CREDIT ACCEPTANCE CORP
Form 10-K
February 20, 2013

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

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2012

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)	(I.R.S. Employer Identification No.)
25505 W. Twelve Mile Road Southfield, Michigan	48034-8339
(Address of Principal Executive Offices)	(Zip Code)

Registrant’s telephone number, including area code: (248) 353-2700

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	NASDAQ

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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

[ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

The aggregate market value of 7,978,239 shares of the Registrant's common stock held by non-affiliates on June 30, 2012 was approximately $673.6 million. For purposes of this computation all officers, directors and 10% beneficial owners of the Registrant are assumed to be affiliates. Such determination should not be deemed an admission that such officers, directors and beneficial owners are, in fact, affiliates of the Registrant.

At February 15, 2013, there were 23,949,967 shares of the Registrant's common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement pertaining to the 2013 Annual Meeting of Shareholders (the "Proxy Statement") filed pursuant to Regulation 14A are incorporated herein by reference into Part III of this Annual Report on Form 10-K (this “Form 10-K”).

CREDIT ACCEPTANCE CORPORATION
YEAR ENDED DECEMBER 31, 2012

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PART I

ITEM 1. BUSINESS

General

Since 1972, Credit Acceptance Corporation (referred to as the “Company”, “Credit Acceptance”, “we”, “our” or “us”) h offered automobile dealers financing programs that enable them to sell vehicles to consumers, regardless of their credit history. Our financing programs are offered through a nationwide network of automobile dealers who benefit from sales of vehicles to consumers who otherwise could not obtain financing; from repeat and referral sales generated by these same customers; and from sales to customers responding to advertisements for our product, but who actually end up qualifying for traditional financing.

Credit Acceptance was founded to collect retail installment contracts (referred to as “Consumer Loans”) originated by automobile dealerships owned by Donald Foss, our Chairman, founder, and significant shareholder. During the 1980s, we 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.

We refer to automobile dealers who participate in our programs and who share our commitment to changing consumers’ lives as “Dealers”. Upon enrollment in our financing programs, the Dealer enters into a Dealer servicing agreement with us that defines the legal relationship between Credit Acceptance and the Dealer. The Dealer servicing agreement assigns the responsibilities for administering, servicing, and collecting the amounts due on Consumer Loans from the Dealers to us. We are an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the Dealer and assigned to us.

Consumers and Dealers benefit from our programs as follows:

Consumers. We help change the lives of consumers who do not qualify for conventional automobile financing by helping them obtain quality transportation. Without our financing programs, consumers are often unable to purchase a vehicle or they purchase an unreliable one. Further, as we report to the three national credit reporting agencies, an important ancillary benefit of our programs is that we provide a significant number of our consumers with an opportunity to improve their lives by improving their credit score and move on to more traditional sources of financing.

Dealers. Our programs increase Dealers’ profits in the following ways:

- Enables Dealers to sell cars to consumers who may not be able to obtain financing without our programs. In addition, consumers often become repeat customers by financing future vehicle purchases either through our programs or, after they have successfully established or reestablished their credit, through conventional financing.
- Allows Dealers to share in the profit, not only from the sale of the vehicle, but also from its financing.
- Enables Dealers to attract consumers by advertising “guaranteed credit approval”, where allowed by law. The consumers will often use other services of the Dealers and refer friends and relatives to them.
- Enables Dealers to attract consumers who mistakenly assume they do not qualify for conventional financing.

Business Segment Information

We currently operate in one reportable segment which represents our core business of offering Dealers financing programs and related products and services that enable them to sell vehicles to consumers, regardless of their credit history. For information regarding our one reportable segment and related entity-wide disclosures, see Note 16 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

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Principal Business

We have two programs: the Portfolio Program and the Purchase Program. Under the Portfolio Program, we advance money to Dealers (referred to as a "Dealer Loan") in exchange for the right to service the underlying Consumer Loans. Under the Purchase Program, we buy the Consumer Loans from the Dealers (referred to as a "Purchased Loan") and keep all amounts collected from the consumer. Dealer Loans and Purchased Loans are collectively referred to as "Loans". The following table shows the percentage of Consumer Loans assigned to us based on unit volumes under each of the programs for each of the last three years:

For the Years Ended December 31,	Portfolio Program	Purchase Program
2010	90.9%	9.1%
2011	92.5%	7.5%
2012	93.7%	6.3%

Portfolio Program

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

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

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

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

- First, to reimburse us for certain collection costs;
- Second, to pay us our servicing fee, which generally equals 20% of collections;
- Third, to reduce the aggregate advance balance and to pay any other amounts due from the Dealer to us; and
- Fourth, to the Dealer as payment of Dealer Holdback.

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

Dealers have an opportunity to receive an accelerated Dealer Holdback payment each time 100 Consumer Loans have been assigned to us. The amount paid to the Dealer is calculated using a formula that considers the forecasted collections and the advance balance on the related Consumer Loans.

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

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

Purchase Program

The Purchase Program differs from our Portfolio Program in that the Dealer receives a one-time payment from us at the time of assignment to purchase the Consumer Loan instead of a cash advance at the time of assignment and future Dealer Holdback payments. For accounting purposes, the transactions described under the Purchase Program are considered to be originated by the Dealer and then purchased by us.

Program Enrollment

Dealers may enroll in our program by choosing one of our two enrollment options (referred to as "Option A" and "Option B"). In recent years, the terms of Option A have remained consistent while the terms of Option B have varied. The following table summarizes the terms of our enrollment options for the three year period ending December 31, 2012:

Effective Period	Option A	Option B
Since June 1, 2011	Upfront, one-time fee of $9,850	Agreement to allow us to retain 50% of their first accelerated Dealer Holdback payment
Prior to June 1, 2011	Upfront, one-time fee of $9,850	Upfront, one-time fee of $1,950 and agreement to allow us to retain 50% of their first accelerated Dealer Holdback payment

For Dealers enrolling in our program, access to the Purchase Program is typically only granted after the first accelerated Dealer Holdback payment has been received under the Portfolio Program.

Revenue Sources

Credit Acceptance derives its revenues from the following principal sources:

- Finance charges, which are comprised of: (1) servicing fees earned as a result of servicing Consumer Loans assigned to us by Dealers under the Portfolio Program, (2) finance charge income from Purchased Loans, (3) fees earned from our third party ancillary product offerings, (4) monthly program fees of $599, charged to Dealers under the Portfolio Program; and (5) fees associated with certain Loans;
- Premiums earned on the reinsurance of vehicle service contracts; and
- Other income, which primarily consists of: Dealer support products and services, vendor fees, Dealer enrollment fees and ancillary product profit sharing income. For additional information, see Note 2 to the consolidated financial statements contained in Item 8 to this Form 10-K, which is incorporated herein by reference.

The following table sets forth the percent relationship to total revenue of each of these sources:

	For the Years Ended December 31,		
Percent of Total Revenue	2012	2011	2010
Finance charges	88.3%	87.7%	87.8%
Premiums earned	7.7%	7.6%	7.4%
Other income	4.0%	4.7%	4.8%

Total revenue	100.0%	100.0%	100.0%

Our business is seasonal with peak Consumer Loan acceptances and collections occurring during the first quarter of the year. However, this seasonality does not have a material impact on our interim results.

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Operations

Sales and Marketing. Our target market is approximately 53,000 independent and franchised automobile dealers in the United States. We have market area managers located throughout the United States that market our programs to prospective Dealers, enroll new Dealers, and support active Dealers. The number of Dealer enrollments and active Dealers for each of the last three years are presented in the table below:

For the Years Ended December 31,	Dealer Enrollments	Active Dealers (1)
2010	1,263	3,206
2011	1,953	3,998
2012	2,519	5,319

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

Once Dealers have enrolled in our programs, the market area managers work closely with the newly enrolled Dealers to help them successfully launch our programs within their dealerships. Market area managers also provide active Dealers with ongoing support and consulting focused on improving the Dealers' success on our programs, including assistance with increasing the volume and performance of Consumer Loan assignments.

Dealer Servicing Agreement. As a part of the enrollment process, a new Dealer is required to enter into a Dealer servicing agreement with Credit Acceptance that defines the legal relationship between Credit Acceptance and the Dealer. The Dealer servicing agreement assigns the responsibilities for administering, servicing, and collecting the amounts due on Consumer Loans from the Dealers to us. Under the typical Dealer servicing agreement, a Dealer represents that it will only assign Consumer Loans to us that satisfy criteria established by us, meet certain conditions with respect to their binding nature and the status of the security interest in the purchased vehicle, and comply with applicable state, federal and foreign laws and regulations.

The typical Dealer servicing agreement may be terminated by us or by the Dealer upon written notice. We may terminate the Dealer servicing agreement immediately in the case of an event of default by the Dealer. Events of default include, among other things:

- the Dealer's refusal to allow us to audit its records relating to the Consumer Loans assigned to us;
- the Dealer, without our consent, is dissolved; merges or consolidates with an entity not affiliated with the Dealer; or sells a material part of its assets outside the course of its business to an entity not affiliated with the Dealer; or
- the appointment of a receiver for, or the bankruptcy or insolvency of, the Dealer.

While a Dealer can cease assigning Consumer Loans to us at any time without terminating the Dealer servicing agreement, if the Dealer elects to terminate the Dealer servicing agreement or in the event of a default, we have the right to require that the Dealer immediately pay us:

- any unreimbursed collection costs on Dealer Loans;
- any unpaid advances and all amounts owed by the Dealer to us; and
- a termination fee equal to 15% of the then outstanding amount of the Consumer Loans assigned to us.

Upon receipt of such amounts in full, we reassign the Consumer Loans and our security interest in the financed vehicles to the Dealer.

In the event of a termination of the Dealer servicing agreement by us, we may continue to service Consumer Loans assigned by Dealers accepted prior to termination in the normal course of business without charging a termination fee.

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Consumer Loan Assignment. Once a Dealer has enrolled in our programs, the Dealer may begin assigning Consumer Loans to us. For accounting and financial reporting purposes, a Consumer Loan is considered to have been assigned to us after all of the following has occurred:

- the consumer and Dealer have signed a Consumer Loan contract;
- we have received the original Consumer Loan contract and supporting documentation;
- we have approved all of the related stipulations for funding; and
- we have provided funding to the Dealer in the form of either an advance under the Portfolio Program or one-time purchase payment under the Purchase Program.

A Consumer Loan is originated by the Dealer when a consumer enters into a contract with a Dealer that sets forth the terms of the agreement between the consumer and the Dealer for the payment of the purchase price of the vehicle. The amount of the Consumer Loan consists of the total principal and interest that the consumer is required to pay over the term of the Consumer Loan. Consumer Loans are written on a contract form provided by us. Although the Dealer is named in the Consumer Loan contract, the Dealer generally does not have legal ownership of the Consumer Loan for more than a moment and we, not the Dealer, are listed as lien holder on the vehicle title. Consumers are obligated to make payments on the Consumer Loan directly to us, and any failure to make such payments will result in us pursuing payment through collection efforts.

All Consumer Loans submitted to us for assignment are processed through our Credit Approval Processing System ("CAPS"). CAPS allows Dealers to input a consumer's credit application and view the response from us via the Internet. CAPS allows Dealers to: (1) receive a quick approval from us; (2) interact with our proprietary credit scoring system to optimize the structure of each transaction prior to delivery; and (3) create and print Consumer Loan documents. All responses include the amount of funding (advance for a Dealer Loan or purchase price for a Purchased Loan), as well as any stipulations required for funding. The amount of funding is determined using a formula which considers a number of factors including the timing and amount of cash flows expected on the related Consumer Loan and our target return on capital at the time the Consumer Loan is submitted to us for assignment. The estimated future cash flows are determined based upon our proprietary credit scoring system, which considers numerous variables, including attributes contained in the consumer's credit bureau report, data contained in the consumer's credit application, the structure of the proposed transaction, vehicle information and other factors, to calculate a composite credit score that corresponds to an expected collection rate. Our proprietary credit scoring system forecasts the collection rate based upon the historical performance of Consumer Loans in our portfolio that share similar characteristics. The performance of our proprietary credit scoring system is evaluated monthly by comparing projected to actual Consumer Loan performance. Adjustments are made to our proprietary credit scoring system as necessary. For additional information on adjustments to forecasted collection rates, please see the Critical Accounting Estimates section in Item 7 of this Form 10-K, which is incorporated herein by reference.

