CREDIT ACCEPTANCE CORP
Form 10-Q
August 06, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2008

OR

o **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 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 þ No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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 31, 2008 was 30,560,715.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED INCOME STATEMENTS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2008	2007	2008	2007
Revenue:				
Finance charges	$ 70,827	$ 54,084	$ 134,502	$ 105,497
Other income	4,178	4,202	11,281	10,140
Total revenue	75,005	58,286	145,783	115,637
Costs and expenses:				
Salaries and wages	16,699	13,092	34,439	24,953
General and administrative	6,627	7,359	13,751	13,276
Sales and marketing	4,542	4,144	9,184	8,616
Provision for credit losses	20,760	3,798	23,409	7,671
Interest	9,884	9,463	20,748	17,751
Other expense	23	33	57	58
Total costs and expenses	58,535	37,889	101,588	72,325
Operating income	16,470	20,397	44,195	43,312
Foreign currency (loss) gain		34	(13)	38
Income from continuing operations before provision for income taxes	16,470	20,431	44,182	43,350
Provision for income taxes	6,091	7,938	16,222	15,470
Income from continuing operations	10,379	12,493	27,960	27,880
Discontinued operations				
(Loss) gain from discontinued United Kingdom operations	(12)	(233)	44	(271)
Provision (credit) for income taxes	23	(70)	40	(81)
(Loss) gain from discontinued operations	(35)	(163)	4	(190)
Net income	$ 10,344	$ 12,330	$ 27,964	$ 27,690
Net income per common share:				
Basic	$ 0.34	$ 0.41	$ 0.93	$ 0.92

Diluted	$ 0.33	$ 0.39	$ 0.90	$ 0.88
Income from continuing operations per common share:				
Basic	$ 0.34	$ 0.41	$ 0.93	$ 0.93
Diluted	$ 0.33	$ 0.40	$ 0.90	$ 0.89
(Loss) gain from discontinued operations per common share:				
Basic	$	$ (0.01)	$	$ (0.01)
Diluted	$	$ (0.01)	$	$ (0.01)
Weighted average shares outstanding:				
Basic	30,252,873	30,140,590	30,179,877	30,097,387
Diluted	31,088,428	31,312,139	30,970,387	31,297,484

See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)	As of June 30, 2008 (Unaudited)	As of December 31, 2007
ASSETS:		
Cash and cash equivalents	$ 82	$ 712
Restricted cash and cash equivalents	86,892	74,102
Restricted securities available for sale	4,243	3,290
Loans receivable (including $16,723 and $16,125 from affiliates as of June 30, 2008 and December 31, 2007, respectively)	1,144,409	944,698
Allowance for credit losses	(132,259)	(134,145)
Loans receivable, net	1,012,150	810,553
Property and equipment, net	21,844	20,124
Income taxes receivable	12,426	20,712
Other assets	14,464	12,689
Total Assets	$ 1,152,101	$ 942,182
LIABILITIES AND SHAREHOLDERS EQUITY:		
Liabilities:		
Accounts payable and accrued liabilities	$ 81,896	$ 79,834
Line of credit	38,100	36,300
Secured financing	658,284	488,065
Mortgage note and capital lease obligations	6,975	7,765
Deferred income taxes, net	69,116	64,768
Total Liabilities	854,371	676,732
Shareholders Equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized, none issued		
Common stock, $.01 par value, 80,000,000 shares authorized, 30,544,145 and 30,240,859 shares issued and outstanding as of June 30, 2008 and December 31, 2007, respectively	306	302
Paid-in capital	8,647	4,134
Retained earnings	288,965	261,001
Accumulated other comprehensive (loss) income, net of tax of $109 and $(7) at June 30, 2008 and December 31, 2007, respectively	(188)	13

Total Shareholders Equity	297,730	265,450
Total Liabilities and Shareholders Equity	$ 1,152,101	$ 942,182

