

CONSUMER PORTFOLIO SERVICES INC

Form 11-K

July 09, 2007

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 11-K

(Mark One)

☒ Annual Report pursuant to Section 15(d) of the Securities  
Exchange of 1934

For the fiscal year ended December 31, 2006

OR

☐ Transition Report pursuant to Section 15(d) of the Securities  
Exchange Act of 1934 [No Fee Required]

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-11416

A. Full title of the plan and the address of the plan,  
if different from that of the issuer named below:

Consumer Portfolio Services, Inc. 401(k) Plan

B. Name of issuer of the securities held pursuant to the  
plan and the address of its principal executive office:

Consumer Portfolio Services, Inc.  
16355 Laguna Canyon Road  
Irvine, CA 92618

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REQUIRED INFORMATION

I. Financial Statements.

Financial statements and schedule prepared in accordance with the  
financial reporting requirements of the Employee Retirement Income Security Act  
of 1974, together with the report of independent registered public accounting  
firm thereon, are filed herewith.

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II. Exhibits:

Consent of Independent Registered Public Accounting Firm is filed herewith as Exhibit 23.1.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the Plan) have duly caused this annual report to be signed on its behalf by the undersigned, hereunto duly authorized.

Consumer Portfolio Services, Inc. 401(k) Plan

Date: July 9, 2007

By: /s/ Jeffrey P. Fritz

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Jeffrey P. Fritz  
Member, Administrative Committee

CONSUMER PORTFOLIO SERVICES, INC. 401(k) PLAN

Financial Statements and Supplemental Schedule

December 31, 2006 and 2005

(With Report of Independent Registered Public Accounting Firm Thereon)

CONSUMER PORTFOLIO SERVICES, INC. 401(k) PLAN

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## INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

|                                                                                                     | PAGE |
|-----------------------------------------------------------------------------------------------------|------|
| Report of Independent Registered Public Accounting Firm                                             | 2    |
| Statements of Net Assets Available for Benefits - December 31, 2006 and 2005                        | 3    |
| Statements of Changes in Net Assets Available for Benefits - Years ended December 31, 2006 and 2005 | 4    |
| Notes to Financial Statements                                                                       | 5    |
| Schedule H, Line 4i - Schedule of Assets (Held at End of Year) - December 31, 2006                  | 11   |

All schedules omitted are not applicable or are not required based on disclosure requirements of the Employee Retirement Income Security Act of 1974 and regulations issued by the Department of Labor.

-1-

### Report of Independent Registered Public Accounting Firm

The Participants and Administrative Committee  
Consumer Portfolio Services, Inc. 401(k) Plan:

We have audited the accompanying statements of net assets available for benefits of the Consumer Portfolio Services, Inc. 401(k) Plan (the "Plan") as of December 31, 2006 and 2005, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

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significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006 and 2005, and the changes in net assets available for benefits for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note (2) to the financial statements, the Plan adopted Financial Accounting Standards Board Staff Position, FSP AAG INV-1 and SOP 94-4-1, REPORTING OF FULLY BENEFIT-RESPONSIVE INVESTMENT CONTRACTS HELD BY CERTAIN INVESTMENT COMPANIES SUBJECT TO THE AICPA INVESTMENT COMPANY GUIDE AND DEFINED-CONTRIBUTION HEALTH AND WELFARE AND PENSION PLANS in 2006. Therefore, the presentation of the 2006 and 2005 financial statement amounts include the presentation of fair value with an adjustment to contract value for such investments.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule, schedule H, line 4i - schedule of assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ HASKELL & WHITE LLP

July 6, 2007

Irvine, California

-2-

### CONSUMER PORTFOLIO SERVICES, INC. 401(k) PLAN Statements of Net Assets Available for Benefits December 31, 2006 and 2005

|                                                      | 2006       | 2005       |
|------------------------------------------------------|------------|------------|
|                                                      | -----      | -----      |
| Investments, at fair value:                          |            |            |
| Interest bearing cash                                | \$ 119,460 | \$ 119,460 |
| Guaranteed interest account                          | 2,036,223  | 2,036,223  |
| Pooled separate accounts                             | 9,401,793  | 8,401,793  |
| Consumer Portfolio Services, Inc. common stock       | 2,692,224  | 2,692,224  |
| Participant loans                                    | 501,309    | 4,000,000  |
|                                                      | -----      | -----      |
| Net assets available for plan benefits at fair value | 14,751,009 | 12,941,690 |

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Adjustments from fair value to contract value for  
fully benefit-responsive investment

