

CREDIT ACCEPTANCE CORP

Form 10-Q

November 01, 2010

Table of Contents

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

(Mark One)

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

For the quarterly period ended September 30, 2010

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

(I.R.S. Employer Identification No.)

**25505 WEST TWELVE MILE ROAD
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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

| | | | |
|---|---|--|---|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |
|---|---|--|---|

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

The number of shares of Common Stock, par value \$0.01, outstanding on October 22, 2010 was 27,141,367.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

| | | |
|-----------------------|---|----|
| <u>ITEM 1.</u> | <u>CONSOLIDATED FINANCIAL STATEMENTS</u> | |
| | <u>Consolidated Statements of Income Three and nine months ended September 30, 2010 and 2009</u> | 1 |
| | <u>Consolidated Balance Sheets As of September 30, 2010 and December 31, 2009</u> | 2 |
| | <u>Consolidated Statements of Cash Flows Nine months ended September 30, 2010 and 2009</u> | 3 |
| | <u>Notes to Consolidated Financial Statements</u> | 4 |
| <u>ITEM 2.</u> | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 26 |
| <u>ITEM 3.</u> | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 37 |
| <u>ITEM 4.</u> | <u>CONTROLS AND PROCEDURES</u> | 37 |

PART II. OTHER INFORMATION

| | | |
|---------------------------------|---|----|
| <u>ITEM 2.</u> | <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> | 38 |
| <u>ITEM 6.</u> | <u>EXHIBITS</u> | 38 |
| <u>SIGNATURE</u> | | 39 |
| <u>INDEX OF EXHIBITS</u> | | 40 |
| | <u>EX-31.A</u> | |
| | <u>EX-31.B</u> | |
| | <u>EX-32.A</u> | |
| | <u>EX-32.B</u> | |

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| (Dollars in thousands, except per share data) | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Revenue: | | | | |
| Finance charges | \$ 99,255 | \$ 84,489 | \$ 284,467 | \$ 242,339 |
| Premiums earned | 8,627 | 11,596 | 24,576 | 25,257 |
| Other income | 3,779 | 4,183 | 17,659 | 12,933 |
| Total revenue | 111,661 | 100,268 | 326,702 | 280,529 |
| Costs and expenses: | | | | |
| Salaries and wages | 16,133 | 16,862 | 46,293 | 50,498 |
| General and administrative | 7,208 | 7,869 | 19,670 | 22,758 |
| Sales and marketing | 4,972 | 3,533 | 14,616 | 11,020 |
| Provision for credit losses | 2 | (3,591) | 8,218 | (7,217) |
| Interest | 12,038 | 8,144 | 36,010 | 23,352 |
| Provision for claims | 6,112 | 5,148 | 17,606 | 14,786 |
| Total costs and expenses | 46,465 | 37,965 | 142,413 | 115,197 |
| Income from continuing operations before provision for income taxes | 65,196 | 62,303 | 184,289 | 165,332 |
| Provision for income taxes | 23,149 | 21,491 | 61,162 | 59,358 |
| Income from continuing operations | 42,047 | 40,812 | 123,127 | 105,974 |
| Discontinued operations | | | | |
| Gain (loss) from discontinued United Kingdom operations | | (13) | (30) | 21 |
| Provision for income taxes | | 65 | | 75 |
| Loss from discontinued operations | | (78) | (30) | (54) |
| Net income | \$ 42,047 | \$ 40,734 | \$ 123,097 | \$ 105,920 |

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Net income per common share:

| | | | | | | | | |
|-------|----|------|----|------|----|------|----|------|
| Basic | \$ | 1.50 | \$ | 1.33 | \$ | 4.09 | \$ | 3.47 |
|-------|----|------|----|------|----|------|----|------|

| | | | | | | | | |
|---------|----|------|----|------|----|------|----|------|
| Diluted | \$ | 1.48 | \$ | 1.29 | \$ | 4.03 | \$ | 3.38 |
|---------|----|------|----|------|----|------|----|------|

Income from continuing operations per common share:

| | | | | | | | | |
|-------|----|------|----|------|----|------|----|------|
| Basic | \$ | 1.50 | \$ | 1.33 | \$ | 4.09 | \$ | 3.47 |
|-------|----|------|----|------|----|------|----|------|

| | | | | | | | | |
|---------|----|------|----|------|----|------|----|------|
| Diluted | \$ | 1.48 | \$ | 1.29 | \$ | 4.03 | \$ | 3.38 |
|---------|----|------|----|------|----|------|----|------|

Loss from discontinued operations per common share:

| | | | | | | | | |
|-------|----|--|----|--|----|--|----|--|
| Basic | \$ | | \$ | | \$ | | \$ | |
|-------|----|--|----|--|----|--|----|--|

| | | | | | | | | |
|---------|----|--|----|--|----|--|----|--|
| Diluted | \$ | | \$ | | \$ | | \$ | |
|---------|----|--|----|--|----|--|----|--|

Weighted average shares outstanding:

| | | | | |
|-------|------------|------------|------------|------------|
| Basic | 28,063,104 | 30,658,969 | 30,081,696 | 30,540,274 |
|-------|------------|------------|------------|------------|

| | | | | |
|---------|------------|------------|------------|------------|
| Diluted | 28,451,721 | 31,539,119 | 30,540,150 | 31,370,580 |
|---------|------------|------------|------------|------------|

See accompanying notes to consolidated financial statements.

Table of Contents**CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED BALANCE SHEETS**

| | September 30, 2010 (Unaudited) | As of December 31, 2009 |
|---|---|----------------------------------|
| (Dollars in thousands, except per share data) | | |
| ASSETS: | | |
| Cash and cash equivalents | \$ 1,537 | \$ 2,170 |
| Restricted cash and cash equivalents | 58,486 | 82,456 |
| Restricted securities available for sale | 815 | 3,121 |
| Loans receivable (including \$9,959 and \$12,674 from affiliates as of September 30, 2010 and December 31, 2009, respectively) | 1,301,067 | 1,167,558 |
| Allowance for credit losses | (124,949) | (117,545) |
| Loans receivable, net | 1,176,118 | 1,050,013 |
| Property and equipment, net | 16,421 | 18,735 |
| Income taxes receivable | 6,976 | 3,956 |
| Other assets | 23,932 | 15,785 |
| Total Assets | \$ 1,284,285 | \$ 1,176,236 |
| LIABILITIES AND SHAREHOLDERS EQUITY: | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 73,747 | \$ 77,295 |
| Line of credit | 102,700 | 97,300 |
| Secured financing | 328,100 | 404,597 |
| Mortgage note and capital lease obligations | 4,587 | 5,082 |
| Senior notes | 244,174 | |
| Deferred income taxes, net | 106,552 | 93,752 |
| Total Liabilities | 859,860 | 678,026 |
| Shareholders Equity: | | |
| Preferred stock, \$.01 par value, 1,000,000 shares authorized, none issued | | |
| Common stock, \$.01 par value, 80,000,000 shares authorized, 27,141,593 and 31,038,217 shares issued and outstanding as of September 30, 2010 and December 31, 2009, respectively | 271 | 311 |
| Paid-in capital | 27,079 | 24,370 |
| Retained earnings | 397,219 | 474,433 |
| Accumulated other comprehensive loss, net of tax of \$85 and \$526 at September 30, 2010 and December 31, 2009, respectively | (144) | (904) |

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| | | |
|--|--------------|--------------|
| Total Shareholders' Equity | 424,425 | 498,210 |
| Total Liabilities and Shareholders' Equity | \$ 1,284,285 | \$ 1,176,236 |

See accompanying notes to consolidated financial statements.

2

Table of Contents

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Nine Months Ended September 30, | |
|---|--|-------------|
| (Dollars in thousands) | 2010 | 2009 |
| Cash Flows From Operating Activities: | | |
| Net income | \$ 123,097 | \$ 105,920 |
| Adjustments to reconcile cash provided by operating activities: | | |
| Provision for credit losses | 8,218 | (7,217) |
| Depreciation and amortization | 8,702 | 6,943 |
| Loss on retirement of property and equipment | 64 | 98 |
| Provision for deferred income taxes | 12,358 | 25,109 |
| Stock-based compensation | 3,055 | 4,926 |
| Change in operating assets and liabilities: | | |
| Decrease in accounts payable and accrued liabilities | (2,345) | (842) |
| Increase in income taxes receivable / decrease in income taxes payable | (3,020) | (5,341) |
| Decrease (increase) in other assets | 527 | (976) |
| Net cash provided by operating activities | 150,656 | 128,620 |
| Cash Flows From Investing Activities: | | |
| Decrease in restricted cash and cash equivalents | 23,970 | 4,314 |
| Purchases of restricted securities available for sale | (1,063) | (383) |
| Proceeds from sale of restricted securities available for sale | 2,112 | |
| Maturities of restricted securities available for sale | 1,256 | 963 |
| Principal collected on Loans receivable | 589,727 | 502,453 |
| Advances to Dealer-Partners and accelerated payments of Dealer Holdback | (612,653) | (412,423) |
| Purchases of Consumer Loans | (78,110) | (87,840) |
| Payments of Dealer Holdback | (33,419) | (34,300) |
| Net decrease in other loans | 135 | 151 |
| Purchases of property and equipment | (1,154) | (1,789) |
| Net cash used in investing activities | (109,199) | (28,854) |
| Cash Flows From Financing Activities: | | |
| Borrowings under line of credit | 618,100 | 523,900 |
| Repayments under line of credit | (612,700) | (482,700) |
| Proceeds from secured financing | 217,200 | 217,500 |
| Repayments of secured financing | (293,697) | (355,184) |
| Principal payments under mortgage note and capital lease obligations | (495) | (954) |
| Proceeds from sale of senior notes | 243,738 | |
| Payments of debt issuance costs | (13,536) | (5,604) |
| Repurchase of common stock | (202,247) | (540) |
| Proceeds from stock options exercised | 1,360 | 889 |
| Tax benefits from stock-based compensation plans | 190 | 1,390 |

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| | | |
|--|----------|-----------|
| Net cash used in financing activities | (42,087) | (101,303) |
| Effect of exchange rate changes on cash | (3) | (7) |
| Net decrease in cash and cash equivalents | (633) | (1,544) |
| Cash and cash equivalents, beginning of period | 2,170 | 3,154 |
| Cash and cash equivalents, end of period | \$ 1,537 | \$ 1,610 |

Supplemental Disclosure of Cash Flow Information:

| | | |
|--|-----------|-----------|
| Cash paid during the period for interest | \$ 31,862 | \$ 19,609 |
| Cash paid during the period for income taxes | \$ 56,467 | \$ 38,886 |

See accompanying notes to consolidated financial statements.

Table of Contents**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, 2009 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, 2009 for Credit Acceptance Corporation (the Company , Credit Acceptance , we , our or us).

Certain prior period amounts have been reclassified to conform to the current presentation. We have changed the presentation of our consolidated statement of cash flows to reflect the increased significance of debt issuance costs during the current period. Under our current presentation, payments of debt issuance costs are presented as a separate financing activity and the related amortization is presented within operating activities as depreciation and amortization. Under our previous presentation, payments of debt issuance costs and the related amortization were presented as a net change in other assets within operating activities.

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.

We have evaluated events and transactions occurring subsequent to the consolidated balance sheet date of September 30, 2010 for items that could potentially be recognized or disclosed in these financial statements.

2. DESCRIPTION OF BUSINESS

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

We refer to dealers who participate in our programs and who share our commitment to changing consumers' lives as Dealer-Partners . Upon enrollment in our financing programs, the Dealer-Partner enters into a dealer servicing agreement with us that defines the legal relationship between Credit Acceptance and the Dealer-Partner. The dealer servicing agreement assigns the responsibilities for administering, servicing, and collecting the amounts due on retail installment contracts (referred to as Consumer Loans) from the Dealer-Partners to us. A consumer who does not qualify for conventional automobile financing can purchase a used vehicle from a Dealer-Partner and finance the purchase through us. We are an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the Dealer-Partner and assigned to us.

We have two programs: the Portfolio Program and the Purchase Program. Under the Portfolio Program, we advance money to Dealer-Partners (referred to as a Dealer Loan) in exchange for the right to service the underlying Consumer Loan. Under the Purchase Program, we buy the Consumer Loan from the Dealer-Partner (referred to as a

Purchased Loan) and keep all amounts collected from the consumer. Dealer Loans and Purchased Loans are collectively referred to as Loans . The following table shows the percentage of Consumer Loans assigned to us under each of the programs for each of the last seven quarters:

| Quarter Ended | Portfolio Program | Purchase Program |
|----------------------|------------------------------|-----------------------------|
|----------------------|------------------------------|-----------------------------|

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| | | |
|--------------------|-------|-------|
| March 31, 2009 | 82.3% | 17.7% |
| June 30, 2009 | 86.0% | 14.0% |
| September 30, 2009 | 89.0% | 11.0% |
| December 31, 2009 | 90.8% | 9.2% |
| March 31, 2010 | 90.9% | 9.1% |
| June 30, 2010 | 90.5% | 9.5% |
| September 30, 2010 | 90.5% | 9.5% |

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

2. DESCRIPTION OF BUSINESS (Continued)

Portfolio Program

As payment for the vehicle, the Dealer-Partner generally receives the following:

a down payment from the consumer;

a non-recourse cash payment (advance) from us; and

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

We record the amount advanced to the Dealer-Partner as a Dealer Loan, which is classified within Loans receivable in our consolidated balance sheets. Cash advanced to Dealer-Partners is automatically assigned to the originating Dealer-Partner's open pool of advances. We require Dealer-Partners to group advances into pools of at least 100 Consumer Loans. At the Dealer-Partner's option, a pool containing at least 100 Consumer Loans can be closed and subsequent advances assigned to a new pool. All advances within a Dealer-Partner's pool are secured by the future collections on the related Consumer Loans assigned to the pool. For Dealer-Partners with more than one pool, the pools are cross-collateralized so the performance of other pools is considered in determining eligibility for Dealer Holdback. We perfect our security interest in the Dealer Loans by taking possession of the Consumer Loans, which list us as lien holder on the vehicle title.

