CREDIT ACCEPTANCE CORPORATION
Form 10-Q
August 02, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from__________ to ____________

Commission File Number 000-20202

CREDIT ACCEPTANCE CORPORATION
(Exact name of registrant as specified in its charter)

MICHIGAN	38-1999511
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification)

25505 WEST TWELVE MILE ROAD, SUITE 3000	
SOUTHFIELD, MICHIGAN	48034-8339
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 248-353-2700

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

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

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date.

The number of shares of Common Stock, par value $0.01, outstanding on July 26, 2007 was 30,314,956.

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PART I. - FINANCIAL INFORMATION

PART I. - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED INCOME STATEMENTS
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX
(Dollars in thousands, except per share data)	2007	2006	2007
REVENUE:			

Finance charges	$ 54,084	$ 47,919	$ 105
License fees	84	3,204	
Other income	4,118	3,958	9
Total revenue	58,286	55,081	115
COSTS AND EXPENSES:			
Salaries and wages	13,092	9,965	24
General and administrative	7,359	6,297	13
Sales and marketing	4,144	3,406	8
Provision for credit losses	3,798	2,641	7
Interest	9,463	5,660	17
Other expense	33	55	
Total costs and expenses	37,889	28,024	72
Operating income	20,397	27,057	43
Foreign currency gain	34	6	
Income from continuing operations before provision for income taxes	20,431	27,063	43
Provision for income taxes	7,938	9,364	15
Income from continuing operations	12,493	17,699	27
Discontinued operations			
Loss from discontinued United Kingdom operations	(233)	(132)	
Credit for income taxes	(70)	(39)	
Loss on discontinued operations	(163)	(93)	
Net income	$ 12,330	$ 17,606	$ 27
Net income per common share:			
Basic	$ 0.41	$ 0.53	$
Diluted	$ 0.39	$ 0.50	$
Income from continuing operations per common share:			
Basic	$ 0.41	$ 0.54	$
Diluted	$ 0.40	$ 0.50	$
Loss from discontinued operations per common share:			
Basic	$ (0.01)	$ (0.00)	$ (
Diluted	$ (0.01)	$ (0.00)	$ (
Weighted average shares outstanding:			
Basic	30,140,590	32,979,572	30,097
Diluted	31,312,139	35,433,944	31,297

See accompanying notes to consolidated financial statements.

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)	AS OF JUNE 30, 2007 (UNAUDITED)	AS OF DECEMBER 2006
ASSETS:		
Cash and cash equivalents	$ 1,829	$ 8,5
Restricted cash and cash equivalents	72,327	45,6
Restricted securities available for sale	3,763	3,5
Loans receivable (including $17,797 and $23,038 from affiliates as of June 30, 2007 and December 31, 2006, respectively)	873,441	754,5
Allowance for credit losses	(129,282)	(128,7
Loans receivable, net	744,159	625,7
Property and equipment, net	17,209	16,2
Income taxes receivable	4,504	11,7
Other assets	12,806	13,7
Total Assets	$ 856,597	$ 725,2
LIABILITIES AND SHAREHOLDERS' EQUITY:		
LIABILITIES:		
Accounts payable and accrued liabilities	$ 80,842	$ 78,2
Line of credit	44,500	38,4
Secured financing	432,631	345,1
Mortgage note and capital lease obligations	8,017	8,6
Deferred income taxes, net	50,750	44,3
Total Liabilities	616,740	514,8
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 1,000,000 shares authorized, none issued	-	
Common stock, $.01 par value, 80,000,000 shares authorized, 30,314,956 and 30,179,959 shares issued and outstanding as of June 30, 2007 and December 31, 2006, respectively	303	3
Paid-in capital	2,730	8
Retained earnings	236,856	209,2
Accumulated other comprehensive loss, net of tax of $18 and $19 at June 30, 2007 and December 31, 2006, respectively	(32)	(
Total Shareholders' Equity	239,857	210,3
Total Liabilities and Shareholders' Equity	$ 856,597	$ 725,2

See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
(Dollars in thousands)	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 27,690	$ 34,803
Adjustments to reconcile cash provided by operating activities:		
Provision for credit losses	7,671	3,165
Depreciation	2,072	2,473
Loss on retirement of property and equipment	72	38
Provision (credit) for deferred income taxes	6,353	(69)
Stock-based compensation	1,845	(54)
Change in operating assets and liabilities:		
Accounts payable and accrued liabilities	2,461	2,950
Income taxes receivable	7,230	5,473
Other assets	1,131	(2,271)
Net cash provided by operating activities	56,525	46,508
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in restricted cash and cash equivalents	(26,718)	(16,944)
Purchases of restricted securities available for sale	(550)	(794)
Proceeds from sale of restricted securities available for sale	-	251
Maturities of restricted securities available for sale	355	-
Principal collected on loans receivable	306,964	284,244
Advances to dealers and accelerated payments of dealer holdback	(350,229)	(271,273)
Purchases of consumer loans	(43,894)	(5,779)
Payments of dealer holdback	(38,948)	(35,635)
Net change in floorplan receivables, notes receivable and lines of credit	63	1,611
Purchases of property and equipment	(3,028)	(689)
Net cash used in investing activities	(155,985)	(45,008)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under line of credit	354,700	166,930
Repayments under line of credit	(348,600)	(168,830)
Proceeds from secured financing	365,000	320,500
Repayments of secured financing	(277,513)	(220,000)
Principal payments under mortgage note and capital lease obligations	(736)	(758)
Repurchase of common stock	(2,225)	(114,311)
Proceeds from stock options exercised	1,027	4,864
Excess tax benefits from stock-based compensation plans	1,256	3,529
Net cash provided by (used in) financing activities	92,909	(8,076)
Effect of exchange rate changes on cash	(148)	(78)

Net decrease in cash and cash equivalents	(6,699)	(6,654)
Cash and cash equivalents, beginning of period	8,528	7,090
Cash and cash equivalents, end of period	$ 1,829	$ 436
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 17,768	$ 8,618
Cash paid during the period for income taxes	$ 383	$ 10,830
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Property and equipment acquired through capital lease obligations	$ 122	$ 238
Issuance of restricted stock, net of forfeitures	$ 1	$ 2,808

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles" or "GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of actual results achieved for full fiscal years. The consolidated balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2006 for Credit Acceptance Corporation (the "Company", "Credit Acceptance", "we", "our" or "us"). Certain prior period amounts have been reclassified to conform to the current presentation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

Since 1972, Credit Acceptance has provided auto loans to consumers, regardless of their credit history. Our product is offered through a nationwide network of automobile dealers who benefit from sales of vehicles to consumers who otherwise could not obtain financing; from repeat and referral sales generated by these same customers; and from sales to customers responding to advertisements for our product, but who actually end up qualifying for traditional financing.

Without our product, consumers are often unable to purchase a vehicle or they purchase an unreliable one and are not provided the opportunity to improve their credit standing. As we report to the three national credit reporting agencies, a significant number of our consumers improve their lives by improving their credit score and move on to more traditional sources of financing.

Credit Acceptance was founded to collect retail installment contracts (referred to as "Consumer Loans") originated by automobile dealerships owned by our founder, majority shareholder, and current Chairman, Donald Foss. During the 1980s, we began to market this service to non-affiliated dealers and, at the same time, began to offer dealers a non-recourse cash payment (referred to as an "advance") against anticipated future collections on Consumer Loans serviced for that dealer. Today, our program is offered to dealers throughout the United States. We refer to dealers who participate in our program and who share our commitment to changing consumers' lives as "dealer-partners".

A consumer who does not qualify for conventional automobile financing can purchase a used vehicle from a Credit Acceptance dealer-partner and finance the purchase through the Company. As payment for the vehicle, the dealer-partner generally receives the following:

(i) a down payment from the consumer;

(ii) a cash advance from the Company; and

(iii) after the advance has been recovered by the Company, the cash from payments made on the Consumer Loan, net of certain collection costs and our servicing fee ("dealer holdback").

Our servicing fee is equal to a fixed percentage (typically 20%) of each payment collected. In addition, we receive fees for other products and services provided in connection with Consumer Loans.