See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Dollars in thousands)	Six Months Ended June 30, 2008	2007
Cash Flows From Operating Activities:		
Net income	$ 27,964	$ 27,690
Adjustments to reconcile cash provided by operating activities:		
Provision for credit losses	23,408	7,671
Depreciation	2,571	2,072
Loss on retirement of property and equipment		72
Provision for deferred income taxes	4,464	6,353
Stock-based compensation	1,807	1,845
Change in operating assets and liabilities:		
Increase in accounts payable and accrued liabilities	1,737	2,461
Decrease in income taxes receivable	8,286	7,230
(Decrease) increase in other assets	(1,775)	1,131
Net cash provided by operating activities	68,462	56,525
Cash Flows From Investing Activities:		
Increase in restricted cash and cash equivalents	(12,790)	(26,718)
Purchases of restricted securities available for sale	(1,514)	(550)
Proceeds from sale of restricted securities available for sale	271	
Maturities of restricted securities available for sale	298	355
Principal collected on Loans receivable	314,264	306,964
Advances to dealers and accelerated payments of dealer holdback	(321,396)	(352,208)
Purchases of Consumer Loans	(185,274)	(41,915)
Payments of dealer holdback	(32,746)	(38,948)
Net change in other receivables	98	63
Purchases of property and equipment	(4,291)	(3,028)
Net cash used in investing activities	(243,080)	(155,985)
Cash Flows From Financing Activities:		
Borrowings under line of credit	415,900	354,700
Repayments under line of credit	(414,100)	(348,600)
Proceeds from secured financing	407,700	365,000
Repayments of secured financing	(237,481)	(277,513)
Principal payments under mortgage note and capital lease obligations	(790)	(736)
Repurchase of common stock	(66)	(2,225)
Proceeds from stock options exercised	1,911	1,027
Tax benefits from stock based compensation plans	865	1,256
Net cash provided by financing activities	173,939	92,909

Effect of exchange rate changes on cash		49		(148)
Net decrease in cash and cash equivalents		(630)		(6,699)
Cash and cash equivalents, beginning of period		712		8,528
Cash and cash equivalents, end of period	$	82	$	1,829
Supplemental Disclosure of Cash Flow Information:				
Cash paid during the period for interest	$	20,843	$	17,350
Cash paid during the period for income taxes		2,039		383
Supplemental Disclosure of Non-Cash Transactions:				
Property and equipment acquired through capital lease obligations	$		$	122

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, 2007 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, 2007 for Credit Acceptance Corporation (the Company , Credit Acceptance , we , our or us). Certain prior period amounts have been reclassified to conform to the current presentatio

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. 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.

We refer to dealers who participate in our program and who share our commitment to changing consumers lives as dealer-partners . Upon enrollment in our financing program, the dealer-partner enters into a dealer servicing agreement with Credit Acceptance that defines the legal relationship between Credit Acceptance and the dealer-partner. The dealer servicing agreement assigns the responsibilities for administering, servicing, and collecting the amounts due on retail installment contracts (referred to as Consumer Loans) from the dealer-partners to us.

We are an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the dealer-partner and immediately assigned to us. 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 our security interest in the financed vehicle to the dealer-partner.

We have two primary programs: the Portfolio Program and the Purchase Program. The following table shows the percentage of loans assigned to us under each of the programs:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Portfolio Program	65.4%	83.8%	68.1%	90.2%
Purchase Program	34.6%	16.2%	31.9%	9.8%

Prior to January 1, 2008, dealer-partners had the option to assign Consumer Loans under either program and signed a separate agreement for each program type. Beginning January 1, 2008, dealer-partners that enroll in our program have two options. Dealer-partners choosing option one pay a one-time enrollment fee of $9,850 and have access to both the Portfolio Program and the Purchase Program. Dealer-partners choosing the second option to defer payment of the enrollment fee only have access to the Portfolio Program and agree to allow us to keep 50% of their first accelerated dealer holdback payment. This payment, called Portfolio Profit Express, is paid to qualifying

dealer-partners after a pool of 100 Consumer Loans has been closed. After the first accelerated dealer holdback payment, the dealer-partner is granted access to the Purchase Program. Under the Portfolio Program, we advance money to dealer-partners (referred to as a Dealer Loan) in exchange for the right to service the underlying Consumer Loan. Under the Purchase Program, we buy the Consumer Loan from the dealer-partner (referred to as a Purchased Loan) and keep all amounts collected from the consumer. Dealer Loans and Purchased Loans are collectively referred to as Loans .