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

First, to reimburse us for certain collection costs;

Second, to pay us our servicing fee, which generally equals 20% of collections;

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

Fourth, to the Dealer-Partner as payment of Dealer Holdback.

If the collections on Consumer Loans from a Dealer-Partner's pool are not sufficient to repay the advance balance and any other amounts due to us, the Dealer-Partner will not receive Dealer Holdback.

Dealer-Partners have an opportunity to receive an accelerated Dealer Holdback payment at the time a pool of 100 or more Consumer Loans is closed. The amount paid to the Dealer-Partner is calculated using a formula that considers the forecasted collections and the advance balance on the closed pool.

Since typically the combination of the advance and the consumer's down payment provides the Dealer-Partner with a cash profit at the time of sale, the Dealer-Partner's risk in the Consumer Loan is limited. We cannot demand repayment of the advance from the Dealer-Partner except in the event the Dealer-Partner is in default of the dealer servicing agreement. Advances are made only after the consumer and Dealer-Partner have signed a Consumer Loan contract, we have received the original Consumer Loan contract and supporting documentation, and we have approved all of the related stipulations for funding. The Dealer-Partner can also opt to repurchase Consumer Loans that have been assigned to us under the Portfolio Program, at their discretion, for a fee.

For accounting purposes, the transactions described under the Portfolio Program are not considered to be loans to consumers. Instead, our accounting reflects that of a lender to the Dealer-Partner. The classification as a Dealer Loan for accounting purposes is primarily a result of (1) the Dealer-Partner's financial interest in the Consumer Loan and (2) certain elements of our legal relationship with the Dealer-Partner. For each individual Dealer-Partner, the amount of the Dealer Loan recorded in Loans receivable is comprised of the following:

the aggregate amount of all cash advances to the Dealer-Partner;

finance charges;

Dealer Holdback payments;

accelerated Dealer Holdback payments; and

recoveries.

Less:

collections (net of certain collection costs); and

write-offs.

5

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(UNAUDITED)**2. DESCRIPTION OF BUSINESS (Concluded)**Purchase Program

The Purchase Program differs from our Portfolio Program in that the Dealer-Partner receives a single payment from us at the time of assignment instead of a cash advance and Dealer Holdback. For accounting purposes, the transactions described under the Purchase Program are considered to be originated by the Dealer-Partner and then purchased by us. The amount of Purchased Loans recorded in Loans receivable is comprised of the following:

the aggregate amount of all amounts paid to purchase Consumer Loans from Dealer-Partners;

finance charges; and

recoveries.

Less:

collections (net of certain collection costs); and

write-offs.

Program Enrollment

Dealer-Partners that enroll in our programs have two enrollment options available to them. The first enrollment option allows Dealer-Partners to assign Consumer Loans under the Portfolio Program and requires payment of an upfront, one-time fee of \$9,850. The second enrollment option, which became effective September 1, 2009, allows Dealer-Partners to assign Consumer Loans under the Portfolio Program and requires payment of an upfront, one-time fee of \$1,950 and an agreement to allow us to keep 50% of their first accelerated Dealer Holdback payment. Prior to September 1, 2009, we offered Dealer-Partners an enrollment option that allowed us to keep 50% of their first accelerated Dealer Holdback payment with no upfront fee. For all Dealer-Partners enrolling in our program after August 31, 2008, access to the Purchase Program is only granted after the first accelerated Dealer Holdback payment has been made under the Portfolio Program.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Reinsurance**

VSC Re Company (VSC Re), our wholly-owned subsidiary, is engaged in the business of reinsuring coverage under vehicle service contracts sold to consumers by Dealer-Partners on vehicles financed by us. VSC Re currently reinsures vehicle service contracts that are underwritten by one of our two third party insurers. Vehicle service contract premiums, which represent the selling price of the vehicle service contract to the consumer, less commissions and certain administrative costs, are contributed to trust accounts controlled by VSC Re. These premiums are used to fund claims covered under the vehicle service contracts. VSC Re is a bankruptcy remote entity. As such, our exposure to fund claims is limited to the trust assets controlled by VSC Re and our net investment in VSC Re.

Premiums from the reinsurance of vehicle service contracts are recognized over the life of the policy in proportion to expected costs of servicing those contracts. Expected costs are determined based on our historical claims experience. Claims are expensed through a provision for claims in the period the claim was incurred. Capitalized acquisition costs are comprised of premium taxes and are amortized as general and administrative expense over the life of the contracts in proportion to premiums earned. A summary of reinsurance activity is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| (Dollars in thousands) | 2010 | 2009 | 2010 | 2009 |
| Net assumed written premiums | \$8,015 | \$ 7,324 | \$26,765 | \$23,490 |
| Net premiums earned | 8,627 | 11,596 | 24,577 | 25,250 |
| Provision for claims | 6,112 | 5,148 | 17,610 | 14,788 |
| Amortization of capitalized acquisition costs | 219 | 534 | 540 | 787 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

We are considered the primary beneficiary of the trusts and as a result, the trusts have been consolidated on our balance sheet. The trust assets and related reinsurance liabilities are as follows:

| (Dollars in thousands) | Balance Sheet location | September 30, 2010 | December 31, 2009 |
|------------------------|--|-----------------------|----------------------|
| Trust assets | Restricted cash and cash equivalents | \$ 29,855 | \$ 39,127 |
| Unearned premium | Accounts payable and accrued liabilities | 24,736 | 21,180 |
| Claims reserve (1) | Accounts payable and accrued liabilities | 1,100 | 965 |

- (1) The claims reserve is estimated based on historical claims experience.

Prior to the formation of VSC Re, our agreements with two of our vehicle service contract third party administrators (TPAs) allowed us to receive profit sharing payments depending upon the performance of the vehicle service contract programs. The agreements also required that vehicle service contract premiums be placed in trust accounts. Funds in the trust accounts were utilized by the TPA to pay claims on the vehicle service contracts. Upon the formation of VSC Re during the fourth quarter of 2008, the unearned premiums on the majority of the vehicle service contracts that had been written through these two TPAs were ceded to VSC Re along with any related trust assets. Vehicle service contracts written prior to 2008 through one of the TPAs remain under this profit sharing arrangement. Profit sharing payments, if any, on the vehicle service contracts are distributed to us periodically after the term of the vehicle service contracts have substantially expired provided certain loss rates are met. We are considered the primary beneficiary of the remaining trust and as a result, the assets of the trust and the related liabilities have been consolidated on our balance sheet. As of September 30, 2010 and December 31, 2009, the remaining trust had \$1.0 million and \$4.3 million, respectively, in assets available to pay claims. As of September 30, 2010, there was a nominal related claims reserve and as of December 31, 2009, there was a related claims reserve of \$3.5 million. The trust assets are included in restricted cash and cash equivalents and restricted securities available for sale. The claims reserve is included in accounts payable and accrued liabilities in the consolidated balance sheets. A third party insures claims in excess of funds in the trust account.

Our determination to consolidate the VSC Re trusts and the remaining profit sharing trust was based on the following:

First, we determined that the trusts qualified as variable interest entities. The trusts have insufficient equity at risk as no parties to the trusts were required to contribute assets that provide them with any ownership interest.

Next, we determined that we have variable interests in the trusts. We have a residual interest in the assets of the trusts, which is variable in nature, given that it increases or decreases based upon the actual loss experience of the related service contracts. In addition, VSC Re is required to absorb any losses in excess of the trusts' assets.

Next, we evaluated the purpose and design of the trusts. The primary purpose of the trusts is to provide TPAs with funds to pay claims on vehicle service contracts and to accumulate and provide us with proceeds from investment income and residual funds.

Finally, we determined that we are the primary beneficiary of the trusts. We control the amount of premium written and placed in the trusts through Consumer Loan assignments under our Programs, which is the activity

that most significantly impacts the economic performance of the trusts. We have the right to receive benefits from the trusts that could potentially be significant. In addition, VSC Re has the obligation to absorb losses of the trusts that could potentially be significant.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(UNAUDITED)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents decreased to \$58.5 million at September 30, 2010 from \$82.5 million at December 31, 2009. The following table summarizes restricted cash and cash equivalents:

| | September 30, 2010 | As of December 31, 2009 |
|--|-----------------------------------|--|
| (Dollars in thousands) | | |
| Cash collections related to secured financings | \$ 28,494 | \$ 42,115 |
| Cash held in trusts for future vehicle service contract claims (1) | 29,992 | 40,341 |
| Total restricted cash and cash equivalents | \$ 58,486 | \$ 82,456 |

(1) The unearned premium and claims reserve associated with the trusts are included in accounts payable and accrued liabilities in the consolidated balance sheets. As of September 30, 2010, the outstanding balance includes \$29,855 related to VSC Re and \$137 related to the remaining profit sharing trust. As of December 31, 2009, the outstanding balance includes \$39,127 related to VSC Re and \$1,214 related to the remaining profit sharing trust.

Restricted Securities Available for Sale

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

Restricted securities available for sale consisted of the following:

| | | As of September 30, 2010 | | Estimated Fair Value |
|--|--------|--------------------------|----------------------|----------------------------|
| | | Gross | Gross | |
| (Dollars in thousands) | Cost | Unrealized Gains | Unrealized Losses | |
| US Government and agency securities | \$ 298 | \$ 4 | \$ | \$ 302 |
| Corporate bonds | 504 | 12 | (3) | 513 |
| Total restricted securities available for sale | \$ 802 | \$ 16 | \$ (3) | \$ 815 |

| | | As of December 31, 2009 | | Estimated Fair Value |
|--|----------|-------------------------|----------------------|----------------------------|
| | | Gross | Gross | |
| (Dollars in thousands) | Cost | Unrealized Gains | Unrealized Losses | |
| US Government and agency securities | \$ 726 | \$ 18 | \$ (2) | \$ 742 |
| Corporate bonds | 2,381 | 7 | (9) | 2,379 |
| Total restricted securities available for sale | \$ 3,107 | \$ 25 | \$ (11) | \$ 3,121 |

The cost and estimated fair values of debt securities by contractual maturity were as follows (securities with multiple maturity dates are classified in the period of final maturity). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | As of September 30, 2010 | | As of December 31, 2009 | |
|--|--------------------------|----------------------------|-------------------------|----------------------------|
| | Cost | Estimated Fair Value | Cost | Estimated Fair Value |
| (Dollars in thousands) | | | | |
| Contractual Maturity | | | | |
| Within one year | \$ 499 | \$ 500 | \$ 1,486 | \$ 1,495 |
| Over one year to five years | 303 | 315 | 1,621 | 1,626 |
| Total restricted securities available for sale | \$ 802 | \$ 815 | \$ 3,107 | \$ 3,121 |

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Deferred Debt Issuance Costs

As of September 30, 2010 and December 31, 2009, deferred debt issuance costs were \$15.1 million (net of accumulated amortization of \$2.0 million) and \$6.4 million (net of accumulated amortization of \$2.8 million), respectively, and are included in other assets in the consolidated balance sheets. Expenses associated with the issuance of debt instruments are capitalized and amortized as interest expense over the term of the debt instrument using the effective interest method for term secured financings and senior notes and the straight-line method for lines of credit and revolving secured financings.

New Accounting Pronouncements and Updates

Accounting for Transfers of Financial Assets. In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (SFAS 166). SFAS 166 was incorporated into the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) through Accounting Standards Update (ASU) No. 2009-16 and is intended to improve the information provided in financial statements about the transfer of financial assets and the effects of the transfer on financial position and performance, and cash flows for transfers occurring on or after the effective date. The adoption on January 1, 2010 did not have a material impact on our consolidated financial statements.

Amendments to FASB Interpretation No. 46(R). In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 was incorporated into the FASB ASC through ASU No. 2009-17 and is intended to improve financial reporting related to variable interest entities. The adoption on January 1, 2010 did not have a material impact on our consolidated financial statements, but expanded our disclosures.

Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset. In April 2010, the FASB incorporated ASU No. 2010-18 into the FASB ASC. ASU No. 2010-18 is intended to improve comparability by eliminating diversity in practice about the treatment of modifications of loans accounted for within pools under FASB ASC 310-30. Additionally, the amendments clarify guidance about maintaining the integrity of a pool as the unit of accounting for acquired loans with credit deterioration. ASU No. 2010-18 is effective prospectively for modifications of loans accounted for within pools under FASB ASC 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. Early application is permitted. The guidance within ASU No. 2010-18 is consistent with how we have historically accounted for our Loan portfolio; therefore, adoption of this guidance on July 1, 2010 had no impact on our consolidated financial statements.