If we discover a misrepresentation by the dealer-partner relating to a Consumer Loan assigned to us, we can demand that the Consumer Loan be repurchased for the current balance of the Consumer Loan less the amount of any unearned finance charge plus the applicable termination fee, which is generally $500. Upon receipt of such amount in full, we will reassign the Consumer Loan and its security interest in the financed vehicle to the dealer-partner. The dealer-partner can also opt to repurchase Consumer Loans at their own discretion.

2. SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

We are an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the dealer-partner and immediately assigned to us. Typically, the compensation paid to the dealer-partner in exchange for the Consumer Loan is paid in two parts. For the majority of our loans, a portion of the compensation is paid at the time of origination, and a portion is paid over time. The amount paid at the time of origination is called an advance; the portion paid over time based on the performance of the loan is called dealer holdback.

For accounting purposes, the transactions described above are not considered to be loans to consumers. Instead, our accounting reflects that of a lender to the dealer-partner. This classification for accounting purposes is primarily a result of (i) the dealer-partner's financial interest in the Consumer Loan and (ii) certain elements of our legal relationship with the dealer-partner. The cash amount advanced to the dealer-partner (the "Dealer Loan") is recorded as an asset on our balance sheet. The aggregate amount of all advances to an individual dealer-partner, plus accrued income, less repayments comprises the amount of the Dealer Loan recorded in Loans receivable.

A modest percentage of Consumer Loans in the United States are assigned to us in exchange for a single payment. Because the dealer-partner does not retain a financial interest in loans acquired in this manner, these loans are considered to be purchased loans ("Purchased Loans") for accounting purposes.

The Company is organized into two primary business segments: United States and Other. The Other segment consists of a number of discontinued businesses including a United Kingdom automobile financing business, an automobile leasing business, a Canadian automobile financing business, and a business offering secured lines of credit and floorplan financing products. As of June 30, 2007, substantially all of our capital was invested in the United States business segment.

Our business is seasonal with peak Consumer Loan acceptances and collections occurring during the first quarter of the year. However, this seasonality does not have a material impact on our interim results.

ACCOUNTING POLICIES

Finance Charges - Dealer Loans. We recognize finance charge income on Dealer Loans in a manner consistent with the provisions of the American Institute of Certified Public Accountant's Statement of Position ("SOP") 03-3 "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." SOP 03-3 requires us to recognize finance charges under the interest method such that revenue is recognized on a level-yield basis based upon forecasted cash flows. As the forecasted cash flows change, we adjust the yield upwards for positive changes and recognize impairment for negative changes in the current period.

Finance Charges - Purchased Loans. We recognize finance charge income on Purchased Loans consistent with the provisions of SOP 03-3. SOP 03-3 requires us to recognize finance charges under the interest method such that revenue is recognized on a level-yield basis based upon forecasted cash flows. As the forecasted cash flows change, we adjust the yield upwards for positive changes and recognize impairment for negative changes in the current period.

Finance Charges - Other. Buyers Vehicle Protection Plan, Inc. ("BVPP"), a wholly owned subsidiary of the Company, has relationships with third party vehicle service contract administrators ("TPAs") whereby the TPAs process claims on vehicle service contracts underwritten by third party insurers. BVPP receives a commission for all such vehicle service contracts sold by our dealer-partners where the vehicle service contract is financed by us, and does not bear any risk of loss for claims covered on these third party service contracts. The commission is included in the purchase price of the vehicle service contract included in the Consumer Loan. We advance to dealer-partners an amount based on the purchase price of the vehicle service contract on Consumer Loans accepted by us that include vehicle service contracts. We recognize the commission received from the TPAs for contracts financed by us as part of finance charges on a level-yield basis based upon forecasted cash flows. We also receive a commission for vehicle service contracts sold by our dealer partners when the underlying loan is not financed by us. Commissions on contracts not financed by us are recognized as finance charge income at the time the commissions are received. Our agreements with two of our TPAs allow us to receive profit sharing payments depending upon the performance of the vehicle service contract programs. Profit sharing payments are received once a year, if eligible. Profit sharing payments are not estimable and therefore revenue related to these payments is recognized in the period the payments are received.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

2. SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

BVPP also allows dealer-partners to offer a Guaranteed Asset Protection ("GAP") product to consumers that is underwritten by a third party. GAP provides the consumer protection by paying the difference between the loan balance and the consumer's insurance coverage in the event the vehicle is totaled or stolen. The dealer-partner typically includes the purchase price of GAP in the Consumer Loan. We receive a commission for every GAP product sold by our dealer-partners. We advance to dealer-partners an amount based on the purchase price of the GAP product on Consumer Loans accepted by us that include GAP. We recognize the commission as part of finance charges on a level-yield basis based upon forecasted cash flows. We also receive a commission for contracts sold by our dealer partners when the underlying loan is not financed by us. Commissions on contracts not financed by us are recognized as finance charge income at the time the commissions are received. We are eligible to receive profit sharing payments depending on the performance of the GAP products sold. Profit sharing payments from the third party are received once a year, if eligible. Profit sharing payments are not estimable and therefore revenue related to these payments is recognized in the period the payments are received.

We charge dealer-partners a monthly license fee for access to our patented internet-based Credit Approval Processing System ("CAPS"). In accordance with GAAP, this fee has historically been recorded as revenue in the month the fee is charged. Based on feedback received from field sales personnel and dealer-partners, we concluded that the way this fee was charged was a significant factor driving higher than desired dealer-partner attrition. Effective January 1, 2007, we implemented a change in the way these fees are charged designed to positively impact dealer-partner attrition. We continue to charge a monthly fee of $599 but, instead of collecting the license fee in the current period, we collect the license fee from future dealer holdback payments and recognize it as finance charges over the life of the Dealer Loans.

Loans Receivable and Allowance for Credit Losses - Dealer Loans. We record the amount advanced to the dealer-partner as a Dealer Loan. The Dealer Loan is increased as revenue is recognized and decreased as collections are received. We follow an approach similar to the provisions of SOP 03-3 in determining our allowance for credit losses. Consistent with SOP 03-3, an allowance for credit losses is maintained at an amount that reduces the net asset value (Dealer Loan balance less the allowance) to the value of forecasted future cash flows discounted at the yield established at the inception of the Dealer Loan. This allowance is calculated on a dealer-partner by dealer-partner basis. The discounted value of future cash flows is comprised of estimated future collections on the Consumer Loans, less any estimated dealer holdback payments. We write off Dealer Loans once there are no forecasted future collections on any of the associated Consumer Loans.

In estimating future collections and dealer holdback payments for each dealer-partner, we consider: (i) a dealer-partner's actual collection data on a static pool basis and (ii) our historical collection experience. Our collection forecast for each dealer-partner is updated monthly and we take into consideration the most recent static pool data available for each dealer-partner and our entire portfolio of Consumer Loans.

Cash flows from any individual Dealer Loan are often different than estimated cash flows at Dealer Loan inception. If such difference is favorable, the difference is recognized into income over the remaining life of the Dealer Loan through a yield adjustment. If such difference is unfavorable, an allowance for credit losses is established and a corresponding provision for credit losses is recorded as a current period expense. Because differences between estimated cash flows at inception and actual cash flows occur often, an allowance is required for a significant portion of our Dealer Loan portfolio. An allowance for credit losses does not necessarily indicate that a Dealer Loan is unprofitable, and in recent years, very seldom are cash flows from a Dealer Loan insufficient to repay the initial amounts advanced to the dealer-partner.

Loans Receivable and Allowance for Credit Losses - Purchased Loans. We record the amount paid to the dealer-partner to acquire the Consumer Loan as a Purchased Loan. The Purchased Loan is increased as revenue is recognized and decreased as collections are received. We aggregate Purchased Loans into pools based on the month of purchase for revenue recognition and impairment purposes. We follow an approach consistent with the provisions of SOP 03-3 in determining our allowance for credit losses. Under SOP 03-3, an allowance for credit losses is maintained at an amount that reduces the net asset value (Purchased Loan pool balance less the allowance) to the value of forecasted future cash flows discounted at the yield established at the date of purchase. The discounted value of future cash flows is comprised of estimated future collections on the pool of Purchased Loans. We write off pools of Purchased Loans once there are no forecasted future collections on any of the Purchased Loans included in the pool.

