CREDIT ACCEPTANCE CORPORATION
Form 10-Q
April 30, 2007

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

OR

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

For the transition period from _____ to _____

Commission File Number 000-20202

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

MICHIGAN	38-1999511
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification)
25505 WEST TWELVE MILE ROAD, SUITE 3000 SOUTHFIELD, MICHIGAN	48034-8339
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

The number of shares of Common Stock, par value $0.01, outstanding on April 25, 2007 was 30,294,017.

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PART I. - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED INCOME STATEMENTS
(UNAUDITED)

(Dollars in thousands, except per share data)	THREE MONTHS ENDED MARCH 31,	
	2007	2006

REVENUE:		
Finance charges	$ 51,413	$ 46,007
License fees	82	2,897
Other income	5,856	4,122
Total revenue	57,351	53,026
COSTS AND EXPENSES:		
Salaries and wages	11,861	10,594
General and administrative	5,967	6,765
Sales and marketing	4,472	4,359
Provision for credit losses	3,873	524
Interest	8,471	3,574
Other expense	25	82
Total costs and expenses	34,669	25,898
Operating income	22,682	27,128
Foreign currency gain	4	5
Income from continuing operations before provision for income taxes	22,686	27,133
Provision for income taxes	7,299	9,928
Income from continuing operations	15,387	17,205
Discontinued operations		
Loss from discontinued United Kingdom operations	(38)	(13)
Credit for income taxes	(11)	(5)
Loss on discontinued operations	(27)	(8)
Net income	$ 15,360	$ 17,197
Net income per common share:		
Basic	$ 0.51	$ 0.48
Diluted	$ 0.49	$ 0.45
Income from continuing operations per common share:		
Basic	$ 0.51	$ 0.48
Diluted	$ 0.49	$ 0.45
Loss from discontinued operations per common share:		
Basic	$ (0.00)	$ (0.00)
Diluted	$ (0.00)	$ (0.00)
Weighted average shares outstanding:		
Basic	30,054,349	36,146,994
Diluted	31,283,695	38,609,257

See accompanying notes to consolidated financial statements.

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)	AS OF	
	MARCH 31, 2007 (UNAUDITED)	DECEMBER 31, 2006
ASSETS:		
Cash and cash equivalents	$ 299	$ 8,528
Restricted cash and cash equivalents	54,302	45,609
Restricted securities available for sale	3,878	3,564
Loans receivable (including $18,886 and $23,038 from affiliates as of March 31, 2007 and December 31, 2006, respectively)	835,850	754,571
Allowance for credit losses	(128,249)	(128,791)
Loans receivable, net	707,601	625,780
Property and equipment, net	16,402	16,203
Income taxes receivable	14,925	11,734
Other assets	15,464	13,795
Total Assets	$ 812,871	$ 725,213
LIABILITIES AND SHAREHOLDERS' EQUITY:		
LIABILITIES:		
Accounts payable and accrued liabilities	$ 84,075	$ 78,294
Line of credit	36,900	38,400
Secured financing	401,797	345,144
Mortgage note and capital lease obligations	8,301	8,631
Deferred income taxes, net	54,941	44,397
Total Liabilities	586,014	514,866
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value, 1,000,000 shares authorized, none issued	--	--
Common stock, $.01 par value, 80,000,000 shares authorized, 30,291,517 and 30,179,959 shares issued and outstanding as of March 31, 2007 and December 31, 2006, respectively	303	302
Paid-in capital	2,055	828
Retained earnings	224,524	209,253
Accumulated other comprehensive loss, net of tax of		

$14 and $19 at March 31, 2007 and December 31, 2006, respectively	(25)	(36)
Total Shareholders' Equity	226,857	210,347
Total Liabilities and Shareholders' Equity	$ 812,871	$ 725,213

See accompanying notes to consolidated financial statements.

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Dollars in thousands)	THREE MONTHS ENDED MARCH 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 15,360	$ 17,197
Adjustments to reconcile cash provided by operating activities:		
Provision for credit losses	3,873	524
Depreciation	1,048	1,270
Loss on retirement of property and equipment	66	38
Provision for deferred income taxes	10,544	5,821
Stock-based compensation	437	(158)
Change in operating assets and liabilities:		
Accounts payable and accrued liabilities	5,692	6,163
Income taxes receivable	(2,732)	3,291
Other assets	(1,527)	(1,069)
Net cash provided by operating activities	32,761	33,077
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in restricted cash and cash equivalents	(8,693)	(2,190)
Purchases of restricted securities available for sale	(504)	(198)
Proceeds from sale of restricted securities available for sale	--	148
Maturities of restricted securities available for sale	201	--
Principal collected on loans receivable	160,972	147,788
Advances to dealers and accelerated payments of dealer holdback	(212,052)	(156,646)
Purchases of consumer loans	(14,124)	(3,335)
Payments of dealer holdback	(20,620)	(17,644)
Net change in floorplan receivables, notes receivable and lines of credit	--	1,746
Purchases of property and equipment	(1,262)	(391)
Net cash used in investing activities	(96,082)	(30,722)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under line of credit	156,900	103,630
Repayments under line of credit	(158,400)	(38,000)
Proceeds from secured financing	155,500	75,000
Repayments of secured financing	(98,847)	(44,000)
Principal payments under mortgage note and capital lease obligations	(381)	(368)
Repurchase of common stock	--	(104,862)
Proceeds from stock options exercised	332	1,072
Net cash provided by (used in) financing activities	55,104	(7,528)
Effect of exchange rate changes on cash	(12)	3
Net decrease in cash and cash equivalents	(8,229)	(5,170)
Cash and cash equivalents, beginning of period	8,528	7,090
Cash and cash equivalents, end of period	$ 299	$ 1,920
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 7,991	$ 2,915
Cash paid during the period for income taxes	332	763
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Property and equipment acquired through capital lease obligations	$ 51	$ --
Issuance of restricted stock, net of forfeitures	$ 1	$ 1

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

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

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

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

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

(i) a down payment from the consumer;

(ii) a cash advance from the Company; and

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

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

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

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

The Company is organized into two primary business segments: United States and Other. The Other segment consists of a number of discontinued businesses including a United Kingdom automobile financing business, an automobile leasing business, a Canadian automobile financing business, and a business offering secured lines of credit and floorplan financing products. As of March 31, 2007, substantially all of the Company's capital was invested in the United States business segment.

The Company's business is seasonal with peak Consumer Loan acceptances occurring during the first quarter of the year. However, this seasonality does not have a material impact on the Company's interim results.

ACCOUNTING POLICIES

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

Buyers Vehicle Protection Plan, Inc. ("BVPP"), a wholly owned subsidiary of the Company, has relationships with third party vehicle service contract administrators ("TPAs") whereby the TPAs process claims on vehicle service contracts underwritten by third party insurers. BVPP receives a commission for all such vehicle service contracts sold by its dealer-partners where the vehicle service contract is financed by the Company, and does not bear any risk of loss for claims covered on these third party service contracts. The commission is

included in the purchase price of the vehicle service contract included in the Consumer Loan. The Company advances to dealer-partners an amount based on the purchase price of the vehicle service contract on Consumer Loans accepted by the Company that include vehicle service contracts. The Company recognizes the commission received from the TPAs for contracts financed by the Company as part of finance charges on a level-yield basis based upon forecasted cash flows. Commissions on contracts not financed by the Company are recognized as finance charge income at the time the commissions are received. The Company's agreements with two of its TPA's allow the Company to receive profit sharing payments depending upon the performance of the vehicle service contract programs. Profit sharing payments are received once a year, if eligible. Profit sharing payments are not estimable and therefore revenue related to these payments is recognized in the period the payments are received.