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. In July 2010, the FASB issued ASU No. 2010-20 which amends Topic 310 (Receivables). ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. While ASU 2010-20 will not have a material impact on our consolidated financial statements, we expect that it will expand our disclosures related to Loans.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

4. LOANS RECEIVABLE

Loans receivable consists of the following:

| | As of September 30, 2010 | | |
|-----------------------------|---------------------------------|----------------------------|--------------|
| (Dollars in thousands) | Dealer Loans | Purchased Loans | Total |
| Loans receivable | \$ 1,029,514 | \$ 271,553 | \$ 1,301,067 |
| Allowance for credit losses | (111,906) | (13,043) | (124,949) |
| Loans receivable, net | \$ 917,608 | \$ 258,510 | \$ 1,176,118 |

| | As of December 31, 2009 | | |
|-----------------------------|--------------------------------|----------------------------|--------------|
| | Dealer Loans | Purchased Loans | Total |
| Loans receivable | \$ 869,603 | \$ 297,955 | \$ 1,167,558 |
| Allowance for credit losses | (108,792) | (8,753) | (117,545) |
| Loans receivable, net | \$ 760,811 | \$ 289,202 | \$ 1,050,013 |

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

4. LOANS RECEIVABLE (Continued)

A summary of changes in Loans receivable is as follows:

| | Three Months Ended September 30, 2010 | | |
|---|--|----------------------------|--------------|
| | Dealer Loans | Purchased Loans | Total |
| (Dollars in thousands) | | | |
| Balance, beginning of period | \$ 980,952 | \$ 278,695 | \$ 1,259,647 |
| New Consumer Loan assignments (1) | 202,470 | 25,959 | 228,429 |
| Principal collected on Loans receivable | (160,426) | (37,145) | (197,571) |
| Dealer Holdback payments | 10,537 | | 10,537 |
| Transfers | (4,076) | 4,076 | |
| Write-offs | (433) | (48) | (481) |
| Recoveries | 542 | 16 | 558 |
| Net change in other loans | (52) | | (52) |
| Balance, end of period | \$ 1,029,514 | \$ 271,553 | \$ 1,301,067 |

| | Three Months Ended September 30, 2009 | | |
|---|--|----------------------------|--------------|
| | Dealer Loans | Purchased Loans | Total |
| Balance, beginning of period | \$ 858,559 | \$ 325,535 | \$ 1,184,094 |
| New Consumer Loan assignments (1) | 129,677 | 19,974 | 149,651 |
| Principal collected on Loans receivable | (126,859) | (36,411) | (163,270) |
| Dealer Holdback payments | 10,335 | | 10,335 |
| Transfers | (3,666) | 3,666 | |
| Write-offs | (1,034) | (25) | (1,059) |
| Recoveries | 664 | 6 | 670 |
| Net change in other loans | (152) | | (152) |
| Currency translation | 71 | | 71 |
| Balance, end of period | \$ 867,595 | \$ 312,745 | \$ 1,180,340 |

| | Nine Months Ended September 30, 2010 | | |
|---|---|----------------------------|--------------|
| | Dealer Loans | Purchased Loans | Total |
| Balance, beginning of period | \$ 869,603 | \$ 297,955 | \$ 1,167,558 |
| New Consumer Loan assignments (1) | 612,653 | 78,110 | 690,763 |
| Principal collected on Loans receivable | (471,513) | (118,214) | (589,727) |
| Dealer Holdback payments | 33,419 | | 33,419 |
| Transfers | (13,741) | 13,741 | |
| Write-offs | (2,493) | (97) | (2,590) |
| Recoveries | 1,688 | 58 | 1,746 |
| Net change in other loans | (135) | | (135) |
| Currency translation | 33 | | 33 |

| | | | |
|------------------------|--------------|------------|--------------|
| Balance, end of period | \$ 1,029,514 | \$ 271,553 | \$ 1,301,067 |
|------------------------|--------------|------------|--------------|

| | Nine Months Ended September 30, 2009 | | |
|---|---|----------------------------|--------------|
| | Dealer Loans | Purchased Loans | Total |
| Balance, beginning of period | \$ 823,567 | \$ 325,185 | \$ 1,148,752 |
| New Consumer Loan assignments (1) | 412,423 | 87,840 | 500,263 |
| Principal collected on Loans receivable | (390,603) | (111,850) | (502,453) |
| Dealer Holdback payments | 34,300 | | 34,300 |
| Transfers | (11,594) | 11,594 | |
| Write-offs | (2,851) | (60) | (2,911) |
| Recoveries | 2,374 | 36 | 2,410 |
| Net change in other loans | (151) | | (151) |
| Currency translation | 130 | | 130 |
| Balance, end of period | \$ 867,595 | \$ 312,745 | \$ 1,180,340 |

(1) The Dealer Loans amount represents advances and accelerated Dealer Holdback payments made to Dealer-Partners for Consumer Loans assigned under our Portfolio Program. The Purchased Loans amount represents payments made to Dealer-Partners to purchase Consumer Loans assigned under our Purchase Program.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(UNAUDITED)**4. LOANS RECEIVABLE (Concluded)**

A summary of changes in the allowance for credit losses is as follows:

| | Three Months Ended September 30, 2010 | | |
|------------------------------|--|----------------------------|--------------|
| | Dealer Loans | Purchased Loans | Total |
| (Dollars in thousands) | | | |
| Balance, beginning of period | \$ 112,115 | \$ 12,756 | \$ 124,871 |
| Provision for credit losses | (317) | 319 | 2 |
| Write-offs | (433) | (48) | (481) |
| Recoveries | 542 | 16 | 558 |
| Currency translation | (1) | | (1) |
| Balance, end of period | \$ 111,906 | \$ 13,043 | \$ 124,949 |

| | Three Months Ended September 30, 2009 | | |
|------------------------------|--|----------------------------|--------------|
| | Dealer Loans | Purchased Loans | Total |
| Balance, beginning of period | \$ 111,721 | \$ 15,432 | \$ 127,153 |
| Provision for credit losses | (1,269) | (2,322) | (3,591) |
| Write-offs | (1,034) | (25) | (1,059) |
| Recoveries | 664 | 6 | 670 |
| Currency translation | 67 | | 67 |
| Balance, end of period | \$ 110,149 | \$ 13,091 | \$ 123,240 |

| | Nine Months Ended September 30, 2010 | | |
|------------------------------|---|----------------------------|--------------|
| | Dealer Loans | Purchased Loans | Total |
| Balance, beginning of period | \$ 108,792 | \$ 8,753 | \$ 117,545 |
| Provision for credit losses | 3,889 | 4,329 | 8,218 |
| Write-offs | (2,493) | (97) | (2,590) |
| Recoveries | 1,688 | 58 | 1,746 |
| Currency translation | 30 | | 30 |
| Balance, end of period | \$ 111,906 | \$ 13,043 | \$ 124,949 |

| | Nine Months Ended September 30, 2009 | | |
|------------------------------|---|----------------------------|--------------|
| | Dealer Loans | Purchased Loans | Total |
| Balance, beginning of period | \$ 113,831 | \$ 17,004 | \$ 130,835 |
| Provision for credit losses | (3,328) | (3,889) | (7,217) |
| Write-offs | (2,851) | (60) | (2,911) |
| Recoveries | 2,374 | 36 | 2,410 |
| Currency translation | 123 | | 123 |

| | | | | |
|------------------------|------------|----|--------|------------|
| Balance, end of period | \$ 110,149 | \$ | 13,091 | \$ 123,240 |
|------------------------|------------|----|--------|------------|

12

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(UNAUDITED)**5. DEBT**

We currently utilize the following forms of debt financing: (1) a revolving secured line of credit with a commercial bank syndicate; (2) revolving secured warehouse facilities with institutional investors; (3) an asset-backed secured financing (Term ABS) with qualified institutional investors; and (4) Senior Secured Notes due 2017 issued pursuant to Rule 144A and Regulation S of the Securities Act of 1933, as amended (Senior Notes). General information for each of our financing transactions in place as of September 30, 2010 is as follows:

(Dollars in thousands)

| Financings | Wholly-owned Subsidiary | Issue Number | Close Date | Maturity Date | Financing Amount | Interest Rate at September 30, 2010 |
|---|---|-------------------------|--------------------|------------------------|-----------------------------|---|
| Revolving Secured Line of Credit | n/a | n/a | June 9, 2010 | June 22, 2012 | \$170,000 | At our option, either the Eurodollar rate plus 225 basis points or the prime rate plus 125 basis points |
| Revolving Secured Warehouse Facility (1) | CAC Warehouse Funding Corp. II | 2003-2 | June 16, 2010 | June 15, 2013 (2) | \$325,000 | Commercial paper rate plus 350 basis points or LIBOR plus 450 basis points (4) (5) |
| Revolving Secured Warehouse Facility (1) | CAC Warehouse Funding III, LLC | 2008-2 | September 10, 2010 | September 10, 2013 (6) | \$ 75,000 | Commercial paper rate plus 300 basis points or LIBOR plus 300 basis points (3) (4) (5) |
| Term ABS 2009-1 (1) | Credit Acceptance Funding LLC 2009-1 | 2009-1 | December 3, 2009 | May 15, 2011 (2) | \$110,500 | Fixed rate |
| Senior Notes | n/a | n/a | February 1, 2010 | February 1, 2017 | \$250,000 | Fixed rate |

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

(2) *Represents the revolving maturity date. The outstanding balance will amortize after the maturity date based on the cash flows of the contributed assets.*

- (3) *A portion of the outstanding balance is a floating rate obligation that has been converted to a fixed rate obligation via an interest rate swap.*
- (4) *The LIBOR rate is used if funding is not available from the commercial paper market.*
- (5) *Interest rate cap agreements are in place to limit the exposure to increasing interest rates.*
- (6) *Represents the revolving maturity date. The outstanding balance will amortize after the revolving maturity date and any amounts remaining on September 10, 2014 will be due.*

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

5. DEBT (Continued)

Additional information related to the amounts outstanding on each facility is as follows:

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revolving Secured Line of Credit | | | | |
| Maximum outstanding balance | \$ 107,800 | \$ 124,600 | \$ 107,900 | \$ 128,900 |
| Average outstanding balance | 68,720 | 89,293 | 47,950 | 85,785 |
| Revolving Secured Warehouse Facility (2003-2) | | | | |
| Maximum outstanding balance | \$ 180,000 | \$ 325,000 | \$ 180,000 | \$ 325,000 |
| Average outstanding balance | 141,267 | 290,327 | 75,853 | 273,663 |
| Revolving Secured Warehouse Facility (2008-2) | | | | |
| Maximum outstanding balance | \$ 70,000 | \$ 50,000 | \$ 75,000 | \$ 50,000 |
| Average outstanding balance | 64,783 | 50,000 | 71,538 | 50,000 |

| (Dollars in thousands) | As of | |
|--|-----------------------------------|------------------------------|
| | September 30, 2010 | December 31, 2009 |
| Revolving Secured Line of Credit | | |
| Balance outstanding | \$ 102,700 | \$ 97,300 |
| Letter(s) of credit | 500 | 514 |
| Amount available for borrowing | 66,800 | 42,186 |
| Interest rate | 3.03% | 4.25% |
| Revolving Secured Warehouse Facility (2003-2) | | |
| Balance outstanding | \$ 162,600 | \$ 152,600 |
| Amount available for borrowing | 162,400 | 172,400 |
| Contributed eligible Loans | 216,210 | 192,921 |
| Interest rate | 3.81% | 5.24% |
| Revolving Secured Warehouse Facility (2008-2) | | |
| Balance outstanding | \$ 55,000 | \$ 75,000 |
| Amount available for borrowing | 20,000 | |
| Contributed eligible Loans | 82,343 | 94,073 |
| Interest rate | 3.76% | 4.36% |
| Term ABS 2008-1 | | |
| Balance outstanding | \$ | \$ 66,497 |
| Contributed eligible Loans | | 142,267 |
| Interest rate | | 6.37% |

Term ABS 2009-1

| | | |
|----------------------------|------------|------------|
| Balance outstanding | \$ 110,500 | \$ 110,500 |
| Contributed eligible Loans | 142,469 | 142,315 |
| Interest rate | 4.40% | 4.40% |

Senior Notes

| | | |
|-------------------------|-----------|----|
| Balance outstanding (1) | \$244,174 | \$ |
| Interest rate | 9.13% | |

(1) Senior Notes
presented net of
unamortized
debt discount of
\$5.8 million.

Table of Contents

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

5. DEBT (Continued)

Revolving Secured Warehouse Facilities

We have two revolving secured warehouse facilities that are provided to our wholly-owned subsidiaries. One is a \$325.0 million facility with an institutional investor and the other is a \$75.0 million facility with another institutional investor.

During the second quarter of 2010, we extended the date on which our \$325.0 million revolving secured warehouse facility will cease to revolve from August 23, 2010 to June 15, 2013. The interest rate on borrowings under the facility was decreased from a floating rate equal to the commercial paper rate plus 5.0% to the commercial paper rate plus 3.5%. In addition, the agreement was modified to provide that in the event that the facility is not renewed and the borrower is in compliance with the terms and conditions of the agreement, any amounts outstanding will be repaid over time as the collections on the loans securing the facility are received.

During the third quarter of 2010, we extended the date on which our \$75.0 million revolving secured warehouse facility will cease to revolve from August 31, 2011 to September 10, 2013. The maturity of the facility was also extended from August 31, 2012 to September 10, 2014. The interest rate on the facility was decreased from a floating rate equal to LIBOR plus 3.75% to LIBOR plus 3.0%. There were no other material changes to the terms of the facility.