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

2. DESCRIPTION OF BUSINESS (Concluded)

Portfolio Program

As payment for the vehicle, the dealer-partner generally receives the following:

(i) a down payment from the consumer;

(ii) a cash advance from us; and

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

We record the amount advanced to the dealer-partner as a Dealer Loan, which is classified within Loans receivable in our consolidated balance sheets. Cash advanced to dealer-partners is automatically assigned to the originating dealer-partner s open pool of advances. At the dealer-partner s option, a pool containing at least 100 Consumer Loans can be closed and subsequent advances assigned to a new pool. All advances due from a dealer-partner are secured by the future collections on the dealer-partner s portfolio of Consumer Loans assigned to us. For dealer-partners with more than one pool, the pools are cross-collateralized so the performance of other pools is considered in determining eligibility for dealer holdback. We perfect our security interest in the Dealer Loans by taking possession of the Consumer Loans.

The dealer servicing agreement provides that collections received by us during a calendar month on Consumer Loans assigned by a dealer-partner are applied on a pool-by-pool basis as follows:

First, to reimburse us for certain collection costs;

Second, to pay us our servicing fee;

Third, to reduce the aggregate advance balance and to pay any other amounts due from the dealer-partner to us; and

Fourth, to the dealer-partner as payment of dealer holdback.

Dealer-partners have an opportunity to receive a portion of the dealer holdback on an accelerated basis at the time a pool of 100 or more Consumer Loans is closed. The amount paid to the dealer-partner is calculated using a formula that considers the forecasted collections and the advance balance on the closed pool. If the collections on Consumer Loans from a dealer-partner s pool are not sufficient to repay the advance balance, the dealer-partner will not receive dealer holdback or accelerated dealer holdback.

Since typically the combination of the advance and the consumer s down payment provides the dealer-partner with a cash profit at the time of sale, the dealer-partner s risk in the Consumer Loan is limited. We cannot demand repayment from the dealer-partner of the advance except in the event the dealer-partner is in default of the dealer servicing agreement. Advances are made only after the Consumer Loan is approved, accepted and assigned to us and all other stipulations required for funding have been satisfied. The dealer-partner can also opt to repurchase Consumer Loans assigned under the Portfolio Program at their own discretion.

For accounting purposes, the transactions described under the Portfolio Program are not considered to be loans to consumers. Instead, our accounting reflects that of a lender to the dealer-partner. The classification as a Dealer Loan 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.

Purchase Program

We began offering a Purchase Program on a limited basis in March of 2005. The Purchase Program differs from our traditional Portfolio Program in that the dealer-partner receives a single payment from us at the time of origination

instead of a cash advance and dealer holdback. Purchase Program volume increased significantly beginning in 2007 as the program was offered to additional dealer-partners.

For accounting purposes, the transactions described under the Purchase Program are considered to be originated by the dealer-partner and then purchased by us. The cash amount paid to the dealer-partner is recorded as an asset on our balance sheet. The aggregate amount of all amounts paid to purchase Consumer Loans from dealer-partners, plus accrued income, less repayments, comprises the amount of Purchased Loans recorded in Loans receivable.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

3. SIGNIFICANT ACCOUNTING POLICIES

Restricted Cash and Cash Equivalents

The carrying amount of restricted cash and cash equivalents approximate their fair value due to the short maturity of these instruments. Restricted cash and cash equivalents increased to $86.9 million as of June 30, 2008 from $74.1 million at December 31, 2007. The balance consists of: (i) $61.0 million of cash collections related to secured financings, and (ii) $25.9 million of cash held in trusts for future vehicle service contract claims. The claims reserve associated with the trusts are included in accounts payable and accrued liabilities in the consolidated balance sheets.

Deferred Debt Issuance Costs

As of June 30, 2008 and December 31, 2007, deferred debt issuance costs were $4.1 million (net of accumulated amortization of $3.7 million) and $3.3 million (net of accumulated amortization of $2.0 million), respectively, and are included in other assets in the consolidated balance sheets. 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.

New Accounting Pronouncements

Fair Value Measurements. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods of those fiscal years. However, on February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP FAS 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP FAS 157-2. We adopted the applicable portions of SFAS 157 on January 1, 2008 (See Note 7). The deferred portions of SFAS 157 will not have an impact on our financial statements. The adoption of the applicable portions of SFAS 157 for financial assets and liabilities did not have a material impact on our consolidated financial statements.

