

Edgar Filing: CREDIT ACCEPTANCE CORPORATION - Form 10-Q

CREDIT ACCEPTANCE CORPORATION  
Form 10-Q  
October 30, 2006

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

FORM 10-Q

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

For the quarterly period ended September 30, 2006

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  
(State or other jurisdiction  
of incorporation or organization)

38-1999511  
(IRS Employer  
Identification)

25505 WEST TWELVE MILE ROAD, SUITE 3000  
SOUTHFIELD, MICHIGAN  
(Address of principal executive offices)

48034-8339  
(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  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  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

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

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The number of shares of Common Stock, par value \$0.01, outstanding on October 27, 2006 was 30,100,102.

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PART I. - FINANCIAL INFORMATION	
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS	

CREDIT ACCEPTANCE CORPORATION  
CONSOLIDATED INCOME STATEMENTS  
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS SEPTEMBER
(Dollars in thousands, except per share data)	2006	2005	2006

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REVENUE:

Finance charges	\$ 47,474	\$ 45,047	\$ 141,400	\$
License fees	3,599	2,658	9,700	
Other income	4,329	3,918	12,409	
	-----	-----	-----	-----
Total revenue	55,402	51,623	163,509	
	-----	-----	-----	-----

COSTS AND EXPENSES:

Salaries and wages	10,666	9,497	31,279	
General and administrative	6,063	5,440	19,125	
Sales and marketing	3,942	4,160	11,707	
Provision for credit losses	4,404	4,703	7,569	
Interest	5,837	3,655	15,071	
Stock-based compensation	242	491	188	
Other expense	40	489	177	
	-----	-----	-----	-----

Total costs and expenses	31,194	28,435	85,116	
	-----	-----	-----	-----

Operating income	24,208	23,188	78,393	
Foreign currency gain (loss)	1	(8)	12	
	-----	-----	-----	-----

Income from continuing operations before provision for income taxes	24,209	23,180	78,405	
Provision for income taxes	8,775	9,231	28,067	
	-----	-----	-----	-----

Income from continuing operations	15,434	13,949	50,338	
	-----	-----	-----	-----

Discontinued operations				
(Loss) gain from discontinued United Kingdom operations	(132)	922	(277)	
(Credit) provision for income taxes	(40)	277	(84)	
	-----	-----	-----	-----
(Loss) gain on discontinued operations	(92)	645	(193)	
	-----	-----	-----	-----

Net income	\$ 15,342	\$ 14,594	\$ 50,145	\$
	=====	=====	=====	=====

Net income per common share:				
Basic	\$ 0.46	\$ 0.39	\$ 1.47	\$
	=====	=====	=====	=====
Diluted	\$ 0.44	\$ 0.38	\$ 1.38	\$
	=====	=====	=====	=====

Income from continuing operations per common share:				
Basic	\$ 0.47	\$ 0.38	\$ 1.48	\$
	=====	=====	=====	=====
Diluted	\$ 0.44	\$ 0.36	\$ 1.38	\$
	=====	=====	=====	=====

Weighted average shares outstanding:				
Basic	33,093,592	37,020,020	34,062,249	3
Diluted	35,074,557	38,912,822	36,348,390	3

See accompanying notes to consolidated financial statements.

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	AS OF	
(Dollars in thousands, except per share data)	SEPTEMBER 30, 2006 (UNAUDITED)	DECEMBER 31, 2005
	-----	-----
ASSETS:		
Cash and cash equivalents	\$ 66,848	\$ 7,090
Restricted cash and cash equivalents	42,000	13,473
Restricted securities available for sale	3,641	3,345
Loans receivable (including \$21,405 and \$22,622 from affiliates as of September 30, 2006 and December 31, 2005, respectively)	730,587	694,939
Allowance for credit losses	(130,425)	(131,411)
Loans receivable, net	----- 600,162	----- 563,528
Property and equipment, net	16,715	17,992
Income taxes receivable	8,989	4,022
Other assets	13,805	9,944
Total Assets	----- \$ 752,160 =====	----- \$ 619,394 =====
LIABILITIES AND SHAREHOLDERS' EQUITY:		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 177,402	\$ 55,705
Line of credit	26,000	36,300
Secured financing	288,500	101,500
Mortgage note and capital lease obligations	8,970	9,105
Deferred income taxes, net	44,419	43,758
Total Liabilities	----- 545,291	----- 246,368
SHAREHOLDERS' EQUITY:		
Preferred stock, \$.01 par value, 1,000,000 shares authorized, none issued	--	--
Common stock, \$.01 par value, 80,000,000 shares authorized, 30,076,989 and 37,027,286 shares issued and outstanding as of September 30, 2006 and December 31, 2005, respectively	301	370
Paid-in capital	--	29,746
Unearned stock-based compensation	(2,432)	(1,566)
Retained earnings	209,036	344,513
Accumulated other comprehensive loss, net of tax of \$18 and \$22 at September 30, 2006 and December 31, 2005, respectively	(36)	(37)
Total Shareholders' Equity	----- 206,869	----- 373,026
Total Liabilities and Shareholders' Equity	----- \$ 752,160 =====	----- \$ 619,394 =====

See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

(Dollars in thousands)	NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 50,145	\$ 47,361
Adjustments to reconcile cash provided by operating activities:		
Provision for credit losses	7,569	6,127
Depreciation	3,538	3,957
(Gain) loss on retirement of property and equipment	(276)	71
Foreign currency gain on forward contracts	--	(1,032)
Provision for deferred income taxes	658	2,998
Stock-based compensation	188	1,817
Excess tax benefits from stock-based compensation plans	(8,160)	--
Change in operating assets and liabilities:		
Accounts payable and accrued liabilities	11,447	6,329
Income taxes receivable/payable	3,193	7,954
Other assets	(3,554)	1,900
Net cash provided by operating activities	64,748	77,482
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in restricted cash and cash equivalents	(28,527)	(2,878)
Purchases of restricted securities available for sale	(794)	(3,089)
Proceeds from sale of restricted securities available for sale	301	534
Maturities of restricted securities available for sale	201	--
Principal collected on loans receivable	421,218	349,570
Advances to dealers and accelerated payments of dealer holdback	(406,216)	(358,005)
Originations of purchased loans	(9,500)	(10,392)
Payments of dealer holdbacks	(52,796)	(38,190)
Net change in floorplan receivables, notes receivable and lines of credit	2,873	507
Purchases of property and equipment	(244)	(2,683)
Net cash used in investing activities	(73,484)	(64,626)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under line of credit	243,330	202,300
Repayments under line of credit	(253,630)	(164,000)
Proceeds from secured financing	447,500	111,991
Repayments of secured financing	(260,500)	(149,244)
Principal payments under mortgage note and capital lease obligations	(1,876)	(933)
Repurchase of common stock	(123,071)	--

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Proceeds from stock options exercised	8,670	145
Excess tax benefits from stock-based compensation plans	8,160	--
	-----	-----
Net cash provided by financing activities	68,583	259
	-----	-----
Effect of exchange rate changes on cash	(89)	607
	-----	-----
Net increase in cash and cash equivalents	59,758	13,722
Cash and cash equivalents, beginning of period	7,090	614
	-----	-----
Cash and cash equivalents, end of period	\$ 66,848	\$ 14,336
	=====	=====
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 10,929	\$ 8,185
Cash paid during the period for income taxes	22,288	17,967
 SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Property and equipment acquired through capital lease obligations	\$ 1,741	\$ 385
Issuance of restricted stock, net of forfeitures	1,288	1,964
Repurchase of common stock	110,250	--

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, 2005 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, 2005 for Credit Acceptance Corporation (the "Company" or "Credit Acceptance"). 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

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Principal Business. Since 1972, Credit Acceptance has provided auto loans to consumers, regardless of their credit history. The Company's 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 the Company's product, but who actually end up qualifying for traditional financing.

Credit Acceptance was founded to service and collect retail installment contracts (referred to as "Consumer Loans") originated and funded by automobile dealerships owned by the Company's founder, majority shareholder, and current Chairman, Donald Foss. During the 1980s, the Company 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, the Company's program is offered to dealers throughout the United States. The Company refers to dealers who participate in its program and who share its 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 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 the Company's servicing fee ("dealer holdback").

The Company's servicing fee is equal to a fixed percentage (typically 20%) of each payment collected. In addition, the Company receives fees for other products and services.

If the Company discovers a misrepresentation by the dealer-partner relating to a Consumer Loan assigned to the Company, the Company 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, the Company 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. To date, no dealer-partner has repurchased receivables under these options.

The Company is an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the dealer-partner and immediately assigned to the Company. The compensation paid to the dealer-partner in exchange for the Consumer Loan is paid in two parts. 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 is based on the performance of the loan and is called dealer holdback.

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

For accounting purposes, a majority of the transactions described above are not considered to be loans to consumers. Instead, the Company's 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 the Company's legal relationship with the dealer-partner. The cash amount advanced to the dealer-partner is recorded as an asset on the Company's balance sheet. The aggregate amount of all advances to an individual dealer-partner, plus accrued income, less repayments comprises the amount recorded in Loans receivable. A small percentage of Consumer Loans in the United States are purchased without recourse from the Company's dealer-partners and are considered to be Purchased Loans ("Purchased Loans") for accounting purposes.

