BOSTON PROPERTIES INC
Form S-3
June 21, 2006
Table of Contents

As filed with the Securities and Exchange Commission on June 21, 2006

Registration Statement No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

BOSTON PROPERTIES, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	**04-2473675**
(State of Incorporation)	**(I.R.S. Employer Identification Number)**

111 Huntington Avenue, Suite 300

Boston, Massachusetts 02199-7610

(617) 236-3300

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Mortimer B. Zuckerman, Chairman

Edward H. Linde, President and Chief Executive Officer

Boston Properties, Inc.

111 Huntington Avenue, Suite 300

Boston, Massachusetts 02199-7610

(617) 236-3300

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

With copies to:

Gilbert G. Menna, P.C.	**Eric G. Kevorkian, Esq.**
Ettore A. Santucci, P.C.	**Vice President, Corporate Counsel**
Goodwin Procter LLP **Exchange Place**	**Boston Properties, Inc.** **111 Huntington Avenue, Suite 300**
Boston, Massachusetts 02109	**Boston, Massachusetts 02199-7610**
(617) 570-1000	**(617) 236-3300**

Approximate date of commencement of proposed sale to the public : From time to time after this Registration Statement becomes effective, as determined by the selling stockholders.

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

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

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(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Unit (2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee

Common Stock, par value $.01 per share	77,276	$86.325	$6,670,850.70	$714
Preferred Stock Purchase Rights	(3)	N/A	N/A	N/A

(1) This Registration Statement also relates to such additional shares as may be issuable as a result of certain adjustments including, without limitation, stock dividends, stock splits, and distributions of options, warrants, convertible securities, exchangeable securities, evidences of indebtedness, or assets.

(2) Estimated solely for the purposes of computing the registration fee pursuant to Rule 457(c) of the Securities Act of 1933, as amended, based on the average of the high and low sales prices of the Registrant s common stock on the New York Stock Exchange on June 14, 2006.

(3) This Registration Statement also relates to the rights to purchase shares of Series E Junior Participating Cumulative Preferred Stock of the Registrant which are attached to all shares of Common Stock issued, pursuant to the terms of the Registrant s Shareholder Rights Agreement dated June 16, 1997. Until the occurrence of prescribed events, the rights are not exercisable, are evidenced by the certificates for the Common Stock and will be transferred with and only with such Common Stock. Because no separate consideration is paid for the rights, the registration fee therefor is included in the fee for the Common Stock.

Pursuant to Rule 429 under the Securities Act of 1933, as amended, the prospectus included in this registration statement is a combined prospectus which also relates to Registration Statement No. 333-86585, previously filed by the Registrant on Form S-3, under which 44,390 shares of Common Stock remain unissued. This registration statement also constitutes a post-effective amendment to Registration Statement No. 333-86585.

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, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated June 21, 2006

Prospectus

BOSTON PROPERTIES, INC.

121,666 Shares of Common Stock

The selling stockholders of Boston Properties, Inc. identified in this prospectus, and any of their pledgees, donees, transferees and other successors in interest, may from time to time offer to sell up to 121,666 shares of common stock of Boston Properties, Inc. under this prospectus. The selling stockholders may only offer the common stock for sale if they exercise their right to tender their limited partnership units, or common units, of Boston Properties Limited Partnership, our operating partnership, for cash, and we exercise our right to issue common stock to them instead of cash. We are filing the registration statement of which this prospectus is a part at this time to fulfill a contractual obligation to do so, which we undertook at the time of the original issuance of the common units. We will not receive any of the proceeds from the sale of the common stock by the selling stockholders but, in fulfillment of our contractual obligations, we are bearing the expenses of registration.

Our common stock is listed on the New York Stock Exchange under the symbol BXP. On June 20, 2006 the last reported sale price of our common stock on the New York Stock Exchange was $87.48.

Investing in our securities involves various risks. In our Annual Report on Form 10-K for the year ended December 31, 2005, which is incorporated by reference in this prospectus, we identify and discuss several risk factors that you should consider before investing in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is June , 2006.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PROSPECTUS SUMMARY

This summary only highlights the more detailed information appearing elsewhere in this prospectus or incorporated herein by reference. As this is a summary, it may not contain all information that is important to you. You should read this entire prospectus carefully before deciding whether to invest in our common stock.

As used in this prospectus and the registration statement on Form S-3 of which this prospectus is a part, unless the context otherwise requires, the terms we, us, our, Boston Properties and the Company refer to Boston Properties, Inc., a Delaware corporation organized in 1997, individually or together with its subsidiaries, including Boston Properties Limited Partnership, a Delaware limited partnership, and our predecessors.

Our Company

We are a fully integrated self-administered and self-managed real estate investment trust, or REIT, and one of the largest owners and developers of office properties in the United States. Our properties are concentrated in five markets Boston, Washington, D.C., midtown Manhattan, San Francisco and Princeton, N.J. We conduct substantially all of our business through our subsidiary, Boston Properties Limited Partnership. At March 31, 2006, we owned or had interests in a portfolio of 123 properties, totaling approximately 42.7 million net rentable square feet, including four properties under construction and one redevelopment/expansion project collectively totaling approximately 1.2 million net rentable square feet, and structured parking for approximately 32,925 vehicles containing approximately 9.6 million square feet. As of March 31, 2006, our properties consisted of:

- 119 office properties comprised of 101 Class A office properties (including four properties under construction) and 18 office/technical properties;
- two hotels; and
- two retail properties.

We own or control undeveloped land totaling approximately 522.3 acres. In addition, we have a 25% interest in the Boston Properties Office Value-Added Fund, L.P., which we refer to as the Value-Added Fund, which is a strategic partnership with two institutional investors through which we intend to pursue the acquisition of assets within our existing markets that have deficiencies in property characteristics which provide an opportunity to create value through repositioning, refurbishment or renovation. Our investments through the Value-Added Fund are not included in our portfolio information tables or any other portfolio level statistics.

We are a full-service real estate company, with substantial in-house expertise and resources in acquisitions, development, financing, capital markets, construction management, property management, marketing, leasing, accounting, tax and legal services. Our principal executive office is located at 111 Huntington Avenue, Boston, Massachusetts 02199 and our telephone number is (617) 236-3300. In addition, we have regional offices at 901 New York Avenue, NW, Washington, D.C. 20001; 599 Lexington Avenue, New York, New York 10022; Four Embarcadero Center, San Francisco, California 94111; and 302 Carnegie Center, Princeton, New Jersey 08540.

The Offering

This prospectus relates to up to 121,666 shares of our common stock that may be offered for sale by the selling stockholders if, and to the extent that, they exercise their right to tender their limited partnership units, or common units, of Boston Properties Limited Partnership for cash, and we exercise our right to issue common stock to them instead of cash. Boston Properties Limited Partnership originally issued these common units to the selling stockholders in connection with our acquisition of 1301 New York Avenue in Washington, D.C. In connection with this acquisition, 44,390 common units were issued on May 8, 1998 and 77,276 common units were issued on May 8, 2001. In connection with the issuance of common units, we entered into registration rights and lock-up agreements with the selling stockholders or their predecessors in interest. We are registering the common stock covered by this prospectus in order to fulfill our contractual obligations under the registration rights and lock-up agreements. Registration of the common stock does not necessarily mean that all or any portion of such stock will be offered for sale by the selling stockholders.

We have agreed to bear the expenses of the registration of the common stock under federal and state securities laws, but we will not receive any proceeds from the sale of any common stock offered under this prospectus.

Our Tax Status

We have elected to qualify as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code. As long as we qualify for taxation as a real estate investment trust, we generally will not be subject to federal income tax on that portion of our ordinary income and capital gains that is currently distributed to our stockholders. Even if we qualify for taxation as a real estate investment trust, we may be subject to state and local taxes on our income and property and to federal income and excise taxes on our undistributed income and on any activities conducted through any taxable REIT subsidiaries of ours.

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and in accordance with the Exchange Act, we file annual, quarterly, and current reports, proxy statements, and other information with the SEC. You may read and copy any document we file at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our SEC filings are also available to the public from the SEC s website at http://www.sec.gov. In addition, you may read our SEC filings at the offices of the New York Stock Exchange (the NYSE), which is located at 20 Broad Street, New York, New York 10005. Our SEC filings are available at the NYSE because our common stock is traded on the NYSE under the symbol of BXP.

We have a website located at http://www.bostonproperties.com. The information on our website is not a part of this prospectus.

INFORMATION INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference the information we file with the SEC, which means that we can disclose important information to you by referring you to these documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede the information already incorporated by reference. Our SEC file number is 1-13087. We are incorporating by reference the documents listed below, which we have already filed with the SEC:

- our Annual Report on Form 10-K for the year ended December 31, 2005 filed on March 16, 2006;
- our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006 filed on May 10, 2006;
- our Current Reports on Form 8-K filed on March 30, 2006, April 6, 2006, May 1, 2006 and June 6, 2006;
- the description of our common stock contained in our Registration Statement on Form 8-A filed on June 12, 1997, including any amendments and reports filed for the purpose of updating such description; and
- the description of the rights to purchase shares of our Series E Junior Participating Cumulative preferred stock contained in our registration statement on Form 8-A, filed on June 12, 1997, and the description contained in our registration statement on Form 8-A/A filed on June 16, 1997 amending the description, and all amendments and reports updating that description.

Any documents we file pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of the offering of the securities to which this prospectus relates will automatically be deemed to be incorporated by reference into this prospectus and to be part hereof from the date of filing those documents. Any documents we file pursuant to these sections of the Exchange Act after the date of the initial registration statement that contains this prospectus and prior to the effectiveness of the registration statement will automatically be deemed to be incorporated by reference into this prospectus and to be part hereof from the date of filing those documents.

Upon request, we will provide, without charge, to each person, including any beneficial owner, to whom a copy of this prospectus is delivered a copy of the documents incorporated by reference in this prospectus. You may request a copy of these filings, and any exhibits we have specifically incorporated by reference as an exhibit in this prospectus, by writing or telephoning us at the following:

Boston Properties, Inc.

111 Huntington Avenue

Boston, Massachusetts 02199-7610

Attention: Investor Relations

(617) 236-3300

Table of Contents

This prospectus is part of a registration statement we filed with the SEC. We have incorporated exhibits into the registration statement. You should read the exhibits carefully for provisions that may be important to you.

You should rely only on the information incorporated by reference or provided in this prospectus or any prospectus supplement. We have not authorized anyone to provide you with different or additional information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or in the documents incorporated by reference is accurate as of any date other than the date on the front of this prospectus or the date of the applicable documents.