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

The financings create loans for which the subsidiaries are liable and which are secured by all the assets of each subsidiary. Such loans are non-recourse to us, even though we are consolidated for financial reporting purposes with the subsidiaries. Because the subsidiaries are organized as legal entities separate from us, their assets (including the conveyed Loans) are not available to our creditors.

Interest on borrowings under the \$325.0 million revolving secured warehouse facility has been limited through interest rate cap agreements to a maximum rate of 6.75% plus the spread over the LIBOR rate or the commercial paper rate, as applicable. Interest on borrowings for a portion of the \$75.0 million revolving secured warehouse facility has also been limited through interest rate cap agreements to a maximum rate of 6.75% plus the spread over the LIBOR rate or the commercial paper rate, as applicable. We have also entered into an interest rate swap to convert \$25.0 million of the \$75.0 million revolving secured warehouse facility into fixed rate debt bearing an interest rate of 4.36%. For additional information, see Note 6 of these consolidated financial statements.

The subsidiaries pay us a monthly servicing fee equal to 6% of the collections received with respect to the conveyed Loans. The fee is paid out of the collections. Except for the servicing fee and holdback payments due to Dealer-Partners, if a facility is amortizing, we do not have any rights in any portion of such collections until all outstanding principal, accrued and unpaid interest, fees and other related costs have been paid in full. If a facility is not amortizing, the applicable subsidiary may be entitled to retain a portion of such collections provided that the borrowing base requirements of the facility are satisfied.

Revolving Secured Line of Credit Facility

During the first quarter of 2010, we increased the amount of the revolving secured line of credit facility from \$140.0 million to \$150.0 million and, concurrently with the issuance of the Senior Notes, amended the agreements governing our revolving secured line of credit facility to facilitate the issuance of the Senior Notes and certain future secured indebtedness.

During the second quarter of 2010, we extended the maturity of the revolving secured line of credit facility from June 23, 2011 to June 22, 2012. Additionally, the interest rate on borrowings under the facility was changed from the prime rate plus 1.0% or the Eurodollar rate plus 2.75%, at our option, to the prime rate plus 1.25% or the Eurodollar rate plus 2.25%, at our option. The floor on the Eurodollar rate was decreased from 1.50% to 0.75%. None of the

financial covenants were modified.

During the third quarter of 2010, we increased the amount of the revolving secured line of credit facility from \$150.0 million to \$170.0 million.

Table of Contents

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)**

5. DEBT (Continued)

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

Senior Notes

During the first quarter of 2010, we issued \$250.0 million aggregate principal amount of 9.125% First Priority Senior Notes. The Senior Notes were issued pursuant to an indenture, dated as of February 1, 2010 (the Indenture), among us, Buyers Vehicle Protection Plan, Inc. (BVPP) and Vehicle Remarketing Services, Inc. (VRS), as guarantors (the Guarantors), and U.S. Bank National Association, as trustee (the Trustee).

The Senior Notes mature on February 1, 2017 and bear interest at a rate of 9.125% per annum, computed on the basis of 360-day year composed of twelve 30-day months and payable semi-annually on February 1 and August 1 of each year, beginning on August 1, 2010. The Senior Notes were issued at 97.495% of the aggregate principal amount for gross proceeds of \$243.7 million, representing a yield to maturity of 9.625%. The discount is being amortized over the life of the Senior Notes using the effective interest method.

The Senior Notes are guaranteed on a senior secured basis by the Guarantors, which are also guarantors of obligations under our line of credit facility. Our other existing and future subsidiaries may become guarantors of the Senior Notes. The Senior Notes and the Guarantors' Senior Note guarantees are secured on a first-priority basis (subject to specified exceptions and permitted liens), together with all indebtedness outstanding from time to time under the line of credit facility and, under certain circumstances, certain future indebtedness, by a security interest in substantially all of our assets and those of the Guarantors, subject to certain exceptions such as real property, cash (except to the extent it is deposited with the collateral agent), certain leases, and equity interests of our subsidiaries (other than those of specified subsidiaries including the Guarantors). Our assets and those of the Guarantors securing the Senior Notes and the Senior Note guarantees will not include our assets transferred to special purpose subsidiaries in connection with securitization transactions and will generally be the same as the collateral securing indebtedness under the line of credit facility and, under certain circumstances, certain future indebtedness, subject to certain limited exceptions as provided in the security and intercreditor agreements related to the line of credit facility.

Term ABS Financings

In 2008 and 2009, two of our wholly-owned subsidiaries (the Funding LLCs), each completed a secured financing transaction. In connection with these transactions, we contributed Loans on an arms-length basis to each Funding LLC for cash and the sole membership interest in that Funding LLC. In turn, each Funding LLC contributed the Loans to a respective trust that issued notes to qualified institutional investors. The Term ABS 2008-1 ceased to revolve on April 15, 2009 and was paid in full during the second quarter of 2010. The Term ABS 2009-1 transaction consists of three classes of notes. The Class A Notes are rated AAA by S&P and DBRS, Inc. The Class B Notes are rated AA by S&P. The Class C Note does not bear interest, is not rated and has been retained by us.

Each financing at the time of issuance has a specified revolving period during which we may be required, and are likely, to convey additional Loans to each Funding LLC. Each Funding LLC will then convey the Loans to their respective trust. At the end of the revolving period, the debt outstanding under each financing will begin to amortize.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

5. DEBT (Concluded)

The financings create loans for which the trusts are liable and which are secured by all the assets of each trust. Such loans are non-recourse to us, even though we are consolidated for financial reporting purposes with the trusts and the Funding LLCs. Because the Funding LLCs are organized as legal entities separate from us, their assets (including the conveyed Loans) are not available to our creditors. We receive a monthly servicing fee on each financing equal to 6% of the collections received with respect to the conveyed Loans. The fee is paid out of the collections. Except for the servicing fee and Dealer Holdback payments due to Dealer-Partners, if a facility is amortizing, we do not have any rights in any portion of such collections until all outstanding principal, accrued and unpaid interest, fees and other related costs have been paid in full. If a facility is not amortizing, the applicable subsidiary may be entitled to retain a portion of such collections provided that the borrowing base requirements of the facility are satisfied. However, in our capacity as servicer of the Loans, we do have a limited right to exercise a clean-up call option to purchase Loans from the Funding LLCs and/or the trusts under certain specified circumstances. Alternatively, when a trust's underlying indebtedness is paid in full, either through collections or through a prepayment of the indebtedness, the trust is to pay any remaining collections over to its Funding LLC as the sole beneficiary of the trust. The collections will then be available to be distributed to us as the sole member of the respective Funding LLC.

The table below sets forth certain additional details regarding the outstanding Term ABS Financing:
(Dollars in thousands)

| Term ABS Financing | Issue | | Net Book Value of Dealer Loans Conveyed at Closing | Revolving Period | Expected |
|--------------------|--------|------------------|---|-------------------------------------|----------------------------|
| | | | | | Annualized Rates (1) |
| Term ABS 2009-1 | 2009-1 | December 3, 2009 | \$ 142,301 | 18 months (Through May 15, 2011) | 5.2% |

(1) Includes underwriter's fees and other costs.

Debt Covenants

As of September 30, 2010, we are in compliance with all our debt covenants relating to the line of credit facility, including those that require the maintenance of certain financial ratios and other financial conditions. These covenants require a minimum ratio of our assets to debt and a minimum ratio of our earnings before interest, taxes and non-cash expenses to fixed charges. These covenants also limit the maximum ratio of our funded debt to tangible net worth. Additionally, we must maintain consolidated net income of not less than \$1 for the two most recently ended fiscal quarters. Some of these debt covenants may indirectly limit the repurchase of common stock or payment of dividends on common stock.

In addition to the covenants stated above, our revolving secured warehouse facilities and Term ABS financing contain covenants that measure the performance of the contributed assets. As of September 30, 2010, we were in compliance with all such covenants. As of the end of the quarter, we are also in compliance with our covenants under the Senior Notes Indenture. The Indenture includes covenants that limit the maximum ratio of our funded debt to tangible net worth and also require a minimum collateral coverage ratio.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

6. DERIVATIVE INSTRUMENTS

Interest Rate Caps. We purchase interest rate cap agreements to manage the interest rate risk on certain borrowings.

As of September 30, 2010, we had interest rate cap agreements to manage the interest rate risk on our \$325.0 million revolving secured warehouse facility with various maturities between February 2011 and May 2012. We also had an interest rate cap agreement to manage the interest rate risk on a portion of our \$75.0 million revolving secured warehouse facility that ceases to revolve in September 2013. These instruments limit the interest rate on both revolving secured warehouse facilities to 6.75% plus the spread over the LIBOR rate or the commercial paper rate, as applicable.

As of December 31, 2009, we had interest rate cap agreements to manage the interest rate risk on our \$325.0 million revolving secured warehouse facility, as well as on \$50.0 million of the \$75.0 million revolving secured warehouse facility with various maturities between May 2010 and August 2011. These instruments limit the interest rate on both revolving secured warehouse facilities to 6.75% plus the spread over the LIBOR rate or the commercial paper rate, as applicable.

The interest rate caps have not been designated as hedging instruments.

Interest Rate Swaps. As of September 30, 2010 we had an interest rate swap outstanding, which matures in August 2011, to convert \$25.0 million of the \$75.0 million 2008-2 revolving secured warehouse facility into fixed rate debt, bearing an interest rate of 4.36%. This interest rate swap has been designated as a cash flow hedging instrument.

As of December 31, 2009, in addition to the interest rate swap discussed above, the following were also outstanding:

An interest rate swap to convert the outstanding balance of the 2008-1 floating rate Term ABS financing, which ceased to revolve on April 15, 2009 and was paid in full during the second quarter of 2010, into fixed rate debt, bearing an interest rate of 6.37%. This interest rate swap was designated as a cash flow hedging instrument.

An interest rate swap, also related to the outstanding balance of the 2008-1 floating rate Term ABS financing, that required the counterparties to make a payment depending on our actual debt balance outstanding on the facility relative to our original forecasted balance and on the level of interest rates. This interest rate swap was not designated as a hedging instrument.

At September 30, 2010, we had minimal exposure to credit loss on the outstanding interest rate swap. We do not believe that any reasonably likely change in interest rates would have a materially adverse effect on our financial position, our results of operations or our cash flows.

Information related to the fair values of derivative instruments in our consolidated balance sheets as of September 30, 2010 and December 31, 2009 is as follows:
(Dollars in thousands)

| | Balance Sheet location | Fair Value | |
|---|--|--------------------|-------------------|
| | | September 30, 2010 | December 31, 2009 |
| Derivatives designated as hedging instruments | | | |
| Liability Derivatives | | | |
| | Accounts payable and accrued liabilities | | |
| Interest rate swap | | \$ 241 | \$ 1,445 |

**Derivatives not designated as
hedging instruments**

Asset Derivatives

| | | | |
|------------------------------------|--------------|--------|----------|
| Interest rate caps | Other assets | \$ 34 | \$ 82 |
| Total Asset Derivatives | | \$ 34 | \$ 82 |
| Total Liability Derivatives | | \$ 241 | \$ 1,445 |

18

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

6. DERIVATIVE INSTRUMENTS (Concluded)

Information related to the effect of derivative instruments designated as hedging instruments on our consolidated income statements for the three and nine months ended September 30, 2010 and 2009 is as follows:

(Dollars in thousands)

| Derivatives in Cash Flow Hedging Relationships | Loss Recognized in OCI on Derivative (Effective Portion) Three Months Ended September 30, | | Location | Loss Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended September 30, | |
|--|---|----------|---------------------|--|----------|
| | 2010 | 2009 | | 2010 | 2009 |
| Interest rate swap | \$ (83) | \$ (274) | Interest expense | \$ (68) | \$ (832) |

| Derivatives in Cash Flow Hedging Relationships | Gain / (Loss) Recognized in OCI on Derivative (Effective Portion) Nine Months Ended September 30, | | Location | Loss Reclassified from Accumulated OCI into Income (Effective Portion) Nine Months Ended September 30, | |
|--|--|----------|---------------------|---|------------|
| | 2010 | 2009 | | 2010 | 2009 |
| Interest rate swap | \$ 528 | \$ (972) | Interest expense | \$ (676) | \$ (2,971) |

As of September 30, 2010, we expect to reclassify losses of \$0.2 million from accumulated other comprehensive income into income during the next twelve months.

Information related to the effect of derivative instruments not designated as hedging instruments on our consolidated income statements for the three and nine months ended September 30, 2010 and 2009 is as follows:
(Dollars in thousands)

| Derivatives Not Designated as Hedging Instruments | Location | Amount of (Loss) / Gain Recognized in Income on Derivative | | | |
|--|---------------------|---|---------|------------------------------------|---------|
| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | | 2010 | 2009 | 2010 | 2009 |
| Interest rate caps | Interest expense | \$ (24) | \$ (78) | \$ (181) | \$ (78) |
| Interest rate swap | Interest expense | | 53 | (590) | 66 |
| Total | | \$ (24) | \$ (25) | \$ (771) | \$ (12) |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(UNAUDITED)**7. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate their value.

Cash and Cash Equivalents and Restricted Cash and Cash Equivalents. The carrying amount of cash and cash equivalents and restricted cash and cash equivalents approximate their fair value due to the short maturity of these instruments.

Restricted Securities Available for Sale. Restricted securities consist of amounts held in trusts by TPAs to pay claims on vehicle service contracts. Securities for which we do not have the intent or ability to hold to maturity are classified as available for sale and stated at fair value. The fair value of restricted securities are based on quoted market values.