While a Dealer can submit any legally compliant Consumer Loan to us for assignment, the decision whether to provide funding to the Dealer and the amount of any funding is made solely by us. Through our Dealer Service Center ("DSC") department, we perform all significant functions relating to the processing of the Consumer Loan applications and bear certain costs of Consumer Loan assignment, including the cost of assessing the adequacy of Consumer Loan documentation, compliance with underwriting and legal guidelines and the cost of verifying employment, residence and other information provided by the Dealer. We use a company in India to support the DSC in reviewing Consumer Loan documentation for legal compliance.

We audit Consumer Loan files for legal and underwriting guidelines on a daily basis in order to assess whether our Dealers are operating in accordance with the terms and conditions of our Dealer servicing agreement. We occasionally identify breaches of the Dealer servicing agreement and depending upon the circumstances, and at our discretion, we may change pricing or charge the Dealer fees for future Consumer Loan assignments; require the Consumer Loan(s) to be repurchased; or terminate our relationship with the Dealer.

Our business model allows us to share the risk and reward of collecting on the Consumer Loans with the Dealers. Such sharing is intended to motivate the Dealer to assign better quality Consumer Loans, follow our underwriting guidelines, comply with various legal regulations, meet our credit compliance requirements, and provide appropriate service and support to the consumer after the sale. In addition, the DSC works closely with Dealers to assist them in resolving any documentation deficiencies or funding stipulations. We believe this arrangement aligns our interests with the interests of the Dealer and the consumer.

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We measure various criteria for each Dealer against other Dealers in their area as well as the top performing Dealers. Dealers are assigned a Dealer rating based upon the performance of their Consumer Loans in both the Portfolio and Purchase Programs as well as other criteria. The Dealer rating is one of the factors used to determine the amount paid to Dealers as an advance or to acquire a Purchased Loan. We provide each Dealer a monthly statement summarizing all activity that occurred on their Consumer Loan assignments.

Information on our Consumer Loans is presented in the following table:

	For the Years Ended December 31,		
Average Consumer Loan Data	2012	2011	2010
Average size of Consumer Loan accepted	$ 15,468	$ 15,686	$ 14,480
Percentage (decline) growth in average size of Consumer Loan	-1.4%	8.3%	14.1%
Average initial term (in months)	47	46	41

The changes in the average size of Consumer Loans accepted and the average initial term of the Consumer Loans over the three year period were primarily due to pricing changes we made during 2010, 2011 and 2012.

Servicing. Our largest group of collectors service Consumer Loans that are in the early stages of delinquency. Collection efforts typically consist of placing a call to the consumer within one day of the missed payment due date, although efforts may begin later for some segments of accounts. Consumer Loans are segmented into dialing pools by various phone contact profiles in an effort to maximize contact with the consumer. Our collectors work with consumers to attempt to reach a solution that will help them avoid becoming further past due and get them current where possible.

The decision to repossess a vehicle is based on statistical models or policy based criteria. When a Consumer Loan is approved for repossession, the account is transferred to our repossession team. Repossession personnel continue to service the Consumer Loan as it is being assigned to a third party repossession contractor, who works on a contingency fee basis. Once a vehicle has been repossessed, the consumer can negotiate to redeem the vehicle, whereupon the vehicle is returned to the consumer in exchange for paying off the Consumer Loan balance; or, where appropriate or if required by law, the vehicle is returned to the consumer and the Consumer Loan is reinstated in exchange for a payment that reduces or eliminates the past due balance. If this process is unsuccessful, the vehicle is sold at a wholesale automobile auction. Prior to sale, the vehicle is typically inspected by a representative at the auction who provides repair and reconditioning recommendations. Alternatively, our remarketing representatives may inspect the vehicle directly. Our remarketing representatives then authorize any repair and reconditioning work in order to maximize the net sale proceeds at auction.

If the vehicle sale proceeds are not sufficient to satisfy the balance owing on the Consumer Loan, the Consumer Loan is serviced by either: (1) our internal collection team, in the event the consumer is willing to make payments on the deficiency balance; or (2) where permitted by law, our external collection team, if it is believed that legal action is required to reduce the deficiency balance owing on the Consumer Loan. Our external collection team generally assigns Consumer Loans to third party collection attorneys who work on a contingency fee basis.

Collectors rely on two systems; the Collection System (“CS”) and the Loan Servicing System (“LSS”). The CS interfaces with a predictive dialer and records all activity on a Consumer Loan, including details of past phone conversations with the consumer, collection letters sent, promises to pay, broken promises, repossession orders and collection attorney activity. The LSS maintains a record of all transactions relating to Consumer Loan assignments and is a primary source of data utilized to:

- determine the outstanding balance of the Consumer Loans;
- forecast future collections;
- establish the amount of revenue recognized by us;
- calculate Dealer Holdback payments;
- analyze the profitability of our program; and
- evaluate our proprietary credit scoring system.

We outsourced a portion of our collection function to a company in India until February 2013. These outsourced collectors serviced accounts using the CS and typically serviced accounts that were less than sixty days past due.

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Ancillary Products

We provide Dealers the ability to offer vehicle service contracts to consumers through our relationships with Third Party Product Providers (“TPPPs”). A vehicle service contract provides the consumer protection by paying for the repair or replacement of certain components of the vehicle in the event of a mechanical failure. We provide Dealers with an additional advance based on the retail price of the vehicle service contract. TPPPs process claims on vehicle service contracts that are underwritten by third party insurers. We receive a fee for all vehicle service contracts sold by our Dealers when the vehicle is financed by us. The fee is included in the retail price of the vehicle service contract which is added to the Consumer Loan. We recognize our fee from the vehicle service contracts as part of finance charges on a level-yield basis based upon forecasted cash flows. We bear the risk of loss for claims on certain vehicle service contracts that are reinsured by us. We market the vehicle service contracts directly to our Dealers. During 2012, we entered into an agreement with one of our TPPPs that allows us to receive profit sharing payments depending on the performance of the vehicle service contracts. Profit sharing payments from the TPPP are received twice a year, if eligible.

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

We provide Dealers the ability to offer a Guaranteed Asset Protection (“GAP”) product to consumers through our relationships with TPPPs. GAP provides the consumer protection by paying the difference between the loan balance and the amount covered by the consumer's insurance policy in the event of a total loss of the vehicle due to severe damage or theft. We provide Dealers with an additional advance based on the retail price of the GAP contract. TPPPs process claims on GAP contracts that are underwritten by third party insurers. We receive a fee for all GAP contracts sold by our Dealers when the vehicle is financed by us, and do not bear any risk of loss for claims. The fee is included in the retail price of the GAP contract which is added to the Consumer Loan. We recognize our fee from the GAP contracts as part of finance charges on a level-yield basis based upon forecasted cash flows. Our agreement with one of our TPPPs allows us to receive profit sharing payments depending on the performance of the GAP program. Profit sharing payments from the TPPP are received once a year, if eligible.

We provide Dealers in certain states the ability to purchase Global Positioning Systems (“GPS”) with Starter Interrupt Devices (“SID”) through our relationships with TPPPs. Through this program, Dealers can install a GPS-based SID (“GPS-SID”) on vehicles financed by us that can be activated if the consumer fails to make payments on their account, and can result in the prompt repossession of the vehicle. Dealers purchase the GPS-SID directly from the TPPPs. The TPPPs pay us a fee for each device sold, at which time the fee revenue is recognized in other income within our consolidated statements of income.

Competition

The market for consumers who do not qualify for conventional automobile financing is large and highly competitive. The market is currently served by “buy here, pay here” dealerships, banks, captive finance affiliates of automobile manufacturers, credit unions and independent finance companies both publicly and privately owned. Many of these companies are much larger and have greater resources than us. We compete by offering a profitable and efficient method for Dealers to finance customers who would be more difficult or less profitable to finance through other methods. In addition, we compete on the basis of the level of service provided by our DSC and sales personnel.

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Customer and Geographic Concentrations

No single Dealer accounted for more than 10% of total revenues during any of the last three years. Additionally, no single Dealer's Loans receivable balance accounted for more than 10% of total Loans receivable balance as of December 31, 2012 or 2011. The following tables provide information regarding the five states that were responsible for the largest dollar volume of Consumer Loan assignments and the related number of active Dealers during 2012, 2011 and 2010:

	For the Year Ended December 31, 2012			
(Dollars in millions)	Consumer Loan Assignments		Active Dealers (2)	
	Dollar Volume (1)	% of Total	Number	% of Total
Michigan	$ 145.7	10.7%	406	7.6%
New York	112.4	8.2%	352	6.6%
Texas	84.3	6.2%	376	7.1%
Ohio	76.0	5.6%	303	5.7%
Pennsylvania	73.6	5.4%	251	4.7%
All other states	870.4	63.9%	3,631	68.3%
Total	$ 1,362.4	100.0%	5,319	100.0%

	For the Year Ended December 31, 2011			
(Dollars in millions)	Consumer Loan Assignments		Active Dealers (2)	
	Dollar Volume (1)	% of Total	Number	% of Total
Michigan	$ 135.3	10.6%	282	7.1%
New York	98.6	7.7%	228	5.7%
Texas	80.9	6.3%	313	7.8%
Ohio	73.8	5.8%	243	6.1%
Pennsylvania	66.9	5.3%	184	4.6%
All other states	819.2	64.3%	2,748	68.7%
Total	$ 1,274.7	100.0%	3,998	100.0%

	For the Year Ended December 31, 2010			
(Dollars in millions)	Consumer Loan Assignments		Active Dealers (2)	
	Dollar Volume (1)	% of Total	Number	% of Total
Michigan	$ 92.7	10.4%	224	7.0%
New York	74.1	8.4%	190	5.9%
Texas	54.4	6.1%	250	7.8%
Ohio	51.3	5.8%	201	6.3%
Mississippi	45.3	5.1%	81	2.5%
All other states	569.5	64.2%	2,260	70.5%
Total	$ 887.3	100.0%	3,206	100.0%

(1)

Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.

(2) Active Dealers are Dealers who have received funding for at least one Loan during the year.

Geographic Financial Information

For the three years ended December 31, 2012, 2011 and 2010, substantially all of our revenues were derived from the United States. As of December 31, 2012 and 2011, all of our long-lived assets were located in the United States.

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Regulation

Our business is subject to laws and regulations, including the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act and other various state and federal laws and regulations. These laws and regulations, among other things, require licensing and qualification; limit interest rates, fees and other charges associated with the Consumer Loans assigned to us; require specified disclosures by Dealers to consumers; govern the sale and terms of ancillary products; and define the rights to repossess and sell collateral. Failure to comply with these laws or regulations could have a material adverse effect on us by, among other things, limiting the jurisdictions in which we may operate, restricting our ability to realize the value of the collateral securing the Consumer Loans, making it more costly or burdensome to do business or resulting in potential liability. The volume of new or modified laws and regulations has increased in recent years and has increased significantly in response to issues arising with respect to consumer lending. From time to time, legislation and regulations are enacted which increase the cost of doing business, limit or expand permissible activities or affect the competitive balance among financial services providers. Proposals to change the laws and regulations governing the operations and taxation of financial institutions and financial services providers are frequently made in the U.S. Congress, in the state legislatures and by various regulatory agencies. This legislation may change our operating environment in substantial and unpredictable ways and may have a material adverse effect on our business.