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the information incorporated by reference into this prospectus, and any accompanying prospectus supplement, contain forward-looking statements within the meaning of the federal securities laws. We caution investors that any forward-looking statements contained in this prospectus or any of the documents incorporated by reference, or which management may make orally or in writing from time to time, are based on management s beliefs and on assumptions made by, and information currently available to, management. When used, the words anticipate, believe, estimate, expect, intend, may, might, plan, project, result, should, will, and similar expressior solely to historical matters are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events, or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants financial condition, and competition from other developers, owners, and operators of real estate);

- risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments including the risk associated with interest rates impacting the cost and/or availability of financing;

- risks associated with forward interest rate contracts and the effectiveness of such arrangements;

- failure to manage effectively our growth and expansion into new markets and submarkets or to integrate acquisitions successfully;

- risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits, and public opposition to such activities);

- risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;

- risks associated with actual or threatened terrorist attacks;

- risks associated with the impact on our insurance program if the Terrorism Risk Insurance Act, or TRIA, which expires on December 31, 2007, is not extended or is extended on different terms;

- costs of compliance with the Americans with Disabilities Act and other similar laws;

- potential liability for uninsured losses and environmental contamination;

risks associated with our potential failure to qualify as a real estate investment trust under the Internal Revenue Code of 1986, as amended, and possible adverse changes in tax and environmental laws;

risks associated with possible state and local tax audits;

Table of Contents

- risks associated with our dependence on key personnel whose continued service is not guaranteed; and

- the other risk factors identified our Annual Report on Form 10-K for the year ended December 31, 2005, as well as in our other reports filed from time to time with the SEC and any prospectus supplement.

The risks included here are not exhaustive and you should be aware that there may be other factors which could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our annual reports on Form 10-K and our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise. We expressly disclaim any responsibility to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events, or otherwise, and you should not rely upon these forward-looking statements after the date of this report.

Table of Contents

USE OF PROCEEDS

We will not receive any of the proceeds of the sale by selling stockholders of the common stock covered by this prospectus. See the section entitled Selling Stockholders beginning on page 34 for a list of those persons and entities receiving proceeds from the sale of the shares of common stock.

Table of Contents

DESCRIPTION OF COMMON STOCK

The following is a summary of the material terms and provisions of our common stock. It may not contain all the information that is important to you. You can access complete information by referring to our certificate of incorporation, bylaws, our shareholder rights plan and the Delaware General Corporation Law. Our shareholder rights plan is summarized below. Our shareholder rights plan, certificate of incorporation and bylaws are incorporated by reference into the registration statement of which this prospectus is a part.

General

Under our certificate of incorporation, we have authority to issue 250,000,000 shares of common stock, par value $.01 per share. As of March 31, 2006, there were:

- 112,813,657 shares of our common stock issued and outstanding;
- 21,167,704 common units of partnership interest in Boston Properties Limited Partnership issued and outstanding (other than the common units held by Boston Properties, Inc.), each of which is redeemable for one share of our common stock (if we elect to issue common stock rather than pay cash upon such redemption);
- 374,119 long term incentive units of partnership interest in Boston Properties Limited Partnership issued and outstanding pursuant to the Long-Term Incentive Plan, each of which, upon the satisfaction of certain conditions, is convertible into one common unit; and
- 3,701,335 Series Two preferred units of partnership interest in Boston Properties Limited Partnership issued and outstanding, each of which is currently convertible into approximately 1.312336 common units (or a total of 4,857,395 common units).

We may issue common stock from time to time. Our board of directors must approve the amount of stock we sell and the price for which it is sold. Holders of our common stock do not have any preferential rights or preemptive rights to buy or subscribe for capital stock or other securities that we may issue. However, each outstanding share of our common stock currently has attached to it one preferred stock purchase right issued under our shareholder rights plan, which is summarized below. Our common stock does not have any redemption or sinking fund provisions or any conversion rights.

All of our common stock, when issued, will be duly authorized, fully paid and nonassessable. This means that the full price for our outstanding common stock will have been paid at the time of issuance and that any holder of our common stock will not later be required to pay us any additional money for our common stock.

Dividends

Subject to the preferential rights of any other shares of our stock and the provisions of our certificate of incorporation regarding excess shares, holders of our common stock may receive dividends out of assets that we can legally use to pay dividends when and if they are authorized and declared by our board of directors. In the event we are liquidated, dissolved or our affairs are wound up, each common stockholder shares in the same proportion as other common stockholders out of assets that we can legally use to pay distributions after we pay or make adequate provision for all of our known debts and liabilities.

Voting rights

Subject to the provisions of our certificate of incorporation regarding excess shares, holders of common stock will have the exclusive power to vote on all matters presented to our stockholders, including the election of directors, except as otherwise provided by Delaware law or as provided with respect to any other shares of our stock. Holders of our common stock are entitled to one vote per share. There is no cumulative voting in the

election of our directors. Generally, all matters to be voted on by stockholders must be approved by a majority, or, in the case of the election of directors, by a plurality, of the votes present in person or represented by proxy and entitled to vote at a meeting at which a quorum is present, subject to any voting rights granted to holders of any then outstanding preferred stock.

Other rights

Subject to the provisions of our certificate of incorporation regarding excess shares, all shares of our common stock have equal dividend, distribution, liquidation and other rights, and have no preference, appraisal or exchange rights, except for any appraisal rights provided by Delaware law.

Delaware law generally requires that we obtain the approval of a majority of the outstanding shares of our common stock that are entitled to vote before we may consolidate our stock or merge with another corporation. However, Delaware law does not require that we seek approval of our stockholders to enter into a merger in which we are the surviving corporation following the merger if:

- our certificate of incorporation is not amended in any respect by the merger;
- each share of our stock outstanding prior to the merger is to be an identical share of stock following the merger; and
- any shares of common stock (together with any other securities convertible into shares of common stock) to be issued or delivered as a result of the merger represent in the aggregate no more than 20% of the number of shares of our common stock outstanding immediately prior to the merger.

Restrictions on ownership

For us to qualify as a real estate investment trust under the Internal Revenue Code, no more than 50% in value of our outstanding stock may be owned, actually or constructively, by five or fewer individuals during the last half of a taxable year. To assist us in meeting this requirement, we may take actions including the automatic conversion of shares in excess of this ownership restriction into excess shares to limit the ownership of our outstanding equity securities, actually or constructively, by one person or entity. See the section entitled Limits on Ownership of Our Stock beginning on page 12.

Transfer agent

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A. (f.k.a. EquiServe Trust Company, N.A.).

Preferred shares

Under our certificate of incorporation, we have authority to issue up to 50,000,000 shares of preferred stock. We do not have any preferred stock outstanding as of the date of this prospectus. We may issue preferred stock from time to time, in one or more series, as authorized by our board of directors. Prior to issuance of shares of each series, our board of directors is required by the Delaware General Corporation Law and our certificate of incorporation to fix for each series, subject to the provisions of our certificate of incorporation regarding excess shares, the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption, as are permitted by Delaware law. The preferred stock will, when issued, be fully paid and nonassessable and will have no preemptive rights. Our board of directors could authorize the issuance of preferred stock with terms and conditions that could have the effect of discouraging a takeover or other transaction that holders of our common stock might believe to be in their best interests or in which holders of some, or a majority, of our common stock might receive a premium for their shares over the then market price of our common stock.

Table of Contents

Under our certificate of incorporation, we have authority to issue up to 200,000 shares of Series E junior participating cumulative preferred stock. At March 31, 2006, none of the Series E junior participating cumulative preferred stock were issued or outstanding. Shares of our Series E junior participating cumulative preferred stock may be issued under our shareholder rights plan, which is summarized below.

Shareholder rights plan

In 1997, our board of directors adopted a shareholder rights plan and entered into a shareholder rights agreement with Computershare Trust Company, N.A. (successor agent to BankBoston, N.A.), as rights agent. The rights may discourage, delay or prevent hostile takeovers. They are not intended, however, to interfere with any merger or other business combination approved by our board of directors.

Under our shareholder rights plan, one preferred stock purchase right is attached to each outstanding share of our common stock. We refer to these preferred stock purchase rights as the rights. Each share of common stock issued in the future will also receive a right until any of the rights become exercisable. Until a right is exercised, the holder of a right does not have any additional rights as a stockholder. These rights will expire on June 16, 2007, unless previously redeemed or exchanged by us as described below. These rights trade automatically with our common stock and will separate from the common stock and become exercisable only under the circumstances described below.

In general, the rights will separate from our common stock and become exercisable when the first of the following events happens:

(1) ten calendar days after a public announcement that a person or a group of affiliated or associated persons has acquired beneficial ownership of more than 15% of the sum of our outstanding common stock and excess stock, the date of such public announcement being referred to as a stock acquisition date; or

(2) ten business days, or such other date determined by our board of directors, after the beginning of a tender offer or exchange offer that would result in a person or group beneficially owning more than 15% of the sum of our outstanding common stock and excess stock.

Under our shareholder rights plan, shares of our common stock that may be issued upon redemption of outstanding common units of limited partnership interest in Boston Properties Limited Partnership are not included in the definition of beneficial ownership.

However, if a person who became a limited partner of Boston Properties Limited Partnership at the time of our initial public offering acquires beneficial ownership of more than 15% of the sum of our common stock and excess stock, the rights will not become exercisable unless the acquisition results in that person acquiring a percentage of the outstanding shares of our outstanding common stock plus outstanding common units of limited partnership interest of Boston Properties Limited Partnership that is greater than the percentage of outstanding shares of common stock plus outstanding common units of limited partnership interest of Boston Properties Limited Partnership that such person held at the completion of our initial public offering. In addition, no group of which Messrs. Zuckerman or E. Linde, any of their respective heirs, legatees or devisees, or any other person whose beneficial ownership of shares of our common stock would be attributed to Mr. Zuckerman and Mr. E. Linde, respectively, under the Internal Revenue Code, will be deemed to beneficially own any of our securities owned by that person. Common units of limited partnership interest of Boston Properties Limited Partnership held by Boston Properties, Inc. are excluded in making these calculations.

If the rights become exercisable, holders of the rights will be able to purchase from us a unit of preferred stock equal to one one-thousandth of a share of our Series E junior participating cumulative preferred stock at a cash exercise price of $100 per unit, subject to adjustment. We have designated 200,000 shares of Series E junior participating cumulative preferred stock and have reserved these shares for issuance under our shareholder rights plan. However, all rights owned by any persons or groups triggering the event shall be void.

Table of Contents

In the event that a stock acquisition date occurs, the rights (other than those held by the person or group triggering the stock acquisition date, whose rights will become null and void) will be exercisable for units of our Series E junior participating cumulative preferred stock having a market value of two times the exercise price of the rights.

In addition, if at any time following a stock acquisition date:

- we enter into a merger or other business combination transaction in which we are not the surviving entity;

- we enter into a merger or other business combination transaction in which all or part of our common stock is exchanged for stock or other securities of any other person or cash or any other property; or

- we sell, transfer or mortgage 50% or more of our assets or earning power;

then each holder of a right, other than rights held by the person or group who triggered the event, will be entitled to receive, upon exercise, common stock of the acquiring company having a market value equal to two times the exercise price of the right.