As of September 30, 2006, the Company had approximately 100% of its capital invested in the United States business segment. In early 2002, the Company stopped originating automobile leases and effective June 30, 2003 stopped accepting Consumer Loans originated in the United Kingdom and Canada. The Company sold the remaining Consumer Loan portfolio of its United Kingdom subsidiary on December 30, 2005.

The Company's business is seasonal with peak loan originations occurring during February and March. Seasonality does not have a material impact on the Company's interim financial results.

#### ACCOUNTING POLICIES

**Finance Charges.** The Company recognizes finance charge income 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." Consistent with SOP 03-3, the Company recognizes finance charges under the interest method such that revenue is recognized on a level yield basis based upon forecasted cash flows. As forecasted cash flows change, the Company adjusts the yield upwards for positive changes and recognizes impairment for negative changes in the current period.

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. The Company recognizes the commission received from the TPAs for contracts financed by the Company as part of finance charges on a level yield basis based upon forecasted cash flows. Commissions on contracts not financed by the Company are recognized at the time the commission is received.

**License Fees.** The Company recognizes a monthly dealer-partner access fee for the Company's patented Internet-based proprietary Credit Approval Processing System ("CAPS") in the month the access is provided.

**Loans Receivable and Allowance for Credit Losses.** The Company records the amount advanced to the dealer-partner as a Dealer Loan ("Dealer Loan"), which is classified within Loans receivable in the Company's consolidated balance sheets. The Dealer Loan is increased as revenue is recognized and decreased as collections are received. The Company follows an approach similar to the provisions of SOP 03-3 in determining its 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 discounted value of forecasted future cash flows 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



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any estimated dealer holdback payments.

In estimating future collections and dealer holdback payments for each dealer-partner, the Company considers: (i) a dealer-partner's actual collection and loss data on a static pool basis and (ii) the Company's historical loss and collection experience. The Company's collection forecast for each dealer-partner is updated monthly, and considers the most recent static pool data available for each dealer-partner and the Company's 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 life of the Dealer Loan through a yield adjustment. If such difference is unfavorable, a provision for credit losses is recorded as a current period expense and a corresponding allowance for credit losses is established. Because differences between estimated cash flows at inception and actual cash flows occur often, an allowance is required for a significant portion of the Company's Dealer Loan portfolio. An allowance for credit losses does not necessarily indicate that a Dealer Loan is unprofitable, and in recent years, cash flows from a Dealer Loan portfolio have seldom been insufficient to repay the initial amounts advanced to the dealer-partners. If a positive revision occurs to the estimated cash flows for a Dealer Loan that has an allowance for credit losses, the allowance is reversed up to the lesser of the amount of the positive revision or the amount of the allowance previously recorded.

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

#### 2. SIGNIFICANT ACCOUNTING POLICIES - (CONCLUDED)

Stock-based Compensation. On January 1, 2006, the Company adopted revised Statement of Financial Accounting Standards ("SFAS") No. 123 ("SFAS No. 123R"), "Share-Based Payment". The Company had previously adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", under the retroactive restatement transition method in 2003. Adoption of SFAS No. 123R primarily resulted in a change in the Company's estimated forfeitures for unvested stock based compensation awards, which resulted in a cumulative reversal of stock-based compensation expense of \$0.4 million for the quarter ended March 31, 2006.

Accounting for Uncertainty in Income Taxes. On July 13, 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 attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. 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. The Company has not yet determined the impact, if any, of adopting the provisions of FIN 48 on the Company's financial position, results of operations or cash flows.

New Accounting Pronouncements. In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial

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Statements" ("SAB 108"). SAB 108 was issued to provide consistency between how registrants quantify financial statement misstatements.

Historically, there have been two widely-used methods for quantifying the effects of financial statement misstatements. These methods are referred to as the "roll-over" and "iron curtain" method. The roll-over method quantifies the amount by which the current year income statement is misstated. Exclusive reliance on an income statement approach can result in the accumulation of errors on the balance sheet that may not have been material to any individual income statement, but which may misstate one or more balance sheet accounts. The iron curtain method quantifies the error as the cumulative amount by which the current year balance sheet is misstated. Exclusive reliance on a balance sheet approach can result in disregarding the effects of errors in the current year income statement that results from the correction of an error existing in previously issued financial statements.

SAB 108 established an approach that requires quantification of financial statement misstatements based on the effects of the misstatement on each of the company's financial statements and the related financial statement disclosures. This approach is commonly referred to as the "dual approach" because it requires quantification of errors under both the roll-over and iron curtain methods. SAB 108 allows registrants to initially apply the dual approach either by (1) retroactively adjusting prior financial statements as if the dual approach had always been used or by (2) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of this "cumulative effect" transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose.

The Company will initially apply SAB 108 in connection with the preparation of the Company's annual financial statements for the year ending December 31, 2006. The Company does not believe that the adoption of SAB 108 will have any impact on the Company's 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 SEPTEMBER 30, 2006			
	DEALER LOANS	PURCHASED LOANS	OTHER LOANS	TOTAL
Balance, beginning of period	\$697,730	\$15,979	\$2,251	\$715,960
New loans	134,943	3,721	--	138,664
Dealer holdback payments	17,161	--	--	17,161
Net cash collections on loans	(134,219)	(2,600)	--	(136,819)
Write-offs	(3,353)	(2)	--	(3,355)
Net change in floorplan receivables, notes				

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receivable, and lines of credit	--	--	(1,208)	(1,208)
Other	--	173	--	173
Currency translation	11	--	--	11
	-----	-----	-----	-----
Balance, end of period	\$712,273	\$17,271	\$1,043	\$730,587
	=====	=====	=====	=====

THREE MONTHS ENDED SEPTEMBER 30, 2005

	DEALER LOANS	PURCHASED LOANS	OTHER LOANS (1)	TOTAL
	-----	-----	-----	-----
Balance, beginning of period	\$665,279	\$13,974	\$17,188	\$696,441
New loans	111,656	3,716	--	115,372
Dealer holdback payments	13,367	--	--	13,367
Net cash collections on loans	(113,181)	(1,950)	(1,929)	(117,060)
Write-offs	(1,786)	(21)	(2,167)	(3,974)
Recoveries	--	30	532	562
Net change in floorplan receivables, notes receivable, and lines of credit	--	--	79	79
Other	--	--	337	337
Currency translation	52	--	(200)	(148)
	-----	-----	-----	-----
Balance, end of period	\$675,387	\$15,749	\$13,840	\$704,976
	=====	=====	=====	=====

NINE MONTHS ENDED SEPTEMBER 30, 2006

	DEALER LOANS	PURCHASED LOANS	OTHER LOANS	TOTAL
	-----	-----	-----	-----
Balance, beginning of period	\$675,692	\$15,470	\$3,777	\$694,939
New loans	406,216	9,500	--	415,716
Dealer holdback payments	52,796	--	--	52,796
Net cash collections on loans	(413,943)	(8,024)	--	(421,967)
Write-offs	(8,577)	(227)	--	(8,804)
Recoveries	--	46	--	46
Net change in floorplan receivables, notes receivable, and lines of credit	--	--	(2,734)	(2,734)
Other	--	506	--	506
Currency translation	89	--	--	89
	-----	-----	-----	-----
Balance, end of period	\$712,273	\$17,271	\$1,043	\$730,587
	=====	=====	=====	=====

NINE MONTHS ENDED SEPTEMBER 30, 2005

	DEALER LOANS	PURCHASED LOANS	OTHER LOANS (1)	TOTAL
	-----	-----	-----	-----

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	-----	-----	-----	-----
Balance, beginning of period	\$626,284	\$10,756	\$30,354	\$667,394
New loans	358,005	10,392	--	368,397
Dealer holdback payments	37,880	--	--	37,880
Net cash collections on loans	(338,542)	(5,109)	(7,988)	(351,639)
Write-offs	(8,100)	(370)	(8,852)	(17,322)
Recoveries	--	80	1,654	1,734
Net change in floorplan receivables, notes receivable, and lines of credit	--	--	(505)	(505)
Other	--	--	707	707
Currency translation	(140)	--	(1,530)	(1,670)
	-----	-----	-----	-----
Balance, end of period	\$675,387	\$15,749	\$13,840	\$704,976
	=====	=====	=====	=====

(1) Other Loans includes the Company's discontinued United Kingdom automobile financing business.

