

CONSUMER PORTFOLIO SERVICES INC
Form DEFA14A
May 17, 2011

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

CONSUMER PORTFOLIO SERVICES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:
2) Form, Schedule or Registration Statement No.:

3) Filing Party:
4) Dated Filed:

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

OF

CONSUMER PORTFOLIO SERVICES, INC.

19500 Jamboree Road, Irvine, California 92612

Phone: 949-753-6800

The annual meeting of the shareholders of Consumer Portfolio Services, Inc. (the "Company") will be held at 10:00 a.m., local time, on Wednesday, June 15, 2011 at the Company's principal executive offices, 19500 Jamboree Road, Irvine, California for the following purposes:

1. To elect the Company's entire Board of Directors for a one-year term.
2. To approve the exchange into 1,870,000 shares of common stock of preferred shares issued in our recent private transaction described in the attached proxy statement.
3. To ratify the appointment of Crowe Horwath LLP as the Company's independent auditors for the fiscal year ending December 31, 2011.
4. To transact such other business as may properly come before the meeting.

Only shareholders of record at the close of business on Friday, May 13, 2011 are entitled to notice of and to vote at the meeting.

Whether or not you expect to attend the meeting in person, please complete, date, and sign the enclosed proxy exactly as your name appears thereon and promptly return it in the envelope provided, which requires no postage if mailed in the United States. Proxies may be revoked at any time and, if you attend the meeting in person, your executed proxy will be returned to you upon request.

By Order of the Board of Directors

Mark Creatura, Secretary

Dated: May 16, 2011

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on June 15, 2011. The Proxy Statement and Annual Report to Shareholders for the fiscal year ended December 31, 2010 are available at www.consumerportfolio.com/AnnualMeeting2011.html.

YOUR VOTE IS IMPORTANT REGARDLESS OF THE NUMBER OF SHARES YOU OWN. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, YOU ARE URGED TO VOTE BY COMPLETING, SIGNING, DATING AND RETURNING THE PROXY CARD IN THE PRE-ADDRESSED RETURN ENVELOPE PROVIDED. IF GIVEN, YOU MAY REVOKE YOUR PROXY BY FOLLOWING THE INSTRUCTIONS IN THE PROXY STATEMENT AND ATTACHED PROXY CARD.

CONSUMER PORTFOLIO SERVICES, INC.

19500 Jamboree Road

Irvine, California 92612

949-753-6800

PROXY STATEMENT FOR
ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD JUNE 15, 2011

INTRODUCTION

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Consumer Portfolio Services, Inc. (the "Company" or "CPS") for use at the annual meeting of the shareholders to be held at 10:00 A.M. local time on Wednesday, June 15, 2011 at the Company's principal executive offices, 19500 Jamboree Road, Irvine, California 92612, and at any adjournment thereof (the "Annual Meeting").

All shares represented by properly executed proxies received in time will be voted at the Annual Meeting and, where the manner of voting is specified on the proxy, will be voted in accordance with such specifications. Any shareholder who executes and returns a proxy may revoke it at any time prior to the voting of the proxy by giving written notice to the Secretary of the Company, by executing a later-dated proxy, or by attending the meeting and giving oral notice of revocation to the Secretary of the Company.

The Board of Directors of the Company has fixed the close of business on May 13, 2011, as the record date for determining the holders of outstanding shares of the Company's Common Stock, without par value ("CPS Common Stock") entitled to notice of, and to vote at the Annual Meeting. On that date, there were 18,119,810 shares of CPS Common Stock issued and outstanding. Each such share of CPS Common Stock is entitled to one vote on all matters to be voted upon at the meeting, except that holders of CPS Common Stock have the right to cumulative voting in the election of directors, as described herein under the heading "Voting of Shares."

The notice of the Annual Meeting, this proxy statement and the form of proxy are first being mailed to shareholders of the Company on or about May 16, 2011. The Company will pay the expenses incurred in connection with the solicitation of proxies. The proxies are being solicited principally by mail. In addition, directors, officers and regular

employees of the Company may solicit proxies personally or by telephone, for which they will receive no payment other than their regular compensation. The Company will also request brokerage houses, nominees, custodians and fiduciaries to forward soliciting material to the beneficial owners of Common Stock of the Company and will reimburse such persons for their expenses so incurred.