Fair Value Option for Financial Assets and Liabilities. 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 SFAS 159) 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. At this time, we have not elected to measure any financial asset or liabilities at fair value under SFAS 159.

Disclosures About Derivative Instruments and Hedging Activities. In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We are currently evaluating the impact that SFAS 161 will have on our consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

4. LOANS RECEIVABLE

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

	Three Months Ended June 30, 2008		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 831,605	$ 216,788	$ 1,048,393
New loans (1)	141,423	91,214	232,637
Transfers (2)	(584)	584	
Dealer holdback payments	15,504		15,504
Net cash collections on loans	(125,920)	(23,871)	(149,791)
Write-offs	(2,368)	(6)	(2,374)
Recoveries		9	9
Other	13		13
Currency translation	18		18
Balance, end of period	$ 859,691	$ 284,718	$ 1,144,409

	Three Months Ended June 30, 2007		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 798,679	$ 37,171	$ 835,850
New loans (1)	138,988	28,959	167,947
Transfers (2)	(811)	811	
Dealer holdback payments	18,328		18,328
Net cash collections on loans	(139,186)	(6,676)	(145,862)
Write-offs	(3,028)	(23)	(3,051)
Recoveries		7	7
Other	90		90
Currency translation	132		132
Balance, end of period	$ 813,192	$ 60,249	$ 873,441

	Six Months Ended June 30, 2008		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 804,245	$ 140,453	$ 944,698
New loans (1)	321,396	185,274	506,670
Transfers (2)	(2,098)	2,098	
Dealer holdback payments	32,746		32,746
Net cash collections on loans	(271,451)	(43,103)	(314,554)
Write-offs	(25,096)	(19)	(25,115)

Recoveries		15	15
Other	(2)		(2)
Currency translation	(49)		(49)
Balance, end of period	$ 859,691	$ 284,718	$ 1,144,409

	Six Months Ended June 30, 2007		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 724,645	$ 29,926	$ 754,571
New loans (1)	352,208	41,915	394,123
Transfers (2)	(1,979)	1,979	
Dealer holdback payments	38,948		38,948
Net cash collections on loans	(293,821)	(13,430)	(307,251)
Write-offs	(7,183)	(160)	(7,343)
Recoveries		19	19
Other	226		226
Currency translation	148		148
Balance, end of period	$ 813,192	$ 60,249	$ 873,441

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

(2) Transfers relate to Dealer Loans that are now considered to be Purchased Loans when we exercise our right to the dealer holdback of certain dealer-partners Consumer Loans once they are inactive and have originated less than 100 Consumer Loans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

4. LOANS RECEIVABLE (Concluded)

Our forecast as of March 31, 2008 assumed that Loans within our current portfolio would produce similar collection rates as produced by historical Loans with the same attributes and we expected net cash flows of $1.3 billion from our Loan portfolio. During the second quarter of 2008 we modified our forecasting methodology which now assumes that Loans originated in 2006, 2007 and 2008 will perform 100 to 300 basis points lower than historical Loans with the same attributes. As a result we reduced our estimate of future cash flows on these same Loans by $22.2 million, or 1.7%. Of the total reduction, $20.8 million was recorded as a current period expense, $1.0 million was recorded as a current period reduction in Loan revenue and $0.5 million will be recorded as a reduction in Loan revenue in future periods. This new expectation is consistent with recent experience and includes both the lower realized collection rates experienced during the second quarter of 2008 as well as lower expected recoveries on repossession sales as a result in a decline in used vehicle values that occurred during the second quarter of 2008. We did not modify our forecast related to 2005 and prior Loans as these Loans continue to perform as expected.

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

	Three Months Ended June 30, 2008		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 112,653	$ 1,172	$ 113,825
Provision for credit losses (1)	15,513	5,269	20,782
Write-offs	(2,368)	(6)	(2,374)
Recoveries		10	10
Currency translation	16		16
Balance, end of period	$ 125,814	$ 6,445	$ 132,259

	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 (2)	4,151	(185)	3,966
Write-offs	(3,028)	(23)	(3,051)
Recoveries		7	7
Currency translation	111		111
Balance, end of period	$ 128,425	$ 857	$ 129,282

	Six Months Ended June 30, 2008		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 133,201	$ 944	$ 134,145
Provision for credit losses (3)	17,751	5,505	23,256

	Dealer Loans	Purchased Loans	Total
Write-offs	(25,096)	(19)	(25,115)
Recoveries		15	15
Currency translation	(42)		(42)
Balance, end of period	$ 125,814	$ 6,445	$ 132,259

	Six Months Ended June 30, 2007		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 127,881	$ 910	$ 128,791
Provision for credit losses (4)	7,602	88	7,690
Write-offs	(7,183)	(160)	(7,343)
Recoveries		19	19
Currency translation	125		125
Balance, end of period	$ 128,425	$ 857	$ 129,282

(1) Does not include a provision for credit losses of $(22) related to other items.