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

3. LOANS RECEIVABLE - (CONCLUDED)

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

	THREE MONTHS ENDED SEPTEMBER 30, 2006			
	DEALER LOANS	PURCHASED LOANS	OTHER LOANS	TOTAL
	-----	-----	-----	-----
Balance, beginning of period	\$128,111	\$ 941	\$--	\$129,052
Provision for credit losses (1)	4,508	212	--	4,720
Write-offs	(3,353)	(2)	--	(3,355)
Currency translation	8	--	--	8
	-----	-----	-----	-----
Balance, end of period	\$129,274	\$1,151	\$--	\$130,425
	=====	=====	===	=====

	THREE MONTHS ENDED SEPTEMBER 30, 2005			
	DEALER LOANS	PURCHASED LOANS	OTHER LOANS (5)	TOTAL
	-----	-----	-----	-----
Balance, beginning of period	\$130,744	\$1,272	\$4,421	\$136,437
Provision for credit losses (2)	4,360	(32)	(472)	3,856
Write-offs	(1,785)	(19)	(344)	(2,148)
Recoveries	--	30	414	444

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Currency translation	69	--	(76)	(7)
	-----	-----	-----	-----
Balance, end of period	\$133,388	\$1,251	\$3,943	\$138,582
	=====	=====	=====	=====

NINE MONTHS ENDED SEPTEMBER 30, 2006

	DEALER LOANS	PURCHASED LOANS	OTHER LOANS	TOTAL
	-----	-----	-----	-----
Balance, beginning of period	\$130,722	\$689	\$--	\$131,411
Provision for credit losses (3)	7,061	643	--	7,704
Write-offs	(8,577)	(227)	--	(8,804)
Recoveries	--	46	--	46
Currency translation	68	--	--	68
	-----	-----	-----	-----
Balance, end of period	\$129,274	\$1,151	\$--	\$130,425
	=====	=====	=====	=====

NINE MONTHS ENDED SEPTEMBER 30, 2005

	DEALER LOANS	PURCHASED LOANS	OTHER LOANS (5)	TOTAL
	-----	-----	-----	-----
Balance, beginning of period	\$134,599	\$1,620	\$ 5,164	\$141,383
Provision for credit losses (4)	6,847	(81)	(1,246)	5,520
Write-offs	(8,100)	(368)	(1,204)	(9,672)
Recoveries	--	80	1,780	1,860
Other	--	--	(10)	(10)
Currency translation	42	--	(541)	(499)
	-----	-----	-----	-----
Balance, end of period	\$133,388	\$1,251	\$ 3,943	\$138,582
	=====	=====	=====	=====

- (1) Does not include a negative provision for credit losses of \$316 on license fees receivable and other items.
- (2) Does not include a provision for credit losses of \$375 on license fees receivable and other items. Includes a negative provision for credit losses related to discontinued operations of \$472.
- (3) Does not include a negative provision for credit losses of \$135 on license fees receivable and other items.
- (4) Does not include a provision for credit losses of \$607 on license fees receivable and other items. Includes a negative provision for credit losses related to discontinued operations of \$1,246.
- (5) Other Loans includes the Company's discontinued United Kingdom automobile financing business.

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

## 4. DEBT

Line of Credit Facility. At September 30, 2006, the Company had a \$135.0 million credit agreement with a commercial bank syndicate. The facility has a commitment period through June 20, 2008. At September 30, 2006, the agreement provided that, at the Company's option, interest is payable at either the Eurodollar rate plus 130 basis points (6.61% at September 30, 2006), or at the prime rate (8.25% at September 30, 2006). The Eurodollar borrowings may be fixed for periods of up to six months. Borrowings under the credit agreement are subject to a borrowing base limitation equal to 75% of the net book value of Dealer Loans plus 75% of the net book value of Consumer Loans purchased by the Company (not to exceed a maximum of 25% of the aggregate borrowing base limitation), 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. Currently, the borrowing base limitation does not inhibit the Company's borrowing ability under the line of credit. Borrowings under the credit agreement are secured by a lien on most of the Company's assets. The Company must pay annual and quarterly fees on the amount of the commitment. As of September 30, 2006 and December 31, 2005, there was \$108.1 million and \$93.3 million, respectively, available under the line of credit. Additional information about the line of credit facility is included in the following table (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
Maximum balance outstanding	\$43,500	\$60,100
Weighted average balance outstanding	31,159	46,422
	AS OF	
	SEPTEMBER 30, 2006	DECEMBER 31, 2005
Balance outstanding	\$26,000	\$36,300
Weighted average interest rate	6.61%	5.75%

Secured Financing. The Company's wholly-owned subsidiary, CAC Warehouse Funding Corp. II ("Warehouse Funding" or "2003-2"), has a revolving secured financing facility with institutional investors. In the first quarter of 2006, Warehouse Funding increased the facility limit and renewed the commitment. Under the renewed facility, which matures on February 14, 2007, Warehouse Funding may receive up to \$325.0 million in financing when the Company conveys Dealer Loans to Warehouse Funding for cash and equity in Warehouse Funding. Warehouse Funding will in turn pledge the Dealer Loans as collateral to the institutional investors to secure loans that will fund the cash portion of the purchase price

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of the Dealer Loans. Warehouse Funding receives 75% of the net book value of the contributed Dealer Loans up to the \$325.0 million facility limit. In addition to the maturity of the facility, there is a requirement that certain amounts outstanding under the facility be refinanced within 360 days of the most recent refinancing occurring after February 15, 2006. On April 18, 2006, \$100.0 million of the amounts outstanding under the facility were refinanced. If the second refinancing does not occur within 360 days of April 18, 2006 or the requirement is not waived, or if the facility is not extended, the transaction will cease to revolve, will amortize as collections are received and, at the option of the institutional investor, may be subject to acceleration and foreclosure. Although Warehouse Funding will be liable for any secured financing under the facility, the financing is non-recourse to the Company, even though Warehouse Funding and the Company are consolidated for financial reporting purposes. As Warehouse Funding is organized as a separate special purpose 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 the assets of Warehouse Funding have been encumbered to secure Warehouse Funding's obligations to its creditors. Borrowings under the facility bear interest at a floating rate equal to the commercial paper rate plus 65 basis points (6.01% at September 30, 2006), which has been limited to a maximum rate of 6.75% through interest rate cap agreements executed in the third quarter of 2005 and first quarter of 2006. The Company receives a monthly servicing fee paid out of collections equal to 6% of the collections received with respect to the conveyed Dealer Loans. Except for the servicing fee and payments due to dealer-partners, the Company does not have any rights in any portion of such collections. As of September 30, 2006 and December 31, 2005, there was \$188.5 million and \$101.5 million, respectively, outstanding under this facility.

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

#### 4. DEBT - (CONTINUED)

As noted above, on April 18, 2006, the Company's wholly-owned subsidiary, Credit Acceptance Funding LLC 2006-1 ("Funding 2006-1"), completed a secured financing transaction in which Funding 2006-1 received \$100.0 million in financing. In connection with this transaction, the Company conveyed, for cash and the sole membership interest in Funding 2006-1, Dealer Loans having a net book value of approximately \$133.5 million to Funding 2006-1, which, in turn, conveyed the Dealer Loans to a trust that issued \$100.0 million in notes to qualified institutional investors. Radian Asset Assurance Inc. issued the primary financial insurance policy in connection with the transaction, and XL Capital Assurance, Inc. issued a backup financial insurance policy. The policies guarantee the timely payment of interest and ultimate repayment of principal on the final scheduled distribution date. The notes were rated "Aaa" by Moody's Investor Services and "AAA" by Standard & Poor's Rating Services. The proceeds of the initial conveyance to Funding 2006-1 were used by the Company to purchase Dealer Loans, on an arm's-length basis, from Warehouse Funding. Through October 16, 2006, the Company may be required, and is likely, to convey additional Dealer Loans to Funding 2006-1, which will be conveyed by Funding 2006-1 to the trust. As of September 30, 2006, additional Dealer Loans having a net book value of approximately \$54.2 million had been conveyed by the Company after the completion of the initial funding. After October 16, 2006, the debt outstanding under this facility will begin to amortize. The total expected term of the facility is 17 months. The secured financing creates loans for which the trust is liable and which are secured by all the assets of the trust. Such loans are non-recourse to the Company, even though the trust, Funding 2006-1 and the

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Company are consolidated for financial reporting purposes. As Funding 2006-1 is organized as a separate legal entity from the Company, assets of Funding 2006-1 (including the conveyed Dealer Loans) are not available to satisfy the general obligations of the Company. The notes bear interest at a fixed rate of 5.36%. The expected annualized cost of the secured financing, including underwriter's fees, the insurance premiums and other costs is approximately 7.6%. The Company receives a monthly servicing fee paid out of collections equal to 6% of the collections received with respect to the conveyed Dealer Loans. Except for the servicing fee and payments due to dealer-partners, the Company does not receive, or have any rights in, any portion of such collections, except for a limited right in its capacity as Servicer to exercise a "clean-up call" option to purchase Dealer Loans from Funding 2006-1 under certain specified circumstances. In exercising its "clean-up call," the Servicer may repurchase the remaining Dealer Loans from the trust and direct the trust to redeem the indebtedness in whole, whereby the assets of the trust (including the right to remaining collections) would be paid over to Funding 2006-1, and distributed to the Company, resulting in the Company becoming the owner of such remaining collections; provided that if the trust certificate has been purchased and financed as described below, such financing of the trust certificate must be repaid at the same time such "clean-up call" is exercised. Alternatively, when the trust's underlying indebtedness is paid in full, either through collections or through a prepayment of the indebtedness, remaining collections would be paid over to Funding 2006-1 as the sole beneficiary of the trust where they would be available to be distributed to the Company as the sole member of Funding 2006-1. As of September 30, 2006 there was \$100.0 million outstanding under this secured financing transaction.

On September 20, 2006, the Company's wholly-owned subsidiary, Credit Acceptance Residual Funding LLC ("Residual Funding"), completed 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 purchased loans to dealer-partners under the Company's 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. The new facility enables the Term SPEs to realize and distribute to the Company 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 but the entire arrangement is non-recourse to the Company. As Residual Funding is organized as a separate legal entity from the Company, assets of Residual Funding, including purchased trust certificates, are not available to satisfy the general obligations of the Company, even though Residual Funding and the Company are consolidated for financial reporting purposes. Residual Funding did not make a draw on the facility at closing. The facility matures September 19, 2007. Borrowings under the facility bear interest at a floating rate equal to LIBOR or the commercial paper rate plus 145 basis points (6.81% at September 30, 2006). As of September 30, 2006 there were no amounts outstanding under this facility.

