CONSUMER PORTFOLIO SERVICES INC
Form 10-Q
April 30, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014

Commission file number: 1-11416

CONSUMER PORTFOLIO SERVICES, INC.

(Exact name of registrant as specified in its charter)

California	33-0459135
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
3800 Howard Hughes Parkway, Suite 1400, Las Vegas, Nevada	89169
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including Area Code: (949) 753-6800

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No p

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

Large Accelerated Filer p Accelerated Filer x

Non-Accelerated Filer p Smaller Reporting Company p

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

As of April 25, 2014 the registrant had 24,829,994 common shares outstanding.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

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Item 1. ***Financial Statements***

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	March 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$14,567	$22,112
Restricted cash and equivalents	147,596	132,284
Finance receivables	1,226,769	1,155,063
Less: Allowance for finance credit losses	(44,652)	(39,626)
Finance receivables, net	1,182,117	1,115,437
Finance receivables measured at fair value	9,058	14,476
Residual interest in securitizations	445	854
Furniture and equipment, net	837	766
Deferred financing costs	10,965	11,071
Deferred tax assets, net	54,156	59,215
Accrued interest receivable	17,562	18,670
Other assets	22,646	21,481
	$1,459,949	$1,396,366
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	$24,865	$24,839
Warehouse lines of credit	41,527	9,452
Residual interest financing	15,582	19,096
Debt secured by receivables measured at fair value	8,576	13,117
Securitization trust debt	1,247,380	1,177,559
Senior secured debt, related party	–	38,559
Subordinated renewable notes	18,585	19,142
	1,356,515	1,301,764
COMMITMENTS AND CONTINGENCIES		
Shareholders' Equity		
Preferred stock, $1 par value; authorized 4,998,130 shares; none issued	–	–
Series A preferred stock, $1 par value; authorized 5,000,000 shares; none issued	–	–

Series B preferred stock, $1 par value; authorized 1,870 shares; none issued	–	–
Common stock, no par value; authorized 75,000,000 shares; 24,755,456 and 24,015,585 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	75,549	73,422
Retained earnings	28,980	22,275
Accumulated other comprehensive loss	(1,095)	(1,095)
	103,434	94,602
	$1,459,949	$1,396,366

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended March 31,	
	2014	2013
Revenues:		
Interest income	$64,996	$51,168
Servicing fees	513	909
Other income	2,637	2,517
	68,146	54,594
Expenses:		
Employee costs	10,890	8,949
General and administrative	3,603	3,755
Interest	13,381	16,346
Provision for credit losses	23,880	15,147
Marketing	3,846	3,182
Occupancy	688	544
Depreciation and amortization	94	143
	56,382	48,066
Income before income tax expense	11,764	6,528
Income tax expense	5,059	2,743
Net income	$6,705	$3,785
Earnings per share:		
Basic	$0.28	$0.19
Diluted	0.21	0.12
Number of shares used in computing earnings per share:		
Basic	24,355	20,073
Diluted	32,011	31,624

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three Months Ended March 31,	
	2014	2013
Net income	$6,705	$3,785
Other comprehensive income/(loss); change in funded status of pension plan	–	–
Comprehensive income	$6,705	$3,785

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	$6,705	$3,785
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of deferred acquisition fees	(4,610)	(5,021)
Accretion of purchase discount on receivables measured at fair value	(239)	(886)
Amortization of discount on securitization trust debt	41	320
Amortization of discount on senior secured debt, related party	623	654
Accretion of premium on debt secured by receivables measured at fair value	304	1,104
Mark to fair value on debt secured by receivables measured at fair value	194	106
Mark to fair value of receivables measured at fair value	(7)	13
Depreciation and amortization	94	143
Amortization of deferred financing costs	1,684	930
Provision for credit losses	23,880	15,147
Stock-based compensation expense	771	676
Interest income on residual assets	(113)	–
Changes in assets and liabilities:		
Accrued interest receivable	1,213	(191)
Deferred tax assets, net	5,059	–
Other assets	530	(4)
Accounts payable and accrued expenses	26	4,269
Net cash provided by operating activities	36,155	21,045
Cash flows from investing activities:		
Purchases of finance receivables held for investment	(189,886)	(180,123)
Payments received on finance receivables held for investment	103,936	82,197
Payments on receivables portfolio at fair value	5,664	17,520
Proceeds received on residual interest in securitizations	522	1,319
Change in repossessions held in inventory	(1,800)	(1,318)
Decreases (increases) in restricted cash and cash equivalents, net	(15,312)	(34,948)
Purchase of furniture and equipment	(165)	–
Net cash used in investing activities	(97,041)	(115,353)
Cash flows from financing activities:		
Proceeds from issuance of securitization trust debt	180,000	185,000
Proceeds from issuance of subordinated renewable notes	155	748
Payments on subordinated renewable notes	(712)	(471)
Net proceeds from warehouse lines of credit	32,075	4,945
Repayments of residual interest financing debt	(3,514)	–

Repayment of securitization trust debt	(110,220)	(76,138)
Repayment of debt secured by receivables measured at fair value	(5,039)	(17,930)
Repayment of senior secured debt, related party	(39,182)	–
Payment of financing costs	(1,578)	(1,574)
Repurchase of common stock	–	(120)
Exercise of options and warrants	1,356	748
Net cash provided by financing activities	53,341	95,208
Increase (decrease) in cash and cash equivalents	(7,545)	900
Cash and cash equivalents at beginning of period	22,112	12,966
Cash and cash equivalents at end of period	$14,567	$13,866
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$11,506	$16,064
Income taxes	$261	$990
Non-cash financing activities:		
Derivative warrants reclassified from accounts payable to common stock	$–	$583

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Description of Business

We were formed in California on March 8, 1991. We specialize in purchasing and servicing retail automobile installment sale contracts ("automobile contracts" or "finance receivables") originated by licensed motor vehicle dealers located throughout the United States ("dealers") in the sale of new and used automobiles, light trucks and passenger vans. Through our purchases, we provide indirect financing to dealer customers for borrowers with limited credit histories, low incomes or past credit problems ("sub-prime customers"). We serve as an alternative source of financing for dealers, allowing sales to customers who otherwise might not be able to obtain financing. In addition to purchasing installment purchase contracts directly from dealers, we have also (i) acquired installment purchase contracts in four merger and acquisition transactions, (ii) purchased immaterial amounts of vehicle purchase money loans from non-affiliated lenders, and (iii) lent money directly to consumers for an immaterial amount of loans secured by vehicles. In this report, we refer to all of such contracts and loans as "automobile contracts."