(2) Does not include a provision for credit losses of $(168) related to other items.

(3) Does not include a provision for credit losses of $153 related to other items.

(4) Does not include a provision for credit losses of $(19) related to other items.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

5. DEBT

We currently use four primary sources of debt financing: (i) a revolving secured line of credit with a commercial bank syndicate; (ii) revolving secured warehouse facilities with institutional investors; (iii) SEC Rule 144A asset-backed secured financings (Term ABS 144A) with qualified institutional investors; and (iv) a residual credit facility with an institutional investor. General information for each of our financing transactions in place as of June 30, 2008 is as follows (dollars in thousands):

Financings	Wholly owned Subsidiary *	Issue Number	Close Date	Revolving Maturity Date	Financing Amount	Interest Rate at June 30, 2008
Revolving Line of Credit	n/a	n/a	January 25, 2008	June 22, 2010	$153,500	Either Eurodollar rate plus 125 basis points (3.72%) or the prime rate minus 165 basis points (3.35%)
Revolving Secured Warehouse Facility*	CAC Warehouse Funding Corp. II	2003-2	February 12, 2008	February 11, 2009	$325,000	Commercial paper rate plus 65 basis points (3.36%)
Revolving Secured Warehouse Facility*	CAC Warehouse Funding III, LLC	2008-2	May 27, 2008	May 23, 2010	$ 50,000	Commercial paper rate plus 77.5 basis points (3.49%)
Term ABS 144A 2006-2*	Credit Acceptance Funding LLC 2006-2	2006-2	November 21, 2006	November 15, 2007**	$100,000	Fixed rate (5.38%)
Term ABS 144A 2007-1*	Credit Acceptance Funding LLC 2007-1	2007-1	April 12, 2007	April 15, 2008**	$100,000	Fixed rate (5.32%)
Term ABS 144A 2007-2*	Credit Acceptance Funding LLC 2007-2	2007-2	October 29, 2007	October 15, 2008**	$100,000	Fixed rate (6.22%)***
Term ABS 144A 2008-1*	Credit Acceptance Funding LLC 2008-1	2008-1	April 18, 2008	April 15, 2009**	$150,000	Fixed rate (6.43%)***
Residual Credit Facility*	Credit Acceptance Residual Funding LLC	2006-3	September 11, 2007	September 9, 2008	$ 50,000	LIBOR plus 145 basis points (3.91%) or the commercial paper rate plus 145 basis points (4.16%)

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

** *Loans will amortize after the revolving maturity date based on the cash flows of the contributed assets.*

*** *Includes a floating rate obligation that has been converted to a fixed rate via an interest rate swap.*

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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5. DEBT (Continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revolving Line of Credit				
Maximum outstanding balance	$128,400	$ 70,200	$128,400	$ 70,200
Average outstanding balance	74,819	43,764	60,431	42,092
Revolving Secured Warehouse Facility (2003-2)*				
Maximum outstanding balance	$297,211	$293,500	$297,211	$293,500
Average outstanding balance	272,398	219,049	264,245	215,420
Revolving Secured Warehouse Facility (2008-2)				
Maximum outstanding balance	$ 50,000	$	$ 50,000	$
Average outstanding balance	50,000		50,000	

* *Includes amounts owing after February 12, 2008 to an institutional investor that did not renew their participation in the facility. The amount due did not reduce the amount available on the Warehouse Facility. See Revolving Secured Warehouse Facilities for additional information.*