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

#### 4. DEBT - (CONCLUDED)

The Company and its subsidiaries have completed a total of thirteen secured



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financing transactions, ten of which have been repaid in full as of September 30, 2006. Information about the outstanding secured financing transactions as of September 30, 2006 is set forth in the following table (in thousands):

ISSUE NUMBER	CLOSE DATE	LIMIT	SECURED FINANCING BALANCE AT SEPTEMBER 30, 2006	SECURED DEALER LOAN BALANCE AT SEPTEMBER 30, 2006
-----	-----	-----	-----	-----
2003-2	September 2003*	\$325,000	\$188,500	\$273,986
2006-1	April 2006	100,000	100,000	133,571
2006-3	September 2006	50,000	--	--

\* In February 2006, the 2003-2 Loan and Security Agreement was amended to increase the facility limit to \$325.0 million and extend the commitment period to February 14, 2007.

Mortgage Loan. The Company has a mortgage loan from a commercial bank that is secured by a first mortgage lien on the Company's headquarters building and an assignment of all leases, rents, revenues and profits under all present and future leases of the building. There was \$7.0 million and \$7.5 million outstanding on this loan as of September 30, 2006 and December 31, 2005, 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 September 30, 2006, the Company has various capital lease obligations outstanding for computer equipment, with monthly payments totaling \$79,000. The total amount of capital lease obligations outstanding as of September 30, 2006 and December 31, 2005 were \$2.0 million and \$1.6 million, respectively. These capital lease obligations bear interest at rates ranging from 7.87% to 9.31% and have maturity dates between January 2007 and June 2010.

Debt Covenants. As of September 30, 2006, the Company is 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 the Company's assets to debt and its earnings before interest, taxes and non-cash expenses to fixed charges. The covenants also limit the maximum ratio of the Company's debt to tangible net worth and the Company must also maintain a specified minimum level of net worth, which may indirectly limit the payment of dividends on common stock.

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

#### 5. RELATED PARTY TRANSACTIONS

In the normal course of its business, the Company has Dealer Loans with affiliated dealer-partners owned or controlled by: (i) the Company's majority shareholder and Chairman; (ii) a member of the Chairman's immediate family; and (iii) the Company's former President, Keith P. McCluskey. Mr. McCluskey resigned from his position with the Company effective September 1, 2006. The Company's Dealer Loans from affiliated dealer-partners and nonaffiliated dealer-partners

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are on the same terms. A summary of related party Dealer Loan activity is as follows (in thousands):

	As of September 30, 2006		As of December 31, 2005	
	Affiliated Dealer Loan balance	% of consolidated	Affiliated Dealer Loan balance	% of consolidated
Affiliated Dealer Loan balance	\$20,800	2.9%	\$20,900	3.1%

  

	For the Three Months ended September 30, 2006		For the Three Months ended September 30, 2005	
	Affiliated dealer-partner activity	% of consolidated	Affiliated dealer-partner activity	% of consolidated
Advances	\$4,000	3.0%	\$4,000	3.6%
Affiliated dealer-partner revenue	\$1,400	3.1%	\$1,500	3.4%

  

	For the Nine Months ended September 30, 2006		For the Nine Months ended September 30, 2005	
	Affiliated dealer-partner activity	% of consolidated	Affiliated dealer-partner activity	% of consolidated
Advances	\$13,900	3.4%	\$15,800	4.4%
Affiliated dealer-partner revenue	\$ 4,300	3.2%	\$ 4,200	3.4%

Pursuant to an employment agreement with the Company's former President, Mr. McCluskey, dated April 19, 2001, the Company loaned Mr. McCluskey's dealerships \$0.9 million. Obligations under this note, including all principal and interest, were paid in full on August 16, 2006. In addition, pursuant to the employment agreement, the Company loaned Mr. McCluskey approximately \$0.5 million. The note, including all principal and interest, is due on April 19, 2011, bears interest at 5.22% and is unsecured. The balance of the note including accrued but unpaid interest was approximately \$0.6 million as of September 30, 2006 and December 31, 2005, respectively.

Total CAPS and dealer enrollment fees earned from affiliated dealer-partners were \$22,000 and \$67,000 for the three and nine months ended September 30, 2006, respectively, and \$23,000 and \$68,000 for the same periods in 2005.

The Company paid for air transportation services provided by a company owned by the Company's majority shareholder and Chairman totaling \$56,000 and \$80,000 for the three and nine months ended September 30, 2006, respectively,

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and \$12,000 and \$47,000 for the same periods in 2005.

Beginning in 2002, entities owned by the Company's majority shareholder and Chairman began offering secured lines of credit to third parties in a manner similar to a program previously offered by the Company. In December of 2004, the Company's majority shareholder and Chairman sold his ownership interest in these entities but 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 the Company's effective tax rate, excluding the results of the discontinued United Kingdom operations, is as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
	----	----	----	----
U.S. federal statutory rate	35.0%	35.0%	35.0%	35.0%
State income taxes	1.3	3.6	0.8	2.6
U.S. tax impact of foreign earnings	0.1	--	(0.1)	--
Other	(0.2)	1.2	0.1	0.4
	----	----	----	----
Effective tax rate	36.2%	39.8%	35.8%	38.0%
	====	====	====	====

The differences between the U.S. federal statutory rate and the Company's consolidated effective tax rate are primarily related to state income taxes that are included in the provision for income taxes. A decrease in the effective tax rate to 36.2% and 35.8% for the three and nine months ended September 30, 2006, respectively, from 39.8% and 38.0% for the same periods in 2005 is primarily due to an additional state tax liability recorded in the third quarter of 2005 that was reversed in the second quarter of 2006 as a result of a favorable settlement.

#### 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 weighted average number of common shares and common stock equivalents outstanding. 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:

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	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS END SEPTEMBER 30,	
	2006	2005	2006	2005
Weighted average common shares outstanding	33,093,592	37,020,020	34,062,249	36,960,000
Common stock equivalents	1,980,965	1,892,802	2,286,141	2,286,141
Weighted average common shares and common stock equivalents	35,074,557	38,912,822	36,348,390	39,246,141

The diluted net income per share calculation excludes stock options to purchase 115,000 shares for the three months ended September 30, 2005 as inclusion of these options would be anti-dilutive to the net income per share due to the relationship between the exercise prices and the average market price of common stock during this period. There were no stock options that would be anti-dilutive for the three months ended September 30, 2006 or the nine months ended September 30, 2006 and 2005.

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

7. CAPITAL TRANSACTIONS - (CONCLUDED)

RESTRICTED STOCK COMPENSATION

Pursuant to the Company's Incentive Compensation Plan (the "Incentive Plan"), which was approved by shareholders on May 13, 2004, the Company had reserved 1.0 million shares of its 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 nine months ended September 30, 2006, the Company granted 115,757 shares of restricted stock to employees and officers under the Incentive Plan, of which 103,867 shares vest in full or in part based on the Company's satisfaction of certain performance-related criteria and 11,890 shares vest over a five year period. The Company recorded \$2.8 million of unearned stock-based compensation representing the grant date fair value of the restricted stock granted during the nine months ended September 30, 2006. During the nine months ended September 30, 2006, 68,306 shares of restricted stock were forfeited resulting in the reversal of \$1.2 million in unearned stock-based compensation. Unearned stock-based compensation is recognized as stock-based compensation expense over the expected vesting period of the restricted stock.

The Company recognized stock-based compensation expense of \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2006, respectively, and \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2005, respectively, for outstanding restricted stock.

At September 30, 2006 and December 31, 2005, the Company had 144,728 and 98,879 shares of restricted stock outstanding, respectively. Shares available for future grants under the Incentive Plan totaled 855,272 at September 30,

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2006.

### STOCK REPURCHASE PROGRAM

The Company's board of directors approved a stock repurchase program which authorizes the Company to purchase common shares in the open market or in privately negotiated transactions at price levels the Company deems attractive. At this time, the Company has authorization to repurchase an additional \$25.0 million of the Company's common stock. As of September 30, 2006, the Company has repurchased approximately 7.1 million shares under this program at a cost of \$71.4 million.

### DUTCH TENDER OFFER

In addition to the stock repurchase program, the Company has repurchased 12.5 million shares of its common stock at a cost of \$304.4 million through four modified Dutch auction tender offers completed during 2004 and 2006.

COMMENCEMENT DATE	EXPIRATION DATE	AMOUNT OF SHARES TENDERED	AMOUNT OF SHARES REPURCHASED	PURCHASE PRICE PER SHARE
November 26, 2003	January 6, 2004	2,201,744	2,201,744	\$17.00
August 11, 2004	September 9, 2004	2,673,073	2,673,073	20.00
February 10, 2006	March 13, 2006	4,129,735	4,129,735	25.00
August 28, 2006	September 26, 2006*	20,552,028	3,500,000	31.50
			----- 12,504,552 =====	

\* On September 27, 2006, the Company accepted for payment 3.5 million shares. On October 3, 2006, the Company made payment for these shares.