QUESTIONS AND ANSWERS ABOUT THIS PROXY STATEMENT AND ANNUAL MEETING

Q: WHAT IS THIS PROXY STATEMENT AND WHY AM I RECEIVING IT?

A: You are receiving this proxy statement in connection with an annual meeting of shareholders called by our Board of Directors in connection with soliciting shareholder votes for the purpose of (i) electing the Company's entire Board of Directors for a one-year term; (ii) ratifying the appointment of Crowe Horwath LLP as the Company's independent auditors for the fiscal year ending December 31, 2011; (iii) approving the exchange of preferred shares into 1,870,000 shares of common stock; and (iv) transacting such other business as may properly come before the annual meeting; in each case, as more fully described in this proxy statement. You have been sent this proxy statement and the enclosed proxy card because our Board of Directors is soliciting your proxy to vote at the annual meeting of shareholders called for the purpose of voting on the foregoing matters

Q: WHAT INFORMATION IS CONTAINED IN THIS PROXY STATEMENT?

A: The information included in this proxy statement relates to the proposals to be voted on at the annual meeting, the voting process, compensation of our directors and most highly paid executive officers, and certain other required information.

Q: WHO IS ENTITLED TO VOTE AT THE ANNUAL MEETING, AND WHAT VOTE IS REQUIRED TO APPROVE THE PROPOSALS?

A: The Board of Directors of the Company has fixed the close of business on May 13, 2011, as the record date ("Record Date") for determining the holders of outstanding shares of the Company's Common Stock, without par value ("CPS Common Stock") entitled to notice of, and to vote at the Annual Meeting. On that date, there were 18,119,810 shares of CPS Common Stock issued and outstanding. Each such share of CPS Common Stock is entitled to one vote on all matters to be voted upon at the meeting, except that holders of CPS Common Stock have the right to cumulative voting in the election of directors, as described in this proxy statement under the heading "Voting of Shares." In order to approve each proposal, a quorum (a majority of outstanding shares of CPS Common Stock) must be present and (other than with respect to election of directors) a majority of all of the votes cast on the proposal at the Annual Meeting must be cast in favor of the proposal, which favorable votes cast must exceed 25% of the outstanding shares. Directors are elected by plurality vote. Abstentions and broker non-votes will not be counted as "votes cast" and will have no effect on the result of the vote, although they will count toward the presence of a quorum.

Q: DOES OUR BOARD OF DIRECTORS RECOMMEND VOTING "FOR" THE PROPOSAL?

A: Yes. Our Board of Directors recommends that our shareholders vote "FOR" each of the proposals described in this proxy statement.

Q: HOW MAY I VOTE ON THE PROPOSALS IF I OWN SHARES IN MY OWN NAME?

A: If you own your shares in your own name, you may vote on the proposals presented in this proxy statement, whether or not you plan to attend the annual meeting, by completing, signing and dating the accompanying proxy

card and returning it in the enclosed postage-prepaid envelope. It is important that you vote your shares whether or not you attend the meeting in person. Any proxy that is returned using the form of proxy enclosed and which is not marked as to a particular item will be voted FOR election of the nominees for director named herein; FOR approval of the exchange into 1,870,000 shares of common stock of preferred shares issued in our recent private transaction; FOR the ratification of the appointment of Crowe Horwath LLP as the Company's independent auditors for the year ending December 31, 2011; and such proxy will also be deemed to grant discretionary authority to vote upon any other matters properly coming before the meeting

Q: HOW MAY I VOTE ON THE PROPOSALS IF MY SHARES ARE HELD IN "STREET NAME" BY MY BROKER, BANK OR OTHER NOMINEE?

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A: If your shares are held in “street name” through a broker, bank or other nominee, under certain circumstances the nominee may vote your shares. Brokerage firms have authority to vote shares for which their customers do not provide voting instructions on certain “routine” matters. The ratification of an accounting firm is an example of a routine matter. If you do not provide voting instructions to your brokerage firm, the brokerage firm may either: (1) vote your shares on routine matters, or (2) leave your shares unvoted. We encourage you to provide instructions to your brokerage firm by signing and returning your proxy. This ensures your shares will be voted at the meeting. When a brokerage firm votes its customers’ unvoted shares on routine matters, these shares are counted for purposes of establishing a quorum to conduct business at the meeting and determining the outcome of the vote on routine matters.