In estimating future collections for each pool of Purchased Loans, we consider: (i) actual collection data on a static pool basis and (ii) our historical collection experience. Our collection forecast for each pool of Purchased Loans is updated monthly and we take into consideration the most recent static pool data available for our Purchased Loans and our entire portfolio of Consumer Loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

2. SIGNIFICANT ACCOUNTING POLICIES - (CONCLUDED)

Cash flows from any individual pool of Purchased Loans are often different than estimated cash flows at the date of purchase. If such difference is favorable, the difference is recognized into income over the remaining life of the pool of Purchased Loans through a yield adjustment. If such difference is unfavorable, an allowance for credit losses is established and a corresponding provision for credit losses is recorded as a current period expense.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes" and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We adopted the provisions of FIN 48 on January 1, 2007. The cumulative effect of implementation of FIN 48 was approximately a $0.1 million increase in the liability for unrecognized tax benefits, which was accounted for as a decrease in the January 1, 2007 balance of retained earnings.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure financial assets and liabilities (except for those that are specifically exempted from the Statement) at fair value. The election to measure a financial asset or liability at fair value can be made on an instrument-by-instrument basis and is irrevocable. The difference between carrying value and fair value at the election date is recorded as a transition adjustment to opening retained earnings. Subsequent changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are not yet able to quantify the impact of SFAS 159, if adopted, on our consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

3. LOANS RECEIVABLE

A summary of changes in Loans receivable is as follows (in thousands):

	THREE MONTHS ENDED JUNE 30, 2007			
	DEALER LOANS	PURCHASED LOANS	OTHER LOANS	TO
Balance, beginning of period	$ 797,988	$ 37,171	$ 691	$ 83
New loans (1)	138,177	29,770	-	16
Dealer holdback payments	18,328	-	-	1
Net cash collections on loans	(139,186)	(6,669)	-	(14
Write-offs	(3,028)	(30)	-	(
Recoveries	-	7	-	
Net change in floorplan receivables, notes receivable, and lines of credit	-	-	(5)	
Other	-	-	92	
Currency translation	135	-	-	
Balance, end of period	$ 812,414	$ 60,249	$ 778	$ 87

	THREE MONTHS ENDED JUNE 30, 2006			
	DEALER LOANS	PURCHASED LOANS	OTHER LOANS	TO
Balance, beginning of period	$ 703,223	$ 16,947	$ 1,211	$ 72
New loans (1)	114,627	2,443	-	11
Dealer holdback payments	17,991	-	-	1
Net cash collections on loans	(134,223)	(2,575)	-	(13
Write-offs	(3,969)	(163)	-	(

Recoveries	-	10	-	
Net change in floorplan receivables, notes receivable, and lines of credit	-	-	278	
Other	-	-	79	
Currency translation	81	-	-	
Balance, end of period	$ 697,730	$ 16,662	$ 1,568	$ 71

	SIX MONTHS ENDED JUNE 30, 2007			
	DEALER LOANS	PURCHASED LOANS	OTHER LOANS	TO
Balance, beginning of period	$ 724,093	$ 29,926	$ 552	$ 75
New loans (1)	350,229	43,894	-	39
Dealer holdback payments	38,948	-	-	3
Net cash collections on loans	(293,821)	(13,410)	-	(30
Write-offs	(7,183)	(180)	-	(
Recoveries	-	19	-	
Net change in floorplan receivables, notes receivable, and lines of credit	-	-	41	
Other	-	-	185	
Currency translation	148	-	-	
Balance, end of period	$ 812,414	$ 60,249	$ 778	$ 87

	SIX MONTHS ENDED JUNE 30, 2006			
	DEALER LOANS	PURCHASED LOANS	OTHER LOANS	TO
Balance, beginning of period	$ 675,692	$ 16,486	$ 2,761	$ 69
New loans (1)	271,273	5,779	-	27
Dealer holdback payments	35,635	-	-	3
Net cash collections on loans	(279,724)	(5,424)	-	(28
Write-offs	(5,224)	(225)	-	(
Recoveries	-	46	-	
Net change in floorplan receivables, notes receivable, and lines of credit	-	-	(1,389)	(
Other	-	-	196	
Currency translation	78	-	-	
Balance, end of period	$ 697,730	$ 16,662	$ 1,568	$ 71

(1) New Dealer Loans includes advances to dealer-partners and accelerated payments of dealer holdback.

3. LOANS RECEIVABLE - (CONCLUDED)

A summary of changes in the Allowance for credit losses is as follows (in thousands):

	THREE MONTHS ENDED JUNE 30, 2007		
	DEALER LOANS	PURCHASED LOANS	TOTAL
Balance, beginning of period	$ 127,191	$ 1,058	$ 128,249
Provision for credit losses (1)	4,151	(178)	3,973
Write-offs	(3,028)	(30)	(3,058)
Recoveries	-	7	7
Currency translation	111	-	111
Balance, end of period	$ 128,425	$ 857	$ 129,282

	THREE MONTHS ENDED JUNE 30, 2006		
	DEALER LOANS	PURCHASED LOANS	TOTAL
Balance, beginning of period	$ 129,543	$ 1,071	$ 130,614
Provision for credit losses (2)	2,475	23	2,498
Write-offs	(3,969)	(163)	(4,132)
Recoveries	-	10	10
Currency translation	62	-	62
Balance, end of period	$ 128,111	$ 941	$ 129,052

	SIX MONTHS ENDED JUNE 30, 2007		
	DEALER LOANS	PURCHASED LOANS	TOTAL
Balance, beginning of period	$ 127,881	$ 910	$ 128,791
Provision for credit losses (3)	7,602	108	7,710
Write-offs	(7,183)	(180)	(7,363)
Recoveries	-	19	19
Currency translation	125	-	125
Balance, end of period	$ 128,425	$ 857	$ 129,282

	SIX MONTHS ENDED JUNE 30, 2006		
	DEALER LOANS	PURCHASED LOANS	TOTAL

Balance, beginning of period	$ 130,722	$ 689	$ 131,411
Provision for credit losses (4)	2,553	431	2,984
Write-offs	(5,224)	(225)	(5,449)
Recoveries	-	46	46
Currency translation	60	-	60
Balance, end of period	$ 128,111	$ 941	$ 129,052

(1) Does not include a negative provision for credit losses of $175 related to other items.

(2) Does not include a provision for credit losses of $143 related to other items.

(3) Does not include a negative provision for credit losses of $39 related to other items.

(4) Does not include a provision for credit losses of $181 related to other items.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

4. DEBT

We currently use four primary sources of debt financing: (i) a revolving secured line of credit with a commercial bank syndicate; (ii) a revolving secured warehouse facility with institutional investors; (iii) SEC Rule 144A asset-backed secured borrowings ("Term ABS 144A") with qualified institutional investors; and (iv) a residual credit facility with an institutional investor. General information for each of the financing transactions outstanding as of June 30, 2007 is as follows (dollars in thousands):

FINANCINGS	WHOLLY OWNED SUBSIDIARY *	ISSUE NUMBER	CLOSE DATE	MATURITY DATE	FINANC AMOUN
Revolving Line of Credit	n/a	n/a	June 14, 2007	June 20, 2009	$ 75,0
Revolving Secured Warehouse Facility*	CAC Warehouse Funding Corp. II	2003-2	February 14, 2007	February 13, 2008	$ 325,
Term ABS 144A 2006-1*	Credit Acceptance Funding LLC 2006-1	2006-1	April 18, 2006	n/a**	$ 100,0
Term ABS 144A 2006-2*	Credit Acceptance Funding LLC 2006-2	2006-2	November 21, 2006	n/a***	$ 100,0

Term ABS 144A 2007-1*	Credit Acceptance Funding LLC 2007-1	2007-1	April 12, 2007	n/a****	$ 100,0
Residual Credit Facility*	Credit Acceptance Residual Funding LLC	2006-3	September 20, 2006	September 19, 2007	$ 50,0

* Financing made available only to a specified subsidiary of the Company.

