S&T BANCORP INC
Form 10-Q
August 01, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
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 0-12508

S&T BANCORP, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	25-1434426
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
800 Philadelphia Street, Indiana, PA	15701
(Address of principal executive offices)	(zip code)

800-325-2265
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant 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 (Section 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 x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.
Common Stock, $2.50 Par Value - 35,008,546 shares as of July 31, 2018

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S&T BANCORP, INC. AND SUBSIDIARIES

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S&T BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(dollars in thousands, except per share data)	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Cash and due from banks, including interest-bearing deposits of $81,210 and $61,965 at June 30, 2018 and December 31, 2017	$137,933	$117,152
Securities, at fair value	688,341	698,291
Loans held for sale	3,801	4,485
Portfolio loans, net of unearned income	5,786,118	5,761,449
Allowance for loan losses	(60,517)	(56,390)
Portfolio loans, net	5,725,601	5,705,059
Bank owned life insurance	73,122	72,150
Premises and equipment, net	40,889	42,702
Federal Home Loan Bank and other restricted stock, at cost	35,782	29,270
Goodwill	287,446	291,670
Other intangible assets, net	2,909	3,677
Other assets	101,522	95,799
Total Assets	$7,097,346	$7,060,255
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$1,410,211	$1,387,712
Interest-bearing demand	553,729	603,141
Money market	1,267,623	1,146,156
Savings	845,526	893,119
Certificates of deposit	1,316,444	1,397,763
Total Deposits	5,393,533	5,427,891
Securities sold under repurchase agreements	44,724	50,161
Short-term borrowings	600,000	540,000
Long-term borrowings	46,062	47,301
Junior subordinated debt securities	45,619	45,619
Other liabilities	60,275	65,252
Total Liabilities	6,190,213	6,176,224
SHAREHOLDERS' EQUITY		
Common stock ($2.50 par value)		
Authorized—50,000,000 shares		
Issued—36,130,480 shares at June 30, 2018 and December 31, 2017	90,326	90,326
Outstanding— 35,009,945 shares at June 30, 2018 and 34,971,929 shares at December 31, 2017		
Additional paid-in capital	216,885	216,106
Retained earnings	662,112	628,107
Accumulated other comprehensive (loss) income	(30,945)	(18,427)
Treasury stock (1,120,535 shares at June 30, 2018 and 1,158,551 shares at December 31, 2017, at cost)	(31,245)	(32,081)

Total Shareholders’ Equity	907,133	884,031
Total Liabilities and Shareholders’ Equity	$7,097,346	$7,060,255

See Notes to Consolidated Financial Statements

S&T BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share data)	2018	2017	2018	2017
INTEREST INCOME				
Loans, including fees	$66,610	$60,558	$129,665	$117,458
Investment Securities:				
Taxable	3,519	2,947	6,948	5,796
Tax-exempt	872	928	1,746	1,848
Dividends	580	481	1,251	963
Total Interest Income	71,581	64,914	139,610	126,065
INTEREST EXPENSE				
Deposits	9,166	5,976	17,012	11,355
Borrowings and junior subordinated debt securities	4,012	2,368	7,264	4,261
Total Interest Expense	13,178	8,344	24,276	15,616
NET INTEREST INCOME	58,403	56,570	115,334	110,449
Provision for loan losses	9,345	4,869	11,817	10,052
Net Interest Income After Provision for Loan Losses	49,058	51,701	103,517	100,397
NONINTEREST INCOME				
Net gain (loss) on sale of securities	—	3,617	—	3,987
Debit and credit card	3,309	3,042	6,347	5,885
Service charges on deposit accounts	3,227	2,997	6,468	6,012
Wealth management	2,616	2,428	5,298	4,831
Mortgage banking	831	675	1,432	1,408
Insurance	134	1,458	303	2,913
Gain on sale of a majority interest of insurance business	—	—	1,873	—
Other	2,134	2,048	4,323	4,225
Total Noninterest Income	12,251	16,265	26,044	29,261
NONINTEREST EXPENSE				
Salaries and employee benefits	18,611	19,903	37,426	40,444
Net occupancy	2,804	2,751	5,677	5,566
Data processing and information technology	2,379	2,163	4,704	4,386
Furniture, equipment and software	2,134	1,810	4,090	3,857
Other taxes	1,739	1,083	3,587	2,060
Marketing	1,190	948	1,892	1,702
Professional services and legal	888	931	1,939	1,999
FDIC insurance	739	1,185	1,847	2,308
Other	5,379	5,823	10,783	11,084
Total Noninterest Expense	35,863	36,597	71,945	73,406
Income Before Taxes	25,446	31,369	57,616	56,252
Provision for income taxes	4,010	8,604	10,017	15,299
Net Income	$21,436	$22,765	$47,599	$40,953
Earnings per share—basic	$0.62	$0.66	$1.37	$1.18
Earnings per share—diluted	$0.61	$0.65	$1.36	$1.17
Dividends declared per share	$0.25	$0.20	$0.47	$0.40
Comprehensive Income	$20,444	$22,503	$35,081	$41,879

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(dollars in thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Treasury Stock	Total
Balance at January 1, 2017	$90,326	$213,098	$585,891	$ (13,784)	$(33,575)	$841,956
Net income for six months ended June 30, 2017	—	—	40,953	—	—	40,953
Other comprehensive income (loss), net of tax	—	—	—	926	—	926
Cash dividends declared ($0.40 per share)	—	—	(13,927)	—	—	(13,927)
Treasury stock issued for restricted awards (89,351 shares, net of 22,094 forfeitures)	—	—	(2,413)	—	1,724	(689)
Recognition of restricted stock compensation expense	—	1,843	—	—	—	1,843
Balance at June 30, 2017	$90,326	$214,941	$610,504	$ (12,858)	$(31,851)	$871,062
Balance at January 1, 2018	$90,326	$216,106	$628,107	$ (18,427)	$(32,081)	$884,031
Net income for six months ended June 30, 2018	—	—	47,599	—	—	47,599
Other comprehensive income (loss), net of tax	—	—	—	(8,229)	—	(8,229)
Reclassification of tax effects from the Tax Act[1]	—	—	3,427	(3,427)	—	—
Reclassification of net unrealized gains on equity securities[2]	—	—	862	(862)	—	—
Cash dividends declared ($0.47 per share)	—	—	(16,391)	—	—	(16,391)
Treasury stock issued for restricted awards (75,608 shares, net of 37,592 forfeitures)	—	—	(1,492)	—	836	(656)
Recognition of restricted stock compensation expense	—	779	—	—	—	779
Balance at June 30, 2018	$90,326	$216,885	$662,112	$ (30,945)	$(31,245)	$907,133

See Notes to Consolidated Financial Statements

[1]Reclassification due to the adoption of ASU No. 2018-02 - $(3,660) relates to funded status of pension and $233 relates to net unrealized gains on available-for-sale securities.

[2]Reclassification due to the adoption of ASU No. 2016-01.

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S&T BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
(dollars in thousands)	2018	2017
OPERATING ACTIVITIES		
Net income	$47,599	$40,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	11,817	10,052
Recovery for unfunded loan commitments	(114)	(334)
Net depreciation, amortization and accretion	2,174	850
Net amortization of discounts and premiums on securities	1,572	2,030
Stock-based compensation expense	779	1,843
Net (gain) loss on sale of securities	—	(3,987)
Mortgage loans originated for sale	(41,631)	(38,899)
Proceeds from the sale of mortgage loans	42,998	38,041
Gain on the sale of mortgage loans, net	(683)	(719)
Gain on the sale of majority interest of insurance business	(1,873)	—
Net increase in interest receivable	(520)	(666)
Net increase in interest payable	699	246
Net (increase) decrease in other assets	(853)	4,484
Net increase (decrease) in other liabilities	2,529	(1,775)
Net Cash Provided by Operating Activities	64,493	52,119
INVESTING ACTIVITIES		
Purchases of securities	(54,481)	(36,604)
Proceeds from maturities, prepayments and calls of securities	45,487	35,256
Proceeds from sales of securities	—	7,751
Net (purchases) sales of Federal Home Loan Bank stock	(6,512)	1,600
Net increase in loans	(37,957)	(176,768)
Proceeds from sale of loans not originated for resale	3,922	3,581
Purchases of premises and equipment	(804)	(3,018)
Proceeds from the sale of premises and equipment	110	273
Proceeds from the sale of majority interest of insurance business	4,540	—
Net Cash Used in Investing Activities	(45,695)	(167,929)
FINANCING ACTIVITIES		
Net increase in core deposits	46,962	44,914
Net (decrease) increase in certificates of deposit	(81,255)	92,427
Net decrease in securities sold under repurchase agreements	(5,437)	(4,343)
Net increase (decrease) in short-term borrowings	60,000	(15,000)
Repayments of long-term borrowings	(1,239)	(1,195)
Treasury shares issued-net	(657)	(689)
Cash dividends paid to common shareholders	(16,391)	(13,927)
Net Cash Provided by Financing Activities	1,983	102,187
Net increase (decrease) in cash and cash equivalents	20,781	(13,623)
Cash and cash equivalents at beginning of period	117,152	139,486
Cash and Cash Equivalents at End of Period	$137,933	$125,863
Supplemental Disclosures		

Loans transferred to held for sale	$3,922	$17,750
Interest paid	$23,576	$15,369
Income taxes paid, net of refunds	$11,103	$13,399
Transfer net assets to investment in insurance company partnership	$1,917	$—
Transfers to other real estate owned and other repossessed assets	$2,841	$1,407

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Principles of Consolidation

The interim Consolidated Financial Statements include the accounts of S&T Bancorp, Inc., or S&T, and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Investments of 20 percent to 50 percent of the outstanding common stock of investees are accounted for using the equity method of accounting.

Basis of Presentation

The accompanying unaudited interim Consolidated Financial Statements of S&T have been prepared in accordance with generally accepted accounting principles, or GAAP, in the United States 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 GAAP for complete financial statements and should be read in conjunction with the audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission, or SEC, on March 1, 2018. In the opinion of management, the accompanying interim financial information reflects all adjustments, consisting of normal recurring adjustments, necessary to present fairly our financial position and the results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.

On January 1, 2018, we sold a 70 percent majority interest in the assets of our wholly-owned subsidiary S&T Evergreen Insurance, LLC. We transferred our remaining ownership interest in the net assets of S&T Evergreen Insurance, LLC for a 30 percent ownership interest in a new partnership entity (see Note 13: Sale of a Majority Interest of Insurance Business). We use the equity method of accounting to recognize our partial ownership interest in the new entity.

Reclassification

Amounts in prior period financial statements and footnotes are reclassified whenever necessary to conform to the current period presentation. Reclassifications had no effect on our results of operations or financial condition.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Recently Adopted Accounting Standards Updates, or ASU or Update

Income Statement - Reporting Comprehensive Income - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this Update allow a reclassification from accumulated other comprehensive income, or AOCI, to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act, or Tax Act. The amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users and will require certain disclosures about the stranded tax effects. This Update is effective for all entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not been issued or made available for issuance. We have elected to reclassify all tax effects related to the Tax Act from AOCI to retained earnings as of January 1, 2018. As such, we have early adopted this Update and reclassified $3.4 million for the release of stranded income tax effects relating to unrealized gains and losses on our securities portfolio and our pension plan from AOCI to retained earnings as of March 31, 2018. The adoption of this ASU had no impact on our Consolidated Statements of Comprehensive Income. Our policy for releasing income tax effects from AOCI is to release them as investments are sold or mature and liabilities are extinguished.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

Compensation - Retirement Benefits - Improving the Presentation of Net Periodic Pension Costs and Net Periodic Post Retirement Benefit Costs
In March 2017, the FASB issued ASU No. 2017-07, Compensation Retirement Benefits - Improving the Presentation of Net Periodic Pension Costs and Net Periodic Post Retirement Benefit Costs (Topic 715). The main objective of this ASU is to provide financial statement users with clearer and disaggregated information related to the components of net periodic benefit cost and improve transparency of the presentation of net periodic benefit cost in the financial statements. This Update was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption was permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance. Effective March 31, 2016, our qualified and nonqualified defined benefit plans were amended to freeze benefit accruals for all persons entitled to benefits under the plan; as such, the adoption of this ASU had no impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.
Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets - Clarifying the Scope of Assets Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets
In February 2017, the FASB issued ASU No. 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). The main objective of this ASU is to provide greater detail on what types of transactions should be accounted for as partial sales of nonfinancial assets. This ASU, as originally issued in ASU No. 2014-09, is intended to reduce the complexity of current GAAP requirements by clarifying which accounting guidance applies to various types of contracts that transfer assets or ownership interest to another entity. This Update was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017 and at the same time that ASU No. 2014-09 was effective. Early adoption was permitted, but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The adoption of this ASU was applied to the partial sale of our insurance subsidiary in January 2018. As such, the subsidiary is no longer included in our consolidated financial statements and we recognized a $1.9 million gain on the transaction.
Business Combinations - Clarifying the Definition of a Business
In January 2017, the FASB issued ASU No. 2017-01, Business Combinations - Clarifying the Definition of a Business (Topic 805). The main objective of this ASU is to help financial statement preparers evaluate whether a set of transferred assets and activities (either acquired or disposed of) is a business under Topic 805, Business Combinations by changing the definition of a business. The revised definition results in fewer acquisitions being accounted for as business combinations than under previous guidance. The definition of a business is significant because it affects the accounting for acquisitions, the identification of reporting units, consolidation evaluations and the accounting for dispositions. This Update was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption was permitted for transactions not yet reflected in financial statements that have been issued or made available for issuance. The adoption of this ASU had no impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.
Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory
In October 2016, the FASB issued ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory. The main objective of this ASU is to require companies to recognize the income tax effects of intercompany sales and transfers of assets other than inventory in the period in which the transfer occurs. This represents a change from previous guidance, which required companies to defer the income tax effects of intercompany transfers of assets until the asset has been sold to an outside party or otherwise recognized. The new guidance requires companies to defer the income tax effects only of intercompany transfers of inventory. This Update was effective for annual periods beginning after December 15, 2017. Early adoption was permitted as of the beginning of an annual period. If an entity chose to early adopt the amendments in the ASU, it had to do so in the first interim period of its annual financial

statements. That is, an entity could not have adopted the amendments in the ASU in a later interim period and apply them as if they were in effect as of the beginning of the year. The adoption of this ASU had no impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The main objective of this ASU is to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in this Update provide guidance on the following eight specific cash flow issues: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

combination, proceeds from the settlement of insurance claims, proceeds from the settlement of bank-owned life insurance (BOLI) policies, distributions received from equity method investments, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. This Update was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption was permitted, provided that all of the amendments are adopted in the same period. The adoption of this ASU had no material impact to the presentation of activities in our Consolidated Statements of Cash Flows.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This revenue pronouncement established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded most previous revenue recognition guidance in GAAP. We adopted the new standard January 1, 2018. Our primary sources of revenue are derived from interest and dividends earned on loans, investment securities and other financial instruments that are not within the scope of ASU No. 2014-09. We evaluated the nature of our contracts with customers and related revenue streams, including service charges on deposit accounts, debit and credit cards and wealth management and determined that revenue recognition did not change significantly from current practice. We evaluated certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue. The adoption of this ASU had no material impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

Accounting for Financial Instruments - Overall: Classification and Measurement

In January 2016, the FASB issued ASU No. 2016-01, Accounting for Financial Instruments - Overall: Classification and Measurement (Subtopic 825-10). The amendments in this ASU address the following: 1. require equity investments to be measured at fair value with changes in fair value recognized in net income; 2. simplify the impairment assessment of equity investments without readily-determinable fair values by requiring a qualitative assessment to identify impairment; 3. eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 4. require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 5. require separate presentation in other comprehensive income for the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 6. require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements; and 7. clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This ASU was effective for annual and interim periods in fiscal years beginning after December 15, 2017. We adopted ASU No. 2016-01 as of January 1, 2018 and have concluded that the provisions of this ASU did not materially impact our Balance Sheets or Statements of Comprehensive Income. The new guidance resulted in a change in the fair value measurement of our loan portfolio as of March 31, 2018 using an exit price notion (see Note 3: Fair Value Measurements). The new guidance also resulted in a cumulative-effect adjustment of $0.9 million from AOCI to retained earnings at January 1, 2018 for net unrealized gains on our marketable equities portfolio. As a result of the new guidance, we recognized $0.3 million of net unrealized gains in our Consolidated Statements of Comprehensive Income during the six months ended June 30, 2018 on our marketable equity securities portfolio.