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which significantly changes the regulation of financial institutions and the financial services industry. Among other things, the Dodd-Frank Act establishes as an independent bureau within the Federal Reserve, the Bureau of Consumer Financial Protection (commonly referred to as the CFPB), which has been given the authority to promulgate consumer protection regulations applicable to entities offering consumer financial services or products, including non-bank commercial companies in the business of extending credit and servicing consumer loans. The designated "transfer" date, upon which many of the CFPB's authorities became effective, was July 21, 2011; other CFPB authorities became effective upon the appointment of a permanent director on January 4, 2012. The CFPB is authorized generally to ensure consistent enforcement of laws so that all consumers have access to markets for consumer financial products and services that are fair, transparent and competitive. The CFPB has rulemaking and interpretive authority under the Dodd-Frank Act and other Federal consumer financial laws, as well as broad supervisory, examination, and enforcement authority over providers of consumer financial products and services. State officials are also generally authorized to enforce consumer protection rules issued by the CFPB and other requirements of the Dodd-Frank Act. Additionally, the CFPB is specifically authorized, among other things, to take actions to prevent covered persons and service providers from engaging in unfair, deceptive or abusive acts or practices in connection with consumer financial products and services, and to issue rules requiring enhanced disclosures regarding the features of any consumer financial product or service, and may restrict the use of pre-dispute mandatory arbitration clauses in contracts between covered persons and consumers for a consumer financial product or service.

The Dodd-Frank Act contains numerous other provisions affecting financial industry participants of all types, many of which may have an impact on our operating environment in substantial and unpredictable ways. The Dodd-Frank Act and regulations promulgated thereunder, including by the CFPB, are likely to affect our cost of doing business, may limit or expand our permissible activities, may affect the competitive balance within our industry and market areas and could have a material adverse effect on us. Our management continues to assess the Dodd-Frank Act's probable impact on our business, financial condition and results of operations, and to monitor developments involving the entities charged with promulgating regulations thereunder. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and on us in particular, is uncertain at this time. For example, on January 5, 2012, the CFPB announced the launch of its non-bank supervision program under Title X of the Dodd-Frank Act. The CFPB's supervision of non-banks – companies that offer or provide consumer financial products or services but do not have a bank, thrift, or credit union charter, such as our business – will roll out in phases. The nature and extent of future legislative and regulatory changes affecting financial institutions and non-bank commercial companies, including as a result of the Dodd-Frank Act and the non-bank supervision program under Title X, is very unpredictable at this time, and any changes could have a material adverse effect on us. Additional legislative or regulatory action that may impact our business may result from the multiple studies mandated under the Dodd-Frank Act. We are unable to predict the nature, extent, or impact of any such studies, which may occur in the future. In addition, governmental regulations which would deplete the supply of used vehicles, such as environmental protection regulations governing emissions or fuel consumption, could have a material adverse effect on us.

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Our Dealers must also comply with credit and trade practice statutes and regulations. Failure of our Dealers to comply with these statutes and regulations could result in consumers having rights of rescission and other remedies that could have a material adverse effect on us.

The sale of vehicle service contracts and GAP by Dealers in connection with Consumer Loans assigned to us from Dealers is also subject to state laws and regulations. As we are the holder of the Consumer Loans that may, in part, finance these products, some of these state laws and regulations may apply to our servicing and collection of the Consumer Loans. Although these laws and regulations do not significantly affect our business, there can be no assurance that insurance or other regulatory authorities in the jurisdictions in which these products are offered by Dealers will not seek to regulate or restrict the operation of our business in these jurisdictions. Any regulation or restriction of our business in these jurisdictions could materially adversely affect the income received from these products.

We believe that we maintain all material licenses and permits required for our current operations and are in substantial compliance with all applicable laws and regulations. Our agreements with Dealers provide that the Dealer shall indemnify us with respect to any loss or expense we incur as a result of the Dealer's failure to comply with applicable laws and regulations.

Team Members

Our team members are organized into three operating functions: Originations, Servicing, and Support.

Originations. The originations function includes team members that are responsible for marketing our programs to prospective Dealers, enrolling new Dealers, and supporting active Dealers. Originations also includes team members responsible for processing new Consumer Loan assignments.

Servicing. The servicing function includes team members that are responsible for servicing the Consumer Loans. The majority of these team members are responsible for collection activities on delinquent Consumer Loans.

Support. The support function includes team members that are responsible for information technology, finance, corporate legal, quality assurance, analytics, human resources and training & development activities.

As of December 31, 2012, we had 1,264 full and part-time team members. Our team members have no union affiliations and we believe our relationship with our team members is in good standing. The table below presents team members by operating function:

	Number of Team Members As of December 31,		
Operating Function	2012	2011	2010
Originations	386	306	245
Servicing	622	491	411
Support	256	240	206
Total	1,264	1,037	862

Available Information

Our Internet address is creditacceptance.com. We make available, free of charge on the web site, copies of reports we file with or furnish to the Securities and Exchange Commission ("SEC") as soon as reasonably practicable after we electronically file or furnish such reports.

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ITEM 1A. RISK FACTORS

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

Substantially all of the Consumer Loans assigned to us are made to individuals with impaired or limited credit histories or higher debt-to-income ratios than are permitted by traditional lenders. Consumer Loans made to these individuals generally entail a higher risk of delinquency, default and repossession and higher losses than loans made to consumers with better credit. Since most of our revenue and cash flows from operations are generated from these Consumer Loans, our ability to accurately forecast Consumer Loan performance is critical to our business and financial results. At the time of assignment, we forecast future expected cash flows from the Consumer Loan. Based on these forecasts, which include estimates for wholesale vehicle prices in the event of vehicle repossession and sale, we make an advance or one-time purchase payment to the related Dealer at a level designed to achieve an acceptable return on capital. We continue to forecast the expected collection rate of each Consumer Loan subsequent to assignment. These forecasts also serve as a critical assumption in our accounting for recognizing finance charge income and determining our allowance for credit losses. Please see the Critical Accounting Estimates – Finance Charge Revenue & Allowance for Credit Losses section in Item 7 of this Form 10-K, which is incorporated herein by reference. If Consumer Loan performance equals or exceeds original expectations, it is likely our target return on capital will be achieved. However, actual cash flows from any individual Consumer Loan are often different than cash flows estimated at the time of assignment. There can be no assurance that our forecasts will be accurate or that Consumer Loan performance will be as expected. Recent economic conditions have made forecasts regarding the performance of Consumer Loans more difficult. In the event that our forecasts are not accurate, our financial position, liquidity and results of operations could be materially adversely affected.

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

Our financial position, liquidity and results of operations depend on management's ability to execute our business strategy. Key factors involved in the execution of our business strategy include achieving our desired Consumer Loan assignment volume, continued and successful use of CAPS and pricing strategy, the use of effective credit risk management techniques and servicing strategies, continued investment in technology to support operating efficiency and continued access to funding and liquidity sources. Although our pricing strategy is intended to maximize the amount of economic profit we generate, within the confines of capital and infrastructure constraints, there can be no assurance that this strategy will have its intended effect. Please see the Consumer Loan Volume section in Item 7 of this Form 10-K, which is incorporated herein by reference. Our failure or inability to execute any element of our business strategy could materially adversely affect our financial position, liquidity and results of operations.

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

We use debt financing to fund new Loans and pay Dealer Holdback. We currently utilize the following primary forms of debt financing: (1) a revolving secured line of credit; (2) revolving secured warehouse ("Warehouse") facilities; (3) asset-backed secured financings ("Term ABS"); and (4) 9.125% First Priority Senior Secured Notes due 2017 ("Senior Notes"). We cannot guarantee that the revolving secured line of credit or the Warehouse facilities will continue to be available beyond their current maturity dates, on acceptable terms, or at all, or that we will be able to obtain additional financing on acceptable terms or at all. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, our financial position, our results of operations, and the capacity for additional borrowing under our existing financing arrangements. If our various financing alternatives were to become limited or unavailable, we may be unable to maintain or grow Consumer Loan volume at the level that we anticipate and our operations could be materially adversely affected.

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

The agreements that govern our debt contain covenants that restrict our ability to, among other things:
- incur and guarantee debt;
- pay dividends or make other distributions on or redeem or repurchase our stock;
- make investments or acquisitions;
- create liens on our assets;
- sell assets;
- merge with or into other companies; and
- enter into transactions with stockholders and other affiliates.

Some of our debt agreements also impose requirements that we maintain specified financial measures not in excess of, or not below, specified levels. In particular, our revolving credit facility requires, among other things, that we maintain (i) as of the end of each fiscal quarter, a ratio of consolidated funded debt to consolidated tangible net worth at or below a specified maximum; (ii) as of the end of each fiscal quarter calculated for the two fiscal quarters then ending, consolidated net income of not less than a specified minimum; and (iii) as of the end of each fiscal quarter, a ratio of consolidated income available for fixed charges for the period of four consecutive fiscal quarters most recently ended to consolidated fixed charges for that period of not less than a specified minimum. These covenants limit the manner in which we can conduct our business and could prevent us from engaging in favorable business activities or financing future operations and capital needs and impair our ability to successfully execute our strategy and operate our business.

A breach of any of the covenants in our debt instruments would result in an event of default thereunder if not promptly cured or waived. Any continuing default would permit the creditors to accelerate the related debt, which could also result in the acceleration of other debt containing a cross-acceleration or cross-default provision. In addition, an event of default under our revolving credit facility would permit the lenders thereunder to terminate all commitments to extend further credit under our revolving credit facility. Furthermore, if we were unable to repay the amounts due and payable under our revolving credit facility or other secured debt, the lenders thereunder could cause the collateral agent to proceed against the collateral securing that debt. In the event our creditors accelerate the repayment of our debt, there can be no assurance that we would have sufficient assets to repay that debt, and our financial condition, liquidity and results of operations would suffer.

A violation of the terms of our Term ABS facilities or Warehouse facilities could have a materially adverse impact on our operations.

Under our Term ABS facilities and our Warehouse facilities, (1) we have various obligations and covenants as servicer and custodian of the Consumer Loans contributed thereto and in our individual capacity and (2) the special purpose subsidiaries to which we contribute Consumer Loans have various obligations and covenants. A violation of any of these obligations or covenants by us or the special purpose subsidiaries, respectively, may result in our being unable to obtain additional funding under our Warehouse facilities, the termination of our servicing rights and the loss of servicing fees, and may result in amounts outstanding under our Term ABS financings and our Warehouse facilities becoming immediately due and payable. In addition, the violation of any financial covenant under our revolving secured line of credit facility is an event of default or termination event under the Term ABS facilities and our Warehouse facilities. The lack of availability from any or all of these Term ABS facilities and Warehouse facilities may have a material adverse effect on our financial position, liquidity, and results of operations.

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

Over the past several years, there has been turbulence in the global capital markets and the overall economy. Such turbulence can result in disruptions in the financial sector and affect lenders with which we have relationships. Disruptions in the financial sector may increase our exposure to credit risk and adversely affect the ability of lenders to perform under the terms of their lending arrangements with us. Failure by our lenders to perform under the terms of our lending arrangements could cause us to incur additional costs that may adversely affect our liquidity, financial condition and results of operations. While overall market conditions have improved, there can be no assurance that future disruptions in the financial sector will not occur that could have similar adverse effects on our business.

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

We have a substantial amount of debt. The substantial amount of our debt could have important consequences, including the following:

- our ability to obtain additional financing for Consumer Loan assignments, working capital, debt refinancing or other purposes could be impaired;
- a substantial portion of our cash flows from operations will be dedicated to paying principal and interest on our debt, reducing funds available for other purposes;
- we may be vulnerable to interest rate increases, as some of our borrowings, including those under our revolving credit facility, bear interest at variable rates;
- we could be more vulnerable to adverse developments in our industry or in general economic conditions;
- we may be restricted from taking advantage of business opportunities or making strategic acquisitions; and
- we may be limited in our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate.