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

2. SIGNIFICANT ACCOUNTING POLICIES - (CONCLUDED)

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

Loans Receivable and Allowance for Credit Losses. The Company records the amount advanced to the dealer-partner as a Dealer Loan. The Dealer Loan is increased as revenue is recognized and decreased as collections are received. The Company follows an approach similar to the provisions of SOP 03-3 in determining its allowance for credit losses. Consistent with SOP 03-3, an allowance for credit losses is maintained at an amount that reduces the net asset value (Dealer Loan balance less the allowance) to the 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. The Company writes off Dealer Loans once there are no forecasted

future collections on any of the associated Consumer Loans.

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

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

NEW ACCOUNTING PRONOUNCEMENTS

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

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

3. LOANS RECEIVABLE

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

	THREE MONTHS ENDED MARCH 31, 2007			
	DEALER LOANS	PURCHASED LOANS	OTHER LOANS	TOTAL
Balance, beginning of period	$ 724,093	$ 29,926	$ 552	$ 754,571
New loans (1)	212,052	14,124	--	226,176
Dealer holdback payments	20,620	--	--	20,620
Net cash collections on loans	154,634)	(6,741)	--	(161,375)
Write-offs	(4,155)	(150)	--	(4,305)
Recoveries	--	12	--	12
Net change in floorplan receivables, notes receivable, and lines of credit	--	--	46	46
Other	--	--	93	93
Currency translation	12	--	--	12
Balance, end of period	$ 797,988	$ 37,171	$ 691	$ 835,850

	THREE MONTHS ENDED MARCH 31, 2006			
	DEALER LOANS	PURCHASED LOANS	OTHER LOANS	TOTAL
Balance, beginning of period	$ 675,692	$ 16,486	$ 2,761	$ 694,939
New loans (1)	156,646	3,335	--	159,981
Dealer holdback payments	17,644	--	--	17,644
Net cash collections on loans	(145,501)	(2,848)	--	(148,349)
Write-offs	(1,255)	(62)	--	(1,317)
Recoveries	--	36	--	36
Net change in floorplan receivables, notes receivable, and lines of credit	--	--	(1,711)	(1,711)
Other	--	--	161	161
Currency translation	(3)	--	--	(3)
Balance, end of period	$ 703,223	$ 16,947	$ 1,211	$ 721,381

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

	THREE MONTHS ENDED MARCH 31, 2007		
	DEALER	PURCHASED	OTHER

	LOANS	LOANS	LOANS	TOTAL
Balance, beginning of period	$ 127,881	$ 910	$ --	$ 128,791
Provision for credit losses (2)	3,451	286	--	3,737
Write-offs	(4,155)	(150)	--	(4,305)
Recoveries	--	12	--	12
Currency translation	14	--	--	14
Balance, end of period	$ 127,191	$ 1,058	$ --	$ 128,249

	THREE MONTHS ENDED MARCH 31, 2006			
	DEALER LOANS	PURCHASED LOANS	OTHER LOANS	TOTAL
Balance, beginning of period	$ 130,722	$ 689	$ --	$131,411
Provision for credit losses (3)	78	408	--	486
Write-offs	(1,255)	(62)	--	(1,317)
Recoveries	--	36	--	36
Currency translation	(2)	--	--	(2)
Balance, end of period	$ 129,543	$ 1,071	$ --	$130,614

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

(2) Does not include a provision for credit losses of $136 related to other items.

(3) Does not include a provision for credit losses of $38 on license fees receivable and other items.

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

4. DEBT

The Company and its subsidiaries currently utilize four primary sources of debt financing: (i) a revolving secured line of credit with a commercial bank syndicate; (ii) a revolving secured warehouse facility with institutional investors; (iii) Rule 144A asset backed secured borrowings with qualified institutional investors; and (iv) a residual credit facility. General information for each of the outstanding financing transactions is as follows (dollars in thousands):

	ISSUE	MATURITY	FINANCING	INTEREST RATE AT

FINANCINGS	NUMBER	CLOSE DATE	DATE	AMOUNT	MARCH 31, 2007
Revolving Line of Credit	n/a	February 7, 2006	June 20, 2008	$135,000	Either Eurodollar rate plus 130 basisthe prime points (6.61%) or rate (8.25%)
Revolving Secured Warehouse Facility*	2003-2	February 14, 2007	February 13, 2008	$325,000	Commercial paper rate plus 65 basis points (6.00%)
Term ABS 144A 2006-1*	2006-1	April 18, 2006	n/a**	$100,000	Fixed rate (5.36%)
Term ABS 144A 2006-2*	2006-2	November 21, 2006	n/a***	$100,000	Fixed rate (5.38%)
Residual Credit Facility*	2006-3	September 20, 2006	September 19, 2007	$ 50,000	LIBOR or the commercial paper rate plus 145 basis points (6.79%)

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

** The total expected term of this facility is 15 months.

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

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2007	2006
REVOLVING LINE OF CREDIT		
Maximum outstanding balance	$ 63,100	$ 101,900
Weighted average outstanding balance	42,300	58,600
REVOLVING SECURED WAREHOUSE FACILITY		
Maximum outstanding balance	$ 264,000	$ 150,500
Weighted average outstanding balance	216,500	111,000

4. DEBT - (CONTINUED)

	AS OF MARCH 31,	AS OF DECEMBER 31,

	2007	2006
REVOLVING LINE OF CREDIT		
Balance outstanding	$ 36,900	$ 38,400
Letter(s) of credit	400	900
Amount available for borrowing (1)	97,700	95,740
Interest rate	6.61%	7.06%
REVOLVING SECURED WAREHOUSE FACILITY		
Balance outstanding	$ 264,000	$ 171,000
Amount available for borrowing	61,000	154,000
Contributed Dealer Loans	367,150	249,247
Interest rate	6.00%	6.00%
TERM ABS 144A 2006-1		
Balance outstanding	$ 37,797	$ 74,144
Contributed Dealer Loans	93,178	115,664
Interest rate	5.36%	5.36%
TERM ABS 144A 2006-2		
Balance outstanding	$ 100,000	$ 100,000
Contributed Dealer Loans	125,076	125,178
Interest rate	5.38%	5.38%
RESIDUAL CREDIT FACILITY		
Balance outstanding	$ --	$ --
Contributed Dealer Loans	--	--
Interest rate	6.79%	6.80%

(1) Represents amount available under terms of the agreement. As of March 31, 2007, the borrowing base limitation restricts the Company's borrowing ability under the line of credit to $90.9 million. Due to this borrowing base restriction, the amount available for borrowing was $53.6 million as of March 31, 2007.

LINE OF CREDIT FACILITY

Borrowings under the credit agreement are subject to a borrowing base limitation equal to 75% of the net book value of Dealer Loans plus 75% of the net book value of Consumer Loans purchased by the Company, less a hedging reserve (not exceeding $1.0 million), the amount of letters of credit issued under the line of credit, and the amount of other debt secured by the collateral which secures the line of credit. Borrowings under the credit agreement are secured by a lien on most of the Company's assets. The Company must pay annual and quarterly fees on the amount of the commitment.