83,010

1

Net assets available for benefits

\$14,834,019

\$13,1

See accompanying notes to financial statements

-3-

## CONSUMER PORTFOLIO SERVICES, INC. 401(k) PLAN Statements of Changes in Net Assets Available for Benefits Years ended December 31, 2006 and 2005

|                                                    | 2006          | 2005          |
|----------------------------------------------------|---------------|---------------|
| Additions (reduction) to net assets attributed to: |               |               |
| Interest                                           | \$ 103,147    | \$ 245,367    |
| Net appreciation in fair value of investments      | 1,198,820     | 780,860       |
|                                                    | 1,301,967     | 1,026,227     |
| Investment expenses                                | (99,422)      | (92,127)      |
| Net investment increase                            | 1,202,545     | 934,100       |
| Contributions:                                     |               |               |
| Employees                                          | 1,305,276     | 1,153,048     |
| Employer                                           | 516,576       | 427,378       |
| Employees' individual rollover                     | 14,545        | 46,168        |
| Total additions                                    | 3,038,942     | 2,560,694     |
| Deductions from net assets attributed to:          |               |               |
| Benefits paid to participants                      | 1,307,380     | 1,352,930     |
| Net increase                                       | 1,731,562     | 1,207,764     |
| Net assets available for benefits:                 |               |               |
| Beginning of year                                  | 13,102,457    | 11,894,693    |
| End of year                                        | \$ 14,834,019 | \$ 13,102,457 |

See accompanying notes to financial statements

-4-

## CONSUMER PORTFOLIO SERVICES, INC. 401(k) PLAN Notes to Financial Statements December 31, 2006 and 2005

(1) DESCRIPTION OF THE PLAN

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The following description of the Consumer Portfolio Services, Inc. (the Plan Sponsor or CPS) 401(k) Plan (The Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

### (a) GENERAL

The Plan was established as a profit sharing plan with a cash or deferred arrangement on January 1, 1994. The Plan was restated as of January 1, 1996 to permit investment in the Plan Sponsor's common stock without regard to Section 407(a) of ERISA. Effective January 1, 2003 the Plan Sponsor adopted the Mass Mutual Life Insurance Company Flexinvest(R) Prototype Non-Standardized 401(k) Profit Sharing Plan.

The Plan is a defined contribution plan which provides retirement benefits for eligible employees of the Plan Sponsor. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

### (b) ADMINISTRATION OF THE PLAN

The Plan is administered by the Human Resources Department (the Plan Administrator) of the Plan Sponsor. The Plan Administrator consults with the board of directors and other key management of the Plan Sponsor when managing the operations and the administration of the Plan.

The Plan is operated under an agreement which requires that Mass Mutual Retirement Savings (Mass Mutual), custodian and recordkeeper, holds and distributes the funds of the Plan in accordance with the text of the Plan and the instructions of the Plan Administrator or its designees.

### (c) CONTRIBUTIONS

Employees are eligible to participate in the Plan after completing 90 days of service. In accordance with the Plan, participants may contribute up to 50% of their annual compensation. Contributions are subject to certain limitations as defined in the Plan as well as a maximum of \$15,000 and \$14,000 for the years ended December 31, 2006 and 2005, respectively, under the Internal Revenue Code of 1986. Participants may roll over into the Plan amounts representing distributions from other qualified plans.

The Plan Sponsor may make a discretionary matching contribution equal to a discretionary percentage of the participant's pretax contributions. Discretionary matching contributions were \$516,576 and \$427,378 for the years ended December 31, 2006 and 2005, respectively.

### (d) PARTICIPANT ACCOUNTS

Each participant's account is credited with the participant's contributions, allocations of the Plan Sponsor's matching contributions and investment earnings and charged with an

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December 31, 2006 and 2005

## (1) DESCRIPTION OF THE PLAN (CONTINUED)

allocation of expenses and investment losses. Allocations are based on participant earnings or account balances, as defined.

### (e) VESTING

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Plan Sponsor's matching contributions plus actual earnings thereon is based on years of continuous service. A participant vests at the rate of 20% after two years of credited service and 20% each year thereafter until 100% is reached after six years of credited service. Participants are also fully vested at death, retirement, and upon termination for disability.

### (f) INVESTMENT OPTIONS

The Plan offers various investment options which are managed by several outside investment managers. Upon enrollment in the Plan, participants may direct their contributions in any of the investment options offered at the time. Participants may change their investment options daily. Participants should refer to the Plan fund description pamphlet for a complete description of the investment options and for the detailed composition of each investment fund.