Accounting Standards Issued But Not Yet Adopted

Leases - Land Easement Practical Expedient for Transition to Topic 842

In January 2018, the FASB issued ASU No. 2018-01, Leases - Land Easement Practical Expedient for Transition to Topic 842. The amendments in this ASU permit an entity to elect an optional transition practical expedient to not evaluate under Topic 842 land easements, that existed or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2018. We are evaluating the amendments in this ASU; however, we do not anticipate that these amendments will materially impact our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment
In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment (Topic 350). The main objective of this ASU is intended to simplify the current requirements for testing goodwill for impairment by eliminating step two from the goodwill impairment test. The amendments are expected to reduce the complexity and costs associated with performing the goodwill impairment test, which could result in recording impairment charges sooner than under the current guidance. This Update is effective for any interim and annual impairment tests in reporting periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially impact our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.
Financial Instruments - Credit Losses
In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments of this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. The collective changes to the recognition and measurement accounting standards for financial instruments and their anticipated impact on the allowance for credit losses modeling have been universally referred to as CECL, or current expected credit loss, model. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We have created a CECL Committee to govern the implementation of these amendments consisting of key stakeholders from Credit Administration, Finance, Risk Management and Internal Audit. We have engaged a third-party to assist us in developing our CECL methodology. We continue to evaluate the provisions of this ASU to determine the potential impact on our Consolidated Balance Sheets and Consolidated Statements of Comprehensive Income.
Leases - Section A-Amendments to the FASB Accounting Standards Codification, Section B-Conforming Amendments Related to Leases and Section C-Background Information and Basis for Conclusions
In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires lessees to recognize a right-to-use asset and a lease obligation for all leases on the balance sheet. Lessor accounting remains substantially similar to current GAAP. ASU No. 2016-02 supersedes Topic 840, Leases. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2018. ASU No. 2016-02 mandates a modified retrospective transition method for all entities. Early adoption of this ASU is permitted. We anticipate that this ASU will impact our financial statements as it relates to the recognition of right-to-use assets and lease obligations on our Consolidated Balance Sheets. We have approximately 50 lease agreements for our branch and loan production offices, which are currently accounted for as operating leases. We expect the new guidance will require these lease agreements to be included on our Consolidated Balance Sheets as right-to-use assets with a corresponding lease liability. We expect that these changes to our Consolidated Balance Sheets will impact our regulatory capital ratios. We have compiled a preliminary inventory of our leases and continue to evaluate the standard. We anticipate that this ASU will impact total assets and total liabilities presented on our Balance Sheets; however, we do not believe that it will materially impact our Consolidated Statements of Comprehensive Income.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 2. EARNINGS PER SHARE

The following table reconciles the numerators and denominators of basic and diluted earnings per share for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except share and per share data)	2018	2017	2018	2017
Numerator for Earnings per Share—Basic:				
Net income	$ 21,436	$ 22,765	$ 47,599	$ 40,953
Less: Income allocated to participating shares	62	81	141	141
Net Income Allocated to Shareholders	$ 21,374	$ 22,684	$ 47,458	$ 40,812
Numerator for Earnings per Share—Diluted:				
Net income	$ 21,436	$ 22,765	$ 47,599	$ 40,953
Net Income Available to Shareholders	$ 21,436	$ 22,765	$ 47,599	$ 40,953
Denominators for Earnings per Share:				
Weighted Average Shares Outstanding—Basic	34,793,160	34,724,925	34,775,043	34,707,683
Add: Potentially dilutive shares	264,416	181,571	267,998	199,693
Denominator for Treasury Stock Method—Diluted	35,057,576	34,906,496	35,043,041	34,907,376
Weighted Average Shares Outstanding—Basic	34,793,160	34,724,925	34,775,043	34,707,683
Add: Average participating shares outstanding	100,212	123,729	103,449	119,585
Denominator for Two-Class Method—Diluted	34,893,372	34,848,654	34,878,492	34,827,268
Earnings per share—basic	$ 0.62	$ 0.66	$ 1.37	$ 1.18
Earnings per share—diluted	$ 0.61	$ 0.65	$ 1.36	$ 1.17
Warrants considered anti-dilutive excluded from potentially dilutive shares - exercise price $31.53 per share, expires January 2019	374,314	466,554	386,747	456,749
Restricted stock considered anti-dilutive excluded from potentially dilutive shares	89,974	126,332	76,325	105,187

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENTS

We use fair value measurements when recording and disclosing certain financial assets and liabilities. Debt securities, equity securities, trading assets and derivative financial instruments are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale, impaired loans, other real estate owned, or OREO, and other repossessed assets, mortgage servicing rights, or MSRs, and certain other assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction. In determining fair value, we use various valuation approaches, including market, income and cost approaches. The fair value standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, which are developed based on market data that we have obtained from independent sources. Unobservable inputs reflect our estimates of assumptions that market participants would use in pricing an asset or liability, which are developed based on the best information available in the circumstances.

The fair value hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1: valuation is based upon unadjusted quoted market prices for identical instruments traded in active markets.

Level 2: valuation is based upon quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by market data.

Level 3: valuation is derived from other valuation methodologies, including discounted cash flow models and similar techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in determining fair value.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our policy is to recognize transfers between any of the fair value hierarchy levels at the end of the reporting period in which the transfer occurred.

The following are descriptions of the valuation methodologies that we use for financial instruments recorded at fair value on either a recurring or nonrecurring basis.

Recurring Basis

Debt Securities Available-for-Sale

We obtain fair values for debt securities from a third-party pricing service which utilizes several sources for valuing fixed-income securities. We validate prices received from our pricing service through comparison to a secondary pricing service and broker quotes. We review the methodologies of the pricing service which provide us with a sufficient understanding of the valuation models, assumptions, inputs and pricing to reasonably measure the fair value of our debt securities. The market evaluation sources for debt securities include observable inputs rather than significant unobservable inputs and are classified as Level 2. The service provider utilizes pricing models that vary by asset class and include available trade, bid and other market information. Generally, the methodologies include broker quotes, proprietary models, vast descriptive terms and conditions databases, and extensive quality control programs.

Equity Securities

Marketable equity securities that have an active, quotable market are classified as Level 1. Marketable equity securities that are quotable, but are thinly traded or inactive, are classified as Level 2. Marketable equity securities that are not readily traded and do not have a quotable market are classified as Level 3.

Trading Assets

We use quoted market prices to determine the fair value of our trading assets. Our trading assets are held in a Rabbi Trust under a deferred compensation plan and are invested in readily quoted mutual funds. Accordingly, these assets are classified as Level 1. Rabbi Trust assets are reported in other assets in the Consolidated Balance Sheets.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENTS – continued

Derivative Financial Instruments

We use derivative instruments, including interest rate swaps for commercial loans with our customers, interest rate lock commitments and the sale of mortgage loans in the secondary market. We calculate the fair value for derivatives using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. Each valuation considers the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, such as interest rate curves and implied volatilities. Accordingly, derivatives are classified as Level 2. We incorporate credit valuation adjustments into the valuation models to appropriately reflect both our own nonperformance risk and the respective counterparties' nonperformance risk in calculating fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements and collateral postings.

Nonrecurring Basis

Loans Held for Sale

Loans held for sale consist of 1-4 family residential loans originated for sale in the secondary market and, from time to time, certain loans transferred from the loan portfolio to loans held for sale, all of which are carried at the lower of cost or fair value. The fair value of 1-4 family residential loans is based on the principal or most advantageous market currently offered for similar loans using observable market data. The fair value of the loans transferred from the loan portfolio is based on the amounts offered for these loans in currently pending sales transactions. Loans held for sale carried at fair value are classified as Level 3.

Impaired Loans

Impaired loans are carried at the lower of carrying value or fair value. Fair value is determined as the recorded investment balance less any specific reserve. We establish specific reserves based on the following three impairment methods: 1) the present value of expected future cash flows discounted at the loan’s original effective interest rate; 2) the loan’s observable market price; or 3) the fair value of the collateral less estimated selling costs when the loan is collateral dependent and we expect to liquidate the collateral. However, if repayment is expected to come from the operation of the collateral, rather than liquidation, then we do not consider estimated selling costs in determining the fair value of the collateral. Collateral values are generally based upon appraisals by approved, independent state certified appraisers. Appraisals may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or our knowledge of the borrower and the borrower’s business. Impaired loans carried at fair value are classified as Level 3.

OREO and Other Repossessed Assets

OREO and other repossessed assets obtained in partial or total satisfaction of a loan are recorded at the lower of recorded investment in the loan or fair value less cost to sell. Subsequent to foreclosure, these assets are carried at the lower of the amount recorded at acquisition date or fair value less cost to sell. Accordingly, it may be necessary to record nonrecurring fair value adjustments. Fair value, when recorded, is generally based upon appraisals by approved, independent state certified appraisers. Like impaired loans, appraisals on OREO may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or other information available to us. OREO and other repossessed assets carried at fair value are classified as Level 3.

Mortgage Servicing Rights

The fair value of MSRs is determined by calculating the present value of estimated future net servicing cash flows, considering expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The expected rate of mortgage loan prepayments is the most significant factor driving the value of MSRs. MSRs are considered impaired if the carrying value exceeds fair value. The valuation model includes significant unobservable inputs; therefore, MSRs are classified as Level 3. MSRs are reported in other assets in the Consolidated Balance Sheets and are amortized into noninterest income in the

Consolidated Statements of Comprehensive Income.

S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENTS – continued

Other Assets
We measure certain other assets at fair value on a nonrecurring basis. Fair value is based on the application of lower of cost or fair value accounting, or write-downs of individual assets. Valuation methodologies used to measure fair value are consistent with overall principles of fair value accounting and consistent with those described above.
Financial Instruments
In addition to financial instruments recorded at fair value in our financial statements, fair value accounting guidance requires disclosure of the fair value of all of an entity's assets and liabilities that are considered financial instruments. The majority of our assets and liabilities are considered financial instruments. Many of these instruments lack an available trading market as characterized by a willing buyer and a willing seller engaged in an exchange transaction. Also, it is our general practice and intent to hold our financial instruments to maturity and to not engage in trading or sales activities with respect to such financial instruments. For fair value disclosure purposes, we substantially utilize the fair value measurement criteria as required and explained above. In cases where quoted fair values are not available, we use present value methods to determine the fair value of our financial instruments.
Cash and Cash Equivalents
The carrying amounts reported in the Consolidated Balance Sheets for cash and due from banks, including interest-bearing deposits, approximate fair value.
Loans
With the adoption of ASU No. 2016-01, Accounting for Financial Instruments - Overall: Classification and Measurement, on January 1, 2018, we refined our methodology to estimate the fair value of our loan portfolio to use the exit price notion as required by the standard. The guidance was applied on a prospective basis resulting in prior-periods no longer being comparable.
The fair value of variable rate loans that may reprice frequently at short-term market rates is based on carrying values adjusted for liquidity and credit risk. The fair value of variable rate loans that reprice at intervals of one year or longer, such as adjustable rate mortgage products, is estimated using discounted cash flow analyses that utilize interest rates currently being offered for similar loans and adjusted for liquidity and credit risk. The fair value of fixed rate loans is estimated using a discounted cash flow analysis that utilizes interest rates currently being offered for similar loans adjusted for liquidity and credit risk.
Bank Owned Life Insurance
Fair value approximates net cash surrender value of bank owned life insurance, or BOLI.
Federal Home Loan Bank, or FHLB, and Other Restricted Stock
It is not practical to determine the fair value of our FHLB and other restricted stock due to the restrictions placed on the transferability of these stocks; it is presented at carrying value.
Deposits
The fair values disclosed for deposits without defined maturities (e.g., noninterest and interest-bearing demand, money market and savings accounts) are by definition equal to the amounts payable on demand. The carrying amounts for variable rate, fixed-term time deposits approximate their fair values. Estimated fair values for fixed rate and other time deposits are based on discounted cash flow analysis using interest rates currently offered for time deposits with similar terms. The carrying amount of accrued interest approximates fair value.
Short-Term Borrowings
The carrying amounts of securities sold under repurchase agreements, or REPOs, and other short-term borrowings approximate their fair values.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENTS – continued

Long-Term Borrowings
The fair values disclosed for fixed rate long-term borrowings are determined by discounting their contractual cash flows using current interest rates for long-term borrowings of similar remaining maturities. The carrying amounts of variable rate long-term borrowings approximate their fair values.
Junior Subordinated Debt Securities
The interest rate on the variable rate junior subordinated debt securities is reset quarterly; therefore, the carrying values approximate their fair values.
Loan Commitments and Standby Letters of Credit
Off-balance sheet financial instruments consist of commitments to extend credit and letters of credit. Except for interest rate lock commitments, estimates of the fair value of these off-balance sheet items are not made because of the short-term nature of these arrangements and the credit standing of the counterparties.
Other
Estimates of fair value are not made for items that are not defined as financial instruments, including such items as our core deposit intangibles and the value of our trust operations.
Assets and Liabilities Recorded at Fair Value on a Recurring Basis
The following tables present our assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at June 30, 2018 and December 31, 2017. There were no transfers between Level 1 and Level 2 for items measured at fair value on a recurring basis during the periods presented.

	June 30, 2018			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Debt securities available-for-sale:				
U.S. Treasury securities	$—	$9,619	$—	$9,619
Obligations of U.S. government corporations and agencies	—	155,069	—	155,069
Collateralized mortgage obligations of U.S. government corporations and agencies	—	118,742	—	118,742
Residential mortgage-backed securities of U.S. government corporations and agencies	—			
Gain (loss) from discontinued operations per common share:				
Basic	$ 0.00	$ 0.04	$ (0.01)	
Diluted	$ 0.00	$ 0.04	$ (0.01)	
Weighted average shares outstanding:				
Basic	30,249,783	30,053,129	33,035,693	
Diluted	31,105,043	31,153,688	35,283,478	

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(Dollars in Thousands)	Total Shareholders Equity	Comprehensive Income	Common Stock Number	Common Stock Amount	Paid-In Capital	Unearned Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2006	$ 373,026		37,027	$ 370	$ 29,746	$ (1,566)	$ 344,513	$ (37)
Cumulative affect due to adoption of SFAS 123R modified prospective application					(1,566)	1,566		
Comprehensive income:								
Net income	58,640	$ 58,640					58,640	
Other comprehensive income:								
Unrealized gain on securities available for sale, net of tax of $3	1	1						1
Total comprehensive income		$ 58,641						
Stock-based compensation	87				87			
Issuance of restricted stock, net of forfeitures			47					
Repurchase of common stock	(247,168)		(8,796)	(87)	(53,181)		(193,900)	
Stock options exercised	12,091		1,902	19	12,072			
Tax benefit for exercised stock options	13,670				13,670			
Balance, December 31, 2006	210,347		30,180	302	828		209,253	(36)
Cumulative affect due to adoption of FIN 48	(87)						(87)	
Comprehensive income:								
Net income	54,916	$ 54,916					54,916	
Other comprehensive income:								
Unrealized gain on securities available for sale, net of tax of $(26)	49	49						49