Q: CAN I CHANGE MY MIND AND REVOKE MY PROXY?

A: Yes. Any shareholder who executes and returns a proxy may revoke it at any time prior to the voting of the proxy by giving written notice to the Secretary of the Company, by executing a later-dated proxy, or by attending the meeting and giving oral notice of revocation to the Secretary of the Company

Q: CAN I VOTE MY SHARES IN PERSON?

A: Yes. The annual meeting is open to all holders of CPS Common Stock as of the Record Date. To vote in person, you will need to attend the meeting and bring with you evidence of your stock ownership. If your shares are registered in your name, you will need to bring valid identification. If your shares are held in the name of your broker, bank or another nominee or you received your proxy materials electronically, you will need to obtain and bring with you a “legal proxy” from your broker, bank or nominee, and bring evidence of your stock ownership, together with valid identification.

Q: DO I HAVE DISSENTERS’ RIGHTS?

A: No. There are no “dissenters’ rights” applicable to any of the proposals presented in this proxy statement.

Q: WHO IS PAYING FOR THIS PROXY SOLICITATION?

A: Our Board of Directors is making this solicitation, and we will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communications by our directors, officers and employees, who will not receive any additional compensation for such solicitation activities. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to shareholders.

PROPOSAL NO. 1 - ELECTION OF DIRECTORS

Nominations

The individuals named below have been nominated for election as directors of the Company at the Annual Meeting, and each has agreed to serve as a director if elected. The entire board of directors of the Company is elected annually. Directors serve until the next annual meeting of shareholders and until their successors are duly elected and qualified.

The names of the nominees, their principal occupations, and certain other information regarding them are set forth below. None of the nominees currently serves on the board of directors of any other publicly-traded companies.

Charles E. Bradley, Jr., 51, has been the President and a director of the Company since its formation in March 1991, and was elected Chairman of the Board of Directors in July 2001. Mr. Bradley has been the Company's Chief Executive Officer since January 1992. From April 1989 to November 1990, he served as Chief Operating Officer of Barnard and Company, a private investment firm. From September 1987 to March 1989, Mr. Bradley, Jr. was an associate of The Harding Group, a private investment banking firm. Having been with the Company since its inception, Mr. Bradley brings comprehensive knowledge of the Company's business, structure, history and culture to the Board and the Chairman position.

Chris A. Adams, 62, has been a director of the Company since August 2007. Since 1982 he has been the owner and chief executive of Latrobe Pattern Company and K Castings Inc., which are firms engaged in the business of fabricating metal parts. With his experience as chief executive of manufacturing companies, Mr. Adams contributes to the Company's Board significant organizational and operational management skills.

Brian J. Rayhill, 48, has been a director of the Company since August 2006. Mr. Rayhill has been a practicing attorney in New York State since 1988. As an experienced advocate, counselor and litigator, Mr. Rayhill brings legal knowledge and perspective to the Company's Board.

William B. Roberts, 73, has been a director of the Company since its formation in March 1991. Since 1981, he has been the President of Monmouth Capital Corp., an investment firm that specializes in management buyouts. Having spent decades in the business of finance, Mr. Roberts brings to the Company's Board his perspective and judgment regarding means of financing its business.

Gregory S. Washer, 49, has been a director of the Company since June 2007. He has been the owner and president of Clean Fun Promotional Marketing LLC, a promotional marketing company, since its founding in 1986. With his experience in promotions and marketing, Mr. Washer contributes to the Board significant organizational and operational management skills, combined with a wealth of experience in promotion and marketing of services.

Daniel S. Wood, 52, has been a director of the Company since July 2001. Mr. Wood was president of Carclo Technical Plastics, a manufacturer of custom injection moldings, from September 2000 until his retirement in April 2007. He now serves as a consultant to that company. Previously, from 1988 to September 2000, he was the chief operating officer and co-owner of Carrera Corporation, the predecessor to the business of Carclo Technical Plastics. As president of Carclo, Mr. Wood was responsible for the overall operation of that company and for the quality and integrity of its financial statements. He brings to the Board the knowledge and perspective useful in evaluating the Company's financial statements, and broad organizational and management skills.