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

#### 8. BUSINESS SEGMENT INFORMATION

During the first quarter of 2006, the Company combined the United Kingdom business segment into its Other business segment as the Company sold the remaining Consumer Loan portfolio of its United Kingdom subsidiary on December 30, 2005 and the United Kingdom segment no longer met the quantitative thresholds of a reportable segment. As a result, the Company now has two reportable business segments: United States and Other. Prior year's disclosures have been reclassified to conform to the current year presentation. The United States segment primarily consists of the Company's United States automobile financing business. The Other segment consists of the Company's discontinued United Kingdom automobile financing business, automobile leasing business, Canadian automobile financing business and secured lines of credit and floorplan financing products. The Company is currently liquidating its operations in the Other segment.

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

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	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
Revenue:				
United States	\$55,375	\$51,302	\$163,284	\$148,521
Other	27	321	225	1,174
	-----	-----	-----	-----
Total revenue	\$55,402	\$51,623	\$163,509	\$149,695
	=====	=====	=====	=====
Income from continuing operations before provision for income taxes:				
United States	\$24,171	\$23,557	\$ 78,234	\$ 74,714
Other	38	(377)	171	(344)
	-----	-----	-----	-----
Total income from continuing operations before provision for income taxes	\$24,209	\$23,180	\$ 78,405	\$ 74,370
	=====	=====	=====	=====

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
	-----	-----
Segment Assets		
United States	\$751,008	\$614,149
Other	1,152	5,245
	-----	-----
Total Assets	\$752,160	\$619,394
	=====	=====

9. DEBT ISSUANCE COSTS

As of September 30, 2006 and December 31, 2005, deferred debt issuance costs were \$3.1 million (net of amortization expense of \$2.7 million) and \$1.6 million (net of amortization expense of \$3.8 million), respectively. Expenses associated with the issuance of debt instruments are capitalized and amortized 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

The Company's comprehensive income for the three and nine months ended September 30, 2006 and 2005 is set forth below (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
Net Income	\$15,342	\$14,594	\$50,145	\$47,361
Other comprehensive gain (loss), net of tax	29	(427)	1	(1,063)

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Comprehensive income	\$15,371	\$14,167	\$50,146	\$46,298
	=====	=====	=====	=====

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

#### EXECUTIVE SUMMARY

Since 1972, Credit Acceptance has provided auto loans to consumers, regardless of their credit history. The Company's 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 the Company's product, but who actually end up qualifying for traditional financing.

The Company is an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the dealer-partner and immediately assigned to the Company. The compensation paid to the dealer-partner in exchange for the Consumer Loan is paid in two parts. 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 is based on the performance of the loan and is called dealer holdback. For accounting purposes, a majority of the transactions described above are not considered to be loans to consumers. Instead the Company's 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 the Company's legal relationship with the dealer-partner. The cash amount advanced to the dealer-partner is recorded as an asset on the Company's balance sheet. The aggregate amount of all advances to an individual dealer-partner, plus accrued income, less repayments comprises the amount recorded in Loans receivable. A small percentage of transactions in the United States are considered to be Consumer Loans for accounting purposes. For additional information regarding the Company's accounting for Loans receivable, see Note 2 to the consolidated financial statements, which is incorporated herein by reference.

The Company believes it has been successful in improving the profitability of its Dealer Loans in recent years primarily as a result of increasing the spread between the forecasted collection rate and the advance rate, and increasing revenue from ancillary products. For the three months ended September 30, 2006, Dealer Loan dollar volume increased 20.9% compared to the same period in 2005 due to an increase in the number of active dealer-partners which resulted in an increase in the number of Consumer Loans accepted and a 13.1% increase in the average loan size. Since the Company believes it is one of only a few financial services companies serving the Company's target market, the Company believes that it has an opportunity to grow its business profitably in the future.

Critical success factors for the Company include access to capital and the ability to accurately forecast Consumer Loan performance. The Company's strategy for accessing the capital required to grow its business is to: (i) maintain consistent financial performance, (ii) maintain modest financial leverage, and (iii) maintain multiple funding sources. The Company's funded debt to equity ratio is 1.6 to 1.0 at September 30, 2006. The Company currently funds its

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business through a bank line of credit facility, privately placed secured financings and commercial bank conduit-financed secured financings.

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### CONSUMER LOAN PERFORMANCE

Although the majority of loan originations are recorded in the Company's 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 the Company's 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 September 30, 2006 for the United States business segment. Payments of dealer holdback and accelerated payments of dealer holdback are not included in the analysis of the initial advance paid to the dealer-partner. All amounts are presented as a percentage of the initial balance of the Consumer Loan (principal + interest).

As of September 30, 2006				
Year of Origination	Forecasted Collection %	Advance %	Spread %	% of Forecast Realized
1996	55.1%	46.9%	8.2%	100.0%
1997	58.4%	47.8%	10.6%	99.6%
1998	67.6%	46.0%	21.6%	99.0%
1999	72.5%	48.7%	23.8%	98.2%
2000	73.0%	47.9%	25.1%	97.3%
2001	67.6%	46.0%	21.6%	97.0%
2002	70.6%	42.2%	28.4%	96.7%
2003	74.4%	43.5%	30.9%	93.0%
2004	73.9%	44.0%	29.9%	79.2%
2005	74.3%	46.9%	27.4%	54.6%
2006	71.7%	46.5%	25.2%	17.0%

The following table compares the Company's forecast of Consumer Loan collection rates as of September 30, 2006 with the forecast as of December 31, 2005:

Loan Origination Year	September 30, 2006 Forecasted Collection %	December 31, 2005 Forecasted Collection %	Variance
1996	55.1%	55.0%	0.1%
1997	58.4%	58.3%	0.1%
1998	67.6%	67.7%	(0.1)%
1999	72.5%	72.7%	(0.2)%
2000	73.0%	73.2%	(0.2)%
2001	67.6%	67.2%	0.4%
2002	70.6%	70.3%	0.3%



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2003	74.4%	74.0%	0.4%
2004	73.9%	72.9%	1.0%
2005	74.3%	73.6%	0.7%

Accurately forecasting future collection rates is critical to the Company's 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 98.2% of the total amount forecasted has already been realized. In contrast, the Company's forecast for recent Consumer Loans is less certain. If the Company produces disappointing operating results, it will likely be because the Company overestimated future Consumer Loan performance. Although the Company makes every effort to estimate collection rates as accurately as possible, there can be no assurance that the Company's 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 the Company's 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 2006, the Company believes it is still at a sufficient level to minimize the Company's risk of being able to recover the cash advance.

The Company modified its loan pricing model during the third quarter of 2006. As a result, the composition of new loan originations changed during the three months ended September 30, 2006 compared to the same period in 2005 as follows: (1) the average loan size was larger by 13.1%, (2) the average loan term increased from 35 to 41 months, (3) the projected return on capital has decreased by approximately 100 basis points, and (4) the average spread between the advance rate and the expected collection rate has decreased by approximately 200 basis points.

There were no other material changes in credit policy or pricing in the third quarter of 2006, other than routine changes designed to maintain current profitability levels.

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### RESULTS OF OPERATIONS

-----  
 Three and Nine Months Ended September 30, 2006 Compared to

-----  
 Three and Nine Months Ended September 30, 2005  
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The following is a discussion of the results of operations and income statement data for the Company on a consolidated basis.

	THREE MONTHS ENDED SEPTEMBER 30, 2006	% OF REVENUE	THREE MONTHS ENDED SEPTEMBER 30, 2005	
(Dollars in thousands)	-----	-----	-----	-----

REVENUE:

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Finance charges	\$47,474	85.7%	\$45,047
License fees	3,599	6.5	2,658
Other income	4,329	7.8	3,918
	-----	-----	-----
Total revenue	55,402	100.0	51,623
COSTS AND EXPENSES:			
Salaries and wages	10,666	19.4	9,497
General and administrative	6,063	10.9	5,440
Sales and marketing	3,942	7.1	4,160
Provision for credit losses	4,404	7.9	4,703
Interest	5,837	10.5	3,655
Stock-based compensation	242	0.4	491
Other expense	40	0.1	489
	-----	-----	-----
Total costs and expenses	31,194	56.3	28,435
	-----	-----	-----
Operating income	24,208	43.7	23,188
Foreign currency gain (loss)	1	--	(8)
	-----	-----	-----
Income from continuing operations before provision for income taxes	24,209	43.7	23,180
Provision for income taxes	8,775	15.8	9,231
	-----	-----	-----
Income from continuing operations	15,434	27.9	13,949
	-----	-----	-----
Discontinued operations			
(Loss) gain from discontinued United Kingdom operations	(132)	(0.2)	922
(Credit) provision for income taxes	(40)	(0.1)	277
	-----	-----	-----
(Loss) gain on discontinued operations	(92)	(0.1)	645
	-----	-----	-----
Net income	\$15,342	27.8%	\$14,594
	=====	=====	=====

(Dollars in thousands)	NINE MONTHS ENDED SEPTEMBER 30, 2006	% OF REVENUE	NINE MONTHS ENDED SEPTEMBER 30, 2005	RE
	-----	-----	-----	-----
REVENUE:				
Finance charges	\$141,400	86.5%	\$131,380	
License fees	9,700	5.9	6,870	
Other income	12,409	7.6	11,445	
	-----	-----	-----	
Total revenue	163,509	100.0	149,695	1
COSTS AND EXPENSES:				
Salaries and wages	31,279	19.2	27,503	
General and administrative	19,125	11.7	16,855	
Sales and marketing	11,707	7.2	10,956	
Provision for credit losses	7,569	4.6	7,373	
Interest	15,071	9.2	11,011	
Stock-based compensation	188	0.1	1,756	
Other expense	177	0.1	890	
	-----	-----	-----	
Total costs and expenses	85,116	52.1	76,344	
	-----	-----	-----	
Operating income	78,393	47.9	73,351	