### (g) PARTICIPANTS LOANS

Participants may borrow from their fund accounts. Loan transactions are treated as a transfer to (from) the investment funds. The loans are secured by the balance in the participant's account and bear interest at a rate commensurate with local prevailing rates as determined by the Plan Administrator. Loans are limited to the lesser of \$50,000, reduced by the highest outstanding loan balance during the preceding 12 months, or 50% of the participant's vested account balance. A loan shall be repaid within five years, unless it is used for the purchase of a primary residence. Principal and interest are paid ratably through payroll deductions.

Participant loans are included in the statements of net assets available for plan benefits at their outstanding balances, which approximate fair value of the notes. The notes are payable through payroll deductions in installments of principal plus interest at rates between 5.00% and 9.75%, with final payments due between January 2007 and June 2018, and are secured by the participants' vested account balances.

### (h) PAYMENTS OF BENEFITS

Upon termination of service, a participant may elect to receive either a single lump sum payment in cash equal to the value of the vested interest in his or her account, or a series of substantially equal annual or more frequent installments over a period not to exceed the participant's life expectancy. Benefits are recorded when paid.

CONSUMER PORTFOLIO SERVICES, INC. 401(k) PLAN  
Notes to Financial Statements (Continued)  
December 31, 2006 and 2005

(1) DESCRIPTION OF THE PLAN (CONTINUED)

(i) FORFEITED ACCOUNTS

Through December 31, 2002 forfeitures were applied to reduce any employer contribution. Effective January 1, 2003, forfeitures attributable to matching contributions will be applied first to reduce expenses related to the administration of the Plan and then to reduce any employer contributions. As of December 31, 2006 and 2005, forfeited accounts totaled \$427,507 and \$332,718 respectively.

(j) PLAN TERMINATION

Although it has not expressed any intent to do so, the Plan Sponsor has the right under the Plan to discontinue contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts.

(2) SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF ACCOUNTING

The financial statements of the Plan have been prepared on the accrual basis of accounting.

(b) INVESTMENTS

Publicly traded securities are carried at fair value based on the published market quotations. Shares of pooled separate accounts are valued at the net fair value of the underlying assets at year-end. Participant loans are valued at their outstanding balances, which approximates fair value. Purchases and sales of investments are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis.

Realized gains and losses on investments are based on the market value of the asset at the beginning of the year or at the time of purchase for assets purchased during the year and the related fair value on the day the investments are sold during the year.

As described in Financial Accounting Standards Board Staff Position, FSP AAG INV-1 and SOP 94-4-1, "Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans (the "FSP")," investment contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan

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attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transaction under the terms of the Plan. As required by the FSP, the Statement of Net Assets Available for Benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from a fair value to contract value. The Statement of Changes in Net Assets Available

-7-

### CONSUMER PORTFOLIO SERVICES, INC. 401(k) PLAN Notes to Financial Statements (Continued) December 31, 2006 and 2005

#### (2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

for Benefits is prepared on a contract value basis. This FSP was adopted by the Plan for the year ended December 31, 2006 and applied retrospectively, as required by the FSP.

##### (c) ADMINISTRATIVE EXPENSES

The Plan and the plan sponsor share in plan expenses. Certain direct investment expenses, such as loan, withdrawal or distribution processing fees are deducted from participants' accounts.

##### (d) USE OF ESTIMATES

The Plan Administrator has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Accordingly, actual results may differ from those estimates.

##### (e) RISKS AND UNCERTAINTIES

The Plan provides for various investment options in money market funds, pooled separate accounts, guaranteed interest accounts and the common stock of Consumer Portfolio Services, Inc. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of uncertainty related to changes in value of investment securities, it is at least reasonably possible that changes in the various risk factors could materially affect participants' account balances and the amounts reported in the financial statements.

##### (f) CONCENTRATION

Investments in the common stock of Consumer Portfolio Services, Inc. comprise approximately 19% and 17% of the Plan's investments as of December 31, 2006 and 2005, respectively.

##### (g) RECLASSIFICATIONS

Certain balances in the 2005 financial statements have been reclassified to conform to the current year presentation. This reclassification had no effect on the change in net assets.

