022,220	--
Investment in NAB Asset Corporation	(4,000,000)	--
Purchases of furniture and equipment	(289,512)	(381,616)
Payments received on subordinated certificates	152,446	118,764
Net cash used in investing activities	(2,114,846)	(262,852)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of note to related party	--	2,000,000
Repayment of notes payable	--	(5,000,000)
Issuance of common stock	--	13,304,550
Exercise of options and warrants	690,500	227,764
Net cash provided by financing activities	690,500	10,532,314
Decrease in cash	(10,750,048)	(5,233,320)
Cash at beginning of period	10,895,157	6,686,844
Cash at end of period	$ 145,109	$ 1,453,524
Supplemental disclosure of cash flow information:		
Cash paid during the period		
Interest	$ 3,766,359	$ 2,568,007
Income taxes	$ 6,679,000	$ 4,844,050
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock upon conversion of debt	$ --	$ 2,000,000

See accompanying notes to condensed consolidated financial statements

Consumer Portfolio Services, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
September 30, 1996
(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The Company is engaged in the business of purchasing, selling and servicing retail installment sales contracts ("Contracts") originated by automobile dealers ("Dealers") that sell both new and used automobiles, light trucks and passenger vans.

The unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles and include all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are, in the opinion of management, of a normal recurring nature. Results for the nine month periods ended September 30, 1996 and 1995 are not necessarily indicative of the operating results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included elsewhere herein.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Alton Receivables Corp. ("Alton"), CPS Receivables Corp. ("CPSRC") and CPS Funding Corp. ("CPSFC"). The consolidated financial statements also include the accounts of SAMCO Acceptance Corp. ("SAMCO") and LINC Acceptance Company, LLC ("LINC") both of which are 80% owned subsidiaries of the Company. All significant intercompany transactions and balances have been eliminated.

On June 5, 1996, the Company purchased 38% of the outstanding common stock of NAB Asset Corporation ("NAB") for approximately $4 million. The investment in NAB is included in other assets and is accounted for by the Company under the equity method. All significant intercompany transactions and balances have been eliminated.

Included in other assets is a loan to a subsidiary of NAB. At September 30, 1996, the balance of the loan was approximately $600,000.

NOTE 2: INVESTMENTS IN CREDIT ENHANCEMENTS

The Company is a party to various agreements with institutional investors and investment banks for the sale of the Company's Contracts. The agreements call for the Company to sell Contracts to one of its special purpose corporation subsidiaries, either Alton or CPSRC (the "SPCs"), which subsequently transfer the Contracts to various grantor trusts (the "Trusts") which then issue interest bearing certificates which are purchased by institutional investors. The terms of the agreements provide that simultaneous with each purchase of certificates by the investor, the Company is required to provide a credit enhancement in the form of a cash capital contribution to the SPC equal to a specified percentage of the amount of the certificates purchased by the investor. The SPC then deposits the initial cash deposit, and subsequent excess servicing cash flows as required by the terms of the various agreements, to an account held by a trustee (the "Spread Account") and pledges the cash to the Trust, which in turn invests the cash in high quality liquid investment securities as defined by the various agreements. In the securitizations since June 1995, the Company altered the credit enhancement mechanism to create a subordinated class of asset-backed securities ("B Piece") in order to reduce the size of the required initial deposit to the Spread Account. The Company has sold five of six B Pieces created in conjunction with the sale of the related senior certificates. Unsold B Pieces are accounted for as available for sale and, when originated, are treated as non-cash investing activities.

In the event that the cash flows generated by the Contracts transferred to the Trust are insufficient to pay obligations of the Trust, including principal or interest due to certificate holders or expenses of the Trust, the trustee will draw an amount necessary from the Spread Accounts to pay the obligations of the Trust. The agreements provide that the Spread Accounts shall be maintained at a specified percent of the principal balance of the certificates, which are increased in cases where delinquencies, repossessions or losses exceed certain specified levels. In the event delinquencies, repossessions or losses on the Contracts serviced exceed specified higher levels defined in certain of the Company's securitization agreements, the terms of those securitizations may allow for the transfer of servicing to another servicer. As principal payments are made to the certificate holders, and if the Spread Accounts are in excess of the specified percent of the principal balance of the certificates, the trustee shall release to the SPC the portion of the pledged cash that is in excess of the specified percent of the principal balance of the certificates. Except for releases in this manner, the cash in the Spread Accounts is restricted from use by the SPC or the Company.

NOTE 3: CONTRACTS HELD FOR SALE

The Contracts which the Company purchases from dealers provide for finance charges of approximately 20% per annum, in most cases. Each Contract provides for full amortization, equal monthly payments and can be fully prepaid by the borrower at any time without penalty. The Company generally purchases the Contracts from dealers at a discount, ranging from zero to ten percent, from the amount financed under the Contract. In addition, the Company generally charges the Dealer a fee of $200 per Contract purchased. Contracts are generally sold by the Company within three months of their purchase, although they may be held longer. Contracts held for sale are stated at the lower of aggregate cost or market value, net of related reserves. At September 30, 1996 and December 31, 1995, the balance of Contracts held for sale was made up of the following components:

	September 30, 1996	December 31, 1995
Gross receivable balance	$ 23,351,660	$ 24,694,964
Unearned finance charges	(4,327,496)	(3,820,267)
Dealer discounts	(956,968)	(1,054,776)
Deferred contract acquisition net costs	61,127	59,077
Reserves for losses	(355,820)	(330,156)
Net contracts held for sale	$ 17,772,503	$ 19,548,842

NOTE 4: SERVICING FEES

Servicing fees are reported as income when earned, net of related amortization of excess servicing. Servicing costs are charged to expense as incurred. Servicing fees for the nine month periods ended September 30, 1996 and 1995, included the following components:

	Nine Months Ended September 30,	
	1996	1995
Gross contract servicing fees	$ 17,341,004	$ 8,723,312
Amortization of excess servicing	(4,401,858)	(1,617,628)
Net servicing fees	$ 12,939,146	$ 7,105,684

NOTE 5: SUBSEQUENT EVENT

On January 17, 1997 the holder of the 9.5% $3 million convertible note exercised its right to convert the note into 480,000 shares of common stock.

NOTE 6: NEW ACCOUNTING PRONOUNCEMENTS

On June 28, 1996, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS No. 125). This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on consistent application of a financial-components approach that focuses on control. It distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. Under the financial-components approach, after a transfer of financial assets, an entity recognizes all financial and servicing assets it controls and liabilities it has incurred and derecognizes financial assets it no longer controls and liabilities that have been extinguished.

SFAS No. 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996, and is to be applied prospectively. Earlier or retroactive application is not permitted. Management is in the process of evaluating what future effect SFAS No. 125 will have on the Company's financial position and results of operations.

NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL ANY SECURITIES OTHER THAN THE REGISTERED SECURITIES TO WHICH IT RELATES, OR AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, TO ANY PERSON IN ANY JURISDICTION WHERE SUCH OFFER OR SOLICITATION WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE OF THIS PROSPECTUS.

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$35,000,000

CONSUMER PORTFOLIO
SERVICES, INC.

____% PARTICIPATING EQUITY NOTES-SM-
DUE 2004
"PENs-SM-"

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PROSPECTUS

- ---

PIPER JAFFRAY INC.
LEGG MASON WOOD WALKER
INCORPORATED
DAIN BOSWORTH
INCORPORATED

, 1997

PART II
INFORMATION NOT REQUIRED IN THE PROSPECTUS

ITEM 14.OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

Set forth below are the expenses estimated in connection with the issuance and distribution of the Company's securities, other than underwriting discounts and commissions. All expenses incurred with respect to the distribution will be paid by the Company. Except for the SEC registration fee, the NASD filing fee, and the NYSE filing fee, all expenses are estimated and assume that the Underwriters' over-allotment option is not exercised.

SEC registration fee	$12,197
NASD filing fee.	4,525
NYSE filing fee.	2,500
Printing and engraving expenses.	70,000
Accounting fees and expenses	75,000
Legal fees and expenses (not including blue sky).	50,000
Blue sky filing fees and expenses.	10,000
Rating agency fees	35,000
Trustee fees	5,000
Miscellaneous expenses	5,878
Total.	$270,000

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Under California law, a California corporation may eliminate or limit the personal liability of a director to the corporation for monetary damages for breach of the director's duty of care as a director, provided that the breach does not involve certain enumerated actions, including, among other things, intentional misconduct or knowing and culpable violation of the law, acts or omissions which the director believes to be contrary to the best interests of the corporation or its shareholders or which reflect an absence of good faith on the director's part, the unlawful purchase or redemption of stock, payment of unlawful dividends, and receipt of improper personal benefits. The Company's Board of Directors believes that such provisions have become commonplace among major corporations and are beneficial in attracting and retaining qualified directors, and the Company's Articles of Incorporation include such provisions.

The Company's Articles of Incorporation and Bylaws also impose a mandatory obligation upon the Company to indemnify any director or officer to the fullest extent authorized or permitted by law (as now or hereinafter in effect), including under circumstances in which indemnification would otherwise be at the discretion of the Company.

The Purchase Agreement to be entered into between the Company and the Underwriters, the form of which is included as an exhibit to this Registration Statement, includes the Company's agreement to indemnify the Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933, and to contribute to payments the Underwriters may be required to make with respect thereto. The Purchase Agreement also includes certain reciprocal indemnification rights in favor of the Company and its directors, officers and control persons.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits.

Exhibit No.	Description of Exhibit
1.1	Form of Purchase Agreement.*
4.1	Form of Indenture.
4.2	Form of Participating Equity Note (included in Exhibit 4.3 herein).
4.3	Form of First Supplemental Indenture.
5.1	Opinion of Troy & Gould Professional Corporation.*
12.1	Statement re: computation of ratio of earnings to fixed charges.
25.1	Form T-1 Statement of Eligibility of Trustee.*
23.1	Consent of KPMG Peat Marwick LLP.
23.2	Consent of Troy & Gould Professional Corporation (contained in Exhibit 5.1).(*)

(*) To be filed by amendment.

ITEM 17. UNDERTAKINGS.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions or otherwise, the Registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the Registrant will, unless in the opinion of its counsel the matter has already been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act of 1933, as amended, and shall be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement (other than as provided in the proviso and instructions to Item 512(a)of Regulation S-K)(i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933 (the "Securities Act"); (ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the registration statement; and (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the

securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Irvine, California on February 5, 1997.

CONSUMER PORTFOLIO SERVICES, INC.

By /s/ Charles E. Bradley, Jr.

Charles E. Bradley, Jr.
President and Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby appoints Charles E. Bradley, Jr. and Jeffrey P. Fritz his true and lawful attorneys-in-fact, each with power to act alone, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Charles E. Bradley, Jr. Charles E. Bradley, Jr.	President, Chief Executive Officer (Principal Executive Officer) and Director	February 5, 1997
/s/ Charles E. Bradley, Sr. Charles E. Bradley, Sr.	Chairman of the Board	February 5, 1997
/s/ Jeffrey P. Fritz Jeffrey P. Fritz	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 5, 1997
/s/ William B. Roberts William B. Roberts	Director	February 5, 1997
/s/ John G. Poole John G. Poole	Director	February 5, 1997
Robert A. Simms	Director	
Thomas L. Chrystie	Director	

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- ---

Consumer Portfolio Services, Inc.

Issuer

and

Bankers Trust Company

Trustee

INDENTURE

Dated as of February 1, 1997

Debt Securities

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- ---

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SUBORDINATION OF SECURITIES

Consumer Portfolio Services, Inc.

Reconciliation and tie between Trust Indenture Act of 1939
and Indenture, dated as of February 1, 1997

Trust Indenture Act Section	Indenture Section
Section 310 (a) (1)	608
(a)(2)	608
(a) (3)	Not Applicable
(a) (4)	Not Applicable
(5) (5)	608
(b)	609
Section 311	Not Applicable
Section 312 (a)	701, 701
(b)	702
(c)	Not Applicable
Section 313	602,703,704
Section 314 (a)	704
(b)	Not Applicable
(c) (1)	102
(c) (2)	102
(c) (3)	Not Applicable
(d)	Not Applicable
(e)	102
Section 315 (a)	601
(b)	602
(c)	601
(d)	601
(e)	Not Applicable
Section 316 (a)	Not Applicable
(a) (1) (A)	502, 512
(a) (1) (B)	513
(a) (2)	Not Applicable
(b)	508
Section 317 (a) (1)	503
(a) (2)	504
(b)	1003
Section 318	108

Note: This reconciliation and tie shall not, for any purpose, be deemed to be part of the Indenture.

INDENTURE, dated as of February 1, 1997 (the "Indenture") between Consumer Portfolio Services, Inc., a corporation duly organized and existing under the laws of the State of California (hereinafter called the "Company"), having executive offices located at 2 Ada, Suite 100, Irvine, California 92718 and Bankers Trust Company, a New York banking corporation duly organized and existing under the laws of the State of new York (hereinafter called the "Trustee"), having its Corporate Trust Office located at 4 Albany Street, New York, New York 10006.

RECITALS OF THE COMPANY

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured subordinated debentures, notes or other evidences of indebtedness, unlimited as to principal amount, to bear such rates of interest, to mature at such time or times, to be issued in one or more series and to have such other provisions as shall be fixed as hereinafter provided.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

This Indenture is subject to the provisions of the Trust Indenture Act and the rules and regulations of the Securities and Exchange Commission promulgated thereunder that are required to be part of this Indenture and, to the extent applicable, shall be governed by such provisions,

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises, the sum of one dollar duly paid by the Company to the Trustee, the receipt of which is hereby acknowledged and the purchase of the Securities by the Holders (as defined) thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders from time to time of the Securities as follows:

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

Section 101. Definitions.

Except as otherwise expressly provided in or pursuant to this Indenture or unless the context otherwise requires, for all purposes of this Indenture:

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

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

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

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

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

Certain terms used, principally in certain Articles hereof are defined in those Articles.

"Act", when used with respect to any Holder, has the meaning specified in Section 104.

"Additional Amounts" means any additional amounts which are required hereby or by any Security or by or pursuant to a Board Resolution, under circumstances specified or other governmental charges imposed on Holders specified therein and which are owing to such Holders.

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

"Authenticating Agent" means any Person authorized by the Trustee pursuant to Section 612 to act on behalf of the Trustee to authenticate Securities of one or more series.

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

"Board Resolution" means a copy of one or more resolutions, certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and

to be in full force and effect on the date of such certification, delivered to the Trustee.

"Business Day", except as may otherwise be provided in the form of Securities of any particular series pursuant to the provisions of this Indenture, with respect to any Place of Payment or other location, means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a Legal Holiday in the state where the Trustee's Corporate Trust Office is principally located in such Place of Payment or other location.

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

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, as amended, or, if at any time after the execution of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

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

"Company Request" and "Company Order" mean, respectively, a written request or order, as the case may be, signed in the name of the Company by the Chairman of the Board, a Vice Chairman of the Board, the Chief Executive Officer, the President, a Vice President, the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, of the Company, or by another officer of the Company duly authorized to sign by a Board Resolution, and delivered to the Trustee.

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

"Consolidated Net Worth" means the excess, as determined in accordance with generally accepted accounting principles, after

making appropriate deductions for any minority interest in the net worth of Subsidiaries, of (i) the assets of the Company and its Subsidiaries over (ii) the liabilities of the Company and its Subsidiaries; provided, however, that any write-up in the book value of any assets owned subsequent to the date of this Indenture, other than as required for and at the time of assets acquired in connection with the purchase of a Person or business, shall not be taken into account.

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

"Corporate Trust Office" means the principal office of the Trustee at which at any particular time its corporate trust business shall be administered, which office at the date of original execution of this Indenture is located at 4 Albany Street, New York, New York 10006.

"Corporate Trust Operations Center" means the office of the Trustee at which at any particular time Securities shall be presented for transfer or payment, which office at the date of the original execution of this Indenture is located at _____, _____, _____.

"Defaulted Interest" has the meaning specified in Section 307.

"Depository" means, with respect to any Security issuable or issued in the form of one or more global Securities, the Person designated as Depository by the Company in or pursuant to this Indenture, which Person must be, to the extent required by applicable law or regulation, a clearing agency registered under the Securities Exchange Act of 1934, as amended, and if so provided with respect to any Security, any successor to such Person. If at any time there is more than one such Person, "Depository" shall mean, with respect to any Securities, the qualifying entity which has been appointed with respect to such Securities.

"Event of Default" has the meaning specified in Section 501.

"Government Obligations" means direct obligations of the United States of America, or any Person controlled or supervised by and acting as an agency or instrumentality of such government, in each case where the payment, or payments thereunder are unconditionally guaranteed as a full faith and credit obligation by such government and which are not callable or redeemable at the option of the issuer or issuers thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such Government Obligation or a specific payment of interest on or principal of or other amount with respect to any such Government Obligation held by such custodian for the account of the holder of a, depository receipt, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the

holder of such depository receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of interest on or principal of or other amount with respect to the Government Obligation evidenced by such depository receipt.

"Holder", when used with respect to any Security, means the Person in whose name such Security is registered in the Security Register.

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

"Indenture" means this instrument as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof and, with respect to any Security by the terms and provisions of such Security established pursuant to Section 301 (as such terms and provisions may be amended pursuant to the applicable provisions hereof).

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

"Interest" with respect to any original Issue Discount Security which by its terms bears interest only upon maturity, means interest payable upon, Maturity and, when used with respect to a Security which provides for the payment of Additional Amounts pursuant to Section 1004, includes such Additional Amounts.

"Interest Payment Date", with respect to any Security, means the Stated Maturity of an instalment of interest on such Security.

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

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

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

"Money", with respect to any payment, deposit or other transfer pursuant to or contemplated by the terms hereof, means United States dollars or other equivalent unit of legal tender

for payment of public or private debts in the United States of America.

"1995 Indenture" means that Indenture dated as of December 15, 1995 between the Company and Harris Trust and Savings Bank, as Trustee as such Indenture exists on the date of execution of this Indenture.

"Office or Agency", with respect to any Securities, means an office or agency of the Company maintained or designated in a Place of Payment for such Securities pursuant to Section 1002 or any other office or agency of the Company maintained or designated for such Securities pursuant to Section 1002 or, to the extent designated or required by Section 1002 in lieu of such office or agency, the Corporate Trust Operations Center of the Trustee.