Total comprehensive income		$ 54,965						
Stock-based compensation	4,659				4,659			
Issuance of restricted stock, net of forfeitures			57					
Repurchase of common stock	(9,530)		(371)		(6,449)		(3,081)	
Stock options exercised	2,584		375		2,584			
Tax benefit for exercised stock options	2,512				2,512			
Balance, December 31, 2007	265,450		30,241	302	4,134		261,001	13
Comprehensive income:								
Net income	67,177	$ 67,177					67,177	
Other comprehensive income:								
Unrealized loss on interest rate swap, net of tax of $1,488	(2,580)	(2,580)						(2,580)
Unrealized gain on securities available for sale, net of tax of $(3)	5	5						5
Total comprehensive income		$ 64,602						
Stock-based compensation	4,309		60		4,309			
Issuance of restricted stock, net of forfeitures			80	1	(1)			
Repurchase of common stock	(66)		(4)		(66)			
Forfeiture of restricted stock			(16)					
Stock options exercised	2,375		306	3	2,372			
Tax benefit for exercised stock options	1,081				1,081			
Balance, December 31, 2008	$ 337,751		30,667	$ 306	$ 11,829	$	$ 328,178	$ (2,562)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	Years Ended December 31, 2008	2007	2006
Cash Flows From Operating Activities:			
Net income	$ 67,177	$ 54,916	$ 58,640
Adjustments to reconcile cash provided by operating activities:			
Provision for credit losses	46,029	19,947	11,006
Depreciation	5,342	4,105	4,624
Loss (gain) on retirement of property and equipment	74	196	(271)
Provision for deferred income taxes	11,777	20,346	636
Stock-based compensation	4,309	4,659	87
Change in operating assets and liabilities:			
Increase in accounts payable and accrued liabilities	46	1,453	22,589
Decrease (increase) in income taxes receivable	21,593	(8,978)	(7,712)
(Increase) decrease in other assets	(867)	1,248	(3,425)
Net cash provided by operating activities	155,480	97,892	86,174
Cash Flows From Investing Activities:			
Increase in restricted cash and cash equivalents	(6,231)	(28,493)	(32,136)
Purchases of restricted securities available for sale	(1,514)	(550)	(795)
Proceeds from sale of restricted securities available for sale	373		302
Maturities of restricted securities available for sale	1,094	898	278
Principal collected on Loans receivable	609,487	576,543	551,792
Advances to dealers and accelerated payments of dealer holdback	(524,496)	(571,197)	(532,869)
Purchases of Consumer Loans	(280,326)	(139,340)	(25,562)
Payments of dealer holdback	(58,503)	(70,950)	(70,110)
Net decrease in other receivables	167	349	3,050
Purchases of property and equipment	(6,341)	(7,659)	(1,536)
Net cash used in investing activities	(266,290)	(240,399)	(107,586)
Cash Flows From Financing Activities:			
Borrowings under line of credit	809,700	633,500	414,630
Repayments under line of credit	(784,700)	(635,600)	(412,530)
Proceeds from secured financing	605,700	619,500	678,500
Repayments of secured financing	(519,590)	(476,579)	(434,856)
Principal payments under mortgage note and capital lease obligations	(1,526)	(1,429)	(1,502)
Repurchase of common stock	(66)	(9,530)	(247,168)
Proceeds from stock options exercised	2,375	2,584	12,091
Tax benefits from stock based compensation plans	1,081	2,512	13,670
Net cash provided by financing activities	112,974	134,958	22,835

Effect of exchange rate changes on cash		278		(267)		15
Net increase (decrease) in cash and cash equivalents		2,442		(7,816)		1,438
Cash and cash equivalents, beginning of period		712		8,528		7,090
Cash and cash equivalents, end of period	$	3,154	$	712	$	8,528
Supplemental Disclosure of Cash Flow Information:						
Cash paid during the period for interest	$	43,255	$	36,131	$	23,056
Cash paid during the period for income taxes	$	3,681	$	14,506	$	25,427
Supplemental Disclosure of Non-Cash Transactions:						
Property and equipment acquired through capital lease obligations	$		$	563	$	1,785

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Principal Business. Since 1972, Credit Acceptance (referred to as the Company , Credit Acceptance , we , our or u 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 share our commitment to changing consumers lives, as dealer-partners . Upon enrollment in our programs, the dealer-partner enters into a dealer servicing agreement with Credit Acceptance that defines the legal relationship between Credit Acceptance and the dealer-partner. The dealer servicing agreement assigns the responsibilities for administering, servicing, and collecting the amounts due on retail installment contracts (referred to as Consumer Loans) from the dealer-partners to us.

A consumer who does not qualify for conventional automobile financing can purchase a used vehicle from a Credit Acceptance dealer-partner and finance the purchase through us. We are an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the dealer-partner and immediately assigned to us. If we discover a misrepresentation by the dealer-partner relating to a Consumer Loan assigned to us, we can demand that the Consumer Loan be repurchased for the current balance of the Consumer Loan less the amount of any unearned finance charge plus the applicable termination fee, which is generally $500. Upon receipt of such amount in full, we will reassign the Consumer Loan and our security interest in the financed vehicle to the dealer-partner.

We have two primary programs: the Portfolio Program and the Purchase Program. 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 12 quarters:

Quarter Ended	Portfolio Program	Purchase Program
March 31, 2006	94.9%	5.1%
June 30, 2006	95.8%	4.2%
September 30, 2006	96.3%	3.7%
December 31, 2006	96.5%	3.5%
March 31, 2007	94.8%	5.2%
June 30, 2007	83.8%	16.2%
September 30, 2007	74.5%	25.5%
December 31, 2007	70.6%	29.4%
March 31, 2008	70.2%	29.8%
June 30, 2008	65.4%	34.6%
September 30, 2008	69.2%	30.8%
December 31, 2008	78.2%	21.8%

Dealer-partners that enroll in our programs have the option to either pay an upfront, one-time enrollment fee of $9,850 or defer payment by agreeing to allow us to keep 50% of their first accelerated dealer holdback payment (Portfolio Profit Express). Portfolio Profit Express is paid to qualifying dealer-partners after a pool of 100 or more Consumer Loans has been closed. Dealer-partners that enrolled in our programs prior to 2008 have the option to assign Consumer Loans under either the Portfolio Program or the Purchase Program. During 2008, we changed our eligibility requirements for new dealer-partner enrollments to restrict access to the Purchase Program. For dealer-partners that enrolled in our programs during the first eight months of 2008, only dealer-partners that elected to pay the upfront, one-time enrollment fee were initially allowed to assign Consumer Loans under either program. Dealer-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. DESCRIPTION OF BUSINESS (Continued)

partners that elected the deferred option during this period were only granted access to the Purchase Program after the first Portfolio Profit Express payment has been made under the Portfolio Program. For all dealer-partners enrolling in our programs after August 31, 2008, access to the Purchase Program is only granted after the first Portfolio Profit Express payment has been made under the Portfolio Program.

Portfolio Program

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

a down payment from the consumer;

a cash 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. At the dealer-partner s option, a pool containing at least 100 Consumer Loans can be closed and subsequent advances assigned to a new pool. All advances due from a dealer-partner are secured by the future collections on the dealer-partner s portfolio of Consumer Loans assigned to us. For dealer-partners with more than one pool, the pools are cross-collateralized so the performance of other pools is considered in determining eligibility for dealer holdback. We perfect our security interest in the Dealer Loans by taking possession of the Consumer Loans.

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

First, to reimburse us for certain collection costs;

Second, to pay us our servicing fee;

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

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

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

Since typically the combination of the advance and the consumer s down payment provides the dealer-partner with a cash profit at the time of sale, the dealer-partner s risk in the Consumer Loan is limited. We cannot demand repayment from the dealer-partner of the advance except in the event the dealer-partner is in default of the dealer servicing agreement. Advances are made only after the Consumer Loan is approved, accepted and assigned to us and all other stipulations required for funding have been satisfied. The dealer-partner can also opt to repurchase Consumer Loans assigned under the Portfolio Program, at their 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. The cash amount advanced to the dealer-partner is recorded as an asset on our balance sheet. The aggregate amount of all advances to an individual dealer-partner, plus finance charges, plus dealer holdback payments, plus Portfolio Profit Express payments, less

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. DESCRIPTION OF BUSINESS (Concluded)

collections (net of certain collection costs), less write-offs, comprises the amount of the Dealer Loan recorded in Loans receivable.

Purchase Program

We began offering a Purchase Program on a limited basis in March of 2005. The Purchase Program differs from our traditional Portfolio Program in that the dealer-partner receives a single payment from us at the time of origination instead of a cash advance and dealer holdback. Purchase Program volume increased significantly beginning in 2007 as the program was offered to additional dealer-partners.

For accounting purposes, the transactions described under the Purchase Program are considered to be originated by the dealer-partner and then purchased by us. The cash amount paid to the dealer-partner is recorded as an asset on our balance sheet. The aggregate amount of all amounts paid to purchase Consumer Loans from dealer-partners, plus finance charges, less collections (net of certain collection costs), less write-offs, comprises the amount of Purchased Loans recorded in Loans receivable.

Businesses in Liquidation. Effective June 30, 2003, we decided to stop originating Consumer Loans in the United Kingdom and we sold the remainder of the portfolio on December 30, 2005. Over the last three years we have had minimal activity as we have been liquidating our United Kingdom subsidiary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and our wholly-owned subsidiaries. All significant intercompany transactions have been eliminated. Our primary subsidiaries are: Buyer s Vehicle Protection Plan, Inc., Vehicle Remarketing Services, Inc., VSC Re Company, CAC Warehouse Funding Corp. II, CAC Warehouse Funding III, LLC, Credit Acceptance Funding LLC 2006-1, Credit Acceptance Funding LLC 2006-2, Credit Acceptance Funding LLC 2007-1, Credit Acceptance Funding LLC 2007-2, and Credit Acceptance Funding LLC 2008-1.

Reportable Business Segments

We are organized into two primary business segments: United States and Other. For more information regarding our reportable segments, see Note 11 to the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires us to make estimates and assumptions 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. The accounts which are subject to significant estimation include the allowance for credit losses, finance charge revenue, stock-based compensation expense, contingencies, and taxes. Actual results could materially differ from those estimates.

Cash and Cash Equivalents

Cash equivalents consist of readily marketable securities with original maturities at the date of acquisition of three months or less.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash and Cash Equivalents

The carrying amount of restricted cash and cash equivalents approximate their fair value due to the short maturity of these instruments. The following table summarizes restricted cash and cash equivalents:

	As of December 31, 2008	2007
(in thousands)		
Cash collections related to secured financings	$ 48,956	$ 42,518
Cash held in trusts for future vehicle service contract claims (1)	31,377	18,266
Cash held in escrow related to settlement of class action lawsuit (2)		13,318
Total restricted cash and cash equivalents	$ 80,333	$ 74,102

(1) The unearned premium and claims reserve associated with the trusts are included in accounts payable and accrued liabilities in the consolidated balance sheets.

(2) For additional information related to the settlement of the class action lawsuit in the state of Missouri, see Note 12 to the consolidated financial statements.

Restricted Securities Available for Sale

Restricted securities 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 December 31, 2008			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
US Government and agency securities	$ 842	$ 53	$	$ 895
Corporate bonds	2,475	9	(34)	2,450

Total restricted securities available for sale	$	3,317	$	62	$	(34)	$	3,345

	As of December 31, 2007							
		Cost		Gross Unrealized Gains		Gross Unrealized Losses		Estimated Fair Value
(in thousands)								
US Government and agency securities	$	1,584	$	40	$		$	1,624
Corporate bonds		1,686		10		(30)		1,666
Total restricted securities available for sale	$	3,270	$	50	$	(30)	$	3,290

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	As of December 31,			
	2008		2007	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
(in thousands)				
Contractual Maturity				
Within one year	$ 1,665	$ 1,670	$ 1,096	$ 1,100
Over one year to five years	1,652	1,675	2,174	2,190
Total restricted securities available for sale	$ 3,317	$ 3,345	$ 3,270	$ 3,290

Finance Charges

Finance charges is comprised of: (1) servicing fees earned as a result of servicing Consumer Loans assigned to us by dealer-partners under the Portfolio Program; (2) finance charge income from Purchased Loans; (3) fees earned from our third party ancillary product offerings; (4) monthly program fees charged to dealer-partners under the Portfolio Program; and (5) fees associated with certain Loans. We recognize finance charge income on Loans in a manner consistent with the provisions of the American Institute of Certified Public Accountants Statement of Position (SOP) 03-3 Accounting for Certain Loans or Debt Securities Acquired in a Transfer. SOP 03-3 requires us to recognize finance charges under the interest method such that revenue is recognized on a level-yield basis based upon forecasted cash flows.

For Dealer Loans only, certain direct origination costs such as salaries and credit reports are deferred and the net costs are recognized as an adjustment to finance charges over the life of the related Dealer Loan on a level-yield basis. This treatment is in accordance with Statement of Financial Accounting Standards (SFAS) No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases .

Buyers Vehicle Protection Plan, Inc. (BVPP), a wholly-owned subsidiary of the Company, has relationships with third party administrators (TPAs) whereby the TPAs process claims on vehicle service contracts that are underwritten by third party insurers. BVPP receives a commission for all vehicle service contracts sold by our dealer-partners when the vehicle is financed by us. The commission is included in the retail price of the vehicle service contract which is added to the Consumer Loan. We provide dealer-partners with an additional advance based on the retail price of the vehicle service contract. We recognize our commission from the vehicle service contracts as part of finance charges on a level-yield basis based upon forecasted cash flows.

BVPP also has a relationship with a TPA that allows dealer-partners to offer a Guaranteed Asset Protection (GAP) product to consumers whereby the TPA processes claims that are underwritten by a third party insurer. GAP provides the consumer protection by paying the difference between the loan balance and the amount covered by the consumer s insurance policy in the event the vehicle is totaled or stolen. We receive a commission for all GAP contracts sold by our dealer-partners when the vehicle is financed by us, and do not bear any risk of loss for claims. The commission is included in the retail price of the GAP contract which is added to the Consumer Loan. We provide dealer-partners with an additional advance based on the retail price of the GAP contract. We recognize our commission from the GAP contracts as part of finance charges on a level-yield basis based upon forecasted cash flows.

Program fees represent monthly fees of $599 charged to dealer-partners for access to our Credit Approval Processing System (CAPS); administration, servicing and collection services offered by the Company; documentation related to or affecting our program; and all tangible and intangible property owned by Credit Acceptance. Effective January 1, 2007, we implemented a change designed to positively impact dealer-partner attrition. We continue to charge a monthly fee of $599 to dealer-partners participating in our Portfolio Program, but instead of collecting and recognizing the revenue from the fee in the current period, we collect it from future dealer holdback

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

payments. As a result of this change, we now record program fees under the Portfolio Program as a yield adjustment, recognizing these fees as finance charge revenue over the forecasted net cash flows of the Dealer Loan.

Premiums Earned

During the fourth quarter of 2008, we formed VSC Re Company (VSC Re), a wholly-owned subsidiary that 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 two of our three 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. The Company has entered into arrangements with third-party insurance companies that limit our exposure to fund claims to the amount of premium dollars contributed, less amounts earned and withdrawn, plus $0.5 million of equity contributed. With the reinsurance structure, we will be able to access projected excess trust assets monthly and will record revenue and expense on an accrual basis. Premiums are earned over the life of the vehicle service contract using an average of the pro rata and rule of 78 methods. Claims are expensed as provision for claims in the period the claim was incurred. Our financial results for the year ended December 31, 2008 reflect two months of VSC Re activity, including $3.9 million in premiums earned and $2.7 million in provision for claims. Under Financial Accounting Standards Board (FASB) Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), we are considered the primary beneficiary of the trusts and as a result, trust assets of $29.3 million at December 31, 2008 have been consolidated on our balance sheet as restricted cash and cash equivalents. As of December 31, 2008, accounts payable and accrued liabilities includes $23.3 million of unearned premium and $0.9 million of claims reserve related to our reinsurance of vehicle service contracts.

Prior to the formation of VSC Re, our agreements with two of our 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. As the trust assets transferred to VSC Re exceeded the ceded unearned premiums, we recorded a deferred gain of $4.3 million upon the formation of VSC Re. The deferred gain will be recognized as premiums earned revenue over a 26 month period (average remaining life of the ceded vehicle service contracts) using an average of the pro rata and rule of 78 methods. Vehicle service contracts written prior to 2008 through one of the TPAs remains 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. Under FIN 46, we are considered the primary beneficiary of the trusts. As a result, the assets and liabilities of the remaining trust have been consolidated on our balance sheet. As of December 31, 2008, the remaining trust had $5.4 million in assets available to pay claims and a related claims reserve of $4.7 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 accounts.