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

The automobile finance market for consumers who do not qualify for conventional automobile financing is large and highly competitive. The market is served by a variety of companies including "buy here, pay here" dealerships. The market is also currently served by banks, captive finance affiliates of automobile manufacturers, credit unions and independent finance companies both publicly and privately owned. Many of these companies are much larger and have greater financial resources than are available to us, and many have long standing relationships with automobile dealerships. Providers of automobile financing have traditionally competed based on the interest rate charged, the quality of credit accepted, the flexibility of loan terms offered and the quality of service provided to dealers and consumers. There is potential that significant direct competition could emerge and that we may be unable to compete successfully. Additionally, if we are unsuccessful in maintaining and expanding our relationships with Dealers, we may be unable to accept Consumer Loans in the volume and on the terms that we anticipate.

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

Our ability to make payments of principal and interest on indebtedness will depend in part on our cash flows from operations, which are subject to economic, financial, competitive and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operations sufficient to permit us to meet our debt service obligations. If we are unable to generate sufficient cash flows from operations to service our debt, we may be required to sell assets, refinance all or a portion of our existing debt or obtain additional financing. There can be no assurance that any refinancing will be possible or that any asset sales or additional financing can be completed on acceptable terms or at all.

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

Our profitability may be directly affected by the level of and fluctuations in interest rates, whether caused by changes in economic conditions or other factors, which affect our borrowing costs. Our profitability and liquidity could be materially adversely affected during any period of higher interest rates. We monitor the interest rate environment and employ strategies designed to mitigate the impact of increases in interest rates. We can provide no assurance, however, that our strategies will mitigate the impact of increases in interest rates.

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

Credit rating agencies evaluate us, and their ratings of our debt and creditworthiness are based on a number of factors. These factors include our financial strength and other factors not entirely within our control, including conditions affecting the financial services industry generally. There can be no assurance that we will maintain our current ratings. Failure to maintain those ratings could, among other things, adversely limit our access to the capital markets and affect the cost and other terms upon which we are able to obtain financing.

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

Although the terms of our debt instruments contain restrictions on our ability to incur additional debt, we are able to incur a substantial amount of additional debt within these restrictions. In addition, our debt instruments do not prevent us from incurring liabilities that do not constitute indebtedness as defined for purposes of those debt instruments. If new debt or other liabilities are added to our current debt levels, the risks associated with our having substantial debt could intensify.

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

Reference should be made to Item 1. Business "Regulation" for a discussion of regulatory risk factors.

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

We are subject to general economic conditions which are beyond our control. During periods of economic slowdown or recession, delinquencies, defaults, repossessions and losses may increase on our Consumer Loans and Consumer Loan prepayments may decline. These periods are also typically accompanied by decreased consumer demand for automobiles and declining values of automobiles securing outstanding Consumer Loans, which weakens collateral coverage and increases the amount of a loss in the event of default. Significant increases in the inventory of used automobiles during periods of economic recession may also depress the prices at which repossessed automobiles may be sold or delay the timing of these sales. Additionally, higher gasoline prices, declining stock market values, unstable real estate values, resets of adjustable rate mortgages to higher interest rates, increasing unemployment levels, general availability of consumer credit or other factors that impact consumer confidence or disposable income could increase loss frequency and decrease consumer demand for automobiles as well as weaken collateral values of automobiles. Because our business is focused on consumers who do not qualify for conventional automobile financing, the actual rates of delinquencies, defaults, repossessions and losses on these Consumer Loans could be higher than that of those experienced in the general automobile finance industry, and could be more dramatically affected by a general economic downturn.

We rely on Dealers to originate Consumer Loans for assignment under our programs. High levels of Dealer attrition, due to a general economic downturn or otherwise, could materially adversely affect our operations. In addition, we rely on vendors to provide us with services we need to operate our business. Any disruption in our operations due to the untimely or discontinued supply of these services could substantially adversely affect our operations. Finally, during an economic slowdown or recession, our servicing costs may increase without a corresponding increase in finance charge revenue. Any sustained period of increased delinquencies, defaults, repossessions or losses or increased servicing costs could also materially adversely affect our financial position, liquidity and results of operations and our ability to enter into future financing transactions.

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

As a result of the consumer-oriented nature of the industry in which we operate and uncertainties with respect to the application of various laws and regulations in some circumstances, we are subject to various consumer claims and litigation seeking damages and statutory penalties, based upon, among other things, usury, disclosure inaccuracies, wrongful repossession, violations of bankruptcy stay provisions, certificate of title disputes, fraud and breach of contract. As the assignee of Consumer Loans originated by Dealers, we may also be named as a co-defendant in lawsuits filed by consumers principally against Dealers. We may also have disputes and litigation with Dealers relating to our Dealer servicing and related agreements, including claims for, among other things, breach of contract or other duties purportedly owed to the Dealers. The damages and penalties that may be claimed by consumers or Dealers in these types of matters can be substantial. The relief requested by plaintiffs varies but may include requests for compensatory, statutory and punitive damages, and plaintiffs may seek treatment as purported class actions. A significant judgment against us in connection with any litigation or arbitration could have a material adverse effect on our financial position, liquidity and results of operations.

Changes in tax laws and the resolution of uncertain income tax matters could have a material adverse effect on our results of operations and cash flows from operations.

We are subject to income tax in many of the various jurisdictions in which we operate. Increases in statutory income tax rates and other adverse changes in applicable law in these jurisdictions could have an adverse effect on our results of operations. In the ordinary course of business, there are transactions and calculations where the ultimate tax determination is uncertain. At any one time, multiple tax years are subject to audit by various taxing jurisdictions. We provide reserves for potential payments of tax to various tax authorities related to uncertain tax positions. Please see the Critical Accounting Estimates – Uncertain Tax Positions section in Item 7 of this Form 10-K, which is incorporated herein by reference. We adjust these liabilities as a result of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. Such payments could have a material adverse effect on our results of operations and cash flows from operations.

Our dependence on technology could have a material adverse effect on our business.

All Consumer Loans submitted to us for assignment are processed through our internet-based CAPS application, which enables our Dealers to interact with our proprietary credit scoring system. Our Consumer Loan servicing platform is also technology based. We rely on these systems to record and process significant amounts of data quickly and accurately and believe that these systems provide us with a competitive advantage. All of these systems are dependent upon computer and telecommunications equipment, software systems and Internet access. The temporary or permanent loss of any components of these systems through hardware failures, software errors, operating malfunctions, the vulnerability of the Internet or otherwise could interrupt our business operations, harm our business and adversely affect our competitive advantage. In addition, our competitors could create or acquire systems similar to ours, which would adversely affect our competitive advantage.

Our systems, and the equipment, software and Internet access on which they depend, may be subject to cyber attacks, security breaches and other cybersecurity incidents. Although the cybersecurity incidents we have experienced to date have not had a material effect on our business, financial condition or results of operations, there can be no assurance that cybersecurity incidents will not have a material adverse effect on us in the future.

We rely on a variety of measures to protect our technology and proprietary information, including copyrights, trade secrets and patents. However, these measures may not prevent misappropriation or infringement of our intellectual property or proprietary information, which would adversely affect us. In addition, our competitors or other third parties may allege that our systems, processes or technologies infringe their intellectual property rights.

Our ability to integrate computer and telecommunications technologies into our business is essential to our success. Computer and telecommunications technologies are evolving rapidly and are characterized by short product life cycles. We may not be successful in anticipating, managing or adopting technological changes on a timely basis. While we believe that our existing information systems are sufficient to meet our current demands and continued expansion, our future growth may require additional investment in these systems. We cannot assure that adequate capital resources will be available to us at the appropriate time.

Reliance on third parties to administer our ancillary product offerings could adversely affect our business and financial results.

We have relationships with TPPPs to administer vehicle service contract and GAP products underwritten by third party insurers and financed by us. We depend on these TPPPs to evaluate and pay claims in an accurate and timely manner. We also have relationships with TPPPs to sell and administer GPS-SID. If our relationships with these TPPPs were modified, disrupted, or terminated, we would need to obtain these services from an alternative administrator or provide them using our internal resources. We may be unable to replace these TPPPs with a suitable alternative in a timely and efficient manner on terms we consider acceptable, or at all. In the event we were unable to effectively administer our ancillary products offerings, we may need to eliminate or suspend our ancillary product offerings from our future business, we may experience a decline in the performance of our Consumer Loans, our reputation in the marketplace could be undermined, and our financial position, liquidity and results of operations could be adversely affected.

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

Our senior management average over 12 years of experience with us. Our success is dependent upon the management and the leadership skills of this team. In addition, competition from other companies to hire our team members possessing the necessary skills and experience required could contribute to an increase in team member turnover. The loss of any of these individuals or an inability to attract and retain additional qualified team members could adversely affect us. There can be no assurance that we will be able to retain our existing senior management or attract additional qualified team members.

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

Our reputation is a key asset to our business. Our ability to attract consumers through our Dealers is highly dependent upon external perceptions of our level of service, trustworthiness, business practices and financial condition. Negative publicity regarding these matters could damage our reputation among existing and potential consumers and Dealers, which could make it difficult for us to attract new consumers and Dealers and maintain existing Dealers. Adverse developments with respect to our industry may also, by association, negatively impact our reputation or result in greater regulatory or legislative scrutiny or litigation against us.

The concentration of our Dealers in several states could adversely affect us.

Dealers are located throughout the United States. During the year ended December 31, 2012, our five largest states (measured by advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program) contained 31.7% of our Dealers. While we believe we have a diverse geographic presence, for the near term, we expect that significant amounts of Consumer Loan assignments will continue to be generated by Dealers in these five states due to the number of Dealers in these states and currently prevailing economic, demographic, regulatory, competitive and other conditions in these states. Changes to conditions in these states could lead to an increase in Dealer attrition or a reduction in demand for our service that could materially adversely affect our financial position, liquidity and results of operations.

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

In the ordinary course of our business, we collect and store sensitive data, including our proprietary business information and personally identifiable information of our customers and employees, on our computer networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy.

If third parties or our team members are able to breach our network security, the network security of a third party that we share information with or otherwise misappropriate our customers' personal information, or if we give third parties or our team members improper access to our customers' personal information, we could be subject to liability. This liability could include identity theft or other similar fraud-related claims. This liability could also include claims for other misuses or losses of personal information, including for unauthorized marketing purposes. Other liabilities could include claims alleging misrepresentation of our privacy and data security practices.

We rely on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to secure online transmission of confidential consumer information. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments may result in a compromise or breach of the algorithms that we use to protect sensitive customer transaction data. A party who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. We may be required to expend capital and other resources to protect against, or alleviate problems caused by, security breaches or other cybersecurity incidents. Although we have experienced cybersecurity incidents from time to time that have not had a material effect on our business, financial condition or results of operations, there can be no assurance that a cyber attack, security breach or other cybersecurity incident will not have a material adverse effect on us in the future. Our security measures are designed to protect against security breaches, but our failure to prevent security breaches could subject us to liability, decrease our profitability and damage our reputation.

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Our Chairman and founder controls a significant percentage of our common stock, has the ability to significantly influence matters requiring shareholder approval and has interests which may conflict with the interests of our other security holders.

Our Chairman and founder owns a large enough stake of the Company to significantly influence matters presented to shareholders, including the election and removal of directors, the approval of significant corporate transactions, such as any reclassification, reorganization, merger, consolidation or sale of all or substantially all of our assets, and the control of our management and affairs, including executive compensation arrangements. His interests may conflict with the interests of our other security holders.