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

"Officers' Certificate" means a certificate signed by two Officers or by an Officer and an Assistant Treasurer or an Assistant Secretary of the Company that complies with the requirements of Section 314(e))f the Trust Indenture Act.

"Opinion of Counsel" means a written opinion of counsel, who may be an employee of or counsel for the Company or other counsel who shall be reasonably acceptable to the Trustee, that complies with the requirements of ion 314(e) of the Trust Indenture Act.

"Original Issue Discount Security" means a Security issued pursuant to this Indenture which provides for declaration of an amount less than the principal face amount thereof to be due and payable upon acceleration thereof pursuant to Section 502.

"Outstanding", when used with respect to any Securities, means, as of the date of determination, all such Securities theretofore authenticated and delivered under this Indenture, except:

(i) any such Security theretofore canceled by the Trustee or the Security Registrar or delivered to the Trustee or the Security Registrar for cancellation;

(ii) any such Security or portions thereof for whose payment at the Maturity thereof Money in the necessary amount has been theretofore deposited pursuant hereto with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities, provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this

Indenture provision therefor satisfactory to the Trustee has been made;

(iii) any such Security with respect to which the Company has effected defeasance pursuant to Section 401 or 402; and

(iv) any such Security which has been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, unless there shall have been presented to the Trustee proof satisfactory to it that such Security is held by a bona fide purchaser in whose hands such Security is a valid obligation of the Company;

provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Securities have given any request, demand, authorization direction, notice, consent or waiver hereunder, (i) the principal amount of an Original Issue Discount Security that may be counted in making such determination and that shall be deemed to he Outstanding for such purposes shall be equal to the amount of the principal thereof that pursuant to the terms of such Original Issue Discount Security would be declared (or shall have been declared to be) due and payable upon a declaration of acceleration thereof pursuant to Section 502 at the time of such determination, and (ii) Securities owned by the Company or any other obligor of the Securities or any Affiliate of the Company or such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in making any such determination or relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which the Trustee knows to be so owned shall be so disregarded. Securities so owned which shall have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the Trustee (A) the pledgee's right so to act with respect to such Securities and (B) that the pledgee is not the Company or any other obligor upon the Securities or any Subsidiary or any Affiliate of the Company or such other obligor.

"Paying Agent" means any Person authorized by the Company to pay the principal of, or any premium or interest on, or any Additional Amounts with respect to any Security on behalf of the, Company.

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

"Place of Payment", with respect to any Security, means the place or places where the principal of, or any premium or interest on, or any Additional Amounts with respect to such Security is payable as provided in or pursuant to this Indenture.

"Predecessor Security" of any particular Security means every previous Security evidencing all, or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for in lieu of a lost, destroyed, mutilated or stolen Security shall be deemed to evidence the same debt as the lost, destroyed, mutilated or stolen Security.

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

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

"Regular Record Date" for the interest payable on any Security on any Interest Payment Date therefor means the date, if any, specified in or pursuant to this Indenture as the "Regular Record Date".

"Repayment Date", with respect to any Security or portion thereof to be repaid pursuant to Article Thirteen, means the date fixed for such repayment by or pursuant to this Indenture.

"Repayment Price", with respect to any Security or portion thereof to be repaid pursuant to Article Thirteen, means the price at which it is to be repaid pursuant to this Indenture. In the case of repayment pursuant to Section 1302 or 1303, the Repayment Price shall not include any premium on such Security.

"Responsible Officer" means any officer of the Trustee in its Corporate Trust Office and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Restricted Payment" has the meaning specified in Section 1007.

"Security or "Securities" means any security or securities, as the case may be authenticated and delivered under this Indenture; provided, however, that, if at any time there is more than one Person acting as Trustee under this Indenture, "Securities", with respect to any such Person, shall mean Securities authenticated and delivered under this Indenture, exclusive, however, of Securities of any series as to which such Person is not Trustee.

"Security Register and "Security Registrar" have the respective meanings specified in Section 305.

"Senior Indebtedness" means the principal amount of, premium, if any, and interest on (i) any Indebtedness for Money

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

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

"Special Record Date" for the payment of any Defaulted Interest on any Security means a date fixed by the Trustee pursuant to Section 307.

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

any of the Persons specified in clause (a) or (b) are the beneficial owners collectively of fifty percent (50%) or more of the voting power.

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

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

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

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended, and any reference herein to the Trust Indenture Act or a particular provision thereof shall mean such Act or provision, as the case may be, as amended or replaced from time to time or as supplemented from time to time by rules or regulations adopted by the Commission under or in furtherance of the purposes of such Act or provision, as the case may be.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument, until a successor Trustee shall have become such with respect to one or more series of Securities pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean each Person who is then a Trustee hereunder; provided, however, that if at any time there is more than one such Person, "Trustee" shall mean each such Person and as used with respect to the Securities of any series shall mean the Trustee with respect to the Securities of such series.

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

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

"Vice President", when used with respect to the Company, means any Senior or Executive Vice President, whether or not

designated by a number or a word or words added before or after the title "Vice President".

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

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

Section 102. Compliance Certificates and Opinions.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee at the request of the Trustee (a) an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and (b) an opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents or any of them is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(i) a statement that each individual signing such certificate or rendering such Opinion of Counsel has read such condition or covenant and the definitions herein relating thereto;

(ii) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or Opinions of Counsel are based;

(iii) a statement that, in the opinion of each such Person, he has made such examination or investigation as in necessary to enable him to express an informed opinion as to whether or not such condition or covenant has been complied with; and

(iv) a statement as to whether or not, in the opinion of each such Person, such condition or covenant has been complied with.

Section 103. Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of Counsel, of, any specified Person, it is not necessary that all such matters be certified by, or covered by the Opinion of Counsel of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an Opinion of Counsel with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any Officer's Certificate may be based, insofar as it relates to legal matters, upon a Certificate or opinion of, or representations by, counsel. Any such Opinion of Counsel or representation of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an Officer or Officers of the Company.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instrument under this Indenture or any Security, they may, but need not, be consolidated and form one instrument.

Section 104. Acts of holders.

(i) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by or pursuant to this Indenture o be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing. Except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are received by the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent, or of the holding by any Person of a Security, shall be sufficient for any purpose of this Indenture and (subject to Section 315 of the Trust Indenture Act) conclusive in favor of the Trustee and the Company and any agent of the Trustee or the Company, if made in the manner provided in this Section.

Without limiting the generality of this Section, unless otherwise provided in or pursuant to this Indenture, a Holder, including a Depository that is a Holder of a global

Security, may make, give or, take, by a proxy, or proxies, duly appointed in writing, any, request, demand, authorization, direction, notice consent, waiver or other action provided in or pursuant to this Indenture to be made, given or taken by Holders, and a Depository that is a Holder of a global Security may provide its proxy or proxies to the beneficial owners of interests in any such global Security through such Depository's standing instructions and customary practices.

The Trustee shall fix a record date for the purpose of determining the Persons who are beneficial owners of interest in any permanent global Security held by a Depository entitled under the procedures of such Depository to make, give or take, by a proxy or proxies duly appointed in writing, any request, demand, authorization, direction, notice, consent, waiver or other action provided in or pursuant to this Indenture to be made, give or taken by Holders. If such a record date is fixed, the Holders on such record date or their duly appointed proxy or proxies, and only such Persons, shall be entitled to make, give or take such request, demand, authorization, direction, notice, consent, waiver or other action, whether or not such Holders remain Holders after such record date. Not such request, demand, authorization, direction, notice, consent, waiver or other action shall be valid or effective if made, given or taken more than 90 days after such record date.

(ii) The fact and date of the execution by any Person of any such instrument or writing may be proved in any reasonable manner which the Trustee deems sufficient and in accordance with such reasonable unless as the Trustee may determine; and the Trustee may in any instance require further proof with respect to any of the matters referred to in this Section.

(iii) The ownership, principal amount and serial numbers of Securities held by any Person, and the date of the commencement and the date of the termination of holding the same, shall be provided in the Security Register.

(iv) If the Company shall solicit from the Holders of any Securities any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may at its option (but is not obligated to), by Board Resolution, fix in advance a record date for the determination of Holders of Securities entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act. If such a record date if fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of Securities of record at the close of business on such record date shall he deemed to be Holders for the purpose of determining whether Holders of the requisite proportion of Outstanding Securities have

authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the Outstanding Securities shall be computed as of such record date; provided that no such authorization, agreement or consent by the Holders of Securities on such record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

(v) Any request, demand, authorization, direction, notice, consent, waiver or other Act by the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done or suffered to be done by the Trustee, any Security Registrar, any Paying Agent or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

Section 105. Notices, Etc. to Trustee and Company.

Any request, demand, authorization, direction, notice, consent, waiver or other Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with:

(i) the Trustee by any Holder or the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, or

(ii) the Company by the Trustee or any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to the attention of its Chief Financial Officer at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company.

Section 106. Notice to Holders of Securities; Waiver.

Except as otherwise expressly provided in or pursuant to this Indenture or in the form of Securities of any particular series issued pursuant to the provisions of this Indenture, where this Indenture provides for notice of Holders of Securities of any event, such notice shall be sufficiently given to Holders of Securities if in writing and mailed, first-class postage prepaid, to each Holder of a Security affected by such event, at his address as it appears in the Security Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice.

In any case where notice to Holders of Securities is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder of a Security shall affect the sufficiency of such notice with respect to other Holders of Securities. Any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given or provided. In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Where this Indenture provides for notice of any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of Securities shall be filed with the Trustee, but such filing shall not be a condition, precedent to the validity of any action taken in reliance upon such waiver.

Section 107. Language of Notices.

Any request, demand, authorization, direction, notice, consent, election or waiver required or permitted under this Indenture shall be in the English language.

Section 108. Conflict with Trust Indenture Act.

If any provision hereof limits, qualifies or conflicts with any duties under any required provision of the Trust Indenture Act imposed hereon by Section 338(d) thereof, such required provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

Section 109. Effect of Headings and Table of Contents.

The Article and Section Headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 110. Successors and Assigns.

All covenants and agreements in this Indenture by the Company and the Trustee shall bind their respective successors and assigns, whether so expressed or not.

Section 111. Separability Clause.

In case any provision in this Indenture or any Security shall be invalid, illegal or unenforceable, either wholly or partially, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired

thereby, and such provisions shall be given effect to the fullest extent permitted by law.

Section 112. Benefits of Indenture.

Nothing in this Indenture or any Security, express or implied, shall give to any Person, other than the parties hereto, any Security Registrar, any Paying Agent, any Authenticating Agent and their respective successors hereunder and the Holders of Securities, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 113. Governing Law.

This Indenture and the Securities shall be governed by and construed in accordance with the internal laws of the State of New York applicable to agreements made or instruments entered into and, in each case, performed in said state.

Section 114. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date, Repayment Date or Stated Maturity of any Security shall be a Legal Holiday at any Place of Payment, then (notwithstanding any other provision of this Indenture or any Security other than a provision in any Security that specifically states that such provision shall apply in lieu of this Section) payment need not be made at such Place of Payment on such date, but may be made on the next succeeding day that is a Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date, Redemption Date, Repayment Date or at the Stated Maturity, and no interest shall accrue on the amount payable on such date or at such time for the period from and after such Interest Payment Date, Redemption Date, Repayment Date or Stated Maturity, as the case may be.

Section 115. No Recourse Against Others.

No past, present or future director, officer, employee, incorporator or stockholder of the Company, as such, shall have any liability for any obligations be the Company under the Securities or this Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Security waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Securities.

ARTICLE TWO

SECURITIES FORMS

Section 201. Forms Generally.

Each Security and global Security issued pursuant to this Indenture shall be in the form established by or pursuant to a Board Resolution in accordance with Section 301 or in one or more indentures supplemental hereto shall have such appropriate insertions, omissions, substitutions and other variations as are required or permitted by or, pursuant to this Indenture or any indenture supplemental hereto and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with any law or with any rule or regulation of any stock exchange or as may, consistently herewith, be determined by the officers executing such Security as evidenced by their execution of such Security.

Unless otherwise provided in or pursuant to this Indenture, the Securities shall be issuable in global and registered form without coupons.

Definitive Securities shall be printed, lithographed or engraved or produced by any combination of these methods on a steel engraved border or steel engraved, borders or may be produced in any other manner, all as determined by the Officers of the Company executing such Securities, as evidenced by their execution of such Securities.

Section 202. Form of Trustee's Certificate of Authentication.

Subject to Section 612, the Trustee's certificate of authentication shall be in substantially the following form:

"This is one of the Securities of the series designated herein referred to in the within-mentioned Indenture.

---
as Trustee

By

Authorized Signatory

Section 203. Securities in Global Form.

If Securities of a series are issuable in global form (i.e., in the name of the name of the nominee of a Depository for purposes of book-entry transfer), any such Security may provide that it or any number of such Securities shall represent the aggregate amount of all Outstanding Securities or such series (or such lesser amount as is permitted by the terms thereto from time to time endorsed thereon and may also provide that the aggregate amount of Outstanding Securities represented thereby may from time to time be increased or reduced to reflect exchanges. Any endorsement of any Security in global form to reflect the amount, or any increase or decrease in the amount, or changes in the rights of Holders, of Outstanding Securities represented thereby shall be made in such manner and by such Person or Persons as shall be specified therein

or in the Company Order to be delivered pursuant to Section 303 or 304 with respect thereto. Subject to the provisions of Section 303 and, if applicable, Section 304, the Trustee shall deliver and redeliver any Security in permanent global form in the manner and upon instructions given by the Person or Persons specified therein or in the applicable Company Order. If a Company Order pursuant to Section 303 or 304 has been, or simultaneously is, delivered, any instructions by the Company with respect to a Security in global form shall be in writing but need not be accompanied by or contained in an Officers Certificate and need not be accompanied by an Opinion of Counsel.

ARTICLE THREE

THE SECURITIES

Section 301. Amount Unlimited; Issuable in Series.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited. The Securities may be issued in one or more series.

With respect to any Securities to be authenticated and delivered hereunder, there shall be established in or pursuant to a Board Resolution and set forth, or determined in the manner provided, in an Officers Certificate, or established in one or more indentures supplemental hereto,

(1) the title of such Securities and the series in which such Securities shall be included;

(2) any limit upon the aggregate principal amount of the Securities of such title or the Securities of such series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the same series pursuant to Section 304, 305, 306, 905 or 1107 or the terms of such Securities);

(3) if any of such Securities are to be issuable in global form, when any of such Securities are to be issuable in global form and (i) whether beneficial owners of interests in any such global Security may exchange such interest for Securities of the same series and of like tenor and of any authorized form and denomination, and the circumstances under which any such exchanges may occur, if other than in the manner specified in Section 305, and (ii) the name of the Depository with respect to any global Security;

(4) the date or dates, or the method or methods, if any, by which such date or dates shall be determined, on which the principal of such Securities is payable;

(5) the rate or rates at which such Securities shall bear interest, if any, or the method or methods, if any, by which such rate or rates are to be determined, the date or dates, if any, from which such interest shall accrue or the method or methods, if any, by which such date or dates are to be determined, the Interest Payment Dates, if any, on which such interest shall be payable and the Regular Record Date, if any, for the interest payable on Securities on any Interest Payment Date, whether and under what circumstances Additional Amounts on such Securities or any of them shall be payable and, if payable, whether the Company has the option to redeem the affected Securities rather than pay such Additional Amounts, and the basis upon which interest shall be calculated if other than that of a 360-day year of twelve 30-day months; and if any of such Securities are convertible in whole or in part into common stock of the Company, the terms and conditions under which such conversion may occur;

(6) if in addition to or other than the City of New York, New York, the place or places where the principal of, any premium and interest on or any Additional Amounts with respect to such Securities shall be payable, any of such Securities may be surrendered for registration of transfer, any of such Securities may be surrendered for exchange and notices or demands to or upon the Company in respect of such Securities and this Indenture may be served;

(7) whether any of such Securities are to be redeemable at the option of the Company and, if so, the period or periods within which, the price or prices at which and the other terms and conditions (in addition to those set forth in Article Eleven) upon which such Securities may be redeemed, in whole or in part, at the option of the Company;

(8) whether the Company is obligated to redeem or purchase any of such Securities pursuant to any sinking fund or at the option of any Holder thereof and, if so, the period or periods within which, the price or prices at which and the other terms and conditions upon which such Securities shall be redeemed or purchased (in addition to those set forth in Article Twelve), in whole or in part, pursuant to such obligation, whether the Company's obligation to redeem or purchase Securities for a sinking fund may be satisfied pursuant to Section 1202 and any provisions for the remarketing of such Securities so redeemed or purchased;

(9) the denominations in which any of such Securities shall be issuable if other than denominations of $1,000 and any integral multiple thereof;

(10) if other than the principal amount thereof, the portion of the principal amount of any of such Securities that shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502 or the method by which such portion is to be determined;

(11) any deletions from, modifications of or additions to the Events of Default or covenants of the Company with respect to any of such Securities, whether or not such Events of Default or covenants are consistent with the Events of Default or covenants set forth herein;

(12) the applicability, if any, of Section 402 to any of such Securities and any provisions in modification of, in addition to or in lieu of any of the provisions of Section 402;

(13) whether any of such Securities are to be issuable upon the exercise of warrants, as well as the time, manner and place for such Securities to be authenticated and delivered;

(14) if any of such Securities are to be issuable in global form and are to be issuable in definitive form (whether upon original issue or upon exchange of a temporary Security) only upon receipt of certain certificates or other documents or satisfaction of other Conditions, then the form and terms of such certificates, documents or conditions;

(15) if there is more than one Trustee, the identity of the Trustee and, if not the Trustee, the identity of each Security Registrar, Paying Agent or Authenticating Agent with respect to such Securities; and

(16) any other terms of such Securities (which terms shall not be inconsistent with the terms of this Indenture).

All Securities of any one series shall be substantially identical except as to denomination and the rate or rates of interest, if any, and Stated Maturity, the date from which interest, if any, shall accrue and except as may otherwise be provided by the Company in or pursuant to the Board Resolution and set forth, or determined in the manner provided, in the Officers' Certificate or in any indenture or indentures supplemental hereto pertaining to such series of Securities. All Securities of any one series need not be issued at the same time and, unless otherwise so provided by the Company, a Series may be reopened for issuances of additional Securities of such series or to establish additional terms of such series of Securities.