We formed VSC Re in order to enhance our control and the security of the trust assets that will be used to pay future vehicle service contract claims. The income we expect to earn from vehicle service contracts over time will likely not be impacted as, both before and after the formation of VSC Re, the income we receive is based on the amount by which vehicle service contract premiums exceed claims. The only change in our risk associated with adverse claims experience relates to the $0.5 million equity contribution that was required as part of this new structure, which is now at risk in the event claims exceed premiums. Under the prior structure, our risk was limited to the amount of premiums contributed to the trusts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Our determination to consolidate the VSC Re trusts and the profit sharing trusts under FIN 46 was based on the following:

First, we determined that the trusts qualified as variable interest entities as defined under FIN 46. 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, for VSC Re, we are required to absorb any losses in excess of the trusts assets, up to the $0.5 million of equity contributed.

Finally, we determined that we are the primary beneficiary of the trusts. The trusts are not expected to generate losses that need to be absorbed by the parties to the trusts. The trusts are expected to generate residual returns and we are entitled to all of those returns.

The limited amounts of premiums earned and provision for claims in 2007 and 2006 relate to coverage we reinsured under credit life and disability insurance sold to consumers by dealer-partners on vehicles financed by us. We ceased financing this product in 2006.

Program Fees

As discussed further under Finance Charges, effective January 1, 2007, we made a change in how we collect the monthly program fee of $599 charged to dealer-partners participating in our Portfolio Program. As a result of this change, we now recognize program fees under the Portfolio Program as finance charge revenue. During 2008 and 2007, the limited amount of program fee revenue recognized relates to certain dealer-partners that only participate in our Purchase Program. During 2006, program fee revenue recognized relates to dealer-partners participating in both our Portfolio and Purchase Programs. Program fee revenue is recognized in the period charged to the dealer-partner.

Other Income

Other income consists of the following:

	Years Ended December 31,		
	2008	**2007**	**2006**
(in thousands)			
Marketing income	$ 4,198	$ 2,691	$ 1,515
Remarketing charges	4,021	2,954	3,029
Vehicle service contract and GAP profit sharing income	3,738	1,201	51
Dealer support products and services	2,416	2,779	3,598
Interest income	2,019	3,020	1,799
Dealer enrollment fees	1,905	1,859	1,725

Seminars and conventions	527	1,034	1,244
Rental income	306	404	458
Other	2,073	2,868	2,676
	$ 21,203	$ 18,810	$ 16,095

Marketing income primarily consists of payments received on a monthly basis from vendors that charge a fee to consumers to process or expedite their payments. The amount of income we earn is based on the amount of payments processed by the vendors and is paid to us according to a tiered structure. Marketing income also includes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

fees we receive from third parties for providing dealer-partners in certain states the ability to purchase Global Positioning Systems (GPS) with Starter Interrupt Devices (SID). Through this program, dealer-partners can install a GPS-based SID (GPS-SID) on vehicles financed by us that can be activated if the consumer fails to make payments on their account, and can result in the prompt repossession of the vehicle. Dealer-partners purchase the GPS-SID directly from the third party and the third party pays us a marketing fee for each device sold. GPS-SID revenue is recognized when the unit is sold and installed in the consumer s vehicle.

Remarketing charges are fees retained from the sale of repossessed vehicles by Vehicle Remarketing Services, Inc. (VRS), a wholly-owned subsidiary that is responsible for remarketing vehicles for Credit Acceptance. VRS coordinates vehicle repossessions with a nationwide network of repossession agents, the redemption of the vehicle by the consumer, or the sale of the vehicle through a nationwide network of vehicle auctions. VRS recognizes income from the retained fees at the time of the sale. VRS does not retain a fee if a repossessed vehicle is redeemed by the consumer prior to the sale. In addition, any skip tracing fees incurred by VRS are passed on to us and are included in remarketing charges.

Vehicle service contract and GAP profit sharing income is from payments received from TPAs based upon the performance of vehicle service contracts and GAP products provided by BVPP. Profit sharing payments from the TPAs are received periodically during the year, if eligible. Profit sharing payments are currently not estimable due to a lack of historical information and therefore, revenue related to these payments is recognized in the period the payments are received.

Dealer support products and services revenue primarily relates to products and services provided to dealer-partners to assist with their vehicle inventory and is recognized in the period the service is provided.

Interest income includes income on restricted cash relating to collections on securitized Loans and income related to amounts in the vehicle service contract trust accounts and is recognized in the month earned.

Dealer enrollment fees include fees from dealer-partners that enroll in our programs by either paying an upfront, one-time enrollment fee of $9,850 or deferring payment by agreeing to allow us to keep 50% of their first Portfolio Profit Express payment. For dealer-partners that choose to pay the upfront, one-time enrollment fee of $9,850, revenue related to these fees is amortized on a straight-line basis over the estimated life of the dealer-partner relationship. For dealer-partners that choose to defer payment, we do not recognize any revenue for the enrollment fee until the dealer-partner has met the eligibility requirements to receive an accelerated dealer holdback payment and the amount of the first payment, if any, has been calculated. Once the accelerated dealer holdback payment has been calculated, we defer the 50% portion that we keep and recognize it on a straight-line basis over the remaining estimated life of the dealer-partner relationship.

Loans Receivable and Allowance for Credit Losses

Dealer Loans. At the time of acceptance, Consumer Loans that meet certain criteria are eligible for an advance, which is computed on a formula basis. The Dealer Loan is increased as revenue is recognized, dealer holdback payments are made, and Portfolio Profit Express Payments are made, and decreased as collections (net of certain collection costs) are received and write-offs are recorded. We follow an approach consistent with the provisions of SOP 03-3 in determining our allowance for credit losses. Consistent with SOP 03-3, an allowance for credit losses is maintained at an amount that reduces the net asset value (Dealer Loan balance less the allowance) to the value of forecasted future cash flows discounted at the yield established at the inception of the Dealer Loan. This allowance is calculated on a dealer-partner by dealer-partner basis. The discounted value of future cash flows is comprised of estimated future collections on the Consumer Loans, less any estimated dealer holdback payments. We write off Dealer Loans once there are no forecasted future collections on any of the associated Consumer Loans.

Future collections on Dealer Loans are forecasted based on the historical performance of loans with similar characteristics. Dealer holdback is forecasted based on the expected future collections and current advance balance of each Dealer Loan. Cash flows from any individual Dealer Loan are often different than estimated cash flows at

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dealer Loan inception. If such difference is favorable, the difference is recognized prospectively into income over the remaining life of the Dealer Loan through a yield adjustment. If such difference is unfavorable, a provision for credit losses is recorded immediately as a current period expense and a corresponding allowance for credit losses is established. Because differences between estimated cash flows at inception and actual cash flows occur often, an allowance is required for a significant portion of our Dealer Loan portfolio. An allowance for credit losses does not necessarily indicate that a Dealer Loan is unprofitable, and in recent years, very seldom are cash flows from a Dealer Loan insufficient to repay the initial amounts advanced to the dealer-partner. Due to recent trends and a concern about the worsening economic environment, forecasted collection amounts on Dealer Loans originated in 2006 through 2008 were reduced by 100 to 400 basis points.

Cash advanced to dealer-partners is automatically assigned to the originating dealer-partner s open pool of business. At the dealer-partner s option, a pool containing at least 100 Consumer Loans can be closed and subsequent advances assigned to a new pool. All advances due from a dealer-partner are secured by the future collections on the dealer-partner s portfolio of Consumer Loans that have been assigned to us. Net collections on all related Consumer Loans within the pool, after payment of our servicing fee and reimbursement of certain collection costs, are applied to reduce the aggregate advance balance owing against those Consumer Loans. Once the advance balance has been repaid, the dealer-partner is entitled to receive future collections from Consumer Loans within that pool, after payment of our servicing fee and reimbursement of certain collection costs. If the collections on Consumer Loans from a dealer-partner s pool are not sufficient to repay the advance balance, the dealer-partner will not receive the dealer holdback. Additionally, 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 payments.

Purchased Loans. The Purchased Loan amount reflected on our balance sheet is increased as revenue is recognized and decreased as collections (net of certain collection costs) are received and write-offs are recorded. We aggregate Purchased Loans into pools based on the month of purchase for revenue recognition and impairment purposes. We follow SOP 03-3 in determining our allowance for credit losses. Under SOP 03-3, an allowance for credit losses is maintained at an amount that reduces the net asset value (Purchased Loan pool balance less the allowance) to the value of forecasted future cash flows discounted at the yield established at the date of purchase. The discounted value of future cash flows is comprised of estimated future collections on the pool of Purchased Loans. We write off pools of Purchased Loans once there are no forecasted future collections on any of the Purchased Loans included in the pool.

Future collections on Purchased Loans are forecasted based on the historical performance of loans with similar characteristics. Cash flows from any individual pool of Purchased Loans are often different than estimated cash flows at the date of purchase. If such difference is favorable, the difference is recognized prospectively into income over the remaining life of the pool of Purchased Loans through a yield adjustment. If such difference is unfavorable, a provision for credit losses is recorded immediately as a current period expense and a corresponding allowance for credit losses is established. Due to recent trends and a concern about the worsening economic environment, forecasted collection amounts on Purchased Loans originated in 2006 through 2008 were reduced by 100 to 400 basis points.

Property and Equipment

Purchases of property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful life of the asset. Estimated useful lives are generally as follows: buildings 40 years, building improvements 10 years, data processing equipment 3 years, software 5 years, office furniture and equipment 7 years, and leasehold improvements the lesser of the lease term or 7 years. The cost of assets sold or retired and the related accumulated depreciation are removed from the balance sheet at the time of disposition and any resulting gain or loss is included in operations. Maintenance, repairs and minor replacements are charged to operations as incurred; major replacements and improvements are capitalized. We evaluate long-lived assets for

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Software developed for internal use is capitalized and generally amortized on a straight-line basis in accordance with Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (SOP 98-1). As required by SOP 98-1, we capitalize the costs incurred during the application development stage. Capitalized development costs are amortized over five years while costs incurred to maintain existing product offerings are expensed as incurred.

Deferred Debt Issuance Costs

As of December 31, 2008 and 2007, deferred debt issuance costs were $3.4 million (net of accumulated amortization of $5.6 million) and $3.3 million (net of accumulated amortization of $2.0 million), respectively, and are included in other assets in the consolidated balance sheets. Expenses associated with the issuance of debt instruments are capitalized and amortized as interest expense over the term of the debt instrument on a level-yield basis for term secured financings and on a straight-line basis for lines of credit and revolving secured financings.

Income Taxes

Provisions for federal, state and foreign income taxes are calculated on reported pre-tax earnings based on current tax law and also include, in the current period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes.

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered.

Effective January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest benefit that has a greater than 50% likelihood of being sustained. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. The cumulative effect of implementation of FIN 48 was approximately a $0.1 million increase in the liability for unrecognized tax benefits, which was accounted for as a decrease in the January 1, 2007 balance of retained earnings. Furthermore, in accordance with FIN 48, effective January 1, 2007, we began to recognize interest and penalties related to income tax matters in the provision for income taxes. Prior to January 1, 2007, interest related to income tax matters was recognized in interest expense and penalties related to income tax matters were recognized in general and administrative expense.

Prior to January 1, 2008, the Company had state tax obligations in the State of Michigan under the Single Business Tax act that were not considered an income tax under the provisions of SFAS No. 109 Accounting for Income Taxes (SFAS 109). On July 12, 2007, the Michigan legislature enacted the Michigan Business Tax and Michigan Gross Receipts Tax, effective January 1, 2008, both of which are considered an income tax under the provisions of SFAS 109.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments

Interest Rate Caps. We purchase interest rate cap agreements to manage the interest rate risk on our $325.0 million and $50.0 million revolving secured warehouse facilities. As we have not designated these agreements as hedges as defined under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), as amended, changes in the fair value of these agreements will increase or decrease net income.

As of December 31, 2008, seven interest rate cap agreements with various maturities between July 2009 and February 2011 were outstanding with a cap rate of 6.75% and a fair value of $1,000. As of December 31, 2007, four interest rate cap agreements with various maturities between May 2008 and June 2010 were outstanding with a cap rate of 6.75% and a fair value of $6,000.

Interest Rate Swaps. As of December 31, 2008 we had $76.0 million in fixed rate debt, and $192.2 million in floating rate debt outstanding under Term ABS 144A asset-backed secured borrowings. We have entered into two interest rate swaps, which were effective on the closing date of the financings, to convert $50.0 million and $150.0 million in floating rate Term ABS 144A asset-backed secured borrowings into fixed rate debt bearing a rate of 6.28% and 6.37%, respectively. The fair value of the interest rate swaps is 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, and number of months until maturity. As we have not designated the interest rate swap related to the $50.0 million in floating rate debt as a hedge as defined under SFAS 133, changes in the fair value of this swap will increase or decrease interest expense. For the years ended December 31, 2008 and 2007, the impact of changes in fair value on interest expense was $0.3 million and $0.5 million, respectively. As of December 31, 2008 and 2007, the interest rate swap had a fair value of ($0.8) million and ($0.5) million, respectively.

We have designated the interest rate swap related to the $150.0 million floating rate debt as a cash flow hedge as defined under SFAS 133. The effective portion of changes in the fair value will be recorded in other comprehensive income, net of income taxes, and the ineffective portion of changes in fair value will be recorded in interest expense. There has been no such ineffectiveness since the inception of this hedge through December 31, 2008. For the year ended December 31, 2008, the impact of changes in fair value on other comprehensive income, net of tax, was approximately ($2.6) million. As of December 31, 2008, the interest rate swap had a fair value of ($4.1) million.

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

At December 31, 2008, we had minimal exposure to credit loss on the interest rate swaps. We do not believe that any reasonably likely change in interest rates would have a materially adverse effect on our financial position, our results of operations or our cash flows.

We recognize our derivative financial instruments as either other assets or accounts payable and accrued liabilities on our consolidated balance sheets.

Stock Compensation Plans

At December 31, 2008, we have three stock-based compensation plans for employees and directors, which are described more fully in Note 10 to the consolidated financial statements. On January 1, 2006, we adopted revised

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SFAS No. 123R, Share-Based Payment under the modified prospective application method. We had previously adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation , under the retroactive restatement transition method in 2003. Adoption of SFAS No. 123R primarily resulted in a change in our estimated forfeitures for unvested stock-based compensation awards, which resulted in a cumulative reversal of stock-based compensation expense of $0.4 million for the quarter ended March 31, 2006.

Employee Benefit Plan

We sponsor a 401(k) plan that covers substantially all of our employees. Through March 31, 2008, employees could elect to contribute to the plan from 1% to 20% of their salary subject to statutory limitations. Beginning April 1, 2008, employees could elect to contribute to the plan from 1% to 75% of their salary subject to statutory limitations. During 2008, we made matching contributions equal to 50% of the employee contributions, up to a maximum of $1,250 per employee, which becomes 100% vested on a 6 year graded schedule. We recognized compensation expense of $0.5 million in 2008 and 2007, and $0.4 million in 2006 for our matching contributions to the plan. Beginning January 1, 2009, we will make matching contributions equal to 50% of the employee contributions, up to a maximum of 3% of each employee s annual gross pay. All previous and future matching contributions will become 100% vested immediately.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $0.4 million for the years ended December 31, 2008 and 2007, and $0.6 million for the year ended December 31, 2006.

New Accounting Pronouncements

Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods of those fiscal years. However, on February 12, 2008, the FASB issued FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP FAS 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP FAS 157-2. We adopted the applicable portions of SFAS 157 on January 1, 2008 (See Note 3). The deferred portions of SFAS 157 will not have an impact on our financial statements. The adoption of the applicable portions of SFAS 157 for financial assets and liabilities did not have a material impact on our consolidated financial statements.

Fair Value Option for Financial Assets and Liabilities. In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure financial assets and liabilities (except for those that are specifically exempted from SFAS 159) at fair value. The election to measure a financial asset or liability at fair value can be made on an instrument-by-instrument basis and is irrevocable. The difference between carrying value and fair value at the election date is recorded as a transition adjustment to opening retained earnings. Subsequent changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. At this time, we have not elected to measure any financial assets or liabilities at fair value under SFAS 159.