The Board of Directors has established an Audit Committee, a Compensation Committee, and a Nominating Committee. Each of these three committees operates under a written charter, adopted by the Board of Directors of the

Company. The charters are available on the Company's website, www.consumerportfolio.com/charters.html. The Board of Directors has concluded that each member of these three committees (every director other than Mr. Bradley, the Company's chief executive officer), is independent in accordance with the director independence standards prescribed by Nasdaq, and has determined that none of them have a material relationship with the Company that would impair their independence from management or otherwise compromise the ability to act as an independent director.

The members of the Audit Committee are Mr. Wood (chairman), Mr. Rayhill and Mr. Washer.

The Audit Committee is empowered by the Board of Directors to review the financial books and records of the Company in consultation with the Company's accounting and auditing staff and its independent auditors and to

review with the accounting staff and independent auditors any questions that may arise with respect to accounting and auditing policy and procedure.

The Board of Directors has further determined that Mr. Wood has the qualifications and experience necessary to serve as an "audit committee financial expert" as such term is defined in Item 407 of Regulation S-K promulgated by the SEC. Mr. Wood, as president of Carclo Technical Plastics, was responsible for the preparation and evaluation of the audited financial statements of that company.

The members of the Compensation Committee are Mr. Adams (chairman), Mr. Roberts, and Mr. Wood. This Committee makes determinations as to general levels of compensation for all employees of the Company and the annual salary of each of the executive officers of the Company, and administers the Company's compensation plans. Those plans include the Company's 1997 Long-Term Stock Incentive Plan, the Executive Management Bonus Plan, and the CPS 2006 Long-Term Equity Incentive Plan.

The members of the Nominating Committee are Mr. Rayhill (chairman), Mr. Adams and Mr. Washer. Nominations for board positions are made on behalf of the Board of Directors by the nominating committee. Because neither the Board of Directors nor its nominating committee has received recommendations from shareholders as to nominees, the Board of Directors and the nominating committee believe that it is and remains appropriate to operate without a formal policy with regard to any director candidates who may in the future be recommended by shareholders. The nominating committee would consider such recommendations if received.

When considering a potential nominee, the nominating committee considers the benefits to the Company of such nomination, based on the nominee's skills and experience related to managing a significant business, the willingness and ability of the nominee to serve, and the nominee's character and reputation. The Company does not have a policy regarding the consideration of diversity in identifying nominees for director.

Shareholders who wish to suggest individuals for possible future consideration for board positions, or to otherwise communicate with the Board of Directors, should direct written correspondence to the corporate secretary at the Company's principal executive offices, indicating whether the shareholder wishes to communicate with the nominating committee or with the Board of Directors as a whole. The present policy of the Company is to forward all such correspondence to the designated members of the Board of Directors. There have been no changes in the procedures regarding shareholder recommendations in the past year.

Section 16(a) Beneficial Ownership Reporting Compliance

Directors, executive officers and holders of in excess of 10% of the Company's common stock are required to file reports concerning their transactions in and holdings of equity securities of the Company. Based on a review of reports filed by each such person, and inquiry of each regarding holdings and transactions, the Company believes that all reports required with respect to the year 2010 were timely filed.

Code of Ethics

The Company has adopted a Code of Ethics for Senior Financial Officers, which applies to the Company's chief executive officer, chief financial officer, controller and others. A copy of the Code of Ethics may be obtained at no charge by written request to the Corporate Secretary at the Company's principal executive offices.

Meetings of the Board

The Board of Directors held four meetings and acted six times by written consent during 2010. The Audit Committee met six times during 2010, including at least one meeting per quarter to review the Company's financial statements, and did not act by written consent, while the Compensation Committee met five times during 2010 and did not act by written consent. The Nominating Committee met once during 2010 and did not act by written consent. Each nominee attended at least 75% of the meetings of the Board of Directors and its committees that such individual was eligible to attend in 2010. The Company does not have a policy of encouraging directors to attend or discouraging directors from attending its annual meetings of shareholders. Other than Mr. Bradley, no directors attended last year's annual meeting of shareholders.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH OF THE NOMINEES ABOVE.