If any of the terms of the Securities of any series shall be established by action taken by or pursuant to a Board Resolution at or prior to the delivery of the Officers' Certificate setting forth the terms of such series, a copy of an appropriate record of such action shall be certified by, the Secretary or an Assistant Secretary of the Company and shall be delivered to the Trustee.

Section 302. Currency; Denominations.

The principal of, any premium and interest on and any Additional Amounts with respect to the Securities shall be payable

in Money. Unless otherwise provided in or pursuant to this Indenture, Securities shall be issuable in registered form without coupons in denominations of $1,000 and any integral multiple thereof.

Section 303. Execution, Authentication, Delivery and Dating.

Securities shall be executed on behalf of the Company by one Officer and attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture the Company may deliver Securities, executed by the Company, to the Trustee for authentication and, provided that the Board Resolution and Officers, Certificate or supplemental indenture or indentures with respect to such Securities referred to in Section 301 and a Company Order for the authentication and delivery of such Securities have been delivered to the Trustee, the Trustee in accordance with the Company Order and subject to the provisions hereof and of such Securities shall authenticate and deliver such Securities.

The Trustee shall not be required to authenticate or to cause an Authenticating Agent to authenticate any Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee or if the Trustee, being advised by counsel, reasonably determines that such action may not lawfully be taken.

If the Company shall establish pursuant to Section 301 that the Securities of a series are to be issued in whole or in part in the form of one or more global Securities, the Company shall execute and the Trustee shall, in accordance with this Section and the Company Order with respect to such series, authenticate and deliver one or more global Securities in permanent form that (i) shall represent and shall be denominated in an amount equal to the aggregate principal amount of the Outstanding Securities of such series to be represented by, such global Security or Securities, (ii) shall be registered in the name of the Depository for such global Security or Securities or the nominee of such Depository, (iii) shall be delivered by the Trustee to such Depository or pursuant to such Depository's instruction and (iv) shall bear a legend substantially to the following effect: "Unless and until it is exchanged in whole or iii part for Securities in certificated

form, this Security may not be transferred except as a whole by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository, or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such successor Depository" or to such other effect as the Depository and the Trustee may agree.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose, unless there appears on such Security a certificate of authentication substantially in the form provided for in Section 202 or 612 executed by or on behalf of the Trustee by the manual signature of one of its authorized signatories or by an Authenticating Agent. Such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder.

Section 304. Temporary Securities.

Pending the preparation of definitive Securities, the Company may execute and deliver to the Trustee and, upon Company Order, the Trustee shall authenticate and deliver, in the manner provided in Section 303, temporary Securities in lieu thereof which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized, denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued, in registered form and with such appropriate insertions, omissions, substitutions and other variations as the Officers of the Company executing such Securities may determine, as conclusively evidenced by their execution of such Securities. Such temporary Securities may be in global form.

Except in the case of temporary Securities in global form, which shall be exchanged in accordance with the provisions thereof, if temporary Securities are issued, the Company shall cause definitive Securities to be prepared without unreasonable delay. After the preparation of definitive Securities of the same series and containing terms and provisions that are identical to those of any temporary Securities, such temporary Securities shall be exchangeable for such definitive Securities upon surrender of such temporary Securities at an office or Agency for such Securities, without charge to any Holder thereof. Upon surrender for cancellation of any one or more temporary Securities, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of authorized denominations of the same series and containing identical terms and provisions. Unless otherwise provided in or pursuant to this Indenture with respect to a temporary global Security, until so exchanged the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series.

Section 305. Registration, Transfer and Exchange.

With respect to the Securities of each series, the Company shall cause to be kept a register (each such register being herein sometimes referred to as the "Security Register") at an Office or Agency maintained for such series pursuant to Section 1002 in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of the Securities of such series and of transfers of the Securities of such series. The Trustee is hereby initially appointed as "Security Registrar" for each series of Securities. In the event that the Trustee shall cease to be Security Registrar with respect to any series of Securities, it shall have the right to examine the Security Register for such series at all reasonable times.

Upon surrender for registration of transfer of any Security of any series at any Office or Agency for such series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series denominated as authorized in or pursuant to this Indenture, of a like aggregate principal amount bearing a number not contemporaneously outstanding and containing identical terms and provisions.

At the option of the Holder, Securities of any series (except a global Security representing all or a portion of such series) may be exchanged for other Securities of the same series containing identical terms and provisions, in any authorized denominations, and of a like aggregate principal amount, upon surrender of the Securities to be exchanged a any Office or Agency for such series. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

Whenever any Securities are surrendered for exchange as contemplated by the immediately preceding two paragraphs, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

Notwithstanding the forgoing, except as otherwise provided in or pursuant to this Indenture any global Security shall be exchangeable for definitive Securities only if (i) the Depository is at any time unwilling, unable or ineligible to continue as Depository and a successor depository is not appointed by the Company within 60 days of the date the Company is so informed in writing, (ii) the Company executes and delivers to the Trustee a Company Order to the effect that such global Security shall be so exchangeable, or (iii) an event of Default has occurred and continuing with respect to the Securities of the same series. the beneficial owners of interests in a global Security are entitled to exchange such interests for definitive Securities of such series and of like tenor and principal amount of any authorized form and denomination as specified as contemplated by Section 304, then without unnecessary delay but in any event not later than the earliest date on which such interests may be so exchanged, the

Company shall deliver to the Trustee definitive Securities in such form and denominations as are required by or pursuant to this Indenture, and of the same series, containing identical terms and in aggregate principal amount equal to the principal amount of, such global Security, executed by the Company. On or after the earliest date on which such interests may be so exchanged, such global Security shall be surrendered from time to time by the Depositary, and in accordance with instructions given to the Trustee and the Depository (which instructions shall be in writing but need not be container in or accompanied by an officers, Certificate or be accompanied by an Opinion of Counsel), as shall be specified in the Company Order with respect thereto to the Trustee, as the Company's agent for such purpose, to be exchanged; provided, however, that no such exchanges may occur during a period beginning at the opening of business 15 days before any such selection of Securities for redemption of the same series and containing identical terms to be redeemed and ending on the relevant Redemption Date. Promptly following any such exchange in part, such global Security shall be returned by the Trustee to such Depository in accordance with the instructions of the Company referred to above. If a Security is issued in exchange for any portion of a global Security after the close of business at the Office or Agency for such Security where such exchange occurs on or after (i) any Regular Record Date for such Security and before the opening of business at such Office or Agency on the next Interest Payment Date, or (ii) any Special Record Date for such Security and before the opening of business at such Office or Agency on the related proposed date for payment of interest or Defaulted Interest, as the case may be, interest shall not be payable on such Interest Payment Date or proposed date for payment, as the case may be, in respect of such Security, but shall be payable on such Interest Payment Date or proposed date for payment, as the case may be, only to the Person to whom interest in respect of such portion of such global Security shall be payable in accordance with the provisions of this Indenture.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company evidencing the same debt and entitling the Holders thereof to the same benefits under this Indenture as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange or redemption shall (if so required by the Company or the Security Registrar for such Security) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar for such Security duly executed by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange, or redemption of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than

exchanges pursuant to Section 304, 905 or 1107 not involving any transfer.

Except as otherwise provided in or pursuant to this Indenture, the Company shall not be required (i) to issue, register the transfer of or exchange any Securities during a period beginning at the opening of business 15 days before the day of the selection for redemption of Securities of like tenor and the same series under Section 1103 and ending at the close of business on the day of the mailing of the relevant notice of redemption, or (ii) to register the transfer of or exchange and Security so selected for redemption in whole or in part, except in the case of any Security to be redeemed in part, the portion thereof not to be redeemed, or (iii) to issue, register the transfer of or exchange any Security which, in accordance with its terms, as been surrendered for repayment at the option of the Holder, except the portion, if any, of such Security not to be so repaid.

Section 306. Mutilated, Destroyed, Lost and Stolen Securities.

If any mutilated Security is surrendered to the Trustee, subject to the provisions of this Section, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of these same series containing identical terms and of like principal amount and bearing a number not contemporaneously outstanding.

If there be delivered to the Company and to the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security, and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and, upon the Company's request the Trustee shall authenticate and deliver, in exchange for or in lieu of any such destroyed, lost or stolen Security, a new Security of the same series containing identical terms and of like principal amount and bearing a number not contemporaneously outstanding.

Notwithstanding the forgoing provisions of this Section, in case any mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall

constitute an additional original contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of such series duly issued hereunder.

The provisions of this Section, as amended or supplemented pursuant to this Indenture with respect to particular Securities or generally, shall be exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

Section 307. Payment of Interest and Certain Additional Amounts; Rights to Interest and Certain Additional Amounts Preserved.

Unless otherwise provided in or pursuant to this Indenture, any interest on and any Additional Amounts with respect to any Security which shall be payable and are punctually paid or duly provided for on any Interest Payment Date shall be paid to the Person in whose name such Security (or one or more Predecessor Securities) is registered as of the close of business on the Regular Record Date for such interest.

Unless otherwise provided in or pursuant to this Indenture, any interest on and any Additional Amounts with respect to any Security which shall be payable, but shall not be punctually paid or duly provided for, on any Interest Payment Date for such Security (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder thereof on the relevant Regular Record Date by virtue of having been such Holder; and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Person in whose name such Security (or a Predecessor Security thereof) shall be registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on such Security and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of Money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such Money when so deposited to be held in trust for the benefit of the Person entitled to such Defaulted Interest as in this Clause provided. Thereupon, the Trustee shall fix a Special Record Date for the payment of such Defaulted interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall

promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to the Holder of such Security (or a Predecessor Security thereof) at his address as it appears in the Security Register not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Person in whose name such Security (or a Predecessor Security thereof) shall be registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The, Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Security may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such payment shall be deemed practicable by the Trustee.

At the option of the Company, interest on Securities that bear interest may be paid (i) by mailing a check to the address of the person entitled thereto as such address shall appear in the Security Register, or (ii) by wire transfer to an account maintained by the Person entitled thereto as specified in the Security Register.

Subject to the foregoing provisions of this Section and Section 305, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

Section 308. Persons Deemed Owners.

Prior to due presentment of a Security for registration of transfer or exchange, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered in the Security Register as the owner of such Security for the purpose of receiving payment of principal of, any premium and (subject to Sections 305 and 307) interest on and any Additional Amounts with respect to such Security and for all other purposes whatsoever, whether or not any payment with respect to such Security shall be overdue, and neither the Company, nor the Trustee or any agent of the Company or the Trustee shall be affected by notice to the contrary.

No holder of any beneficial interest in any global Security held on its behalf by a Depository, shall have any rights under this Indenture with respect to such global Security, and such Depository may be treated by the Company, the Trustee, and any agent of the Company or the Trustee as the owner of such global Security for all purposes whatsoever. None of the Company, the

Trustee, any Paying Agent or the Security Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a global Security or for maintaining, Supervising or reviewing any records relating to such beneficial ownership interests.

Section 309. Cancellation.

All Securities surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee, and any such Securities, as well as Securities surrendered directly to the Trustee for any such purpose, shall be canceled promptly by the Trustee. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold, and all Securities so delivered shall be canceled promptly by the Trustee. Any Securities previously authenticated and delivered by the Company to the Trustee hereunder which the Company has not issued or sold shall not be counted against any limits on the aggregate amount of such Securities to be issued and sold. No Securities shall be authenticate in lieu of or in exchange for any Securities canceled as provided in this Section, except as expressly permitted by or pursuant to this Indenture. All canceled Securities held by the Trustee shall be destroyed by the Trustee, and the Trustee shall deliver to the Company a certificate of disposition with respect thereto.

Section 310. Computation of Interest.

Except as otherwise provided in or pursuant to this Indenture, interest on the Securities shall be computed on the basis of a 360-day year of twelve 30-day months. Unless the terms of a particular series of Securities provides otherwise, interest shall be payable through and excluding any Interest Payment Date and interest shall be payable through and including any Redemption Date or Repayment Date.

ARTICLE FOUR

SATISFACTION AND DISCHARGE

Section 401. Satisfaction and Discharge of Indenture.

Upon the direction of the Company by a Company Order, this Indenture shall cease to be of further effect and the Trustee, on receipt of such Company Order shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306 and (ii) Securities for whose payment Money has theretofore been deposited in trust with the Trustee or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or

(B) all Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) if redeemable at the option of the Company, are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name of the Company, and the Company, in the case of (i), (ii) or (iii) above, has irrevocably deposited or caused to be deposited with the Trustee, as trust funds and/or obligations in trust for such purpose, Money and/or Government Obligations which through the payment of interest and principal in respect thereof in accordance with their terms, without consideration of any reinvestment thereof, and will provide not later than the opening of business on the due dates of any payment of principal and any premium, interest and Additional Amounts with respect thereto, or a combination thereof, Money in an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, including the principal of, any premium and interest on, and any Additional Amounts with respect to such Securities, to the date of such deposit (in the case of Securities which have become due and payable) or to the Maturity thereof, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee a certificate of Independent Public Accountants certifying as to the sufficiency of the amounts deposited pursuant to subclause (B) of Clause (1) of this Section for payment of the principal and any premium, interest and Additional Amounts with respect thereto on the dates such payments are due, and an Officers' Certificate and an opinion of Counsel, each stating that all conditions precedent herein providing for or relating to the satisfaction and discharge of this Indenture have been complied with.

In the event there are Securities of two or more series hereunder, the Trustee shall be required to execute an instrument acknowledging satisfaction and discharge of this Indenture only if requested to do so with respect to Securities of all series as to which it is Trustee and if the other conditions thereto are met.

(A) with respect to all Outstanding Securities of such series, the Company has irrevocably deposited or caused to be deposited with the Trustee, as trust funds and/or obligations in trust for such purpose, Money and/or Government Obligations which through the payment of interest and principal in respect thereof in accordance with their terms, without consideration of any reinvestment thereof, will provide not later than the opening of business on the due dates of any payment of principal and any premium, interest and Additional Amounts with respect thereto, or a combination thereof, Money in an amount sufficient to pay and discharge the entire indebtedness on all Outstanding Securities of such series not theretofore delivered to the Trustee for cancellation, including the principal of, any premium and interest on, and any Additional Amounts with respect to such Securities to the date of such deposit (in the case of Securities which have become due and payable) or to the Maturity thereof, as the case may be, as contemplated by the penultimate paragraph of this Section; or

(B) the Company has properly fulfilled such other means of satisfaction and discharge as is provided in or pursuant to this Indenture for the Securities of such series; and

In the event there are two or more Trustees hereunder, then the effectiveness of any such instrument shall be conditioned upon receipt of each such instrument from all Trustees hereunder.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607, the obligations of the Trustee to any Authenticating Agent under Section 612 and, if Money and/or Government Obligations shall have been deposited with the Trustee pursuant to subclause (B) of Clause (1) of this Section, the obligations of the Trustee under Section 403 and the last paragraph of Section 1003 shall survive.

In the event that, subsequent to the date a discharge is effected pursuant to this Section, Additional Amounts in excess of those established as of the date such discharge is effected become payable in respect of any Securities, in order to preserve the benefits of the discharge established hereunder, the Company shall deposit or cause to be deposited in accordance with provisions of this Section, within ten business days prior to the earlier to occur of (i) one year after the existence of such excess Additional Amounts is established and (ii) the date the first payment in respect of any portion of such excess Additional Amounts becomes due, such additional funds as are necessary to satisfy the provisions of this Section as if a discharge were being effected as of the date of such subsequent deposit. For purposes of this

paragraph, the existence of excess Additional Amounts shall be deemed to have been established as of the date the governmental authority imposing the tax, assessment or other governmental charge resulting in the Additional Amounts first publishes the legislation, regulation or other enactment adopting such tax, assessment or other governmental charge. Failure to comply with the requirements of this paragraph shall result in the termination of the benefits of the discharge established by this Section.

Section 402. Satisfaction, Discharge and Defeasance of Securities of Any Series.

If provision is made in or pursuant to this Indenture for defeasance of Securities of any series pursuant to this Section, the Company shall be deemed to have paid and discharged the entire indebtedness on all the Outstanding Securities of such series and the Trustee shall execute proper instruments acknowledging satisfaction and discharge of such indebtedness, when

(1) no Event of Default has occurred and is continuing, or would occur upon the giving of notice or the lapse of time, or both, at the time such satisfaction and discharge is being effected and either

(2) the Company has paid or caused to be paid all other sums payable hereunder with respect to the Outstanding Securities of such series; and

(3) the Company has delivered to the Trustee a certificate signed by Independent Public Accountants certifying as to the sufficiency of the amounts deposited pursuant to subsection (1) (A) of this Section for payment of the principal of, any premium and interest on and any Additional Amounts with respect to such Securities on the dates such payments are due, an Officers' Certificate stating that no Event of Default or event which with notice or lapse of time or both would become an Event of Default with respect to such Securities shall have occurred and an Officer's Certificate and an Opinion of Counsel stating that all conditions precedent herein provided for relating to the satisfaction and discharge of the entire indebtedness on all Outstanding Securities of any such series shall have been complied with; and

(4) the Company has delivered to the Trustee an opinion of independent counsel or a ruling directed to the Trustee received from the Internal Revenue Service to the effect that the Holders of the Securities of such series will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and termination and will be subject to federal income tax on the same amounts, in the same manner and at the same time as would have been the case if such deposit and termination had not occurred.

Any deposits with the Trustee referred to in subsection (1) (A) of this Section shall be irrevocable and shall be made under the terms of an escrow trust agreement in form and substance

reasonably satisfactory to the Trustee. If any Outstanding Securities of such series are to be redeemed prior to their Stated Maturity, whether pursuant to any optional redemption provisions or in accordance with any mandatory sinking fund requirement or otherwise, the Company shall make such arrangements as are satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name of the Company.

Upon the satisfaction of the conditions set forth in this Section with respect to all the Outstanding Securities of any series, the terms and conditions of such series (including the terms and conditions with respect thereto set forth in this Indenture, other than the provisions of Sections 305, 306, and 1002 and other than the right of Holders of Securities of such series to receive, from the trust fund described in this Section, payment of the principal of, any premium Or interest on, or any Additional Amounts with respect to such Securities when such payments shall be due) and the rights, powers, duties and immunities of the Trustee hereunder shall no longer be binding upon, or applicable to, the Company; provided that the Company shall not be discharged from any payment obligations in respect to Securities of such series which are deemed not to be Outstanding under clause (iii) of the definition of Outstanding if such obligations continue to be valid obligations of the Company under applicable law.