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Foreign currency gain	12	--	1,019
Income from continuing operations before provision for income taxes	78,405	47.9	74,370
Provision for income taxes	28,067	17.2	28,288
Income from continuing operations	50,338	30.7	46,082
Discontinued operations			
(Loss) gain from discontinued United Kingdom operations	(277)	(0.2)	1,807
(Credit) provision for income taxes	(84)	(0.1)	528
(Loss) gain on discontinued operations	(193)	(0.3)	1,279
Net income	\$ 50,145	30.4%	\$ 47,361

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For the three months ended September 30, 2006, net income increased to \$15.3 million, or \$0.44 per diluted share, compared to \$14.6 million, or \$0.38 per diluted share, for the same period in 2005. The increase in net income primarily reflects the following:

- Finance charge revenue increased \$2.4 million (5.4%) primarily due to a 5.4% increase in the average size of the loan portfolio.
- License fees increased \$0.9 million primarily due to an increase in the number of dealer-partners.
- The Company's effective tax rate decreased from 39.8% to 36.2% primarily due to an additional state tax liability recorded in the third quarter of 2005 that was reversed in the second quarter of 2006 as a result of a favorable settlement.

Partially offsetting these improvements:

- Interest expense increased \$2.2 million primarily due to a 33.9% increase in the amount of average outstanding debt as a result of borrowings used to fund stock repurchases and new Dealer Loan originations. Interest expense also increased as a result of a 140 basis point increase in interest rates.

For the nine months ended September 30, 2006, net income increased to \$50.1 million, or \$1.38 per diluted share, compared to \$47.4 million, or \$1.21 per diluted share, for the same period in 2005. The increase in net income primarily reflects the following:

- Finance charge revenue increased \$10.0 million (7.6%) primarily due to a 6.5% increase in the average size of the loan portfolio.
- License fees increased \$2.8 million primarily due to an increase in the number of dealer-partners.
- Stock-based compensation expense decreased \$1.6 million primarily due to a decline in the number of unvested stock options and the Company's adoption of SFAS No. 123R.

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- The Company's effective tax rate decreased from 38.0% to 35.8% primarily due to an additional state tax liability recorded in the third quarter of 2005 that was reversed in the second quarter of 2006 as a result of a favorable settlement.

Partially offsetting these improvements:

- Interest expense increased \$4.1 million primarily due to a 230 basis point increase in interest rates and a 13.7% increase in the amount of average outstanding debt as a result of borrowings used to fund stock repurchases in the first nine months of 2006.

Finance Charges. Finance charges increased to \$47.5 million and \$141.4 million for the three and nine months ended September 30, 2006 from \$45.0 million and \$131.4 million for the same periods in 2005 primarily due to increases in the size of the Dealer Loan portfolio.

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The following table summarizes the changes in active dealer-partners and corresponding Consumer Loan unit volume for the three months ended September 30, 2006 and 2005:

	THREE MONTHS ENDED SEPTEMBER 30,		
	2006	2005	% CHANGE
Consumer Loan unit volume	22,648	20,037	13.0
Active dealer-partners (1)	1,590	1,318	20.6
Average volume per dealer-partner	14.2	15.2	(6.6)
Consumer loan unit volume from dealer-partners active both periods	15,417	15,964	(3.4)
Dealer-partners active both periods	866	866	--
Average volume per dealer-partner active both periods	17.8	18.4	(3.4)
Consumer loan unit volume from new dealer-partners	1,322	1,442	(8.3)
New active dealer-partners (2)	218	198	10.1
Average volume per new active dealer-partner	6.1	7.3	(16.4)
Attrition (3)	-20.3%	-15.0%	

- (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 the Company's program and have submitted their first Consumer Loan to the Company 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

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submitted no Consumer Loans during the current period divided by prior year comparable period Consumer Loan unit volume.

In March 2005, the Company implemented a change in policy that allows prospective dealer-partners to enroll in the Company's program without paying the \$9,850 enrollment fee. Prospective dealer-partners choosing this option instead agree to allow the Company 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 the Company. While the Company will lose enrollment fee revenue on those dealer-partners choosing this option and not reaching 100 Consumer Loans or otherwise qualifying for a Portfolio Profit Express payment, the Company estimates that it 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, the Company expects average enrollment fee revenue per dealer-partner for those dealer-partners electing the new option and reaching 100 Consumer Loans will be approximately \$15,000 - \$20,000. Approximately 75% of the dealer-partners that enrolled during the third quarter of 2006 took advantage of this new enrollment option.

**License Fees.** License fees increased to \$3.6 million and \$9.7 million for the three and nine months ended September 30, 2006 from \$2.7 million and \$6.9 million for the same periods in 2005. License fees represent CAPS fees charged to dealer-partners on a monthly basis. The increases were primarily due to an increase in the number of dealer-partners. The average number of dealer-partners billed for CAPS fees for the nine months ended September 30, 2006 was 1,872 compared to 1,270 for the same period in the prior year.

**Salaries and Wages.** Salaries and wages, as a percentage of revenue, increased to 19.4% and 19.2% for the three and nine months ended September 30, 2006 from 18.4% for the same periods in 2005. The increases in salaries and wages, as a percentage of revenue, were primarily due to increased costs of information systems personnel and an increase in payroll taxes primarily due to employee and director stock option exercises.

**Sales and Marketing.** Sales and marketing expenses, as a percentage of revenue, decreased to 7.1% for the three months ended September 30, 2006 compared to 8.1% for the same period in 2005 while these expenses, as a percentage of revenue, remained consistent at 7.2% for the nine months ended September 30, 2006, compared to 7.3% for the same period in 2005. The decrease, as a percentage of revenue, for the three months was primarily due to \$0.5 million related to the Company's annual dealer-partner convention in the third quarter of 2005. The Company's 2006 dealer-partner convention was held in October of 2006.

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**Provision for Credit Losses.** The provision for credit losses decreased to \$4.4 million for the three months ended September 30, 2006 compared to \$4.7 million for the same period in 2005. The provision for credit losses increased to \$7.6 million for the nine months ended September 30, 2006 compared to \$7.4 million for the same period in 2005. The provision for credit losses consists primarily of a provision to reduce the carrying value of Dealer Loans to maintain the initial yield established at the inception of the Dealer Loan. Additionally, the provision for credit losses includes a provision for losses on Purchased Loans and a provision for losses on notes receivable. The decrease in the provision for the three months ended September 30, 2006 was primarily due to a one-time pre-tax charge of \$2.9 million related to a reduction in forecasted

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collection rates resulting from Hurricanes Katrina and Rita in the third quarter of 2005 partially offset by an increase in the provision for credit losses required to maintain the initial yield established at the inception of the Dealer Loan due to a decrease in the Company's forecast of future collections. The increase in the provision for the nine months ended September 30, 2006 was primarily due to increases in the provision for credit losses for Purchased Loans and in the provision for credit losses required to maintain the initial yield established at the inception of the Dealer Loan. This increase was partially offset by a one-time pre-tax charge of \$2.9 million related to a reduction in forecasted collection rates resulting from Hurricanes Katrina and Rita in the third quarter of 2005.

Interest. Interest expense increased to \$5.8 million and \$15.1 million for the three and nine months ended September 30, 2006 from \$3.7 million and \$11.0 million for the same periods in 2005. The increase in interest expense during the three months ended September 30, 2006 was primarily due to a 33.9% increase in the amount of average outstanding debt as a result of borrowings used to fund stock repurchases and new Dealer Loan originations and a 140 basis point increase in interest rates. The increase in interest expense during the nine months ended September 30, 2006 was primarily due to a 230 basis point increase in interest rates and a 13.7% increase in the amount of average outstanding debt as a result of borrowings used to fund stock repurchases.

Stock-based Compensation. Stock-based compensation expense decreased to \$0.2 million for the three and nine months ended September 30, 2006 from \$0.5 million and \$1.8 million for the same periods in 2005. The decrease for the three months ended September 30, 2006 was primarily due to a decline in the number of unvested stock options outstanding. The decrease for the nine months ended September 30, 2006 was primarily due to: (i) a decline in the number of unvested stock options outstanding, (ii) the Company's adoption of SFAS No. 123R which resulted in revised turnover assumptions for the stock options granted during 2002-2004. The change in compensation expense was accounted for as a change in estimate and its cumulative effect was recognized in the first quarter of 2006, and (iii) an adjustment recognized in the second quarter of 2005 as a result of a decrease in the period over which certain performance based stock options and restricted stock are expected to vest.

Foreign Exchange Gain. The foreign exchange gain of \$1.0 million for the nine months ended September 30, 2005 was primarily the result of changes in the fair value of forward contracts entered into during the third quarter of 2003. There were no forward contracts outstanding during 2006.

Provision for Income Taxes. The effective tax rates decreased to 36.2% and 35.8% for the three and nine months ended September 30, 2006 from 39.8% and 38.0% for the same period in 2005 primarily due to an additional state tax liability recorded in the third quarter of 2005 that was reversed in the second quarter of 2006 as a result of a favorable settlement.