PROPOSAL NO. 2 - APPROVAL OF THE EXCHANGE INTO 1,870,000 SHARES OF COMMON STOCK OF PREFERRED SHARES ISSUED IN OUR RECENT PRIVATE TRANSACTION

In December 2010, Levine Leichtman Capital Partners IV, L.P., which we refer to as Levine Leichtman, invested \$20 million in the long-term capital of CPS by purchasing senior secured term notes and equity securities of CPS. Existing outstanding indebtedness of the Company to Levine Leichtman in the amount of \$30 million, previously due in June 2013, was extended to December 31, 2013. As part of the equity securities purchased by Levine Leichtman, CPS issued 1,870 shares of a newly-created series of preferred stock, which we refer to as the Series B Preferred. (The formal name of such shares is "Series B Convertible Preferred Stock, \$1.00 per share par value.") The issued and outstanding shares of the Series B Preferred may be exchanged, if but only if the Company's shareholders approve, into a total of 1,870,000 shares of Common Stock. Other material terms of the transaction are described below.

Basic Terms of the Series B Preferred. Pursuant to the December 23, 2010 agreement between us and Levine Leichtman, we issued equity to Levine Leichtman in two pieces: (i) 880,000 shares of our common stock, and (ii) 1,870 shares of Series B Preferred, which, upon the approval of our shareholders, would be exchanged immediately for 1,870,000 shares of our common stock. The Series B Preferred has an aggregate liquidation preference of \$1,593,240, and accrues a preferential dividend at the rate of \$191,189 per year in total (representing 12.00% per year with respect to the liquidation preference).

Liquidation Preference of the Series B Preferred. Each share of the Series B Preferred is entitled to a liquidation preference over our common stock in the amount of \$852.00 per share (equivalent to \$0.852 with respect to each share of Common Stock for which the Series B Preferred may be exchanged). The figure \$0.852 per share represents an estimate of the fair market value of one share of our common stock prior to the transaction.

Dividend Rights of the Series B Preferred. Prior to the exchange of the Series B Preferred for common stock, the Series B Preferred accrues a preferential dividend in the amount of \$102.24 per share per year. Any accrued dividends will be canceled without payment if the exchange occurs on or prior to January 1, 2012, which would occur upon approval of this proposal. If the exchange does not occur by that date, then the Company will be required to declare and pay, to the extent of funds legally available, quarterly dividends in the amount of \$47,797. To the extent that such dividends are not paid, then unpaid amounts will cumulate and compound. Any such cumulated dividends would be an additional liquidation preference for the benefit of the holders of the Series B Preferred.

Other Material Terms of the Levine Leichtman Investment. In consideration of Levine Leichtman's December 2010 investment of \$20 million, which was in addition to \$30 million previously outstanding, we

(i) issued \$52.75 million principal face amount of amended and restated secured senior notes, representing the new investment, the outstanding debt of \$30 million, and a purchaser's discount of \$2.75 million,

(ii) issued to Levine Leichtman 880,000 shares of Common Stock,

(iii) paid the out-of-pocket expenses of Levine Leichtman, and

(iv) issued the Series B Preferred.

The amended and restated notes are due December 13, 2013, and bear interest at an annual base rate of 16%. We also agreed to register for public sale, at our expense, the 880,000 issued shares and the 1,870,000 shares that may be issued upon exchange of the Series B Preferred. We had a pre-existing obligation to register for public sale the

1,225,000 shares owned by Levine Leichtman prior to the December 2010 transaction, and the shares issuable upon exercise of warrants held by them.

Common Stock Ownership of Levine Leichtman. As a part of the Levine Leichtman investment in December 2010, Levine Leichtman acquired 880,000 shares of our Common Stock, in addition to 1,225,000 shares previously owned, and in addition to presently exercisable warrants to purchase an aggregate of 1,896,895 shares of Common Stock. Taken together, such common stock and presently exercisable warrants represent, on a pro forma basis after giving effect to assumed exercise of such warrants as of the date of this proxy statement, approximately 19.98% of the Common Stock of the Company. Upon issuance of the 1,870,000 shares that may become issuable upon conversion of the Series B Preferred, assuming approval of this Proposal 2, Levine Leichtman would then hold, on a pro forma basis after giving effect to such issuances as of the date of this proxy statement, approximately 26.83% of

the Common Stock of the Company. Without any exercise of warrants or exchange of Series B Preferred, Levine Leichtman currently holds and has the power to vote 2,105,000 shares of our Common Stock, or approximately 11.62% of our aggregate outstanding common stock.