Net Investment in Loans Receivable. Loans receivable, net represents our net investment in Consumer Loans. The fair value is determined by calculating the present value of future Loan payment inflows and Dealer Holdback outflows estimated by us utilizing a discount rate comparable with the rate used to calculate our allowance for credit losses.

Derivative Instruments. The fair value of interest rate caps and interest rate swaps are based on quoted prices for similar instruments in active markets, which are influenced by a number of factors, including interest rates, amount of debt outstanding, notional amount of the derivative, and number of months until maturity.

Liabilities. The fair value of debt is determined using quoted market prices, if available, or calculated using the estimated value of each debt instrument based on current rates offered to us for debt with similar maturities.

A comparison of the carrying value and estimated fair value of these financial instruments is as follows:

| | As of September 30, 2010 | | As of December 31, 2009 | |
|--|-----------------------------|-------------------------|----------------------------|-------------------------|
| (Dollars in thousands) | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Assets | | | | |
| Cash and cash equivalents | \$ 1,537 | \$ 1,537 | \$ 2,170 | \$ 2,170 |
| Restricted cash and cash equivalents | 58,486 | 58,486 | 82,456 | 82,456 |
| Restricted securities available for sale | 815 | 815 | 3,121 | 3,121 |
| Net investment in Loans receivable | 1,176,118 | 1,182,719 | 1,050,013 | 1,056,059 |
| Derivative instruments | 34 | 34 | 82 | 82 |
| Liabilities | | | | |
| Line of credit | \$ 102,700 | \$ 102,700 | \$ 97,300 | \$ 97,300 |
| Secured financing | 328,100 | 331,291 | 404,597 | 404,725 |
| Mortgage note | 4,579 | 4,590 | 4,744 | 4,757 |
| Senior notes | 244,174 | 262,500 | | |
| Derivative instruments | 241 | 241 | 1,445 | 1,445 |

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. We group assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2

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Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

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

20

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(UNAUDITED)**7. FAIR VALUE OF FINANCIAL INSTRUMENTS (Concluded)**

The following table provides the fair value measurements of applicable assets and liabilities, measured at fair value on a recurring basis, as of September 30, 2010 and December 31, 2009:

| (Dollars in thousands) | As of September 30, 2010 | | | As of December 31, 2009 | | |
|--|--------------------------|---------|------------------|-------------------------|---------|------------------|
| | Level 1 | Level 2 | Total Fair Value | Level 1 | Level 2 | Total Fair Value |
| Assets | | | | | | |
| Restricted securities available for sale | \$815 | \$ | \$ 815 | \$3,121 | \$ | \$3,121 |
| Derivative instruments | | 34 | 34 | | 82 | 82 |
| Liabilities | | | | | | |
| Derivative instruments | \$ | \$241 | \$ 241 | \$ | \$1,445 | \$1,445 |

8. RELATED PARTY TRANSACTIONS

In the normal course of our business, affiliated Dealer-Partners assign Consumer Loans to us under the Portfolio and Purchase Programs. Dealer Loans and Purchased Loans with affiliated Dealer-Partners are on the same terms as those with non-affiliated Dealer-Partners. Affiliated Dealer-Partners are comprised of Dealer-Partners owned or controlled by: (1) our majority shareholder and Chairman; and (2) a member of the Chairman's immediate family.

Affiliated Dealer Loan balances were \$10.0 million and \$12.7 million as of September 30, 2010 and December 31, 2009, respectively. Affiliated Dealer Loan balances were 1.0% and 1.5% of total consolidated Dealer Loan balances as of September 30, 2010 and December 31, 2009, respectively. A summary of related party Loan activity is as follows:

| (Dollars in thousands) | Three Months Ended September 30, 2010 | | Three Months Ended September 30, 2009 | |
|--------------------------------|--|-------------------|--|-------------------|
| | Affiliated Dealer-Partner activity | % of consolidated | Affiliated Dealer-Partner activity | % of consolidated |
| New Dealer and Purchased Loans | \$477 | 0.2% | \$1,244 | 1.0% |
| Dealer Loan revenue | \$715 | 0.9% | \$ 921 | 1.5% |
| Dealer Holdback payments | \$415 | 3.9% | \$ 360 | 3.5% |

| (Dollars in thousands) | Nine Months Ended September 30, 2010 | | Nine Months Ended September 30, 2009 | |
|--------------------------------|---|-------------------|---|-------------------|
| | Affiliated Dealer-Partner activity | % of consolidated | Affiliated Dealer-Partner activity | % of consolidated |
| New Dealer and Purchased Loans | \$2,774 | 0.4% | \$4,865 | 1.2% |
| Dealer Loan revenue | \$2,363 | 1.1% | \$2,827 | 1.6% |

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| | | | | |
|--------------------------|---------|------|---------|------|
| Dealer Holdback payments | \$1,474 | 4.4% | \$1,425 | 4.2% |
|--------------------------|---------|------|---------|------|

Our majority shareholder and Chairman has indirect control over entities that, in the past, offered secured lines of credit to automobile dealers, and has the right or obligation to reacquire these entities under certain circumstances until December 31, 2014 or the repayment of the related purchase money note.

21

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(UNAUDITED)**9. INCOME TAXES**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| U.S. federal statutory rate | 35.0% | 35.0% | 35.0% | 35.0% |
| State income taxes | 1.4 | 0.6 | 1.6 | 1.0 |
| Decrease in reserve for uncertain tax positions as a result of settlements and lapsed statutes | (0.6) | (1.2) | (3.3) | (0.3) |
| Other | (0.3) | 0.1 | (0.1) | 0.2 |
| Effective tax rate | 35.5% | 34.5% | 33.2% | 35.9% |

The differences between the U.S. federal statutory rate and our effective tax rate are primarily due to state income taxes and reserves for uncertain tax positions and related interest and penalties that are included in the provision for income taxes. The increase in the effective tax rate for the three months ended September 30, 2010 as compared to the same period in 2009, is primarily due to a decrease in the reserve for uncertain tax positions and related interest recorded during the third quarter of 2009. The decrease in the effective tax rate for the nine months ended September 30, 2010, as compared to the same period in 2009, is primarily due to a settlement of the Internal Revenue Service (IRS) audit detailed below and related adjustments to accrued tax reserves and interest.

The federal income tax returns for 2004 through 2008 had been under examination by the IRS. On June 7, 2010, we reached a settlement with the IRS which closed our 2004 through 2008 tax years. As a result of the settlement, we agreed to pay a total of \$7.6 million in federal and state taxes and interest related to these years. The settlement includes \$6.2 million of taxes that represent an acceleration of taxes already provided for in prior periods and the payment did not have an impact on our net income during the reporting periods. We also concluded that all 2004 through 2008 uncertain federal jurisdiction tax positions taken in previous periods are effectively settled and we recorded a reversal of corresponding accrued reserves and interest. This reversal had a favorable impact of \$6.2 million (after-tax) on our net income for the nine month period ended September 30, 2010.

The following table is a summary of changes in unrecognized tax benefits (in thousands):

| | Nine Months Ended September 30, 2010 |
|---|---|
| Unrecognized tax benefits at January 1, 2010 | \$ 11,830 |
| Additions based on tax positions related to current year | 1,194 |
| Reduction in tax positions of prior years | (241) |
| Settlements | (5,813) |
| Reductions as a result of a lapse of the statute of limitations | (406) |
| Unrecognized tax benefits at September 30, 2010 | \$ 6,564 |

The total amount of unrecognized tax benefit that, if recognized, would favorably affect the effective income tax rate in future periods, was approximately \$6.6 million as of September 30, 2010. Accrued interest and penalties related to uncertain tax positions were \$1.4 million and \$3.9 million as of September 30, 2010 and December 31,

2009, respectively.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(UNAUDITED)**10. CAPITAL TRANSACTIONS****Net Income Per Share**

Basic net income per share has been computed by dividing net income by the basic number of common shares outstanding. Diluted net income per share has been computed by dividing net income by the diluted number of common and common equivalent shares outstanding using the treasury stock method. The share effect is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Weighted average common and common equivalent shares outstanding: | | | | |
| Basic number of common shares outstanding | 28,063,104 | 30,658,969 | 30,081,696 | 30,540,274 |
| Dilutive effect of stock options | 319,521 | 639,426 | 351,629 | 612,162 |
| Dilutive effect of restricted stock and restricted stock units | 69,096 | 240,724 | 106,825 | 218,144 |
| Dilutive number of common and common equivalent shares outstanding | 28,451,721 | 31,539,119 | 30,540,150 | 31,370,580 |

There were no stock options, restricted stock or restricted stock units that would be anti-dilutive for the three and nine months ended September 30, 2010 and 2009.

Tender Offer

During the second quarter of 2010, we commenced a tender offer to repurchase up to 4.0 million shares of our outstanding common stock at a price of \$50.00 per share. Upon expiration of the tender offer during the third quarter of 2010, we repurchased 4.0 million common shares at a cost of \$200.0 million, which included approximately 2.9 million shares beneficially owned by Donald A. Foss, our Chairman of the Board, and approximately 0.8 million shares beneficially owned by the trustee of certain grantor retained annuity trusts created by Mr. Foss. We financed the repurchase of our common stock in the tender offer by borrowing under our \$170.0 million revolving secured line of credit facility and \$325.0 million revolving secured warehouse facility.

Stock Compensation Plans

Pursuant to our Amended and Restated Incentive Compensation Plan (the "Incentive Plan"), the number of shares reserved for granting of restricted stock, restricted stock units, stock options, and performance awards to team members, officers, directors, and contractors at any time prior to April 6, 2019 is 1.5 million shares. The shares available for future grants under the Incentive Plan totaled 326,920 as of September 30, 2010.

A summary of the restricted stock activity under the Incentive Plan for the nine months ended September 30, 2010 and 2009 is presented below:

| | Number of Shares Nine Months Ended September 30, | |
|-------------------------------|---|-------------|
| Restricted Stock | 2010 | 2009 |
| Outstanding Beginning Balance | 242,277 | 245,329 |
| Granted | 19,183 | 121,736 |

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| | | |
|----------------------------|-----------|-----------|
| Vested | (142,682) | (105,682) |
| Forfeited | (6,320) | (15,078) |
| Outstanding Ending Balance | 112,458 | 246,305 |

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

10. CAPITAL TRANSACTIONS (Concluded)

A summary of the restricted stock unit activity under the Incentive Plan for the nine months ended September 30, 2010 and 2009 is presented below:

| | Nonvested | | Vested | | Total |
|-----------------------------------|-----------------------------------|--|-----------------------------------|--|-----------------------------------|
| | Weighted-Average | | Weighted-Average | | |
| | Number of Restricted Stock | Grant-Date Fair Value Per Share | Number of Restricted Stock | Grant-Date Fair Value Per Share | Number of Restricted Stock |
| Restricted Stock Units | Units | Share | Units | Share | Units |
| Outstanding at December 31, 2009 | 648,250 | \$ 19.35 | 120,000 | \$ 26.30 | 768,250 |
| Granted | 32,500 | 39.89 | | | 32,500 (1) |
| Vested | (149,650) | 20.24 | 149,650 | 20.24 | (2) |
| Forfeited | (10,000) | 39.89 | | | (10,000) |
| Outstanding at September 30, 2010 | 521,100 | \$ 19.99 | 269,650 | \$ 22.94 | 790,750 |

| | Nonvested | | Vested | | Total |
|-----------------------------------|-----------------------------------|--|-----------------------------------|--|-----------------------------------|
| | Weighted-Average | | Weighted-Average | | |
| | Number of Restricted Stock | Grant-Date Fair Value Per Share | Number of Restricted Stock | Grant-Date Fair Value Per Share | Number of Restricted Stock |
| Restricted Stock Units | Units | Share | Units | Share | Units |
| Outstanding at December 31, 2008 | 640,000 | \$ 18.99 | 60,000 | \$ 26.30 | 700,000 |
| Granted | 100,750 | 23.89 | | | 100,750 (3) |
| Vested | (60,000) | 26.30 | 60,000 | 26.30 | (4) |
| Forfeited | (20,000) | 13.51 | | | (20,000) |
| Outstanding at September 30, 2009 | 660,750 | \$ 19.24 | 120,000 | \$ 26.30 | 780,750 |

(1) The distribution date of any vested restricted stock units is February 22, 2017.

(2) The distribution date of vested

restricted stock units is February 22, 2014 for 60,000 restricted stock units and February 22, 2016 for 89,650 restricted stock units.

(3) The distribution date of vested restricted stock units is February 22, 2016 for 80,750 restricted stock units and February 22, 2017 for 20,000 restricted stock units.

(4) The distribution date of vested restricted stock units is February 22, 2014.

Stock compensation expense consists of the following:

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Restricted stock | \$ 255 | \$ 586 | \$ 715 | \$ 1,651 |
| Restricted stock units | 632 | 1,185 | 2,340 | 3,275 |
| | \$ 887 | \$ 1,771 | \$ 3,055 | \$ 4,926 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Concluded)
(UNAUDITED)****11. BUSINESS SEGMENT INFORMATION**

We have two reportable business segments: United States and Other. The United States segment is our dominant segment and primarily consists of the United States automobile financing business. The Other segment consists of businesses in liquidation.