At any time on or after the date on which the rights separate and become exercisable, our board of directors may, at its option, exchange all or any part of the then outstanding and exercisable rights for shares of our common stock or units of Series E junior participating cumulative preferred stock at an exchange ratio of one share or one unit per right. However, our board of directors generally will not be empowered to effect an exchange at any time after any person becomes the beneficial owner of 50% or more of our outstanding common stock.

We may redeem the rights in whole, but not in part, at a price of $.001 per right at any time before the earlier of (1) the date that is ten calendar days after a stock acquisition date or (2) the expiration date of the rights plan. The rights will expire at the close of business on June 16, 2007 unless we redeem them before that date.

We may, in our sole discretion, amend any provision of the rights agreement until the rights become exercisable. After the rights become exercisable, we may, subject to specified limitations, amend the rights agreement only to cure any ambiguity, defect or inconsistency, to shorten or lengthen any time period, or to make changes that do not adversely affect the interests of the holders of the rights.

The above description of our shareholder rights plan is not intended to be a complete description. For a full description of the shareholder rights plan, you should read the rights agreement. The foregoing description of shareholder rights plan is qualified in its entirety by reference to the rights agreement. A copy of the shareholder rights plan has been filed with the SEC and is incorporated herein by reference.

Table of Contents

LIMITS ON OWNERSHIP OF OUR STOCK

Ownership limits

For us to qualify as a real estate investment trust under the Internal Revenue Code, among other things, not more than 50% in value of our outstanding stock may be owned, actually or constructively, by five or fewer individuals during the last half of a taxable year (other than the first year), and our outstanding stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months (other than the first year) or during a proportionate part of a shorter taxable year. In order to protect us against the risk of losing our status as a real estate investment trust and to otherwise protect us from the consequences of a concentration of ownership among our stockholders, our certificate of incorporation provides that generally no holder may beneficially own more than 6.6% of any class or series of our stock. Under our certificate of incorporation, a person generally beneficially owns shares if:

- the person has direct ownership of the shares;

- the person has indirect ownership of the shares taking into account the constructive ownership rules of Section 544 of the Internal Revenue Code, as modified by Section 856(h)(1)(B) of the Internal Revenue Code; or

- the person would be deemed to beneficially own the shares pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

Our certificate of incorporation provides two exceptions to the 6.6% ownership limit.

15% Related Party Ownership Limit

Each of Messrs. Zuckerman and E. Linde, together with his respective heirs, legatees, devisees and any other person whose beneficial ownership of shares of our common stock would be attributed to him under the Internal Revenue Code, is subject to an ownership limit of 15%.

15% Look-Through Entity Ownership Limit

Trusts described in Section 401(a) of the Internal Revenue Code and exempt from tax under Section 501(a) of the Internal Revenue Code, as modified by Section 856(h)(3) of the Internal Revenue Code, and entities registered under the Investment Company Act of 1940 are subject to an ownership limit of 15%. These types of entities are among the entities that are not treated as stockholders under the requirement that not more than 50% in value of our outstanding stock be owned by five or fewer individuals during the last half of a taxable year other than our first year. Rather, the beneficial owners of these entities will be counted as stockholders for this purpose.

Additionally, our board of directors may, in its sole discretion, waive the foregoing ownership limits if evidence satisfactory to the board of directors is presented that the changes in ownership will not jeopardize our status as a real estate investment trust and the board of directors otherwise determines that such action is in our best interests.

These ownership limitations may have the effect of precluding the acquisition of control of our company.

Shares in excess of ownership limits

Purported transfers of our stock or beneficial ownership of our stock that would result in:

- any person violating the ownership limit applicable to that person;

our stock being beneficially owned by fewer than 100 persons;

Table of Contents

Boston Properties, Inc. being closely held with the meaning of Section 856(h) of the Internal Revenue Code; or

Boston Properties, Inc. constructively owning 10% or more of one of our tenants,

shall be null and void and of no effect with respect to the number of shares of stock that would cause such result. These shares will be converted automatically into an equal number of shares of our excess stock that will be transferred by operation of law to a trust for the benefit of a qualified charitable organization selected by us. Additionally, events other than purported transfers that would result in the occurrence of any of the events described above will result in a number of shares of stock sufficient to prevent the occurrence of such event converting into an equal number of shares of our excess stock and being transferred to the trust. As soon as practicable after the transfer of shares to the trust, the trustee of the trust will be required to sell the excess stock to a person who could own the shares without violating the applicable limits and distribute to the original transferee-stockholder an amount equal to the lesser of:

the proceeds of the sale; or

the price paid by the original transferee-owner for the shares of our stock that converted into excess stock in the purported transfer that triggered such conversion or, if the event that triggered the conversion of shares into excess stock was a gift or an event other than a transfer, the market price of the shares of our stock that converted into excess stock on the date of such event, which will be determined in the manner set forth in our certificate of incorporation.

All dividends and other distributions received with respect to the excess stock prior to their sale by the trust and any proceeds from the sale by the trust in excess of the amount distributable to the original transferee-owner will be distributed to the beneficiary of the trust.

The foregoing restrictions will not apply if our board of directors determines that it is no longer in our best interests to attempt to, or to continue to, qualify as a real estate investment trust.

Right to purchase excess shares

In addition to the foregoing transfer restrictions, we have the right, for a period of 90 days during the time any shares of excess stock are held by the trust, to purchase all or any portion of these shares for the lesser of:

the price paid by the original transferee-owner for the shares of our stock that converted into excess stock in the purported transfer that triggered such conversion or, if the event that triggered the conversion of shares into excess stock was a gift or an event other than a transfer, the market price of the shares of our stock that converted into excess stock on the date of such event, which will be determined in the manner set forth in our certificate of incorporation; or

the market price of our stock on the date we exercise our option to purchase, which will be determined in the manner set forth in our certificate of incorporation.

The 90-day period begins on the date of the purported transfer or other event that resulted in the conversion of shares into excess stock if the original transferee-stockholder gives notice to us of such event or, if no notice is given, the date on which our board of directors determines that such event has occurred.

Disclosure of stock ownership by our stockholders

Each of our stockholders will be required to disclose to us upon demand in writing any information we may request to determine our status as a real estate investment trust and ensure compliance with the ownership limits.

Table of Contents

IMPORTANT PROVISIONS OF DELAWARE LAW, OUR CERTIFICATE OF INCORPORATION AND BYLAWS AND OTHER GOVERNANCE DOCUMENTS

The following is a summary of important provisions of Delaware law, our certificate of incorporation and bylaws and other governance documents which affect us and our stockholders. The description below is intended as only a summary. You can access complete information by referring to the Delaware General Corporation Law, our certificate of incorporation and bylaws and the other governance documents referred to in this section.

Business combinations with interested stockholders under Delaware law

Section 203 of the Delaware General Corporation Law prevents a publicly held corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

- before the date on which the person became an interested stockholder, the board of directors of the corporation approved either the business combination or the transaction which resulted in the person becoming an interested stockholder;
- the interested stockholder owned at least 85% of the outstanding voting stock of the corporation at the time the transaction commenced, excluding stock held by directors who are also officers of the corporation and by employee stock plans that do not provide participants with the rights to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or after the date on which the person became an interested stockholder, the business combination is approved by the board of directors and the holders of at least two-thirds of the voting stock of the corporation voting at a meeting, excluding the voting stock owned by the interested stockholder.

As defined in Section 203, the term interested stockholder is generally (1) a person who, together with affiliates and associates, owns 15% or more of a corporation s outstanding voting stock or (2) a person who is an affiliate or associate of the corporation and was, together with affiliates and associates, the owner of 15% or more of a corporation s outstanding voting stock within the past three years. As defined in Section 203, a business combination includes mergers, consolidations, stock and assets sales and other transactions with the interested stockholder.

The provisions of Section 203 may have the effect of delaying, deferring or preventing a change of control of our company.

Amendment of our certificate of incorporation and bylaws

Amendments to our certificate of incorporation must be approved by the affirmative vote of more than 75% of the directors then in office and generally by the vote of a majority of the votes entitled to be cast at a meeting of our stockholders. However, the affirmative vote of not less than 75% of our outstanding shares entitled to vote thereon, voting together as a single class, and the affirmative vote of not less than 75% of the outstanding shares of each class entitled to vote thereon, is required for amendments dealing with fundamental governance provisions of our certificate of incorporation, including provisions relating to:

- stockholder action;
- the powers, election of, removal of and classification of directors;
- limitation of liability; and

amendment of our bylaws or certificate of incorporation.

Table of Contents

Unless otherwise required by law, our board of directors may amend our bylaws by a majority vote of our directors then in office. Our bylaws may also be amended at a meeting of stockholders by the affirmative vote of a majority of the shares present in person or represented by proxy at the meeting and entitled to be cast on such amendment, voting together as a single class, if our board of directors recommends the approval of the amendment. Otherwise our bylaws may be amended at a meeting of stockholders by the affirmative vote of at least 75% of the outstanding shares of capital stock entitled to vote on such amendment, voting together as a single class.

Meetings of stockholders

Under our bylaws, we will hold annual meetings of our stockholders at a date and time as determined by our board of directors, Chairman or President. Our bylaws require advance notice for our stockholders to make nominations of candidates for our board of directors or bring other business before an annual meeting of our stockholders. Only our board of directors can call special meetings of our stockholders and any special meeting is restricted to considering and acting upon matters set forth in the notice of that special meeting.

Board of directors

Our board of directors is divided into three classes. As the term of each class expires, directors will be elected to that class for a term of three years and until their successors are duly elected and qualified.

Our certificate of incorporation provides that the affirmative vote of more than 75% of the directors then in office is required to approve fundamental transactions or actions, including:

- a change of control of Boston Properties, Inc. or of Boston Properties Limited Partnership;
- any amendment to the limited partnership agreement of Boston Properties Limited Partnership;
- any waiver of the limitations on ownership contained in our certificate of incorporation;
- any merger, consolidation or sale of all or substantially all of the assets of Boston Properties, Inc. or of Boston Properties Limited Partnership;
- certain issuances of equity securities by Boston Properties, Inc. (but not including, among others, underwritten public offerings);
- Boston Properties, Inc. or Boston Properties Limited Partnership making a general assignment for the benefit of creditors or instituting any proceedings in bankruptcy or for the liquidation, dissolution, reorganization or winding up of either entity or consenting to the taking of any of these actions against either entity;
- any amendment of our certificate of incorporation;
- Boston Properties, Inc. conducting business other than through Boston Properties Limited Partnership, or for either of them to engage in any business other than the ownership, construction, development, management and operation of commercial real estate properties; and
- termination of our status as a REIT.