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

We outsource certain business functions to third party service providers, which increases our operational complexity and decreases our control. We rely on these service providers to provide a high level of service and support, which subjects us to risks associated with inadequate or untimely service. In addition, if these outsourcing arrangements were not renewed or were terminated or the services provided to us were otherwise disrupted, we would have to obtain these services from an alternative provider or provide them using our internal resources. We may be unable to replace, or be delayed in replacing these sources and there is a risk that we would be unable to enter into a similar agreement with an alternate provider on terms that we consider favorable or in a timely manner. In the future, we may outsource additional business functions. If any of these or other risks related to outsourcing were realized, our financial position, liquidity and results of operations could be adversely affected.

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

Natural disasters, acts of war, terrorist attacks and the escalation of military activity in response to these attacks or otherwise may have negative and significant effects, such as imposition of increased security measures, changes in applicable laws, market disruptions and job losses. These events may have an adverse effect on the economy in general. Moreover, the potential for future terrorist attacks and the national and international responses to these threats could affect the business in ways that cannot be predicted. The effect of any of these events or threats could have a material adverse effect on our business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEMPROPERTIES
2.

Our headquarters is located at 25505 West Twelve Mile Road, Southfield, Michigan 48034. We purchased the office building in 1993 and have a mortgage loan from a commercial bank that is secured by a first mortgage lien on the property. The office building includes approximately 136,000 square feet of space on five floors. We occupy approximately 124,000 square feet of the building, with most of the remainder of the building leased to various tenants.

We lease approximately 25,000 square feet of office space in Southfield, Michigan and approximately 31,000 square feet of office space in Henderson, Nevada. The lease for the Southfield, Michigan space expires in September 2018. The lease for the Henderson, Nevada space expires in December 2017.

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ITEMLEGAL PROCEEDINGS
3.

In the normal course of business and as a result of the consumer-oriented nature of the industry in which we operate, industry participants are frequently subject to various consumer claims and litigation. The claims allege, among other theories of liability, violations of state, federal and foreign truth-in-lending, credit availability, credit reporting, consumer protection, warranty, debt collection, insurance and other consumer-oriented laws and regulations, including claims seeking damages for physical and mental damages relating to our repossession and sale of the consumer’s vehicle and other debt collection activities. As we accept assignments of Consumer Loans originated by Dealers, we may also be named as a co-defendant in lawsuits filed by consumers principally against Dealers. We may also have disputes and litigation with Dealers relating to our Dealer servicing and related agreements, including claims for, among other things breach of contract or other duties purportedly owed to the Dealers. The damages and penalties that may be claimed by consumers or Dealers in these types of matters can be substantial. The relief requested by plaintiffs varies but may include requests for compensatory, statutory and punitive damages, and plaintiffs may seek treatment as purported class actions. A significant judgment against us in connection with any litigation or arbitration could have a material adverse effect on our financial position, liquidity and results of operations.

For a description of significant litigation to which we are a party, see Note 17 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

ITEMMINE SAFETY DISCLOSURES.
4.

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock Price

During the year ended December 31, 2012 our common stock was traded on The Nasdaq Global Market® ("Nasdaq") under the symbol "CACC". The following table sets forth the high and low sale prices as reported by the Nasdaq for the common stock for the relevant periods during 2012, 2011 and 2010.

	2012		2011		2010	
Quarters Ended	High	Low	High	Low	High	Low
March 31	$ 107.09	$ 76.95	$ 72.55	$ 53.04	$ 53.97	$ 38.57
June 30	101.81	80.00	84.50	71.00	49.65	41.24
September 30	104.97	83.82	86.87	56.55	63.45	47.18
December 31	102.58	80.40	93.10	60.09	63.58	54.12

As of February 11, 2013, we had 137 shareholders of record and approximately 3,700 beneficial holders of our common stock based upon securities position listings furnished to us.

Dividends

We have not paid any cash dividends during the periods presented. Our debt agreements contain financial covenants which may indirectly limit the payment of dividends on common stock.

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Stock Performance Graph

The following graph compares the percentage change in the cumulative total shareholder return on our common stock during the period beginning January 1, 2008 and ending on December 31, 2012 with the cumulative total return on the Nasdaq Market Index and a peer group index based upon approximately 100 companies included in the Dow Jones – US General Financial Index. The comparison assumes that $100 was invested on January 1, 2008 in our common stock and in the foregoing indices and assumes the reinvestment of dividends.

Stock Repurchases

On August 5, 1999, our board of directors approved a stock repurchase program which authorizes us to repurchase common shares in the open market or in privately negotiated transactions at price levels we deem attractive. On March 26, 2012, the board of directors authorized the repurchase of up to one million shares of our common stock in addition to the board's prior authorizations. As of December 31, 2012, we had authorization to repurchase 534,212 shares of our common stock.

The following table summarizes our stock repurchases for the three months ended December 31, 2012:

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 Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 through October 31, 2012	-	$ -	-	976,129
November 1 through November 30, 2012	302,410	86.55	302,410	673,719
December 1 through December 31, 2012	139,507	95.54	139,507	534,212
	441,917	$ 89.38	441,917	

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ITEM 6. SELECTED FINANCIAL DATA

The selected income statement and balance sheet data presented below are derived from our audited consolidated financial statements and should be read in conjunction with our consolidated financial statements as of and for the years ended December 31, 2012, 2011 and 2010, and notes thereto and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this Form 10-K, which is incorporated herein by reference.

(In millions, except share and per share data)	Years Ended December 31,				
	2012	2011	2010	2009	2008
Income Statement Data:					
Revenue	$ 609.2	$ 525.2	$ 442.1	$ 380.7	$ 312.2
Costs and expenses:					
Salaries and wages	82.2	63.0	61.3	66.9	69.0
General and administrative	30.5	25.6	26.4	30.4	27.5
Sales and marketing	31.2	23.6	19.7	14.8	16.8
Provision for credit losses	24.0	29.0	10.0	(12.2)	46.0
Interest	63.4	57.2	47.8	32.4	43.2
Provision for claims	34.8	30.4	23.4	19.3	2.7
Total costs and expenses	266.1	228.8	188.6	151.6	205.2
Income from continuing operations before provision for income taxes	343.1	296.4	253.5	229.1	107.0
Provision for income taxes	123.4	108.4	83.4	83.0	39.9
Income from continuing operations	219.7	188.0	170.1	146.1	67.1
Gain from discontinued operations	-	-	-	0.2	0.1
Net income	$ 219.7	$ 188.0	$ 170.1	$ 146.3	$ 67.2
Net income per share:					
Basic	$ 8.65	$ 7.15	$ 5.79	$ 4.78	$ 2.22
Diluted	$ 8.58	$ 7.07	$ 5.67	$ 4.62	$ 2.16
Income from continuing operations per share:					
Basic	$ 8.65	$ 7.15	$ 5.79	$ 4.77	$ 2.22
Diluted	$ 8.58	$ 7.07	$ 5.67	$ 4.61	$ 2.16
Gain from discontinued operations per share:					
Basic	$ -	$ -	$ -	$ 0.01	$ -
Diluted	$ -	$ -	$ -	$ 0.01	$ -
Weighted average shares outstanding:					
Basic	25,409,655	26,302,289	29,393,309	30,590,142	30,249,783
Diluted	25,598,956	26,600,855	29,984,819	31,668,895	31,105,043
Balance Sheet Data:					
Loans receivable, net	$ 1,933.5	$ 1,598.6	$ 1,218.0	$ 1,050.0	$ 1,017.9
All other assets	199.7	160.0	125.5	126.2	121.5
Total assets	$ 2,133.2	$ 1,758.6	$ 1,343.5	$ 1,176.2	$ 1,139.4

Total debt	$	1,250.8	$	997.9	$	685.6	$	507.0	$	641.7
Other liabilities		260.5		220.7		183.4		171.0		159.9
Total liabilities		1,511.3		1,218.6		869.0		678.0		801.6
Shareholders' equity (A)		621.9		540.0		474.5		498.2		337.8
Total liabilities and shareholders' equity	$	2,133.2	$	1,758.6	$	1,343.5	$	1,176.2	$	1,139.4

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

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

Overview

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

For the year ended December 31, 2012, consolidated net income was $219.7 million, or $8.58 per diluted share, compared to $188.0 million, or $7.07 per diluted share, for the same period in 2011 and $170.1 million, or $5.67 per diluted share, for the same period in 2010. The growth in 2012 and 2011 consolidated net income was primarily due to an increase in the average balance of our Loan portfolio.

Critical Success Factors

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

Access to Capital

Our strategy for accessing capital on acceptable terms needed to maintain and grow the business is to: (1) maintain consistent financial performance; (2) maintain modest financial leverage; and (3) maintain multiple funding sources. Our funded debt to equity ratio is 2.0:1 as of December 31, 2012. We currently utilize the following primary forms of debt financing: (1) a revolving secured line of credit; (2) Warehouse facilities; (3) Term ABS financings; and (4) Senior Notes.

Consumer Loan Performance

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

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We use a statistical model to estimate the expected collection rate for each Consumer Loan at the time of assignment. We continue to evaluate the expected collection rate of each Consumer Loan subsequent to assignment. Our evaluation becomes more accurate as the Consumer Loans age, as we use actual performance data in our forecast. By comparing our current expected collection rate for each Consumer Loan with the rate we projected at the time of assignment, we are able to assess the accuracy of our initial forecast. The following table compares our forecast of Consumer Loan collection rates as of December 31, 2012, with the forecasts as of December 31, 2011, as of December 31, 2010, and at the time of assignment, segmented by year of assignment:

	Forecasted Collection Percentage as of				Variance in Forecasted Collection Percentage from		
Consumer Loan Assignment Year	December 31, 2012	December 31, 2011	December 31, 2010	Initial Forecast	December 31, 2011	December 31, 2010	Initial Forecast
2003	73.8%	73.7%	73.7%	72.0%	0.1%	0.1%	1.8%
2004	73.0%	73.0%	73.0%	73.0%	0.0%	0.0%	0.0%
2005	73.6%	73.6%	73.7%	74.0%	0.0%	-0.1%	-0.4%
2006	69.9%	70.0%	70.2%	71.4%	-0.1%	-0.3%	-1.5%
2007	68.0%	68.1%	67.9%	70.7%	-0.1%	0.1%	-2.7%
2008	70.3%	70.0%	69.9%	69.7%	0.3%	0.4%	0.6%
2009	79.5%	79.4%	78.5%	71.9%	0.1%	1.0%	7.6%
2010	77.3%	76.8%	75.8%	73.6%	0.5%	1.5%	3.7%
2011	74.1%	73.2%	-	72.5%	0.9%	-	1.6%
2012	72.2%	-	-	71.4%	-	-	0.8%

Consumer Loans assigned in 2003 and 2009 through 2011 have yielded forecasted collection results materially better than our initial estimates, while Consumer Loans assigned in 2006 and 2007 have yielded forecasted collection results materially worse than our initial estimates. For all other assignment years presented, actual results have been very close to our initial estimates. For the year ended December 31, 2012, forecasted collection rates improved for Consumer Loans assigned during 2008 and 2010 through 2012 and were generally consistent with expectations at the start of the period for all other assignment years presented.

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

The following table presents forecasted Consumer Loan collection rates, advance rates, the spread (the forecasted collection rate less the advance rate), and the percentage of the forecasted collections that had been realized as of December 31, 2012. All amounts, unless otherwise noted, are presented as a percentage of the initial balance of the Consumer Loan (principal + interest). The table includes both Dealer Loans and Purchased Loans.