** This facility was paid off on July 16, 2007.

*** The total expected term of this facility is 22 months.

**** The total expected term of this facility is 24 months.

Additional information related to the amounts outstanding on each facility is as follows (dollars in thousands):

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX JUN
	2007	2006	2007
REVOLVING LINE OF CREDIT			
Maximum outstanding balance	$ 70,200	$ 103,900	$ 70,200
Weighted average outstanding balance	46,583	66,922	44,549
REVOLVING SECURED WAREHOUSE FACILITY			
Maximum outstanding balance	$ 293,500	$ 163,769	$ 293,500
Weighted average outstanding balance	222,805	121,945	219,736

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

4. DEBT - (CONTINUED)

	AS OF JUNE 30, 2007	AS OF DECEMBER 31, 2006
REVOLVING LINE OF CREDIT		
Balance outstanding	$ 44,500	$ 38,400
Letter(s) of credit	400	860
Amount available for borrowing	30,100	95,740
Interest rate	6.60%	7.06%
REVOLVING SECURED WAREHOUSE FACILITY		
Balance outstanding	$ 227,000	$ 171,000
Amount available for borrowing	98,000	154,000
Contributed Dealer Loans	291,866	249,247
Interest rate	6.01%	6.00%

TERM ABS 144A 2006-1		
Balance outstanding	$ 5,631	$ 74,144
Contributed Dealer Loans	76,135	115,664
Interest rate	5.36%	5.36%
TERM ABS 144A 2006-2		
Balance outstanding	$ 100,000	$ 100,000
Contributed Dealer Loans	125,015	125,178
Interest rate	5.38%	5.38%
TERM ABS 144A 2007-1		
Balance outstanding	$ 100,000	$ -
Contributed Dealer Loans	129,000	-
Interest rate	5.32%	-
RESIDUAL CREDIT FACILITY		
Balance outstanding	$ -	$ -
Contributed Dealer Loans	-	-
Interest rate	6.81%	6.80%

LINE-OF-CREDIT FACILITY

During the second quarter, we extended the maturity of our line-of-credit facility from June 20, 2008 to June 20, 2009. We also reduced the amount of the facility from $135.0 million to $75.0 million because the funding available under this facility and our $325.0 million warehouse facility exceeded our current revolving credit borrowing needs. In addition, the interest rate on borrowings under the facility was reduced from the prime rate or 1.30% over the Eurocurrency rate, at the Company's option to the prime rate minus 1.65% or 1.25% over the Eurocurrency rate, at the Company's option.

Borrowings under the credit facility are subject to a borrowing-base limitation. This limitation equals 80% of the net book value of Dealer Loans plus 80% of the net book value of Purchased Loans, less a hedging reserve (not exceeding $1.0 million), the amount of letters of credit issued under the line-of-credit, and the amount of other debt secured by the collateral which secures the line-of-credit. Borrowings under the credit agreement are secured by a lien on most of our assets. We must pay annual and quarterly fees on the amount of the facility.

4. DEBT - (CONTINUED)

REVOLVING SECURED WAREHOUSE FACILITY

This facility is used to provide financing to our subsidiary CAC Warehouse Funding Corp. II ("Warehouse Funding"). Under the facility, we convey Dealer Loans to this subsidiary in return for cash and equity in the subsidiary. In turn, Warehouse Funding pledges the Dealer Loans as collateral to institutional investors to secure loans that will fund the cash portion of the purchase price of the Dealer Loans. The financing provided to Warehouse Funding under the facility is limited to the lesser of 80% of the net book value of the contributed Dealer Loans or the facility limit.

The agreement requires that certain amounts outstanding under the facility be refinanced within 360 days of the most recent renewal. The most recent renewal occurred on February 14, 2007, while the most recent refinancing occurred on April 12, 2007. If such financing does not occur, the transaction will cease to revolve, will amortize as collections are received and, at the option of the institutional investors, may be subject to acceleration and foreclosure.

Warehouse Funding is liable for any amounts due under the facility. Even though Warehouse Funding and the Company are consolidated for financial reporting purposes, the financing is non-recourse to the Company. As Warehouse Funding is organized as a separate legal entity from the Company, assets of Warehouse Funding (including the conveyed Dealer Loans) will not be available to satisfy the general obligations of the Company. All of Warehouse Funding's assets have been encumbered to secure its obligations to its creditors.

Interest on borrowings under the facility has been limited to a maximum rate of 6.75% through interest-rate-cap agreements executed in the first quarter of 2007. Warehouse Funding pays the Company a monthly servicing fee equal to 6% of the collections received with respect to the conveyed Dealer Loans. The fee is paid out of the collections. Except for the servicing fee and holdback payments due to dealer-partners, the Company does not have any rights in any portion of such collections.

TERM ABS 144A FINANCINGS

In 2006 and 2007, three of our wholly owned subsidiaries-Credit Acceptance Funding LLC 2006-1, Credit Acceptance Funding LLC 2006-2 and Credit Acceptance Funding LLC 2007-1 (the "Funding LLCs") each completed a secured financing transaction in which they received $100.0 million. In connection with these transactions, we conveyed Dealer Loans to each Funding LLC for cash and the sole membership interest in that Funding LLC. In turn, each Funding LLC conveyed the Dealer Loans to a respective trust that issued $100.0 million in notes to qualified institutional investors. In each transaction, the notes were rated "Aaa" by Moody's Investor Service and "AAA" by Standard & Poor's Rating Services. Financial insurance policies were issued in connection with the transactions. The policies guarantee the timely payment of interest and ultimate repayment of principal on the final scheduled distribution date.

Each financing has a specified revolving period during which we may be required, and are likely, to convey additional Dealer Loans to each Funding LLC. Each Funding LLC will then convey them to their respective trust, to maintain the financing at the $100 million level. (The proceeds of the initial Dealer Loan conveyances to the Funding LLCs were used to purchase Dealer Loans, on an arm's-length basis, from Warehouse Funding.) At the end of the revolving period, the debt outstanding under each financing will begin to amortize.

The financings create loans for which the trusts are liable and which are secured by all the assets of each trust. Such loans are non-recourse to the Company, even though the trusts, the Funding LLCs and the Company are consolidated for financial reporting purposes. Because the Funding LLCs are organized as separate legal entities from the Company, their assets (including the conveyed Dealer Loans) are not available to satisfy the Company's general obligations. The Company receives a monthly servicing fee on each financing equal to 6% of the collections received with respect to the conveyed Dealer Loans. The fee is paid out of the collections. Aside from the servicing fee and payments due to dealer-partners, the Company does not receive, or have any rights in the collections. However, in its capacity as Servicer of the Dealer Loans, the Company does have a limited right to exercise a "clean-up call" option to purchase Dealer Loans from the Funding LLCs under certain specified circumstances. Alternatively, when a trust's underlying indebtedness is paid in full, either through collections or through a prepayment of the indebtedness, the trust is to pay any remaining collections over to its Funding LLC as the sole beneficiary of the trust. The collections will then be available to be distributed to the Company as the sole member of the respective Funding LLC. The table below sets forth certain additional details regarding the outstanding Term ABS 144A Financings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

4. DEBT - (CONTINUED)

TERM ABS 144A FINANCING	ISSUE NUMBER	CLOSE DATE	NET BOOK VALUE OF DEALER LOANS CONVEYED AT CLOSING	REVOLVING PERIOD
Term ABS 144A 2006-1	2006-1	April 18, 2006	$133,500	6 months (Through October 16,
Term ABS 144A 2006-2	2006-2	November 21, 2006	$125,600	12 months (Through November 15,
Term ABS 144A 2007-1	2007-1	April 12, 2007	$125,700	12 months (Through April 15, 20

* Includes underwriter's fees, insurance premiums and other costs.

RESIDUAL CREDIT FACILITY

Another wholly owned subsidiary, Credit Acceptance Residual Funding LLC ("Residual Funding"), has a $50.0 million secured credit facility with an institutional investor. This facility allows Residual Funding to finance its purchase of trust certificates from special-purpose entities (the "Term SPEs") that have purchased Dealer Loans under our term securitization transactions. Historically, the Term SPEs' residual interests in Dealer Loans, represented by their trust certificates, have proven to have value that increases as their term securitization obligations amortize. This facility enables the Term SPEs to realize and distribute to us up to 65% of that increase in value prior to the time the related term securitization senior notes are paid in full.

Residual Funding's interests in Dealer Loans, represented by its purchased trust certificates, are subordinated to the interests of term securitization senior noteholders. However, the entire arrangement is non-recourse to the Company. Residual Funding is organized as a separate legal entity from the Company. Therefore its assets, including purchased trust certificates, are not available to satisfy the Company's general obligations, even though Residual Funding and the Company are consolidated for financial reporting purposes.