Basis of Presentation

Our Unaudited Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America, with the instructions to Form 10-Q and with Article 10 of Regulation S-X of the Securities and Exchange Commission, and include all adjustments that are, in management's opinion, 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 three-month period ended March 31, 2014 are not necessarily indicative of the operating results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from these Unaudited Condensed Consolidated Financial Statements. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us 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 determining an appropriate allowance for finance credit losses, determining appropriate reserves for contingent liabilities, valuing finance receivables measured at fair value and the related debt, valuing residual interest in securitizations, accreting net acquisition fees, amortizing deferred costs, valuing stock options and warrants issued, and recording deferred tax assets and reserves for uncertain tax positions. These are material estimates that could be susceptible to changes in the near term and, accordingly, actual results could differ from those estimates.

Other Income

The following table presents the primary components of Other Income for the three-month periods ending March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Direct mail revenues	$1,852	$1,764
Convenience fee revenue	810	687
Recoveries on previously charged-off contracts	35	50
Sales tax refunds	102	84
Other	(162)	(68)
Other income for the period	$2,637	$2,517

Stock-based Compensation

We recognize compensation costs in the financial statements for all share-based payments based on the grant date fair value estimated in accordance with the provisions of ASC 718 “Stock Compensation”.

For the three months ended March 31, 2014 and 2013, we recorded stock-based compensation costs in the amount of $771,000 and $676,000, respectively. As of March 31, 2014, unrecognized stock-based compensation costs to be recognized over future periods equaled $11.7 million. This amount will be recognized as expense over a weighted-average period of 3.2 years.

The following represents stock option activity for the three months ended March 31, 2014:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term

Options outstanding at the beginning of period	10,128	$ 3.30	N/A
Granted	–	–	N/A
Exercised	(574)	2.70	N/A
Forfeited	(103)	4.58	N/A
Options outstanding at the end of period	9,451	$ 3.33	6.33 years
Options exercisable at the end of period	5,433	$ 2.31	4.93 years

At March 31, 2014, the aggregate intrinsic value of options outstanding and exercisable was $34.9 million and $24.8 million, respectively. There were 574,000 options exercised for the three months ended March 31, 2014 compared to 356,000 for the comparable period in 2013. There were 3.5 million shares available for future stock option grants under existing plans as of March 31, 2014.

Purchases of Company Stock

During the three-month period ended March 31, 2014 and 2013, we re-purchased 64,430 and 15,213 shares, respectively, of our common stock, at average prices of $7.97 and $7.88, respectively. All purchases were related to net exercises of outstanding options and warrants. In transactions during the three-month period ended March 31, 2014, the holder of options and warrants to purchase 365,000 shares of our common stock paid the aggregate $513,400 exercise price by surrender to us of 64,430 of such 365,000 shares. There were no open market purchases of our common stock.

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or total shareholders’ equity.

Financial Covenants

Certain of our securitization transactions, our warehouse credit facilities and our residual interest financing contain various financial covenants requiring minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels. As of March 31, 2014, we were in compliance with all such covenants. In addition, certain securitization and non-securitization related debt agreements contain cross-default provisions that would allow certain creditors to declare a default if a default occurred under a different facility.

Finance Receivables and Related Debt Measured at Fair Value

In September 2011 we purchased approximately $217.8 million of finance receivables from Fireside Bank. These receivables and the related acquisition debt are recorded on our balance sheet at fair value. There are no level 1 or level 2 inputs (as described by ASC 820) available to us for measurement of such receivables, or for the related debt. Our level 3, unobservable inputs reflect our own assumptions about the factors that market participants use in pricing similar receivables and debt, and are based on the best information available in the circumstances. The valuation method used to estimate fair value may produce a fair value measurement that may not be indicative of ultimate realizable value. Furthermore, while we believe our valuation methods are appropriate and consistent with those used by other market participants, the use of different methods or assumptions to estimate the fair value of certain financial instruments could result in different estimates of fair value. Those estimated values may differ significantly from the values that would have been used had a readily available market for such receivables or debt existed, or had such receivables or debt been liquidated, and those differences could be material to the financial statements.

Provision for Contingent Liabilities

We are routinely involved in various legal proceedings resulting from our consumer finance activities and practices, both continuing and discontinued. Our legal counsel has advised us on such matters where, based on information available at the time of this report, there is an indication that it is both probable that a liability has been incurred and the amount of the loss can be reasonably determined.

We have recorded a liability as of March 31, 2014, which represents our best estimate of probable incurred losses for legal contingencies. The amount of losses that may ultimately be incurred cannot be estimated with certainty.

(2) *Finance Receivables*

Our portfolio of finance receivables consists of small-balance homogeneous contracts comprising a single segment and class that is collectively evaluated for impairment on a portfolio basis according to delinquency status. Our contract purchase guidelines are designed to produce a homogenous portfolio. For key terms such as interest rate, length of contract, monthly payment and amount financed, there is relatively little variation from the average for the portfolio. We report delinquency on a contractual basis. Once a contract becomes greater than 90 days delinquent, we do not recognize additional interest income until the obligor under the contract makes sufficient payments to be less than 90 days delinquent. Any payments received on a contract that is greater than 90 days delinquent are first applied to accrued interest and then to principal reduction.

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

	March 31, 2014	December 31, 2013
Finance Receivables	(In thousands)	
Automobile finance receivables, net of unearned interest	$1,252,326	$1,182,950
Less: Unearned acquisition fees and originations costs	(25,557)	(27,887)
Finance Receivables	$1,226,769	$1,155,063

We consider an automobile contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date, which date may have been extended within limits specified in the servicing agreements. The period of delinquency is based on the number of days payments are contractually past due, as extended where applicable. Automobile contracts less than 31 days delinquent are not included. In certain circumstances we will grant obligors one-month payment extensions to assist them with temporary cash flow problems. The only modification of terms is to advance the obligor’s next due date by one month and extend the maturity date of the receivable by one month. In certain limited cases, a two-month extension may be granted. There are no other concessions such as a reduction in interest rate, forgiveness of principal or of accrued interest. Accordingly, we consider such extensions to be insignificant delays in payments rather than troubled debt restructurings. The following table summarizes the delinquency status of finance receivables as of March 31, 2014 and December 31, 2013:

	March 31, 2014	December 31, 2013
	(In thousands)	
Delinquency Status		
Current	$1,199,747	$1,125,926
31 - 60 days	26,781	21,421
61 - 90 days	19,149	24,663
91 + days	6,649	10,940
	$1,252,326	$1,182,950

Finance receivables totaling $6.6 million and $10.9 million at March 31, 2014 and December 31, 2013, respectively, including all receivables greater than 90 days delinquent, have been placed on non-accrual status as a result of their delinquency status.