Selected segment information is set forth below:

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue: | | | | |
| United States | \$ 111,660 | \$ 100,264 | \$ 326,699 | \$ 280,525 |
| Other | 1 | 4 | 3 | 4 |
| Total revenue | \$ 111,661 | \$ 100,268 | \$ 326,702 | \$ 280,529 |
| Income (loss) from continuing operations before provision for income taxes: | | | | |
| United States | \$ 65,173 | \$ 62,244 | \$ 184,311 | \$ 165,208 |
| Other | 23 | 59 | (22) | 124 |
| Total income from continuing operations before provision for income taxes | \$ 65,196 | \$ 62,303 | \$ 184,289 | \$ 165,332 |

| (Dollars in thousands) | September 30, 2010 | As of December 31, 2009 |
|------------------------|-------------------------------|--|
| Segment Assets | | |
| United States | \$ 1,284,220 | \$ 1,175,550 |
| Other | 65 | 686 |
| Total Assets | \$ 1,284,285 | \$ 1,176,236 |

12. COMPREHENSIVE INCOME

Our comprehensive income information is set forth below:

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net income | \$ 42,047 | \$ 40,734 | \$ 123,097 | \$ 105,920 |
| Unrealized (loss) gain on securities available for sale, net of tax | (7) | (5) | | 9 |
| Unrealized (loss) gain on interest rate swap, net of tax | (9) | 356 | 762 | 1,263 |

| | | | | |
|----------------------|-----------|-----------|------------|------------|
| Comprehensive income | \$ 42,031 | \$ 41,085 | \$ 123,859 | \$ 107,192 |
|----------------------|-----------|-----------|------------|------------|

25

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in Item 8 Financial Statements and Supplementary Data, of our 2009 Annual Report on Form 10-K, as well as Item 1- Consolidated Financial Statements, of this Form 10-Q, which are incorporated herein by reference.

Overview

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

Critical Success Factors

Critical success factors include our ability to access capital on acceptable terms, accurately forecast Consumer Loan performance, and maintain or grow Consumer Loan volume at the level and on the terms that we anticipate, with an objective to maximize economic profit. Economic profit is a financial metric we use to evaluate our financial results and determine incentive compensation. Economic profit measures how efficiently we utilize our total capital, both debt and equity, and is a function of the return on capital in excess of the cost of capital and the amount of capital invested in the business.

Access to Capital

Our strategy for accessing capital on acceptable terms needed to maintain and grow the business is to: (1) maintain consistent financial performance; (2) maintain modest financial leverage; and (3) maintain multiple funding sources. Our funded debt to equity ratio is 1.6:1 at September 30, 2010. We currently utilize the following forms of debt financing: (1) a revolving secured line of credit with a commercial bank syndicate; (2) revolving secured warehouse facilities with institutional investors; (3) a Term ABS financing with qualified institutional investors; and (4) Senior Notes.

Consumer Loan Performance

At the time the Consumer Loan is submitted to us for assignment, we forecast future expected cash flows from the Consumer Loan. Based on these forecasts, an advance or one-time payment is made to the related Dealer-Partner at a price designed to achieve an acceptable return on capital. If Consumer Loan performance equals or exceeds our original expectation, it is likely our target return on capital will be achieved.

We use a statistical model to estimate the expected collection rate for each Consumer Loan at the time of assignment. We continue to evaluate the expected collection rate of each Consumer Loan subsequent to assignment. Our evaluation becomes more accurate as the Consumer Loans age, as we use actual performance data in our forecast. By comparing our current expected collection rate for each Consumer Loan with the rate we projected at the time of assignment, we are able to assess the accuracy of our initial forecast. The following table compares our forecast of Consumer Loan collection rates as of September 30, 2010, with the forecasts as of June 30, 2010, as of December 31, 2009, and at the time of assignment, segmented by year of assignment:

Consumer

| Loan Assignment Year | Forecasted Collection Percentage as of | | | | Variance in Forecasted Collection Percentage from | | |
|----------------------------|--|------------------|-------------------------|---------------------|--|-------------|---------------------|
| | September 30, 2010 | June 30, 2010 | December 31, 2009 | Initial Forecast | June 30, 2010 | 31, 2009 | Initial Forecast |
| 2001 | 67.5% | 67.5% | 67.5% | 70.4% | 0.0% | 0.0% | -2.9% |
| 2002 | 70.5% | 70.5% | 70.4% | 67.9% | 0.0% | 0.1% | 2.6% |
| 2003 | 73.7% | 73.7% | 73.7% | 72.0% | 0.0% | 0.0% | 1.7% |
| 2004 | 73.0% | 73.1% | 73.1% | 73.0% | -0.1% | -0.1% | 0.0% |
| 2005 | 73.7% | 73.8% | 73.7% | 74.0% | -0.1% | 0.0% | -0.3% |

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| | | | | | | | |
|---------|-------|-------|-------|-------|-------|-------|-------|
| 2006 | 70.2% | 70.2% | 70.3% | 71.4% | 0.0% | -0.1% | -1.2% |
| 2007 | 67.9% | 68.0% | 68.3% | 70.7% | -0.1% | -0.4% | -2.8% |
| 2008 | 69.9% | 69.8% | 70.0% | 69.7% | 0.1% | -0.1% | 0.2% |
| 2009 | 78.0% | 77.2% | 75.6% | 71.9% | 0.8% | 2.4% | 6.1% |
| 2010(1) | 75.6% | 75.3% | | 73.5% | 0.3% | | 2.1% |

26

Table of Contents

- (1) The forecasted collection rate for 2010 Consumer Loans as of September 30, 2010 includes both Consumer Loans that were in our portfolio as of June 30, 2010 and Consumer Loans assigned during the most recent quarter. The following table provides forecasted collection rates for each of these segments:

| | Forecasted Collection Percentage as of | | Variance |
|---|---|--------------------------|-----------------|
| | September 30, 2010 | June 30, 2010 | |
| 2010 Consumer Loan Assignment Period | | | |
| January 1, 2010 through June 30, 2010 | 76.4% | 75.3% | 1.1% |
| July 1, 2010 through September 30, 2010 | 73.9% | | |

Consumer Loans assigned in 2002, 2003, 2008, 2009 and 2010 have performed better than our initial expectations while Consumer Loans assigned in 2001, 2005, 2006 and 2007 have performed worse. During the third quarter of 2010, forecasted collection rates increased for Consumer Loans assigned during 2009 and 2010 and were consistent with expectations at the start of the period for other assignment years. During the first nine months of 2010, forecasted collection rates increased for Consumer Loans assigned in 2009 and 2010, and decreased for 2007 Consumer Loan assignments.

Forecasting collection rates precisely at Loan inception is difficult. With this in mind, we have established advance rates that are intended to allow us to achieve acceptable levels of profitability, even if collection rates are less than we currently forecast.

The following table presents forecasted Consumer Loan collection rates, advance rates (includes amounts paid to acquire Purchased Loans), the spread (the forecasted collection rate less the advance rate), and the percentage of the forecasted collections that had been realized as of September 30, 2010. Payments of Dealer Holdback and accelerated Dealer Holdback are not included in the advance percentage paid to the Dealer-Partner. All amounts, unless otherwise noted, are presented as a percentage of the initial balance of the Consumer Loan (principal + interest). The table includes both Dealer Loans and Purchased Loans.

| | As of September 30, 2010 |
|----------------------|---------------------------------|
| Consumer Loan | Forecasted |

| Assignment Year | Collection % | Advance % | % of Forecast | |
|-----------------|-----------------|--------------|------------------|--------------|
| | | | Spread % | Realized (1) |
| 2001 | 67.5% | 46.0% | 21.5% | 99.4% |
| 2002 | 70.5% | 42.2% | 28.3% | 99.2% |
| 2003 | 73.7% | 43.4% | 30.3% | 99.1% |
| 2004 | 73.0% | 44.0% | 29.0% | 98.8% |
| 2005 | 73.7% | 46.9% | 26.8% | 98.4% |
| 2006 | 70.2% | 46.6% | 23.6% | 96.6% |
| 2007 | 67.9% | 46.5% | 21.4% | 89.0% |
| 2008 | 69.9% | 44.6% | 25.3% | 72.9% |
| 2009 | 78.0% | 43.9% | 34.1% | 49.4% |
| 2010 | 75.6% | 44.7% | 30.9% | 14.2% |

(1) Presented as a percentage of total forecasted collections.

The risk of a material change in our forecasted collection rate declines as the Consumer Loans age. For 2006 and prior Consumer Loan assignments, the risk of a material forecast variance is modest, as we have currently realized in excess of 95% of the expected collections. Conversely, the forecasted collection rates for more recent Consumer Loan assignments are less certain as a significant portion of our forecast has not been realized.

The spread between the forecasted collection rate and the advance rate declined during the 2004 through 2007 period as we increased advance rates during this period in response to a more difficult competitive environment. During 2008 and 2009, the spread increased as the competitive environment improved, and we reduced advance rates. In addition, during 2009, the spread was positively impacted by better than expected Consumer Loan performance. We increased advance rates during the last four months of 2009 and the first quarter of 2010. The decline in the spread for 2010 reflects these increases.

The following table presents forecasted Consumer Loan collection rates, advance rates (includes amounts paid to acquire Purchased Loans), and the spread (the forecasted collection rate less the advance rate) as of September 30, 2010 for Purchased Loans and Dealer Loans separately. Payments of Dealer Holdback and accelerated Dealer Holdback are not included in the advance percentage paid to the Dealer-Partner. All amounts are presented as a percentage of the initial balance of the Consumer Loan (principal + interest).

Table of Contents

| | Consumer Loan Assignment Year | Forecasted Collection % | Advance % | Spread % |
|-----------------|--|--|----------------------|---------------------|
| Purchased Loans | 2007 | 68.0% | 48.6% | 19.4% |
| | 2008 | 68.9% | 46.2% | 22.7% |
| | 2009 | 77.9% | 44.6% | 33.3% |
| | 2010 | 75.8% | 47.0% | 28.8% |
| Dealer Loans | 2007 | 67.9% | 45.9% | 22.0% |
| | 2008 | 70.5% | 43.6% | 26.9% |
| | 2009 | 78.0% | 43.7% | 34.3% |
| | 2010 | 75.6% | 44.4% | 31.2% |

Although the advance rate on Purchased Loans is higher as compared to the advance rate on Dealer Loans, Purchased Loans do not require us to pay Dealer Holdback.

Consumer Loan Volume

The following table summarizes changes in Consumer Loan assignment volume in each of the last seven quarters as compared to the same period in the previous year:

| Three Months Ended | Year over Year Percent Change Unit Volume | Dollar Volume (1) |
|---------------------------|--|------------------------------|
| March 31, 2009 | -13.0% | -28.9% |
| June 30, 2009 | -16.2% | -33.5% |
| September 30, 2009 | -5.7% | -13.0% |
| December 31, 2009 | 7.6% | 5.9% |
| March 31, 2010 | 11.2% | 21.6% |
| June 30, 2010 | 22.7% | 42.2% |
| September 30, 2010 | 26.9% | 51.5% |

(1) Represents payments made to Dealer-Partners for advances on Dealer Loans and the acquisition of Purchased Loans. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.

Consumer Loan assignment volumes depend on a number of factors including (1) the overall demand for our product (2) the amount of capital available to fund new Loans (3) our assessment of the assignment volume that our current infrastructure can support. Our pricing strategy is intended to maximize the amount of economic profit we generate, within the confines of capital and infrastructure constraints. During the last four months of 2009 and the first quarter of 2010, we increased advance rates, which had a positive impact on unit volumes. While the advance increases also reduced the return on capital we expect to earn on new assignments, we believe it is very likely the advance increases had a positive impact on economic profit. During October 2010, unit volume increased by 36.1% as compared to October 2009.

Table of Contents

The following table summarizes the changes in Consumer Loan unit volume and active Dealer-Partners:

| | Nine Months Ended September 30, | | |
|--|--|-------------|---------------------|
| | 2010 | 2009 | % change |
| Consumer Loan unit volume | 104,514 | 87,579 | 19.3% |
| Active Dealer-Partners (1) | 2,910 | 2,942 | -1.1% |
| Average volume per active Dealer-Partner | 35.9 | 29.8 | 20.5% |
| Consumer Loan unit volume from Dealer-Partners active both periods | 86,821 | 75,177 | 15.5% |
| Dealer-Partners active both periods | 2,015 | 2,015 | |
| Average volume per Dealer-Partners active both periods | 43.1 | 37.3 | 15.5% |
| Consumer Loan unit volume from new Dealer-Partners | 10,271 | 12,285 | -16.4% |
| New active Dealer-Partners (2) | 652 | 844 | -22.7% |
| Average volume per new active Dealer-Partners | 15.8 | 14.6 | 8.2% |
| Attrition (3) | -14.2% | -19.6% | |

(1) Active Dealer-Partners are Dealer-Partners who have received funding for at least one Loan during the period.

(2) New active Dealer-Partners are Dealer-Partners who enrolled in our program and have received funding for their first Loan from us during the period.

(3) Attrition is measured

according to the following formula: decrease in Consumer Loan unit volume from Dealer-Partners who have received funding for at least one Loan during the comparable period of the prior year but did not receive funding for any Loans during the current period divided by prior year comparable period Consumer Loan unit volume.