SECURED FINANCING

The Company's wholly-owned subsidiary, CAC Warehouse Funding Corp. II ("Warehouse Funding" or "2003-2"), has a revolving secured financing facility with institutional investors. Under the facility, Warehouse Funding may receive 80% of the net book value of the contributed Dealer Loans in financing when the Company conveys Dealer Loans to Warehouse Funding for cash and equity in Warehouse Funding. Warehouse Funding will in turn pledge the Dealer Loans as collateral to the institutional investors to secure loans that will fund the cash portion of the purchase price of the Dealer Loans. In addition to the maturity of the facility, there is a requirement that certain amounts outstanding under the facility be refinanced within 360 days of the most recent renewal. This financing occurred on April 12, 2007. If the refinancing had not

occurred the transaction would have ceased to revolve, would amortize as collections were received and, at the option of the institutional investors, would have been subject to acceleration and foreclosure. Although Warehouse Funding will be liable for any secured financing under the facility, the financing is non-recourse to the Company, even though Warehouse Funding and the Company are consolidated for financial reporting purposes.

4. DEBT - (CONTINUED)

As Warehouse Funding is organized as a separate legal entity from the Company, assets of Warehouse Funding (including the conveyed Dealer Loans) will not be available to satisfy the general obligations of the Company. All the assets of Warehouse Funding have been encumbered to secure Warehouse Funding's obligations to its creditors. Interest has been limited to a maximum rate of 6.75% through interest rate cap agreements executed in the first quarter of 2007. The Company receives a monthly servicing fee paid out of collections equal to 6% of the collections received with respect to the conveyed Dealer Loans. Except for the servicing fee and payments due to dealer-partners, the Company does not have any rights in any portion of such collections.

The Company's wholly-owned subsidiary, Credit Acceptance Funding LLC 2006-1 ("Funding 2006-1"), completed a secured financing transaction in which Funding 2006-1 received $100.0 million in financing. In connection with this transaction, the Company conveyed, for cash and the sole membership interest in Funding 2006-1, Dealer Loans having a net book value of approximately $133.5 million to Funding 2006-1, which, in turn, conveyed the Dealer Loans to a trust that issued $100.0 million in notes to qualified institutional investors. A primary and backup financial insurance policy has been issued in connection with the transaction. The policies guarantee the timely payment of interest and ultimate repayment of principal on the final scheduled distribution date. The notes were rated "Aaa" by Moody's Investor Services and "AAA" by Standard & Poor's Rating Services. The proceeds of the initial conveyance to Funding 2006-1 were used by the Company to purchase Dealer Loans, on an arm's-length basis, from Warehouse Funding. Through October 16, 2006, the Company conveyed additional Dealer Loans to Funding 2006-1, which were then conveyed by Funding 2006-1 to the trust. After October 16, 2006, the debt outstanding under this facility began to amortize. The secured financing creates loans for which the trust is liable and which are secured by all the assets of the trust. Such loans are non-recourse to the Company, even though the trust, Funding 2006-1 and the Company are consolidated for financial reporting purposes. As Funding 2006-1 is organized as a separate legal entity from the Company, assets of Funding 2006-1 (including the conveyed Dealer Loans) are not available to satisfy the general obligations of the Company. The expected annualized cost of the secured financing, including underwriter's fees, the insurance premiums and other costs is approximately 8.1%. The Company receives a monthly servicing fee paid out of collections equal to 6% of the collections received with respect to the conveyed Dealer Loans. Except for the servicing fee and payments due to dealer-partners, the Company does not receive, or have any rights in, any portion of such collections, except for a limited right in its capacity as Servicer to exercise a "clean-up call" option to purchase Dealer Loans from Funding 2006-1 under certain specified circumstances. Alternatively, when the trust's underlying indebtedness is paid in full, either through collections or through a prepayment of the indebtedness, remaining collections would be paid over to Funding 2006-1 as the sole beneficiary of the trust where they would be available to be distributed to the Company as the sole member of Funding 2006-1.

The Company's wholly-owned subsidiary, Credit Acceptance Funding LLC 2006-2 ("Funding 2006-2"), completed a secured financing transaction in which Funding 2006-2 received $100.0 million in financing. In connection with this transaction, the Company conveyed, for cash and the sole membership interest in Funding 2006-2, Dealer Loans having a net book value of approximately $125.6 million to Funding 2006-2, which, in turn, conveyed the Dealer Loans to a trust that issued $100.0 million in notes to qualified institutional investors. A primary and backup financial insurance policy has been issued in connection with the transaction. The policies guarantee the timely payment of interest and ultimate repayment of principal on the final scheduled distribution date. The notes were rated "Aaa" by Moody's Investor Services and "AAA" by Standard & Poor's Rating Services. The proceeds of the initial conveyance to Funding 2006-2 were used by the Company to purchase Dealer Loans, on an arm's-length basis, from Warehouse Funding. Through November 16, 2007, the Company may be required, and is likely to convey, additional Dealer Loans to Funding 2006-2, which will be conveyed by Funding 2006-2 to the trust. After November 16, 2007, the debt outstanding under this facility will begin to amortize. The secured financing creates loans for which the trust is liable and which are secured by all the assets of the trust. Such loans are non-recourse to the Company, even though the trust, Funding 2006-2 and the Company are consolidated for financial reporting purposes. As Funding 2006-2 is organized as a separate legal entity from the Company, assets of Funding 2006-2 (including the conveyed Dealer Loans) are not available to satisfy the general obligations of the Company. The expected annualized cost of the secured financing, including underwriter's fees, the insurance premiums and other costs is approximately 7.4%. The Company receives a monthly servicing fee paid out of collections equal to 6% of the collections received with respect to the conveyed Dealer Loans. Except for the servicing fee and payments due to dealer-partners, the Company does not receive, or have any rights in, any portion of such collections, except for a limited right in its capacity as Servicer to exercise a "clean-up call" option to purchase Dealer Loans from Funding 2006-2 under certain specified circumstances. Alternatively, when the trust's underlying indebtedness is paid in full, either through collections or through a prepayment of the indebtedness, remaining collections would be paid over to Funding 2006-2 as the sole beneficiary of the trust where they would be available to be distributed to the Company as the sole member of Funding 2006-2.

4. DEBT - (CONCLUDED)

The Company's 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 purchased loans to dealer-partners under the Company's term securitization transactions. Historically, the Term SPEs' residual interests in Dealer Loans, represented by their trust certificates, have proven to have value that increases as their term securitization obligations amortize. The new facility enables the Term SPEs to realize and distribute to the Company up to 65% of that increase in value prior to the time the related term securitization senior notes are paid in full. Residual Funding's interests in Dealer Loans, represented by its purchased trust certificates, are subordinated to the interests of term securitization senior noteholders but the entire arrangement is non-recourse to the Company. As Residual Funding is organized as a separate legal entity from the Company, assets of Residual Funding, including purchased trust certificates, are not available to satisfy the general obligations of the Company, even though Residual Funding and the Company are consolidated for financial reporting

purposes.

MORTGAGE LOAN

The Company has a mortgage loan from a commercial bank that is secured by a first mortgage lien on the Company's headquarters building and an assignment of all leases, rents, revenues and profits under all present and future leases of the building. There were $6.6 million and $6.8 million outstanding on this loan as of March 31, 2007 and December 31, 2006, respectively. The loan matures on June 9, 2009, bears interest at a fixed rate of 5.35%, and requires monthly payments of $92,156 and a balloon payment at maturity for the balance of the loan.

CAPITAL LEASE OBLIGATIONS

As of March 31, 2007, the Company has various capital lease obligations outstanding for computer equipment, with monthly payments totaling $74,000. The total amount of capital lease obligations outstanding as of March 31, 2007 and December 31, 2006 was $1.7 million and $1.8 million, respectively. These capital lease obligations bear interest at rates ranging from 7.23% to 8.71% and have maturity dates between April 2007 and June 2010.