In the event that, subsequent to the date a defeasance is effected pursuant to this Section with respect to Securities of any series, Additional Amounts in excess of those established as of the date such defeasance is effected become payable in respect of such Securities, in order to preserve the benefits of the defeasance established hereunder with respect to such series, the Company shall deposit or cause to be deposited in accordance with the provisions of this Section, within ten business days prior to the earlier to occur of (i) one year after the existence of such excess Additional Amounts is established and (ii) the date the first payment in respect of any portion of such excess Additional Amounts becomes due, such additional funds as are necessary to satisfy the provisions of this Section as if a defeasance were being effected as of the date of such subsequent deposit. For purposes of this paragraph, the existence of excess Additional Amounts shall be deemed to have been established as of the date the governmental authority imposing the tax, assessment or other governmental charge resulting in the Additional Amounts first publishes the legislation, regulation or other enactment adopting such tax, assessment or other governmental charge. Failure to comply with the requirements of this paragraph shall result in the termination of the benefits of the defeasance established by this Section with respect to the Securities of such series.

Section 403. Application of Trust Money.

Subject to the provisions of the last paragraph of Section 1003, all Money and Government Obligations deposited with the Trustee pursuant to Section 401 or 402 and all Money received by the Trustee in respect of Government Obligations deposited with the

Trustee pursuant to Section 401 or 402 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal and any premium, interest and Additional Amounts for whose payment such Money has or Government Obligations have been deposited with or received by the Trustee; but such Money and Government Obligations need not be segregated from other funds of the Trustee except to the extent required by law.

ARTICLE FIVE

REMEDIES

Section 501. Events of Default.

"Event of Default", wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or be effected by Operation of law pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

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

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

(3) default in this deposit of any sinking fund payment, when and as due by the terms of a Security of such series and continuance of such default for a period of 5 days; or

(4) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture or the Securities (other than a covenant or warranty a default in the performance or the breach of which is elsewhere in this Section specifically dealt with or which has been expressly included in this Indenture solely for the benefit of a series of Securities other than such series), and continuance of such default or breach for a period of 30 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities of such series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

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

(6) an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness for Money Borrowed of the Company or any Subsidiary (including a default under this Indenture with respect to Securities of any series other than such series), whether such Indebtedness for Money Borrowed now exists or shall hereafter be created, shall happen and shall result in such Indebtedness for money Borrowed in principal amount in excess of $1,000,000 becoming or being declared due aid payable prior to the date on which it would otherwise become due and payable, and such acceleration shall not be rescinded or annulled, or such indebtedness shall not have been discharged, within a period of 30 days after there shall have been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities of such series, a written notice specifying such event of default and requiring the Company to cause such acceleration to be rescinded or annulled or to cause such Indebtedness for Money Borrowed to be discharged and stating that such notice is a "Notice of Default" hereunder; or

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

(A) a decree or order for relief in respect of the Company or any Significant Subsidiary in an Involuntary proceeding under any Applicable bankruptcy, insolvency, reorganization or other similar law and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

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

(C) a decree or order appointing any other Person to act as a custodian, receiver, liquidator, assignee, trustee or other similar official of the Company or any Significant Subsidiary or of any substantial part of the property of the Company or any Significant Subsidiary, as the case may be, or ordering the winding up or liquidation of the affairs of the Company or any

Significant Subsidiary and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or

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

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

(10) any other Event of Default provided in or pursuant to this Indenture with respect to Securities of such series.

Section 502. Acceleration of Maturity; Rescission and Annulment.

If an Event of Default with respect to Securities of any series at the time Outstanding occurs and is continuing, then the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of such series may declare the principal of all the Securities of such series, or such lesser amount as may be provided for in the Securities of such series, and the interest accrued thereon and Additional Amounts payable in respect thereof, if any, to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by the Holders), and upon any such declaration such amount shall become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree for payment of the Money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of not less than a majority in principal amount of the Outstanding

Securities of such series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences, on behalf of all Holders, if

(1) the Company has paid or deposited with the Trustee a sum of Money sufficient to pay

(A) all overdue installments of any interest on and Additional Amounts with respect to all Securities of such series,

(B) the principal of and any premium on any Securities of such series which have become due otherwise than by such declaration of acceleration and interest thereon and any Additional Amounts with respect thereto at the rate or rates borne by or provided for in such Securities,

(C) to the extent that payment of such interest or Additional Amounts is lawful, interest upon overdue installments of any interest and Additional Amounts at the rate or rates borne by or provided for in such Securities, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(2) all Events of Default with respect to Securities of such series, other than the non-payment of the principal of, any premium and interest or, and any Additional Amounts with respect to Securities of such series which shall have become due solely by such declaration of acceleration shall have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Section 503. Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if

(1) default is made in the payment of any installment of interest on or any Additional Amounts with respect to any series of Security when such interest or Additional Amounts shall have become due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of or any premium on any series of Security at its Maturity and such default continues for a period of 5 days,

the Company shall, upon demand of the Trustee, pay to the Trustee, for the benefit of the Holders of such series of Securities, the whole amount of Money then due and payable with respect to such series of Securities, with interest upon the overdue principal, any premium and, to the extent that payment of such interest shall be legally enforceable, upon any overdue installments of interest and Additional Amounts at the rate or rates borne by or provided for in such series of Securities, and, in addition thereto, such further amount of Money as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay the Money it is required to pay the Trustee pursuant to the preceding paragraph forthwith upon the demand of the Trustee, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the Money so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against the Company or any other obligor upon such Securities and collect the Money adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities, wherever situated.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or such Securities or in aid of the exercise of any power granted herein or therein, or to enforce any other proper remedy.

Section 504. Trustee May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or such other obligor their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of any overdue principal, premium, interest or Additional Amounts) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(1) to file and prove a claim for the whole amount, or such lesser amount as may be provided for in the Securities of such series, of the principal and any premium, interest and Additional Amounts owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation,

expenses, disbursements and advances of the Trustee, its agents or counsel) and of the Holders of Securities allowed in such judicial proceeding, and

(2) to collect and receive any Monies or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder of Securities to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders of Securities, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and any other amounts due the Trustee under Section 607.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder of a Security any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder of a Security in any such proceeding; provided, however, that the Trustee may, on behalf of the Holders of Securities, vote for the election of a trustee in bankruptcy or similar official and may be a member of any creditors' committee.

Section 505. Trustee May Enforce Claims without Possession of Securities.

All rights of action and claims under this Indenture or any of the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery or judgment, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, shall be for the ratable benefit of each and every Holder of a Security in respect of which such judgment has been recovered.

Section 506. Application of Money Collected.

Any Money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such Money on account of principal, or any premium, interest or Additional Amounts, upon presentation of the Securities, and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of costs and expenses of collection, including all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses and disbursements of the Trustee, its agents and counsel and all

other amounts due the Trustee and any predecessor Trustee under Section 607;

SECOND: In the case the principal of the Securities shall not have become due and payable, to the payment of the amounts then due and unpaid upon the Securities for interest and Additional Amounts in respect of which or for the benefit of which such Money has been collected, in the order of the Maturity of the installments of such interest and Additional Amounts, with interest, to the extent that such interest is lawful and has been collected by the Trustee, upon overdue installments of interest and Additional Amounts at the rate or rates borne by or provided for in the Securities (or, in the case of Original Issue Discount Securities, at the yield to Stated Maturity), such payments to be made ratably, without preference or priority of any kind, according to the aggregate amounts due and payable on such Securities for interest and Additional Amounts, respectively;

THIRD: In the case the principal of the Securities shall have become due and payable, to the payment of the amounts then due and unpaid upon the Securities for principal and any premium, interest and Additional Amounts in respect of which or for the benefit of which such Money has been collected, with interest, to the extent that such interest is lawful and has been collected by the Trustee, upon overdue installments of interest and Additional amounts at the rate or rates borne by or provided for in the Securities (or, in the case of Original Issue Discount Securities, at the yield to Stated Maturity), such payments to be made ratably, without preference or priority of any kind, according to the aggregate amounts due and payable in such Securities for principal and any premium, interest and Additional Amounts, respectively; and

FOURTH: The balance, if any, to the Company.

Section 507. Limitations on Suits.

No Holder of any Security of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of such series;

(2) the Holders of not less than 25% in principal amount of the Outstanding Securities of such series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holder have offered to the Trustee indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request (including reasonable fees of counsel) ;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of such series;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture or any Security to affect, disturb or prejudice the rights of any other such Holders or Holders of Securities of any other series, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all such Holders.

Section 508. Unconditional Right of Holder to Receive Principal and any Premium, Interest and Additional Amounts.

Notwithstanding any other Provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of, any premium and (subject to Sections 305 and 307) interest on, and any Additional Amounts with respect to such Security on the respective Stated Maturity or Maturities therefor specified in such Security (or, in the case of redemption, on the Redemption Date or, in the case of repayment at the option of such Holder if provided in or pursuant to this Indenture, or the Repayment Date such repayment is due) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

Section 509. Restoration of Rights and Remedies.

If the Trustee or any Holder of a Security has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case the Company, the Trustee and each such Holder shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Trustee and each such Holder shall not continue as though no such proceeding had been instituted.

Section 510. Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to each and every Holder of a Security is intended to be exclusive of any other right or remedy, and every right and remedy, to the extent permitted by law, shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 511. Delay or Omission not Waiver.

No delay or omission of the Trustee or of any Holder of any Security to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by, this Article or by law to the Trustee or to any Holder of a Security may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by such Holder, as the case may be.

Section 512. Control by Holders of Securities.

The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Securities of such series, provided that

(1) such direction shall not be in conflict with any rule of law or with this Indenture or with the Securities of any series,

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and

(3) that (subject to he provisions of Section 601) the Trustee shall have the right to decline to follow any such direction if the Trustee, being advised by counsel, shall determine that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceedings so directed might involve the Trustee in personal liability or if the Trustee in good faith shall so determine that the actions or forbearance specified in or pursuant to such direction shall be unduly prejudicial to the interest of Holders not joining in the giving of said direction, it being understood that (subject to Section 601) the Trustee shall have no duty to ascertain whether or not such actions or forbearance are unduly prejudicial to such Holders.

Section 513. Waiver of Past Defaults.

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series on behalf of the Holders of all the Securities of such series may waive any past default hereunder with respect to such series and its consequences, except a default

(1) in the payment of the principal of, any premium or interest on, or any Additional Amounts with respect to any Security of such series, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 514. Waiver of Stay or Extension Laws.

The Company covenants that (to the extent that it may lawfully do so) it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company expressly waives (to the extent that it may lawfully do so) all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX

THE TRUSTEE

Section 601. Certain Duties and Responsibilities.

(a) Except during the continuance of an Event of Default,

(1) the Trustee undertakes to perform such duties, and only such duties, as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture.

(b) In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in its exercise, as a prudent Person would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that

(1) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Securities of any series, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture with respect to the Securities of such series, provided such direction shall not be in conflict with any rule of law or with this Indenture; and

(4) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

Section 602. Notice of Defaults.

Within 90 days after the occurrence of any default hereunder with respect to the Securities of any series, the Trustee shall transmit, in the manner and to the extent provided in Section 313(c) of the Trust Indenture Act, notice of such default hereunder known to the Trustee, unless such default shall have been cured or waived; provided, however, that in the case of any default of the character specified in Section 501 (4) with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof. Except in the case of a default in the payment to principal of or interest on any Security, and the failure to make payment when required by Section 1303, the Trustee may withhold the notice to the Holders if and so long as a committee of its Responsible Officers determines in good faith that withholding the notice is in the interest of the Holders. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default, with respect to Securities of such series.

Section 603. Certain Rights of Trustee.

Subject to Sections 3.5(a) through 315(d) of the Trust Indenture Act and to Section 601 of this Indenture:

(1) Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, coupon or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties;

(2) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or a Company Order (in each case, other than delivery of any Security to the Trustee or authentication and delivery pursuant to Section 303, which shall be sufficiently evidenced as provided therein) and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(3) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence shall be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(4) before the Trustee acts or refrains from acting, the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(5) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by or pursuant to this Indenture at the request or direction of any of the Holders of Securities of any series pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it, including reasonable fees of counsel, in complying with such request or direction;

(6) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other piper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine, during business hours and upon reasonable notice, the books, records and premises of the Company, personally or by agent or attorney;

(7) the Trustee may execute any of the trusts or powers hereunder or perform any, duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney (other than the misconduct or negligence of an agent or attorney who is an employee of the Trustee) appointed with due care by it hereunder;

(8) the Trustee shall not be liable for any action taken or omitted by it in good faith and with due care and believed by it to be authorized or within the discretion, rights or powers conferred upon it by this Indenture;

(9) the Trustee shall not be required to give any bond or surety in respect of the performance of its powers and duties hereunder;

(10) the permissive rights of the Trustee to do things enumerated in this Indenture shall not be construed as a duty and the Trustee shall not be answerable for other than its negligence or willful misconduct; and

(11) except for (i) a default under Sections 501 (1) , (2) or (3) hereof, or (ii) any other event of which the Trustee has "actual knowledge" and which event, with the giving of notice or the passage of time or both, would constitute an Event of Default under this Indenture, the Trustee shall not be deemed to have notice of any default or event unless specifically notified in writing of such event by the Company or the Holders of not less than 25% in aggregate principal amount of the Securities Outstanding; as used herein, the term "actual knowledge" means the actual fact or

statement of knowing, without any duty to make any investigation with regard thereto.

Section 604. Not Responsible for Recitals or Issuance of Securities.

The recitals contained herein and in the Securities, except the Trustee's certificate of authentication, shall be taken as the statements of the Company and neither the Trustee nor any Authenticating Agent assumes any responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities, except that the Trustee represents that it is duly authorized to execute and deliver this Indenture, authenticate the Securities and perform its obligations hereunder and that the statements made by it in a Statement of Eligibility and Qualification on Form T-1 supplied to the Company are true and accurate, subject to the qualifications set forth therein. Neither the Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of the Securities or the proceeds thereof.

Section 605. May Hold Securities.

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other Person that may be an agent of the Trustee or the Company, in is individual or any other capacity, may become the owner or Pledge,e of Securities and, subject to Sections 310(b) and 311 of the Trust Indenture Act, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other Person.

Section 606. Money Held in Trust.

Except as provided in Section 403 and Section 1003, Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law and shall be held uninvested. The Trustee shall be under no liability for interest on any Money received by it hereunder except as otherwise agreed with the Company.

Section 607. Compensation and Indemnity.

The Company agrees:

(1) to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation for all services rendered by the Trustee hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the

Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agent and counsel), except any such expense, disbursement or advance as may be attributable to the Trustee's negligence or willful misconduct; and

(3) to indemnify the Trustee and its agents for, and to hold them harmless against, any loss, liability or expense incurred without willful misconduct or negligence on their part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses of defending themselves against any claim or liability in connection with the exercise or performance of any of their powers or duties hereunder. The Trustee shall notify the Company promptly of any claim asserted against it for which it may seek indemnity. The Company shall defend the claim and the Trustee shall provide reasonable cooperation in the defense. The Trustee may have separate counsel and the Company shall pay the reasonable fees and expenses of such counsel; PROVIDED that the company will not be required to pay such fees and expenses if it assumes the Trustee's defense and there is no conflict of interest between the Company and the Trustee in connection with such defense. The Company need not pay for any settlement made without its written consent. The Company need not reimburse any expense or indemnify against any loss or liability incurred by the Trustee through the Trustee's own willful misconduct or negligence.

As security for the performance of the obligations of the Company under this Section, the Trustee shall have a lien prior to the Securities of any series upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of, and premium or interest on or any Additional Amounts with respect to Securities. "Trustee" for the purposes of this Section includes any predecessor Trustee, but misconduct, negligence or bad faith of any Trustee shall not be attributed to any other Trustee.

Section 608. Corporate Trustee Required; Eligibility.

There shall at all times be a Trustee hereunder that is a corporation organized and doing business under the laws of the United States of America, any state thereof or the District of Columbia, authorized under such laws to exercise corporate trust powers, or any other person permitted by the Trust Indenture Act to act as trustee under an indenture qualified under the Trust Indenture Act and that has a combined capital and surplus (computed in accordance with Section 31O(a) (2) of the Trust Indenture Act) of at least $50,000,000. If at any time the Trustee shall cease to be eligible in accordance with, the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 609. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee pursuant to Section 610.

(b) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 610 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to such series.

(c) The Trustee may be removed at any time with respect to the Securities of any series by act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with the obligations imposed upon it under Section 310(b) of the Trust Indenture Act with respect to Securities of any series after written request therefor by the Company or any Holder of a Security of such series who has been a bona fide Holder of a Security of such series for at least six months, or

(2) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company, by or pursuant to a Board Resolution, may remove the Trustee with respect to all Securities or the Securities of such series, or (ii) subject to Section 315(e) of the Trust Indenture Act, any Holder of a Security who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities of such series and the appointment of a successor Trustee or Trustees.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Securities of one or more series, the Company, by or pursuant to a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor trustee may be appointed with respect to the

Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and shall comply with the applicable requirements of Section 610. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 610, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders of Securities and accepted appointment in the manner required by Section 610, any Holder of a Security who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

Section 610. Acceptance of Appointment by Successor.