Board Recommendation. Your Board unanimously recommends approving the conversion of the series B Preferred into 1,870,000 shares of Common Stock. The Board of Directors believes that approval of the issuance of these shares is in the best interests of the Company and its shareholders as the Levine Leichtman transaction has provided the Company with necessary financing and working capital for growth and operating needs, at a cost to the common shareholders less than otherwise available to the Company.

Shareholder Approval Requirement

By its terms, the Series B Preferred provides that such shares may not be exchanged for our Common Stock prior to the shareholder approval date. The shareholder approval date is defined as the date on which the shareholders of the Company approve the issuance by the Company of any and all shares of common stock otherwise issuable upon exercise of the Series B Preferred.

Because our Common Stock is traded on the Nasdaq Stock Market, we are subject to the Nasdaq Marketplace Rules. Nasdaq Marketplace Rule 5635(b) provides that, except in limited circumstances, shareholder approval is required in connection with a transaction involving the sale, issuance or potential issuance of common stock, or securities convertible into or exercisable for common stock, if the issuance or potential issuance will result in a change in control. Nasdaq interprets change of control to include a shareholder's increasing its ownership to a level of over 20% of outstanding shares. As noted above, the issuance of common stock in the December 2010 transaction increased Levine Leichtman's beneficial ownership to 19.98%, and the further issuance of Common Stock on exchange of the Series B Preferred would increase that percentage to 26.83%. To ensure compliance with the Nasdaq Marketplace Rules, we agreed with Levine Leichtman that the terms of the Series B Preferred would permit exchange into Common Stock only if the shareholders approve that exchange. We also agreed to seek shareholder approval of such exchange. The contractual shareholder approval requirement and the Nasdaq Marketplace Rules requirement will each be satisfied upon approval of this Proposal 2.

The Proposal

A vote "For" Proposal 2 is a vote to approve the issuance, upon exchange of the Series B Preferred, of 1,870,000 shares of Common Stock.

Effect of a failure to approve this proposal. In the event that our shareholders do not approve the proposal set forth below, the Series B Preferred will not be exchanged for Common Stock; however, the holders of such shares would continue to have the right to receive preferential dividends, and, commencing December 31, 2013, to require that the Company purchase the Series B Preferred for cash. Upon exercise of that right, the holder of the Series B Preferred would receive cash according to the cash exercise formula. Under that formula, shares of Series B Preferred would be redeemed for a price equal to the greater of (i) the liquidation preference of the shares to be redeemed and (ii) the market price of the shares of Common stock into which the Series B Preferred would be convertible, had such conversion been approved. The exercise of such redemption right respecting any or all of the Series B Preferred could adversely affect our liquidity and cash on hand.

Terms of the Transaction. The terms of the transactions between the Company and Levine Leichtman were determined by negotiation, and, in the case of the conversion price of the Series B Preferred, by reference to the prevailing market price for the Company's common stock. The price per share was agreed to on December 21, 2010, on which date the closing price of the Common Stock had averaged, over the ten trading days ended that date, \$0.852

per share.

Vote necessary to approve the issuance of Common Stock upon exercise of the Series B Preferred

Approval of this proposal requires the affirmative vote of a majority of those shares voting on the proposal, provided that such affirmative votes are at least a majority of the required quorum. The required quorum is a majority of the 18,119,810 shares outstanding. In other words, approval of this proposal requires that the affirmative votes must be greater than the negative votes, and must be no less than 4,529,953. To the extent that approval of Proposal 2 is required for compliance with Nasdaq Marketplace Rules, such approval will be effective only if a majority of the votes cast on the proposal are voted in favor, and if Levine Leichtman is not permitted to vote the

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880,000 shares that it acquired in the December 2010 transaction. Levine Leichtman has advised that it will not vote those shares on Proposal 2; on that basis, any approval that meets the requisites of California law will also be effective for Nasdaq purposes. Further, we believe that brokers holding shares for their customers in general will not be permitted to vote on this proposal without instruction from their customers. Such "broker non-votes" will have the same effect as abstentions with respect to the proposal.