MORTGAGE LOAN

We have a mortgage loan from a commercial bank that is secured by a first-mortgage lien on our headquarters building and an assignment of all leases, rents, revenues and profits under all present and future leases of the building. There was $6.5 million and $6.8 million outstanding on this loan as of June 30, 2007 and December 31, 2006, respectively. The loan matures on June 9, 2009, bears interest at a fixed rate of 5.35%, and requires monthly payments of

$92,156 and a balloon payment at maturity for the balance of the loan.

CAPITAL LEASE OBLIGATIONS

As of June 30, 2007, we had various capital lease obligations outstanding for computer equipment, with monthly payments totaling $63,000. The total amount of capital lease obligations outstanding as of June 30, 2007 and December 31, 2006 was $1.6 million and $1.8 million, respectively. These capital lease obligations bear interest at rates ranging from 7.23% to 8.71% and have maturity dates between July 2007 and June 2010.

LETTERS OF CREDIT

Letters of credit are issued by a commercial bank syndicate and reduce amounts available under our revolving line of credit. As of June 30, 2007 and December 31, 2006, we had letters of credit outstanding of $0.4 million and $0.9 million, respectively. The letters of credit relate to reinsurance agreements. The letters of credit expire on May 26, 2008, at which time they will be automatically extended for a period of one year unless we are notified otherwise by the commercial bank syndicate.

4. DEBT - (CONCLUDED)

DEBT COVENANTS

As of June 30, 2007, we are in compliance with various restrictive debt covenants that require the maintenance of certain financial ratios and other financial conditions. The most restrictive covenants require a minimum ratio of our assets to debt and a minimum ratio of our earnings before interest, taxes and non-cash expenses to fixed charges. The covenants also limit the maximum ratio of our funded debt to tangible net worth. Additionally, we must maintain, as of the end of each quarter, consolidated net income of not less than $1.00 for the two consecutive quarters then ending. Some of the debt covenants may indirectly limit the payment of dividends on common stock.

5. RELATED PARTY TRANSACTIONS

In the normal course of our business, we have Dealer Loans with affiliated dealer-partners owned or controlled by: (i) our majority shareholder and Chairman; (ii) a member of the Chairman's immediate family; and (iii) our former President, Keith McCluskey. Mr. McCluskey resigned from his position with the Company effective September 1, 2006. Transactions with Mr. McCluskey are reported below through December 31, 2006. Our Dealer Loans to affiliated dealer-partners and nonaffiliated dealer-partners are on the same terms. A summary of related party Dealer Loan activity is as follows (in thousands):

	As of June 30, 2007		As of December 31, 2006	
	Affiliated Dealer Loan balance	% of consolidated	Affiliated Dealer Loan balance	% of consolidated

Affiliated Dealer Loan balance	$ 17,797	2.2%	$ 22,434	3.1%

	For the Three Months ended June 30, 2007		For the Three Months ended June 30, 2006	
	Affiliated dealer-partner activity	% of consolidated	Affiliated dealer-partner activity	% of consolidated
New loans	$ 2,346	1.7%	$ 3,760	3.3%
Affiliated dealer-partner revenue	$ 1,195	2.5%	$ 1,635	3.6%
Dealer holdback payments	$ 466	2.5%	$ 862	4.8%

	For the Six Months ended June 30, 2007		For the Six Months ended June 30, 2006	
	Affiliated dealer-partner activity	% of consolidated	Affiliated dealer-partner activity	% of consolidated
New loans	$6,558	1.9%	$9,859	3.6%
Affiliated dealer-partner revenue	$2,413	2.5%	$3,229	3.6%
Dealer holdback payments	$1,023	2.6%	$1,251	3.5%

Beginning in 2002, entities owned by our majority shareholder and Chairman began offering secured lines of credit to third parties in a manner similar to a program previously offered by us. In December of 2004, our majority shareholder and Chairman sold his ownership interest in these entities; however he continues to have indirect control over these entities and has the right or obligation to reacquire the entities under certain circumstances until December 31, 2014 or the repayment of the related purchase money note.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

6. INCOME TAXES

A reconciliation of the U.S. federal statutory rate to our effective tax rate, excluding the results of the discontinued United Kingdom operations, is as follows:

	THREE MONTHS ENDED JUNE 30,	SIX MONTHS ENDED JUNE 30,

	2007	2006	2007	2006
U.S. federal statutory rate	35.0%	35.0%	35.0%	35.0%
State income taxes	3.9	(0.8)	4.0	0.2
Other	--	0.4	(3.3)	0.4
Effective tax rate	38.9%	34.6%	35.7%	35.6%

The differences between the U.S. federal statutory rate and our consolidated effective tax rate are primarily related to state income taxes and reserves for uncertain tax positions that are included in the provision for income taxes. The effective tax rate of 34.6% for the three months ended June 30, 2006 was lower than 38.9% for the three months ended June 30, 2007 due to a reduction of state tax liability as a result of a settlement during the second quarter of 2006.

We adopted FIN 48 on January 1, 2007. As a result of the implementation, we recognized a $0.1 million increase to reserves for uncertain tax positions. This increase was accounted for as an adjustment to the beginning balance of retained earnings on the balance sheet. Including the cumulative effect of FIN 48 implementation, at the beginning of 2007, we had approximately $10.0 million of total gross unrecognized tax benefit that, if recognized, would favorably affect the effective income tax rate in future periods. During the three and six months ended June 30, 2007, we recorded additional increases in the unrecognized tax benefit of $0.7 million and $1.2 million that resulted in a total of $11.2 million of gross unrecognized benefit as of June 30, 2007.

We are subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. We have substantially concluded all U.S. federal income tax matters for years through 2001. Substantially all material state and local tax matters have been concluded for years through 2002 and foreign tax matters have been concluded through 2000. The federal income tax returns for 2004 and 2005 are currently under examination. The examination began during the first quarter of 2007 and we believe that it is unlikely to be completed by the end of 2007.

We recognize interest and penalties related to income tax matters in provision for income taxes expense. As of January 1, 2007, upon the FIN 48 implementation, we had approximately $2.1 million and $0.9 million of accrued interest and penalties, respectively, related to uncertain tax positions. During the three months and six month ended June 30, 2007, we recorded an additional $0.3 million and $0.4 million of interest and $0.1 million and $0.2 million of penalties, respectively, related to uncertain tax matters.

7. CAPITAL TRANSACTIONS

NET INCOME PER SHARE

Basic net income per share has been computed by dividing net income by the weighted average number of common shares outstanding. Diluted net income per share has been computed by dividing net income by the total of the weighted average number of common shares and dilutive common stock equivalents outstanding. Dilutive common stock equivalents included in the computation represent shares issuable upon assumed exercise of stock options that would have a dilutive effect using the treasury stock method. The share effect is as follows:

	THREE MONTHS ENDED JUNE 30,	
	2007	2006
Weighted average common shares outstanding	30,140,590	32,979,5
Common stock equivalents	1,171,549	2,454,3
Weighted average common shares and common stock equivalents	31,312,139	35,433,9

There were no stock options that would be anti-dilutive for the three and six months ended June 30, 2007 or the three and six months ended June 30, 2006.

STOCK COMPENSATION PLANS

Pursuant to our Incentive Compensation Plan (the "Incentive Plan"), which was approved by shareholders on May 13, 2004, we reserved 1.0 million shares of our common stock for the future granting of restricted stock, restricted stock units, stock options, and performance awards to employees, officers, and directors at any time prior to April 1, 2014.

During the six months ended June 30, 2007, we granted 56,669 shares of restricted stock to employees and officers under the Incentive Plan, all of which vest over a three year period. During the six months ended June 30, 2007, 637 restricted stock shares vested. At June 30, 2007 and December 31, 2006, we had 202,626 and 146,028 shares of restricted stock outstanding, respectively. Shares available for future grants under the Incentive Plan totaled 497,303 at June 30, 2007. We recognized $0.4 million and $0.4 million of expense related to restricted stock grants during the three and six months ended June 30, 2007.

On February 22, 2007, the Compensation Committee approved an award of 300,000 restricted stock units to our Chief Executive Officer. Each restricted stock unit represents and has a value equal to one share of our common stock. The restricted stock units will be earned over a five year period based upon the annual increase in our adjusted economic profit. Any earned shares will be distributed on February 22, 2014. We recognized $1.0 million and $1.4 million of expense related to the award of restricted stock units during the three and six months ended June 30, 2007, respectively.