Disclosures About Derivative Instruments and Hedging Activities. In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures. This statement is effective for financial statements issued for fiscal years and interim periods beginning

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

after November 15, 2008, with early application encouraged. The adoption of SFAS 161 will have no financial impact on our consolidated financial statements but will expand our disclosures.

Transfers of Financial Assets and Interests in Variable Interest Entities. In September 2008, the FASB issued FASB Staff Position (FSP) FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities (FSP FAS 140-4 and FIN 46(R)-8). FSP FAS 140-4 and FIN 46(R)-8 requires additional disclosures about transfers of financial assets and interests in variable interest entities. FSP FAS 140-4 and FIN 46(R)-8 amends both FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , and FASB Interpretation (FIN) No. 46 (Revised December 2003), Consolidation of Variable Interest Entities , to require: (1) additional disclosures about transferors continuing involvements with transferred financial assets; (2) additional disclosures about a public entities (including sponsors) involvement with variable interest entities; and (3) disclosures by a public enterprise that is: (a) a sponsor of a qualifying special-purpose entity (SPE) that holds a variable interest in the qualifying SPE but was not the transferor of financial assets to the qualifying SPE; and (b) a servicer of a qualifying SPE that holds a significant variable interest in the qualifying SPE but was not the transferor of financial assets to the qualifying SPE. The adoption of FSP FAS 140-4 and FIN 46(R)-8 for the year ended December 31, 2008 had no financial impact on our consolidated financial statements but did expand our disclosures.

Reclassification

Certain amounts for prior periods have been reclassified to conform to the current presentation.

3. 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 the Company 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. FAIR VALUE OF FINANCIAL INSTRUMENTS (Concluded)

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

	As of December 31,			
	2008		2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents and restricted cash	$ 83,487	$ 83,487	$ 74,814	$ 74,814
Restricted securities available for sale	3,345	3,345	3,290	3,290
Net investment in Loans receivable	1,017,917	1,042,790	810,553	826,828
Derivative instruments	1	1	6	6
Liabilities				
Line of credit	$ 61,300	$ 61,300	$ 36,300	$ 36,300
Secured financing	574,175	569,811	488,065	434,655
Mortgage note	5,274	5,415	6,070	5,867
Derivative instruments	4,895	4,895	478	478

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

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

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

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

The following table provides the fair value measurements of applicable assets and liabilities as of December 31, 2008 (in thousands):

	Level 1	Level 2	Total Fair Value

Assets			
Restricted securities available for sale	$ 3,345	$	$ 3,345
Derivative instruments		1	1
Liabilities			
Derivative instruments	$	$ 4,895	$ 4,895

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. LOANS RECEIVABLE

Loans receivable consists of the following (in thousands):

	As of December 31, 2008	As of December 31, 2007
Dealer Loans receivable	$ 823,567	$ 804,245
Purchased Loans receivable	325,185	140,453
Loans receivable	$ 1,148,752	$ 944,698

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

	For the Year Ended December 31, 2008		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 804,245	$ 140,453	$ 944,698
New loans (1)	524,496	280,326	804,822
Transfers (2)	(7,953)	7,953	
Dealer holdback payments	58,503		58,503
Net cash collections on loans	(506,600)	(103,429)	(610,029)
Write-offs	(48,723)	(146)	(48,869)
Recoveries		28	28
Net change in other loans	(123)		(123)
Currency translation	(278)		(278)
Balance, end of period	$ 823,567	$ 325,185	$ 1,148,752

	For the Year Ended December 31, 2007		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 724,645	$ 29,926	754,571
New loans (1)	571,197	139,340	710,537
Transfers (2)	(4,748)	4,748	
Dealer holdback payments	70,950		70,950
Net cash collections on loans	(543,846)	(33,398)	(577,244)
Write-offs	(14,376)	(192)	(14,568)
Recoveries		29	29

Net change in other loans	154		154
Currency translation	269		269
Balance, end of period	$ 804,245	$ 140,453	$ 944,698

(1) New Dealer Loans includes advances to dealer-partners and Portfolio Profit Express.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. LOANS RECEIVABLE (Continued)

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

	For the Year Ended December 31, 2008		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 133,201	$ 944	$ 134,145
Provision for credit losses (1)	29,608	16,178	45,786
Write-offs	(48,723)	(146)	(48,869)
Recoveries		28	28
Currency translation	(255)		(255)
Balance, end of period	$ 113,831	$ 17,004	$ 130,835

	For the Year Ended December 31, 2007		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 127,881	$ 910	128,791
Provision for credit losses (2)	19,468	197	19,665
Write-offs	(14,376)	(192)	(14,568)
Recoveries		29	29
Currency translation	228		228
Balance, end of period	$ 133,201	$ 944	$ 134,145

(1) Does not include a provision for credit losses of $243 related to other items.

(2) Does not include a provision for credit losses of $282 related to other items.

The increase in the provision for credit losses for the year ended December 31, 2008 compared to the prior year was primarily due to a reduction in estimated future collection rates during the second and fourth quarters of 2008.

Our forecast of future collections prior to the second quarter of 2008 assumed that Loans within our current portfolio would produce similar collection rates as produced by historical Loans with the same attributes. During the second quarter of 2008, we modified our forecast to assume that Loans originated in 2006, 2007 and 2008 would perform 100 to 300 basis points lower than historical Loans with the same attributes. As a result we reduced our estimate of future cash flows on these same Loans by $22.2 million, or 1.7%. Of the total reduction, $20.8 million was recorded as provision for credit losses during the second quarter of 2008. We did not modify our forecast related to 2005 and prior

Loans as these Loans continue to perform as expected. During the fourth quarter of 2008, we again realized lower than expected collection rates and as a result implemented an additional modification to our forecasting methodology. This modification reduced estimated future net cash flows by $9.5 million or 0.7% of the total undiscounted cash flow stream expected from our Loan portfolio. The adjustment impacted only Loans originated subsequent to September 30, 2007 with more recent Loans impacted more severely and more seasoned Loans within this time period impacted less severely. Forecasted collection rates on Loans originated on or before September 30, 2007 were not modified as collection results during the fourth quarter of 2008 were consistent with our expectations for these Loans. In addition, during the fourth quarter of 2008, we revised the estimated timing of future collections to reflect recent trends in prepayment frequency. In recent periods, we have experienced a reduction in prepayments, which typically result from payoffs that occur when customers reestablish a positive credit history, trade-in their vehicle, and finance another vehicle purchase with a more traditional auto loan. As the availability of traditional financing has been curtailed as a result of current economic conditions, prepayment rates have declined. As a result of these forecast modifications, we recognized a provision for credit losses of $10.6 million during the fourth quarter of 2008.

During the first quarter of 2008, in conjunction with our implementation of a new forecasting methodology, we reevaluated our forecast of future collections on old, fully-reserved Dealer Loans. As a result, we wrote off

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. LOANS RECEIVABLE (Concluded)

$22.7 million of Dealer Loans and the related allowance for credit losses as we were no longer forecasting any future collections on these Dealer Loans. This write-off had no impact on net income for the first quarter of 2008 as all of these Dealer Loans were fully-reserved. During the third quarter of 2008, we wrote off $16.5 million of Loans to one individual dealer-partner in accordance with our write-off policy as we were no longer forecasting any future collections on these Loans. This dealer-partner has not assigned any Consumer Loans to us for several years. As of December 31, 2007, we had an allowance for credit losses of $16.2 million on Loans to this dealer-partner.

5. LEASED PROPERTIES

We lease office space and office equipment. We expect that in the normal course of business, leases will be renewed or replaced by other leases. Total rental expense from continuing operations on all operating leases was $1.0 million, $0.8 million and $0.5 million for 2008, 2007 and 2006, respectively. Contingent rentals under the operating leases were insignificant. Our total minimum future lease commitments under operating leases as of December 31, 2008 are as follows (in thousands):

Minimum Future Lease Commitments

2009	$ 973
2010	393
2011	272
2012	274
2013	138
Thereafter	
	$ 2,050

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	As of December 31,	
	2008	**2007**
Land and land improvements	$ 2,582	$ 2,582
Building and improvements	11,926	11,175
Data processing equipment and software	37,381	35,073
Office furniture and equipment	3,472	2,525
Leasehold improvements	344	344
Total property and equipment	55,705	51,699
Less:		

Accumulated depreciation on property and equipment	(32,574)	(30,302)
Accumulated depreciation on capital leased assets	(2,082)	(1,273)
Total accumulated depreciation	(34,656)	(31,575)
	$ 21,049	$ 20,124

Property and equipment included capital leased assets of $2.7 million and $2.4 million as of December 31, 2008 and 2007, respectively. Depreciation expense on property and equipment, including capital leased assets, was $5.3 million, $4.1 million and $4.6 million in 2008, 2007, and 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. PROPERTY AND EQUIPMENT (Concluded)

For the years ended December 31, 2008, 2007 and 2006, we capitalized software developed for internal use of $3.4 million, $1.5 million, and $0.7 million, respectively. As of December 31, 2008 and 2007, capitalized software costs, net of accumulated depreciation, totaled $4.8 million and $3.0 million, respectively.

7. DEBT

We currently use four primary sources of debt financing: (1) a revolving secured line of credit with a commercial bank syndicate; (2) revolving secured warehouse facilities with institutional investors; (3) SEC Rule 144A asset-backed secured financings (Term ABS 144A) with qualified institutional investors; and (4) a residual credit facility with an institutional investor. General information for each of the Company s financing transactions in place as of December 31, 2008 is as follows (dollars in thousands):

Financings	Wholly-owned Subsidiary (1)	Issue Number	Close Date	Revolving Maturity Date	Financing Amount	Interest Rate at December 31, 2008
Revolving Line of Credit	n/a	n/a	January 25, 2008	June 22, 2010	$ 153,500	At the Company s option, either Eurodollar rate plus 125 basis points (1.70%) or the prime rate minus 60 basis points (2.65)%
Revolving Secured Warehouse Facility (1)	CAC Warehouse Funding Corp. II	2003-2	August 27, 2008	August 26, 2009	$ 325,000	Commercial paper rate plus 100 basis points (3.33%) or LIBOR plus 200 basis points (2.44%) (4) (5)
Revolving Secured Warehouse Facility (1)	CAC Warehouse Funding III, LLC	2008-2	May 27, 2008	May 23, 2010	$ 50,000	Commercial paper rate plus 77.5 basis points (3.10%) or LIBOR plus 177.5 basis points (2.21%)(4)
Term ABS 144A 2006-2(1)	Credit Acceptance Funding LLC 2006-2	2006-2	November 21, 2006	November 15, 2007 (2)	$ 100,000	Fixed rate (5.38)%
		2007-1			$ 100,000	

Term ABS 144A 2007-1(1)	Credit Acceptance Funding LLC 2007-1		April 12, 2007	April 15, 2008 (2)			Fixed rate (5.32)%
Term ABS 144A 2007-2(1)	Credit Acceptance Funding LLC 2007-2	2007-2	October 29, 2007	October 15, 2008 (2)	$	100,000	Fixed rate (6.22%) (3)
Term ABS 144A 2008-1(1)	Credit Acceptance Funding LLC 2008-1	2008-1	April 18, 2008	April 15, 2009 (2)	$	150,000	Fixed rate (6.37%) (3)
Residual Credit Facility(1)	Credit Acceptance Residual Funding LLC	2006-3	August 27, 2008	August 26, 2009	$	50,000	LIBOR plus 350 basis points (3.94%) or the commercial paper rate plus 250 basis points (4.83%) (4) (5)

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

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

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

(4) The LIBOR rate is used if funding is not available from the commercial paper market.

(5) Includes a floating rate obligation that has been converted to a fixed rate via interest rate caps.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. DEBT (Continued)

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

	Years Ended December 31, 2008	Years Ended December 31, 2007
Revolving Line of Credit		
Maximum outstanding balance	$ 128,400	$ 73,400
Average outstanding balance	59,991	40,874
Revolving Secured Warehouse Facility (2003-2) (1)		
Maximum outstanding balance	$ 320,000	$ 293,500
Average outstanding balance	262,884	216,984
Revolving Secured Warehouse Facility (2008-2)		
Maximum outstanding balance	$ 50,000	$
Average outstanding balance	50,000	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. DEBT (Continued)

	As of December 31, 2008	2007
Revolving Line of Credit		
Balance outstanding	$ 61,300	$ 36,300
Letter(s) of credit	555	173
Amount available for borrowing	91,645	38,527
Interest rate	1.70%	5.60%
Revolving Secured Warehouse Facility (2003-2)		
Balance outstanding	$ 256,000	$ 198,100
Amount available for borrowing	69,000	226,900
Contributed eligible Loans	344,111	254,294
Interest rate	3.33%	5.76%
Revolving Secured Warehouse Facility (2008-2)		
Balance outstanding	$ 50,000	$
Amount available for borrowing		
Contributed eligible Loans	62,562	
Interest rate	2.21%	
Term ABS 144A 2006-2		
Balance outstanding	$	$ 89,965
Contributed eligible Dealer Loans		129,950
Interest rate		5.38%
Term ABS 144A 2007-1		
Balance outstanding	$ 33,915	$ 100,000
Contributed eligible Dealer Loans	87,155	130,841
Interest rate	5.32%	5.32%
Term ABS 144A 2007-2		
Balance outstanding	$ 84,260	$ 100,000
Contributed eligible Dealer Loans	114,054	132,695
Interest rate	6.22%	6.22%
Term ABS 144A 2008-1		
Balance outstanding	$ 150,000	$
Contributed eligible Loans	184,595	
Interest rate	6.37%	
Residual Credit Facility		
Balance outstanding	$	$
Certificate Pledged	52,944	28,513
Interest rate	4.83%	6.56%

Line of Credit Facility

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. DEBT (Continued)

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

Revolving Secured Warehouse Facilities

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

During the first quarter of 2008, we extended the maturity of the $325.0 million facility from February 13, 2008 to February 11, 2009. The amount of the facility was reduced from $425.0 million to $325.0 million. The reduction in the amount of the facility is due to one of the two institutional investors (the Nonextending Investor) not renewing their participation in the facility. The amount owing to the Nonextending Investor has been reduced to zero. During the third quarter of 2008, we extended the maturity of the $325.0 million facility from February 11, 2009 to August 26, 2009 and agreed to an increase in the interest rate on borrowings under the facility from a floating rate equal to the commercial paper rate plus 65 basis points, to the commercial paper rate plus 100 basis points.

The $325.0 million facility requires that certain amounts outstanding under the facility be refinanced within 360 days of the most recent refinancing. The most recent refinancing occurred in October of 2008. If such refinancing does not occur, the facility will cease to revolve, will amortize as collections are received and, at the option of the institutional investor, may be subject to acceleration and foreclosure.

During the second quarter of 2008, we entered into a $50.0 million revolving warehouse facility with an institutional investor. This facility was fully drawn as of December 31, 2008.

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

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

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

Term ABS 144A Financings

In 2007 and 2008, three of our wholly-owned subsidiaries (the Funding LLCs), each completed a secured financing transaction. In connection with these transactions, we conveyed Loans on an arms-length basis to each Funding LLC for cash and the sole membership interest in that Funding LLC. In turn, each Funding LLC conveyed the Loans to a respective trust that issued notes to qualified institutional investors. Financial insurance policies were

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. DEBT (Continued)

issued in connection with the 2007 transactions. The policies guarantee the timely payment of interest and ultimate repayment of principal on the final scheduled distribution date. In the 2007 transactions, the notes were initially rated Aaa by Moody s Investor Service (Moody s) and AAA by Standard & Poor s Rating Services (S&P) based upon financial insurance policy. As of December 31, 2008, due to downgrades in the debt ratings of the insurers, the 2007 transactions were rated A3 by Moody s. The Term ABS 114A 2007-1 transaction continued to be rated as AAA by S&P and the Term ABS 114A 2007-2 transaction was rated as A− by S&P. The 2008 transaction was rated A by S&P.