We use a loss allowance methodology commonly referred to as "static pooling," which stratifies our finance receivable portfolio into separately identified pools based on the period of origination. Using analytical and formula driven techniques, we estimate an allowance for finance credit losses, which we believe is adequate for probable credit losses that can be reasonably estimated in our portfolio of automobile contracts. The estimate for probable credit losses is reduced by our estimate for future recoveries on previously incurred losses. Provision for losses is charged to our consolidated statement of operations. Net losses incurred on finance receivables are charged to the allowance. For finance receivables originated through December 31, 2010 we established the allowance at the time of the acquisition of the receivable. Beginning January 1, 2011, we establish the allowance for new receivables over the 12-month period following their acquisition.

The following table presents a summary of the activity for the allowance for finance credit losses for the three-month periods ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Balance at beginning of period	$39,626	$19,594
Provision for credit losses on finance receivables	23,880	15,147
Charge-offs	(23,541)	(12,915)
Recoveries	4,687	3,055
Balance at end of period	$44,652	$24,881

Excluded from finance receivables are contracts that were previously classified as finance receivables but were reclassified as other assets because we have repossessed the vehicle securing the Contract. The following table presents a summary of such repossessed inventory together with the allowance for losses in repossessed inventory that is not included in the allowance for finance credit losses:

	March 31, 2014	December 31, 2013
	(In thousands)	
Gross balance of repossessions in inventory	$27,961	$24,743
Allowance for losses on repossessed inventory	(16,197)	(14,779)
Net repossessed inventory included in other assets	$11,764	$9,964

(3) ***Finance Receivables Measured at Fair Value***

In September 2011 we purchased approximately $217.8 million of finance receivables from Fireside Bank. These receivables are recorded on our balance sheet at fair value.

The following table presents the components of Finance Receivables measured at fair value:

	March 31, 2014	December 31, 2013
Finance Receivables Measured at Fair Value	(In thousands)	
Finance receivables and accrued interest, net of unearned interest	$9,122	$14,786
Less: Fair value adjustment	(64)	(310)
Finance receivables measured at fair value	$9,058	$14,476

The following table summarizes the delinquency status of finance receivables measured at fair value as of March 31, 2014 and December 31, 2013:

	March 31, 2014	**December 31,** 2013
	(In thousands)	
Delinquency Status		

Current	$8,343	$ 13,421
31-60 days	507	878
61-90 days	218	253
91+ days	54	234
	$9,122	$ 14,786

(4) ***Securitization Trust Debt***

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

Series	Final Scheduled Payment Date (1)	Receivables Pledged at March 31, 2014 (2)	**Initial** Principal	Outstanding Principal at March 31, 2014	Outstanding Principal at December 31, 2013	Weighted Average Contractual Interest Rate at March 31, 2014
	(Dollars in thousands)					
Page Five Funding	January 2018	$9,127	$46,058	$7,395	$9,358	9.33%
CPS 2011-A	April 2018	23,635	104,546	19,995	24,526	3.26%
CPS 2011-B	September 2018	38,515	111,046	38,278	44,433	4.62%
CPS 2011-C	March 2019	48,755	119,400	48,834	56,271	4.98%
CPS 2012-A	June 2019	57,195	155,000	56,734	65,051	3.52%
CPS 2012-B	September 2019	76,341	141,500	76,882	86,254	3.21%
CPS 2012-C	December 2019	82,919	147,000	83,241	93,006	2.54%
CPS 2012-D	March 2020	99,059	160,000	99,670	108,815	2.21%
CPS 2013-A	June 2020	138,365	185,000	133,058	142,842	1.94%
CPS 2013-B	September 2020	164,325	205,000	155,259	172,499	2.37%
CPS 2013-C	December 2020	181,314	205,000	177,367	191,504	2.48%
CPS 2013-D	March 2021	173,351	183,000	170,667	183,000	2.24%
CPS 2014-A (3)	June 2021	109,910	180,000	180,000	–	1.88%
		$1,202,811	$1,942,550	$1,247,380	$1,177,559	

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(1) The Final Scheduled Payment Date represents final legal maturity of the securitization trust debt. Securitization trust debt is expected to become due and to be paid prior to those dates, based on amortization of the finance receivables pledged to the trusts. Expected payments, which will depend on the performance of such receivables, as to which there can be no assurance, are $365.6 million in 2014, $407.5 million in 2015, $263.6 million in 2016, $145.6 million in 2017, $58.3 million in 2018 and $6.8 million in 2019.

(2) Includes repossessed assets that are included in Other assets on our Unaudited Condensed Consolidated Balance Sheet.

(3) An additional $68.8 million of receivables were pledged to CPS 2014-A in April 2014.

All of the securitization trust debt was sold in private placement transactions to qualified institutional buyers. The debt was issued through our wholly-owned bankruptcy remote subsidiaries and is secured by the assets of such subsidiaries, but not by our other assets.

The terms of the securitization agreements related to the issuance of the securitization trust debt and the warehouse credit facilities require that we meet certain delinquency and credit loss criteria with respect to the pool of receivables, and certain of the agreements require that we maintain minimum levels of liquidity and not exceed maximum leverage levels. In addition, certain securitization and non-securitization related debt contain cross-default provisions, which would allow certain creditors to declare a default if a default were declared under a different facility. As of March 31, 2014, we were in compliance with all such covenants.

We are responsible for the administration and collection of the automobile contracts. The securitization agreements also require certain funds be held in restricted cash accounts to provide additional collateral for the borrowings, to be applied to make payments on the securitization trust debt or as pre-funding proceeds from a term securitization prior to the purchase of additional collateral. As of March 31, 2014, restricted cash under the various agreements totaled approximately $147.6 million, of which $68.8 million represented pre-funding proceeds. Interest expense on the securitization trust debt consists of the stated rate of interest plus amortization of additional costs of borrowing. Additional costs of borrowing include facility fees, amortization of deferred financing costs and discounts on notes sold. Deferred financing costs and discounts on notes sold related to the securitization trust debt are amortized using a level yield method. Accordingly, the effective cost of the securitization trust debt is greater than the contractual rate of interest disclosed above.