STOCK REPURCHASES

Our board of directors approved a stock repurchase program which authorizes us to purchase common shares in the open market or in privately negotiated transactions at price levels we deem attractive. On May 24, 2007, our board of directors authorized the repurchase of up to $30 million of our common stock in addition to the board's prior authorizations. As of June 30, 2007, we have authorization to repurchase up to $36.4 million of our common stock. As of June 30, 2007, we have repurchased approximately 20.1 million shares under the stock repurchase program at a cost of $391.9 million. Included in the stock repurchases to date are 12.5 million shares of common stock purchased through four modified Dutch auction tender offers at a cost of $304.4 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONCLUDED)
(UNAUDITED)

8. BUSINESS SEGMENT INFORMATION

We have two reportable business segments: United States and Other. The United States segment primarily consists of the United States automobile financing business. The Other segment consists of the following: a United Kingdom automobile financing business, an automobile leasing business, a Canadian automobile financing business and a business that provided secured lines of credit and floorplan financing. We are currently liquidating all businesses classified in the Other segment.

Selected segment information is set forth below (in thousands):

	THREE MONTHS E JUNE 30	
	2007	2
Revenue:		
United States	$ 58,249	$ 5
Other	37	
Total revenue	$ 58,286	$ 5
Income from continuing operations before provision for income taxes:		
United States	$ 20,324	$ 2
Other	107	
Total income from continuing operations before provision for income taxes	$ 20,431	$ 2

	AS OF JUNE 30, 2007	AS OF DECEMBER 31, 2006
Segment Assets		
United States	$ 855,653	$ 724,008
Other	944	1,205
Total Assets	$ 856,597	$ 725,213

9. DEBT ISSUANCE COSTS

As of June 30, 2007 and December 31, 2006, deferred debt issuance costs were $2.2 million (net of amortization expense of $5.2 million) and $3.0 million (net of amortization expense of $4.1 million), respectively. Expenses associated with the issuance of debt instruments are capitalized and amortized as interest expense over the term of the debt instrument on a level-yield basis for term secured financings and on a straight-line basis for lines of credit and revolving secured financings.

10. COMPREHENSIVE INCOME

Our comprehensive income information is set forth below (in thousands):

	THREE MONTHS ENDED JUNE 30,	
	2007	2006
Net income	$ 12,330	$ 17,606
Unrealized (loss) gain on securities available for sale	(7)	(9)
Comprehensive income	$ 12,323	$ 17,597

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE SUMMARY

Since 1972, we have provided auto loans to consumers, regardless of their credit history. Our product is offered through a nationwide network of automobile dealers who benefit from sales of vehicles to consumers who otherwise could not obtain financing; from repeat and referral sales generated by these same customers; and from sales to customers responding to advertisements for our product, but who actually end up qualifying for traditional financing.

We are an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the dealer-partner and immediately assigned to us. Typically, the compensation paid to the dealer-partner in exchange for the Consumer Loan is paid in two parts. For the majority of our loans, a portion of the compensation is paid at the time of origination, and a portion is paid over time. The amount paid at the time of origination is called an advance; the portion paid over time based on the performance of the loan is called dealer holdback.

For accounting purposes, the transactions described above are not considered to be loans to consumers. Instead, our accounting reflects that of a lender to the dealer-partner. This classification for accounting purposes is primarily a result of (i) the dealer-partner's financial interest in the Consumer Loan and (ii) certain elements of our legal relationship with the dealer-partner. The cash amount advanced to the dealer-partner is recorded as an asset on our balance sheet. The aggregate amount of all advances to an individual dealer-partner, plus accrued income, less repayments comprises the amount of the Dealer Loan recorded in Loans receivable.

A modest percentage of Consumer Loans in the United States are assigned to us in exchange for a single payment at the time of origination. Because the dealer-partner does not retain a financial interest in loans acquired in this manner, these loans are considered to be Purchased Loans for accounting purposes.

Critical success factors for us include access to capital and the ability to accurately forecast Consumer Loan performance. Our strategy for accessing the capital required to grow is to: (i) maintain consistent financial performance, (ii) maintain modest financial leverage, and (iii) maintain multiple funding sources. Our funded debt to equity ratio is 2:1 at June 30, 2007. We currently fund our business through four primary sources of financing: (i) a revolving secured line of credit with a commercial bank syndicate; (ii) a revolving secured warehouse facility with institutional investors; (iii) Rule 144A asset backed securitizations with qualified institutional investors; and (iv) a residual credit facility.

The ability to accurately forecast Consumer Loan performance is critical. At the time of Consumer Loan acceptance, we forecast future expected cash flows from the Consumer Loan. Based on these forecasts, an advance is made to the related dealer-partner at a level designated to achieve an acceptable return on capital. If Consumer Loan performance equals or exceeds our original expectation, it is likely our target return on capital will be achieved.

CONSUMER LOAN PERFORMANCE

Although the majority of loan originations are recorded in our financial statements as Dealer Loans, each transaction starts with a loan from the dealer-partner to the individual purchasing the vehicle. Since the cash flows available to repay the Dealer Loans are generated, in most cases, from the underlying Consumer Loan, the performance of the Consumer Loans is critical to our financial results. The following table presents forecasted Consumer Loan collection rates, advance rates, the spread (the forecasted collection rate less the advance rate), and the percentage of the forecasted collections that have been realized as of June 30, 2007. Payments of dealer holdback and accelerated payments of dealer holdback are not included in the advance percentage paid to the dealer-partner. All amounts are presented as a percentage of the initial balance of the Consumer Loan (principal + interest).

	As of June 30, 2007			
Year of Origination	Forecasted Collection %	Advance %	Spread %	% of Forecast Realized
1997	58.4%	47.9%	10.5%	99.9%
1998	67.5%	46.1%	21.4%	99.5%
1999	72.4%	48.7%	23.7%	98.7%
2000	72.9%	47.9%	25.0%	98.0%
2001	67.8%	46.0%	21.8%	97.3%
2002	71.0%	42.2%	28.8%	97.0%
2003	74.4%	43.4%	31.0%	96.3%
2004	74.0%	44.0%	30.0%	88.9%
2005	74.1%	46.9%	27.2%	74.5%
2006	70.7%	46.6%	24.1%	39.9%
2007	70.4%	46.4%	24.0%	7.2%

Accurately forecasting future collection rates is critical to our success. The risk of a forecasting error declines as Consumer Loans age. For example, the risk of a material forecasting error for business written in 1999 is very small since 98.7% of the total amount forecasted has already been realized. In contrast, our forecast for recent Consumer Loans is less certain. If we produce disappointing operating results, it will likely be because we overestimated future Consumer Loan performance. Although we believe our forecasted collection rates are as accurate as possible, there can be no assurance that our estimates will be accurate or that Consumer Loan performance will be as expected.

A wider spread between the forecasted collection rate and the advance rate reduces our risk of credit losses. Because collections are applied to advances on an individual dealer-partner basis, a wide spread does not eliminate the risk of losses, but it does reduce the risk significantly. While the spread has decreased from 2003 to 2007, we believe it is still at a sufficient level to minimize our risk of being able to recover the cash advance.