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-8-

## CONSUMER PORTFOLIO SERVICES, INC. 401(k) PLAN Notes to Financial Statements (Continued) December 31, 2006 and 2005

### (3) INVESTMENTS

The following presents the fair value of investments that represent 5% or more of the Plan's net assets:

|                                             | 2006          |
|---------------------------------------------|---------------|
| Investment:                                 |               |
| MM Guaranteed Interest Account              | \$ 2,119,233  |
| MM Indexed Equity                           | 1,548,207     |
| Main Street (Oppenheimer)                   | 1,154,611     |
| MM Aggressive Growth (Sands Cap)            | 799,217       |
| SIA - AK                                    | 789,913       |
| MM Moderate Journey                         | 751,040       |
| CPS Common Stock                            | 2,811,684     |
| Other investments individually less than 5% | 4,860,114     |
|                                             | -----         |
|                                             | \$ 14,834,019 |
|                                             | =====         |

During 2006 and 2005, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by investment type, as follows:

|                          | 2006         |
|--------------------------|--------------|
| Investment appreciation: |              |
| Mutual funds             | \$ 1,043,697 |
| Common stocks            | 155,123      |
|                          | -----        |
|                          | \$ 1,198,820 |
|                          | =====        |

### (4) TAX STATUS

The Internal Revenue Service has determined and informed the Plan Sponsor by a letter dated February 7, 1996 that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC) and is, therefore, exempt from Federal income taxes. The Plan has been amended since receiving the determination letter. However, the Plan Administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC. Accordingly, no provision for income taxes is included in the accompanying financial statements.

-9-

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Notes to Financial Statements (Continued)  
December 31, 2006 and 2005

## (5) RELATED-PARTY TRANSACTION

Certain Plan investments are managed by MassMutual Retirements Services. MassMutual Retirement Services is the custodian of these assets and provides record keeping services to the Plan and, therefore, these transactions qualify as party-in-interest transactions.

## (6) RECONCILIATION BETWEEN FINANCIAL STATEMENTS AND FORM 5500

The following is a reconciliation of the Plan's investment in guaranteed interest account per the financial statements and the Form 5500:

|                                                                                                | 2006        | 2005        |
|------------------------------------------------------------------------------------------------|-------------|-------------|
|                                                                                                | -----       | -----       |
| Investment in guaranteed interest account per the financial statements                         | \$2,036,223 | \$2,109,113 |
| Adjustment from fair value to contract value for fully benefit-responsive investment contracts | 83,010      | 158,433     |
|                                                                                                | -----       | -----       |
| Investment in guaranteed interest account per the Form 5500                                    | \$2,119,233 | \$2,267,546 |
|                                                                                                | =====       | =====       |

-10-

CONSUMER PORTFOLIO SERVICES, INC. 401(k) PLAN  
Schedule H, Line 4i - Schedule of Assets (Held at End of Year)  
December 31, 2006  
Plan #001 - EIN# 32-0021607

| (b)                 |               | (c)                                                     |
|---------------------|---------------|---------------------------------------------------------|
| ---                 |               | ---                                                     |
| Identity of issuer, |               | Description of investment including maturity date, rate |
| -----               |               | -----                                                   |
| borrower, lessor or |               |                                                         |
| -----               |               | -----                                                   |
| (a)                 | similar party | of interest, collateral, par or maturity value          |
| ---                 | -----         | -----                                                   |
| *                   | MassMutual    | Guaranteed Interest Account                             |
| *                   | MassMutual    | Holding Account - SIA-AG                                |
| *                   | MassMutual    | SIA-A1                                                  |
| *                   | MassMutual    | SIA-AD                                                  |
| *                   | MassMutual    | SIA-AK                                                  |
| *                   | MassMutual    | SIA-AL                                                  |
| *                   | MassMutual    | SIA-AN                                                  |
| *                   | MassMutual    | SIA-AX                                                  |
| *                   | MassMutual    | SIA-DA                                                  |
| *                   | MassMutual    | SIA-DC                                                  |
| *                   | MassMutual    | SIA-DE                                                  |
| *                   | MassMutual    | SIA-DM                                                  |
| *                   | MassMutual    | SIA-LB                                                  |
| *                   | MassMutual    | SIA-NM                                                  |

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|   |                    |                                                |   |
|---|--------------------|------------------------------------------------|---|
| * | MassMutual         | SIA-NS                                         |   |
| * | MassMutual         | SIA-05                                         |   |
| * | MassMutual         | SIA-09                                         |   |
| * | MassMutual         | SIA-OD                                         |   |
| * | MassMutual         | SIA-WR                                         |   |
| * | MassMutual         | SIA-WT                                         |   |
| * | MassMutual         | SIA-WY                                         |   |
| * | MassMutual         | SIA-WZ                                         |   |
| * | MassMutual         | SIA-Y                                          |   |
|   | Consumer Portfolio |                                                |   |
|   | Services, Inc.     | Consumer Portfolio Services, Inc. Common Stock | 1 |
|   | Participant Loans  | 5.00% - 9.75%                                  |   |

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\* Denotes Party-in-Interest