LETTERS OF CREDIT

Letters of credit are issued by a commercial bank and reduce amounts available under the Company's line of credit. As of March 31, 2007, the Company had one letter of credit in the amount of $0.4 million. As of December 31, 2006, the Company had two letters of credit in the amount of $0.9 million. The letter of credit relates to reinsurance agreements. The letter of credit expires on May 26, 2007, at which time it will be automatically extended for the period of one year unless the Company is notified otherwise by the commercial bank.

DEBT COVENANTS

As of March 31, 2007, the Company is in compliance with various restrictive debt covenants that require the maintenance of certain financial ratios and other financial conditions. The most restrictive covenants require a minimum ratio of the Company's assets to debt and its earnings before interest, taxes and non-cash expenses to fixed charges. The covenants also limit the maximum ratio of the Company's debt to tangible net worth, and the Company must also maintain a specified minimum level of net worth, which may indirectly limit the payment of dividends on common stock.

5. RELATED PARTY TRANSACTIONS

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

	As of March 31, 2007		As of December 31, 2006	
	Affiliated Dealer Loan balance	% of consolidated	Affiliated Dealer Loan balance	% of consolidated
Affiliated Dealer Loan balance	$ 18,886	2.4%	$ 22,434	3.1%

	For the Three Months ended March 31, 2007		For the Three Months ended March 31, 2006	
	Affiliated dealer-partner activity	% of consolidated	Affiliated dealer-partner activity	% of consolidated
Advances	$ 4,212	2.0%	$ 6,099	3.9%
Affiliated dealer-partner revenue	$ 1,218	2.6%	$ 1,594	3.7%
Dealer holdback payments	$ 557	2.7%	$ 389	2.2%

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

The Company paid for air transportation services provided by a company owned by the Company's majority shareholder and Chairman totaling $10,000 for the three months ended March 31, 2006. No such services were provided for the three months ended March 31, 2007.

Beginning in 2002, entities owned by the Company's majority shareholder and Chairman began offering secured lines of credit to third parties in a manner similar to a program previously offered by the Company. In December of 2004, the Company's majority shareholder and Chairman sold his ownership interest in these entities; 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.

(UNAUDITED)

6. INCOME TAXES

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

	THREE MONTHS ENDED MARCH 31,	
	2007	2006
U.S. federal statutory rate	35.0%	35.0%
State income taxes	1.9	1.4
Other	(4.7)	0.2
Effective tax rate	32.2%	36.6%

The differences between the U.S. federal statutory rate and the Company's consolidated effective tax rate are primarily related to state income taxes and reserves for uncertain tax positions that are included in the provision for income taxes. The decrease in the effective tax rate to 32.2% for the three months ended March 31, 2007, from 36.6% for the same period in 2006 is primarily due to a decrease in the Company's reserve for uncertain tax positions recorded in the first quarter of 2007.

The Company adopted FIN 48 on January 1, 2007. As a result of the implementation, the Company recognized a $0.1 million increase to reserves for uncertain tax positions. This increase was accounted for as an adjustment to the beginning balance of retained earnings on the balance sheet. Including the cumulative effect of FIN 48 implementation, at the beginning of 2007, the Company had approximately $10.0 million of total gross unrecognized tax benefit that, if recognized, would favorably affect the effective income tax rate in future periods. During the quarter ended March 31, 2007, the Company recorded an additional increase in the unrecognized tax benefit of $0.5 million that resulted in total of $10.5 million of gross unrecognized benefit as of March 31, 2007.

The Company is subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. The Company has substantially concluded all U.S. federal income tax matters for years through 2001. Substantially all material state and local tax matters have been concluded for years through 2002 and foreign tax matters have been concluded through 2000. The federal income tax return for 2004 and 2005 is currently under examination. The examination began during the three months ended March 31, 2007 and the Company expects that it may not be completed by the end of 2007.

The Company recognizes interest and penalties related to income tax matters in general and administrative expense. As of January 1, 2007, upon the FIN 48 implementation, the Company had approximately $2.1 million and $0.9 million of accrued interest and penalties, respectively, related to uncertain tax positions. During the quarter ended March 31, 2007, the Company recorded an additional $0.2 million of interest and $0.1 million of penalties related to uncertain tax matters.

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

7. CAPITAL TRANSACTIONS

NET INCOME PER SHARE

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

	THREE MONTHS ENDED MARCH 31,	
	2007	2006
Weighted average common shares outstanding	30,054,349	36,146,994
Common stock equivalents	1,229,346	2,462,263
Weighted average common shares and common stock equivalents	31,283,695	38,609,257

There were no stock options that would be anti-dilutive for the three months ended March 31, 2007 and 2006.

STOCK COMPENSATION PLANS

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

During the three months ended March 31, 2007, the Company granted 56,669 shares of restricted stock to employees and officers under the Incentive Plan, all of which vest over a three year period. During the three months ended March 31, 2007, 637 restricted stock shares vested. At March 31, 2007 and December 31, 2006, the Company had 202,626 and 146,028 shares of restricted stock outstanding, respectively. Shares available for future grants under the Incentive Plan totaled 497,303 at March 31, 2007.

On February 22, 2007, the Compensation Committee approved an award of 300,000 restricted stock units to the Company's Chief Executive Officer, Brett A. Roberts. Each restricted stock unit represents and has a value equal to one share of common stock of the Company. The restricted stock units will be earned over a five year period based upon the annual increase in the Company's adjusted economic profit. As a result of this grant, Mr. Roberts will not participate in other annual cash bonuses or annual restricted stock grants over the five year period. Any earned shares will be distributed to Mr. Roberts on February 22, 2014. The Company recognized $0.4 million of expense related to the award of restricted stock units to Mr. Roberts during the three months ended March 31,

2007.

The Company recognized stock-based compensation expense of $0.4 million and $0.6 million for the three months ended March 31, 2007 and March 31, 2006, respectively, for outstanding restricted stock and restricted stock units. Stock-based compensation recognized for the three months ended March 31, 2007 included expenses related to the award of restricted stock units to Mr. Roberts.

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

8. BUSINESS SEGMENT INFORMATION

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

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

	THREE MONTHS ENDED MARCH 31,	
	2007	2006
Revenue:		
United States	$ 57,313	$ 53,042
Other	38	(16)
Total revenue	$ 57,351	$ 53,026
Income from continuing operations before provision for income taxes:		
United States	$ 22,691	$ 27,212
Other	(5)	(79)
Total income from continuing operations before provision for income taxes	$ 22,686	$ 27,133

	AS OF MARCH 31, 2007	AS OF DECEMBER 31, 2006
Segment Assets		
United States	$ 811,568	$ 724,008

Other	1,303	1,205
Total Assets	$ 812,871	$ 725,213

9. DEBT ISSUANCE COSTS

As of March 31, 2007 and December 31, 2006, deferred debt issuance costs were $2.0 million (net of amortization expense of $5.1 million) and $3.0 million (net of amortization expense of $4.1 million), respectively. Expenses associated with the issuance of debt instruments are capitalized and amortized over the term of the debt instrument on a level-yield basis for term secured financings and on a straight-line basis for lines of credit and revolving secured financings.