The following tables compare our forecast of Consumer Loan collection rates as of June 30, 2007 with the forecast as of March 31, 2007 and as of December 31, 2006:

Loan Origination Year	June 30, 2007 Forecasted Collection %	March 31, 2007 Forecasted Collection %	Variance
1997	58.4%	58.4%	0.0 %
1998	67.5%	67.4%	0.1 %
1999	72.4%	72.4%	0.0 %
2000	72.9%	72.9%	0.0 %
2001	67.8%	67.8%	0.0 %
2002	71.0%	70.8%	0.2 %
2003	74.4%	74.3%	0.1 %
2004	74.0%	74.1%	(0.1)%
2005	74.1%	74.0%	0.1 %
2006	70.7%	71.0%	(0.3)%

Loan Origination Year	June 30, 2007 Forecasted Collection %	December 31, 2006 Forecasted Collection %	Variance
1997	58.4%	58.4%	0.0 %
1998	67.5%	67.5%	0.0 %
1999	72.4%	72.4%	0.0 %
2000	72.9%	73.0%	(0.1)%
2001	67.8%	67.7%	0.1 %
2002	71.0%	70.7%	0.3 %
2003	74.4%	74.2%	0.2 %
2004	74.0%	73.9%	0.1 %
2005	74.1%	74.2%*	(0.1)%
2006	70.7%	71.1%*	(0.4)%
2007	70.4%	69.9%**	0.5 %

* These forecasted collection percentages differ from those previously reported in our Annual Report on Form 10-K for the year ended December 31, 2006 and our 2006 earnings release as they have been revised for a

seasonality factor. This seasonality factor was first applied during the first quarter of 2007. The following table compares our forecast of Consumer Loan collection rates as of June 30, 2007, with the forecast as of December 31, 2006 without the revised seasonality factors:

Loan Origination Year	June 30, 2007	December 31, 2006	Variance
2005	74.2%	73.8%	0.4 %
2006	70.8%	70.5%	0.3 %

Forecasted collection percentages prior to 2005 are not materially impacted by the seasonality factors.

** Collection percentage represents the initial forecasted collection percentage determined at origination for 2007 originations.

Collection results were generally consistent with our expectations.

We modified our loan pricing model during the third quarter of 2006. As a result, loan originations during the three and six months ended June 30, 2007 are larger, have a lower return on capital, and have a smaller spread than loans originated during the same periods in 2006. Consumer Loan unit volume also increased during these periods and we believe this higher volume was primarily due to the pricing modification.

There were no other material changes in our credit policy or pricing during 2007 that impacted the financial results for the three and six months ended June 30, 2007, other than routine changes designed to maintain profitability levels.

RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 2007 Compared to Three and Six Months Ended June 30, 2006

The following is a discussion of the results of operations and income statement data for the Company on a consolidated basis.

(Dollars in thousands, except per share data)	THREE MONTHS ENDED JUNE 30, 2007	% OF REVENUE	TH
REVENUE:			
Finance charges	$ 54,084	92.8%	$
License fees	84	0.1	
Other income	4,118	7.1	
Total revenue	58,286	100.0	
COSTS AND EXPENSES:			
Salaries and wages	13,092	22.5	
General and administrative	7,359	12.6	

Sales and marketing	4,144	7.1	
Provision for credit losses	3,798	6.5	
Interest	9,463	16.2	
Other expense	33	0.1	
Total costs and expenses	37,889	65.0	
Operating income	20,397	35.0	
Foreign currency gain	34	0.1	
Income from continuing operations before provision for income taxes	20,431	35.1	
Provision for income taxes	7,938	13.6	
Income from continuing operations	12,493	21.5	
Discontinued operations			
Loss from discontinued United Kingdom operations	(233)	(0.4)	
Credit for income taxes	(70)	(0.1)	
Loss on discontinued operations	(163)	(0.3)	
Net income	$ 12,330	21.2%	$
Net income per common share:			
Basic	$ 0.41		$
Diluted	$ 0.39		$
Income from continuing operations per common share:			
Basic	$ 0.41		$
Diluted	$ 0.40		$
Loss from discontinued operations per common share:			
Basic	$ (0.01)		$
Diluted	$ (0.01)		$
Weighted average shares outstanding:			
Basic	30,140,590		3
Diluted	31,312,139		3

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RESULTS OF OPERATIONS

(Dollars in thousands, except per share data)	SIX MONTHS ENDED JUNE 30, 2007	% OF REVENUE	SI
REVENUE:			
Finance charges	$ 105,497	91.3%	$

License fees	166	0.1	
Other income	9,974	8.6	
Total revenue	115,637	100.0	
COSTS AND EXPENSES:			
Salaries and wages	24,953	21.4	
General and administrative	13,276	11.5	
Sales and marketing	8,616	7.5	
Provision for credit losses	7,671	6.6	
Interest	17,751	15.4	
Other expense	58	0.1	
Total costs and expenses	72,325	62.5	
Operating income	43,312	37.5	
Foreign currency gain	38	-	
Income from continuing operations before provision for income taxes	43,350	37.5	
Provision for income taxes	15,470	13.4	
Income from continuing operations	27,880	24.1	
Discontinued operations			
Loss from discontinued United Kingdom operations	(271)	(0.2)	
Credit for income taxes	(81)	-	
Loss on discontinued operations	(190)	(0.2)	
Net income	$ 27,690	23.9%	$
Net income per common share:			
Basic	$ 0.92		$
Diluted	$ 0.88		$
Income from continuing operations per common share:			
Basic	$ 0.93		$
Diluted	$ 0.89		$
Loss from discontinued operations per common share:			
Basic	$ (0.01)		$
Diluted	$ (0.01)		$
Weighted average shares outstanding:			
Basic	30,097,387		3
Diluted	31,297,484		3

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For the three months ended June 30, 2007, net income decreased to $12.3 million, or $0.39 per diluted share, compared to $17.6 million, or $0.50 per diluted share, for the same period in 2006. The decrease in net income primarily reflects the following:

- The average size of our loan portfolio grew 23.3%. Finance charges grew by 12.9%. Finance charges grew slower than loans receivable as a result of pricing changes implemented during the third quarter of 2006.

- Operating expenses increased 25.1%, primarily due to costs associated with additional headcount to support our growth as well as increased stock compensation expense.

- We increased our use of debt through share repurchases. The average ratio of debt to equity for the three months increased from 0.9 to 2.0. Increased debt levels caused interest expense to increase $3.8 million.

- We changed how we account for our license fees due to changing our methodology of collecting fees from our dealer-partners. This change reduced revenue by $2.7 million.

For the six months ended June 30, 2007, net income decreased to $27.7 million, or $0.88 per diluted share, compared to $34.8 million, or $0.94 per diluted share, for the same period in 2006. The decrease in net income primarily reflects the following:

- The average size of our loan portfolio grew 19.3%. Finance charges grew by 12.3%. Finance charges grew slower than loans receivable as a result of pricing changes implemented during the third quarter of 2006.

- Operating expenses increased 13.2%, primarily due to costs associated with additional headcount to support the growth as well as increased stock compensation expense.

- We increased our use of debt through share repurchases. The average ratio of debt to equity for the six months increased from 0.7 to 2.0. Increased debt levels caused interest expense to increase $8.5 million.

- We changed how we account for our license fees due to changing our methodology of collecting fees from our dealer-partners. This change reduced revenue by $5.3 million.

Finance Charges. The increase for the three months was primarily due to a 23.3% increase in the average size of the combined Dealer and Purchased Loan portfolio as a result of an increase in the number of active dealer-partners and an increase in the average loan size. The increase was partially offset by a 270 basis point decrease in the combined average yield on Dealer and Purchased Loans primarily due to pricing changes implemented during the third quarter of 2006. The increase for the six months was primarily due to a 19.3% increase in the average size of the combined Dealer and Purchased Loan portfolio as a result of an increase in the number of active dealer-partners and an increase in the average loan size. The increase was partially offset by a 180 basis point decrease in the combined average yield on Dealer and Purchased Loans primarily due to pricing changes implemented during the third quarter of 2006.

The following table summarizes the changes in active dealer-partners and corresponding Consumer Loan unit volume for the three months ended June 30, 2007 and 2006:

	THREE MONTHS ENDED JUNE 30,

	2007	2006	% CHANGE
Consumer Loan unit volume	25,053	20,176	24.2%
Active dealer-partners (1)	1,955	1,510	29.5%
Average volume per dealer-partner	12.8	13.4	-4.5%
Consumer Loan unit volume from dealer-partners active both periods	15,967	15,898	0.4%
Dealer-partners active both periods	1,022	1,022	0.0%
Average volume per dealer-partner active both periods	15.6	15.6	0.0%
Consumer Loan unit volume from new dealer-partners	4,331	1,085	299.2%
New active dealer-partners (2)	536	188	185.1%
Average volume per new active dealer-partner	8.1	5.8	39.7%
Attrition (3)	-21.2%	-19.9%	

(1) Active dealer-partners are dealer-partners who submit at least one Consumer Loan during the period.

(2) New active dealer-partners are dealer-partners that have enrolled in our program and have submitted their first Consumer Loan to us during the period.