(a) Upon the appointment hereunder of any successor Trustee with respect to all Securities, such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties hereunder of the retiring Trustee; but, on the request of the Company or such successor Trustee, such retiring Trustee, upon payment of its charges, shall execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trustee of the retiring Trustee and, subject to Section 1003, shall duly assign, transfer and deliver to such successor Trustee all property and Money held by such retiring Trustee hereunder, subject nevertheless to its claim, if any, provided for in Section 607. A successor Trustee shall give notice of its succession to each Holder by mailing written notice of such event by first-class mail, postage prepaid, to the Holders of Securities, if any, of such series as their names and addresses appear in the Security Register. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

(b) Upon the appointment hereunder of any successor Trustee with respect to the Securities of one or more (but not all series, the Company, the retiring Trustee and such successor Trustee shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, such successor Trustee all

the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor, Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust, that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee and that no Trustee shall be responsible for any notice given to, or received by, or any act or failure to act on the part of any other Trustee hereunder, and, upon the execution and delivery of such supplemental indenture, the resignation or removal of the retiring Trustee shall become effective to the extent provided therein, such retiring Trustee shall have no further responsibility for the exercise of rights and powers or for the performance of the duties and obligations vested in the Trustee under this Indenture with respect to the Securities of that or those series to which the appointment of such successor Trustee relates other than as hereinafter expressly set forth, and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the company or such successor Trustee, such retiring Trustee, upon payment of its charges with respect to the Securities of that or those series to which the appointment of such successor relates and subject to Section 1003, shall duly assign, transfer and deliver to such successor Trustee, to the extent contemplated by such supplemental indenture, the property and Money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

(c) Upon request of any Person appointed hereunder as a successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No Person shall accept its appointment hereunder as a successor Trustee unless at the time of such acceptance such successor Person shall be qualified and eligible under this Article.

Section 611. Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or, any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, without the execution or filing of any paper or any further act on the part of any of the parties hereto provided such corporation shall be otherwise qualified and eligible under this Article Six. In case any Securities shall have been authenticated but not delivered by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

Section 612. Appointment of Authenticating Agent.

The Trustee may appoint one or more Authenticating Agents acceptable to the Company with respect to one or more series of Securities which shall be authorized to act on behalf of the Trustee to authenticate Securities of that or those series issued upon original issue, exchange registration of transfer, partial redemption or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent.

Each Authenticating Agent shall be acceptable to the Company and, except as provided in or pursuant to this Indenture, shall at all times be a corporation that would be permitted by the Trust Indenture Act to act as trustee under an indenture qualified under the Trust Indenture Act, is Authorized under applicable law and by its charter to act as an Authenticating Agent and has a combined capital and surplus (computed in accordance with Section 310(a)(2) of the Trust Indenture Act) of at least $50,000,000. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust

business of an Authentication Agent, shall be the successor of such Authenticating Agent hereunder, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall mail written notice of such appointment by first-class mail, postage prepaid, to all Holders of Securities, if any, of the series with respect to which such Authenticating Agent shall serve, as their names and addresses appear in the Security Register. Any successor Authenticating Agent, upon acceptance of its appointment hereunder, shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Company agrees to pay each Authenticating Agent from time to time reasonable compensation for its services under this Section. If the Trustee makes such payments, it shall be entitled to be reimbursed for such payments, subject to the provisions of Section 607.

The provisions of Section 308, 604 and 605 shall be applicable to each Authenticating Agent.

If an Authenticating Agent is appointed with respect to one or more series of Securities pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to or in lieu of the Trustee's certificate of authentication, an alternate certificate of authentication in the following form

"This is one of the Securities of the series designated herein referred to in the within-mentioned Indenture.

As Authenticating Agent

By ---
Authorized Signatory"

If all of the Securities of any series may not be originally issued at one time, and if the Trustee does not have an office capable of authenticating Securities upon original issuance located in a Place of Payment where the Company wishes to have Securities of such series authenticated upon original issuance, the Trustee, if so requested in writing which writing need not be accompanied by or contained in an Officers' Certificate by the Company), shall appoint in accordance with this Section an Authenticating Agent having an office in a Place of Payment designated by the Company with respect to such series of Securities.

ARTICLE SEVEN

HOLDER'S LISTS AND REPORTS BY TRUSTEE AND COMPANY

Section 701. Company to Furnish Trustee Names and Addresses of Holders.

In accordance with Section 312(a) of the Trust Indenture Act, the Company shall furnish or cause to be furnished to the Trustee

(1) semi-annually with respect to Securities of each series on January 15 and July 15 of each year or upon such other dates as are set forth in or pursuant to the Board Resolution or indenture supplemental hereto authorizing such series, a list, in each, case in such form as the Trustee may reasonably require, of the names and addresses of Holders as of the applicable date, and

(2) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished,

provided, however, that so long as the Trustee is the Security Registrar no such list shall be required to be furnished for Securities for which the Trustee acts as Security Registrar.

Section 702. Preservation of Information; Communications to Holders.

The Trustee shall comply with the obligations imposed upon it pursuant to Section 312 of the Trust Indenture Act.

Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company, the Trustee, any Paying Agent or any Security Registrar shall be held accountable by reason of the disclosure of any such information as to the name and addresses of the Holders of Securities in accordance with Section 312 of the Trust Indenture Act, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by

reason of mailing any material pursuant to a request made under Section 312(b) of the Trust Indenture Act.

Section 703. Reports by Trustee.

(a) Within 60 days after May 15 of each year commencing with the first May 15 following the first issuance of Securities pursuant to Section 301, if required by Section 313(a) of the Trust Indenture Act, the Trustee shall transmit, pursuant to Section 313(c) of the Trust Indenture Act, a brief report dated as of such May 15 with respect any of the events specified in said Section 313(a) which may have occurred since the later of the immediately Preceding May 15 and the date off this Indenture.

(b) The Trustee shall Transmit the reports required by Section 313(a) of the Trust Indenture Act at the times specified therein.

(c) Reports pursuant to this Section, shall be transmitted in the manner and to the Persons required by Sections 313(c) and 313(d) of the Trust Indenture At.

Section 704. Reports by Company.

The Company, pursuant to Section 314(a) of the Trust Indenture Act, shall:

(1) file with the Trustee, within 15 days after the Company is required to file the same with the Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may from time to time by rules and regulations prescribe) which the Company may be required to file with the Commission pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended; or, if the Company is not required to file information, documents or reports pursuant to either of said Sections, then it shall file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Securities Exchange Act of 1934, as amended, in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations; provided that notwithstanding the requirements of such rules and regulations, so long as any Security is Outstanding the Company shall file with the Trustee at a minimum (A) within 105 days after the end of each fiscal year, copies of a balance sheet and statements of income and retained earnings of the Company as of the end of and for such fiscal year, audited by independent public accountants, and (B) within 60 days after the end of each Quarterly fiscal period, except for the last quarterly fiscal period in each fiscal year, a

summary statement (which need not be audited) of income and retained earnings of the Company for such period;

(2) file with the Trustee and the Commission, in accordance with rules and regulations prescribed from time to time by the Commission, such additional information, documents and reports with respect compliance by the Company, as the case may be, with the conditions and covenants of this Indenture as may be required from time to time by such rules and regulations;

(3) transmit to the Holders of Securities within 30 days after the filing thereof with the Trustee, in the manner and to the extent provided in Section 313(c) of the Trust Indenture Act, such summaries of any information, documents and reports required to be filed by the Company pursuant to paragraphs (1) and (2) of his Section as may be required by rules and regulations prescribed from time to time by the Commission; provided that notwithstanding the requirements of such rules and regulations, so long as any Security is Outstanding the Company shall transmit to the Holders of Securities, within 30 day after the filing thereof with the Trustee, in the manner an to the extent provided in Section 313 (c) of the Trust Indenture Act, the information, documents and other reports required to be filed by the Company pursuant to paragraph (1) of this Section; provided, further that in lieu of any Annual Report on Form 10-K, the Company may transmit an annual report containing financial statements and an undertaking to transmit such Form 10-K to any Holder upon request; provided further that the Company shall not be required to transmit to the Holders any Quarterly Report on Form 10-Q or summary in lieu thereof unless the Company adopts a policy of regularly distributing summary quarterly reports to holders of its equity securities and others, in which event, the Company shall distribute such summary quarterly reports to the Holders of the Securities; and

(4) furnish to the Trustee the Officers Certificates and notices required by Section 1012.

ARTICLE EIGHT

CONSOLIDATION, MERGER AND SALES

Section 801. Company May Consolidate, Etc., Only on Certain Terms.

Nothing contained in this Indenture or in any of the Securities shall prevent any consolidation or merger of the Company with or into any other Person or Persons (whether or not affiliated with the Company) or successive consolidations or mergers in which the Company or its successor or successors shall be a party or parties, or shall prevent any conveyance, transfer or lease of the property of the Company as an entirety or substantially as an

entirety, to any other Person (whether or not affiliated with the Company); provided, however, that

(1) except in connection with a sale, financing or securitization of receivables or transfer made in the ordinary course of business, if the Company shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person (other than a wholly owned Subsidiary), the entity formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a Person organized and existing under the laws of the United States of America, any state thereof or the District of Columbia and shall expressly assume, by an indenture (or indentures, if at such time there is more than one Trustee) supplemental hereto, executed by the successor Person and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of, and premium and interest on and any Additional Amounts with respect to all the Securities and the performance of every other covenant of this Indenture on the part of the Company to be performed or observed;

(2) immediately after giving effect to such transaction, no event which, after notice or lapse of time, or both, would become an Event of Default shall have occurred and be continuing; and

(3) either the Company or the successor Person shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

Section 802. Successor Person Substituted for Company.

Upon any consolidation or merger or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety to any Person in accordance with Section 801, the successor Person formed by such consolidation or into which the Company is merged or to which, such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein; and thereafter, except in the case of a lease to another Person, the predecessor Person shall be released from all obligations and covenants under this Indenture and the Securities.

ARTICLE NINE

AMENDMENTS, SUPPLEMENTS AND WAIVERS

Section 901. Without Consent Holders.

Without the consent of any Holder of Securities, the Company (when authorized by or pursuant to a Board Resolution) and the Trustee, at any time and from time to time, may amend this Indenture or enter into one or more indentures supplemental hereto, without notice to any Holder, which shall conform with the requirements of the Trust Indenture Act as then in effect and be in form satisfactory to the Trustee, for any of the following purposes

(1) to evidence the succession of another Person to the Company, and the assumption by any such successor of the covenants of the Company herein and in the Securities; or

(2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (as shall be specified in such amendment or supplemental indenture or indentures) or to surrender any right or power herein conferred upon the Company; or

(3) to add to or change any of the provisions of this Indenture to change or eliminate any restrictions on the payment of principal of, any premium or interest on or any Additional Amounts with respect to Securities or to permit or facilitate the issuance of Securities in uncertificated form, provided any such action shall not adversely affect the interests of the Holders of Securities of any series in any material respect; or

(4) to establish the form or terms of Securities of any series as permitted by Sections 201 and 301; or

(5) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 610(b); or

(6) to cure any ambiguity or to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture which shall not adversely affect the interests of the Holders of Securities of any series in any material respect; or

(7) to add any additional Events of Default with respect to all or any series of Securities (as shall be specified in such amendment or supplemental indenture); or

(8) to supplement any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the defeasance and discharge of any series of Securities pursuant to Article Four; provided that any such action shall not adversely affect the interests of any Holder of a Security of such series or any other Security in any material respect; or

(9) to amend or supplement any provision contained herein or in any amendment or supplemental indenture, provided that no such amendment or supplement shall adversely affect the interests of the Holders of any Securities, if any, then Outstanding in any material respect; or

(10) to effect, or maintain the qualifications of this Indenture under the Trust Indenture Act.

Section 902. With Consent of Holders.

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Securities of each series affected by such waiver, amendment or supplemental indenture, by Act of said Holders delivered to the Company and the Trustee, the Company (when authorized by or pursuant to a Board Resolution), and the Trustee may amend this Indenture or enter into one or more indentures supplemental hereto (which shall conform with the requirements of the Trust Indenture Act as then in effect) or waive compliance by the Company with any provision of this Indenture, in each case without notice to any other Holder; provided, however, that no such waiver, amendment or supplemental indenture, without the consent of the Holder of each Outstanding Security affected thereby, shall

(1) change the Stated Maturity of the principal of, or any premium or installment of interest on or any Additional Amounts with respect to, any Security, or reduce the principal amount thereof or the rate of interest thereon or any Additional Amounts with respect thereto, or any premium payable upon the redemption thereof or otherwise, or change the obligation of the Company to pay Additional Amounts pursuant to Section 1004 (except as contemplated by Section 801(1) and permitted by Section 901(1)), or reduce the amount of the principal of an Original Issue Discount Security that would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502 or the amount thereof provable in bankruptcy pursuant to Section 504, or adversely affect the right of repayment at the option of any Holder as contemplated by Article Thirteen, or adversely affect the conversion rights of a Holder of Securities which may be converted in whole or in part into common stock, or change the Place of Payment, currency in which the principal of, any premium or interest on, or any Additional Amounts with respect to any Security is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of

redemption, on or after the Redemption Date or, in the case of repayment at the option of the Holder, on or after the date for repayment), or

(2) reduce the Percentage in principal amount of the outstanding Securities of any series, the consent of whose Holders is required for any such amendment or supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section, or Section 513 or 1013, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby.

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which shall have been included expressly and solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision , shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders of Securities under this Section to approve the particular form of any proposed amendment, supplemental indenture or waiver, but it shall be sufficient if such Act shall approve the substance thereof.

The Company may, but shall not be obligated to, offer to any Holder who consents to such amendment, supplement or waiver, or to all Holders, consideration for such Holder's or Holders consent to such amendment, supplement or waiver.

Section 903. Execution of Amendments or Supplemental Indentures.

The Trustee shall sign any amendment, supplement or waiver authorized pursuant to this Article Nine if the amendment, supplement or waiver does not adversely affect the rights, duties or immunities of the Trustee. As a condition to executing, or accepting the additional trusts created by, any waiver, amendment or supplemental indenture permitted by this Article or the modifications thereby of the trust created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 315 of the Trust Indenture Act) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such waiver, amendment or supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such waiver, amendment or supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 904. Effect of Waiver, Amendments and Supplemental Indentures.

Upon the execution of any waiver, amendment or supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such waiver, amendment or supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of a Security theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 905. Reference in Securities too Supplemental Indentures.

Securities of any series authenticated and delivered after the execution of any supplemental Indenture pursuant to this Article may (if directed by the Company, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

ARTICLE TEN

COVENANTS

Section 1001. Payment of Principal and any Premium, Interest and Additional Amounts.

The Company covenants and agrees for the benefit of the Holders of the Securities of each series that it will duly and punctually pay the principal of, any premium and interest on and any Additional Amounts with respect to the Securities of such series in accordance with the terms thereof and this Indenture.

An installment of principal or interest shall be considered paid on the date due if the Trustee or Paying Agent (other than the Company) holds on such date Money designated for and sufficient to pay such installment.

Section 1002. Maintenance of Office or Agency.

The Company shall maintain in each Place of Payment for any series of Securities an Office or Agency where Securities of such series may be presented or surrendered for payment, where Securities of such series may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities of such series relating thereto and this Indenture may be served. The Company will give prompt written notice to tie Trustee of the location, and any change in the location, of such Office or Agency. If at any time the Company shall fail to maintain any such required Office or Agency or shall fail to furnish the Trustee with the address

thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other Offices or Agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an Office or Agency in each Place of Payment for Securities of any series for such purposes. The Company shall give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other Office or Agency. Unless otherwise provided in or pursuant to this Indenture (including, without limitation, Section 307), the Company hereby initially designates the Place of Payment for each series the City of New York, New York and initially appoints the Corporate Trust Operations Center of the Trustee as the Office or Agency for such purpose. Pursuant to Section 301(6) of this Indenture, the Company may subsequently appoint a place or places in addition to or other than the City of Chicago, Illinois where such Securities may be payable.

Section 1003. Money for Securities Payments to Be Held in Trust.

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities, it shall, on or before each due date of the principal of, any premium or interest on or Additional Amounts with resect to any of the Securities of such series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum of Money sufficient to pay the principal or any premium, interest or Additional Amounts so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided, and shall promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it shall, on or prior to each due date of the principal of, any premium or interest on or any Additional Amounts with respect to any securities of such series, deposit with any Paying Agent a sum of Money sufficient to pay the principal or any premium, interest or Additional Amounts so becoming due, such sum to be held in trust for the benefit of the Persons entitled thereto, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company shall cause each Paying Agent for any series of Securities other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent shall

(1) hold all sums held by it for the payment of the principal of, any premium or interest on or any Additional Amounts with respect to Securities of such series in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as provided in or pursuant to this indenture;

(2) give the Trustee notice of any default by the Company (or any other obligor upon the Securities of such series) in the making of any payment of principal, any premium or interest on or any Additional Amounts with respect to the Securities of such series; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this indenture or for any other purpose, pay, or by Company Order direct any paying Agent to pay, to the Trustee all sums held in trust by the Company or such paying Agent, such sums to be held by the trustee upon the same terms as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such Money.

Except as otherwise provided herein or pursuant hereto, any Money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of, any premium or interest on or any Additional Amounts with respect to any Security of any series and remaining unclaimed for three years after such principal or any such premium or interest or any such Additional Amounts shall have become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust Money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, shall at the expense of the Company cause to be mailed to the Holder of such Security notice that such Money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such mailing, any unclaimed balance of such Money then remaining will be repaid to the Company or (if then held by the Company) shall be discharge from such trust.

Section 1004. Additional Amounts.

If any Securities of a series provide for the payment of Additional Amounts, the Company agrees to pay to the Holder of any, such Security Additional Amounts as provided therein. Whenever in

this Indenture there is mentioned, in any context, the payment of the principal of or any premium or interest on, or in respect of, any Security of any series or the net proceeds received on the sale or exchange of any Security of any series, such mention shall be deemed to include mention of the payment of Additional Amounts provided by the terms of such series established hereby or pursuant hereto to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to such terms, and express mention of the payment of Additional Amounts (if applicable) in any provision hereof shall not be construed as excluding Additional Amounts in those provisions hereof where such express mention is not made.

Except as otherwise provided in or pursuant to this Indenture, if the Securities of a series provide for the payment of Additional Amounts, at least 10 days prior to the first Interest Payment Date with respect to such series of Securities (or if the Securities of such series shall not bear interest prior to Maturity, the first day on which a payment of principal is made), and at least 10 days prior to each date of payment, of principal or interest if there has been any change with respect to the matters set forth in the below-mentioned Officers' Certificate, the Company shall furnish to the Trustee and the principal Paying Agent or Paying Agents, if other than the Trustee, an Officers' Certificate instructing the Trustee and such Paying Agent or Paying Agents whether such payment of principal of or interest on the Securities of such series shall be made to Holders of Securities of such series who are United States Aliens without withholding for or an account of any tax, assessment or other governmental charge described in the Securities of such series. If any such withholding shall be required, then such Officers' Certificate shall specify by country the amount, if any, required to be withheld on such payments to such Holders of Securities, and the Company agrees to pay to the Trustee or such Paying Agent the Additional Amounts required by the terms of such Securities. The Company covenants to indemnify the Trustee and any Paying Agent for, and to hold them harmless against, any loss, liability or expense reasonably incurred without negligence or bad faith on their part arising out of or in connection with actions taken or omitted by any of them in reliance on any Officers, Certificate furnished pursuant to this Section.