10. COMPREHENSIVE INCOME

The Company's comprehensive income for the three months ended March 31, 2007 and 2006 is set forth below (in thousands):

	THREE MONTHS ENDED MARCH 31,	
	2007	2006
Net income	$ 15,360	$ 17,197
Other comprehensive gain (loss), net of tax	11	(19)
Comprehensive income	$ 15,371	$ 17,178

11. SUBSEQUENT EVENT

On April 12, 2007, the Company's wholly-owned subsidiary, Credit Acceptance Funding LLC 2007-1 ("Funding 2007-1"), completed a secured financing transaction in which Funding 2007-1 received $100.0 million in financing. In connection with this transaction, the Company conveyed, for cash and the sole membership interest in Funding 2007-1, Dealer Loans having a net book value of approximately $125.7 million to Funding 2007-1, which, in turn, conveyed the Dealer Loans to a trust that issued $100.0 million in notes to qualified institutional investors bearing fixed interest rates of 5.32%. A primary financial insurance policy has been issued in connection with the transaction that guarantees the timely payment of interest and ultimate repayment of principal on the final scheduled distribution date. The notes were rated "Aaa" by Moody's Investor Services and "AAA" by Standard & Poor's Rating Services.

The proceeds of the initial conveyance to Funding 2007-1 were used by the Company to purchase Dealer Loans, on an arm's-length basis, from Warehouse Funding. Through April 15, 2008, the Company may be required, and is likely, to convey additional Dealer Loans to Funding 2007-1, which will be conveyed by

Funding 2007-1 to the trust. After April 15, 2008, the debt outstanding under this facility will begin to amortize. The total expected term of the facility is 24 months. The secured financing creates loans for which the trust is liable and which are secured by all the assets of the trust and of Funding 2007-1. Such loans are non-recourse to the Company, even though the trust, Funding 2007-1 and the Company are consolidated for financial reporting purposes.

As Funding 2007-1 is organized as a separate legal entity from the Company, assets of Funding 2007-1 (including the conveyed Dealer Loans) are not available to satisfy the general obligations of the Company. The expected annualized cost of the secured financing, including underwriter's fees, the insurance premiums and other costs is approximately 7.2%. The Company receives a monthly servicing fee paid out of collections equal to 6% of the collections received with respect to the conveyed Dealer Loans. Except for the servicing fee and payments due to dealer-partners, the Company does not receive, or have any rights in, any portion of such collections, except for a limited right in its capacity as Servicer to exercise a "clean-up call" option to purchase Dealer Loans from Funding 2007-1 under certain specified circumstances. Alternatively, when the trust's underlying indebtedness is paid in full, either through collections or through a prepayment of the indebtedness, remaining collections would be paid over to Funding 2007-1 as the sole beneficiary of the trust where they would be available to be distributed to the Company as the sole member of Funding 2007-1.

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

EXECUTIVE SUMMARY

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

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

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

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

Critical success factors for the Company include access to capital and the

ability to accurately forecast Consumer Loan performance. The Company's strategy for accessing the capital required to grow its business is to: (i) maintain consistent financial performance, (ii) maintain modest financial leverage, and (iii) maintain multiple funding sources. The Company's funded debt to equity ratio is 2.0 to 1.0 at March 31, 2007. The Company currently funds its business through four primary sources of financing: (i) a revolving secured line of credit with a commercial bank syndicate; (ii) a revolving secured warehouse facility with institutional investors; (iii) 144A asset backed securitizations with qualified institutional investors; and (iv) a residual credit facility.

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

CONSUMER LOAN PERFORMANCE

Although the majority of loan originations are recorded in the Company's financial statements as Dealer Loans, each transaction starts with a loan from the dealer-partner to the individual purchasing the vehicle. Since the cash flows available to repay the Dealer Loans are generated, in most cases, from the underlying Consumer Loan, the performance of the Consumer Loans is critical to the Company's financial results. The following table presents forecasted Consumer Loan collection rates, advance rates, the spread (the forecasted collection rate less the advance rate), and the percentage of the forecasted collections that have been realized as of March 31, 2007 for the United States business segment. Payments of dealer holdback and accelerated payments of dealer holdback are not included in the analysis of the initial advance paid to the dealer-partner. All amounts are presented as a percentage of the initial balance of the Consumer Loan (principal + interest).

	As of March 31, 2007			
Year of Origination	Forecasted Collection %	Advance %	Spread %	% of Forecast Realized
1997	58.4%	47.9%	10.5%	99.9%
1998	67.4%	46.0%	21.4%	99.4%
1999	72.4%	48.7%	23.7%	98.6%
2000	72.9%	47.9%	25.0%	97.8%
2001	67.8%	46.0%	21.8%	97.2%
2002	70.8%	42.2%	28.6%	97.0%
2003	74.3%	43.4%	30.9%	95.8%
2004	74.1%	44.0%	30.1%	87.0%
2005	74.0%	46.9%	27.1%	70.6%
2006	71.0%	46.6%	24.4%	33.3%
2007	69.1%	46.1%	23.0%	4.4%

Accurately forecasting future collection rates is critical to the Company's success. The risk of a forecasting error declines as Consumer Loans age. For example, the risk of a material forecasting error for business written in 1999 is very small since 98.6% of the total amount forecasted has already

been realized. In contrast, the Company's forecast for recent Consumer Loans is less certain. If the Company produces disappointing operating results, it will likely be because the Company overestimated future Consumer Loan performance. Although the Company believes its forecasted collection rates are as accurate as possible, there can be no assurance that the Company's estimates will be accurate or that Consumer Loan performance will be as expected.

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

The following table compares the Company's forecast of Consumer Loan collection rates as of March 31, 2007 with the forecast as of December 31, 2006:

Loan Origination Year	March 31, 2007 Forecasted Collection %	December 31, 2006 Forecasted Collection %	Variance
1997	58.4%	58.4%	0.0%
1998	67.4%	67.5%	(0.1)%
1999	72.4%	72.4%	0.0%
2000	72.9%	73.0%	(0.1)%
2001	67.8%	67.7%	0.1%
2002	70.8%	70.7%	0.1%
2003	74.3%	74.2%	0.1%
2004	74.1%	73.9%	0.2%
2005	74.0%	74.2%*	(0.2)%
2006	71.0%	71.1%*	(0.1)%

* The forecasted collection percentage amounts differ from those previously reported as they have been revised for a seasonality factor. The following table compares the Company's forecast of Consumer Loan collection rates as of March 31, 2007, with the forecast as of December 31, 2006 without the revised seasonality factors:

Loan Origination Year	March 31, 2007	December 31, 2006	Variance
2005	74.2%	73.8%	0.4%
2006	71.9%	70.5%	1.4%

Forecasted collection percentage amounts prior to 2005 are not impacted by the seasonality factor.

Collection results for the 2007 first quarter were generally consistent with the Company's expectations.

The Company modified its loan pricing model during the third quarter of 2006. As a result, the composition of new loan originations changed during the three months ended March 31, 2007 compared to the same period in 2006 as follows: (1) the average loan size was larger by 12.2%, (2) the average loan term increased from 34 to 40 months, (3) the projected return on capital has decreased by approximately 125 basis points, and (4) the average spread between the advance rate and the expected collection rate has decreased by approximately 300 basis points. The Company also increased its Consumer Loan unit volume by 26.3% and believes this higher volume was primarily due to the pricing modification.