Consumer Loans are assigned to us through either our Portfolio Program or our Purchase Program. The following table summarizes the portion of our Consumer Loan volume that was assigned to us through our Purchase Program:

| | Three Months Ended September 30, 2010 | | Nine Months Ended September 30, 2010 | |
|---|--|-------------|---|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| New Purchased Loan unit volume as a percentage of total unit volume | 9.5% | 11.0% | 9.4% | 14.6% |
| New Purchased Loan dollar volume as a percentage of total dollar volume | 11.4% | 13.3% | 11.3% | 17.6% |

For the three and nine months ended September 30, 2010, new Purchased Loan unit and dollar volume as a percentage of total unit and dollar volume, respectively, decreased as compared to 2009 primarily due to the continued impact of program enrollment eligibility changes we made in 2008, which restricts new Dealer-Partners' access to the Purchase Program.

As of September 30, 2010 and December 31, 2009, the net Purchased Loans receivable balance was 22.0% and 27.5%, respectively, of the total net Loans receivable balance.

Table of Contents**Results of Operations****Three and Nine Months Ended September 30, 2010 Compared to Three and Nine Months Ended September 30, 2009**

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

| | Three Months Ended September 30, | | % |
|---|---|-------------|---------------|
| (Dollars in thousands, except per share data) | 2010 | 2009 | Change |
| Revenue: | | | |
| Finance charges | \$ 99,255 | \$ 84,489 | 17.5% |
| Premiums earned | 8,627 | 11,596 | -25.6% |
| Other income | 3,779 | 4,183 | -9.7% |
| Total revenue | 111,661 | 100,268 | 11.4% |
| Costs and expenses: | | | |
| Salaries and wages | 16,133 | 16,862 | -4.3% |
| General and administrative | 7,208 | 7,869 | -8.4% |
| Sales and marketing | 4,972 | 3,533 | 40.7% |
| Provision for credit losses | 2 | (3,591) | -100.1% |
| Interest | 12,038 | 8,144 | 47.8% |
| Provision for claims | 6,112 | 5,148 | 18.7% |
| Total costs and expenses | 46,465 | 37,965 | 22.4% |
| Income from continuing operations before provision for income taxes | 65,196 | 62,303 | 4.6% |
| Provision for income taxes | 23,149 | 21,491 | 7.7% |
| Income from continuing operations | 42,047 | 40,812 | 3.0% |
| Discontinued operations | | | |
| Loss from discontinued United Kingdom operations | | (13) | -100.0% |
| Provision for income taxes | | 65 | -100.0% |
| Loss from discontinued operations | | (78) | -100.0% |
| Net income | \$ 42,047 | \$ 40,734 | 3.2% |
| Net income per common share: | | | |
| Basic | \$ 1.50 | \$ 1.33 | |
| Diluted | \$ 1.48 | \$ 1.29 | |

Income from continuing operations per common share:

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| | | | | |
|---|----|------------|----|------------|
| Basic | \$ | 1.50 | \$ | 1.33 |
| Diluted | \$ | 1.48 | \$ | 1.29 |
| Loss from discontinued operations per common share: | | | | |
| Basic | \$ | | \$ | |
| Diluted | \$ | | \$ | |
| Weighted average shares outstanding: | | | | |
| Basic | | 28,063,104 | | 30,658,969 |
| Diluted | | 28,451,721 | | 31,539,119 |

30

Table of Contents

| | Nine Months Ended September 30, | | % Change |
|---|--|-------------|---------------------|
| (Dollars in thousands, except per share data) | 2010 | 2009 | |
| Revenue: | | | |
| Finance charges | \$ 284,467 | \$ 242,339 | 17.4% |
| Premiums earned | 24,576 | 25,257 | -2.7% |
| Other income | 17,659 | 12,933 | 36.5% |
| Total revenue | 326,702 | 280,529 | 16.5% |
| Costs and expenses: | | | |
| Salaries and wages | 46,293 | 50,498 | -8.3% |
| General and administrative | 19,670 | 22,758 | -13.6% |
| Sales and marketing | 14,616 | 11,020 | 32.6% |
| Provision for credit losses | 8,218 | (7,217) | -213.9% |
| Interest | 36,010 | 23,352 | 54.2% |
| Provision for claims | 17,606 | 14,786 | 19.1% |
| Total costs and expenses | 142,413 | 115,197 | 23.6% |
| Income from continuing operations before provision for income taxes | 184,289 | 165,332 | 11.5% |
| Provision for income taxes | 61,162 | 59,358 | 3.0% |
| Income from continuing operations | 123,127 | 105,974 | 16.2% |
| Discontinued operations | | | |
| (Loss) gain from discontinued United Kingdom operations | (30) | 21 | -242.9% |
| Provision for income taxes | | 75 | -100.0% |
| Loss from discontinued operations | (30) | (54) | -44.4% |
| Net income | \$ 123,097 | \$ 105,920 | 16.2% |
| Net income per common share: | | | |
| Basic | \$ 4.09 | \$ 3.47 | |
| Diluted | \$ 4.03 | \$ 3.38 | |
| Income from continuing operations per common share: | | | |
| Basic | \$ 4.09 | \$ 3.47 | |
| Diluted | \$ 4.03 | \$ 3.38 | |

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Loss from discontinued operations per common share:

| | | |
|-------|----|----|
| Basic | \$ | \$ |
|-------|----|----|

| | | |
|---------|----|----|
| Diluted | \$ | \$ |
|---------|----|----|

Weighted average shares outstanding:

| | | |
|-------|------------|------------|
| Basic | 30,081,696 | 30,540,274 |
|-------|------------|------------|

| | | |
|---------|------------|------------|
| Diluted | 30,540,150 | 31,370,580 |
|---------|------------|------------|

31

Table of Contents**Continuing Operations*****Three and Nine Months Ended September 30, 2010 Compared to Three and Nine Months Ended September 30, 2009***

The following table highlights changes in income from continuing operations for the three and nine months ended September 30, 2010, as compared to 2009:

| | Year over Year Change | |
|--|--|---|
| | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2010 |
| (Dollars in thousands) | | |
| Income from continuing operations, prior year | \$ 40,812 | \$ 105,974 |
| Increase in finance charges | 14,766 | 42,128 |
| Decrease in premiums earned | (2,969) | (681) |
| (Decrease) increase in other income | (404) | 4,726 |
| (Increase) decrease in operating expenses (1) | (49) | 3,697 |
| Increase in provision for credit losses | (3,593) | (15,435) |
| Increase in interest | (3,894) | (12,658) |
| Increase in provision for claims | (964) | (2,820) |
| Increase in provision for income taxes | (1,658) | (1,804) |
| Income from continuing operations, current year | \$ 42,047 | \$ 123,127 |

- (1) Operating expenses consist of salaries and wages, general and administrative, and sales and marketing expenses.

Finance Charges. For the three months ended September 30, 2010, finance charges increased \$14.8 million, or 17.5%, as compared to the same period in 2009. For the nine months ended September 30, 2010, finance charges increased \$42.1 million, or 17.4%, as compared to the same period in 2009. The increases were the result of an increase in the average yield on our Loan portfolio and an increase in the average Loan receivable balance, as follows:

Year over Year Change

| | Three Months Ended September 30, 2010 | Nine Months Ended September 30, 2010 |
|---|--|---|
| (Dollars in thousands) | | |
| Increase in the average yield on our Loan portfolio | \$ 7,046 | \$ 27,647 |
| Increase in the average Loan receivable balance | 7,720 | 14,481 |
| Increase in finance charges | \$ 14,766 | \$ 42,128 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Average yield on our Loan portfolio | 34.4% | 32.0% | 34.3% | 30.9% |

The increases in the average yield on our Loan portfolio for the three and nine month periods were primarily due to an increase in forecasted collection rates throughout 2009 and 2010 as well as higher yields on Consumer Loans assigned during the last three quarters of 2009 and the first quarter of 2010. In addition, the increase in the yield for the nine month period was also partially due to higher yields on Consumer Loans assigned during the second and third quarters of 2010. The increases in the average Loan receivable balance were primarily due to growth in new Loan volume during the last quarter of 2009 and first three quarters of 2010.

Premiums Earned. For the three months ended September 30, 2010, premiums earned decreased \$3.0 million, or 25.6%, as compared to the same period in 2009. For the nine months ended September 30, 2010, premiums earned decreased \$0.7 million, or 2.7%, as compared to the same period in 2009. The decrease for the three month period was primarily due to a revision in our revenue recognition timing during the third quarter of 2009, which increased premiums earned by \$3.5 million. We revised our revenue recognition timing in order to better match the timing with our expected costs of servicing vehicle contracts. The decrease for the nine month period was primarily due a decline in the size of our reinsurance portfolio, which resulted from the termination of our arrangement with one of our third party insurers during the fourth quarter of 2009. Prior to the fourth quarter of 2009, VSC Re reinsured vehicle service contracts that were underwritten by two of our three third party insurers. VSC Re currently reinsures vehicle service contracts that are underwritten by one of our two third party insurers.

Table of Contents

Other Income. For the three months ended September 30, 2010, other income decreased \$0.4 million, or 9.7%, as compared to the same period in 2009. For the nine months ended September 30, 2010, other income increased \$4.7 million, or 36.5%, as compared to the same period in 2009. The decrease in other income for the three month period was primarily the result of a \$0.8 million decrease due to the modification of our arrangement with a vendor that processes payments, which became effective during the third quarter of 2010. The increase in other income for the nine month period was primarily a result of \$3.4 million of income recognized during the second quarter of 2010 related to an arrangement with one of our third party vehicle service contract providers. This arrangement was discontinued in 2008 and no additional income is expected beyond the amount recognized to date. While we continue to generate income from vehicle service contracts, such amounts are captured through VSC Re and recorded over the life of the contracts as premiums earned less provision for claims.

Salaries and wages. For the three months ended September 30, 2010, salaries and wages decreased \$0.7 million, or 4.3%, as compared to the same period in 2009. For the nine months ended September 30, 2010, salaries and wages decreased \$4.2 million, or 8.3%, as compared to the same period in 2009. The decreases were primarily the result of:

Reduced expenses related to stock compensation due to the timing of expense related to long-term incentive compensation;

Reduced expenses related to information technology primarily due to an approximately 25% reduction in information technology headcount, partially offset by the expensing of internal information technology salaries during the third quarter of 2010 that were previously capitalized as software developed for internal use; and

Reduced expenses related to collections primarily due to fewer delinquent accounts which reduce the amount of collection effort.

These decreases were partially offset by increased expenses related to medical claims and an increase in our 401(k) matching contributions.

General and Administrative. For the three months ended September 30, 2010, general and administrative expense decreased \$0.7 million, or 8.4%, as compared to the same period in 2009. For the nine months ended September 30, 2010, general and administrative expense decreased \$3.1 million, or 13.6%, as compared to the same period in 2009. The decreases primarily resulted from (1) decreased legal costs, (2) decreased consulting fees primarily related to the IRS audit which is now complete, and (3) decreased depreciation expense primarily related to a reduction in capital expenditures, partially offset by (4) increased consulting fees primarily related to the development of software.

Sales and Marketing. For the three months ended September 30, 2010, sales and marketing expense increased \$1.4 million, or 40.7%, as compared to the same period in 2009. For the nine months ended September 30, 2010, sales and marketing expense increased \$3.6 million, or 32.6%, as compared to the same period in 2009. The increases were due primarily to the expansion of our field sales force and increased sales commissions resulting from an increase in the commission per Consumer Loan assignment and an increase in the number of Consumer Loan assignments.

Provision for Credit Losses. For the three months ended September 30, 2010, the provision for credit losses increased \$3.6 million, or 100.1%, as compared to the same period in 2009. For the nine months ended September 30, 2010, the provision for credit losses increased \$15.4 million, or 213.9%, as compared to the same period in 2009. Under GAAP, when forecasted future cash flows decline relative to the cash flows expected at the time of assignment, a provision for credit losses is recorded immediately as a current period expense and a corresponding allowance for credit losses is established. For purposes of calculating the required allowance, Dealer Loans are grouped by Dealer-Partner and Purchased Loans are grouped by month of purchase. As a result, regardless of the overall performance of the portfolio of Consumer Loans, a provision can be required if any individual Loan pool performs worse than expected. Conversely, a previously recorded provision can be reversed if any previously impaired individual Loan pool experiences an improvement in performance.

During the three and nine months ended September 30, 2010, overall Consumer Loan performance exceeded our expectations at the start of the periods. However, impaired Loan pools within our portfolio experienced net declines in forecasted cash flows, resulting in provision for credit losses of a nominal amount for the three months ended

September 30, 2010 and \$8.2 million for the nine months ended September 30, 2010. During the three and nine months ended September 30, 2009, overall Consumer Loan performance also exceeded our expectations at the start of the periods. Consistent with the overall performance of the portfolio, impaired Loan pools experienced net improvements in forecasted cash flows, resulting in a reversal of provision for credit losses of \$3.6 million and \$7.2 million for the three months and nine months ended September 30, 2009, respectively.

Table of Contents

Interest. For the three months ended September 30, 2010, interest expense increased \$3.9 million, or 47.8%, as compared to the same period in 2009. For the nine months ended September 30, 2010, interest expense increased \$12.7 million, or 54.2%, as compared to the same period in 2009. The following table shows interest expense, the average outstanding debt balance, and the pre-tax average cost of debt for the three and nine months ended September 30, 2010 and 2009:

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Interest expense | \$ 12,038 | \$ 8,144 | \$ 36,010 | \$ 23,352 |
| Average outstanding debt balance | \$ 645,383 | \$ 562,663 | \$ 549,106 | \$ 597,268 |
| Pre-tax average cost of debt | 7.5% | 5.8% | 8.7% | 5.2% |

For the three and nine months ended September 30, 2010, the increases in interest expense were primarily due to increases in our pre-tax average cost of debt due to the issuance of the Senior Notes during the first quarter of 2010. In addition, the increase in our pre-tax average cost of debt for the nine month period was impacted by an increase in available and unused credit capacity.