Section 1005. Corporate Existence.

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

Subsidiaries and that the loss thereof is not disadvantageous in any material respect to the Holders.

Section 1006. Maintenance of Properties.

The Company will:

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

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

Section 1007. Limitation on Restricted Payments.

The Company shall not (i) declare or pay any dividend, either in cash or property, on any shares of its capital stock (except dividends or other distributions payable solely in shares of capital stock of the Company, or warrants, options, or other rights solely to acquire solely capital stock of the Company) or (ii) purchase, redeem or retire any shares of its capital stock or any warrants, rights or options to purchase or acquire any shares of its capital stock (except from employees in connection with the termination of their employment) or (iii) make any other payment or distribution, either directly or indirectly through any Subsidiary, in respect of its capital stock (such dividends, purchases, redemptions, retirements, payments and distributions being herein collectively called "Restricted Payments,) if, after giving effect thereto,

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

(2)(A) the sum of (i) such Restricted Payment plus the aggregate amount of all Restricted Payments made during the period after [September 30, 1996] would exceed (B) the sum of

(i) $7,500,000 plus (ii) 50% of Consolidated Net Income for the period commencing [September 30, 1996] and ending on the date of payment of such Restricted Payment, treated as one accounting period plus (iii) 100% of the cumulative cash and non-cash proceeds received by the Company from contributions to capital or the issuance or sale after [September 30, 1996] of capital stock of the Company or of any warrants, rights or other options to purchase or acquire its capital stock.

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

Section 1008. Limitation on Indebtedness for Money Borrowed.

The Company will not, nor will it permit any Subsidiary to, create, incur, assume, guarantee or be liable with respect to any Indebtedness for Money Borrowed (other than Subordinated Indebtedness if, immediately after giving effect to any such creation, incurrence, assumption or guarantee (including the retirement of any existing indebtedness from the proceeds of such additional Indebtedness for Money Borrowed), the aggregate amount of Indebtedness for Money Borrowed outstanding would exceed six (6) times the sum of the Company's Consolidated Net Worth plus Subordinated Indebtedness. For purposes of the limitation on additional indebtedness set forth in this Section 1008, Indebtedness for Borrowed Money shall not include the "Warehouse Indebtedness," and in calculating the Consolidated Net Worth for purposes of this Section 1008, Warehouse Indebtedness shall not be included as a liability.

Section 1009. Limitation on Subordinated Indebtedness.

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

Section 1010. Payment of Taxes and Other Claims.

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all material taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary and (ii) all material lawful claims for labor materials and supplies which, if unpaid, might by law become a lien upon the property of the Company

or any Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

Section 1011. Books and Records.

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

Section 1012. Statement by Officers as to Default.

(a) The Company shall deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate, stating whether or not to the best knowledge of the Company's President or Chief Financial Officer thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture, setting forth the arithmetical computations required to show compliance with the provisions of Sections 1007 and 1008 during the previous fiscal year, and, if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

(b) The Company shall deliver to the Trustee, within 30 days after the end of each fiscal quarter of the Company ending after the date hereof, an Officers' Certificate, if and only if, to the best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture, specifying all such defaults and the nature and status thereof.

(c) The Company shall, so long as any of the Securities are outstanding deliver to the Trustee, within five days after the occurrence thereof, written notice of any event which after notice or lapse of time or both would become an Event of Default pursuant to Clause (4) of Section 501.

Section 1013. Waiver of Certain Covenants.

The Company may omit in any particular instance to comply with any term, provision or condition set forth in Sections 1005 through 1010, 1014 and 1015 with respect to the Securities of any series if before the time for such compliance the Holders of at least a majority in principal amount of the Outstanding Securities of such series, by Act of such Holders, either shall waive such compliance in such instance or generally shall have waived compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision, or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the

Trustee in respect of any such term, provision or condition shall remain in full force and effect.

Section 1014. Limitation on Ranking of Future Indebtedness.

The Company will not, directly or indirectly, incur, create, assume or guarantee any Indebtedness for Money Borrowed which is not Senior Indebtedness (other then Subordinated Indebtedness that is pari passu or subordinate in right of payment to the Securities).

Section 1015. Subsidiaries that Own Finance Receivables.

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

Section 1016. Limitations on Transactions with Affiliates.

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

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

(i) Restricted Payments otherwise permitted pursuant to this Indenture, or

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

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

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

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

ARTICLE ELEVEN

REDEMPTION OF SECURITIES

Section 1101. Applicability of Article.

Redemption of Securities of any series at the option of the Company as permitted or required by the terms of such Securities shall be made in accordance with the terms of such Securities and (except as otherwise provided herein or pursuant hereto) this Article.

Section 1102. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Securities shall be evidenced by or pursuant to a Board Resolution. In case of any redemption at the election of the Company of the Securities of any series with the same issue date, interest rate, Stated Maturity and other terms, the Company shall, at least 45 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities of such series to be redeemed.

Section 1103. Selection by Trustee of Securities to be Redeemed.

If less than all the Securities of any series with the same issue date, interest rate, Stated Maturity and other terms are to be redeemed, the particular Securities to be redeemed shall be selected not less than 30 days prior to the Redemption Date by the Trustee from the Outstanding Securities of such series not previously called for redemption, in compliance with the requirements of the principal national securities exchange, if any, on which the Securities are listed, or, if the Securities are not listed by lot or in such other method as the Trustee

shall deem fair and appropriate and which may provide for the selection for redemption of portions of the principal amount of Securities of such series; provided, however, that no such partial redemption shall reduce the portion of the principal amount of a Security of such series not redeemed to less than the minimum denomination for a Security of such series established herein or pursuant hereto.

The Trustee shall promptly notify the Security Registrar (if other than itself) and the Company in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal of such Securities which has been or is to be redeemed.

Section 1104. Notice of Redemption.

Notice of redemption shall be given in the manner provided in Section 106, not less than 30 nor more than 60 days prior to the Redemption Date, unless a shorter period is specified in the Securities to be redeemed, to the Holders of Securities to be redeemed. Failure to give notice by mailing in the manner herein provided to the Holder of any Securities designated for redemption as a whole or in part, or any defect in the notice to any such Holder, shall not affect the validity of the proceedings for the redemption of any other Securities or portion thereof.

Any notice that is mailed to the Holder of any Securities in the manner herein provided shall be conclusively presumed to have been duly given, whether or not such Holder receives the notice.

All notices of redemption shall state:

(1) the Redemption Date,

(2) the Redemption Price,

(3) if less than all Outstanding Securities of any series are to be redeemed, the identification (and, in the case of partial redemption, the principal amount) of the particular Security or Securities to be redeemed,

(4) in case any Security is to be redeemed in part only, that on and after the Redemption Date, upon surrender of such Security, the Holder of such Security will receive, without charge, a new Security or Securities of authorized denominations for the principal amount thereof remaining unredeemed,

(5) that, on the Redemption Date, the Redemption Price shall become due and payable upon each such Security or portion thereof to be redeemed and if applicable, that interest thereon shall cease to accrue on and after said date,

(6) the place or places where such Securities must be surrendered for payment of the Redemption Price and any accrued interest and Additional Amounts pertaining thereto,

(7) that the redemption is for a sinking fund, if such is the case, and

(8) the CUSIP number of such Securities, if any (or any other numbers used by a Depository to identify such Securities).

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name of the Company.

Section 1105. Deposit of Redemption Price.

On or prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of Money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) any accrued interest on and Additional Amounts with respect to, all the Securities or portions thereof which are to be redeemed on that date.

Section 1106. Securities Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption a Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with any accrued interest and Additional Amounts to the Redemption Date; provided, however, that installments of interest on Securities whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the Regular Record Dates therefor according to their terms and the provisions of Section 307.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal and any

premium, until paid, shall bear interest from the Redemption Date at the rate prescribed therefor in the Security.

Section 1107. Securities Redeemed in Part.

Any Security which is to be redeemed only in part shall be surrendered at any Office or Agency for such Security (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities of the same series, containing identical terms and provisions, of any authorized denomination as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered. If a Security in global form is so surrendered, the Company shall execute, and the Trustee shall authenticate and deliver to the Depository for such Security in global form as shall be specified in the Company Order with respect thereto to the Trustee, without service charge, a new Securities in global form in a denomination equal to and in exchange for the unredeemed portion of the principal of the Security in global form so surrendered.

ARTICLE TWELVE

SINKING FUNDS

Section 1201. Applicability of Article.

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of a series, except as otherwise permitted or required by any form of Security of such series issued pursuant to this Indenture.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of Securities of such series is herein referred to as an "optional sinking fund payment". If provided for by the term of Securities of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of Securities of such series.

Section 1202. Satisfaction of Sinking Fund Payments with Securities.

The Company may, in satisfaction of all or any part of any sinking fund payment with respect to the Securities of any series

to be made pursuant to the terms of such Securities (1) deliver Outstanding Securities of such series (other than any of such Securities previously called for redemption or any of such Securities in respect of which cash shall have been released to the Company) and (2) apply as a credit Securities of such series which have been redeemed either at the election of the Company pursuant to the terms of such series of Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities or through the terms of Article Thirteen, provided that such series of Securities have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly. If as a result of the delivery or credit of Securities of any series in lieu of cash payments pursuant to this Section 1202, the principal amount of Securities of such series to be redeemed in order to exhaust the aforesaid cash payment shall be less than $100,000, the Trustee need not call Securities of such series for redemption, except upon Company Request, and such cash payment shall be held by the Trustee or a Paying Agent and applied to the next succeeding sinking fund payment, provided, however, that the Trustee or such Paying Agent shall at the request of the Company from time to time pay over and deliver to the Company any cash payment so being held by the Trustee or such Paying Agent upon delivery by the Company to the Trustee of Securities of that series purchased by the Company having an unpaid principal amount equal to the cash payment requested to be released to the Company.

Section 1203. Redemption of Securities for Sinking Fund.

Not less than 45 days prior to each sinking fund payment date for any series of Securities, the Company shall deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing mandatory sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any, which is to be satisfied by delivering and crediting of Securities of that series pursuant to Section 1202, and the optional amount, if any, to be added in cash to the next ensuing mandatory sinking fund payment, and will also deliver to the Trustee any Securities to be so credited and not theretofore delivered. If such Officers' Certificate shall specify an optional amount to be added in cash to the next ensuing mandatory sinking fund payment, the Company shall thereupon be obligated to pay the amount therein specified. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

ARTICLE THIRTEEN

REPAYMENT AT THE OPTION OF HOLDERS

Section 1301. Applicability of Article.

Securities of any series which are repayable at the option of the Holders thereof before their Stated Maturity shall be repaid in accordance with the terms of the Securities of such series and (except as otherwise provided herein or pursuant hereto) this Article. The repayment of any principal amount of Securities pursuant to such option of the Holder to require repayment of Securities before their Stated Maturity, for purposes of Section 309, shall not operate as a payment, redemption or satisfaction of the indebtedness represented by such Securities unless and until the Company, at its option, shall deliver or surrender the same to the Trustee with a directive that such Securities be canceled. Notwithstanding anything to the contrary contained in this Section 1301, in connection with and repayment of Securities, the Company may arrange for the purchase of any Securities by an agreement with one or more investment bankers or other purchasers to purchase such Securities by paying to the Holders of such Securities on or before the close of business on the Repayment Date an amount not less than the Repayment Price payable by the Company on repayment of such Securities, and the obligation of the Company to pay the Repayment Price of such Securities shall be satisfied and discharged to the extent such payment is so paid by such purchasers.

Section 1302. Repayment Opinion upon Death of Holder.

(a) If provided for by the terms of any Securities of any series, then upon the death of any Holder of Securities of such series, and upon the further receipt by the Company or the Trustee of a written request for repayment and satisfaction of the conditions set forth in subsection (b) below, the Company shall be required to pay, in accordance with the terms of this Article, the Repayment Price (excluding any premium) of, and (except if the Repayment Date shall be an Interest Payment Date) any accrued interest on and Additional Amounts with respect to, all or such portion (which portion shall be an integral multiple of $1,000 in excess of the minimum authorized denomination of the applicable series of Securities) of the Security or Securities held by the deceased Holder at the date of his death as requested, provided that the Company shall not be required to make repayment payments aggregating more than $250,COO in principal amount (plus accrued interest and Additional Amounts) in any fiscal year on a Security or Securities held by any one deceased Holder or aggregating more than such principal amount as shall be specified by the terms of the Securities of such series (plus accrued interest and Additional Amounts) in any fiscal year on Securities held by any number of deceased Holders (the "Maximum Annual Repayment Amount"). Subject to subsection (b)

below, repayment of such Securities shall be made in the order in which requests therefor are received (subject to the Maximum Annual Repayment Amount) within 60 days following receipt by the Company or the Trustee of the following:

(1) a written receipt for repayment of the Security or Securities signed by a duly authorized representative of the Holder, which request shall set forth the name of the deceased Holder, the date of death of the deceased Holder, and the principal amount of the Security or Securities to be repaid; and

(2) the certificates representing the Security or Securities to be repaid, and

(3) evidence satisfactory to the Company and the Trustee of the death of such deceased Holder and the authority of the representative to such extent as may be required by the Trustee and the Company

Securities not repaid in any fiscal year because the maximum Annual Repayment Amount has already been met may be held by the Trustee at the request of the authorized representative of the deceased Holder and repaid in subsequent years in the order in which such Securities are received.

(b) A Security or Securities held by the deceased Holder shall not be entitled to repayment pursuant to this Section 1302 unless all of the following conditions are met:

(1) the Securities to be repaid shall have been registered on the Security Register in the name of the deceased Holder since the issue date of such series of Securities or for a period of at least six months prior to the date of the deceased Holder's death, whichever is less; and

(2) the Company or the Trustee shall have received a written request for repayment within one year after the date of the deceased Holder' death or, in the case of requests for a subsequent repayment of a Security or Securities held by such deceased Holder, within one year after any such preceding request; and

(3) the Company shall not, after giving effect to such repayment,have made repayment payments aggregating more than the Maximum Annual Repayment Amount within the then current fiscal year; and

(4) the Company shall not be subject to any law, regulation, agreement or administrative directive preventing such repayment.

(c) Authorized representatives of a Holder shall include the following executors, administrators or other legal

representatives of an estate; trustees of a trust; joint owners of Securities owned in joint tenancy or, tenancy by the entirety; custodians; conservators; guardians; attorneys-in-fact; and other Persons generally recognized as having legal authority to act on behalf of another.

(d) For purposes of his Section, the death of a Person owning a Security or Securities in joint tenancy or tenancy by the entirety with another or others shall be deemed the death of the Holder of the Security or Securities, and the entire principal amount of the Security or Securities so held shall be subject to repayment, plus accrued interest thereon to the Repayment Date and Additional Amounts with respect thereto, in accordance with the provisions of this Article for purpose of this Section, the death of a Person owing a Security or Securities by tenancy common shall be deemed the death of a Holder of Security or securities only with respect to the deceased Holder's interest in the Security or Securities so held by tenancy in common; except that in the event a Security or Securities are held by husband and wife as tenants in common, the death of either shall be deemed the death of the Holder of the Security or Securities, and the entire principal amount of the Security or Securities so held shall be subject to repayment in accordance with the provisions of this Article. A Person who, during such Person's lifetime, was entitled to substantially all of the beneficial interests of ownership of Securities shall, upon such Person's death, be deemed the Holder thereof for purposes of this Section, regardless of the registered holder, if such beneficial interest can be established to the satisfaction of the Trustee. Such beneficial interest shall be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Transfers (or Gifts) to Minors Act, community property or other joint ownership arrangements between a husband and wife, and trust arrangements where one Person has substantially all of the beneficial ownership interests in Securities during such Person's lifetime. Beneficial interests shall include the power to sell, transfer or otherwise dispose of Securities and the right to receive the proceeds therefrom, as well as principal thereof, interest thereon and Additional Amounts with respect thereto.

(e) If Securities of a Series are issuable in global form (i.e., in the name of the nominee of a Depository for purposes of book-entry transfer) and such Securities authorize repayment upon the death of a Holder, the Company or the Trustee may adopt appropriate procedures to allow beneficial owners of Securities to obtain payment in accordance with the requirements of the Depository in the event of a request for repayment of the Securities pursuant to this section.

Section 1303. Redemption Upon Special Redemption Event.

In the event that there shall occur a Special Redemption Event with respect to the Company, then each Holder shall have the right, at the Holder's option, to require the Company to

redeem such Holder's Securities, in whole or in part (provided the principal amount of such part is $1,000 or any integral multiple thereof) on the Repayment Date that is seventy-five (75) days after the occurrence of the Special Redemption Event at a redemption price in cash equal to 101% of the principal amount thereof or portion thereof plus accrued but unpaid interest to the date of redemption.

Forty (40) days after the occurrence of a Special Redemption Event the Company promptly, but in any event within three (3) Business Days after expiration of such 40-day period, shall give notice to the Trustee, who shall promptly, but in any event within five (5) days of receipt of notice from the Company, notify all Holders, of the occurrence of such Special Redemption Event, of the date before which a Holder must notify the Trustee of such Holder's intention to exercise the redemption option (which date shall be not more than three (3) Business Days prior to the Repayment Date) and of the procedure which such Holder must follow to exercise such right. To exercise the redemption, the Holder must deliver to the Trustee on or before the close of business on the Repayment Date: (i) written notice of such Holder's redemption election pursuant to this Section 1303, in form satisfactory to the Trustee, signed by the registered Holder(s) or his duly authorized representative and (ii) the Security or Securities to be redeemed, free and clear of any liens or encumbrances of any kind.