We have contractually agreed with Levine Leichtman that in the event our shareholders do not approve this Proposal 2, we will include similar proposals for such approvals at a meeting of our shareholders no less than once per annual period until such approval is obtained.

The Board of Directors unanimously recommends a vote FOR approval of Proposal 2.

PROPOSAL NO. 3 – RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

The Audit Committee of the Board of Directors has appointed the accounting firm of Crowe Horwath LLP ("Crowe") to be the Company's independent auditors for the year ending December 31, 2011. Crowe also performed the audit of the Company's financial statements for the years ended December 31, 2009 and 2010. The Company retained Crowe for that purpose on February 6, 2009. The former principal accountant, McGladrey & Pullen LLP ("McGladrey"), had served as the Company's principal accountant since October 21, 2004.

A proposal to ratify the Audit Committee's appointment of Crowe will be presented to shareholders at the Annual Meeting. If the shareholders do not ratify the selection of Crowe at the Annual Meeting, the Audit Committee will consider selecting another firm of independent public accountants. Representatives of Crowe are expected to be present at the Annual Meeting. Such representatives will have an opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions from shareholders in attendance.

Change in Principal Accountant

On February 6, 2009, the Audit Committee approved the engagement of Crowe as the Company's independent registered public accounting firm to perform an audit of the Company's financial statements as of and for the year ended December 31, 2008, and dismissed McGladrey as the Company's independent registered public accounting firm. The Company had previously reported that McGladrey, on January 14, 2009, declined to stand for reappointment as the Company's independent registered public accounting firm after completion of the December 31, 2008 audit.

Regarding McGladrey

McGladrey's reports on the Company's consolidated financial statements for the years ended December 31, 2007 and 2006 did not contain an adverse opinion or a disclaimer of opinion, nor was either such report qualified or modified as to uncertainty, audit scope, or accounting principles, except that (i) the report on the year ended December 31, 2006 included an explanatory paragraph regarding the Company's adoption of Statement of Financial Accounting Standards No. 123R effective January 1, 2006; (ii) the report on the year ended December 31, 2007 included an explanatory paragraph regarding the Company's change in method of accounting for uncertain tax positions; and (iii) the report on the year ended December 31, 2007 included an explanatory paragraph regarding the potential effect on the Company if it were to be unsuccessful in completing a sale of a pool of receivables. Such sale was successfully completed, after the date of such report.

During the Company's three fiscal years ended December 31, 2008, 2007 and 2006, and the subsequent interim period through February 12, 2009, there were no disagreements between the Company and McGladrey on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure that, if not resolved to McGladrey's satisfaction, would have caused it to make reference to the matter in conjunction with its report on the Company's consolidated financial statements for the relevant year.

During the Company's three fiscal years ended December 31, 2008, 2007 and 2006, and the subsequent interim period through February 12, 2009, there were no reportable events (as such events are defined in Item 304(a)(1)(v) of Regulation S-K).

Regarding Crowe

During the Company's two years ended December 31, 2008 and 2007 and the subsequent interim period through February 6, 2009, the Company did not consult with Crowe on the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that may be rendered on the Company's financial statements, and Crowe did not provide either a written report or oral advice to the Company that was an important factor considered by the Company in reaching a decision as to any accounting, auditing, or financial reporting issue.

Fees Paid to Auditors

The following table sets forth the fees accrued or paid to the Company's independent registered public accounting firms for the years ended December 31, 2010 and 2009. Crowe Horwath LLP has served as the Company's independent registered public accounting firm since February 6, 2009, and reported on the Company's financial statements for the years ended December 31, 2010, 2009 and 2008. McGladrey & Pullen LLP had previously served as the Company's independent registered public accounting firm.

Audit and Non-Audit Fees

	Crowe Horwath LLP		McGladrey & Pullen LLP	
	2010	2009	2010	2009
Audit Fees (1)	\$ 665,000	\$ 583,077	--	--
Audit-Related Fees				
(2)	127,000	120,000	--	--
Tax Fees (3)	103,577	90,000		