	As of December 31, 2012			
Consumer Loan Assignment Year	Forecasted Collection %	Advance % (1)	Spread %	% of Forecast Realized (2)
2003	73.8%	43.4%	30.4%	99.7%
2004	73.0%	44.0%	29.0%	99.6%
2005	73.6%	46.9%	26.7%	99.5%
2006	69.9%	46.6%	23.3%	98.9%

2007	68.0%	46.5%	21.5%	98.0%
2008	70.3%	44.6%	25.7%	96.8%
2009	79.5%	43.9%	35.6%	94.9%
2010	77.3%	44.7%	32.6%	78.6%
2011	74.1%	45.5%	28.6%	50.9%
2012	72.2%	46.3%	25.9%	18.1%

(1) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program as a percentage of the initial balance of the Consumer Loans. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.

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

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The risk of a material change in our forecasted collection rate declines as the Consumer Loans age. For 2009 and prior Consumer Loan assignments, the risk of a material forecast variance is modest, as we have currently realized in excess of 90% of the expected collections. Conversely, the forecasted collection rates for more recent Consumer Loan assignments are less certain as a significant portion of our forecast has not been realized.

The spread between the forecasted collection rate and the advance rate declined during the 2004 through 2007 period as we increased advance rates during this period in response to a more difficult competitive environment. During 2008 and 2009, the spread increased as the competitive environment improved and we reduced advance rates. In addition, during 2009, the spread was positively impacted by better than expected Consumer Loan performance. During the 2010 through 2012 period, the spread decreased as we again increased advance rates in response to the competitive environment.

The following table presents forecasted Consumer Loan collection rates, advance rates, and the spread (the forecasted collection rate less the advance rate) as of December 31, 2012 for Dealer Loans and Purchased Loans separately. All amounts are presented as a percentage of the initial balance of the Consumer Loan (principal + interest).

	Consumer Loan Assignment Year	Forecasted Collection %		Advance % (1)		Spread %	
Dealer Loans	2007	67.9	%	45.8	%	22.1	%
	2008	70.7	%	43.3	%	27.4	%
	2009	79.5	%	43.5	%	36.0	%
	2010	77.3	%	44.4	%	32.9	%
	2011	74.0	%	45.2	%	28.8	%
	2012	72.1	%	46.0	%	26.1	%
Purchased Loans	2007	68.4	%	49.1	%	19.3	%
	2008	69.7	%	46.7	%	23.0	%
	2009	79.5	%	45.3	%	34.2	%
	2010	77.1	%	46.4	%	30.7	%
	2011	74.4	%	48.2	%	26.2	%
	2012	73.0	%	49.5	%	23.5	%

(1) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program as a percentage of the initial balance of the Consumer Loans. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.

The advance rates presented for each Consumer Loan assignment year change over time due to the impact of transfers between Dealer and Purchased Loans. Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's Consumer Loans from the Dealer Loan portfolio to the Purchased Loan portfolio in the period this forfeiture occurs.

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

Consumer Loan Volume

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

	Year over Year Percent Change	
For the Year Ended December 31,	Unit Volume	Dollar Volume (1)
2010	23.2%	43.3%
2011	30.2%	43.5%
2012	6.7%	7.1%

(1) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.

Consumer Loan assignment volumes depend on a number of factors including (1) the overall demand for our product, (2) the amount of capital available to fund new Loans, and (3) our assessment of the volume that our infrastructure can support. Our pricing strategy is intended to maximize the amount of economic profit we generate, within the confines of capital and infrastructure constraints.

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Unit and dollar volumes grew 6.7% and 7.1%, respectively, during 2012 as the number of active Dealers grew 33.0% and average volume per active Dealer declined 19.8%. We believe the decline in volume per Dealer is the result of increased competition. We increased advance rates throughout 2012, 2011 and 2010, which positively impacted unit and dollar volumes while reducing the return on capital we expect to earn on new assignments. We believe these advance rate increases had a positive impact on economic profit as we believe the positive impact of the increased dollar volume exceeded the negative impact of the reduced return on capital.

The following table summarizes the changes in Consumer Loan unit volume and active Dealers:

	For the Years Ended December 31,			% Change	
	2012	2011	2010	2012 to 2011	2011 to 2010
Consumer Loan unit volume	190,023	178,074	136,813	6.7%	30.2%
Active Dealers (1)	5,319	3,998	3,206	33.0%	24.7%
Average volume per active Dealer	35.7	44.5	42.7	-19.8%	4.2%

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

The following table provides additional information on the changes in Consumer Loan unit volume and active Dealers:

	For the Years Ended December 31,			For the Years Ended December 31,		
	2012	2011	% Change	2011	2010	% Change
Consumer Loan unit volume from Dealers active both periods	157,735	168,314	-6.3%	154,447	128,635	20.1%
Dealers active both periods	3,192	3,192	-	2,548	2,548	-
Average volume per Dealers active both periods	49.4	52.7	-6.3%	60.6	50.5	20.1%
Consumer Loan unit volume from new Dealers	31,705	22,419	41.4%	22,419	17,023	31.7%
New active Dealers (1)	2,070	1,403	47.5%	1,403	926	51.5%
Average volume per new active Dealers	15.3	16.0	-4.4%	16.0	18.4	-13.0%
Attrition (2)	-5.5%	-6.0%		-6.0%	-11.8%	

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

(2) Attrition is measured according to the following formula: decrease in Consumer Loan unit volume from Dealers who have received funding for at least one Loan during the comparable period of the prior year but did not receive funding for any Loans during the current period divided by prior year comparable period Consumer Loan unit volume.

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

	For the Years Ended December 31,		
	2012	2011	2010
Dealer Loan unit volume as a percentage of total unit volume	93.7%	92.5%	90.9%
Dealer Loan dollar volume as a percentage of total dollar volume (1)	92.0%	90.4%	88.7%

(1) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.

For the year ended December 31, 2012, Dealer Loan unit and dollar volume as a percentage of total unit and dollar volume were generally consistent with the same periods in 2011 and 2010.

As of December 31, 2012 and 2011, the net Dealer Loans receivable balance was 88.0% and 85.4%, respectively, of the total net Loans receivable balance.

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Results of Operations

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

(In millions, except share and per share data)	For the Years Ended December 31,			% Change	
	2012	2011	2010	2012 to 2011	2011 to 2010
Revenue:					
Finance charges	$ 538.2	$ 460.6	$ 388.0	16.8%	18.7%
Premiums earned	47.1	40.0	32.7	17.8%	22.5%
Other income	23.9	24.6	21.4	-2.8%	14.6%
Total revenue	609.2	525.2	442.1	16.0%	18.8%
Costs and expenses:					
Salaries and wages	82.2	63.0	61.3	30.5%	2.8%
General and administrative	30.5	25.6	26.4	19.1%	-3.1%
Sales and marketing	31.2	23.6	19.7	32.2%	19.6%
Provision for credit losses	24.0	29.0	10.0	-17.2%	188.5%
Interest	63.4	57.2	47.8	10.8%	19.9%
Provision for claims	34.8	30.4	23.4	14.5%	29.7%
Total costs and expenses	266.1	228.8	188.6	16.3%	21.3%
Income before provision for income taxes	343.1	296.4	253.5	15.8%	16.9%
Provision for income taxes	123.4	108.4	83.4	13.8%	30.0%
Net income	$ 219.7	$ 188.0	$ 170.1	16.9%	10.6%
Net income per share:					
Basic	$ 8.65	$ 7.15	$ 5.79	21.0%	23.5%
Diluted	$ 8.58	$ 7.07	$ 5.67	21.4%	24.7%
Weighted average shares outstanding:					
Basic	25,409,655	26,302,289	29,393,309	-3.4%	-10.5%
Diluted	25,598,956	26,600,855	29,984,819	-3.8%	-11.3%

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Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

The following table highlights changes in net income for the year ended December 31, 2012, as compared to 2011:

(In millions)		Change
Net income for the year ended December 31, 2011	$	188.0
Increase in finance charges		77.6
Increase in premiums earned		7.1
Decrease in other income		(0.7)
Increase in operating expenses (1)		(31.7)
Decrease in provision for credit losses		5.0
Increase in interest		(6.2)
Increase in provision for claims		(4.4)
Increase in provision for income taxes		(15.0)
Net income for the year ended December 31, 2012	$	219.7

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

Finance Charges. For the year ended December 31, 2012, finance charges increased $77.6 million, or 16.8%, as compared to 2011. The increase was primarily the result of an increase in the average net Loans receivable balance partially offset by a decrease in the average yield on our Loan portfolio, as follows:

(Dollars in millions)	For the Years Ended December 31,					
		2012		2011		Change
Average net Loans receivable balance	$	1,797.0	$	1,425.1	$	371.9
Average yield on our Loan portfolio		30.0%		32.3%		-2.3 %

The following table summarizes the impact each component had on the increase in finance charges for the year ended December 31, 2012:

(In millions) Impact on finance charges:		For the Year Ended December 31, 2012
Due to an increase in the average net Loans receivable balance	$	120.2
Due to a decrease in the average yield		(42.6)
Total increase in finance charges	$	77.6

The increase in the average net Loans receivable balance was primarily due to growth in new Loan volume throughout 2011 and 2012, which was primarily a result of increases in active Dealers. The average yield on our Loan portfolio for the year ended December 31, 2012 decreased as compared to the same period in 2011 due to lower yields on new Loans, partially offset by improvements in forecasted collection rates throughout 2011 and 2012.

Premiums Earned. For the year ended December 31, 2012, premiums earned increased $7.1 million, or 17.8%, as compared to 2011. The increase is primarily due to growth in the size of our reinsurance portfolio which resulted from growth in new Consumer Loan assignments throughout 2011 and 2012.

Other Income. For the year ended December 31, 2012, other income decreased $0.7 million, or 2.8%, as compared to 2011. The decrease in other income was primarily the result of the following:

- A $5.5 million decrease in GAP profit sharing income, which was a result of the following:
- Additional income recognized during 2011 as a result of a change we made to our revenue recognition during 2011 to begin recognizing this income as earned over the life of the GAP contracts.
- A change made to our profit sharing income arrangement during 2012 that increased the total amount of income earned per GAP contract but reduced the amount recognized as other income. This reduction was more than offset by a higher fee per GAP contract that is recognized as finance charges.
- A $3.9 million increase in GPS-SID fee income due to increases in both the fee earned per unit and the number of units purchased by dealers from TPPPs.
- A $1.1 million increase in vehicle service contract profit sharing income as a result of a new profit sharing arrangement we entered into with one of our TPPPs during 2012.

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Operating Expenses. For the year ended December 31, 2012, operating expenses increased $31.7 million, or 28.3%, as compared to the same period in 2011. The change in operating expenses is due to the following:

- An increase in salaries and wages expense of $19.2 million, or 30.5%, which included a $10.3 million increase in stock-based compensation expense primarily attributable to the 15 year stock award granted to our Chief Executive Officer during the first quarter of 2012 and a $2.0 million increase in fringe benefits, primarily related to medical claims. Salaries and wages, excluding the increase in stock-based compensation and fringe benefits, increased $6.9 million including an increase of $4.2 million in loan servicing, $2.2 million for support functions and $0.5 million in loan originations.
- An increase in sales and marketing expense of $7.6 million, or 32.2%, primarily as a result of the increase in the size of the field sales force.
- An increase in general and administrative expense of $4.9 million, or 19.1%, primarily due to a $1.2 million increase in information technology expenses, a $1.1 million expense related to the termination of our relationship with a TPPP during the fourth quarter of 2012, a $1.1 million increase in legal expenses and $0.9 million in higher taxes primarily as a result of a property tax refund recognized in the first quarter of 2011.