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

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

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

Term ABS 144A Financing	Issue Number	Close Date		Net Book Value of Dealer Loans Conveyed at Closing	Revolving Period	Expected Annualized Rates (1)
Term ABS 144A 2007-1	2007-1	April 12, 2007	$	125,700	12 months (Through April 15, 2008)	7.2%
Term ABS 144A 2007-2	2007-2	October 29, 2007	$	125,000	12 months (Through October 15, 2008)	8.0%
Term ABS 144A 2008-1	2008-1	April 18, 2008	$	86,615	12 months (Through April 15, 2009)	6.9%

(1) Includes underwriter s fees, insurance premiums and other costs.

Residual Credit Facility

Another wholly-owned subsidiary, Credit Acceptance Residual Funding LLC (Residual Funding), has a $50.0 million secured credit facility with an institutional investor. This facility allows Residual Funding to finance its purchase of trust certificates from special-purpose entities (the Term SPEs) that have purchased Dealer Loans under our term securitization transactions. Historically, the Term SPEs residual interests in Dealer Loans, represented by their trust certificates, have proven to have value that increases as their term securitization obligations amortize. This facility enables the Term SPEs to realize and distribute to us up to 70% of that increase in value prior to the time the related term securitization senior notes are paid in full.

Residual Funding s interests in Dealer Loans, represented by its purchased trust certificates, are subordinated to the interests of term securitization senior noteholders. However, the entire arrangement is non-recourse to us. Residual Funding is organized as a separate legal entity from the Company. Therefore its assets, including

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. DEBT (Continued)

purchased trust certificates, are not available to satisfy our general obligations, even though Residual Funding and the Company are consolidated for financial reporting purposes.

During the third quarter of 2008, we extended the maturity of the facility from September 9, 2008 to August 26, 2009 and agreed to an increase in the interest rate on borrowings under the facility from a floating rate equal to the commercial paper rate plus 145 basis points, to the commercial paper rate plus 250 basis points.

Mortgage Loan

We have a mortgage loan from a commercial bank that is secured by a first mortgage lien on our headquarters building and an assignment of all leases, rents, revenues and profits under all present and future leases of the building. There was $5.3 million and $6.1 million outstanding on this loan as of December 31, 2008 and 2007, respectively. The loan matures on June 9, 2009, bears interest at a fixed rate of 5.35%, and requires monthly payments of $92,156 and a balloon payment at maturity for the balance of the loan.

Capital Lease Obligations

As of December 31, 2008, we had various capital lease obligations outstanding for computer equipment, with monthly payments totaling $63,000. The total amount of capital lease obligations outstanding as of December 31, 2008 and 2007 were $1.0 million and $1.7 million, respectively. These capital lease obligations bear interest at rates ranging from 6.41% to 8.71% and have maturity dates between April 2009 and October 2010.

Letters of Credit

Letters of credit are issued by a commercial bank syndicate and reduce amounts available under our revolving line of credit. As of December 31, 2008 and December 31, 2007, we had letters of credit outstanding of $0.6 million and $0.2 million, respectively. The letters of credit relate to reinsurance agreements. The letters of credit expire on May 26, 2009 and October 31, 2009, at which time they will be automatically extended for a period of one year unless we are notified otherwise by the commercial bank syndicate.

Principal Debt Maturities

The scheduled principal maturities of our debt at December 31, 2008 are as follows (in thousands):

Year	Line of Credit Facility	Revolving Secured Warehouse Facilities	Term ABS 144A Financings (1)	Mortgage Note and Capital Lease Obligations	Total
2009	$	$ 256,000	$ 172,926	$ 5,900	$ 434,826
2010	61,300	25,461	95,249	339	182,349
2011		24,539			24,539

2012					
2013					
Thereafter					
	$ 61,300	$ 306,000	$ 268,175	$ 6,239	$ 641,714

(1) The principal maturities of the Term ABS 144A transactions are estimated based on forecasted collections.

Debt Covenants

As of December 31, 2008, we are in compliance with our restrictive debt covenants that require the maintenance of certain financial ratios and other financial conditions. The most restrictive covenants require a minimum ratio of our assets to debt and a minimum ratio of our earnings before interest, taxes and non-cash expenses to fixed charges. The covenants also limit the maximum ratio of our funded debt to tangible net worth.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. DEBT (Concluded)

Additionally, we must maintain consolidated net income of not less than $1 for the two most recently ended fiscal quarters. Some of the debt covenants may indirectly limit the payment of dividends on common stock.

8. RELATED PARTY TRANSACTIONS

In the normal course of our business, we have Dealer Loans with affiliated dealer-partners owned or controlled by: (1) our majority shareholder and Chairman; (2) a member of the Chairman s immediate family; and (3) our former President, Keith McCluskey. Mr. McCluskey resigned from his position with the Company effective September 1, 2006. Transactions with Mr. McCluskey are reported below through December 31, 2006. Our Dealer Loans to affiliated dealer-partners and non-affiliated dealer-partners are on the same terms.

Affiliated Dealer Loan balances were $15.4 million and $16.1 million as of December 31, 2008 and 2007, respectively. Affiliated Dealer Loans balances were 1.9% and 2.0% of total consolidated Dealer Loan balances as of December 31, 2008 and 2007, respectively. A summary of related party Dealer Loan activity is as follows (in thousands):

	For The Years Ended December 31,					
	2008		2007		2006	
	Affiliated dealer-partner activity	% of consolidated	Affiliated dealer-partner activity	% of consolidated	Affiliated dealer-partner activity	% of consolidated
New Loans	$ 10,325	2.0%	$ 10,111	1.8%	$ 17,851	3.3%
Affiliated dealer-partner revenue	$ 4,045	1.9%	$ 4,529	2.4%	$ 6,347	3.6%
Dealer holdback payments	$ 2,121	3.6%	$ 1,801	2.5%	$ 2,355	3.4%

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

Pursuant to an employment agreement with the Company s former President, Mr. McCluskey, dated April 19, 2001, we loaned Mr. McCluskey s dealerships $0.9 million. Obligations under this note, including all principal and interest, were paid in full on August 16, 2006. In addition, pursuant to the employment agreement, we loaned Mr. McCluskey approximately $0.5 million. The note, including all principal and interest, is due on April 19, 2011, bears interest at 5.22% and is unsecured. The balance of the note including accrued but unpaid interest was approximately $0.6 million and $0.5 million as of December 31, 2008 and 2007, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. RELATED PARTY TRANSACTIONS (Continued)

9. INCOME TAXES

The income tax provision, excluding the results of the discontinued United Kingdom operations, consists of the following (in thousands):

	Years Ended December 31,		
	2008	**2007**	**2006**
Income (loss) from continuing operations before provision for income taxes:			
Domestic	$ 107,319	$ 82,966	$ 90,506
Foreign	(307)	215	134
	$ 107,012	$ 83,181	$ 90,640
Current provision (benefit) for income taxes:			
Federal	$ 23,800	$ 8,446	$ 30,902
State	3,333	93	687
Foreign	(27)	(41)	(435)
	27,106	8,498	31,154
Deferred provision (benefit) for income taxes:			
Federal	13,541	19,201	166
State	(1,783)	1,159	232
Foreign	5	11	241
	11,763	20,371	639
Interest and penalties expense (benefit):			
Interest	1,227	749	
Penalties	(152)	(51)	
	1,075	698	
Provision for income taxes	$ 39,944	$ 29,567	$ 31,793

Effective January 1, 2007, we began to recognize interest and penalties related to income tax matters in provision for income taxes expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities consist of the following (in thousands):

	As of December 31, 2008	2007
Deferred tax assets:		
Allowance for credit losses	$ 47,330	$ 49,148
Deferred state net operating loss	995	297
Stock-based compensation	3,395	2,058
Other, net	4,537	1,044
Total deferred tax assets	56,257	52,547
Deferred tax liabilities:		
Valuation of receivables	126,606	113,407
Depreciable assets	1,382	873
Deferred origination costs	1,817	1,756
Other, net	1,512	1,279
Total deferred tax liabilities	131,317	117,315
Net deferred tax liability	$ 75,060	$ 64,768

The deferred state net operating loss tax asset arising from the operating loss carry forward for state income tax purposes is expected to be fully realized by 2012.

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

	Years Ended December 31, 2008	2007	2006
U.S. federal statutory rate	35.0%	35.0%	35.0%
State income taxes	0.9	1.0	0.7
Foreign income taxes	0.1	(0.1)	(0.3)
Distributed foreign earnings	(0.1)	0.7	0.1
Interest and penalties	1.0	0.8	
Other	0.4	(1.8)	(0.4)
Provision for income taxes	37.3%	35.6%	35.1%

The effective tax rates for 2008, 2007, and 2006 differed from the federal statutory tax rate of 35% 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 provision for 2008 state income taxes was reduced by $1.1 million as a result of an adjustment to the deferred tax liability arising from changes in the effective state income tax rate.

We adopted FIN 48 on January 1, 2007. As a result of the implementation, we recognized a $0.1 million increase to reserves for uncertain tax positions. This increase was accounted for as an adjustment to the beginning balance of retained earnings on the balance sheet. As of December 31, 2008, changes to our tax contingencies that

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. INCOME TAXES (Concluded)

are reasonably possible in the next twelve months are not material. The following table is a summary of changes of the reserve for unrecognized gross tax benefits (in thousands):

	Years Ended December 31, 2008	Years Ended December 31, 2007
Gross tax contingencies balance at January 1,	$ 9,451	$ 9,974
Additions based on tax position related to current year	1,897	2,162
Additions for tax positions of prior years	1,081	59
Reductions for tax positions of prior years		(2,518)
Reductions as a result of a lapse of the statute of limitations	(155)	(226)
Gross tax contingencies balance at December 31,	$ 12,274	$ 9,451

As of January 1, 2007, upon the FIN 48 implementation, we had approximately $3.0 million of accrued interest and penalties related to uncertain tax positions. As of December 31, 2008 and 2007, we had approximately $5.1 million and $3.8 million, respectively, of accrued interest and penalties related to uncertain tax positions.

We are subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. We have substantially concluded all U.S. federal income tax matters for years through 2003. Substantially all material state and local tax matters have been concluded for years through 2003 and foreign tax matters have been concluded through 2003. The federal income tax returns for 2004, 2005 and 2006 have been under examination by the Internal Revenue Service (IRS) since February 2007.

In February 2009, we received a notice of proposed adjustment (NOPA) from the IRS disputing the tax valuation of our loan portfolio. We disagree with the NOPA and believe that the valuation of our loan portfolio, which was performed by an independent valuation firm, is appropriate. We intend to vigorously defend our position. If the IRS were to prevail with their current position without compromise, we would owe $55.3 million of additional taxes and $18.3 million of additional interest related to 2004, 2005, and 2006. The $55.3 million of additional taxes is an acceleration of taxes already provided for and recorded as a deferred income tax liability in our balance sheet and therefore would have no effect on our income statement. As we believe our position will be sustained, we have not recorded a reserve for the interest amounts under FIN 48 at December 31, 2008. If the IRS were to prevail, the payments for interest would reduce our net income by $11.5 million after tax. We would likely also owe additional amounts for 2007 and 2008; however, we are not able to estimate these amounts at this time as the IRS has not provided their valuation assumptions for these periods as these periods are not under audit.

During 2008, 2007 and 2006, we remitted substantially all of our accumulated earnings from foreign subsidiaries as profits to the U.S. and accrued or paid U.S. income taxes accordingly.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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:

	Years Ended December 31,		
	2008	**2007**	**2006**
Weighted average common and common equivalent shares outstanding:			
Basic number of common shares outstanding	30,249,783	30,053,129	33,035,693
Dilutive effect of stock options	596,541	1,040,575	2,238,255
Dilutive effect of restricted stock and restricted stock units	258,719	59,984	9,530
Dilutive number of common and common equivalent shares outstanding	31,105,043	31,153,688	35,283,478

There were no stock options or restricted stock that would be anti-dilutive for the years presented.

Stock Repurchase Program

In 1999, our board of directors approved a stock repurchase program which authorizes us to purchase common shares in the open market or in privately negotiated transactions at price levels we deem attractive. As of December 31, 2008, we have repurchased approximately 20.4 million shares under the stock repurchase program at a cost of $399.2 million. Included in the stock repurchases to date are 12.5 million shares of common stock purchased through four modified Dutch auction tender offers at a cost of $304.4 million. As of December 31, 2008, we have authorization to repurchase an additional $29.1 million of our common stock.

Stock Compensation Plans

Pursuant to our Incentive Compensation Plan (the Incentive Plan), which was approved by shareholders on May 13, 2004, we reserved 1.0 million shares of our common stock for the future granting of restricted stock, restricted stock units, stock options, and performance awards to employees, officers, and directors at any time prior to April 1, 2014. All of the terms and conditions relating to grants will be included in an agreement between the recipient and us and will be determined by our compensation committee. Options granted under the Incentive Plan may be either incentive stock options or nonqualified stock options. The exercise price will not be less than the fair market value of the shares on the date of grant and, for incentive stock options, the exercise price must be at least 110% of fair market value if the recipient is the holder of more than 10% of our common stock. Through December 31, 2008, we have only granted restricted stock and awards of restricted stock units under the Incentive Plan. Shares available for future grants under the Incentive Plan totaled 33,464 at December 31, 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. CAPITAL TRANSACTIONS (Continued)

A summary of the restricted stock activity under the Incentive Plan for the years ended December 31, 2008, 2007 and 2006 is presented below:

Restricted Stock	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share
Outstanding at January 1, 2006	98,879	$ 19.83
Granted	117,264	24.10
Forfeited	(70,115)	22.19
Outstanding at December 31, 2006	146,028	$ 22.34
Granted	56,669	26.29
Vested	(808)	20.28
Forfeited	(17)	23.14
Outstanding at December 31, 2007	201,872	$ 23.25
Granted	80,123	16.54
Vested	(20,399)	25.71
Forfeited	(16,267)	21.37
Outstanding at December 31, 2008	245,329	$ 21.65

The shares of restricted stock are part of the annual incentive compensation program and are granted annually based on attaining certain individual and company performance criteria. Based on the terms of individual restricted stock grants, time-based shares generally vest over a period of three to five years, based on continuous employment, while performance-based shares generally vest based on the increase in adjusted net income, a non-US GAAP financial measure.

A summary of the restricted stock unit activity under the Incentive Plan for the years ended December 31, 2008 and 2007 is presented below:

	Nonvested		Vested		Total	
	Number of	Weighted-Average Grant-Date	Number of	Weighted-Average Grant-Date	Number of	Distribution Date of Vested

Restricted Stock Units	**Restricted Stock Units**	**Fair Value Per Share**	**Restricted Stock Units**	**Fair Value Per Share**	**Restricted Stock Units**	**Restricted Stock Units**
Outstanding at December 31, 2006		$		$		
Granted	300,000	26.30			300,000	February 22, 2014
Vested						
Outstanding at December 31, 2007	300,000	$ 26.30		$	300,000	
Granted	400,000	14.61			400,000	February 22, 2016
Vested	(60,000)	26.30	60,000	26.30		
Outstanding at December 31, 2008	640,000	$ 18.99	60,000	$ 26.30	700,000	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. CAPITAL TRANSACTIONS (Continued)

The restricted stock units are part of a long-term incentive compensation program. Each restricted stock unit represents and has a value equal to one share of common stock. The restricted stock units will be earned over a five year period based upon the annual increase in our adjusted economic profit, a non-US GAAP financial measure.

Pursuant to our 1992 Stock Option Plan (the 1992 Plan), we had reserved 8.0 million shares of our common stock for the future granting of options to officers and other employees. Pursuant to our Director Stock Option Plan (the Director Plan), we had reserved 200,000 shares of our common stock for future granting of options to members of our Board of Directors. The exercise price of the options is no less than the fair market value on the date of the grant. Options expire ten years from the date of grant. The 1992 Plan and the Director Plan were terminated as to future grants on May 13, 2004, with shareholder approval of the Incentive Plan. All options outstanding at December 31, 2008 and 2007 are vested.