Shareholder rights plan and ownership limitations

We have adopted a shareholder rights agreement. In addition, our certificate of incorporation contains provisions that limit the ownership by any person of shares of any class or series of our capital stock. See the section entitled Description of Common Stock Shareholder rights plan beginning on page 10 and the section entitled Limits on Ownership of Our Stock beginning on page 12.

Table of Contents

Limitation of directors and officers liability

Our certificate of incorporation generally limits the liability of our directors to us to the fullest extent permitted by Delaware law, as it now exists or may in the future be amended. The Delaware General Corporation Law permits a corporation to indemnify its directors, officers, employees or agents and expressly provides that the indemnification provided for under the Delaware General Corporation Law shall not be deemed exclusive of any indemnification right under any bylaw, agreement, vote of stockholders or disinterested directors, or otherwise. Delaware law permits indemnification against expenses and certain other liabilities arising out of legal actions brought or threatened against these persons for their conduct on behalf of a corporation, provided that each such person acted in good faith and in a manner that he or she reasonably believed was in or not opposed to the corporation s best interests and, in the case of a criminal proceeding, provided each person had no reasonable cause to believe his or her conduct was unlawful. Delaware law does not allow indemnification of directors in the case of an action by or in the right of a corporation unless the directors successfully defend the action or indemnification is ordered by the court.

Our bylaws provide that our directors and officers will be, and, in the discretion of our board of directors, non-officer employees may be, indemnified by us to the fullest extent authorized by Delaware law, as it now exists or may in the future be amended, against all expenses and liabilities actually and reasonably incurred in connection with service for or on behalf of our company. Our bylaws also provide that the right of directors and officers to indemnification shall be a contract right and shall not be exclusive of any other right now possessed or hereafter acquired under any bylaw, agreement, vote of stockholders, or otherwise.

Our certificate of incorporation contains a provision permitted by Delaware law that generally eliminates the personal liability of directors for monetary damages for breaches of their fiduciary duty, including breaches involving negligence or gross negligence in business combinations, unless the director has breached his or her duty of loyalty, failed to act in good faith, engaged in intentional misconduct or a knowing violation of law, paid a dividend or approved a stock repurchase in violation of the Delaware General Corporation Law or obtained an improper personal benefit. This provision does not alter a director s liability under the federal securities laws. In addition, this provision does not affect the availability of equitable remedies, including an injunction or rescission, for breach of fiduciary duty.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers or persons controlling our company pursuant to the foregoing provisions, we have been informed that in the opinion of the staff 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.

Indemnification agreements

We have entered into indemnification agreements with each of our directors and some of our officers. The indemnification agreements require, among other things, that we indemnify our directors and officers to the fullest extent permitted by law and advance to our directors and officers all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted. Under these agreements, we must also indemnify and advance all expenses incurred by our directors and officers seeking to enforce their rights under the indemnification agreements and may cover our directors and officers under our directors and officers liability insurance. Although the form of indemnification agreement offers substantially the same scope of coverage afforded by law, it provides greater assurance to our directors and officers that indemnification will be available, because, as a contract, it cannot be modified unilaterally in the future by our board of directors or stockholders to eliminate the rights it provides.

Boston Properties Limited Partnership Agreement

We have agreed in the limited partnership agreement of Boston Properties Limited Partnership not to engage in specified extraordinary transactions, including, among others, business combinations, unless limited partners of Boston Properties Limited Partnership, other than Boston Properties, Inc., receive, or have the

Table of Contents

opportunity to receive, either (1) the same consideration for their partnership interests as holders of our common stock in the transaction or (2) limited partnership units that, among other things, would entitle the holders, upon redemption of these units, to receive shares of common equity of a publicly traded company or the same consideration as holders of our common stock received in the transaction. If these limited partners would not receive such consideration, we cannot engage in the transaction unless limited partners holding at least 75% of the common units of limited partnership interest, other than those held by Boston Properties, Inc. or its affiliates, consent to the transaction. In addition, we have agreed in the limited partnership agreement of Boston Properties Limited Partnership that we will not complete business combinations in which we receive the approval of our common stockholders unless either (1) limited partners holding at least 75% of the common units of limited partnership interest, other than those held by Boston Properties, Inc. or its affiliates, consent to the transaction or (2) the limited partners of Boston Properties Limited Partnership are also allowed to vote and the transaction would have been approved had these limited partners been able to vote as common stockholders on the transaction. Therefore, if our common stockholders approve a specified extraordinary transaction, the partnership agreement requires the following before we can complete the transaction:

- holders of partnership interests in Boston Properties Limited Partnership, including Boston Properties, Inc., must vote on the matter;
- Boston Properties, Inc. must vote all of its partnership interests in the same proportion as our stockholders voted on the transaction; and
- the result of the vote of holders of partnership interests in Boston Properties Limited Partnership must be such that had such vote been a vote of stockholders, the transaction would have been approved.

Table of Contents

UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following discussion describes the material United States federal income tax consequences relating to our qualifications as a REIT and the ownership and disposition of shares of our common stock.

Because this is a summary that is intended to address only certain material United States federal income tax consequences relating to the ownership and disposition of shares of our common stock generally applicable to holders, it may not contain all the information thsp; (In thousands) Finance receivables   Automobile finance receivables, net of unearned interest $2,086,227 $2,298,608 Unearned acquisition fees and originations costs 5,648   6,376 Finance receivables $2,091,875 $2,304,984

10

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
	(In thousands)	
Delinquency Status		
Current	$1,919,642	$2,069,617
31 - 60 days	104,314	138,395
61 - 90 days	43,330	63,081
91 + days.	18,941	27,515
	$2,086,227	$2,298,608

Finance receivables totaling $18.9 million and $27.5 million at March 31, 2018 and December 31, 2017, 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 incurred credit losses that can be reasonably estimated in our portfolio of automobile contracts. The estimate for probable incurred credit losses is reduced by our estimate for future recoveries on previously incurred losses. Provision for credit losses is charged to our consolidated statement of operations. Net losses incurred on finance receivables are charged to the allowance. 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, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Balance at beginning of period	$109,187	$95,578
Provision for credit losses on finance receivables.	40,507	47,167
Charge-offs	(56,102)	(50,299)
Recoveries	7,252	6,809
Balance at end of period	$100,844	$99,255

11

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2018	December 31, 2017
	(In thousands)	
Gross balance of repossessions in inventory	$37,190	$33,679
Allowance for losses on repossessed inventory	(25,771)	(24,024)
Net repossessed inventory included in other assets	$11,419	$9,655

(3) ***Securitization Trust Debt***

We have completed many 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, 2018 (2)	Initial Principal	Outstanding Principal at March 31, 2018	Outstanding Principal at December 31, 2017	Weighted Average Contractual Interest Rate at March 31, 2018
	(Dollars in thousands)					
CPS 2013-B	September 2020	$17,882	$205,000	$15,089	$18,407	2.08%
CPS 2013-C	December 2020	22,318	205,000	21,936	25,559	6.15%
CPS 2013-D	March 2021	22,804	183,000	21,146	24,917	5.31%
CPS 2014-A	June 2021	28,297	180,000	26,161	30,521	4.50%

CPS 2014-B	September 2021	40,715	202,500	38,976	44,516	3.86%
CPS 2014-C	December 2021	64,831	273,000	63,405	71,174	4.02%
CPS 2014-D	March 2022	71,801	267,500	70,473	79,099	4.32%
CPS 2015-A	June 2022	79,551	245,000	78,174	87,194	3.93%
CPS 2015-B	September 2022	93,331	250,000	92,899	102,873	3.84%
CPS 2015-C	December 2022	129,017	300,000	127,836	141,362	4.32%
CPS 2016-A	March 2023	165,582	329,460	164,649	180,761	4.66%
CPS 2016-B	June 2023	188,408	332,690	184,355	201,199	4.72%
CPS 2016-C	September 2023	190,875	318,500	186,387	203,504	4.28%
CPS 2016-D	April 2024	140,642	206,325	138,114	149,671	3.28%
CPS 2017-A	April 2024	152,891	206,320	149,832	161,892	3.44%
CPS 2017-B	December 2023	183,726	225,170	172,409	186,594	2.99%
CPS 2017-C	September 2024	189,969	224,825	181,471	197,155	2.92%
CPS 2017-D	June 2024	183,453	196,300	175,130	189,277	2.81%
CPS 2018-A	March 2025	187,493	190,000	183,672	–	2.91%
		$2,153,586	$4,540,590	$2,092,115	$2,095,675	

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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 $695.4 million in 2018, $682.8 million in 2019, $412.6 million in 2020, $211.2 million in 2021, $66.3 million in 2021, $11.7 million in 2022.*

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

12

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Debt issuance costs of $12.0 million and $12.5 million as of March 31, 2018 and December 31, 2017, respectively, have been excluded from the table above. These debt issuance costs are presented as a direct deduction to the carrying amount of the securitization trust debt on our Unaudited Condensed Consolidated Balance Sheets.

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. As of March 31, 2018, 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, 2018, restricted cash under the various agreements totaled approximately $130.8 million. 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.

On April 16, 2018 we completed our second securitization transaction of 2018. In the transaction, qualified institutional buyers purchased $201.8 million of asset-backed notes secured by $205.0 million in automobile receivables purchased by us. The sold notes, issued by CPS Auto Receivables Trust 2018-B, consist of five classes. Ratings of the notes were provided by Standard & Poor’s and Kroll Bond Rating Agency and were based on the structure of the transaction, the historical performance of similar receivables and our experience as a servicer. The weighted average yield on the notes is approximately 3.98%.

(4) ***Debt***

The terms and amounts of our other debt outstanding at March 31, 2018 and December 31, 2017 are summarized below:

			Amount Outstanding at	
			March 31, 2018	December 31, 2017
			(In thousands)	
Description	Interest Rate	Revolving Maturity		
Warehouse lines of credit	5.50% over one month Libor (Minimum 6.50%)	April 2019	$40,603	$25,629
	5.50% over one month Libor (Minimum 6.25%)	August 2018	69,791	77,546
	6.75% over a commercial paper rate (Minimum 7.75%)	November 2019	12,760	11,100
Subordinated renewable notes	Weighted average rate of 8.08% and 7.99% at March 31, 2018 and December 31, 2017, respectively	Weighted average maturity of May 2020 and March 2020 at March 31, 2018 and December 31, 2017, respectively	16,348	16,566
			$139,502	$130,841

13

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Debt issuance costs of $1.5 million and $1.9 million as of March 31, 2018 and December 31, 2017, respectively, have been excluded from the table above. These debt issuance costs are presented as a direct deduction to the carrying amount of the Warehouse lines of credit on our Unaudited Condensed Consolidated Balance Sheets.