### RETURN ON CAPITAL

The return on capital analysis provides an additional perspective on the financial performance of the Company. The Company believes this information provides a useful measurement of how effectively the Company is utilizing its capital. Return on capital is equal to annualized net operating profit after-tax (net income plus interest expense after-tax) divided by average capital as follows:

FOR THE THREE MONTHS ENDED SEPTEMBER 30,	FOR THE NINE MONTHS ENDED SEPTEMBER 30,
-----	-----

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(Dollars in thousands)	2006	2005	2006	2005
	-----	-----	-----	-----
Net income	\$ 15,342	\$ 14,594	\$ 50,145	\$ 47,361
Interest expense after-tax (1)	3,677	2,303	9,495	6,937
Net operating profit after-tax	\$ 19,019	\$ 16,897	\$ 59,640	\$ 54,298
Average debt	\$260,439	\$194,571	\$223,807	\$196,904
Average shareholders' equity	281,631	342,017	313,996	324,764
Average capital	\$542,070	\$536,588	\$537,803	\$521,668
Return on capital	14.0%	12.6%	14.8%	13.9%

(1) Interest expense after-tax calculated using a 37% tax rate which approximates the Company's long term effective tax rate.

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### ECONOMIC PROFIT

The Company defines economic profit as net income less an imputed cost of equity. Economic profit measures how efficiently the Company utilizes its capital. To consider the cost of both debt and equity, the Company's calculation of economic profit deducts from net income a cost of equity equal to 10% of average equity, which approximates the S&P 500's rate of return since 1965. Management uses economic profit to assess the Company's performance as well as to make capital allocation decisions. Management believes this information is important to shareholders because it allows shareholders to compare the returns earned by the Company with the return they could expect if the Company returned capital to shareholders and they invested in other securities.

(Dollars in thousands, except per share data)	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
	-----	-----	-----	-----
Net income	\$ 15,342	\$ 14,594	\$ 50,145	\$ 47,361
Imputed cost of equity at 10% (1)	(7,041)	(8,551)	(23,550)	(22,850)
Total economic profit	\$ 8,301	\$ 6,043	\$ 26,595	\$ 24,511
Diluted weighted average shares outstanding	35,074,557	38,912,822	36,348,390	37,812,822
Economic profit per diluted share (2)	\$ 0.24	\$ 0.16	\$ 0.73	\$ 0.65

(1) Cost of equity is equal to 10% (on an annual basis) of average shareholders' equity, as disclosed in the Return on Capital calculation.

(2) Economic profit per diluted share equals the economic profit divided by the diluted weighted average number of shares outstanding.

### FLOATING YIELD FINANCIAL RESULTS

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The Company's GAAP finance charge revenue is based on estimates of future cash flows and is recognized on a level yield basis. Under the level yield basis, the amount of finance charge revenue recognized in a given period, divided by the loan asset, is a constant percentage. Under GAAP, favorable changes in expected cash flows are treated as increases to the level yield and are recognized over time, while unfavorable changes are recorded as a current period expense. The non-GAAP measure ("Floating Yield") is identical to the Company's GAAP results except that, under the Floating Yield method, all changes in expected cash flows are treated as yield adjustments and therefore impact earnings over time. The GAAP treatment always results in a lower carrying value of the loan receivable asset, but may result in either higher or lower earnings for any given period depending on the timing and amount of expected cash flow changes.

The Company believes Floating Yield earnings are a more accurate reflection of the economics of the business since both favorable and unfavorable changes in estimated cash flows are treated consistently. The Company uses Floating Yield earnings to measure performance internally including financial performance measures utilized in incentive compensation plans.

The following table presents selected non-GAAP Floating Yield financial data.

(Dollars in thousands, except per share data)	FOR THE THREE MONTHS ENDED SEPTEMBER 30,			FOR THE ENDED
	2006	2005	% CHANGE	2006
Net income	\$ 16,615	\$ 15,743	5.5	\$ 49,587
Income from continuing operations	16,707	15,098	10.7	49,780
Income from continuing operations per diluted share	0.48	0.39	23.1	1.37
Net operating profit after tax	20,292	18,046	12.4	59,082
Average capital	\$547,365	\$544,112	0.6	\$542,982
Return on capital	14.8%	13.3%	11.3	14.5%

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The following table reconciles selected financial data from the Company's GAAP financial results to the Floating Yield financial results.

(Dollars in thousands)	FOR THE THREE MONTHS ENDED SEPTEMBER 30,		FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
GAAP net operating profit after tax	\$ 19,019	\$ 16,897	\$ 59,640	\$ 54,298
Floating Yield adjustment	1,273	1,149	(558)	22
Floating Yield net operating profit after tax	\$ 20,292	\$ 18,046	\$ 59,082	\$ 54,320
GAAP average capital	\$542,070	\$536,588	\$537,803	\$521,668



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Floating Yield adjustment	5,295	7,524	5,179	7,758
	-----	-----	-----	-----
Floating Yield average capital	\$547,365	\$544,112	\$542,982	\$529,426

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of capital are cash flows from operating activities, collections of Consumer Loans and borrowings under the Company's line of credit and secured financings. The Company's principal needs for capital are to fund Dealer Loan originations, for the payment of dealer holdback, and to fund stock repurchases.

The Company's cash and cash equivalents increased to \$66.8 million as of September 30, 2006 from \$7.1 million at December 31, 2005. This increase was primarily a result of the borrowings used to fund the Company's modified Dutch auction tender offer. The Company's total balance sheet indebtedness increased to \$323.5 million at September 30, 2006 from \$146.9 million at December 31, 2005. This increase was primarily a result of borrowings used to fund stock repurchases in the first, second and third quarters of 2006.

Restricted Cash and Cash Equivalents increased to \$42.0 million as of September 30, 2006 from \$13.5 million at December 31, 2005. The balance consists primarily of cash collections and required reserves related to secured funding and future warranty claims.

Restricted Securities. The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities for which the Company does 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 SEPTEMBER 30, 2006			
	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
	-----	-----	-----	-----
US Government and agency securities	\$1,578	\$--	\$ (9)	\$1,569
Corporate bonds	2,117	--	(45)	2,072
	-----	---	----	-----
Total restricted securities available for sale	\$3,695	\$--	\$ (54)	\$3,641
	=====	===	=====	=====

	AS OF DECEMBER 31, 2005			
	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
	-----	-----	-----	-----
US Government and agency securities	\$1,336	\$--	\$ (14)	\$1,322

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Corporate bonds	2,068	--	(45)	2,023
	-----	---	----	-----
Total restricted securities available for sale	\$3,404	\$--	\$(59)	\$3,345
	=====	===	====	=====

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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.

(in thousands)	AS OF SEPTEMBER 30, 2006		AS OF DECEMBER 31, 2005	
	COST	ESTIMATED FAIR VALUE	COST	ESTIMATED FAIR VALUE
	-----	-----	-----	-----
Contractual Maturity				
Within one year	\$ 728	\$ 720	\$ --	\$ --
Over one year to five years	2,967	2,921	3,028	2,971
Over five years to ten years	--	--	376	374
Over ten years	--	--	--	--
	-----	-----	-----	-----
Total restricted securities available for sale	\$3,695	\$3,641	\$3,404	\$3,345
	=====	=====	=====	=====

Stock Repurchases. In the first quarter of 2006, the Board of Directors authorized the repurchase of up to 5.0 million common shares through a modified Dutch auction tender offer. Upon expiration of the tender offer in March 2006, the Company repurchased 4.1 million common shares at a cost of \$103.2 million. Additionally, during the third quarter of 2006, the Board of Directors authorized the repurchase of up to 3.5 million common shares through a modified Dutch auction tender offer. Upon expiration of the tender offer in September 2006, the Company accepted for payment 3.5 million common shares at a price of \$31.50 per share. On October 3, 2006, the Company made payment for the 3.5 million common shares at a total cost of approximately \$110.3 million.

On August 1, 2006, the Company's Board of Directors authorized the repurchase of up to \$25.0 million of the Company's common stock in addition to the Board's prior authorizations.

For additional information regarding the Company's stock repurchase program, see "Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds", which is incorporated herein by reference.

Contractual Obligations. In addition to the balance sheet indebtedness as of September 30, 2006, the Company also has 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):

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CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD			
	TOTAL	<1 YEAR	1-3 YEARS	3-5 YEARS
Long-term debt obligations	\$321,507	\$289,245	\$32,262	\$--
Capital lease obligations	1,963	686	1,277	--
Operating lease obligations	1,528	672	856	--
Total contractual obligations	\$324,998	\$290,603	\$34,395	\$--

CRITICAL ACCOUNTING ESTIMATES

The Company's consolidated financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to the recognition of finance charge revenue and the allowance for credit losses. Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2005 discusses several critical accounting policies, which the Company believes involve a high degree of judgment and complexity. There have been no material changes to the estimates and assumptions associated with these accounting policies, other than related to stock-based compensation expense as discussed in Note 2 to the consolidated financial statements, incorporated herein by reference, from those discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

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FORWARD-LOOKING STATEMENTS

The Company makes forward-looking statements in this report and may make such statements in future filings with the Securities and Exchange Commission. It may also make forward-looking statements in its press releases or other public or shareholder communications. The Company's forward-looking statements are subject to risks and uncertainties and include information about its expectations and possible or assumed future results of operations. When the Company uses any of the words "may," "will," "should," "believes," "expects," "anticipates," "assumes," "forecasts," "estimates," "intends," "plans" or similar expressions, it is making forward-looking statements.

The Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all of its forward-looking statements. These forward-looking statements represent the Company's outlook only as of the date of this report. While the Company believes that its forward-looking statements are reasonable, actual results could differ materially since the statements are based on our current expectations, which are subject to risks and uncertainties. Factors that might cause such a difference include, but are not limited to, the factors set forth in Item 1A of the Company's Form 10-K for the year ended December 31, 2005, other risk factors discussed herein or listed from time to time in the Company's reports filed with the Securities and Exchange Commission and the following:

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- The Company's inability to accurately forecast the amount and timing of future collections could have a material adverse effect on results of operations.
- Due to increased competition from traditional financing sources and non-traditional lenders, the Company may not be able to compete successfully.
- The Company's ability to maintain and grow the business is dependent on the ability to continue to access funding sources and obtain capital on favorable terms.
- The Company may not be able to generate sufficient cash flow to service its outstanding debt and fund operations.
- The substantial regulation to which the Company is subject limits the business, and such regulation or changes in such regulation could result in potential liability.
- Adverse changes in economic conditions, or in the automobile or finance industries or the non-prime consumer finance market, could adversely affect the Company's financial position, liquidity and results of operations and its ability to enter into future financing transactions.
- Litigation the Company is involved in from time to time may adversely affect its financial condition, results of operations and cash flows.
- The Company is dependent on its senior management and the loss of any of these individuals or an inability to hire additional personnel could adversely affect its ability to operate profitably.
- Natural disasters, acts of war, terrorist attacks and threats or the escalation of military activity in response to such attacks or otherwise may negatively affect the business, financial condition and results of operations.

Other factors not currently anticipated by management may also materially and adversely affect the Company's results of operations. The Company does not undertake, and expressly disclaims any obligation, to update or alter its statements whether as a result of new information, future events or otherwise, except as required by applicable law.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 for a complete discussion of the Company's market risk. There have been no material changes to the market risk information included in the Company's 2005 Annual Report on Form 10-K.

### ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures.

The Company maintains disclosure controls and procedures that are designed

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to ensure material information required to be disclosed in the Company's reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, at the reasonable assurance level, as of the end of the period covered by this report to cause the material information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 to be recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

Changes in Internal Controls Over Financial Reporting. There have been no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

### PART II. - OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

In the normal course of business and as a result of the customer-oriented nature of the industry in which the Company operates, industry participants are frequently subject to various customer claims and litigation seeking damages and statutory penalties. The claims allege, among other theories of liability, violations of state, federal and foreign truth-in-lending, credit availability, credit reporting, customer protection, warranty, debt collection, insurance and other customer-oriented laws and regulations, including claims seeking damages for physical and mental damages relating to the Company's repossession and sale of the customer's vehicle and other debt collection activities. The Company, as the assignee of Consumer Loans originated by dealer-partners, may also be named as a co-defendant in lawsuits filed by customers principally against dealer-partners. Many of these cases are filed as purported class actions and seek damages in large dollar amounts. An adverse ultimate disposition in any such action could have a material adverse impact on the Company's financial position, liquidity and results of operations.

The Company is currently a defendant in a class action proceeding commenced on October 15, 1996 in the Circuit Court of Jackson County, Missouri and removed to the United States District Court for the Western District of Missouri. The complaint seeks unspecified money damages for alleged violations of a number of

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state and federal consumer protection laws. On October 9, 1997, the District Court certified two classes on the claims brought against the Company, one relating to alleged overcharges of official fees, the other relating to alleged overcharges of post-maturity interest and a subclass relating to allegedly inadequate repossession notices. On August 4, 1998, the District Court granted partial summary judgment on liability in favor of the plaintiffs on the interest overcharge claims based upon the District Court's finding of certain violations but denied summary judgment on certain other claims. The District Court also entered a number of permanent injunctions, which among other things, restrained the Company from collecting on certain class accounts. The Court also ruled in favor of the Company on certain claims raised by class plaintiffs. Because the entry of an injunction is immediately appealable, the Company appealed the summary judgment order to the United States Court of Appeals for the Eighth Circuit. Oral argument on the appeals was heard on April 19, 1999. On September 1, 1999, the United States Court of Appeals for the Eighth Circuit overturned the August 4, 1998 partial summary judgment order and injunctions against the Company. The Court of Appeals held that the District Court lacked jurisdiction over the interest overcharge claims and directed the District Court to sever those claims and remand them to state court. On February 18, 2000, the District Court entered an order remanding the post-maturity interest class to the Circuit Court of Jackson County, Missouri while retaining jurisdiction on the official fee class. The Company then filed a motion requesting that the District Court reconsider that portion of its order of August 4, 1998, in which the District Court had denied the Company's motion for summary judgment on the federal Truth-In-Lending Act ("TILA") claim. On May 26, 2000, the District Court entered summary judgment in favor of the Company on the TILA claim and directed the Clerk of the Court to remand the remaining state law official fee claims to the appropriate state court.

On July 18, 2002, the Circuit Court of Jackson County, Missouri granted plaintiffs leave to file a fourth amended petition which was filed on October 28, 2002. Instead of a subclass of Class 2, that petition alleges a new, expanded Class 3 relating to allegedly inadequate repossession notices. The Company filed a motion to dismiss the plaintiff's fourth amended complaint on November 4, 2002. On November 18, 2002, the Company filed a memorandum urging the decertification of the classes. On February 21, 2003, the plaintiffs filed a brief opposing the Company's November 4, 2002 motion to dismiss the case. On May 19, 2004, the Circuit Court released an order, dated January 9, 2004, that denied the Company's motion to dismiss. On November 16, 2005 the Circuit Court issued an order that, among other things, adopted the District Court's order certifying classes. By adopting the District Court's order, the Circuit Court's order certified only the two original classes and did not certify the new, expanded Class 3. On January 13, 2006, plaintiffs filed a motion entitled Plaintiffs' Motion To Adjust Class 2 Definition To Correspond With Allegations Of Their Fourth Amended Complaint which requested that the "repossession subclass" be deleted from Class 2 and a new Class 3 be adopted. The Company filed a response arguing that the new, expanded Class 3 is inappropriate for a number of reasons including the expiration of the statute of limitations. On May 23, 2006, the Circuit Court issued several orders, including an order granting plaintiffs' motion and adding the new Class 3. On June 2, 2006 the Company filed for leave to appeal the Circuit Court's decision to allow the expanded repossession class as well as its November 16, 2005 certification order. The Court of Appeals denied the Company's request for leave to appeal the Circuit Court's decision on August 31, 2006.

The Company will continue its vigorous defense of all remaining claims. However, an adverse ultimate disposition of this litigation could have a material negative impact on the Company's financial position, liquidity and results of operations.

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### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes the Company's stock repurchases for the three months ended September 30, 2006:

PERIOD -----	TOTAL NUMBER OF SHARES PURCHASED -----	AVERAGE PRICE PAID PER SHARE -----	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS -----	MAXI OF S OF S MA PURC THE PROGR -----
July 1 through July 31, 2006	--	\$ --	--	
August 1 through August 31, 2006	314,383	27.39	314,383	3
September 1 through September 30, 2006	3,500,000	31.50	3,500,000	
	-----	-----	-----	
	3,814,383	\$31.16	3,814,383	
	=====	=====	=====	

- (A) The Company's board of directors approved a stock repurchase program which authorizes the Company to purchase common shares in the open market or in privately negotiated transactions at price levels the Company deems attractive. At this time, the Company has authorization to repurchase an additional \$25.0 million of the Company's common stock. As of September 30, 2006, the Company has repurchased approximately 7.1 million shares under this program at a cost of \$71.4 million.
- (B) On August 28, 2006, the Company announced a modified Dutch auction tender offer to purchase up to 3.5 million shares of its common stock at a purchase price of not less than \$28.00 per share and not greater than \$31.50 per share. Upon expiration of the tender offer on September 26, 2006, the company accepted for payment 3.5 million shares of its common stock at a price of \$31.50 per share. The Company made payment for these shares on October 3, 2006.

### ITEM 6. EXHIBITS

See Index of Exhibits following the signature page, which is incorporated herein by reference.

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#### SIGNATURE

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

CREDIT ACCEPTANCE CORPORATION  
(Registrant)

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By: /s/ Kenneth S. Booth

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Kenneth S. Booth  
Chief Financial Officer  
October 30, 2006

(Principal Financial Officer, Principal  
Accounting Officer and Duly Authorized  
Officer)

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INDEX OF EXHIBITS

EXHIBIT NO. -----	NOTE -----	DESCRIPTION -----
4(f) (77)	1	Certificate Funding Agreement, dated September 20, 2006, between the Company, Credit Acceptance Residual Funding LLC, Wachovia Bank, National Association, Variable Funding Capital Company LLC, and Wachovia Capital Markets, LLC, and agreements related thereto.
31(a)	2	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31(b)	2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32(a)	2	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934.
32(b)	2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934.
1		Previously filed as an exhibit to the Company's Current Report on Form 8-K, as amended, dated September 20, 2006, and incorporated herein by reference.
2		Filed herewith.

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