Additional stock option information relating to the 1992 Plan and the Director Plan is as follows:

	1992 Plan			Director Plan		
	Number of Options	Weighted Average Exercise Per Share	Aggregate Intrinsic Value (in thousands)	Number of Options	Weighted Average Exercise Per Share	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2006	3,457,694	$ 6.97		200,000	$ 12.13	
Options granted						
Options exercised	(1,801,943)	6.32	$ 39,611	(100,000)	7.00	$ 2,174
Options forfeited	(2,710)	8.04				
Outstanding at December 31, 2006	1,653,041	$ 7.68		100,000	$ 17.25	
Options granted						
Options exercised	(374,985)	6.90	$ 6,933			$
Options forfeited	(1,000)	6.46				
Outstanding at December 31, 2007	1,277,056	$ 7.91		100,000	$ 17.25	
Options granted						
Options exercised	(306,047)	7.76	$ 3,004			$
Options forfeited	(1,500)	7.79				
	969,509	$ 8.14		100,000	$ 17.25	

Outstanding at December 31, 2008										
Exercisable at December 31:										
2006	1,641,672	$	7.67	$	12,587	40,000	$	17.25	$	690
2007	1,277,056	$	7.91	$	17,115	100,000	$	17.25	$	407
2008	969,509	$	8.14	$	5,630	100,000	$	17.25	$	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. CAPITAL TRANSACTIONS (Concluded)

The following tables summarize information about options outstanding under the 1992 Plan and the Director Plan at December 31, 2008:

	Options Outstanding and Exercisable			
Range of Exercisable Prices	**Options as of 12/31/2008**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price Per Share**	
1992 Plan				
$ 3.63 - $ 6.64	280,960	1.0 Years	$	3.93
$ 6.64 - $ 9.95	573,969	3.0	$	9.62
$ 9.95 - $13.27	104,580	4.0	$	10.46
$16.59 - $17.05	10,000	5.2	$	17.05
Totals	969,509	2.6	$	8.14
Director Plan				
$17.25	100,000	5.2 Years	$	17.25

All outstanding options were fully vested as of December 31, 2007. The total fair value of options vested during the years ended December 31, 2007 and 2006 was $0.6 million and $0.5 million, respectively.

We account for compensation costs related to grants under our stock compensation plans in accordance with SFAS No. 123R, which was adopted on January 1, 2006 under the modified prospective application method. We had previously accounted for these costs under the fair value recognition provisions of SFAS No. 123.

Stock compensation expense consists of the following (in thousands):

	Years Ended December 31,		
	2008	**2007**	**2006**
Restricted stock	$ 2,138	$ 1,216	$ 608
Restricted stock units	2,171	3,374	
Stock options		69	(521)
	$ 4,309	$ 4,659	$ 87

The following table details how the expenses associated with restricted stock and restricted stock units, which are expected to be recognized over a weighted average period of 1.4 years, will be recorded assuming performance targets are achieved in the periods currently estimated (in thousands):

Years Ended December 31,	Restricted Stock Unit Award	Restricted Stock Awards	Total Projected Expense (pre-tax)
2009	$ 3,954	$ 1,201	$ 5,155
2010	2,233	209	2,442
2011	1,240	25	1,265
2012	527		527
2013	234		234
	$ 8,188	$ 1,435	$ 9,623

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. CAPITAL TRANSACTIONS (Concluded)

11. BUSINESS SEGMENT INFORMATION

Reportable Segment Overview

We have two reportable business segments: United States and Other. The United States segment primarily consists of the United States automobile financing business. The Other segment consists of businesses in liquidation, primarily represented by the discontinued United Kingdom automobile financing business. We are currently liquidating all businesses classified in the Other segment.

Measurement

The table below presents information for each reportable segment (in thousands):

	United States	Other	Total Company
Year Ended December 31, 2008			
Finance charges	$ 286,791	$ 32	$ 286,823
Premiums earned	3,967		3,967
Program fees	193		193
Other income	21,198	5	21,203
Provision for credit losses	45,883	146	46,029
Interest expense (income)	43,248	(59)	43,189
Depreciation expense	5,342		5,342
Provision (benefit) for income taxes	39,966	(22)	39,944
Income (loss) from continuing operations	67,354	(286)	67,068
Segment assets	1,139,214	140	1,139,354
Year Ended December 31, 2007			
Finance charges	$ 220,386	$ 87	$ 220,473
Premiums earned	361		361
Program fees	283		283
Other income	18,772	38	18,810
Provision for credit losses	19,807	140	19,947
Interest expense (income)	36,716	(47)	36,669
Depreciation expense	4,105		4,105
Provision (benefit) for income taxes	29,596	(29)	29,567
Income from continuing operations	53,370	244	53,614
Segment assets	940,307	1,875	942,182
Year Ended December 31, 2006			
Finance charges	$ 188,508	$ 97	$ 188,605
Premiums earned	1,043		1,043
Program fees	13,589		13,589
Other income	15,937	158	16,095

Provision (credit) for credit losses	11,171	(165)	11,006
Interest expense	23,157	173	23,330
Depreciation expense	4,620	3	4,623
Provision (benefit) for income taxes	31,977	(184)	31,793
Income from continuing operations	58,508	339	58,847
Segment assets	724,008	1,205	725,213

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. BUSINESS SEGMENT INFORMATION (Concluded)

Information About Geographic Locations

We operate primarily in the United States. As such, our revenues from continuing operations and long-lived assets are evaluated primarily through the above reportable segments. Therefore, in accordance with the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, no enterprise-wide disclosures of information about geographic locations are necessary.

Information About Products and Services

We manage our product and service offerings primarily through the above reportable segments. Therefore, in accordance with the provisions of SFAS No. 131, no enterprise-wide disclosures of information about products and services are necessary.

Major Customers

We did not have any dealer-partners that provided 10% or more of our revenue during 2008, 2007, or 2006. Additionally, no single dealer-partner s Loan receivable balance accounted for more than 10% of total Loans as of December 31, 2008 or 2007.

12. LITIGATION AND CONTINGENT LIABILITIES

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

The Company was a defendant in a class action pending in the Circuit Court of Jackson County, Missouri. On December 5, 2007, the Circuit Court of Jackson County, Missouri entered an Order and Final Judgment approving a Memorandum of Understanding executed on February 9, 2007 whereby the parties agreed to settle the lawsuit. The Company, without any admission of liability, agreed to pay $12.5 million in full and final settlement of all claims against the Company. Pursuant to an adjustment mechanism in the Memorandum of Understanding, the Company agreed to pay an additional $0.6 million. The Order and Final Judgment became final thirty days after the entry date of December 5, 2007, and the appeal period lapsed on January 19, 2008. The entire settlement amount was accrued and was included in accounts payable and accrued liabilities as of December 31, 2007, and was paid in full during the first quarter of 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. QUARTERLY FINANCIAL DATA (unaudited)

The following is a summary of the quarterly financial position and results of operations as of and for the years ended December 31, 2008 and 2007, which have been prepared in accordance with accounting principles generally accepted in the United States of America. Certain amounts for prior periods have been reclassified to conform to the current presentation.

	2008 Quarter Ended			
(Dollars in Thousands, Except Per Share Data)	**March 31**	**June 30**	**September 30**	**December 31**
Balance Sheets				
Loans receivable, net	$ 934,568	$ 1,012,150	$ 1,036,407	$ 1,017,917
All other assets	145,210	139,951	133,949	121,437
Total assets	$ 1,079,778	$ 1,152,101	$ 1,170,356	$ 1,139,354
Total debt	$ 638,814	$ 703,359	$ 691,937	$ 641,714
Other liabilities	155,069	151,012	158,693	159,889
Total liabilities	793,883	854,371	850,630	801,603
Shareholders equity (1)	285,895	297,730	319,726	337,751
Total liabilities and shareholders equity	$ 1,079,778	$ 1,152,101	$ 1,170,356	$ 1,139,354
Income Statements				
Revenue	$ 70,778	$ 75,005	$ 80,107	$ 86,296
Costs and expenses	43,053	58,535	47,168	56,393
Operating income	27,725	16,470	32,939	29,903
Foreign exchange loss	(13)		(2)	(10)
Income from continuing operations before provision for income taxes	27,712	16,470	32,937	29,893
Provision for income taxes	10,131	6,091	12,606	11,116
Income from continuing operations	17,581	10,379	20,331	18,777
Gain (loss) from discontinued operations, net of tax	39	(35)	326	(221)
Net income	$ 17,620	$ 10,344	$ 20,657	$ 18,556
Net income per common share:				
Basic	$ 0.59	$ 0.34	$ 0.68	$ 0.61
Diluted	$ 0.57	$ 0.33	$ 0.67	$ 0.60

Income from continuing operations per common share:				
Basic	$ 0.58	$ 0.34	$ 0.67	$ 0.62
Diluted	$ 0.57	$ 0.33	$ 0.66	$ 0.60
Gain (loss) from discontinued operations per common share:				
Basic	$ 0.00	$ 0.00	$ 0.01	$ (0.01)
Diluted	$ 0.00	$ 0.00	$ 0.01	$ (0.01)
Weighted average shares outstanding:				
Basic	30,106,881	30,252,873	30,310,053	30,327,802
Diluted	30,891,227	31,088,428	31,024,455	31,038,088

(1) No dividends were paid during the periods presented.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Concluded)

13. QUARTERLY FINANCIAL DATA (unaudited) (Concluded)

	2007			
	Quarter Ended			
(Dollars in Thousands, Except Per Share Data)	**March 31**	**June 30**	**September 30**	**December 31**
Balance Sheets				
Loans receivable, net	$ 707,601	$ 744,159	$ 755,996	$ 810,553
All other assets	105,270	112,438	115,198	131,629
Total assets	$ 812,871	$ 856,597	$ 871,194	$ 942,182
Total debt	$ 446,998	$ 485,148	$ 490,510	$ 532,130
Other liabilities	139,016	131,592	130,858	144,602
Total liabilities	586,014	616,740	621,368	676,732
Shareholders equity (1)	226,857	239,857	249,826	265,450
Total liabilities and shareholders equity	$ 812,871	$ 856,597	$ 871,194	$ 942,182
Income Statements				
Revenue	$ 57,351	$ 58,286	$ 61,058	$ 63,232
Costs and expenses (2)	34,436	37,889	39,698	44,792
Operating income	22,915	20,397	21,360	18,440
Foreign exchange gain	4	34	26	5
Income from continuing operations before provision for income taxes	22,919	20,431	21,386	18,445
Provision for income taxes (2)	7,532	7,938	7,917	6,180
Income from continuing operations	15,387	12,493	13,469	12,265
(Loss) gain from discontinued operations, net of tax	(27)	(163)	1,273	219
Net income	$ 15,360	$ 12,330	$ 14,742	$ 12,484
Net income per common share:				
Basic	$ 0.51	$ 0.41	$ 0.49	$ 0.42
Diluted	$ 0.49	$ 0.39	$ 0.47	$ 0.40
Income from continuing operations per common share:				
Basic	$ 0.51	$ 0.41	$ 0.45	$ 0.41

Diluted	$	0.49	$	0.40	$	0.43	$	0.40
(Loss) gain from discontinued operations per common share:								
Basic	$	0.00	$	(0.01)	$	0.04	$	0.01
Diluted	$	0.00	$	(0.01)	$	0.04	$	0.01
Weighted average shares outstanding:								
Basic		30,054,349		30,140,590		30,015,048		30,007,476
Diluted		31,283,695		31,312,139		31,139,612		30,897,546

(1) No dividends were paid during the periods presented.

(2) The first quarter 2007 figures differ from those previously reported in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007. Interest and penalties related to tax for the quarter were reclassified to provision for income taxes.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. 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) as of the end of the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control over Financial Reporting.

We are responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, we used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, we believe that as of December 31, 2008, our internal control over financial reporting is effective based on those criteria.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and
Shareholders of Credit Acceptance Corporation

We have audited Credit Acceptance Corporation (a Michigan Corporation) and subsidiaries internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Credit Acceptance Corporation and subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Credit Acceptance Corporation and subsidiaries internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Credit Acceptance Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Credit Acceptance Corporation and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 27, 2009 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Southfield, Michigan
February 27, 2009

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information is contained under the captions Matters to Come Before the Meeting Election of Directors (excluding the Report of the Audit Committee) and Section 16 (a) Beneficial Ownership Reporting Compliance in the Company s Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information is contained under the caption Compensation of Executive Officers (excluding the Report of the Executive Compensation Committee) in the Company s Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information is contained under the caption Common Stock Ownership of Certain Beneficial Owners and Management in the Company s Proxy Statement and is incorporated herein by reference.

Our Incentive Compensation Plan (the Incentive Plan), which was approved by shareholders on May 13, 2004, provides for the granting of restricted stock, restricted stock units, stock options, and performance awards to employees, officers, and directors. We also have two stock option plans pursuant to which we have granted stock options with time or performance-based vesting requirements to employees, officers, and directors. Our 1992 Stock Option Plan (the 1992 Plan) was approved by shareholders in 1992 prior to our initial public offering and was terminated as to future grants on May 13, 2004, when shareholders approved the Incentive Plan. Our Director Stock Option Plan (the Director Plan) was approved by shareholders in 2002 and was terminated as to future grants on May 13, 2004, with shareholder approval of the Incentive Plan.

The following table sets forth, with respect to each of the equity compensation plans, (1) the number of shares of common stock to be issued upon the exercise of outstanding options or restricted stock units, (2) the weighted average exercise price of outstanding options, and (3) the number of shares remaining available for future issuance, as of December 31, 2008:

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options	Number of shares remaining available for future issuance under equity compensation plans(a)
Equity compensation plans approved by shareholders:			
1992 Plan	969,509	$ 8.14	
Director Plan	100,000	17.25	

Incentive Plan	700,000		33,464
Total	1,769,509	$ 8.99	33,464

(a) For additional information regarding our equity compensation plans, see Note 10 to the consolidated financial statements.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information is contained under the caption Certain Relationships and Transactions and Election of Directors Meetings and Committees of the Board of Directors in the Company s Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information is contained under the caption Independent Accountants in the Company s Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) The following consolidated financial statements of the Company and Report of Independent Public Accountants are contained in Item 8 Financial Statements and Supplementary Data.

Report of Independent Public Accountants

Consolidated Financial Statements:

Consolidated Balance Sheets as of December 31, 2008 and 2007

Consolidated Income Statements for the years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Shareholders Equity for the years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

(3) The Exhibits filed in response to Item 601 of Regulation S-K are listed in the Exhibit Index, which is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ BRETT A. ROBERTS

Brett A. Roberts
Chief Executive Officer
(Principal Executive Officer)
Date: February 27, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on February 27, 2009 on behalf of the registrant and in the capacities indicated.

Signature	Title
/s/ BRETT A. ROBERTS Brett A. Roberts	Chief Executive Officer and Director (Principal Executive Officer)
/s/ KENNETH S. BOOTH Kenneth S. Booth	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ GLENDA J. CHAMBERLAIN Glenda J. Chamberlain	Director
/s/ DONALD A. FOSS Donald A. Foss	Director and Chairman of the Board
/s/ THOMAS N. TRYFOROS Thomas N. Tryforos	Director
/s/ SCOTT J. VASSALLUZZO Scott J. Vassalluzzo	Director

EXHIBIT INDEX

The following documents are filed as part of this report. Those exhibits previously filed and incorporated herein by reference are identified below. Exhibits not required for this report have been omitted. The Company s commission file number is 000-20202.