(5) ***Interest Income and Interest Expense***

The following table presents the components of interest income:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Interest on finance receivables	$97,188	$104,496
Interest on finance receivables at fair value	3,508	–
Other interest income	210	79
Interest income	$100,906	$104,575

The following table presents the components of interest expense:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Securitization trust debt	$21,829	$20,080
Warehouse lines of credit	1,887	1,708
Subordinated renewable notes	346	300
Interest expense	$24,062	$22,088

(6) ***Earnings Per Share***

Earnings per share for the three-month periods ended March 31, 2018 and 2017 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, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Weighted average number of common shares outstanding during the period used to compute basic earnings per share	21,576	23,517
Incremental common shares attributable to exercise of outstanding options and warrants	4,088	4,706
Weighted average number of common shares used to compute diluted earnings per share	25,664	28,223

14

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

If the anti-dilutive effects of common stock equivalents were considered, shares included in the diluted earnings per share calculation for the three-months ended March 31, 2018 and 2017 would have included an additional 9.3 million and 6.6 million shares, respectively, attributable to the exercise of outstanding options and warrants.

(7) ***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 2013.

As of March 31, 2018 and December 31, 2017, we had no unrecognized tax benefits 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 $32.3 million as of March 31, 2018 is more likely than not based on forecasted future net earnings. Our net deferred tax asset of $32.3 million consists of approximately $22.7 million of net U.S. federal deferred tax assets and $9.6 million of net state deferred tax assets.

Income tax expense was $1.4 million and $3.3 million for the three months ended March 31, 2018 and 2017, which represents an effective income tax rate of 31% and 43%, respectively.

(8) Legal Proceedings

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.

For the most part, we have legal and factual defenses to consumer claims, which we routinely contest or settle (for immaterial amounts) depending on the particular circumstances of each case.

Department of Justice Industry Inquiry. In January 2015, we were served with a subpoena by the U.S. Department of Justice (the “DOJ”) directing us to produce certain documents relating to our and our subsidiaries’ and affiliates’ origination and securitization of sub-prime automobile contracts since 2005, in connection with an investigation by the DOJ in contemplation of a civil proceeding for potential violations of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The DOJ in its investigation requested information relating, among other matters, to the underwriting criteria used to originate these automobile contracts and to the representations and warranties relating to those underwriting criteria that were made in connection with the securitization of the automobile contracts. We are among several other securitizers of sub-prime automobile receivables who received such subpoenas in 2014, 2015 and 2016. We have provided the required information, and we were advised by the DOJ in February 2018 that no further information is required of us and that no enforcement action is recommended.

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Although the inquiry commenced January 2015 is thus completed as to us, no assurance can be given as to whether some other government agency may commence inquiries into or actions against us, nor as to whether the DOJ may recommence its investigation, any of which hypothetical proceedings might materially and adversely affect us.

In General. There can be no assurance as to the outcomes of the matters described or referenced above. We record at each measurement date, most recently as of March 31, 2018, our best estimate of probable incurred losses for legal contingencies, including each 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 total of probable incurred losses for legal contingencies as of March 31, 2018 is immaterial, and that the range of reasonably possible losses for the legal proceedings and contingencies we face, including those described or referenced above, as of March 31, 2018 does not exceed $1 million.

Accordingly, we believe that the ultimate resolution of such legal proceedings and contingencies 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, the wide discretion vested in the DOJ and other government agencies, and the deference that courts may give to assertions made by government litigants, there can be no assurance that the ultimate resolution of these matters will not 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.

(9) 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 the three-month periods ended March 31, 2018 and 2017.

	Three Months Ended March 31,

	2018	2017
	(In thousands)	
Components of net periodic cost (benefit)		
Service cost	$–	$–
Interest cost	194	214
Expected return on assets	(291)	(287)
Amortization of transition (asset)/obligation	–	–
Amortization of net (gain) / loss	111	101
Net periodic cost (benefit).	$14	$28

We did not make any contributions to the Plan during the three-month periods ended March 31, 2018 and 2017. We do not anticipate making any contributions for the remainder of 2018.

(10) 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.

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

Effective January 2018 we have elected to use the fair value method to value our portfolio of finance receivables acquired in January 2018 and thereafter. Our level 3, unobservable inputs reflect our own assumptions about the factors that market participants use in pricing similar receivables, 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. The table below presents a reconciliation of the finance receivables measured at fair value on a recurring basis using significant unobservable inputs:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Balance at beginning of period	$–	$ –
Finance receivables at fair value acquired during period	212,610	–
Payments on finance receivables at fair value	(6,271)	–
Interest income on finance receivables at fair value	3,508	–
Mark to fair value	–	–
Balance at end of period	$209,847	$ –

The table below compares the fair values of these finance receivables to their contractual balances for the periods shown:

	As of March 31, 2018		As of December 31, 2017	
	Contractual Balance	Fair Value	Contractual Balance	Fair Value
	(In thousands)			
Finance receivables measured at fair value	$207,952	$209,847	$ –	$ –

The following table provides certain qualitative information about our level 3 fair value measurements:

Financial Instrument	Fair Values as of			Inputs as of	
	March 31, 2018	**December 31,** 2017	Unobservable Inputs	**March 31,** 2018	**December 31,** 2017
	(In thousands)				
Assets:					
Finance receivables measured at fair value	$209,847	$ –	Discount rate	10.2% - 10.7%	n/a
			Cumulative net losses	16.0%	n/a

17

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2018 the finance receivables related to the repossessed vehicles in inventory totaled $37.2 million. We have applied a valuation adjustment, or loss allowance, of $25.8 million, which is based on a recovery rate of approximately 31%, resulting in an estimated fair value and carrying amount of $11.4 million. The fair value and carrying amount of the repossessed inventory at December 31, 2017 was $9.7 million after applying a valuation adjustment of $24.0 million.

There were no transfers in or out of level 1, level 2 or level 3 assets and liabilities for the three months ended March 31, 2018 and 2017.

The estimated fair values of financial assets and liabilities at March 31, 2018 and December 31, 2017, were as follows:

Financial Instrument	As of March 31, 2018 (In thousands)				
	Carrying	Fair Value Measurements Using:			
	Value	Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$11,573	$11,573	$ –	$–	$11,573
Restricted cash and equivalents	130,798	130,798	–	–	130,798
Finance receivables, net	1,991,031	–	–	2,104,430	2,104,430
Finance receivables measured at fair value	209,847	–	–	209,847	209,847
Accrued interest receivable	39,077	–	–	39,077	39,077
Liabilities:					
Warehouse lines of credit	$121,666	$–	$ –	$121,666	$121,666
Accrued interest payable.	4,409	–	–	4,409	4,409
Securitization trust debt	2,080,070	–	–	2,079,770	2,079,770
Subordinated renewable notes	16,348	–	–	16,348	16,348

Financial Instrument	As of December 31, 2017 (In thousands)				
	Carrying	Fair Value Measurements Using:			
	Value	Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$12,731	$12,731	$ –	$–	$12,731
Restricted cash and equivalents	111,965	111,965	–	–	111,965
Finance receivables, net	2,195,797	–	–	2,171,846	2,171,846
Accrued interest receivable	46,753	–	–	46,753	46,753
Liabilities:					
Warehouse lines of credit	$112,408	$–	$ –	$112,408	$112,408
Accrued interest payable	4,212	–	–	4,212	4,212
Securitization trust debt	2,083,215	–	–	2,089,678	2,089,678
Subordinated renewable notes	16,566	–	–	16,566	16,566

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, 2018 and December 31, 2017, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

18

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 discount rates at which similar receivables could be sold.

Finance Receivables Measured at Fair Value

The carrying value equals fair value.

Accrued Interest Receivable and Payable

The carrying value approximates fair value.

Warehouse Lines of Credit 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.

19

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

Overview

We are a specialty finance company. 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 the customers of dealers who have limited credit histories, low incomes or past credit problems, who we refer to as sub-prime customers. We serve as an alternative source of financing for dealers, facilitating sales to customers who otherwise might not be able to obtain financing from traditional sources, such as commercial banks, credit unions and the captive finance companies affiliated with major automobile manufacturers. 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) directly originated an immaterial amount of vehicle purchase money loans by lending money directly to consumers. 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, 2018, we have originated a total of approximately $14.6 billion of automobile contracts, primarily by purchasing retail installment sales contracts from dealers, and to a lesser degree, by originating loans secured by automobiles directly with consumers. In addition, we acquired a total of approximately $822.3 million of automobile contracts in mergers and acquisitions in 2002, 2003, 2004 and, most recently, in September 2011. The September 2011 acquisition consisted of approximately $217.8 million of automobile contracts that we purchased from Fireside Bank of Pleasanton, California. In 2004 and 2009, we were appointed as a third-party servicer for certain portfolios of automobile contracts originated and owned by non-affiliated entities. 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
2012	$551,742	$897,575
2013	764,087	1,231,422
2014	944,944	1,643,920
2015	1,060,538	2,031,136
2016	1,088,785	2,308,070
2017	859,069	2,333,530
Three months ended March 31, 2018	210,594	2,332,317

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 that 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.

The programs we offer to dealers and consumers are intended to serve a wide range of sub-prime customers, primarily through franchised new car dealers. We originate 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 be purchased by institutional investors. Depending on the structure, these transactions may be accounted for under generally accepted accounting principles as sales of the automobile contracts or as secured financings.

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

Since 1994 we have conducted 77 term securitizations of automobile contracts that we originated. As of March 31, 2018, 19 of those securitizations are active and all are structured as secured financings. 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. We have generally conducted our securitizations on a quarterly basis, near the end of each calendar quarter, resulting in four securitizations per calendar year. However, in 2015, we elected to defer what would have been our December securitization in favor of a securitization in January 2016, and since that time have generally conducted our securitizations near the beginning of each calendar quarter.

Our recent history of term securitizations is summarized in the table below:

Recent Asset-Backed Term Securitizations

Period	Number of Term Securitizations	$ in thousands Receivables Pledged in Term Securitizations
2012	4	$ 603,500
2013	4	778,000
2014	4	923,000
2015	3	795,000
2016	4	1,214,997
2017	4	870,000
Three months ended March 31, 2018	1	193,581

Generally, prior to a securitization transaction we fund our automobile contract purchases primarily with proceeds from warehouse credit facilities. Our current short-term funding capacity is $300 million, comprising three credit facilities. The first $100 million credit facility was established in May 2012. This facility was renewed in August 2016, extending the revolving period to August 2018, and adding an amortization period through August 2019. In April 2015, we entered into a second $100 million facility. This facility was renewed in April 2017, extending the revolving period to April 2019, followed by an amortization period to April 2021. In November 2015, we entered into a third $100 million facility. This facility was renewed in November 2017, extending the revolving period to November 2019, followed by an amortization period to November 2021.

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

In a securitization, the related special purpose subsidiary may be unable to release excess cash to us if the credit performance of the securitized automobile contracts falls short of pre-determined standards. Such releases represent a material portion of the cash that we use to fund our operations. An unexpected deterioration in the performance of securitized automobile contracts could therefore have a material adverse effect on both our liquidity and results of operations.