There were no other material changes in credit policy or pricing during 2007, other than routine changes designed to maintain profitability levels.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2007 Compared to
Three Months Ended March 31, 2006

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

(Dollars in thousands)	THREE MONTHS ENDED MARCH 31, 2007	% OF REVENUE	THREE MONTHS ENDED MARCH 31, 2006	% OF REVENUE
REVENUE:				
Finance charges	$ 51,413	89.7%	$ 46,007	86.7%
License fees	82	0.1	2,897	5.5
Other income	5,856	10.2	4,122	7.8
Total revenue	57,351	100.0	53,026	100.0
COSTS AND EXPENSES:				
Salaries and wages	11,861	20.7	10,594	19.9
General and administrative	5,967	10.4	6,765	12.8
Sales and marketing	4,472	7.8	4,359	8.2
Provision for credit losses	3,873	6.8	524	1.0
Interest	8,471	14.8	3,574	6.7
Other expense	25	--	82	0.2
Total costs and expenses	34,669	60.5	25,898	48.8
Operating income	22,682	39.5	27,128	51.2
Foreign currency gain	4	--	5	--
Income from continuing operations before provision for income taxes	22,686	39.5	27,133	51.2
Provision for income taxes	7,299	12.7	9,928	18.7
Income from continuing operations	15,387	26.8	17,205	32.5
Discontinued operations				
Loss from discontinued United Kingdom operations	(38)	--	(13)	--

Credit for income taxes	(11)	--	(5)	--
Loss on discontinued operations	(27)	--	(8)	--
Net income	$ 15,360	26.8%	$ 17,197	32.5%
Net income per common share:				
Basic	$ 0.51		$ 0.48	
Diluted	$ 0.49		$ 0.45	
Income from continuing operations per common share:				
Basic	$ 0.51		$ 0.48	
Diluted	$ 0.49		$ 0.45	
Loss from discontinued operations per common share:				
Basic	$ (0.00)		$ (0.00)	
Diluted	$ (0.00)		$ (0.00)	
Weighted average shares outstanding:				
Basic	30,054,349		36,146,994	
Diluted	31,283,695		38,609,257	

For the three months ended March 31, 2007, net income decreased to $15.4 million, or $0.49 per diluted share, compared to $17.2 million, or $0.45 per diluted share, for the same period in 2006. The decrease in net income primarily reflects the following:

- Interest expense increased $4.9 million primarily due to a 150.2% increase in the amount of average outstanding debt as a result of borrowings used to fund stock repurchases during 2006 and new Dealer Loan originations.

- The provision for credit losses increased $3.3 million primarily due to an increase in the provision required to maintain the initial yield established at the inception of the Dealer Loan.

- License fees decreased $2.8 million due to the change in the Company's methodology of collecting dealer-partners monthly CAPS fees. Effective January 1, 2007, the Company implemented a change designed to positively impact dealer-partner attrition. The Company will continue to charge a monthly fee of $599 but, instead of collecting and recognizing the license fee revenue in the current period, the Company will collect the license fee from future dealer-holdback payments and recognize it as finance charges over the life of the Dealer Loans.

Partially offsetting these decreases to net income:

- Finance charges increased to $51.4 million (11.8%) primarily due to a 15.6% increase in the average size of the combined Dealer and Purchased Loan portfolio as a result of an increase in the number of

active dealer-partners, partially offset by a decrease in the number of transactions per dealer-partner. The increase was partially offset by an 86 basis point decrease in the combined average yield on Dealer and Purchased Loans primarily due to pricing changes implemented during the third quarter of 2006.

- Other income increased to $5.9 million (42.1%) primarily due to profit sharing payments received from ancillary product providers during the first quarter of 2007.

- General and administrative expenses decreased primarily due to increased accounting fees in the first quarter of 2006 related to the Company's restatement of its financial statements and a decrease in corporate legal expenses in the first quarter of 2007.

- The Company's effective tax rate decreased from 36.6% to 32.2% primarily due to a decrease in the Company's reserve for uncertain tax positions recorded in the first quarter of 2007.

Finance Charges. Finance charges increased to $51.4 million for the three months ended March 31, 2007 from $46.0 million for the same period in 2006 primarily due to a 15.6% increase in the average size of the combined Dealer and Purchased Loan portfolio as a result of an increase in the number of active dealer-partners, partially offset by a decrease in the number of transactions per dealer-partner. The increase was partially offset by an 86 basis point decrease in the combined average yield on Dealer and Purchased Loans primarily due to pricing changes implemented in the third quarter of 2006.

The following table summarizes the changes in active dealer-partners and corresponding Consumer Loan unit volume for the three months ended March 31, 2007 and 2006:

	THREE MONTHS ENDED MARCH 31,		
	2007	2006	% CHANGE
Consumer Loan unit volume	36,609	28,994	26.3%
Active dealer-partners (1)	1,910	1,491	28.1%
Average volume per dealer-partner	19.2	19.4	-1.0%
Consumer Loan unit volume from dealer-partners active both periods	24,319	23,830	2.1%
Dealer-partners active both periods	1,021	1,021	0%
Average volume per dealer-partner active both periods	23.8	23.3	2.1%
Consumer Loan unit volume from new dealer-partners	2,578	2,099	22.8%
New active dealer-partners (2)	321	220	45.9%
Average volume per new active dealer-partner	8.0	9.5	-15.8%
Attrition (3)	-17.8%	-16.8%	

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

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

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

Dealer-partners that enroll in the Company's program have the option to pay an initial $9,850 enrollment fee or can defer their fee. Dealer-partners choosing the latter option agree to allow the Company to keep 50% of the first accelerated dealer holdback payment. This payment, called Portfolio Profit Express, is paid to qualifying dealer-partners after 100 Consumer Loans have been originated and assigned to the Company. While the Company will lose enrollment fee revenue on those dealer-partners choosing this option and not reaching 100 Consumer Loans or otherwise qualifying for a Portfolio Profit Express payment, the Company estimates that it will realize higher per dealer-partner enrollment fee revenue from those dealer-partners choosing this option and qualifying for a Portfolio Profit Express payment. Based on the historical average of Portfolio Profit Express payments, the Company expects average enrollment fee revenue per dealer-partner for those dealer-partners electing the deferred option and reaching 100 Consumer Loans will be approximately $13,000. Approximately 75% of the dealer-partners that enrolled during the first quarter of 2007 took advantage of the deferred enrollment option.

License Fees. License fees decreased to $0.1 million for the three months ended March 31, 2007 from $2.9 million for the same period in 2006. License fees represent CAPS fees charged to dealer-partners on a monthly basis. The decrease is primarily due to a change in the Company's method of collecting the monthly CAPS fee. Effective January 1, 2007, the Company implemented a change designed to positively impact dealer-partner attrition. The Company will continue to charge a monthly fee of $599, but instead of collecting and recognizing the revenue from the fee in the current period, the Company will collect it from future dealer holdback payments. As a result of this change, the Company now records license fees as a yield adjustment, recognizing these fees as finance charge revenue over the term of the Dealer Loan. The Company will continue to recognize a small amount of license fee revenue related to dealer-partners originating Purchased Loans.

To allow shareholders to more precisely track the Company's financial performance and make comparisons between periods possible, the Company will provide non-GAAP adjusted license fees reflecting the amount of revenue if the license fees had always been recorded as a yield adjustment. For the three months ended March 31, 2007 and 2006, total revenue would have changed as follows:

(Dollars in thousands)	AS OF MARCH 31,	
	2007	2006

Total revenue	$ 57,351	$ 53,026
License fee yield adjustment	2,483	(1,050)
Adjusted total revenue	$ 59,834	$ 51,976

Other Income. Other income increased to $5.9 million for the three months ended March 31, 2007 from $4.1 million for the same period in 2006. The increase is primarily related to profit sharing payments received from ancillary product providers during the first quarter of 2007. The amounts received in the first quarter of 2007 are the first profit sharing amounts received. Future payments of this kind are not estimable, and will therefore be recorded as revenue when received. No additional payments are expected in 2007.