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

(5) ***Debt***

The terms and amounts of our other debt outstanding at March 31, 2014 and December 31, 2013 are summarized below:

			Amount Outstanding at	
			March 31, 2014	December 31, 2013
			(In thousands)	
Description	Interest Rate	Maturity		
Warehouse lines of credit	5.73% over one month Libor (Minimum 6.73%)	March 2017	$25,737	$ 9,452
	6.00% over one month Libor (Minimum 6.75%)	June 2016	15,790	–
Residual interest financing	11.75% over one month Libor	April 2018	15,582	19,096
Debt secured by receivables measured at fair value	n/a	Repayment is based on payments from underlying receivables. Final payment of the 8.00% loan was made in September 2013, with residual payments extending through 2016	8,576	13,117
Senior secured debt, related party	13.00%	n/a	–	37,128
	5.00%	n/a	–	1,431
Subordinated renewable notes	Weighted average rate of 12.3% and 12.5% at March 31, 2014 and December 31, 2013, respectively	Weighted average maturity of September 2015 and July 2015 at March 31, 2014 and December 31, 2013, respectively	18,585	19,142
			$84,270	$ 99,366

In January and March 2014 we prepaid, without penalty, $10 million and $28.4 million, respectively, of senior secured debt, related party. The debt was scheduled to mature in June 2014.

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(6) ***Interest Income and Interest Expense***

The following table presents the components of interest income:

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Interest on Finance Receivables	$64,882	$51,159
Residual interest income	113	–
Other interest income	1	9
Interest income	$64,996	$51,168

The following table presents the components of interest expense:

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Securitization trust debt	$9,316	$9,137
Warehouse lines of credit	877	1,282
Senior secured debt, related party	1,651	2,764
Debt secured by receivables at fair value	328	1,786
Residual interest financing	579	492
Subordinated renewable notes	630	885
Interest expense	$13,381	$16,346

(7) ***Earnings Per Share***

Earnings per share for the three-month periods ended March 31, 2014 and 2013 were calculated using the weighted average number of shares outstanding for the related period. The following table reconciles the number of shares used in the computations of basic and diluted earnings per share for the three-month periods ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Weighted average number of common shares outstanding during the period used to compute basic earnings per share	24,355	20,073
Incremental common shares attributable to exercise of outstanding options and warrants	7,656	11,551
Weighted average number of common shares used to compute diluted earnings per share	32,011	31,624

If the anti-dilutive effects of common stock equivalents were considered, shares included in the diluted earnings per share calculation for the three-month periods ended March 31, 2014 and 2013 would have included an additional 2.5 million and 1.3 million shares, respectively, attributable to the exercise of outstanding options and warrants.

(8) ***Income Taxes***

We file numerous consolidated and separate income tax returns with the United States and with many states. With few exceptions, we are no longer subject to U.S. federal, state, or local examinations by tax authorities for years before 2010.

As of March 31, 2014 and December 31, 2013, we had no unrecognized tax benefites for uncertain tax positions. We do not anticipate that total unrecognized tax benefits will significantly change due to any settlements of audits or expirations of statutes of limitations over the next 12 months.

The Company and its subsidiaries file a consolidated federal income tax return and combined or stand-alone state franchise tax returns for certain states. We utilize the asset and liability method of accounting for income taxes, under which deferred income taxes are recognized for the future tax consequences attributable to the differences between the financial statement values of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets are recognized subject to management’s judgment that realization is more likely than not. A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. Although realization is not assured, we believe that the realization of the recognized net deferred tax asset of $54.2 million as of March 31, 2014 is more likely than not based on forecasted future net earnings. Our net deferred tax asset of $54.2 million consists of approximately $42.8 million of net U.S. federal deferred tax assets and $11.4 million of net state deferred tax assets. The major components of the deferred tax asset are $46.4 million in net operating loss carryforwards and built in losses and $19.8 million in net deductions which have not yet been taken on a tax return. We estimate that we would need to generate approximately $126 million of taxable income during the applicable carryforward periods to realize fully our federal and state net deferred tax assets.

Income tax expense was $5.1 million for the three months ended March 31, 2014 and represents an effective income tax rate of 43.0%, compared to income tax expense of $2.7 million for the three months ended March 31, 2013, representing a 42.0% effective income tax rate.

(9) ***Legal Proceedings***

Stanwich Litigation. We were for some time a defendant in a class action (the “Stanwich Case”) brought in the California Superior Court, Los Angeles County. The original plaintiffs in that case were persons entitled to receive regular payments (the “Settlement Payments”) pursuant to earlier settlements of claims, generally personal injury claims, against unrelated defendants. Stanwich Financial Services Corp. (“Stanwich”), an affiliate of the former chairman of our board of directors, is the entity that was obligated to pay the Settlement Payments. Stanwich defaulted on its payment obligations to the plaintiffs and in June 2001 filed for reorganization under the Bankruptcy Code, in the federal bankruptcy court in Connecticut. By February 2005, we had settled all claims brought against us in the Stanwich Case.

In November 2001, one of the defendants in the Stanwich Case, Jonathan Pardee, asserted claims for indemnity against us in a separate action, which is now pending in federal district court in Rhode Island. We have filed counterclaims in the Rhode Island federal court against Mr. Pardee, and have filed a separate action against Mr. Pardee's Rhode Island attorneys, in the same court. The litigation between Mr. Pardee and us was stayed for several years through September 2011, awaiting resolution of an adversary action brought against Mr. Pardee in the bankruptcy court, which is hearing the bankruptcy of Stanwich.

Pursuant to an agreement with the representative of creditors in the Stanwich bankruptcy, that adversary action has been dismissed. Under that agreement, we paid the bankruptcy estate $800,000 and abandoned our claims against the estate, while the estate has abandoned its adversary action against Mr. Pardee. With the dismissal of the adversary action, all known claims asserted against Mr. Pardee have been resolved without his incurring any liability. Accordingly, we believe that this resolution of the adversary action will result in limitation of our exposure to Mr. Pardee to no more than some portion of his attorneys fees incurred. The stay in the action against us in Rhode Island has been lifted, and both we and Mr. Pardee filed motions for summary judgment. The court ruled on those motions in February 2013, denying our motion, and granting Mr. Pardee's motion as to liability. The matter has been set for trial, to commence September 9, 2014. The issues remaining for trial are the extent of our obligation to indemnify Mr. Pardee.

Consumer Litigation. We are routinely involved in various legal proceedings resulting from our consumer finance activities and practices, both continuing and discontinued. Consumers can and do initiate lawsuits against us alleging violations of law applicable to collection of receivables, and such lawsuits sometimes allege that resolution as a class action is appropriate. We are currently defending two such purported class actions, one of which has been settled by agreement with the plaintiffs (such settlement remains subject to approval by the court). For the most part, we have legal and factual defenses to such claims, which we routinely contest or settle (for immaterial amounts) depending on the particular circumstances of each case. We have recorded a liability as of March 31, 2014 with respect to such matters, in the aggregate.