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 of our debt agreements other than our term securitizations contain cross-default provisions. Such cross-default provisions would allow the respective creditors to declare a default if an event of default occurred with respect to other indebtedness of ours, but only if such other event of default were to be accompanied by acceleration of such other indebtedness. As of March 31, 2018, we were in compliance with all such covenants.

Results of Operations

Comparison of Operating Results for the three months ended March 31, 2018 with the three months ended March 31, 2017

Revenues. During the three months ended March 31, 2018, our revenues were $103.6 million, a decrease of $4.0 million, or 3.8%, from the prior year revenue of $107.6 million. The primary reason for the decrease in revenues is a decrease in interest income. Interest income for the three months ended March 31, 2018 decreased $3.7 million, or 3.41%, to $100.9 million from $104.6 million in the prior year. The primary reason for the decrease in interest income is the lower interest yield on the receivables measured at fair value. The interest yield on receivables measured at fair value is reduced for the impact of expected losses and is therefore less than the yield on other finance receivables. The table below shows the average balances and interest yields of our loan portfolio for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,					
	2018			2017		
	(Dollars in thousands)					
	Average Balance	Interest	Interest Yield	Average Balance	Interest	Interest Yield
Interest Earning Assets						
Finance receivables	$2,160,975	$97,398	18.0%	$2,271,937	$104,575	18.4%
Finance receivables measured at fair value	133,543	3,508	10.5%	–	–	–
Total	$2,294,518	$100,906	17.6%	$2,271,937	$104,575	18.4%

In the three months ended March 31, 2018, other income of $2.7 million decreased by $366,000, or 12.1% compared to the prior year. The three-month period ended March 31, 2018 includes a decrease of $202,000 in revenue associated with direct mail and other related products and services that we offer to our dealers, a decrease of $120,000 in payments from third-party providers of convenience fees paid by our customers for web based and other electronic payments, and a decrease of $68,000 on payments to us for our interest in certain sold charge offs and acquired third-party portfolios, Those decreases were somewhat offset by an increase of $38,000 on sales tax refunds.

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 is affected by the balance and credit performance of our portfolio of finance receivables. Interest expense is significantly affected by the volume of automobile contracts we purchased during the trailing 12-month period and the use of our warehouse facilities and asset-backed securitizations to finance those contracts. 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 $99.0 million for the three months ended March 31, 2018, compared to $99.8 million for the prior period, a decrease of $800,000, or 0.8%. The decrease is primarily due to a decrease in provision for credit losses, offsetting increases in employee costs, interest expense and general and administrative expenses.

Employee costs increased by $2.9 million or 16.1%, to $20.6 million during the three months ended March 31, 2018, representing 20.9% of total operating expenses, from $17.8 million for the prior year, or 17.8% of total operating expenses. Employee costs for the prior year period were net of $1.4 million of direct employee costs associated with the originations of contracts during that period. Such deferred costs are then recognized over the life of the related receivables using the interest method. In the current period, new originations of our finance receivables contracts are measured at fair value and the related direct originations costs are no longer deferred. All direct origination or acquisition costs are now expensed in the acquisition period. 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, 2018 and 2017:

	March 31, 2018 Amount	March 31, 2017 Amount
	($ in millions)	
Contracts purchased (dollars)	$210.6	$229.6
Contracts purchased (units)	13,067	14,304
Managed portfolio outstanding (dollars)	$2,332.3	$2,323.2
Managed portfolio outstanding (units)	174,627	172,106
Number of Originations staff	201	212
Number of Marketing staff	129	124
Number of Servicing staff	582	548
Number of other staff	96	89
Total number of employees	1,008	973

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 $7.5 million, an increase of $573,000, or 8.3% compared to the previous year and represented 7.6% of total operating expenses.

Interest expense for the three months ended March 31, 2018 increased by $2.0 million to $24.1 million, or 8.9% and represented 24.3% of total operating expenses, compared to $22.1 million in the previous year, when it was 22.1% of total operating expenses.

Interest on securitization trust debt increased by $1.7 million, or 8.7%, for the three months ended March 31, 2018 compared to the prior period. The average balance of securitization trust debt decreased 0.4% to $2,158.2 million for the three months ended March 31, 2018 compared to $2,168.0 million for the three months ended March 31, 2017. However, the blended interest rates on new term securitizations have generally increased since June 2014. As a result, the cost of securitization debt during the three-month period ended March 31, 2018 was 4.0%, compared to 3.7% in the prior year period. For any particular quarterly securitization transaction, the blended cost of funds is ultimately the result of many factors including the market interest rates for benchmark swaps of various maturities against which our bonds are priced and the margin over those benchmarks that investors are willing accept, which in turn, is influenced by investor demand for our bonds at the time of the securitization. These and other factors have resulted in a general trend toward higher securitization trust debt interest costs since June 2014, although that trend has reversed somewhat since July 2016. The blended interest rates of our recent securitizations are summarized in the table below:

Blended Cost of Funds on Recent
Asset-Backed Term Securitizations

Period	Blended Cost of Funds
June 2014	2.37%
September 2014	2.71%
December 2014	3.07%
March 2015	3.04%
June 2015	3.18%
September 2015	3.78%
January 2016	4.34%
April 2016	4.65%
July 2016	4.48%
October 2016	3.62%
January 2017	3.91%
April 2017	3.45%
July 2017	3.52%
October 2017	3.39%
January 2018	3.46%

Interest expense on subordinated renewable notes increased by $46,000, or 15.3 %. The increase is due to an increase in the average balance by $1.2 million, or 7.8%, for the three months ended March 31, 2018 compared to the prior period. In addition, the average yield of subordinated notes increased to 8.4% in the three-month period ended March 31, 2018 compared to 7.8% in the prior period.

Interest expense on warehouse debt increased by $179,000, or 10.5 %, for the three months ended March 31, 2018 compared to the prior period. The interest is due to the higher outstanding debt balance in the current period.

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, 2018 and 2017:

	Three Months Ended March 31,					
	2018			2017		
	(Dollars in thousands)					
	Average Balance (1)	Interest	Annualized Average Yield/Rate	Average Balance (1)	Interest	Annualized Average Yield/Rate
Interest Earning Assets						
Finance receivables gross (2)	$2,160,975	$97,398	18.0%	$2,271,937	$104,575	18.4%
Finance receivables at fair value	133,543	3,508	10.5%	–	–	–

Interest Bearing Liabilities						
Warehouse lines of credit (3)	$62,258	1,887	12.3%	$52,409	1,708	13.2%
Securitization trust debt	2,158,224	21,829	4.0%	2,167,961	20,080	3.7%
Subordinated renewable notes	16,510	346	8.4%	15,312	300	7.8%
	$2,236,992	24,062	4.3%	$2,235,682	22,088	4.0%
Net interest income/spread		$76,844			$82,487	
Net interest yield (3)			13.4%			14.5%
Ratio of average interest earning assets to average interest bearing liabilities			103%			102%

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(1) Average balances are based on month end balances except for warehouse lines of credit, which are based on daily balances.
(2) Net of deferred fees and direct costs.
(3) Annualized net interest income divided by average interest earning assets.

24

	Three Months Ended March 31, 2018 Compared to March 31, 2017		
	Total Change	Change Due to Volume	Change Due to Rate
	(In thousands)		
Interest Earning Assets			
Finance receivables gross	$(7,177)	$(5,016)	$(2,161)
Finance receivables at fair value	3,508	3,508	–
	(3,669)	(1,508)	(2,161)
Interest Bearing Liabilities			
Warehouse lines of credit	179	319	(140)
Securitization trust debt	1,749	130	1,619
Subordinated renewable notes	46	21	25
	1,974	470	1,504
Net interest income/spread	$(5,643)	$(1,978)	$(3,665)

The reduction in the annualized yield on our finance receivables for the three months ended March 31, 2018 compared to the prior year period is the result of our decision over the last twelve months to offer dealers slightly lower acquisition fees and to require slightly lower contract interest rates on a portion of the contracts we purchase. Another reason for the decrease in the annualized yield is the lower interest yield on the receivables measured at fair value. The interest yield on receivables measured at fair value is reduced for the impact of expected losses and is therefore less than the yield on other finance receivables.

Provision for credit losses was $40.5 million for the three months ended March 31, 2018, a decrease of $6.7 million, or 14.1% compared to the prior year and represented 40.9% of total operating expenses. The provision for credit losses maintains the allowance for finance credit losses at levels that we feel are adequate for probable incurred credit losses that can be reasonably estimated. Our approach for establishing the allowance requires greater amounts of provision for credit losses early in the terms of our finance receivables. In addition, we monitor the delinquency and net charge off rates in our portfolio to consider how such rates may affect the allowance for finance credit losses. Finance receivables that we have originated since January 2018 are accounted for at fair value. Under the fair value method of accounting, we recognize interest income under the interest method on a level yield basis based on forecasted future cash flows net of expected credit losses. Thus, no provision for credit loss expense is recorded for finance receivables measured at fair value.

Marketing expenses consist primarily of commission-based compensation paid to our employee marketing representatives. Our marketing representatives earn a salary plus commissions based on volume of contract purchases and sales of ancillary products and services that we offer our dealers, such as training programs, internet lead sales, and direct mail products. Marketing expenses increase by $251,000, or 6.3%, to $4.2 million during the three months ended March 31, 2018, compared to $4.0 million in the prior year period, and represented 4.3% of total operating expenses. Our marketing staff increased to 129 as of March 31, 2018 compared to 124 at March 31, 2017. In addition, in recent months, we have gradually shifted to more field marketing representatives as compared to in-house marketing representatives. Field marketing representatives are somewhat more costly than in-house marketing representatives, but we feel will ultimately be more effective. For the three months ended March 31, 2018, we purchased 13,067 contracts representing $210.6 million in receivables compared to 14,304 contracts representing $229.6 million in receivables in the prior period.

Occupancy expenses increased by $189,000 or 11.4%, to $1.9 million compared to $1.7 million in the previous year and represented 2.0% of total operating expenses. In May 2017, we entered into a lease for additional office space in Las Vegas, Nevada.

Depreciation and amortization expenses increased by $12,000 or 5.3%, to $240,000 compared to $228,000 in the previous year and represented 0.2% of total operating expenses.

For the three months ended March 31, 2018 we recorded income tax expense of $1.4 million, representing a 31.0% effective income tax rate. In the prior year period, we recorded $3.3 million in income tax expense, representing a 42.5% effective income tax rate. In December 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act lowered the federal corporate income tax rate from 35% to 21% beginning in 2018.

Credit Experience

Our financial results are dependent on the performance of the automobile contracts in which we retain an ownership interest. Broad economic factors such as recession and significant changes in unemployment levels influence the credit performance of our portfolio, as does the weighted average age of the receivables at any given time. The tables below document the delinquency, repossession and net credit loss experience of all such automobile contracts that we originated or own an interest in as of the respective dates shown. The tables do not include the experience of third party originated and owned portfolios.