Salaries and Wages. Salaries and wages, as a percentage of revenue, increased to 20.7% for the three months ended March 31, 2007 from 19.9% for the same period in 2006. The increase in salaries and wages, as a percentage of revenue, was primarily due to an increase in stock compensation expense related to restricted stock and restricted stock units granted in the first quarter of 2007.

General and Administrative. General and administrative expenses, as a percentage of revenue, decreased to 10.4% for the three months ended March 31, 2007 compared to 12.8% for the same period in 2006. The decrease, as a percentage of revenue, was primarily due to higher accounting and legal fees in the first quarter of 2006 associated primarily with the restatement of the Company's financial statements and a decrease in depreciation expense.

Provision for Credit Losses. The provision for credit losses increased to $3.9 million for the three months ended March 31, 2007 compared to $0.5 million for the same period in 2006. The provision for credit losses consists primarily of a provision to reduce the carrying value of Dealer Loans to maintain the initial yield established at the inception of each Dealer Loan. Additionally, the provision for credit losses includes a provision for losses on Purchased Loans and a provision for losses on notes receivable. The increase in the provision for the three months ended March 31, 2007 was primarily due to an increase in the provision for credit losses required to maintain the initial yield established at the inception of each Dealer Loan.

Interest. Interest expense increased to $8.5 million for the three months ended March 31, 2007 from $3.6 million for the same period in 2006. The increase in interest expense during the three months ended March 31, 2007 was primarily due to a 150.2% increase in the amount of average outstanding debt as a result of borrowings used to fund stock repurchases during

2006 and new Dealer Loan originations and also due to a 50 basis point increase in interest rates. The increase in interest expense was partially offset by the decreased impact of fixed fees on the Company's secured financings and line of credit facility due to higher outstanding borrowings.

Provision for Income Taxes. The effective tax rate decreased to 32.2% for the three months ended March 31, 2007 from 36.6% for the same period in 2006 primarily due to a decrease in the Company's reserve for uncertain tax positions recorded in the first quarter of 2007.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of capital are cash flows from operating

activities, collections of Consumer Loans and borrowings under the Company's lines of credit and secured financings. The Company's principal need for capital is to fund Dealer Loan originations, for the payment of dealer holdback, and to fund stock repurchases. In addition, on February 9, 2007 the Company signed a Memorandum of Understanding to settle a consumer class action lawsuit discussed in Part II Item 1 of this Report. Credit Acceptance has agreed to pay $12.5 million in full and final settlement of all claims against the Company. The settlement is subject to court approval.

The Company's cash and cash equivalents decreased to $0.3 million as of March 31, 2007 from $8.5 million at December 31, 2006. The Company's total balance sheet indebtedness increased to $447.0 million at March 31, 2007 from $392.2 million at December 31, 2006. This increase was primarily a result of borrowings used to fund new loan originations in 2007.

Restricted Cash and Cash Equivalents increased to $54.3 million as of March 31, 2007 from $45.6 million at December 31, 2006. The balance consists primarily of cash collections related to secured financings and amounts held in trusts for future vehicle service contract claims.

RESTRICTED SECURITIES

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available for sale, and stated at fair value with unrealized gains and losses, net of income taxes included in the determination of comprehensive income and reported as a component of shareholders' equity.

Restricted securities available for sale consisted of the following:

	AS OF MARCH 31, 2007			
(in thousands)	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
US Government and agency securities	$ 1,930	$ --	$ (1)	$ 1,929
Corporate bonds	1,987	--	(38)	1,949
Total restricted securities available for sale	$ 3,917	$ --	$ (39)	$ 3,878

	AS OF DECEMBER 31, 2006			
	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
US Government and agency securities	$ 1,578	$ --	$ (8)	$ 1,570

Corporate bonds	2,041	--	(47)	1,994
Total restricted securities available for sale	$ 3,619	$ --	$ (55)	$ 3,564

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

(in thousands)	AS OF MARCH 31, 2007		AS OF DECEMBER 31, 2006	
	COST	ESTIMATED FAIR VALUE	COST	ESTIMATED FAIR VALUE
Contractual Maturity Within one year	$ 746	$ 745	$ 898	$ 893
Over one year to five years	3,171	3,133	2,721	2,671
Over five years to ten years	--	--	--	--
Over ten years	--	--	--	--
Total restricted securities available for sale	$ 3,917	$ 3,878	$ 3,619	$ 3,564

CONTRACTUAL OBLIGATIONS

In addition to the balance sheet indebtedness as of March 31, 2007, the Company also has contractual obligations resulting in future minimum payments under operating leases. A summary of the total future contractual obligations requiring repayments is as follows (in thousands):

	PAYMENTS DUE BY PERIOD				
	TOTAL	<1 YEAR	1-3 YEARS	3-5 YEARS	> 5 YEARS
Long-term					

debt obligations (1)	$ 445,335	$ 346,150	$ 99,185	$ --	$ --
Capital lease obligations	1,663	597	1,066	--	--
Operating lease obligations	1,409	526	883	--	--
Purchase obligations	--	--	--	--	--
Other long-term obligations	--	--	--	--	--
Total contractual obligations	$ 448,407	$ 347,273	$ 101,134	$ --	$ --

(1) Long-term debt obligations included in the above table consist solely of principal repayments. The Company is also obligated to make interest payments at the applicable interest rates, as discussed in Note 4 in the consolidated financial statements, which is incorporated herein by reference. Based on the amount of debt outstanding and the interest rates as of March 31, 2007, interest is expected to be approximately $18.8 million during 2007 and $1.9 million during 2008 and 2009.

CRITICAL ACCOUNTING ESTIMATES

The Company's consolidated financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to the recognition of finance charge revenue and the allowance for credit losses. Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006 discusses several critical accounting policies, which the Company believes involve a high degree of judgment and complexity. There have been no material changes to the estimates and assumptions associated with these accounting policies from those discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

FORWARD-LOOKING STATEMENTS

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

The Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all of its forward-looking statements. These forward-looking statements represent the Company's outlook only as of the date of this report. While the Company believes that its forward-looking statements are reasonable, actual

results could differ materially since the statements are based on our current expectations, which are subject to risks and uncertainties. Factors that might cause such a difference include, but are not limited to, the factors set forth in Item 1A of the Company's Form 10-K for the year ended December 31, 2006, other risk factors discussed herein or listed from time to time in the Company's reports filed with the Securities and Exchange Commission and the following:

- The Company's inability to accurately forecast the amount and timing of future collections could have a material adverse effect on results of operations.

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

- The Company's ability to maintain and grow the business is dependent on the ability to continue to access funding sources and obtain capital on favorable terms.

- The Company may not be able to generate sufficient cash flow to service its outstanding debt and fund operations.

- The substantial regulation to which the Company is subject limits the business, and such regulation or changes in such regulation could result in potential liability.

- Adverse changes in economic conditions, or in the automobile or finance industries or the non-prime consumer finance market, could adversely affect the Company's financial position, liquidity and results of operations and its ability to enter into future financing transactions.

- Litigation the Company is involved in from time to time may adversely affect its financial condition, results of operations and cash flows.

- The Company is dependent on its senior management and the loss of any of these individuals or an inability to hire additional personnel could adversely affect its ability to operate profitably.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.

Refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2006 for a complete discussion of the Company's market risk. There have been no material changes to the market risk information included in the Company's 2006 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures.