FTC Action. On July 17, 2013, the staff of the Federal Trade Commission ("FTC") advised us that they are prepared to recommend that the FTC initiate a lawsuit against us relating to allegedly unfair trade practices, and simultaneously advised that settlement of such issues by consent decree may be possible. Based on our review of the FTC's allegations, of past practices of the FTC, of our records of our collection and servicing activities, and of other companies' settlements with the FTC, we expect that we will reach such a settlement, and that such a settlement will require that we make restitutionary payments and that we implement procedural changes under a consent decree. There can be no assurance, however, that we will reach agreement regarding any such settlement, and we may choose to contest the allegations of the FTC. Whether we reach such an agreement or not, the cost to us of contesting or settling the matter may be material. We have recorded a liability as of March 31, 2014 with respect to this matter.

In General. There can be no assurance as to the outcomes of any of the matters referenced above. We have recorded a liability as of March 31, 2014, which represents our best estimate of probable incurred losses for legal contingencies, including all of the matters described or referenced above. The amount of losses that may ultimately be incurred cannot be estimated with certainty. However, based on such information as is available to us, we believe that the range of reasonably possible losses for the legal proceedings and contingencies described or referenced above, as of March 31, 2014, and in excess of the liability we have recorded, is from $0 to $1.6 million.

Accordingly, we believe that the ultimate resolution of such legal proceedings and contingencies, after taking into account our current litigation reserves, should not have a material adverse effect on our consolidated financial condition. We note, however, that in light of the uncertainties inherent in contested proceedings, there can be no

assurance that the ultimate resolution of these matters will not significantly exceed the reserves we have accrued; as a result, the outcome of a particular matter may be material to our operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of our income for that period.

(10) Employee Benefits

On March 8, 2002 we acquired MFN Financial Corporation and its subsidiaries in a merger. We sponsor the MFN Financial Corporation Benefit Plan (the "Plan"). Plan benefits were frozen June 30, 2001. The table below sets forth the Plan's net periodic benefit cost for the three-month periods ended March 31, 2014 and 2013.

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Components of net periodic cost (benefit)		
Service cost	$–	$–
Interest cost	220	210
Expected return on assets	(432)	(335)
Amortization of transition (asset)/obligation	–	–
Amortization of net (gain) / loss	–	117
Net periodic cost (benefit)	$(212)	$(8)

We contributed $112,000 to the Plan during the three-month period ended March 31, 2014 and we anticipate making contributions in the amount of $374,000 for the remainder of 2014.

(11) Fair Value Measurements

ASC 820, "Fair Value Measurements" clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy.

ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The three levels are defined as follows: level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets; level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

In September 2008 we sold automobile contracts in a securitization that was structured as a sale for financial accounting purposes. In that sale, we retained both securities and a residual interest in the transaction that are measured at fair value. In September 2010 we took advantage of improvement in the market for asset-backed securities by re-securitizing the underlying receivables from our unrated September 2008 securitization. We also sold the securities retained from the September 2008 transaction. No gain or loss was recorded as a result of the re-securitization transaction described above. We describe below the valuation methodologies we use for the securities retained and the residual interest in the cash flows of the transaction, as well as the general classification of such instruments pursuant to the valuation hierarchy. The residual interest in such securitization is $445,000 as of March 31, 2014 and $854,000 as of December 31, 2013 and is classified as level 3 in the three-level valuation hierarchy. We determine the value of that residual interest using a discounted cash flow model that includes estimates for prepayments and losses. We used a discount rate of 20% per annum and a cumulative net loss rate of 15% at March 31, 2014 and December 31, 2013. The assumptions we used are based on historical performance of automobile contracts we have originated and serviced in the past, adjusted for current market conditions.

In September 2011, we acquired $217.8 million of finance receivables from Fireside Bank for a purchase price of $199.6 million. The receivables were acquired by our wholly-owned special purpose subsidiary, CPS Fender Receivables, LLC, which issued a note for $197.3 million, with a fair value of $196.5 million. Since the Fireside receivables were originated by another entity with its own underwriting guidelines and procedures, we have elected to account for the Fireside receivables and the related debt secured by those receivables at their estimated fair values so that changes in fair value will be reflected in our results of operations as they occur. Interest income from the receivables and interest expense on the note are included in interest income and interest expense, respectively. Changes to the fair value of the receivables and debt are included in other income. Our level 3, unobservable inputs reflect our own assumptions about the factors that market participants use in pricing similar receivables and debt, and are based on the best information available in the circumstances. They include such inputs as estimated net charge-offs and timing of the amortization of the portfolio of finance receivables. Our estimate of the fair value of the Fireside receivables is performed on a pool basis, rather than separately on each individual receivable. The table below presents a reconciliation of the acquired finance receivables and related debt measured at fair value on a recurring basis using significant unobservable inputs:

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Finance Receivables Measured at Fair Value:		
Balance at beginning of period	$14,476	$59,668
Payments on finance receivables at fair value	(5,321)	(16,519)
Charge-offs on finance receivables at fair value	(343)	(1,001)
Discount accretion	239	886
Mark to fair value	7	(13)
Balance at end of period	$9,058	$43,021
Debt Secured by Finance Receivables Measured at Fair Value:		
Balance at beginning of period	$13,117	$57,107
Principal payments on debt at fair value	(5,039)	(17,930)
Premium accretion	304	1,104
Mark to fair value	194	106
Balance at end of period	8,576	40,387
Reduction for payments collected and payable	(1,399)	(5,687)
Adjusted balance at end of period	$7,177	$34,700

The table below compares the fair values of the Fireside receivables and the related secured debt to their contractual balances for the periods shown:

	March 31, 2014	December 31, 2013

	Contractual Balance	Fair Value	Contractual Balance	Fair Value
	(In thousands)			
Fireside receivables portfolio	$9,122	$9,058	$14,786	$14,476
Debt secured by Fireside receivables portfolio	–	8,576	–	13,117

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The fair value of the debt secured by the Fireside receivables portfolio represents the discounted value of future cash flows that we estimate will become due to the lender in accordance with the terms of our financing for the Fireside portfolio. The terms of the debt provide for the lenders to receive a share of residual cash flows from the underlying receivables after the contractual balance of the debt is repaid and the Company's investment in the Fireside portfolio is returned.

Repossessed vehicle inventory, which is included in Other assets on our unaudited condensed consolidated balance sheet, is measured at fair value using level 2 assumptions based on our actual loss experience on sale of repossessed vehicles. At March 31, 2014, the finance receivables related to the repossessed vehicles in inventory totaled $28.0 million. We have applied a valuation adjustment, or loss allowance, of $16.2 million, which is based on a recovery rate of approximately 42%, resulting in an estimated fair value and carrying amount of $11.8 million. The fair value and carrying amount of the repossessed inventory at December 31, 2013 was $10.0 million after applying a valuation adjustment of $14.8 million.