	As of June 30, 2008	As of December 31, 2007
Revolving Line of Credit		

Balance outstanding	$ 38,100	$ 36,300
Letter(s) of credit	173	173
Amount available for borrowing	115,227	38,527
Interest rate	3.35%	5.60%
Revolving Secured Warehouse Facility (2003-2)		
Balance outstanding	$ 264,061	$ 198,100
Amount available for borrowing	60,939	226,900
Contributed eligible Loans	328,507	254,294
Interest rate	3.36%	5.76%
Revolving Secured Warehouse Facility (2008-2)		
Balance outstanding	$ 50,000	$
Amount available for borrowing		
Contributed eligible Loans	62,565	
Interest rate	3.49%	
Term ABS 144A 2006-2		
Balance outstanding	$ 27,927	$ 89,965
Contributed eligible Dealer Loans	107,484	129,950
Interest rate	5.38%	5.38%
Term ABS 144A 2007-1		
Balance outstanding	$ 81,295	$ 100,000
Contributed eligible Dealer Loans	117,376	130,841
Interest rate	5.32%	5.32%
Term ABS 144A 2007-2		
Balance outstanding	$ 100,000	$ 100,000
Contributed eligible Dealer Loans	125,009	132,695
Interest rate	6.22%	6.22%
Term ABS 144A 2008-1		
Balance outstanding	$ 135,000	$
Contributed eligible Dealer Loans	176,511	
Interest rate	6.43%	
Residual Credit Facility		
Balance outstanding	$	$
Contributed eligible Dealer Loans	82,993	28,513
Interest rate	4.16%	6.56%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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5. DEBT (Continued)

Line of Credit Facility

During the first quarter of 2008, we increased the amount of our line of credit facility with a commercial bank syndicate from $75.0 million to $153.5 million. In addition, the maturity of the line of credit facility was extended from June 20, 2009 to June 22, 2010. There were no other material changes to the terms of the line of credit facility.

Borrowings under the credit facility are subject to a borrowing-base limitation. This limitation equals 80% of the net book value of 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.

Revolving Secured Warehouse Facilities

We have two revolving secured warehouse facilities that are provided to wholly owned subsidiaries of the Company. One is a $325.0 million facility with an institutional investor and the other is a $50.0 million facility with another institutional investor.

During the first quarter of 2008, we extended the maturity of $325.0 million facility from February 13, 2008 to February 11, 2009. The amount of the facility was reduced from $425.0 million to $325.0 million. The reduction in the amount of the facility is due to one of the two institutional investors (the Nonextending Investor) not renewing their participation in the facility. The amount owing to the Nonextending Investor has been reduced to zero.

During the second quarter of 2008, we entered into a $50.0 million revolving warehouse facility with an institutional investor. This facility was fully drawn as of June 30, 2008.

Under these facilities we can contribute Loans to our wholly owned subsidiaries in return for cash and equity in each subsidiary. In turn, each subsidiary pledges the Loans as collateral to institutional investors to secure financing that will fund the cash portion of the purchase price of the Loans. The financing provided to each subsidiary under the applicable facility is limited to the lesser of 80% of the net book value of the contributed Loans or the facility limit.

The subsidiaries are liable for any amounts due under the applicable facility. Even though the subsidiaries and the Company are consolidated for financial reporting purposes, the financing is non-recourse to us. As the subsidiaries are organized as separate legal entities from the Company, assets of the subsidiaries (including the conveyed Loans) will not be available to satisfy the general obligations of the Company. All of each subsidiaries assets have been encumbered to secure its obligations to its respective creditors.

Interest on borrowings under the facilities has been limited to a maximum rate of 6.75% through interest rate cap agreements. The subsidiaries pay us a monthly servicing fee equal to 6% of the collections received with respect to the conveyed Loans. The fee is paid out of the collections. Except for the servicing fee and holdback payments due to dealer-partners, we do not have any rights in any portion of such collections until all outstanding principal, accrued and unpaid interest, fees and other related costs are paid in full.