In the case of any securities which are presented for redemption in part only, upon such redemption the Company shall execute and the Trustee shall authenticate and deliver to or on the order of the Holder of such Securities, without service charge, a new Security or Securities, of any authorized denomination or denominations as requested by such Holder, in aggregate principal amount equal to the unredeemed portion of the principal of the Securities so presented.

Section 1304. Deposit of Repayment Price.

Within 30 days after the receipt by the Company or the Trustee of any request for repayment of a Security or Securities or any portion thereof duly made pursuant to Section 1302 or 1303, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of Money sufficient to pay the Repayment Price of, and (except if the Repayment Date shall be an Interest Payment Date) any accrued interest on any Additional Amounts with respect to, all the Securities or portions thereof which are to be repaid on that date.

Section 1305. Securities Payable on Repayment Date.

A written request having been made as aforesaid, the Security or Securities so to be repaid shall, on the Repayment Date, become due and payable at the Repayment Price, and from and

after such date (unless the Company shall default in the payment of the Repayment Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for repayment in accordance with said request, such Security shall be paid by the Company at the Repayment Price, together with any accrued interest and Additional Amounts to the Repayment Date; provided, however, that installments of interest on Securities whose Stated Maturity is on or prior to the Repayment Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the Regular Record Dates therefor according to their terms and the provisions of Section 307.

If any Security to be repaid shall not be so paid upon surrender thereof for repayment the principal and any premium, until paid, shall bear interest from the Repayment Date at the rate prescribed therefor in the Security.

Section 1306. Securities Repaid in Part.

Any Security which is to be repaid only in part shall be surrendered at any Office or Agency for such Security (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities of the same series, containing identical terms and provisions, of any authorized denomination as requested by such Holder in aggregate principal amount equal to and in exchange for the unpaid portion of the principal of the Security so surrendered. If a Security in global form is so surrendered, the Company shall execute, and the Trustee shall authenticate and deliver to the Depository for such Security in global form as shall be specified in the Company Order with respect thereto to the Trustee, without service charge, a new Security in global form in a denomination equal to and in exchange for the unpaid portion of the principal of the Security in global form in surrendered.

ARTICLE FOURTEEN

SUBORDINATION OF SECURITIES

Section 1401. Securities Subordinated to Senior Indebtedness.

(a) The Company covenants and agrees, and each Holder of Securities, by his acceptance thereof, likewise covenants and agrees, and for purposes of Section 508 consents, that the indebtedness represented by the Securities and the payment of the principal of and interest on and Additional Amounts with respect

to each and all of the Securities is hereby expressly subordinated, to the extent and in the manner, hereinafter set forth, in right of payment to the prior payment in full of all Senior Indebtedness and that all Securities issued hereunder shall rank pari passu with debt securities issued pursuant to the 1995 Indenture.

(b) The Trustee, the Company and the Holders of Securities hereby agree that, until all Senior Indebtedness has been paid in full, the Holders of Securities shall be permitted to retain only the following payments of principal and interest paid by the Company in respect of Securities (all such payments being referred to herein as "Permitted Payments"), and all such payments that are not Permitted Payments will be turned over by the Trustee or the Holders of Securities to the holder or holders of Senior indebtedness or any agent thereof or (a "Senior Agent") for the benefit of the holder or holders of Senior Indebtedness

(1) principal payment of the Securities, whether (A) at the Stated Maturity, (B) at the Company's option as provided in Article Eleven provided that the holder or holders of Senior Indebtedness or any Senior Agent has received written notice from the Company or the Trustee not later than 45 days prior to a Redemption Late, (C) pursuant to the operation of the sinking fund provisions of Article Twelve, or (D) as a result of the occurrence of a Special Redemption Event as provided in Section 1303 provided that the holder or holders of Senior Indebtedness or any Senior Agent has received written notice from the Company or the Trustee of the Special Redemption Event not later than 40 days after the occurrence of the Special Redemption Event; provided that all such principal payments are subject to the restrictions set forth in Section 1401(c) hereof;

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

(3) principal payment of the Securities as a result of death of one or more Holders as provided in Section 1302 prior to the date on which any of the Senior Indebtedness is accelerated or the date on which any holder or holders of not less than 51% in principal amount of the outstanding Senior Indebtedness or any Senior Agent exercises any judicial or non-judicial remedy with respect to any collateral securing such Senior Indebtedness.

(c) From and after the receipt by the Trustee of a written notice (the "Default Notice") from the holder or holders of not less than 51% in principal amount of the outstanding Senior Indebtedness or any Senior Agent specifying that any default in the payment of any obligation on any Senior Indebtedness when

due, whether at the stated maturity of any such payment or by declaration of acceleration, call for redemption, mandatory repurchase, payment or prepayment or otherwise (a "Senior Payment Default") has occurred, the Company may not make any principal payments described in Section 1401(b)(1) to the Holders of Securities and neither the Trustee nor the Holders of not less than 25% in principal amount of the Outstanding Securities of any series may accelerate the Maturity of such series as provided in Section 502, until the first to occur of the following:

(1) such Senior Payment Default is cured, or

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

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

Upon payment in full of the Senior Indebtedness, payment of principal may be made to the Holders of Securities.

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

(1) the holders of the Senior Indebtedness shall be entitled to receive payment of the full amount of the Senior Indebtedness before the Holders of any of the Securities are entitled to receive any payment on account of the principal of, interest or premium on or Additional Amounts with respect to the indebtedness evidenced by the Securities; and

(2) any payment by, or distribution of assets of, the Company of any kind or character, whether in cash, property or securities (other than securities of the Company as reorganized or readjusted or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinate, at least to the extent provided in his Section 1401 with respect to the Securities, to the payment of all Senior indebtedness, provided that the right of the holders of Senior Indebtedness are not impaired by such reorganization or readjustment), to which the Holders of any of the Securities or the Trustee would be entitled except for the provisions of this Section 1401 shall be paid or delivered by the Person making such

payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise, directly to the holder or holders of Senior Indebtedness or any Senior Agent, ratably according to the aggregate amounts remaining unpaid on account of the Senior Indebtedness held or represented by each, to the extent necessary to make payment in full of all Senior Indebtedness remaining unpaid after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness, before any payment or distribution is made to the Holders of the indebtedness evidenced by the Securities or to the Trustee under this indenture; and

(3) in the event, notwithstanding the foregoing, any payment by, or distribution of assets of, the Company of any kind or character, whether in cash, property or securities (other than securities of the Company as reorganized or readjusted or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinate, at least to the extent provided in this Section 1401 with respect to the Securities, to the payment of all Senior Indebtedness, provided that the rights of the holders of Senior Indebtedness are not impaired by such reorganization or readjustment), shall be received by the Trustee or the Holders of any of the Securities before all Senior Indebtedness is paid in full, such payment or distribution shall be paid over to the holder or holders of such Senior Indebtedness or any Senior Agent, ratably as aforesaid, for application to the payment of all Senior Indebtedness remaining unpaid until all such Senior Indebtedness shall have been paid in full, after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness.

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

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

(g) For purposes of this Section 1401, Senior Indebtedness shall include all fees, expenses and costs incurred by or on behalf of the holder or holders of the Senior Indebtedness or the Senior Agent in connection with the Senior Indebtedness.

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

Section 1402. Subrogation.

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

Section 1403. Obligations of Company Unconditional.

Nothing contained in this Article or elsewhere in this Indenture or in the Securities is intended to or shall impair, as between the Company, its creditors other than the holders of Senior Indebtedness, and the Holders of the Securities, the obligations of the Company, which are absolute and unconditional, to pay to the Holders of the Securities the principal of and interest on and Additional Amounts with respect to the Securities as and when the same shall become due and parable in accordance with their terms, or is intended to or shall affect the relative rights of the Holders of the Securities and creditors of the Company other than the holders of Senior Indebtedness, nor shall anything herein or therein prevent the Trustee or the Holder of any Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article of the holders of senior Indebtedness in respect of cash, property or securities of the Company received upon the exercise of any such remedy.

Upon any payment or distribution of assets of the Company referred to in this Article, the Trustee and the Holders of the Securities shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which any such

dissolution, winding up, liquidation or reorganization proceeding affecting the affairs of the Company is pending or upon a certificate of the trustee in bankruptcy, receiver, assignee for the benefit of creditors, liquidating trustee or agent or other person making any payment or distribution, delivered to the Trustee or to the Holders of the Securities, for the purpose of ascertaining the persons entitled to participate in such payment or distribution, the holders of the Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount paid or distributed thereon and all other facts pertinent thereto or to this Article.

Section 1404. Effectuation of Subordination by Trustee.

Each Holder of Securities, by his acceptance thereof, authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article and appoints the Trustee his attorney-in-fact for any and all such purposes.

Section 1405. Knowledge of Trustee.

Notwithstanding the provision of this Article or any other provisions of this Indenture, the Trustee shall not be deemed to owe any fiduciary duty to the Holders of Senior Indebtedness and shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment of moneys to or by the Trustee, or the taking of any other action by the Trustee, unless and until the Trustee shall have received written notice thereof from the Company, any Holder of Securities, any Paying Agent of the Company or the holder or representative of any class of Senior Indebtedness.

Section 1406. Trustee May Hold Senior Indebtedness.

The Trustee shall be entitled to all the rights set forth in this Article with respect to any Senior Indebtedness at the time held by it, to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture shall deprive the Trustee of any of its right as such holder.

Section 1407. Rights of Holders of Senior Indebtedness Not Impaired.

No right of any present or future holder of any Senior Indebtedness to enforce the subordination provisions herein shall at any time or in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any non-compliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof any such holder may have or be otherwise charged with.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but

all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed, all as of the day and year first above written.

[SEAL] CONSUMER PORTFOLIO SERVICES, INC.

Attest:

By:---------- By:----------
Name: Name:
Title: Title:

[SEAL] BANKERS TRUST COMPANY,
as Trustee

Attest:

By:---------- By:----------
Name: Name:
Title: Title:

EXHIBIT 4.3

OH&S DRAFT
02/05/97

FIRST SUPPLEMENTAL INDENTURE

FIRST SUPPLEMENTAL INDENTURE dated as of February 1, 1997 ("First Supplemental Indenture") to the Indenture dated as of February 1, 1997 (the "Indenture") between Consumer Portfolio Services, Inc., a corporation organized and existing under the laws of the State of California (herein called the "Company"), and Bankers Trust Company, a New York banking corporation (herein called the "Trustee"), having its Corporate Trust Office located at 4 Albany Street, New York, New York 10006.

WHEREAS, the Company has heretofore executed and delivered to the Trustee the Indenture;

WHEREAS, the Company desires in and by this First Supplemental Indenture to create a first series of Securities to be issued under such Indenture, to designate or otherwise distinguish such series, to specify the particulars necessary to describe and define the same, and to specify such other provisions and agreements in respect thereof as are in the Indenture provided or permitted; and

WHEREAS, all acts and things necessary to make this First Supplemental Indenture, when duly executed and delivered, a valid, binding and legal instrument in accordance with its terms and for the purposes herein expressed, have been done and performed; and the execution and delivery of this First Supplemental Indenture have been in all respects duly authorized;

NOW, THEREFORE, in consideration of the premises, the sum of one dollar duly paid by the Trustee to the Company at or before the execution and delivery of this First Supplemental Indenture, and for other good and valuable consideration, the receipt thereof is hereby acknowledged, the Company covenants and agrees to and with the Trustee for the equal and proportionate benefit and security of the holders of the securities as hereinafter set forth:

ARTICLE I

SUBORDINATED NOTES DUE 2004

Section 1.1. There is hereby created a first series of Securities to be issued under, and secured by the Indenture and to be designated as the "Participating Equity Notes-SM-1/" (herein called the "Notes") due April __, 2004.

Section 1.2. The aggregate principal amount of the Notes which may be authenticated for original issue shall not exceed [$40,250,000].

Section 1.3. The Notes will be represented by one or more global securities which shall bear a legend to the extent required by Section 303 of the Indenture and shall be deposited with The Depository Trust Company ("DTC") which is designated as the Depository under the Indenture.

Section 1.4. The maturity of the Notes shall be April 15, 2004 unless redeemed earlier (i) at the option of the Company, or (ii) upon the occurrence of a Special Redemption Event (as defined in the Indenture).

Section 1.5. The Notes shall bear interest at the rate of ___% per annum and shall be payable on the first day of each month commencing _____ 1, 1997 (each an "Interest Payment Date").

Interest will be payable on each Interest Payment Date to the person who is the Holder as of the close of business on the Regular Record Date. The Regular Record Date for the Notes shall be the seventh day of the month (whether or not a Business Day) immediately preceding an Interest Payment Date. Interest will accrue, at the applicable interest rate as set forth above, from and including each Interest Payment Date (or, in the case of the first Interest Payment Date from the date of issuance) to but excluding the next Interest Payment Date. In the event an Interest Payment Date falls on a day other than a Business Day, interest will be paid on the next succeeding Business Day and no interest on such payment shall accrue for the period from and after such Interest Payment Date to such next succeeding Business Day. The amount of interest payable on each Interest Payment Date will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Section 1.6. The Notes may not be redeemed at the option of the Company prior to April __, 2000. Thereafter, the Notes may be redeemed at the option of the Company, in whole but not in part, at any time at a redemption price of 100% of the principal

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1 Participating Equity Notes is a service mark of Piper Jaffray Inc.

amount of the Notes redeemed plus accrued and unpaid interest thereon through and including the Redemption Date.

Section 1.7. Upon the occurrence of a Special Redemption Event, each Holder shall have the right, at such Holder's option, to require the Company to redeem all of such Holder's Notes in whole but not in part at a redemption price equal to 100% of the principal amount of such Notes plus accrued and unpaid interest, if any, through and including the date of repayment, in accordance with the terms of Section 1303 of the Indenture. To the extent the terms of this Section 1.7 conflict with the terms of Section 1303 of the Indenture, this Section 1.7 shall control. Notice of any such redemption shall be given as provided in Section 1104 of the Indenture.

Section 1.8. The provisions of Section 1302 of the Indenture relating to the repayment option upon the death of a Holder shall NOT apply to the Notes.

Section 1.9. Subject to and upon compliance with the terms of this Section 1.9 and the following Sections 1.10 through 1.16, the Holder of any Note may (i) upon the Stated Maturity of the principal of the Notes on April __, 2004, (ii) upon the redemption of the Notes at the option of the Company or (iii) upon the redemption of such Holder's Notes at the option of such Holder following the occurrence of a Special Redemption Event, elect to convert up to 25% of the principal amount of each Note held by such Holder into Common Stock at the Conversion Price determined as hereinafter provided. As used in this First Supplement Indenture, "Common Stock" shall mean the common stock of the Company.

Section 1.10. In order to exercise the conversion privilege, a Holder shall surrender such Holder's Note to the Trustee, as conversion agent for the Company at any time during usual business hours at the Corporate Trust Office accompanied by written notice that the Holder elects to convert 25% of the principal amount of such Notes and stating the name or names (with address) in which the certificate or certificates for shares of Common Stock which shall be issuable on such conversion shall be issued. All Notes surrendered for conversion shall be accompanied by proper assignments thereof to the Company or be blank. To be effective, any notice that a Holder is exercising its right to convert 25% of its Notes to Common Stock, must be received by the Trustee not later than the close of business on the second Business Day preceding the Effective Date. The Trustee shall promptly notify the Company of all notices of conversion and, as promptly as practicable after the receipt of notice from the Trustee, the Company shall issue and deliver to the Holder, or on the written order of the Holder, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion in accordance with the provision of Section 1.10 and cash, as provided in Section 1.11, in respect of any fraction of a share of Common Stock otherwise issuable upon such conversion. Such conversion shall be deemed to have been

effected at the close of business on the Effective Date, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares represented thereby on such date; provided, however, that any such surrender on any date when the stock transfer books of the Company shall be closed shall constitute the person or persons in whose name or names the certificate or certificates for such shares are to be issued as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open, and 25% of the Note surrendered shall not be deemed to have been converted until such time for all purposes, but such conversion shall be at the Conversion Price in effect at the close of business on the Effective Date. Anything contained in this Section 1.10 to the contrary notwithstanding, the Company shall not be obligated to effect the transfer of any conversion shares upon conversion of any portion of any Notes or cause any conversion shares upon conversion of 25% of any Notes to be registered in any name or names other than the name of the holder of the Notes, converted or to be converted (or such Holder's nominee or nominees) unless such Holder delivers to the Company an opinion of counsel reasonably satisfactory to the Company to the effect that such transfer is in compliance with applicable securities laws.

The term Effective Date as used in this Section 1.10 means (i) if the conversion occurs on the Maturity Date of the Note, the Maturity Date, (ii) if the conversion occurs as a result of the redemption of the Notes at the option of the Company, the Redemption Date, and (iii) if the conversion occurs because of the occurrence of a Special Redemption Event and the Holder's election to require redemption of such Holder's Notes, the Repayment Date.

Upon the partial conversion of a Note, the remaining principal amount of such Note shall, upon surrender of the Note to the Trustee, be paid to the Holder.

Section 1.11. The Company shall not be required to issue fractions of a share or scrip representing fractional shares of Common Stock upon conversion of 25% of a Note. If any fraction of a share of Common Stock would, except for the provisions of this Section be issuable on the conversion of any Notes, the Company shall pay a cash adjustment in respect of such fraction, equal to the value of such fraction based on the then Conversion Price.

Section 1.12. The Conversion Price of Common Stock upon conversion of 25% of any Note shall be as provided in this Section.

(i) The price at which shares of Common Stock shall be delivered upon conversion (the "Conversion Price")

shall initially be $_____ per share of Common Stock.

(ii) The Conversion Price in effect or to be in effect at any time shall be subject to adjustment from time to time as provided in the following provisions of this Section 1.12.