Provision for Credit Losses. For the year ended December 31, 2012, the provision for credit losses decreased $5.0 million, or 17.2%, as compared to 2011. Under accounting principles generally accepted in the United States of America (“GAAP”), when the present value of forecasted future cash flows decline relative to our expectations at the time of assignment, a provision for credit losses is recorded immediately as a current period expense and a corresponding allowance for credit losses is established. For purposes of calculating the required allowance, Dealer Loans are grouped by Dealer and Purchased Loans are grouped by month of purchase. As a result, regardless of the overall performance of the portfolio of Consumer Loans, a provision can be required if any individual Loan pool performs worse than expected. Conversely, a previously recorded provision can be reversed if any previously impaired individual Loan pool experiences an improvement in performance.

During the year ended December 31, 2012, overall Consumer Loan performance exceeded our expectations at the start of the year. However, the performance of certain Loan pools declined from our expectations during the year, resulting in a provision for credit losses of $24.0 million for the year ended December 31, 2012, of which $27.1 million related to Dealer Loans partially offset by a reversal of provision of $3.1 million related to Purchased Loans. The provision for credit losses related to Dealer Loans includes $2.8 million in expense related to an enhancement made to the computations used to account for Dealer Loans during the fourth quarter of 2012. For additional information, see Note 5 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference. During the year ended December 31, 2011 overall Consumer Loan performance exceeded our expectations at the start of the year. However, the performance of certain Loan pools declined from our expectations during the year, resulting in a provision for credit losses of $29.0 million for the year ended December 31, 2011, of which $29.7 million related to Dealer Loans partially offset by a reversal of provision of $0.7 million related to Purchased Loans.

Interest. For the year ended December 31, 2012, interest expense increased $6.2 million, or 10.8%, as compared to 2011. The following table shows interest expense, the average outstanding debt balance, and the average cost of debt for the year ended December 31, 2012:

(Dollars in millions)	For the Years Ended December 31, 2012	For the Years Ended December 31, 2011
Interest expense	$ 63.4	$ 57.2
Average outstanding debt balance	1,150.4	892.3
Average cost of debt	5.5%	6.4%

For the year ended December 31, 2012, the increase in interest expense is primarily due to the increase in the average outstanding debt balance, partially offset by a decline in our average cost of debt. The average outstanding debt balance increased compared to the same period in 2011 due to the use of the debt proceeds to fund the growth in new Consumer Loan assignments and stock repurchases. The decline in our average cost of debt was primarily a result of a change in the mix of our outstanding debt.

Provision for Claims. For the year ended December 31, 2012, provision for claims increased $4.4 million, or 14.5%, as compared to 2011. The increase was due to an increase in the size of our reinsurance portfolio partially offset by a decrease in claims paid per reinsured vehicle service contract.

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Provision for Income Taxes. For the year ended December 31, 2012, the effective tax rate of 36.0% was generally consistent with the effective tax rate of 36.6% in 2011.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

The following table highlights changes in net income for the year ended December 31, 2011, as compared to 2010:

(In millions)	Change
Net income for the year ended December 31, 2010	$ 170.1
Increase in finance charges	72.6
Increase in premiums earned	7.3
Increase in other income	3.2
Increase in operating expenses (1)	(4.8)
Increase in provision for credit losses	(19.0)
Increase in interest	(9.4)
Increase in provision for claims	(7.0)
Increase in provision for income taxes	(25.0)
Net income for the year ended December 31, 2011	$ 188.0

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

Finance Charges. For the year ended December 31, 2011, finance charges increased $72.6 million, or 18.7%, as compared to 2010. The increase was primarily the result of an increase in the average net Loans receivable balance partially offset by a decrease in the average yield on our Loan portfolio, as follows:

(Dollars in millions)	For the Years Ended December 31,		
	2011	2010	Change
Average net Loans receivable balance	$ 1,425.1	$ 1,128.0	$ 297.1
Average yield on our Loan portfolio	32.3%	34.4%	-2.1 %

The following table summarizes the impact each component had on the increase in finance charges for the year ended December 31, 2011:

(In millions) Impact on finance charges:	For the Year Ended December 31, 2011
Due to an increase in the average net Loans receivable balance	$ 102.2
Due to a decrease in the average yield	(29.6)
Total increase in finance charges	$ 72.6

The increase in the average net Loans receivable balance was primarily due to growth in new Loan volume throughout 2010 and 2011, which was primarily a result of increases in active Dealers, the size of the average consumer loan assignment and advance rates. The average yield on our Loan portfolio for the year ended December 31, 2011 decreased as compared to the same period in 2010 due to lower yields on new Loans, partially offset by improvements in forecasted collection rates throughout 2010 and 2011.

Premiums Earned. For the year ended December 31, 2011, premiums earned increased $7.3 million, or 22.5%, as compared to 2010. The increase is primarily due to growth in the size of our reinsurance portfolio which resulted from growth in new Consumer Loan assignments throughout 2010 and 2011 that was partially offset by the termination of our arrangement with one of our TPPPs during the fourth quarter of 2009.

Other Income. For the year ended December 31, 2011, other income increased $3.2 million, or 14.6%, as compared to 2010. The increase in other income is primarily due to an increase in GAP profit sharing income and Dealer enrollment fees. The increase in GAP profit sharing income of $7.1 million was the result of an increase in the annual profit sharing payment received and recognized during the first quarter of 2011 and an acceleration in our revenue recognition for this income beginning in the second quarter of 2011. Under our arrangement with one of our TPPPs, we receive annual profit sharing payments based on the performance of our GAP program. Prior to the second quarter of 2011, we received and recognized GAP profit sharing payments annually in the first quarter of each year. During the second quarter of 2011, we began recognizing this income over the life of the GAP contracts.

These increases were partially offset by $5.4 million of income recognized during 2010 related to discontinued arrangements with a TPPP and a vendor that processes payments. We have not recognized any income related to these arrangements since the second quarter of 2010.

Operating Expenses. For the year ended December 31, 2011, operating expenses increased $4.8 million, or 4.4%, as compared to the same period in 2010. The change in operating expenses is due to the following:

- An increase in sales and marketing expense of $3.9 million, or 19.6%, primarily due to increased sales commissions resulting from our growth in Consumer Loan assignment volume and the expansion of our sales force.
- An increase in salaries and wages expense of $1.7 million, or 2.8%, resulting from higher servicing expenses associated with increased staffing levels needed to manage the greater volume of Consumer Loans in our portfolio, partially offset by reduced support expenses associated with information technology activities.
- A decrease in general and administrative expense of $0.8 million, or 3.1%, primarily due to decreased support expenses, including consulting fees related to the development of software, a refund received in the current year from the successful appeal of a property tax assessment, and legal costs.

Provision for Credit Losses. For the year ended December 31, 2011, the provision for credit losses increased $19.0 million, or 188.5%, as compared to 2010. Under GAAP, when the present value of forecasted future cash flows decline relative to our expectations at the time of assignment, a provision for credit losses is recorded immediately as a current period expense and a corresponding allowance for credit losses is established. For purposes of calculating the required allowance, Dealer Loans are grouped by Dealer and Purchased Loans are grouped by month of purchase. As a result, regardless of the overall performance of the portfolio of Consumer Loans, a provision can be required if any individual Loan pool performs worse than expected. Conversely, a previously recorded provision can be reversed if any previously impaired individual Loan pool experiences an improvement in performance.

During the year ended December 31, 2011, overall Consumer Loan performance exceeded our expectations at the start of the year. However, the performance of certain Loan pools declined from our expectations during the year, resulting in a provision for credit losses of $29.0 million for the year ended December 31, 2011, of which $29.7 million related to Dealer Loans partially offset by a reversal of provision of $0.7 million related to Purchased Loans. During the year ended December 31, 2010, overall Consumer Loan performance exceeded our expectations at the start of the year. However, the performance of certain Loan pools declined from our expectations during the year, resulting in a provision for credit losses of $10.0 million for the year ended December 31, 2010, of which $5.1 million related to Dealer Loans and $4.9 million related to Purchased Loans.

Interest. For the year ended December 31, 2011, interest expense increased $9.4 million, or 19.9%, as compared to 2010. The following table shows interest expense, the average outstanding debt balance, and the average cost of debt for the year ended December 31, 2011:

(Dollars in millions)	For the Years Ended December 31, 2011	2010
Interest expense	$ 57.2	$ 47.8
Average outstanding debt balance	892.3	581.1
Average cost of debt	6.4%	8.2%

For the year ended December 31, 2011, the increase in interest expense is primarily due to the increase in the average outstanding debt balance, partially offset by a decline in our average cost of debt. The average outstanding debt balance increased compared to the same period in 2010 due to the use of the debt proceeds to fund the growth in new

Consumer Loan assignments and stock repurchases. The decline in our average cost of debt resulted from a reduction in fixed fees as a percentage of average outstanding debt and a change in the mix of our outstanding debt.

Provision for Claims. For the year ended December 31, 2011, provision for claims increased $7.0 million, or 29.7%, as compared to 2010. The increase was due to an increase in the size of our reinsurance portfolio and an increase in claims paid per reinsured vehicle service contract.

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Provision for Income Taxes. For the year ended December 31, 2011, the effective tax rate increased to 36.6%, from 32.9% compared to 2010. The increase is primarily due to the impact of the lower effective tax rate in the prior year resulting from the reversal of certain reserves for uncertain tax positions that were resolved and settled with the Internal Revenue Service ("IRS") and adjustments to our state tax liability.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we review our accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP.

Our significant accounting policies are discussed in Note 2 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and involve a high degree of subjective or complex judgment, and the use of different estimates or assumptions could produce materially different financial results.

Finance Charge Revenue & Allowance for Credit Losses

Balance Sheet Captions:	Loans receivable Allowance for credit losses
Income Statement Captions:	Finance charges Provision for credit losses
Nature of Estimates Required:	Estimating the amount and timing of future collections and Dealer Holdback payments.
Assumptions and Approaches Used:	For accounting purposes, we are not considered to be an originator of Consumer Loans, but instead are considered to be a lender to our Dealers for Consumer Loans assigned under our Portfolio Program, and a purchaser of Consumer Loans assigned under our Purchase Program. As a result of this classification, our accounting policies for recognizing finance charge revenue and determining our allowance for credit losses may be different from other lenders in our market, who, based on their different business models, may be considered to be a direct lender to consumers for accounting purposes. For additional information regarding our classification as a lender to our Dealers for accounting purposes, see Note 1 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

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We recognize finance charges under the interest method such that revenue is recognized on a level-yield basis based upon forecasted cash flows. For Dealer Loans, finance charge revenue and the allowance for credit losses are calculated after first aggregating Dealer Loans outstanding for each Dealer. For the same purpose, Purchased Loans are aggregated according to the month the Loan was purchased. An allowance for credit losses is maintained at an amount that reduces the net asset value (Loan balance less the allowance) to the value of forecasted future cash flows discounted at the yield established at the time of assignment. The discounted value of future cash flows is comprised of estimated future collections on the Loans, less any estimated Dealer Holdback payments related to Dealer Loans. We write off Loans once there are no forecasted future collections on any of the associated Consumer Loans.

Actual cash flows from any individual Dealer Loan or pool of Purchased Loans are often different than estimated cash flows at the time of assignment. If such difference is favorable, the difference is recognized prospectively into income over the remaining life of the Dealer Loan or pool of Purchased Loans through a yield adjustment. If such difference is unfavorable, a provision for credit losses is recorded immediately as a current period expense and a corresponding allowance for credit losses is established. Because differences between estimated cash flows at the time of assignment and actual cash flows occur often, an allowance is required for a significant portion of our Loan portfolio. An allowance for credit losses does not necessarily indicate that a Dealer Loan or pool of Purchased Loans is unprofitable, and in recent years, very seldom are cash flows from a Dealer Loan or pool of Purchased Loans insufficient to repay the initial amounts advanced or paid to the Dealer.

Future collections on Dealer and Purchased Loans are forecasted based on the historical performance of Consumer Loans with similar characteristics, adjusted for recent trends in payment patterns. Dealer Holdback is forecasted based on the expected future collections and current advance balance of each Dealer Loan.