Term ABS 144A Financings

In 2006, 2007 and 2008, five of our wholly owned subsidiaries (the Funding LLCs), each completed a secured financing transaction. In connection with these transactions, we conveyed Loans on an arms-length basis to each Funding LLC for cash and the sole membership interest in that Funding LLC. In turn, each Funding LLC conveyed the Loans to a respective trust that issued notes to qualified institutional investors. Financial insurance policies were issued in connection with the 2006 and 2007 transactions. The policies guarantee the timely payment of interest and ultimate repayment of principal on the final scheduled distribution date. In the 2006 and 2007 transactions, the notes were initially rated Aaa by Moody s Investor Service (Moody s) and AAA by Standard & Poor s Rating Services (based upon the financial insurance policy. Due to downgrades in the debt ratings of the insurers, at June 30, 2008 the 2006 transaction was rated A by S&P and A3 by Moody s. The 2007 transactions were rated A- by S&P and A3 b Moody s. The 2008 transaction was rated A by S&P.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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5. DEBT (Continued)

Each financing has a specified revolving period during which we may be required, and are likely, to convey additional Loans to each Funding LLC. Each Funding LLC will then convey the Loans to their respective trust. 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 us, 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 Loans) are not available to satisfy our general obligations. We receive a monthly servicing fee on each financing equal to 6% of the collections received with respect to the conveyed Loans. The fee is paid out of the collections. Aside from the servicing fee and payments due to dealer-partners, we do not receive, or have any rights in the collections. However, in our capacity as Servicer of the Loans, we do have a limited right to exercise a clean-up call option to purchase 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 us as the sole member of the respective Funding LLC.

The table below sets forth certain additional details regarding the outstanding Term ABS 144A Financings (dollars in thousands):

Term ABS 144A Financing	Issue Number	Close Date	Net Book Value of Dealer Loans Conveyed at Closing	Revolving Period	Expected Annualized Rates *
Term ABS 144A 2006-2	2006-2	November 21, 2006	$125,600	12 months (Through November 15, 2007)	7.4%
Term ABS 144A 2007-1	2007-1	April 12, 2007	$125,700	12 months (Through April 15, 2008)	7.2%
Term ABS 144A 2007-2	2007-2	October 29, 2007	$125,000	12 months (Through October 15, 2008)	8.0%
Term ABS 144A 2008-1	2008-1	April 18, 2008	$ 86,615	12 months (Through April 15, 2009)	7.0%

* *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 70% of that increase in value prior to the time the related term securitization senior notes are paid in full.

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5. DEBT (Concluded)

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 us. Residual Funding is organized as a separate legal entity from the Company. Therefore its assets, including purchased trust certificates, are not available to satisfy our general obligations, even though Residual Funding and the Company are consolidated for financial reporting purposes.

Debt Covenants

As of June 30, 2008, 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 consolidated net income of not less than $1.00 for the two consecutive quarters. Some of the debt covenants may indirectly limit the payment of dividends on common stock.

6. DERIVATIVE INSTRUMENTS

Interest Rate Caps. We purchase interest rate cap agreements to manage the interest rate risk on our secured financings. As we have not designated these agreements as hedges as defined under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), as amended by SFAS No. 138 and SFAS No. 149, changes in the fair value of these agreements will increase or decrease net income.

As of June 30, 2008, six interest rate cap agreements were outstanding with a cap rate of 6.75% and totaled (dollars in thousands):

Notional Amount	Commercial Paper Cap Rate	Term	Fair Value
$700,000	6.75%	Various maturities between July 2009 and June 2010.	$57

As of December 31, 2007, four interest rate cap agreements were outstanding with a cap rate of 6.75% and totaled (dollars in thousands):

Notional Amount	Commercial Paper Cap Rate	Term	Fair Value
$525,000	6.75%	Various maturities between September 2005 and June 2010.	$6

Interest Rate Swaps. As of June 30, 2008 we had $159.2 million in fixed rate debt, and $185.0 million in floating rate debt outstanding under Term ABS 144A asset-backed secured borrowings. We have entered into two interest rate swaps to convert $50.0 million and $135.0 million in floating rate Term ABS 144A asset-backed secured borrowings into fixed rate debt bearing a rate of 6.28% and 6.43%, respectively. The fair value of the interest rate swaps is based on quoted market values, which are influenced by a number of factors, including interest rates, amount of debt outstanding, and number of months until maturity. As we have not designated the interest rate swap related to the $50.0 million in floating rate debt as a hedge as defined under SFAS 133, changes in the fair value of this swap will increase or decrease interest expense. For the three and six months ended June 30, 2008, the impact on interest expense was ($0.6) million and $0.2 million, respectively. As of June 30, 2008, the interest rate swap had a fair value of ($0.7) million.