(3) Attrition is measured according to the following formula: decrease in Consumer Loan unit volume from dealer-partners who submitted at least one Consumer Loan during the comparable period of the prior year but who submitted no Consumer Loans during the current period divided by prior year comparable period Consumer Loan unit volume.

Dealer-partners that enroll in our program have the option to pay an initial $9,850 enrollment fee or can defer their fee. Dealer-partners choosing the latter option agree to allow us to keep 50% of the first accelerated dealer holdback payment. This payment, called Portfolio Profit Express, is paid to qualifying dealer-partners after 100 Consumer Loans have been originated and assigned to us. While we will lose enrollment fee revenue on those dealer-partners choosing this option and not reaching 100 Consumer Loans or otherwise failing to qualify for a Portfolio Profit Express payment, we estimate that we will realize higher per dealer-partner enrollment fee revenue from those dealer-partners choosing this option and qualifying for a Portfolio Profit Express payment. Based on the historical average of Portfolio Profit Express payments, we expect average enrollment fee revenue per dealer-partner for those dealer-partners electing the deferred option and reaching 100 Consumer Loans will be approximately $13,000. Through June 30, 2007, 56 dealer-partners that have enrolled under the deferred option have earned Portfolio Profit Express payments. Half of these payments averaged $13,000 per dealer-partner. Approximately 80% of the dealer-partners that enrolled during the second quarter of 2007 took advantage of the deferred enrollment option.

License Fees. License fees represent CAPS fees charged to dealer-partners on a monthly basis. The decreases were primarily due to a change in our method of collecting the monthly CAPS fee. Effective January 1, 2007, we implemented a change designed to positively impact dealer-partner attrition. We continue to charge a monthly fee of $599, but instead of collecting and recognizing the revenue from the fee in the current period, we collect it from future dealer holdback payments. As a result of this change, we now record license fees as a yield adjustment, recognizing these fees as finance charge revenue over the term of the Dealer Loan. We recognized a small amount of license fee revenue related to dealer-partners originating Purchased Loans. The decreases in license fees were partially offset by increases in finance charges of $0.4 million and $0.6 million for the three and six months as a result of this change.

To allow shareholders to more precisely track our financial performance and make comparisons between periods possible, we will provide non-GAAP adjusted license fees reflecting the amount of revenue that would have been recognized if the license fees had always been recorded as a yield adjustment. For the three and six months ended June 30, 2007 and 2006, total revenue would have changed as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
(Dollars in thousands)	2007	2006	2007	2006
Total revenue	$ 58,286	$ 55,081	$ 115,637	$ 108,107
License fee yield adjustment	1,816	(968)	4,300	(2,019)
Adjusted total revenue	$ 60,102	$ 54,113	$ 119,937	$ 106,088

Other Income. The increase for the six months is primarily related to profit sharing payments received from ancillary product providers during the first quarter of 2007. The amounts received in the first quarter of 2007 are the first profit sharing amounts we have received under this arrangement. Future payments of this kind are not estimable, and will therefore be recorded as revenue when received. No additional payments are expected in 2007. The increase for the six months is also due to interest earnings on restricted cash related to the Company's secured borrowings.

Salaries and Wages. The increases in salaries and wages, as a percentage of revenue, for the three and six months were primarily due to an increase in stock compensation expense primarily related to restricted stock awards granted in the first quarter of 2007 and an increase in servicing salaries, as a percentage of revenue, as a result of an increase in headcount due to loan volume growing at a faster rate than revenue.

General and Administrative. The increase, as a percentage of revenue, for the three months was primarily due to an increase in data processing and other expenses related to investments in new systems and processes to support growth initiatives. These increases were partially offset by a decrease in depreciation expense due to a decrease in the depreciable asset base. The decrease, as a percentage of revenue, for the six months, was primarily due to a decrease in depreciation expense partially offset by an increase in data processing expenses.

Sales and Marketing. The increases, as a percentage of revenue, for the three and six months were primarily due to an increase in sales commissions as a result of an increase in Consumer Loan unit volume partially offset by a decrease in dealer-partner support products and services expenses as a result of less utilization of these services by our dealer-partners.

Provision for Credit Losses. The increases in the provision for the three months and six months were primarily due to increases in the provision for credit losses required to reduce the carrying value of the Dealer Loans to maintain the initial yield established at the inception of each Dealer Loan.

Interest. The increases for the three and six months were primarily due to increases in the amount of average outstanding debt as a result of borrowings used to fund stock repurchases during 2006 and new Dealer Loan originations. The increases in interest expense were partially offset by the decreased impact of fixed fees on our secured financings and line of credit facility primarily due to higher outstanding borrowings.

Provision for Income Taxes. The effective tax rate increased to 38.9% from 34.6% for the three months ended June 30, 2007 and remained comparable at 35.7% and 35.6% for the six months ended June 30, 2007 and June 30, 2006, respectively. The increase for the three months was primarily due to a reduction of state tax liability as a result of a settlement during the second quarter of 2006.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of capital are cash flows from operating activities, collections of Consumer Loans and borrowings through four primary sources of financing: (i) a revolving secured line of credit with a commercial bank syndicate; (ii) a revolving secured warehouse facility with institutional investors; (iii) Rule 144A asset backed securitizations with qualified institutional investors; and (iv) a residual credit facility. Our principal need for capital is to fund Dealer Loan and Purchased Loan originations, for the payment of dealer holdback, and to fund stock repurchases. In addition, on February 9, 2007 we signed a Memorandum of Understanding to settle a consumer class action lawsuit discussed in Part II Item 1 of this Report. We have agreed to pay $12.5 million in full and final settlement of all claims against the Company. The settlement remains subject to court approval.

Our cash and cash equivalents decreased to $1.8 million as of June 30, 2007 from $8.5 million at December 31, 2006. Our total balance sheet indebtedness increased to $485.1 million at June 30, 2007 from $392.2 million at December 31, 2006. This increase was primarily a result of borrowings used to fund new loan originations in 2007.

Restricted Cash and Cash Equivalents increased to $72.3 million as of June 30, 2007 from $45.6 million at December 31, 2006. The balance consists of: i) $44.7 million of cash collections related to secured financings, ii) $15.0 million of cash held in trusts for future vehicle service claims, and iii) $12.6 million held in escrow related to the Memorandum of Understanding mentioned above. The claims reserve associated with the trusts and the $12.6 million related to the settlement are included in accounts payable and accrued liabilities in the consolidated balance sheets.

RESTRICTED SECURITIES

Restricted securities consist primarily of cash related to amounts held in trusts for future vehicle service contract claims. We determine the appropriate classification of our investments in debt and equity securities at the time of purchase and reevaluate such determinations at each balance sheet date. Debt securities for which we do not have the intent or ability to hold to maturity are classified as available for sale, and stated at fair value with unrealized gains and losses, net of income taxes included in the determination of comprehensive income and reported as a component of shareholders' equity.

Restricted securities available for sale consisted of the following:

(in thousands)	AS OF JUNE 30, 2007 COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
US Government and agency securities	$ 1,930	$ -	$ (8)	$ 1,922
Corporate bonds	1,883	-	(42)	1,841
Total restricted securities available for sale	$ 3,813	$ -	$ (50)	$ 3,763

	AS OF DECEMBER 31, 2006 COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
US Government and agency securities	$ 1,578	$ -	$ (8)	$ 1,570
Corporate bonds	2,041	-	(47)	1,994
Total restricted securities available for sale	$ 3,619	$ -	$ (55)	$ 3,564

The cost and estimated fair values of securities available for sale by contractual maturity as of the dates shown are set forth in the table below (securities with multiple maturity dates are classified in the period of final maturity). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	AS OF JUNE 30, 2007		AS OF DECEMBER	
(in thousands)	COST	ESTIMATED FAIR VALUE	COST	E FA
Contractual Maturity				
Within one year	$ 842	$ 847	$ 898	
Over one year to five years	2,971	2,916	2,721	
Over five years to ten years	-	-	-	
Over ten years	-	-	-	
Total restricted securities available for sale	$ 3,813	$ 3,763	$ 3,619	

CONTRACTUAL OBLIGATIONS

In addition to the balance sheet indebtedness as of June 30, 2007, we also have contractual obligations resulting in future minimum payments under operating leases. A summary of the total future contractual obligations requiring repayments is as follows (in thousands):

		PAYMENTS DUE BY PERIOD
	TOTAL	