There were no transfers in or out of level 1 or level 2 assets and liabilities for the three months ended March 31, 2014 and 2013. We have no level 3 assets that are measured at fair value on a non-recurring basis. The table below presents a reconciliation for level 3 assets measured at fair value on a recurring basis using significant unobservable inputs:

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Residual Interest in Securitizations:		
Balance at beginning of period	$854	$4,824
Cash paid (received) during period	(522)	(1,319)
Included in earnings	113	–
Balance at end of period	$445	$3,505

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The following table provides certain qualitative information about our level 3 fair value measurements for assets and liabilities carried at fair value:

Financial Instrument	Fair Values as of				Inputs as of	
	March 31, 2014	December 31, 2013	**Valuation** Techniques	**Unobservable** Inputs	March 31, 2014	December 31, 2013
	(In thousands)					
Assets:						
Finance receivables measured at fair value	$9,058	$ 14,476	Discounted cash flows	Discount rate	15.4%	15.4%
				Cumulative net losses	5.0%	5.0%
				Monthly average prepayments	0.5%	0.5%
Residual interest in securitizations	445	854	Discounted cash flows	Discount rate	20.0%	20.0%
				Cumulative net losses	15.0%	15.0%
				Monthly average prepayments	0.5%	0.5%
Liabilities:						
Debt secured by receivables measured at fair value	$8,576	13,117	Discounted cash flows	Discount rate	12.2%	12.2%

The estimated fair values of financial assets and liabilities at March 31, 2014 and December 31, 2013, were as follows:

Financial Instrument	As of March 31, 2014 (In thousands)				
	Carrying	Fair Value Measurements Using:			
	Value	Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$14,567	$14,567	$ –	$–	$14,567
Restricted cash and equivalents	147,596	147,596	–	–	147,596
Finance receivables, net	1,182,117	–	–	1,159,432	1,159,432
Finance receivables measured at fair value	9,058	–	–	9,058	9,058
Residual interest in securitizations	445	–	–	445	445
Accrued interest receivable	17,562	–	–	17,562	17,562
Liabilities:					
Warehouse lines of credit	$41,527	$–	$ –	$41,527	$41,527
Accrued interest payable	3,059	–	–	3,059	3,059
Residual interest financing	15,582	–	–	15,582	15,582
Debt secured by receivables measured at fair value	8,576	–	–	8,576	8,576
Securitization trust debt	1,247,380	–	–	1,288,384	1,288,384
Subordinated renewable notes	18,585	–	–	18,585	18,585

Financial Instrument	As of December 31, 2013 (In thousands)				
	Carrying	Fair Value Measurements Using:			
	Value	Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$22,112	$22,112	$ –	$–	$22,112
Restricted cash and equivalents	132,284	132,284	–	–	132,284
Finance receivables, net	1,115,437	–	–	1,100,153	1,100,153
Finance receivables measured at fair value	14,476	–	–	14,476	14,476
Residual interest in securitizations	854	–	–	854	854
Accrued interest receivable	18,670	–	–	18,670	18,670
Liabilities:					
Warehouse lines of credit	$9,452	$–	$ –	$9,452	$9,452
Accrued interest payable	2,908	–	–	2,908	2,908
Residual interest financing	19,096	–	–	19,096	19,096
Debt secured by receivables measured at fair value	13,117	–	–	13,117	13,117
Securitization trust debt	1,177,559	–	–	1,189,086	1,189,086

Senior secured debt, related party	38,559	–	–	38,559	38,559
Subordinated renewable notes	19,142	–	–	19,142	19,142

The following summary presents a description of the methodologies and assumptions used to estimate the fair value of our 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 our financial instruments, active markets do not exist. Therefore, significant elements of judgment 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 March 31, 2014 and December 31, 2013, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

Cash, Cash Equivalents and Restricted Cash and Equivalents

The carrying value equals fair value.

Finance Receivables, net

The fair value of finance receivables is estimated by discounting future cash flows expected to be collected using current rates at which similar receivables could be originated.

Finance Receivables Measured at Fair Value and Debt Secured by Receivables Measured at Fair Value

The carrying value equals fair value.

Residual Interest in Securitizations

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

Accrued Interest Receivable and Payable

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

Warehouse Lines of Credit, Residual Interest Financing, Senior Secured Debt, Related Party and Subordinated Renewable Notes

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

Securitization Trust Debt

The fair value is estimated by discounting future cash flows using interest rates that we believe reflect the current market rates.

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

Overview

We are a specialty finance company focused on consumers who have limited credit histories, low incomes or past credit problems, whom we refer to as sub-prime customers. Our business is to purchase and service retail automobile contracts originated primarily by franchised automobile dealers and, to a lesser extent, by select independent dealers in the United States in the sale of new and used automobiles, light trucks and passenger vans. Through our automobile contract purchases, we provide indirect financing to sub-prime customers of dealers. We serve as an alternative source of financing for dealers, facilitating sales to customers who otherwise might not be able to obtain financing from traditional sources, such as commercial banks, credit unions and the captive finance companies affiliated with major automobile manufacturers. In addition to purchasing installment purchase contracts directly from dealers, we have also (i) acquired installment purchase contracts in four merger and acquisition transactions, (ii) purchased immaterial amounts of vehicle purchase money loans from non-affiliated lenders, and (iii) lent money directly to consumers for an immaterial amount of loans secured by vehicles. In this report, we refer to all of such contracts and loans as "automobile contracts."

We were incorporated and began our operations in March 1991. From inception through March 31, 2014, we have purchased a total of approximately $10.6 billion of automobile contracts from dealers. In addition, we obtained a total of approximately $822.3 million of automobile contracts in mergers and acquisitions in 2002, 2003, 2004 and 2011. In 2004 and 2009, we were appointed as a third-party servicer for certain portfolios of automobile receivables originated and owned by non-affiliated entities. Beginning in 2008 through the third quarter of 2011, our managed portfolio decreased each year due to our strategy of limiting contract purchases in 2008 and 2009 to conserve our liquidity, as discussed further below. However, since October 2009 we have gradually increased contract purchases, which, in turn has resulted in recent increases to our managed portfolio. Recent contract purchase volumes and managed portfolio levels are shown in the table below:

Contract Purchases and Outstanding Managed Portfolio

	$ in thousands	
Period	Contracts Purchased in Period	Managed Portfolio at Period End
2008	$296,817	$1,664,122
2009	8,599	1,194,722
2010	113,023	756,203
2011	284,236	794,649
2012	551,742	897,575
2013	764,087	1,231,422
Three months ended March 31, 2014	189,886	1,295,225

Our principal executive offices are in Las Vegas, Nevada. Most of our operational and administrative functions take place in Irvine, California. Credit and underwriting functions are performed primarily in our California branch with certain of these functions also performed in our Florida and Nevada branches. We service our automobile contracts from our California, Nevada, Virginia, Florida and Illinois branches.