Delinquency, Repossession and Extension Experience (1)

Total Owned Portfolio

	March 31, 2018		March 31, 2017		December 31, 2017	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
	(Dollars in thousands)					
Delinquency Experience						
Gross servicing portfolio (1)	174,626	$2,332,313	172,105	$2,323,211	173,998	$2,333,524
Period of delinquency (2)						
31-60 days	7,684	$104,314	7,913	$109,652	10,163	$138,395
61-90 days	3,329	43,330	3,426	45,377	4,741	63,081
91+ days	1,618	18,941	2,856	33,503	2,295	27,515
Total delinquencies (2)	12,631	166,585	14,195	188,532	17,199	228,991
Amount in repossession (3)	2,882	37,227	2,996	37,650	2,630	33,679
Total delinquencies and amount in repossession (2)	15,513	$203,812	17,191	$226,182	19,829	$262,670
Delinquincies as a percentage of gross servicing portfolio	7.2%	7.1%	8.2%	8.1%	9.9%	9.8%
	8.9%	8.7%	10.0%	9.7%	11.4%	11.3%

Total delinquencies and amount in repossession as a percentage of gross servicing portfolio						
Extension Experience						
Contracts with one extension, accruing (4)	29,683	$397,622	34,649	$480,191	31,708	$430,801
Contracts with two or more extensions, accruing (4)	58,254	794,789	34,812	468,778	55,203	756,561
	87,937	1,192,411	69,461	948,969	86,911	1,187,362
Contracts with one extension, non-accrual (4)	833	9,958	1,520	18,729	1,032	12,241
Contracts with two or more extensions, non-accrual (4)	2,558	33,133	1,970	24,380	2,701	35,626
	3,391	43,091	3,490	43,109	3,733	47,867
Total contracts with extensions	91,328	$1,235,502	72,951	$992,078	90,644	$1,235,229

(1) All amounts and percentages are based on the amount remaining to be repaid on each automobile contract, including, for pre-computed automobile contracts, any unearned interest. The information in the table represents the gross principal amount of all automobile contracts we have purchased, including automobile contracts subsequently sold in securitization transactions that we continue to service. The table does not include certain contracts we have serviced for third parties on which we earn servicing fees only and have no credit risk.

(2) We consider an automobile contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date, which date may have been extended within limits specified in the Servicing Agreements. The period of delinquency is based on the number of days payments are contractually past due. Automobile contracts less than 31 days delinquent are not included. The delinquency aging categories shown in the tables reflect the effect of extensions.

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

(4) Accounts past due more than 90 days are on non-accrual.

Net Charge-Off Experience (1)
Total Owned Portfolio

	March 31, 2018	March 31, 2017	**December 31,** 2017
	(Dollars in thousands)		
Average servicing portfolio outstanding.	$2,331,582	$2,311,798	$2,334,008
Annualized net charge-offs as a percentage of average servicing portfolio (2)	8.2%	7.9%	7.7%

(1) All amounts and percentages are based on the principal amount scheduled to be paid on each automobile contract, net of unearned income on pre-computed automobile contracts.

(2) Net charge-offs include the remaining principal balance, after the application of the net proceeds from the liquidation of the vehicle (excluding accrued and unpaid interest) and amounts collected subsequent to the date of charge-off, including some recoveries which have been classified as other income in the accompanying interim consolidated financial statements. March 31, 2018 and March 31, 2017 percentages represent three months ended March 31, 2018 and March 31, 2017 annualized. December 31, 2017 represents 12 months ended December 31, 2017.

Extensions

In certain circumstances we will grant obligors one-month payment extensions to assist them with temporary cash flow problems. In general, an obligor would not be entitled to more than two such extensions in any 12-month period and no more than six over the life of the contract. 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 some 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 basic question in deciding to grant an extension is whether or not we will (a) be delaying the inevitable repossession and liquidation or (b) risk losing the vehicle as a result of not being able to locate the obligor and vehicle. In both of those situations, the loss would likely be higher than if the vehicle had been repossessed without the extension. The benefits of granting an extension include minimizing current losses and delinquencies, minimizing lifetime losses, getting the obligor's account current (or close to it) and building goodwill with the obligor so that he might prioritize us over other creditors on future payments. Our servicing staff are trained to identify when a past due obligor is facing a temporary problem that may be resolved with an extension. In most cases, the extension will be granted in conjunction with our receiving a past due payment (and where allowed by law, a nominal fee, applied to the loan as a partial payment) from the obligor, thereby indicating an additional monetary and psychological commitment to the contract on the obligor's part.

The credit assessment for granting an extension is initially made by our collector, who bases the recommendation on the collector's discussions with the obligor. In such assessments the collector will consider, among other things, the following factors: (1) the reason the obligor has fallen behind in payment; (2) whether or not the reason for the delinquency is temporary, and if it is, have conditions changed such that the obligor can begin making regular monthly payments again after the extension; (3) the obligor's past payment history, including past extensions if applicable; and (4) the obligor's willingness to communicate and cooperate on resolving the delinquency. If the collector believes the obligor is a good candidate for an extension, he must obtain approval from his supervisor, who will review the same factors stated above prior to offering the extension to the obligor. After receiving an extension, an account remains subject to our normal policies and procedures for interest accrual, reporting delinquency and recognizing charge-offs.

27

We believe that a prudent extension program is an integral component to mitigating losses in our portfolio of sub-prime automobile receivables. The table below summarizes the status, as of March 31, 2018, for accounts that received extensions from 2008 through 2016 (2017 extension data are not included at this time due to insufficient passage of time for meaningful evaluation of results):

Period of Extension	# Extensions Granted	Active or Paid Off at March 31, 2018	% Active or Paid Off at March 31, 2018	Charged Off > 6 Months After Extension	% Charged Off > 6 Months After Extension	Charged Off <= 6 Months After Extension	% Charged Off <= 6 Months After Extension	Avg Months to Charge Off Post Extension
2008	35,588	10,710	30.1%	20,059	56.4%	4,819	13.5%	19
2009	32,226	10,275	31.9%	16,168	50.2%	5,783	17.9%	17
2010	26,167	12,167	46.5%	12,001	45.9%	1,999	7.6%	19
2011	18,786	10,979	58.4%	6,875	36.6%	932	5.0%	19
2012	18,783	11,385	60.6%	6,602	35.1%	796	4.2%	18
2013	23,398	11,983	51.2%	10,439	44.6%	976	4.2%	20
2014	25,773	12,793	49.6%	12,154	47.2%	826	3.2%	19
2015	53,319	31,970	60.0%	20,267	38.0%	1,082	2.0%	17
2016	80,897	61,125	75.6%	17,839	22.1%	1,933	2.4%	12

Note: Table excludes extensions on portfolios serviced for third parties

We view these results as a confirmation of the effectiveness of our extension program. For example, of the accounts granted extensions in 2012, 60.6% were either paid in full or active and performing at March 31, 2018. Each of these successful accounts represent continued payments of interest and principal (including payment in full in many cases), where without the extension we likely would have incurred a substantial loss and no interest revenue subsequent to the extension.

For the extension accounts that ultimately charge off, we consider any that charged off more than six months after the extension to be at least partially successful. For example, of the accounts granted extensions in 2012 that subsequently charged off, such charge offs occurred, on average, 18 months after the extension, indicating that even in the cases of an ultimate loss, the obligor serviced the account with additional payments of principal and interest.

Additional information about our extensions is provided in the tables below:

	Three Months Ended March 31,		Year Ended December 31,
	2018	2017	2017
Average number of extensions granted per month	10,630	7,939	11,157
Average number of outstanding accounts	174,247	170,888	173,137
Average monthly extensions as % of average outstandings	6.1%	4.6%	6.4%

Note: Table excludes portfolios originated and owned by third parties

	March 31, 2018		March 31, 2017		December 31, 2017	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
			(Dollars in thousands)			
Contracts with one extension	30,516	$407,580	36,169	$498,920	32,740	$443,042
Contracts with two extensions	22,794	310,711	19,386	264,968	24,375	335,643
Contracts with three extensions	17,058	235,319	9,904	132,569	16,378	227,980
Contracts with four extensions	11,282	155,514	4,917	64,452	9,506	129,795
Contracts with five extensions	6,332	84,695	1,946	24,120	5,096	67,703
Contracts with six extensions	3,346	41,682	629	7,049	2,549	31,067
	91,328	$1,235,501	72,951	$992,078	90,644	$1,235,230
Managed portfolio (excluding originated and owned by 3rd parties)	174,626	$2,332,313	172,105	$2,323,211	173,998	$2,333,524

Note: Table excludes portfolios originated and owned by third parties

In recent years, we have experienced an increase in the number of extensions that we grant to our customers. We attribute this to a number of factors. First, In June 2014 we entered into a consent decree with the FTC that required us to make certain procedural changes in our servicing practices, which we believe have contributed to somewhat higher delinquencies and extensions compared to prior periods. Secondly, in recent years we have found it more difficult to communicate with our customers via outbound voice telephone calls, which have historically been our primary means of communicating with our customers. Consequently, we have recently developed text messaging platforms to supplement our outbound voice calling efforts. In addition, in 2016 we added features to the customer portal of our website to facilitate the process whereby the customer may request an extension.

Non-Accrual Receivables

It is not uncommon for our obligors to fall behind in their payments. However, with the diligent efforts of our Servicing staff and systems for managing our collection efforts, we regularly work with our customers to resolve delinquencies. Our staff are trained to employ a counseling approach to assist our customers with their cash flow management skills and help them to prioritize their payment obligations in order to avoid losing their vehicle to repossession. Through our experience, we have learned that once a customer becomes greater than 90 days past due, it is not likely that the delinquency will be resolved and will ultimately result in a charge-off. As a result, we do not recognize any interest income for contracts that are greater than 90 days past due.

If a contract exceeds the 90 days past due threshold at the end of one period, and then makes the necessary payments such that it becomes less than or equal to 90 days delinquent at the end of a subsequent period, it would be restored to full accrual status for our financial reporting purposes. At the time a contract is restored to full accrual in this manner, there can be no assurance that full repayment of interest and principal will ultimately be made. However, we monitor each obligor's payment performance and are aware of the severity of his delinquency at any time. The fact that the delinquency has been reduced below the 90-day threshold is a positive indicator. Should the contract again exceed the 90-day delinquency level at the end of any reporting period, it would again be reflected as a non-accrual account.

Our policy for placing a contract on non-accrual status is independent of our policy to grant an extension. In practice, it would be an uncommon circumstance where an extension was granted and the account remained in a non-accrual status, since the goal of the extension is to bring the contract current (or nearly current).