Provision for claims. For the three months ended September 30, 2010, provision for claims increased \$1.0 million, or 18.7%, as compared to the same period in 2009. For the nine months ended September 30, 2010, provision for claims increased \$2.8 million, or 19.1%, as compared to the same period in 2009. The increases were due to an increase in claims paid per reinsured vehicle service contract, partially offset by a decline in the size of our reinsurance portfolio.

Provision for income taxes. For the three months ended September 30, 2010, the effective tax rate increased to 35.5%, from 34.5% in the same period in 2009. For the nine months ended September 30, 2010, the effective tax rate decreased to 33.2%, from 35.9% in the same period in 2009. The increase during the third quarter of 2010 is primarily due to a decrease in the reserve for uncertain tax positions and related interest recorded during the third quarter of 2009. The decrease for the nine month period, as compared to the same period in the prior year, was primarily due to the reversal of reserves for uncertain tax positions and associated interest as a result of the completion of the IRS audit during the second quarter of 2010.

Liquidity and Capital Resources

We need capital to fund new Loans and pay Dealer Holdback. Our primary sources of capital are cash flows from operating activities, collections of Consumer Loans and borrowings under: (1) a revolving secured line of credit with a commercial bank syndicate; (2) revolving secured warehouse facilities with institutional investors; (3) Term ABS financings with qualified institutional investors; and (4) Senior Notes. There are various restrictive debt covenants for each financing arrangement and we are in compliance with those covenants as of September 30, 2010. For information regarding these financings and the covenants included in the related documents, see Note 5 to the consolidated financial statements contained in Item 1 of this Form 10-Q, which is incorporated herein by reference.

Cash and cash equivalents decreased to \$1.5 million as of September 30, 2010 from \$2.2 million at December 31, 2009. Our total balance sheet indebtedness increased to \$679.6 million at September 30, 2010 from \$507.0 million at December 31, 2009 as the cash used to fund new Loans and repurchase common stock exceeded the net cash provided by our operating activities and principal collections from our Loan portfolio.

During the first quarter of 2010, we issued \$250.0 million aggregate principal amount of 9.125% First Priority Senior Notes. Concurrently with the issuance of the Senior Notes, we amended the agreements governing our line of credit facility with a commercial bank syndicate to facilitate the issuance of the Senior Notes and future secured indebtedness. The net proceeds from the offering of the Senior Notes were used to repay all outstanding borrowings under our line of credit facility and to repay all outstanding borrowings under our \$325.0 million revolving secured warehouse facility, subject to our ability to reborrow in each case.

The Senior Notes were issued pursuant to an Indenture, dated as of February 1, 2010, among us, BVPP and VRS, as Guarantors, and U.S. Bank National Association, as Trustee.

The Senior Notes mature on February 1, 2017 and bear interest at a rate of 9.125% per annum, computed on the basis of 360-day year composed of twelve 30-day months and payable semi-annually on February 1 and August 1 of each year, beginning on August 1, 2010. The Senior Notes were issued at 97.495% of the aggregate principal amount for net proceeds of \$243.7 million, representing a yield to maturity of 9.625%.

During the second quarter of 2010, we extended the maturity of the revolving secured line of credit facility with a commercial bank syndicate from June 23, 2011 to June 22, 2012. The interest rate on borrowings under the facility was

Table of Contents

changed from the prime rate plus 1.0% or the Eurodollar rate plus 2.75%, at the Company's option, to the prime rate plus 1.25% or the Eurodollar rate plus 2.25%, at the Company's option. The floor on the Eurodollar rate decreased from 1.50% to 0.75%. None of the financial covenants were modified.

Also during the second quarter of 2010, we extended the date on which our \$325.0 million revolving secured warehouse facility will cease to revolve from August 23, 2010 to June 15, 2013. The interest rate on borrowings under the \$325.0 million revolving secured warehouse facility was decreased from a floating rate equal to the commercial paper rate plus 5% to the commercial paper rate plus 3.5%. In addition, the agreement was modified to provide that in the event that the facility is not renewed and the borrower is in compliance with the terms and conditions of the agreement, any amounts outstanding will be repaid over time as the collections on the loans securing the facility are received.

During the second quarter of 2010, we commenced a tender offer to repurchase up to 4.0 million shares of our outstanding common stock at a price of \$50.00 per share. Upon expiration of the tender offer during the third quarter of 2010, we repurchased 4.0 million common shares at a cost of \$200.0 million, which included approximately 2.9 million shares beneficially owned by Donald A. Foss, our Chairman of the Board, and approximately 0.8 million shares beneficially owned by the trustee of certain grantor retained annuity trusts created by Mr. Foss. We financed the repurchase of our common stock in the tender offer by borrowing under our \$170.0 million revolving secured line of credit facility and \$325.0 million revolving secured warehouse facility.

During the third quarter of 2010, we extended the date on which our \$75.0 million revolving secured warehouse facility will cease to revolve from August 31, 2011 to September 10, 2013. The maturity of the facility was also extended from August 31, 2012 to September 10, 2014. The interest rate on the facility was decreased from a floating rate equal to LIBOR plus 3.75% to LIBOR plus 3.0%. There were no other material changes to the terms of the facility.

During the third quarter of 2010, we increased the amount of the revolving secured line of credit facility from \$150.0 million to \$170.0 million.

Contractual Obligations

A summary of the total future contractual obligations requiring repayments as of September 30, 2010 is as follows:

| (Dollars in thousands) | Total | Payments Due by Period | | | | Other |
|---|------------|------------------------|------------|------------|----------------------|----------|
| | | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years | |
| Long-term debt, including current maturities and capital leases (1) | \$ 685,387 | \$ 31,825 | \$ 236,344 | \$ 167,218 | \$ 250,000 | \$ |
| Operating lease obligations | 2,347 | 695 | 1,593 | 59 | | |
| Purchase obligations (2) | 827 | 476 | 351 | | | |
| Other future obligations (3) | 6,564 | | | | | 6,564 |
| Total contractual obligations (4) | \$ 695,125 | \$ 32,996 | \$ 238,288 | \$ 167,277 | \$ 250,000 | \$ 6,564 |

(1) Long-term debt obligations included in the above table consist solely of principal repayments. The

amounts are presented on a gross basis to exclude the unamortized debt discount of \$5.8 million. We are also obligated to make interest payments at the applicable interest rates, as discussed in Note 5 to the consolidated financial statements contained in Item 1 of this Form 10-Q, which is incorporated herein by reference. Based on the actual amounts outstanding under our revolving line of credit, our warehouse facilities, and our Senior Notes at September 30, 2010, the forecasted amounts outstanding on all other debt and the actual interest rates in effect as of September 30, 2010, interest is expected to be approximately \$4.1 million during 2010; \$38.4 million during 2011; and

\$145.3 million during 2012 and thereafter.

- (2) Purchase obligations consist primarily of contractual obligations related to the information system needs.
- (3) Other future obligations included in the above table consist solely of reserves for uncertain tax positions. Payments are contingent upon examination and would occur in the periods in which the uncertain tax positions are settled.
- (4) We have contractual obligations to pay Dealer Holdback to our Dealer-Partners; however, as payments of Dealer Holdback are contingent upon the receipt of customer payments and the repayment of advances, these obligations are excluded from the table above.

Based upon anticipated cash flows, management believes that cash flows from operations and its various financing alternatives will provide sufficient financing for debt maturities and for future operations. Our ability to borrow funds

may be impacted by economic and financial market conditions. If the various financing alternatives were to become limited or unavailable to us, our operations and liquidity could be materially and adversely affected.

Table of Contents

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires management 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, we review our accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2009 discusses several critical accounting estimates, which we believe involve a high degree of judgment and complexity. There have been no material changes to the estimates and assumptions associated with these accounting estimates from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2009.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Forward-Looking Statements

We make forward-looking statements in this report and may make such statements in future filings with the Securities and Exchange Commission. We may also make forward-looking statements in our press releases or other public or shareholder communications. Our forward-looking statements are subject to risks and uncertainties and include information about our expectations and possible or assumed future results of operations. When we use any of the words may, will, should, believe, expect, anticipate, assume, forecast, estimate, intend, plan expressions, we are making forward-looking statements.

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all of our forward-looking statements. These forward-looking statements represent our outlook only as of the date of this report. While we believe that our 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 our Form 10-K for the year ended December 31, 2009, other risk factors discussed herein or listed from time to time in our reports filed with the Securities and Exchange Commission and the following:

Our inability to accurately forecast and estimate the amount and timing of future collections could have a material adverse effect on results of operations.

We may be unable to execute our business strategy due to current economic conditions.

We may be unable to continue to access or renew funding sources and obtain capital needed to maintain and grow our business.

The terms of our debt limit how we conduct our business.

The conditions of the U.S. and international capital markets may adversely affect lenders with which we have relationships, causing us to incur additional costs and reducing our sources of liquidity, which may adversely affect our financial position, liquidity and results of operations.

Our substantial debt could negatively impact our business, prevent us from satisfying our debt obligations and adversely affect our financial condition.

Due to competition from traditional financing sources and non-traditional lenders, we may not be able to compete successfully.

We may not be able to generate sufficient cash flows to service our outstanding debt and fund operations and may be forced to take other actions to satisfy our obligations under such debt.

Interest rate fluctuations may adversely affect our borrowing costs, profitability and liquidity.

Reduction in our credit rating could increase the cost of our funding from, and restrict our access to, the capital markets and adversely affect our liquidity, financial condition and results of operations.

We may incur substantially more debt and other liabilities. This could exacerbate further the risks associated with our current debt levels.

The regulation to which we are or may become subject could result in a material adverse effect on our business.

Table of Contents

Adverse changes in economic conditions, the automobile or finance industries, or the non-prime consumer market could adversely affect our financial position, liquidity and results of operations, the ability of key vendors that we depend on to supply us with services, and our ability to enter into future financing transactions.

Litigation we are involved in from time to time may adversely affect our financial condition, results of operations and cash flows.

Our operations are dependent on technology.

We are dependent on our senior management and the loss of any of these individuals or an inability to hire additional team members could adversely affect our ability to operate profitably.

Our reputation is a key asset to our business, and our business may be affected by how we are perceived in the marketplace.

The concentration of our Dealer-Partners in several states could adversely affect us.

Failure to properly safeguard confidential consumer information could subject us to liability, decrease our profitability and damage our reputation.

Our founder controls a majority of our common stock, has the ability to control matters requiring shareholder approval and has interests which may conflict with the interests of our other security holders.

Reliance on our outsourced business functions could adversely affect our business.

Natural disasters, acts of war, terrorist attacks and threats or the escalation of military activity in response to these attacks or otherwise may negatively affect our business, financial condition and results of operations.

Other factors not currently anticipated by management may also materially and adversely affect our results of operations. We do not undertake, and expressly disclaim any obligation, to update or alter our statements whether as a result of new information, future events or otherwise, except as required by applicable law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Refer to our Annual Report on Form 10-K for the year ended December 31, 2009 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2009 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures.

(a) *Disclosure Controls and Procedures.* Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Internal Control Over Financial Reporting.* There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Stock Repurchases**

In 1999, our board of directors approved a stock repurchase program which authorizes us to repurchase common shares in the open market or in privately negotiated transactions at price levels we deem attractive. As of September 30, 2010, we have repurchased approximately 24.4 million shares under the stock repurchase program at a cost of \$599.2 million. Included in the stock repurchases to date are 16.5 million shares of common stock repurchased at a cost of \$504.4 million through four modified Dutch auction tender offers and one tender offer. As of September 30, 2010, we have authorization to repurchase up to \$29.1 million of our common stock.

The following table summarizes stock repurchases for the three months ended September 30, 2010:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value that May Yet Be Used to Purchase Shares Under the Plans or Programs |
|-----------------------------------|---|---|---|---|
| July 1 to July 31, 2010 | 4,000,000* | \$ 50.00 | 4,000,000 | \$ 29,113,295 |
| August 1 to August 31, 2010 | | | | 29,113,295 |
| September 1 to September 30, 2010 | | | | 29,113,295 |
| | 4,000,000 | \$ 50.00 | 4,000,000 | |

* During the second quarter of 2010, we commenced a tender offer to repurchase up to 4.0 million shares of our outstanding common stock at a price of \$50.00 per share. Upon expiration of the tender offer on July 19, 2010, we repurchased 4.0 million common shares

at a cost of
\$200.0 million.

ITEM 6. EXHIBITS

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

38

Table of Contents

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)

By: /s/ Kenneth S. Booth
Kenneth S. Booth
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)
November 1, 2010
39

Table of Contents

INDEX OF EXHIBITS

| Exhibit No. | Description |
|--------------------|--|
| 4(f)(137) | 1 Second Amendment to Loan and Security Agreement, dated as of September 10, 2010 among the Company, CAC Warehouse Funding III, LLC, and Fifth Third Bank. |
| 31(a) | 2 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31(b) | 2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32(a) | 2 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32(b) | 2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 1 | Previously filed as an exhibit to the Company's Current Report on Form 8-K, dated September 10, 2010, and incorporated herein by reference, |
| 2 | Filed herewith. |