We purchase contracts in our own name ("CPS") and, until July 2008, also in the name of our wholly-owned subsidiary, TFC. Programs marketed under the CPS name are intended to serve a wide range of sub-prime customers, primarily through franchised new car dealers. Our TFC program served vehicle purchasers enlisted in the U.S. Armed Forces, primarily through independent used car dealers. In July 2008, we suspended contract purchases under our TFC program. We purchase automobile contracts with the intention of financing them on a long-term basis through securitizations. Securitizations are transactions in which we sell a specified pool of contracts to a special purpose subsidiary of ours, which in turn issues asset-backed securities to fund the purchase of the pool of contracts from us.

Securitization and Warehouse Credit Facilities

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

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

Since 1994 we have conducted 62 term securitizations (generally quarterly) of automobile contracts that we purchased from dealers under our regular programs. As of March 31, 2014, 14 of those securitizations are active and all but one are structured as secured financings. Our September 2010 transaction is our only active securitization that is structured as a sale of the related contracts. From 1994 through April 2008 we generally utilized financial guarantees for the senior asset-backed notes issued in the securitization. Since September 2010 we have utilized senior subordinated structures without any financial guarantees.

From time to time we have also completed financings of our residual interests in other securitizations that we and our affiliates previously sponsored. As of March 31, 2014 we have one such residual interest financing outstanding.

Since December 2011, our securitizations have included a pre-funding feature in which a portion of the receivables to be sold to the trust were not delivered until after the initial closing. As a result, our restricted cash balance at March 31, 2014 included $68.8 million from the proceeds of the sale of the asset-backed notes that were held by the trustee pending delivery of the remaining receivables. In April 2014, the requisite additional receivables were delivered to the trust and we received the related restricted cash, most of which was used to repay amounts owed under our warehouse credit facilities.

Portfolio Acquisitions

As stated above, we have acquired approximately $822.3 million in finance receivables through four acquisitions. These transactions took place in 2002, 2003, 2004 and September 2011. The September 2011 acquisition consisted of approximately $217.8 million of finance receivables that we purchased from Fireside Bank of Pleasanton, California.

Uncertainty of Capital Markets and General Economic Conditions

We depend upon the availability of warehouse credit facilities and access to long-term financing through the issuance of asset-backed securities collateralized by our automobile contracts. Since 1994, we have completed 62 term securitizations of approximately $8.6 billion in contracts. From the fourth quarter of 2007 through the end of 2009, we observed unprecedented adverse changes in the market for securitized pools of automobile contracts. These changes included reduced liquidity, and reduced demand for asset-backed securities, particularly for securities carrying a financial guaranty and for securities backed by sub-prime automobile receivables. Moreover, during that period many of the firms that previously provided financial guarantees, which were an integral part of our securitizations, suspended offering such guarantees. These adverse changes caused us to conserve liquidity by significantly reducing our purchases of automobile contracts. However, since September 2009 we have established new funding facilities and gradually increased our contract purchases and the frequency and amount of our term securitizations. Our recent history of term securitizations is summarized in the table below:

Recent Asset-Backed Term Securitizations

	$ in thousands	
Period	Number of Term Securitizations	Amount of Term Securitizations
2006	4	$ 957,681
2007	3	1,118,097
2008	2	509,022
2009	0	–
2010	1	103,772
2011	3	335,593
2012	4	603,500
2013	4	778,000
Three months ended March 31, 2014	1	180,000

Our 2012 securitizations included $58.2 million in contracts that were repurchased in 2012 from securitizations closed in 2006 and 2007. Our 2013 securitizations included $7.4 million in contracts that were repurchased from a securitization closed in 2008. Since 2011 all of our securitizations have been structured as secured financings and none have utilized financial guarantees.

Our current short-term funding capacity is $200 million, comprising two credit facilities. The first $100 million credit facility was established in December 2010. This facility was renewed in March 2013, extending the revolving period to March 2015, and adding an amortization period through March 2017. Our second $100 million credit facility was established in May 2012. This facility was renewed in June 2013, extending the revolving period to June 2015, and adding an amortization period through June 2016.

Financial Covenants

Certain of our securitization transactions and our warehouse credit facilities contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels. In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare a default if a default occurred under a different facility. As of March 31, 2014 we were in compliance with all such covenants.

Results of Operations

Comparison of Operating Results for the three months ended March 31, 2014 with the three months ended March 31, 2013

Revenues. During the three months ended March 31, 2014, our revenues were $68.1 million, an increase of $13.5 million, or 24.8%, from the prior year revenue of $54.6 million. The primary reason for the increase in revenues is an increase in interest income. Interest income for the three months ended March 31, 2014 increased $13.8 million, or 27.0%, to $65.0 million from $51.2 million in the prior year. The primary reason for the increase in interest income is the increase in finance receivables held by consolidated subsidiaries, which increased from $948.0 million at March 31, 2013 to $1,289.4 million at March 31, 2014. The table below shows the average balances of our portfolio held by consolidated subsidiaries for the three months ended March 31, 2014 and 2013:

	Average Balances for the Three Months Ended	
	March 31, 2014	March 31, 2013
	Amount	Amount
Finance Receivables Owned by Consolidated Subsidiaries	**($ in millions)**	
CPS Originated Receivables	$1,228.5	$856.9
Fireside	10.9	49.0
Total	$1,239.4	$905.9

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Servicing fees totaling $513,000 for the three months ended March 31, 2014 decreased $396,000, or 43.5%, from $909,000 in the prior year. We earn base servicing fees on three portfolios and incentive servicing fees on one of those three portfolios. All three of the servicing fee portfolios are decreasing in size as we receive customer payments and, consequently, base servicing and incentive servicing fees are decreasing also. As of March 31, 2014 and 2013, our managed portfolio owned by consolidated vs. non-consolidated subsidiaries and other third parties was as follows:

	March 31, 2014		March 31, 2013	
	Amount (1)	**%(2)**	Amount (1)	%(2)
Total Managed Portfolio	($ in millions)			
Owned by Consolidated Subsidiaries				
CPS Originated Receivables	$1,280.3	98.8%	$904.7	93.4%
Fireside	9.1	0.7%	43.3	4.5%
Owned by Non-Consolidated Subsidiaries	2.4	0.2%	12.3	1.3%
Third-Party Servicing Portfolios	3.4	0.3%	8.2	0.8%
Total	$1,295.2	100.0%	$968.5	100.0%

(1) Contractual balances.