Liquidity and Capital Resources

Our business requires substantial cash to support our purchases of automobile contracts and other operating activities. Our primary sources of cash have been cash flows from the proceeds from term securitization transactions and other sales of automobile contracts, amounts borrowed under various revolving credit facilities (also sometimes known as warehouse credit facilities), customer payments of principal and interest on finance receivables, fees for origination of automobile contracts, and releases of cash from securitization transactions and their related spread accounts. Our primary uses of cash have been the purchases of automobile contracts, repayment of amounts borrowed under lines of credit, securitization transactions and otherwise, operating expenses such as employee, interest, occupancy expenses and other general and administrative expenses, the establishment of spread accounts and initial overcollateralization, if any, the increase of credit enhancement to required levels in securitization transactions, and income taxes. There can be no assurance that internally generated cash will be sufficient to meet our cash demands. The sufficiency of internally generated cash will depend on the performance of securitized pools (which determines the level of releases from those pools and their related spread accounts), the rate of expansion or contraction in our managed portfolio, and the terms upon which we are able to acquire and borrow against automobile contracts.

Net cash provided by operating activities for the three-month period ended March 31, 2018 was $63.2 million, an increase of $1.0 million, compared to net cash provided by operating activities for the three-month period ended March 31, 2017 of $62.2 million. Cash provided by operating activities is significantly affected by our net income before provisions for credit losses. For the three months ended March 31, 2018, our net income excluding provisions for credit losses was $43.7 million, or $8.0 million less than our net income excluding provisions for credit losses for the three months ended March 31, 2017.

Net cash used in investing activities for the three-month period ended March 31, 2018 was $67.2 million compared to net cash used in investing activities of $77.9 million in the prior year period. Cash provided by investing activities primarily results from principal payments and other proceeds received on finance receivables. Cash used in investing activities generally relates to purchases of automobile contracts. Purchases of finance receivables were $210.6 million and $229.6 million during the first three months of 2018 and 2017, respectively.

Net cash provided by financing activities for the three months ended March 31, 2018 was $2.8 million compared to net cash provided by financing activities of $13.8 million in the prior year period. Cash provided by financing activities is primarily related to the issuance of securitization trust debt, reduced by the amount of repayment of securitization trust debt and net proceeds or repayments on our warehouse lines of credit and other debt. In the first three months of 2018, we issued $190.0 million in new securitization trust debt compared to $206.3 million in the same period of 2017. In addition, we repaid $193.6 million in securitization trust debt in the three months ended March 31, 2018 compared to repayments of securitization trust debt of $205.3 million in the prior year period. In the three months ended March 31, 2018, we had net advances on warehouse lines of credit of $8.9 million, compared to net advances of $16.5 million in the prior year’s period.

We purchase automobile contracts from dealers for a cash price approximately equal to their principal amount, adjusted for an acquisition fee which may either increase or decrease the automobile contract purchase price. Those automobile contracts generate cash flow, however, over a period of years. As a result, we have been dependent on warehouse credit facilities to purchase automobile contracts, and on the availability of cash from outside sources in order to finance our continuing operations, as well as to fund the portion of automobile contract purchase prices not financed under revolving warehouse credit facilities.

The acquisition of automobile contracts for subsequent financing in securitization transactions, and the need to fund spread accounts and initial overcollateralization, if any, and increase credit enhancement levels when those transactions take place, results in a continuing need for capital. The amount of capital required is most heavily dependent on the rate of our automobile contract purchases, the required level of initial credit enhancement in securitizations, and the extent to which the previously established trusts and their related spread accounts either release cash to us or capture cash from collections on securitized automobile contracts. Of those, the factor most subject to our control is the rate at which we purchase automobile contracts.

We are and may in the future be limited in our ability to purchase automobile contracts due to limits on our capital. As of March 31, 2018, we had unrestricted cash of $11.6 million and $178.3 million aggregate available borrowings under our three warehouse credit facilities (assuming the availability of sufficient eligible collateral). As of March 31, 2018, we had approximately $16.6 million of such eligible collateral. During the three-month period ended March 31, 2018, we completed one securitization aggregating $190.0 million of notes sold. Our plans to manage our liquidity include maintaining our rate of automobile contract purchases at a level that matches our available capital, and, as appropriate, minimizing our operating costs. If we are unable to complete such securitizations, we may be unable to increase our rate of automobile contract purchases, in which case our interest income and other portfolio related income could decrease.

30

Our liquidity will also be affected by releases of cash from the trusts established with our securitizations. While the specific terms and mechanics of each spread account vary among transactions, our securitization agreements generally provide that we will receive excess cash flows, if any, only if the amount of credit enhancement has reached specified levels and the delinquency or net losses related to the automobile contracts in the pool are below certain predetermined levels. In the event delinquencies or net losses on the automobile contracts exceed such levels, the terms of the securitization may require increased credit enhancement to be accumulated for the particular pool. There can be no assurance that collections from the related trusts will continue to generate sufficient cash.

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 of our debt agreements other than our term securitizations contain cross-default provisions. Such cross-default provisions would allow the respective creditors to declare a default if an event of default occurred with respect to other indebtedness of ours, but only if such other event of default were to be accompanied by acceleration of such other indebtedness. As of March 31, 2018, we were in compliance with all such financial covenants.

We have and will continue to have a substantial amount of indebtedness. At March 31, 2018, we had approximately $2,218.1 million of debt outstanding. Such debt consisted primarily of $2,080.1 million of securitization trust debt and $121.7 million of warehouse lines of credit. Our securitization trust debt has decreased by $2.0 million while our warehouse lines of credit have increased by $1.4 million since March 31, 2017 (each net of deferred financing costs). Since 2005, we have offered renewable subordinated notes to the public on a continuous basis, and such notes have maturities that range from nine months to 10 years. We had $16.3 million and $15.3 million in subordinated renewable notes outstanding at March 31, 2018 and 2017, respectively.

Although we believe we are able to service and repay our debt, there is no assurance that we will be able to do so. If our plans for future operations do not generate sufficient cash flows and earnings, our ability to make required payments on our debt would be impaired. If we fail to pay our indebtedness when due, it could have a material adverse effect on us and may require us to issue additional debt or equity securities.

Forward Looking Statements

This report on Form 10-Q includes certain “forward-looking statements.” Forward-looking statements may be identified by the use of words such as “anticipates,” “expects,” “plans,” “estimates,” or words of like meaning. Our provision for credit losses is a forward-looking statement, as it is dependent on our estimates as to future chargeoffs and recovery rates. Factors that could affect charge-offs and recovery rates include changes in the general economic climate, which could affect the willingness or ability of obligors to pay pursuant to the terms of automobile contracts, changes in laws respecting consumer finance, which could affect our ability to enforce rights under automobile contracts, and changes in the market for used vehicles, which could affect the levels of recoveries upon sale of repossessed vehicles. Factors that could affect our revenues in the current year include the levels of cash releases from existing pools of automobile contracts, which would affect our ability to purchase automobile contracts, the terms on which we are able to finance such purchases, the willingness of dealers to sell automobile contracts to us on the terms that we offer, and the terms on which and whether we are able to complete term securitizations once automobile contracts are acquired. Factors that could affect our expenses in the current year include competitive conditions in the market for qualified personnel and interest rates (which affect the rates that we pay on notes issued in our securitizations).

Item 4. *Controls and Procedures*

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

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

The information provided under the caption "Legal Proceedings," Note 8 to the Unaudited Condensed Consolidated Financial Statements, included in Part I of this report, is incorporated herein by reference.

Item 1A. *Risk Factors*

We remind the reader that risk factors are set forth in Item 1A of our report on Form 10-K, filed with the U.S. Securities and Exchange Commission on March 7, 2018. Where we are aware of material changes to such risk factors as previously disclosed, we set forth below an updated discussion of such risks. The reader should note that the other risks identified in our report on Form 10-K remain applicable.

We have substantial indebtedness.

We have and will continue to have a substantial amount of indebtedness. At March 31, 2018, we had approximately $2,218.1 million of debt outstanding. Such debt consisted primarily of $2,080.1 million of securitization trust debt and $121.7 million of warehouse lines of credit. Our securitization trust debt has decreased by $2.0 million while our warehouse lines of credit have increased by $1.4 million since March 31, 2017 (each net of deferred financing costs). Since 2005, we have offered renewable subordinated notes to the public on a continuous basis, and such notes have maturities that range from six months to 10 years. We had $16.3 million and $15.3 million in subordinated renewable notes outstanding at March 31, 2018 and 2017, respectively. Our substantial indebtedness could adversely affect our financial condition by, among other things:

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

Although we believe we are able to service and repay such debt, there is no assurance that we will be able to do so. If we do not generate sufficient operating profits, our ability to make required payments on our debt would be impaired.

Failure to pay our indebtedness when due could have a material adverse effect.

Forward-Looking Statements

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

- changes in general economic conditions;
- our ability or inability to obtain necessary financing, and the terms of any such financing;
- changes in interest rates, especially as applicable to securitization trust debt;
- our ability to generate sufficient operating and financing cash flows;
- competition;
- level of future provisioning for receivables losses;
- the levels of actual losses on receivables; and
- regulatory requirements.

32

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

We undertake no obligation to publicly update any forward-looking information. You are advised to consult any additional disclosure we make in our periodic reports filed with the SEC.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

During the three months ended March 31, 2018, we repurchased 321,181 shares from existing shareholders, as reflected in the table below.

Issuer Purchases of Equity Securities

Period (1)	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (2)**
January 2018	–	$ –	–	$ 12,630,508
February 2018	138,030	$ 4.07	138,030	$ 12,069,162
March 2018	183,151	$ 3.88	183,151	$ 11,358,286
Total	321,181	$ 3.96	321,181	

(1) Each monthly period is the calendar month.
(2)

Through March 31, 2018, our board of directors had authorized the purchase of up to $74.5 million of our outstanding securities, under a program first announced in our annual report for the year 2002, filed on March 26, 2003. All purchases described in the table above were under the program announced in March 2003, which has no fixed expiration date.

Item 6. *Exhibits*

The Exhibits listed below are filed with this report.

4.14	Instruments defining the rights of holders of long-term debt of certain consolidated subsidiaries of the registrant are omitted pursuant to the exclusion set forth in subdivisions (b)(iv)(iii)(A) and (b)(v) of Item 601 of Regulation S-K (17 CFR 229.601). The registrant agrees to provide copies of such instruments to the United States Securities and Exchange Commission upon request.
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer of the registrant.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer of the registrant.
32	Section 1350 Certifications.*

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

33

SIGNATURES

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

CONSUMER PORTFOLIO SERVICES, INC.
(Registrant)

Date: May 8, 2018

By: /s/ CHARLES E. BRADLEY, JR.
Charles E. Bradley, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 8, 2018

By: /s/ JEFFREY P. FRITZ
Jeffrey P. Fritz
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)