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

A. In case the Company shall at any time or from time to time after the date of execution of this First Supplemental Indenture (I) distribute dividends (and other distributions) payable in Common Stock on any class of capital stock of the Company, (II) issue to all holders of Common Stock rights, options or warrants entitling them to subscribe for or purchase Common Stock (or securities convertible into Common Stock) at less than the then-current market price (as determined in accordance with the terms of this First Supplemental Indenture) unless holders of Notes are entitles to receive the same upon conversion, (III) subdivide, combine and reclassify Common Stock or (IV) distribute to all holders of Common Stock evidences of indebtedness of the Company or assets (including securities, but excluding not only those rights, options, warrants but also dividends and distributions referred to above, dividends and distributions paid in cash out of the retained earnings of the Company), then and thereafter successively upon each such issue, sale, dividend or other distribution, the Conversion Price for each share of Common Stock in effect immediately prior to such issue, sale, dividend or other distribution shall forthwith be reduced to a price (calculated to the nearest full cent) equal to the quotient obtained by dividing (i) an amount equal to the sum of (a) the total number of shares of Common Stock outstanding immediately prior to such issue, sale, dividend or other distribution multiplied by such Conversion Price in effect immediately prior to such issue, sale, dividend or other distribution, plus (b) in the case of such an issue or sale, the consideration, if any, received by the Company upon such issue or sale, or minus (c) in the case of such a dividend or other distribution, the amount of such dividend or other distribution, by (ii) the total number of shares of Common Stock outstanding immediately after such issue, sale, dividend or other distribution.

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

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

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

(ii) In case at any time the Company shall grant any rights to subscribe for or to purchase, or any options for the purchase of, Common Stock or any stock or other securities convertible into or exchangeable for Common Stock (such convertible or exchangeable stock or securities being herein called "Convertible Securities"), whether or not such rights or options or the rights to convert or exchange any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon the exercise of such rights or options or upon conversion or exchange of such Convertible Securities, (determined by dividing (a) the total amount, if any, received or receivable by the Company as consideration for the granting of such rights or options, plus the minimum aggregate amount of additional consideration payable to the Company upon the exercise of such rights or options, plus, in the case of any such rights or options which relate to such Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the issue or sale of such Convertible Securities and upon the conversion or exchange thereof, by (b) the total maximum numbers of shares of Common Stock issuable upon the exercise of such rights or options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such rights or options) shall be less than the Conversion Price in effect immediately prior to the time of the granting of such rights or options, then the total maximum number of shares of Common Stock issuable upon the exercise of such rights or options or upon conversion or exchange of the total maximum amount of such Convertible Securities issuable upon the exercise of such rights or options shall (as of the date of granting of such rights or options) be deemed to be outstanding and to have been issued for such price per share. No further adjustments of the Conversion Price shall be made upon the actual issue of such Common Stock or of such Convertible Securities upon exercise of such rights or options or upon the actual issue of such Common Stock upon

conversion or exchange of such Convertible Securities.

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

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

(v) In the event of the consolidation of the Company with or the merger of the Company into any other corporation or of the sale of the properties and assets of the Company as, or substantially as, an entirety for stock or other securities of any corporation, or the merger of any other corporation into the Company as a result of which the holders of shares of Common Stock of the Company shall be deemed to have become the holders of, or shall become entitled to, stock or other securities of any corporation other than the Company, the Company shall be deemed to have issued a number of shares of its Common Stock for such stock or securities computed on the basis of the exchange ratio actually applied in the transaction and for a consideration equal to the fair market value on the date of such transaction of such stock or securities of the other corporation. If such determination shall cause an adjustment in the Conversion Price, the determination of the number of shares of Common Stock issuable upon the conversion of any portion of a Note immediately prior to such consolidation, merger or sale for the purposes of subsection (iii) above shall be made after giving effect to such adjustment of the Conversion Price.

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

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

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

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

(i) The issuance of the Notes;

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

(iii) The issuance of not more than _____ shares of Common Stock upon the exercise of options granted under the Company's employees' qualified stock option plan;

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

(v) Such additional shares as may be issuable upon the exercise of such options by reason of stock dividends, stock splits, and other changes in the capitalization of the Company; and

(vi) [(ANY OTHER EXCLUDED EVENTS OF DILUTION)].

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

D. If any capital reorganization or reclassification of the capital stock of the Company, or consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock (or any other securities of the Company then issuable upon the conversion of the Notes) shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock (or such other securities) then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provision shall be made whereby the Holders of the Notes shall thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in this First Supplemental Indenture, Notes and in lieu of the shares of the Common Stock (or other securities) of the Company immediately theretofore purchasable and receivable upon the exercise of the conversion rights hereunder, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of shares of such Common Stock (or such other securities) immediately theretofore purchasable and receivable upon the exercise of the conversion rights hereunder, had such reorganization, reclassification, consolidation, merger or sale not taken place, and in any such case appropriate provision shall be made with respect to the conversion rights hereunder to the end that the provisions hereof (including without limitation provisions for adjustments of the conversion price and of the number of shares purchasable upon the conversion of the Notes) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon any conversion hereunder (including an immediate adjustment, by reason of such consolidation, merger or sale, of the conversion price, to the value for the Common Stock reflected by the terms of such consolidation, merger or sale if the value so reflected is less than the conversion price in effect immediately prior to such consolidation, merger or sale). The Company shall not effect any such consolidation, merger or sale, unless prior to the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing such assets shall assume, by written instrument executed and mailed to the Holders of the Notes at the addresses appearing on the books of the Trustee, the obligation to deliver to such Holders such shares of stock, securities or assets, as, in accordance with the foregoing provisions, such Holders may be entitled to purchase. The successor corporation shall be deemed substituted for the Company for all purposes of this Section and the Notes.

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

of any of its stock or other securities shall be deemed to have become the holders of, or shall become entitled to, the stock or other securities of any corporation other than the corporation at the time deemed to be the Company hereunder.

Section 1.13. The Company will, within 90 days after the end of each of its fiscal years, and not less than ___ days prior to the Stated Maturity of the Notes, and not less than ___ days prior to any Redemption Date or Repayment Date mail to the Holders of the Notes at the address shown on the books of the Trustee a certificate of the independent public accountants for the Company specifying the Conversion Price in effect as of the end of such fiscal year or as of the date of such notice, if different.

Section 1.14. The issue of certificates on conversions of Notes shall be made without charge to the converting Noteholder for any tax in respect of the issue thereof. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of stock in any name other than that of the Holder of any Note converted, and the Company shall not be required to issue or deliver any certificate in respect of such stock unless and until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

Section 1.15. The Company shall at all times reserve and keep available out of its authorized but unissued stock, for the purpose of effecting the conversion of the Notes, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of 25% of the Notes. If any shares of Common Stock, reserved or to be reserved, for such purposes, required registration with or approval of any governmental authority under any Federal or state law before such shares may be validly issued to the holder, the Company covenants that it will in good faith and as expeditiously as possibly endeavor to secure such registration or approval, as the case may be.

The Company will not take any action which would cause the conversion price to be below the then par value, if any, per share of the Common Stock, or in the case of no-par stock, below the amount for which such shares may be issued as fully paid and nonassessable.

The Company covenants that all shares of Common Stock which may be issued upon conversion of the Notes will upon issue be fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof.

Section 1.16. Prior to the conversion of any Note, the holder of such Note shall not be entitled to any rights of a stockholder of the Company, including without limitation the

right to vote, to receive dividends or other distributions or to exercise any pre-emptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 1.17. The provisions of Article Twelve of the Indenture shall not apply to the Notes.

[Section 1.18. The provisions of Section 402 of the Indenture shall be applicable to the Notes.]

Section 1.19. The Notes shall have such other terms and provisions, to the extent not inconsistent with the foregoing, as are set forth in the Indenture and the form of Note attached as EXHIBIT A hereto.

ARTICLE II

MISCELLANEOUS

Section 2.1. Unless otherwise defined herein, all capitalized terms used in this First Supplemental Indenture have the respective meanings set forth in the Indenture. This First Supplemental Indenture may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and all of such counterparts shall together constitute one and the same instrument. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect.

Section 2.2. Each of the Company and the Trustee makes and reaffirms as of the date of execution of this First Supplemental Indenture all of its respective covenants and agreements set forth in the Indenture.

Section 2.3. All covenants and agreements in this First Supplemental Indenture by the Company or the Trustee shall bind its respective successors and assigns, whether so expressed or not.

Section 2.4. In case any provision in this First Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions or of the Indenture shall not in any way be affected or impaired thereby.

Section 2.5. Nothing in this First Supplemental Indenture, expressed or implied, shall give to any person, other than the parties hereto and their successors under the Indenture and the Holders of the Securities, any benefit or any legal or equitable right, remedy or claim under the Indenture.

Section 2.6. If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act of 1939, as amended, that is required under such Act to be a part of and govern this First Supplemental Indenture, such required provision shall control. If any provision hereof modifies or excludes any provision of such Act that may be so modified or excluded, the latter provision shall be deemed to apply to this First Supplemental Indenture as so modified or shall be excluded, as the case may be.

Section 2.7. This First Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of laws.

Section 2.8. All provisions of this First Supplemental Indenture shall be deemed to be incorporated in, and made a part of, the Indenture; and the Indenture, as amended and supplemented by this First Supplemental Indenture, shall be read, taken and construed as one and the same Instrument.

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed, all as of the day and year first above written.

[SEAL] CONSUMER PORTFOLIO SERVICES, INC.

Attest:

By: By:
---------- ----------
Name: Name:
Title: Title:

[SEAL]

----
as Trustee

Attest:

By: By:
---------- ----------
Name: Name:
Title: Title:

EXHIBIT A

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN CERTIFICATED FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE OF THE DEPOSITORY OR BY A NOMINEE OF THE DEPOSITORY TO THE DEPOSITORY OR ANOTHER NOMINEE OR THE DEPOSITORY OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITORY.

[Face of Note]

CONSUMER PORTFOLIO SERVICES, INC.

PARTICIPATING EQUITY NOTE DUE 2004

$_____ CUSIP No. _____

Consumer Portfolio Services, Inc., a California corporation (herein called the "Company"), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars on April __, 2004, and to pay interest thereon at the rate of _____% per annum from _____ __, 1997 until, but excluding April __, 2004.

Interest will be payable on the first day of each month, commencing _____ 1, 1997 (each an "Interest Payment Date"). The initial interest payment will represent interest from the date of original issuance to and including _____ __, 1997. The amount of interest payable on each Interest Payment Date will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, except as provided in the Indenture hereinafter referred to, be paid to the Person in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the seventh day, whether or not a Business Day, of the month preceding the respective Interest Payment Date; provided, however, that interest payable at Maturity will be payable to the Person to whom the principal hereof shall be payable. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such Regular Record Date and either may be paid to the Person in whose name this Note (or one or more Predecessor Notes) is registered at the close of business on a Special Record Date for the payment of such defaulted interest to be fixed by the Trustee, notice whereof shall be given to the Holders not less than ten days prior to such Special Record Date, or may be paid at any time in any other lawful manner, all as more fully provided in the Indenture. Payment of

the principal of and interest on this Note will be made at the office or agency of the Company maintained for that purpose in _____, _____, or in such other office or agency as may be established by the Company pursuant to the Indenture (initially the principal corporate trust office of the Trustee in New York, New York, (the "Corporate Trust Office")) , in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest on any Interest Payment Date other than at Maturity may be made at the option of the Company by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register. Payments of principal and interest at Maturity will be made against presentation of this Note at the Corporate Trust Office (or such other office as may be established pursuant to the Indenture), by check.

Reference is hereby made to the further provisions of this Note set forth on the reverse side hereof, which further provisions shall for all purposes have the same effect as though fully set forth at this place.

Unless the Certificate of Authentication hereon has been executed by the Trustee under the Indenture by the manual signature of one of its authorized officers, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this Note to be signed in its name by the manual or facsimile signature of an officer of the Company, and its corporate seal, or a facsimile thereof, to be impressed or imprinted hereon, attested by the manual or facsimile signature of its Secretary or one of its Assistant Secretaries.

Date
---------- -- ----

CONSUMER PORTFOLIO SERVICES, INC.

[Corporate Seal]

By:

Name:
Title:

ATTEST:

- ---
Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION:
This is one of the Securities of the series designated herein, issued under the Indenture described herein.

, as Trustee
- ---

By:

Authorized Officer

(Reverse of Note)

CONSUMER PORTFOLIO SERVICES, INC.

PARTICIPATING EQUITY NOTE DUE 2004

This Note is one of a duly authorized series of securities (herein called the "Notes") of Consumer Portfolio Services, Inc. (the "Company" issued under an Indenture dated as of February 1, 1997, as supplemented by the First Supplemental Indenture and together such documents are herein referred to as the "Indenture", between the Company and Bankers Trust Company, as Trustee (herein called the "Trustee," which term includes any successor Trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights thereunder of the Company, the Trustee and the Holders of the Notes, and the terms upon which the Notes are, and are to be, authenticated and delivered. This Note is one of a series of Notes of the Company designated as its Participating Equity Notes due April __, 2004 limited in aggregate principal amount to $_____ (herein called the "Notes").

The indebtedness of the Company evidenced by the Notes, including the principal thereof and interest thereon (including post-default interest), (a) is expressly subordinated, to the extent and in the manner set forth in the Indenture, in right of payment to the prior payment, in full of all of the Company's obligations to holders of Senior Indebtedness and, in certain events, the Trustee's fees and (b) is unsecured by any collateral, including the assets of the Company or any of its Subsidiaries or Affiliates. Each Holder of Notes, by acceptance thereof, (x) agrees to and shall be bound by such provisions of the Indenture and all other provisions of the Indenture; (y) authorizes and directs the Trustee to take such action on his behalf as may be necessary or appropriate to effectuate the subordination of the securities as provided in the Indenture; and (z) appoints the Trustee his attorney-in-fact for any and all such purposes.

The Notes may not be redeemed at the option of the Company prior to April __, 2000. On or after April __, 2000, the Notes may be redeemed, at the option of the Company, in whole, but not in part, at any time at a redemption price of 100% of the principal amount thereof, without premium, plus interest thereon accrued through and including the Redemption Date.

Notice of the redemption shall be given to the Holders of Notes to be redeemed by mailing a notice of such redemption not less than 30 nor more than 60 days prior to the Redemption Date at their addresses as they shall appear on the Security Register, all as provided in the Indenture.

The Holder of this Note may elect to convert 25% of the principal amount of this Note to Common Stock of the Company upon

the earliest of (i) the _____ __, 2004 Stated Maturity of this Note, (ii) the Redemption Date of this Note if the Company exercises its optional redemption rights with respect to the Notes and (iii) the Repayment Date of this Note if the Holder hereof elects to cause the Company to purchase this Note as a result of the occurrence of a Special Redemption Event. If the Holder of this Note elects to convert 25% of this Note into Common Stock, the Conversion Price shall be determined as provided in the Indenture and such conversion shall be subject to the terms and conditions set forth in the Indenture.

Except as may be provided in the Indenture, if an Event of Default with respect to the Notes shall occur and be continuing, the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Notes may declare the principal of all the Notes due and payable in the manner and with the effect provided in the Indenture. The Indenture provides that such declaration and its consequences may, in certain events, be annulled by the Holders of a majority in principal amount of the outstanding Notes.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in aggregate principal amount of the Securities at the time Outstanding affected thereby. The Indenture also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall he conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provisions of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, places and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note may be registered on the Security Register of the Company, upon surrender of this Note for registration of transfer at the office or agency of the Company to be maintained for that purpose in New York, New York or at such other office or agency as may be established by the Company for such purpose pursuant to the Indenture (initially the Corporate Trust Office), duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar (initially the Trustee) and duly

executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Notes are issuable only in registered form, without coupons, in denominations of $1, 000 or any amount in excess thereof which is an integral multiple of $1,000. As provided in the Indenture, and subject to certain limitations therein set forth, the Notes are exchangeable for a like aggregate principal amount of Notes in authorized denominations, as requested by the Holder surrendering the same.

If this Note is duly called for redemption and funds for payment duly provided, this Note shall cease to bear interest after such Redemption Date.

In the event of any Special Redemption Event (as defined below), the Holder of this Note will have the right, at such Holder's option and subject to the terms and conditions of the Indenture, to require the Company to repay the principal of this Note on the date that is seventy-five (75) days after the occurrence of the Special Redemption Event plus accrued interest to and including the date of redemption.

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

such spouse, (b) any trust or estate in which such Person or any of the Persons specified in clause (a) collectively own fifty percent (50%) or more of the total beneficial interest or (c) any corporation or other organization (other than the Company) in which such director or any of the Persons specified in clause (a) are the beneficial owners collectively of fifty percent (50%) or more of the voting power.

Interest installments whose Stated Maturity is on the Redemption Date or Repayment Date for any Notes will be payable to the Holders of such Notes, or one or more Predecessor Securities, of record at the close of business on the Regular Record Date referred to on the face hereof, all as provided in the Indenture.

Prior to due presentment of this Note for registration of transfer or exchange, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee, nor any such agent shall be affected by notice to the contrary.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Each holder of this Note covenants and agrees by his acceptance hereof to comply with and be bound by the foregoing provisions and the provisions of the Indenture.

All terms used in this Note which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Consumer Portfolio Services, Inc.
Statement Regarding Computation of Ratios
Exhibit 12

	Nine Months Ended September 30,		Nine Month Transition Period Ended December 31,	Year Ended March 31,			
	1996	1995	1995	1995	1994	1993	1992
Income (loss) before taxes	$17,069,842	$11,627,642	$12,657,308	$11,146,562	$(1,288,043)	$(1,502,272)	$(2,526,473)
Interest component of rent expense	237,504	97,711	99,861	115,710	118,358	148,361	114,466
Interest (1)	4,309,859	2,835,237	2,724,403	3,407,598	446,402	25,609	46,943
Income (loss) before taxes and fixed charges	21,617,205	14,560,590	15,481,572	14,669,870	(723,283)	(1,328,302)	(2,365,064)
Fixed charges:							
Interest component of rent expense	237,504	97,711	99,861	115,710	118,358	148,361	114,466
Interest	4,309,859	2,835,237	2,724,403	3,407,598	446,402	25,609	46,943
Fixed charges	4,547,363	2,932,948	2,824,264	3,523,308	564,760	173,970	161,409
Ratio of income (loss) to fixed charges	4.8	5.0	5.5	4.2	(1.3)	(7.6)	(14.7)
Coverage deficiency	--	--	--	--	(1,288,043)	(1,502,272)	(2,526,473)

(1) Includes amortization of financing costs and discount on subordinated debt.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Consumer Portfolio Services, Inc.

We consent to the use of our report included herein and to the reference to our firm under the heading "Experts" in the prospectus.

KPMG PEAT MARWICK LLP

Orange County, California
February 6, 1997