(2) Percentages may not add up to 100% due to rounding.

At March 31, 2014, we were generating income and fees on a managed portfolio with an outstanding principal balance of $1,295.2 million (this amount includes $2.4 million of automobile contracts on which we earn servicing fees and own a residual interest and also includes another $3.4 million of automobile contracts on which we earn base and incentive servicing fees), compared to a managed portfolio with an outstanding principal balance of $968.5 million as of March 31, 2013. At March 31, 2014 and 2013, the managed portfolio composition was as follows:

	March 31, 2014		March 31, 2013	
	Amount (1)	%(2)	Amount (1)	%(2)
Originating Entity	($ in millions)			
CPS	$1,284.2	99.2%	$917.0	94.7%
Fireside	9.1	0.7%	43.3	4.5%
Third Party Portfolio	1.9	0.1%	8.2	0.8%
Total	$1,295.2	100.0%	$968.5	100.0%

(1) Contractual balances.

(2) Percentages may not add up to 100% due to rounding.

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Other income increased by $120,000, or 4.7%, to $2.6 million in the three months ended March 31, 2014 from $2.5 million during the prior year. The increase is comprised of an increase of $123,000 in payments from third-party providers of convenience fees paid by our customers for web based and other electronic payments, an increase of $62,000 in fees associated with direct mail and other related products and services that we offer to our dealers and an increase of $18,000 in sales tax refunds. These increases were partially offset by decreases of $68,000 in the fair value of the receivables and debt associated with the Fireside portfolio and a decrease of $16,000 in recoveries on receivables from the 2002 acquisition of MFN Financial Corporation.

Expenses. Our operating expenses consist largely of provision for credit losses, interest expense, employee costs, marketing and general and administrative expenses. Provision for credit losses and interest expense are significantly affected by the volume of automobile contracts we purchased during the trailing 12-month period and by the outstanding balance of finance receivables held by consolidated subsidiaries. Employee costs and general and administrative expenses are incurred as applications and automobile contracts are received, processed and serviced. Factors that affect margins and net income include changes in the automobile and automobile finance market environments, and macroeconomic factors such as interest rates and changes in the unemployment level.

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

Other operating expenses consist largely of facilities expenses, telephone and other communication services, credit services, computer services, marketing and advertising expenses, and depreciation and amortization.

Total operating expenses were $56.4 million for the three months ended March 31, 2014, compared to $48.1 million for the prior year, an increase of $8.3 million, or 17.3%. The increase is primarily due to the increase in the amount of new contracts we purchased, the resulting increase in our consolidated portfolio and associated servicing costs, and the related increase in our provision for credit losses. Increases in core operating expenses and provision for credit losses were partially offset by decreases in interest expense.

Employee costs increased by $1.9 million or 21.7%, to $10.9 million during the three months ended March 31, 2014, representing 19.3% of total operating expenses, from $8.9 million for the prior year, or 18.6% of total operating expenses. Since 2010, we have added employees in our Originations and Marketing departments in conjunction with the increase in contract purchases. More recently, we have also added Servicing staff to accommodate the increase in the number of accounts in our managed portfolio. The table below summarizes our employees by category as well as contract purchases and units in our managed portfolio as of, and for the three-month periods ended, March 31, 2014 and 2013:

	March 31, 2014	March 31, 2013
	Amount	Amount
	($ in millions)	
Contracts purchased (dollars)	$189.9	$180.1
Contracts purchased (units)	12,854	11,691
Managed portfolio outstanding (dollars)	$1,295.2	$968.5
Managed portfolio outstanding (units)	103,540	91,044
Number of Originations staff	171	138
Number of Marketing staff	113	89
Number of Servicing staff	340	286
Number of other staff	81	60
Total number of employees	705	573

General and administrative expenses include costs associated with purchasing and servicing our portfolio of finance receivables, including expenses for facilities, credit services, and telecommunications. General and administrative expenses were $3.6 million, a decrease of $152,000, or 4.0%, compared to the previous year and represented 6.4% of total operating expenses.

Interest expense for the three months ended March 31, 2014 decreased by $3.0 million to $13.4 million, or 18.1%, compared to $16.3 million in the previous year.

Interest expense on the Fireside portfolio credit facility decreased by $1.5 million compared to the prior year period as the Fireside portfolio and the related debt have paid down to significantly lower levels over the last year.

Interest on securitization trust debt increased by $179,000, or 2.0%, for the three months ended March 31, 2014 compared to the prior year. The outstanding amount of securitization trust debt increased 38.3% to $1,247.4 million at March 31, 2014 compared to $901.7 million at March 31, 2013. However, the blended interest rates on term securitizations completed since 2013 are significantly less than the blended interest rates on securitization trust debt incurred prior to 2013.

Interest expense on senior secured debt decreased by $1.1 million. This was due primarily to repayments of $15.0 million and $10.0 million in April 2013 and January 2014, respectively, and to the reduction in the interest rate, effective April 2013, from 16.0% to 13.0%. The remaining senior secured debt of $27.8 million was repaid on March 31, 2014. Interest expense on subordinated renewable notes decreased by $255,000. The decrease is due to a decrease in the average balance from $23.5 million to $18.7 million and a decrease in the average cost from 15.1% to 13.4%. Interest expense on residual interest financing increased $87,000 in the three months ended March 31, 2014 compared to the prior year. The increase is due to the establishment in April 2013 of a new $20 million residual interest financing. This was partially offset by the September 2013 repayment of the $13.8 million of indebtedness outstanding under the residual facility originally established in 2007.

Interest expense on warehouse debt decreased by $405,000 for the three months ended March 31, 2014 compared to the prior year. Although we increased our contract purchases to $189.9 million for the three months ended March 31, 2014 compared to $180.1 million in the prior period, recently we have relied less on warehouse credit facilities and more on unrestricted cash balances to fund receivables prior to securitization. In the future we may incur greater warehouse debt interest expense as a result of our having used $39.2 million of our unrestricted cash to repay our senior secured debt during the first quarter of 2014.

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The following table presents the components of interest income and interest expense and a net interest yield analysis for the three-month periods ended March 31, 2014 and 2013:

	Three Months Ended March 31,					
	2014			2013		
	(Dollars in thousands)					
	Average Balance (1)	Interest	Annualized Average Yield/Rate	Average Balance (1)	Interest	Annualized Average Yield/Rate
Interest Earning Assets						