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

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

Changes in Internal Controls Over Financial Reporting. As of March 31, 2005, in response to a material weakness noted in its internal controls over financial reporting related to accounting for income taxes as of December 31, 2004, the Company implemented changes in internal controls. These changes included engaging external tax advisors to assist in the review of our income tax calculations. Beginning with the quarter ended March 31, 2007, the Company no longer engages external tax advisors to assist in an independent review of our income tax calculations. The Company has determined that the remaining controls implemented simultaneously (particularly the strengthening of internal resources used in preparation of accounting for income taxes) have been effectively designed and demonstrated operational effectiveness to enable management to consider the independent review a redundant control over the Company's accounting for income taxes.

There have been no other changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of business and as a result of the customer-oriented nature of the industry in which the Company operates, industry participants are frequently subject to various customer claims and litigation seeking damages and statutory penalties. The claims allege, among other theories of liability,

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

The Company is currently a defendant in a class action proceeding commenced on October 15, 1996 in the Circuit Court of Jackson County, Missouri and removed to the United States District Court for the Western District of Missouri. The complaint seeks unspecified money damages for alleged violations of a number of state and federal consumer protection laws. On October 9, 1997, the District Court certified two classes on the claims brought against the Company, one relating to alleged overcharges of official fees, the other relating to alleged overcharges of post-maturity interest and a subclass relating to allegedly inadequate repossession notices. On August 4, 1998, the District Court granted partial summary judgment on liability in favor of the plaintiffs on the interest overcharge claims based upon the District Court's finding of certain violations but denied summary judgment on certain other claims. The District Court also entered a number of permanent injunctions, which among other things, restrained the Company from collecting on certain class accounts. The Court also ruled in favor of the Company on certain claims raised by class plaintiffs. Because the entry of an injunction is immediately appealable, the Company appealed the summary judgment order to the United States Court of Appeals for the Eighth Circuit. Oral argument on the appeals was heard on April 19, 1999. On September 1, 1999, the United States Court of Appeals for the Eighth Circuit overturned the August 4, 1998 partial summary judgment order and injunctions against the Company. The Court of Appeals held that the District Court lacked jurisdiction over the interest overcharge claims and directed the District Court to sever those claims and remand them to state court. On February 18, 2000, the District Court entered an order remanding the post-maturity interest class to the Circuit Court of Jackson County, Missouri while retaining jurisdiction on the official fee class. The Company then filed a motion requesting that the District Court reconsider that portion of its order of August 4, 1998, in which the District Court had denied the Company's motion for summary judgment on the federal Truth-In-Lending Act ("TILA") claim. On May 26, 2000, the District Court entered summary judgment in favor of the Company on the TILA claim and directed the Clerk of the Court to remand the remaining state law official fee claims to the appropriate state court.

On July 18, 2002, the Circuit Court of Jackson County, Missouri granted plaintiffs leave to file a fourth amended petition which was filed on October 28, 2002. Instead of a subclass of Class 2, that petition alleges a new, expanded Class 3 relating to allegedly inadequate repossession notices. The Company filed a motion to dismiss the plaintiff's fourth amended complaint on November 4, 2002. On November 18, 2002, the Company filed a memorandum urging the decertification of the classes. On February 21, 2003, the plaintiffs filed a brief opposing the Company's November 4, 2002 motion to dismiss the case. On May 19, 2004, the Circuit Court released an order, dated January 9, 2004, that denied the Company's motion to dismiss. On November 16, 2005 the Circuit Court issued an order that, among other things, adopted the District Court's order certifying classes. By adopting the District Court's order, the Circuit Court's order certified only the two original classes and did not certify the new, expanded Class 3. On January 13, 2006, plaintiffs filed a motion entitled Plaintiffs' Motion to Adjust Class 2 Definition to Correspond with Allegations of Their Fourth Amended Complaint which requested that the "repossession subclass" be deleted from Class 2 and a new Class 3 be adopted. The Company

filed a response arguing that the new, expanded Class 3 is inappropriate for a number of reasons including the expiration of the statute of limitations. On May 23, 2006, the Circuit Court issued several orders, including an order granting plaintiffs' motion and adding the new Class 3. On June 2, 2006 the Company filed for leave to appeal the Circuit Court's decision to allow the expanded repossession class as well as its November 16, 2005 certification order. The Court of Appeals denied the Company's request for leave to appeal the Circuit Court's decision on August 31, 2006.

In October 2006, the Company and plaintiffs' counsel commenced settlement discussions, agreeing to use a third party facilitator in face to face discussions in November and December 2006. These discussions led to the execution of a February 9, 2007 Memorandum of Understanding 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. The settlement is subject to court approval.

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

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS	MAXIMUM DOLLAR VALUE THAT MAY YET BE USED TO PURCHASE SHARES UNDER THE PLANS OR PROGRAMS
January 1 through January 31, 2007	-	$ -	-	$ 8,631,953
February 1 through February 28, 2007	71*	-	-	8,631,953
March 1 through March 31, 2007	-	-	-	8,631,953
	-	$ -	-	

* Amount represents shares of common stock forfeited to the Company by employees as payment of tax withholdings due to the Company upon the vesting of restricted stock.

ITEM 6. EXHIBITS

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

SIGNATURE

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

CREDIT ACCEPTANCE CORPORATION
(Registrant)

By: /s/ Kenneth S. Booth

Kenneth S. Booth
Chief Financial Officer
April 30, 2007

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

INDEX OF EXHIBITS

EXHIBIT NO.	NOTE	DESCRIPTION
4(f)(86)	1	Amendment No. 3, dated February 14, 2007 to First Amended and Restated Loan and Security Agreement dated as of February 15, 2006 among the Company, CAC Warehouse Funding Corporation II, Wachovia Capital Markets, LLC, Wachovia Bank, National Association, Variable Funding Capital Company LLC, Park Avenue Receivables Company LLC and JPMorgan Chase Bank, N.A.
4(f)(87)	2	Indenture dated April 12, 2007 between Credit Acceptance Auto Dealer Loan Trust 2007-1 and Wells Fargo Bank National Association.
4(f)(88)	2	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)	2	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)	2	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)	2	Contribution Agreement dated April 12, 2007 between the Company and Credit Acceptance Funding LLC 2007-1.

4(f)(92)	2	Intercreditor Agreement dated April 12, 2007 among the Company, CAC Warehouse Funding Corporation II, Credit Acceptance Funding LLC 2006-1, Credit Acceptance Auto Dealer Loan Trust 2006-1, 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, Wachovia Capital Markets, LLC, as agent, The Bank of New York (as successor-in-interest to the corporate trust business of JPMorgan Chase Bank, N.A.), as agent, Deutsche Bank Trust Company Americas, as agent, Wells Fargo Bank, National Association, as agent, Comerica Bank, as agent.
10(d)(10)	4	Form of Purchase Program Agreement as of March 2007.
10(q)(4)	3	Form of Restricted Stock Grant Agreement dated February 22, 2007.
10(q)(5)	3	Credit Acceptance Corporation Restricted Stock Unit Award Agreement dated February 22, 2007.
31(a)	4	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31(b)	4	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32(a)	4	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934.
32(b)	4	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934.

1 Previously filed as an exhibit to the Company's Current Report on Form 8-K, dated February 9, 2007, and incorporated herein by reference.

2 Previously filed as an exhibit to the Company's Current Report on Form 8-K, dated April 12, 2007.

3 Previously filed as an exhibit to the Company's Current Report on Form 8-K, dated February 22, 2007, and incorporated herein by reference.

4 Filed herewith.