Exhibit No.		Description
3(a)(1)	1	Articles of Incorporation, as amended July 1, 1997.
3(b)	2	Amended and Restated Bylaws of the Company, as amended, February 24, 2005.
4(c)(19)	3	Amendment No. 1, dated September 20, 2006, to the Fourth Amended and Restated Credit Agreement as of February 7, 2006, among the Company, the Lenders which are parties thereto from time to time and Comerica Bank as administrative agent.
4(c)(20)	3	Amendment No. 2, dated January 19, 2007, to the Fourth Amended and Restated Credit Agreement as of February 7, 2006, among the Company, the Lenders which are parties thereto from time to time and Comerica Bank as administrative agent.
4(c)(21)	3	Amendment No. 3, dated June 14, 2007, to the Fourth Amended and Restated Credit Agreement as of February 7, 2006, among the Company, the Lenders which are parties thereto from time to time and Comerica Bank as administrative agent.
4(c)(22)	4	Amendment No. 4, dated January 25, 2008, to the Fourth Amended and Restated Credit Agreement as of February 7, 2006, among the Company, the Lenders which are parties thereto from time to time and Comerica Bank as administrative agent.
4(f)(40)	5	Second Amendment, dated as of June 10, 2002, to the Intercreditor Agreement dated as of December 15, 1998, among Comerica Bank, as collateral agent, and various lenders and note holders.
4(f)(53)	6	Contribution Agreement, dated September 30, 2003, between the Company and CAC Warehouse Funding Corporation II.
4(f)(55)	6	Back-Up Servicing Agreement, dated September 30, 2003, among the Company, Systems & Services Technologies, Inc., Wachovia Capital Markets, LLC, and CAC Warehouse Funding Corporation II.
4(f)(67)	7	The Fourth Amended and Restated Credit Agreement, dated February 7, 2006, between the Company, the Lenders which are parties thereto from time to time, Comerica Bank, as administrative agent, and Banc of America Securities LLC as sole lead arranger and sole book manager.
4(f)(68)	7	Third Amended and Restated Security Agreement, dated February 7, 2006, between the Company, certain subsidiaries of the Company and Comerica Bank, as agent.
4(f)(77)	8	Certificate Funding Agreement, dated September 20, 2006, between the Company, Credit Acceptance Residual Funding LLC, Wachovia Bank, National Association, Variable Funding Capital Company LLC and Wachovia Capital Markets, LLC.
4(f)(78)	9	Indenture, dated November 21, 2006, between Credit Acceptance Auto Dealer Loan Trust 2006-2 and Deutsche Bank Trust Company Americas.
4(f)(79)	9	Sale and Servicing Agreement, dated November 21, 2006, among the Company, Credit Acceptance Auto Dealer Loan Trust 2006-2, Credit Acceptance Funding LLC 2006-2, Deutsche Bank Trust Company Americas, N.A., and Systems & Services Technologies, Inc.
4(f)(80)	9	Backup Servicing Agreement, dated November 21, 2006, among the Company, Credit Acceptance Funding LLC 2006-2, Credit Acceptance Auto Dealer Loan Trust 2006-2,

		Systems & Services Technologies, Inc., Radian Asset Assurance Inc., XL Capital Assurance Inc. and Deutsche Bank Trust Company Americas.
4(f)(81)	9	Amended and Restated Trust Agreement, dated November 21, 2006, between Credit Acceptance Funding LLC 2006-2 and U.S. Bank Trust National Association.
4(f)(82)	9	Contribution Agreement, dated November 21, 2006, between the Company and Credit Acceptance Funding LLC 2006-2.

Exhibit No.		Description
4(f)(87)	10	Indenture, dated April 12, 2007, between Credit Acceptance Auto Dealer Loan Trust 2007-1 and Wells Fargo Bank, National Association.
4(f)(88)	10	Sale and Servicing Agreement, dated April 12, 2007, among the Company, Credit Acceptance Auto Dealer Loan Trust 2007-1, Credit Acceptance Funding LLC 2007-1 and Wells Fargo Bank, National Association.
4(f)(89)	10	Backup Servicing Agreement, dated April 12, 2007, among the Company, Credit Acceptance Funding LLC 2007-1, Credit Acceptance Auto Dealer Loan Trust 2007-1, Wells Fargo Bank, National Association, and XL Capital Assurance Inc.
4(f)(90)	10	Amended and Restated Trust Agreement, dated April 12, 2007, between Credit Acceptance Funding LLC 2007-1 and U.S. Bank Trust National Association.
4(f)(91)	10	Contribution Agreement, dated April 12, 2007, between the Company and Credit Acceptance Funding LLC 2007-1.
4(f)(93)	11	Second Amended and Restated Loan and Security Agreement, dated August 31, 2007, between the Company, CAC Warehouse Funding Corporation II, Wachovia Bank, National Association, JPMorgan Chase Bank, N.A., Variable Funding Capital Company, LLC, Park Avenue Receivables Company, LLC, Wachovia Capital Markets, LLC and Systems & Services Technologies, Inc.
4(f)(94)	12	Amendment No. 1, dated September 11, 2007, to the Certificate Funding Agreement dated as of September 20, 2006, between the Company, Credit Acceptance Residual Funding LLC, Wachovia Bank, National Association, Variable Funding Capital Company LLC and Wachovia Capital Markets, LLC.
4(f)(95)	13	Indenture, dated October 29, 2007, between Credit Acceptance Auto Dealer Loan Trust 2007-2 and Wells Fargo Bank, National Association.
4(f)(96)	13	Sale and Servicing Agreement, dated October 29, 2007, among the Company, Credit Acceptance Auto Dealer Loan Trust 2007-2, Credit Acceptance Funding LLC 2007-2 and Wells Fargo Bank, National Association.
4(f)(97)	13	Backup Servicing Agreement, dated October 29, 2007, among the Company, Credit Acceptance Funding LLC 2007-2, Credit Acceptance Auto Dealer Loan Trust 2007-2, Wells Fargo Bank, National Association, and XL Capital Assurance Inc.
4(f)(98)	13	Amended and Restated Trust Agreement, dated October 29, 2007, between Credit Acceptance Funding LLC 2007-2 and U.S. Bank Trust National Association.
4(f)(99)	13	Contribution Agreement, dated October 29, 2007, between the Company and Credit Acceptance Funding LLC 2007-2.
4(f)(100)	14	Amendment No. 1, dated December 21, 2007, to the Second Amended and Restated Loan and Security Agreement dated as of August 31, 2007, between the Company, CAC Warehouse Funding Corporation II, Wachovia Bank, National Association, JPMorgan Chase Bank, N.A., Variable Funding Capital Company, LLC, Park Avenue Receivables Company, LLC, Wachovia Capital Markets, LLC and Systems & Services Technologies, Inc.
4(f)(101)	15	Amendment No. 2 dated as of February 13, 2008, to the Second Amended and Restated Loan and Security Agreement, dated as of August 31, 2007, among the Company, CAC Warehouse Funding Corporation II, Wachovia Bank, National Association, JPMorgan Chase Bank, N.A., Variable Funding Capital Company, LLC, Park Avenue Receivables Company LLC, Wachovia Capital Markets, LLC and Systems & Services Technologies, Inc.

4(f)(102)	16	New Bank Addendum, dated as of February 26, 2008, to the Fourth Amended and Restated Credit Agreement, dated February 7, 2006, by and among the Company, the Banks and Comerica Bank, as Agent for the Banks.
4(f)(103)	17	Indenture dated April 18, 2008 between Credit Acceptance Auto Loan Trust 2008-1 and Wells Fargo Bank, National Association.
4(f)(104)	17	Sale and Servicing Agreement dated April 18, 2008 among the Company, Credit Acceptance Auto Loan Trust 2008-1, Credit Acceptance Funding LLC 2008-1, and Wells Fargo Bank, National Association.

Exhibit No.		Description
4(f)(105)	17	Backup Servicing Agreement dated April 18, 2008 among the Company, Credit Acceptance Funding LLC 2008-1, Credit Acceptance Auto Loan Trust 2008-1, and Wells Fargo Bank, National Association.
4(f)(106)	17	Amended and Restated Trust Agreement dated April 18, 2008 between Credit Acceptance Funding LLC 2008-1 and U.S. Bank Trust National Association.
4(f)(107)	17	Contribution Agreement dated April 18, 2008 between the Company and Credit Acceptance Funding LLC 2008-1.
4(f)(109)	18	Loan and Security Agreement dated May 23, 2008 among the Company, CAC Warehouse Funding III, LLC, Fifth Third Bank, Relationship Funding Company, LLC and Systems & Services Technologies, Inc.
4(f)(110)	18	Backup Servicing Agreement dated May 23, 2008 among the Company, CAC Warehouse Funding III, LLC, Fifth Third Bank and Systems & Services Technologies, Inc.
4(f)(111)	18	Contribution Agreement dated May 23, 2008 between the Company and CAC Warehouse Funding III, LLC.
4(f)(112)	18	Intercreditor Agreement dated May 23, 2008 among the Company, CAC Warehouse Funding Corporation II, Credit Acceptance Funding LLC 2006-2, Credit Acceptance Auto Dealer Loan Trust 2006-2, Credit Acceptance Funding LLC 2007-1, Credit Acceptance Auto Dealer Loan Trust 2007-1, Credit Acceptance Funding LLC 2007-2, Credit Acceptance Auto Dealer Loan Trust 2007-2, Credit Acceptance Funding LLC 2008-1, Credit Acceptance Auto Loan Trust 2008-1, CAC Warehouse Funding III, LLC, Wachovia Capital Markets, LLC, as agent, Deutsche Bank Trust Company Americas, as agent, Wells Fargo Bank, National Association, as agent, Comerica Bank, as agent, and Fifth Third Bank, as agent.
4(f)(113)	19	Amendment No. 4 as of August 27, 2008, to the Second Amended and Restated Loan and Security Agreement, dated as of August 31, 2007 among the Company, CAC Warehouse Funding Corporation II, Wachovia Bank, National Association, Variable Funding Capital Company, LLC, Wachovia Capital Markets, LLC and Systems & Services Technologies, Inc.
4(f)(114)	19	Second Amendment dated as of August 27, 2008, to the Certificate Funding Agreement dated September 20, 2006, among the Company, Credit Acceptance Residual Funding LLC, Wachovia Bank, National Association, Variable Funding Capital Company LLC, and Wachovia Capital Markets, LLC.
4(f)(115)	20	Amendment No. 3 dated as of July 10, 2008, to the Second Amended and Restated Loan and Security Agreement, dated as of August 31, 2007, among the Company, CAC Warehouse Funding Corporation II, Wachovia Bank, National Association, JPMorgan Chase Bank, N.A., Variable Funding Capital Company, LLC, Park Avenue Receivables Company LLC, Wachovia Capital Markets, LLC and Systems & Services Technologies, Inc.
4(f)(116)	20	Third Amendment, dated as of July 31, 2008, to Intercreditor Agreement dated as of December 15, 1998, among Comerica Bank, as collateral agent, and various lenders and note holders.
4(f)(117)	20	Fifth Amendment, dated as of July 31, 2008, to the Fourth Amended and Restated Credit Agreement, dated February 7, 2006, between Credit Acceptance Corporation, the Banks which are parties thereto from time to time, and Comerica Bank as

		Administrative Agent for the Banks.
4(f)(118)	21	First Amendment, dated as of November 21, 2008, to the Third Amended and Restated Security Agreement, dated February 7, 2006, between the Company, certain subsidiaries of the Company and Comerica Bank, as agent.
4(f)(119)	21	Sixth Amendment, dated as of December 9, 2008, to the Fourth Amended and Restated Credit Agreement, dated February 7, 2006, between Credit Acceptance Corporation, the Banks which are parties thereto from time to time, and Comerica Bank as Administrative Agent for the Banks.
4(g)(2)	22	Intercreditor Agreement, dated as of December 15, 1998, among Comerica Bank, as collateral agent, and various lenders and note holders.

Exhibit No.		Description
4(g)(5)	23	First Amendment, dated as of March 30, 2001, to the Intercreditor Agreement dated as of December 15, 1998, among Comerica Bank, as collateral agent, and various lenders and note holders.
Note:		Other instruments, notes or extracts from agreements defining the rights of holders of long-term debt of the Company or its subsidiaries have not been filed because (i) in each case the total amount of long-term debt permitted there under does not exceed 10% of the Company s consolidated assets and (ii) the Company hereby agrees that it will furnish such instruments, notes and extracts to the Securities and Exchange Commission upon its request.
10(d)(9)	24	Form of Servicing Agreement, as of April 2003.
10(d)(10)	25	Purchase Program Agreement Recitals, as of April 2007.
10(f)(4)*	26	Credit Acceptance Corporation 1992 Stock Option Plan, as amended and restated May 1999.
10(g)(2)*	23	Employment agreement for Keith P. McCluskey, Chief Marketing Officer, dated April 19, 2001.
10(p)	27	Credit Acceptance Corporation Director Stock Option Plan.
10(q)*	28	Credit Acceptance Corporation Incentive Compensation Plan, effective April 1, 2004.
10(q)(2)*	29	Form of Restricted Stock Grant Agreement.
10(q)(3)*	30	Incentive Compensation Bonus Formula for 2005.
10(q)(4)*	31	Form of Restricted Stock Grant Agreement, dated February 22, 2007.
10(q)(5)*	31	Credit Acceptance Corporation Restricted Stock Unit Award Agreement, dated February 22, 2007.
10(q)(6)*	32	Credit Acceptance Corporation Restricted Stock Unit Award Agreement, dated October 2, 2008.
10(q)(7)*	33	Credit Acceptance Corporation Restricted Stock Unit Award Agreement, dated November 13, 2008.
10(q)(8)*	33	Credit Acceptance Corporation Restricted Stock Unit Award Agreement, dated November 13, 2008.
21(1)(a)	21	Schedule of Credit Acceptance Corporation Subsidiaries.
23(a)	21	Consent of Grant Thornton LLP.
31(a)	21	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
31(b)	21	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
32(a)	21	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)	21	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.

* Management compensatory contracts and arrangements.

1 Previously filed as an exhibit to the Company s Form 10-Q for the quarterly period ended June 30, 1997, and incorporated herein by reference.

Previously filed as an exhibit to the Company s Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated herein by reference.

3 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated June 19, 2007, and incorporated herein by reference.

4 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated January 31, 2008, and incorporated herein by reference.

5 Previously filed as an exhibit to the Company s Form 10-Q for the quarterly period ended June 30, 2002, and incorporated herein by reference.

6 Previously filed as an exhibit to the Company s Form 10-Q for the quarterly period ended September 30, 2003, and incorporated herein by reference.

7 Previously filed as an exhibit to the Company s Current Report on Form 8-K dated February 10, 2006, and incorporated herein by reference.

8 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated September 22, 2006, and incorporated herein by reference.

9 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated November 27, 2006, and incorporated herein by reference.

10 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated April 18, 2007, and incorporated herein by reference.

11 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated September 7, 2007, and incorporated herein by reference.

12 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated September 13, 2007, and incorporated herein by reference.

13 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated November 2, 2007, and incorporated herein by reference.

14 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated December 27, 2007, and incorporated herein by reference.

15 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated February 15, 2008, and incorporated herein by reference.

16 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated March 3, 2008, and incorporated herein by reference.

17 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated April 24, 2008, and incorporated herein by reference.

18 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated June 2, 2008, and incorporated herein by reference.

19 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated August 29, 2008, and incorporated herein by reference.

20 Previously filed as an exhibit to the Company s Form 10-Q for the quarterly period ended September 30, 2008, and incorporated herein by reference.

21 Filed herewith.

Previously filed as an exhibit to the Company s Form 10-K Annual Report for the year ended December 31, 1998, and incorporated herein by reference.

23 Previously filed as an exhibit to the Company s Form 10-Q for the quarterly period ended March 31, 2001, and incorporated herein by reference.

24 Previously filed as an exhibit to the Company s Form 10-Q for the quarterly period ended June 30, 2003, and incorporated herein by reference.

25 Previously filed as an exhibit to the Company s Form 10-Q for the quarterly period ended March 31, 2007, and incorporated herein by reference.

26 Previously filed as an exhibit to the Company s Form 10-Q for the quarterly period ended June 30, 1999, and incorporated herein by reference.

27 Previously filed as an exhibit to the Company s Form 10-K Annual Report for the year ended December 31, 2001, and incorporated herein by reference.

28 Previously filed as an exhibit to the Company s Form 10-Q for the quarterly period ended June 30, 2004, and incorporated herein by reference.

29 Previously filed as an exhibit to the Company s Current Report on Form 8-K dated March 2, 2005, and incorporated herein by reference.

30 Previously filed as an exhibit to the Company s Current Report on Form 8-K dated April 4, 2005, and incorporated herein by reference.

31 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated February 28, 2007, and incorporated herein by reference.

32 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated October 7, 2008, and incorporated herein by reference.

33 Previously filed as an exhibit to the Company s Current Report on Form 8-K, dated November 19, 2008, and incorporated herein by reference.