We have designated the interest rate swap related to the $135.0 million floating rate debt as a cash flow hedge as defined under SFAS 133. The effective portion of changes in the fair value will be recorded in other comprehensive income, net of income taxes, and the ineffective portion of changes in fair value will be recorded in interest expense. There has been no such ineffectiveness since the inception of this hedge through the second quarter of 2008. For the three and six months ended June 30, 2008, the impact on other comprehensive income, net of tax, was ($0.2) million.

As of June 30, 2008, the interest rate swap had a fair value of ($0.3) million.

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6. DERIVATIVE INSTRUMENTS (Concluded)

For those derivative instruments that are designated and qualify as hedging instruments, we formally document all relationships between the hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific assets and liabilities on the balance sheet. We also formally assess (both at the hedge s inception and on a quarterly basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in the future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, we would discontinue hedge accounting prospectively.

At June 30, 2008, we had minimal exposure to credit loss on the interest rate swaps. We do not believe that any reasonably likely change in interest rates would have a materially adverse effect on our financial position, our results of operations or our cash flows.

We recognize our derivative financial instruments as either assets or liabilities on our consolidated balance sheets.

7. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, we adopted SFAS 157, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value. As required under SFAS 157, we group assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1	Valuation is based upon quoted prices for identical instruments traded in active markets.
Level 2	Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant

	assumptions are observable in the market.
Level 3	Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates or assumptions that market participants would use in pricing the asset or liability.

The following table provides the fair value measurements of applicable assets and liabilities as of June 30, 2008 (in thousands):

	Level 1	Level 2	Fair Value
Assets			
Restricted securities available for sale	$4,243	$	$4,243
Derivative instruments		57	57
Liabilities			
Derivative instruments	$	$1,051	$1,051

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8. 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; and (ii) a member of the Chairman s immediate family. Our Dealer Loans to affiliated dealer-partners and non-affiliated dealer-partners are on the same terms.

Affiliated Dealer Loan balances were $16.7 million and $16.1 million as of June 30, 2008 and December 31, 2007, respectively. Affiliated Dealer Loan balances were 1.9% and 2.0% of total consolidated Dealer Loan balances as of June 30, 2008 and December 31, 2007, respectively. A summary of related party Dealer Loan activity is as follows (dollars in thousands):

	Three Months Ended June 30, 2008		Three Months Ended June 30, 2007	
	Affiliated dealer-partner activity	% of consolidated	Affiliated dealer-partner activity	% of consolidated
New loans	$2,832	2.0%	$2,346	1.7%
Affiliated dealer-partner revenue	$1,028	1.9%	$1,195	2.5%
Dealer holdback payments	$ 591	3.8%	$ 466	2.5%

	Six Months Ended June 30, 2008		Six Months Ended June 30, 2007	
	Affiliated dealer-partner activity	% of consolidated	Affiliated dealer-partner activity	% of consolidated
New loans	$6,519	2.0%	$6,558	1.9%
Affiliated dealer-partner revenue	$2,013	2.0%	$2,413	2.5%
Dealer holdback payments	$1,130	3.5%	$1,023	2.6%

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 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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9. 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,		Six Months Ended June 30,	
	2008	2007	2008	2007
Weighted average common shares outstanding	30,252,873	30,140,590	30,179,877	30,097,387
Dilutive effect of common stock equivalents	835,555	1,171,549	790,510	1,200,097
Weighted average common shares and common stock equivalents	31,088,428	31,312,139	30,970,387	31,297,484

There were no stock options that would be anti-dilutive for the three and six months ended June 30, 2008 and 2007.

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. Shares available for future grants under the Incentive Plan totaled 426,852 as of June 30, 2008.

A summary of the activity under the Incentive Plan for the six months ended June 30, 2008 and 2007 is presented below:

Restricted Stock	Number of Shares
Outstanding as of December 31, 2007	201,872
Granted	80,123
Vested	(20,198)
Forfeited	(9,655)
Outstanding as of June 30, 2008	252,142

Restricted Stock	Number of Shares
Outstanding as of December 31, 2006	146,028
Granted	56,669
Vested	(708)
Forfeited	
Outstanding as of June 30, 2007	201,989

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. As of June 30, 2008, 60,000 restricted stock units have been earned.

Expenses related to restricted stock grants and the award of restricted stock units is as follows (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2008	**2007**	**2008**	**2007**