During the fourth quarter of 2012, we enhanced the computations used to account for Dealer Loans. The enhanced computations utilize a more sophisticated approach for determining the yields established at the time of assignment, future net cash flow streams and the present value of future cash flow streams. While the enhanced computations did not change these estimates significantly at the overall Dealer Loan portfolio level, we believe they improved the precision of these estimates at the individual Dealer level. Implementation of the enhanced computations reduced 2012 net income by $1.2 million.

Key Factors:

Variances in the amount and timing of future net cash flows from current estimates could materially impact earnings in future periods. A 1% decline in the forecasted future net cash flows on Loans as of December 31, 2012 would have reduced 2012 net income by approximately $7.7 million.

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Premiums Earned

Balance Sheet Caption:	Accounts payable and accrued liabilities
Income Statement Caption:	Premiums earned
Nature of Estimates Required:	Estimating the pattern of future claims on vehicle service contracts.
Assumptions and Approaches Used:	Premiums from the reinsurance of vehicle service contracts are recognized over the life of the policy in proportion to the expected costs of servicing those contracts. Expected costs are determined based on our historical claims experience. In developing our cost expectations, we stratify our historical claims experience into groupings based on contractual term, as this characteristic has led to different patterns of cost incurrence in the past. We will continue to update our analysis of historical costs under the vehicle service contract program as appropriate, including the consideration of other characteristics that may have led to different patterns of cost incurrence, and revise our revenue recognition timing for any changes in the pattern of our expected costs as they are identified.
Key Factors:	Variances in the pattern of future claims from our current estimates would impact the timing of premiums recognized in future periods. A 10% change in premiums earned for the year ended December 31, 2012 would have affected 2012 net income by approximately $3.0 million.

Stock-Based Compensation Expense

Balance Sheet Caption:	Paid-in capital
Income Statement Caption:	Salaries and Wages
Nature of Estimates Required:	Stock-based compensation expense is based on the fair value on the date the equity instrument is granted or awarded by us, and is recognized over the expected vesting period of the equity instrument. We also estimate expected forfeiture rates of restricted stock awards.
Assumptions and Approaches Used:	In recognizing restricted stock-based compensation expense, we make assumptions regarding the expected forfeiture rates of the restricted stock awards. We also make assumptions regarding the expected vesting dates of performance-based restricted stock awards. The fair value of restricted stock awards are estimated as if they were vested and issued on the grant date and are recognized over the expected vesting period of the restricted stock award. For additional information, see Notes 2 and 14 to the consolidated financial

	statements contained in Item 8 of this Form 10-K, which are incorporated herein by reference.
Key Factors:	Changes in the expected vesting dates of performance-based restricted stock awards and expected forfeiture rates would impact the amount and timing of stock-based compensation expense recognized in future periods. A 10% change in stock-based compensation expense for the year ended December 31, 2012 would have affected 2012 net income by approximately $0.8 million.

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Litigation and Contingent Liabilities

Balance Sheet Caption:	Accounts payable and accrued liabilities
Income Statement Caption:	General and administrative expense
Nature of Estimates Required:	Estimating the likelihood of adverse legal judgments and any resulting damages owed.
Assumptions and Approaches Used:	With assistance from our legal counsel, we determine if the likelihood of an adverse judgment for various claims and litigation is remote, reasonably possible, or probable. To the extent we believe an adverse judgment is probable and the amount of the judgment is estimable, we recognize a liability. For information regarding the potential various claims against us, see Note 17 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.
Key Factors:	Negative variances in the ultimate disposition of claims and litigation outstanding from current estimates could result in additional expense in future periods.

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Uncertain Tax Positions	
Balance Sheet Captions:	Income taxes receivable Accounts payable and accrued liabilities
Income Statement Caption:	Provision for income taxes
Nature of Estimates Required:	Estimating the impact of an uncertain income tax position on the income tax return.
Assumptions and Approaches Used:	We follow a two-step approach for recognizing uncertain tax positions. First, we evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more-likely-than-not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, for positions that we determine are more-likely-than-not to be sustained, we recognize the tax benefit as the largest benefit that has a greater than 50% likelihood of being sustained. We establish a reserve for uncertain tax positions liability that is comprised of unrecognized tax benefits and related interest. We adjust this liability in the period in which an uncertain tax position is effectively settled, the statute of limitations expires for the relevant taxing authority to examine the tax position, or more information becomes available. On June 7, 2010, we reached a settlement with the IRS which concluded the examination of our federal income tax returns for 2004 through 2008 and closed the respective years. As a result of the settlement, we agreed to pay a total of $7.6 million in federal and state taxes and interest related to these years. The settlement includes $6.2 million of taxes that represent an acceleration of taxes already provided for in prior periods and the payment did not have an impact on our net income during the reporting periods. We also concluded that all 2004 through 2008 uncertain federal jurisdiction tax positions taken in previous periods are effectively settled and we recorded a reversal of corresponding accrued reserves and interest. This reversal increased 2010 net income by $6.2 million. For additional information, see Note 11 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.
Key Factors:	To the extent we prevail in matters for which a liability has been established or are required to pay amounts in excess of our established liability, our effective income tax rate in future periods could be materially affected.

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Liquidity and Capital Resources

We need capital to maintain and grow our business. Our primary sources of capital are cash flows from operating activities, collections of Consumer Loans and borrowings under: (1) a revolving secured line of credit; (2) Warehouse facilities; (3) Term ABS financings; and (4) Senior Notes. There are various restrictive debt covenants for each financing arrangement and we are in compliance with those covenants as of December 31, 2012. For information regarding these financings and the covenants included in the related documents, see Note 8 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

During the first quarter of 2012, we completed a $201.3 million Term ABS financing which was used to repay outstanding indebtedness. The financing has an expected annualized cost of approximately 2.8% (including the initial purchaser's fees and other costs) and it will revolve for 24 months after which it will amortize based upon the cash flows on the contributed loans.

During the second quarter of 2012, we commenced a tender offer to repurchase 1.0 million shares of our common stock at a price of $84.45 per share. Upon expiration of the tender offer during the second quarter of 2012, we repurchased 1.0 million common shares at a cost of $84.5 million. The settlement during the third quarter of 2012 was financed by borrowing under our revolving secured line of credit facility.

During the second quarter of 2012, we extended the maturity of our revolving secured line of credit facility from June 22, 2014 to June 22, 2015. Additionally, the amount of the facility was increased from $205.0 million to $235.0 million. The interest rate on borrowings under the facility was decreased from the prime rate plus 1.25% or the LIBOR rate plus 2.25%, at our option, to the prime rate plus 0.875% or the LIBOR rate plus 1.875%, at our option.

During the second quarter of 2012, we extended the date on which Warehouse Facility III will cease to revolve from September 10, 2013 to September 10, 2015. The maturity of the facility was also extended from September 10, 2014 to September 10, 2017. There were no other material changes to the terms of the facility.

During the third quarter of 2012, we completed a $252.0 million Term ABS financing which was used to repay outstanding indebtedness. The financing has an expected annualized cost of approximately 2.0% (including the initial purchaser's fees and other costs) and it will revolve for 24 months after which it will amortize based upon the cash flows on the contributed loans.

During the fourth quarter of 2012, we extended the date on which Warehouse Facility II will cease to revolve from June 17, 2014 to December 27, 2015. The interest rate on borrowings under the facility was decreased from the commercial paper rate plus 2.75% to the commercial paper rate plus 2.00%. There were no other material changes to the terms of the facility.

Cash and cash equivalents increased to $9.0 million as of December 31, 2012 from $4.7 million as of December 31, 2011. Our total balance sheet indebtedness increased to $1,250.8 million as of December 31, 2012 from $997.9 million as of December 31, 2011 due to the growth in new Consumer Loan assignments and stock repurchases.

Restricted cash and cash equivalents decreased to $92.4 million as of December 31, 2012 from $104.7 million as of December 31, 2011. The following table summarizes restricted cash and cash equivalents:

(In millions)	As of December 31,	
	2012	2011
Cash related to secured financings	$ 90.2	$ 62.5

Cash held in trusts for future vehicle service contract claims (1)		2.2		42.2
Total restricted cash and cash equivalents	$	92.4	$	104.7

(1) The unearned premium and claims reserve associated with the trusts are included in accounts payable and accrued liabilities in the consolidated balance sheets. As of December 31, 2012, the outstanding cash balance includes $2.2 million related to VSC Re. As of December 31, 2011, the outstanding cash balance includes $42.1 million related to VSC Re and $0.1 million related to a discontinued profit sharing arrangement.

As of December 31, 2012 and 2011, restricted securities available for sale were $46.1 million and $0.8 million, respectively. Restricted securities available for sale consist of amounts held in accordance with vehicle service contract trust agreements.

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Contractual Obligations

A summary of the total future contractual obligations requiring repayments as of December 31, 2012 is as follows:

(In millions)	Payments Due by Period					
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Other
Long-term debt, including current maturities (1)	$ 1,250.5	$ 150.2	$ 669.0	$ 431.3	$ -	$ -
Dealer Holdback (2)	581.1	107.4	252.9	148.3	72.5	-
Operating lease obligations	4.9	1.0	1.8	1.8	0.3	-
Purchase obligations (3)	0.8	0.8	-	-	-	-
Other future obligations (4)	11.0	-	-	-	-	11.0
Total contractual obligations	$ 1,848.3	$ 259.4	$ 923.7	$ 581.4	$ 72.8	$ 11.0

(1) Long-term debt obligations included in the above table consist solely of principal repayments. The amounts are presented on a gross basis to exclude the net unamortized debt premium of $0.3 million. We are also obligated to make interest payments at the applicable interest rates, as discussed in Note 8 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference. Based on the actual amounts outstanding under our revolving secured line of credit, our Warehouse facilities, and our Senior Notes as of December 31, 2012, the forecasted amounts outstanding on all other debt and the actual interest rates in effect as of December 31, 2012, interest is expected to be approximately $51.3 million during 2013; $44.1 million during 2014; and $83.9 million during 2015 and thereafter.

(2) We have contractual obligations to pay Dealer Holdback to our Dealers. Payments of Dealer Holdback are contingent upon the receipt of consumer payments and the repayment of advances. The amounts presented represent our forecast as of December 31, 2012.

(3) Purchase obligations consist primarily of contractual obligations related to our information system and facility needs.

(4) Other future obligations included in the above table consist solely of reserves for uncertain tax positions. Payments are contingent upon examination and would occur in the periods in which the uncertain tax positions are settled.

Based upon anticipated cash flows, management believes that cash flows from operations and its various financing alternatives will provide sufficient financing for debt maturities and for future operations. Our ability to borrow funds may be impacted by economic and financial market conditions. If the various financing alternatives were to become limited or unavailable to us, our operations and liquidity could be materially and adversely affected.

Off-Balance Sheet Arrangements

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

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Market Risk

We are exposed primarily to market risks associated with movements in interest rates. Our policies and procedures prohibit the use of financial instruments for speculative purposes. A discussion of our accounting policies for derivative instruments is included in Note 2 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

Interest Rate Risk. We rely on various sources of financing, some of which contain floating rates of interest and expose us to risks associated with increases in interest rates. We manage such risk primarily by entering into interest rate cap and interest rate swap agreements.

As of December 31, 2012, we had $43.5 million of floating rate debt outstanding on our revolving secured line of credit, without interest rate protection. For every 1.0% increase in rates on our revolving secured line of credit, annual after-tax earnings would decrease by approximately $0.3 million, assuming we maintain a level amount of floating rate debt.

As of December 31, 2012, we had $81.3 million in floating rate debt outstanding under Warehouse Facility II covered by an interest rate cap with a cap rate of 6.75% on the underlying benchmark rate. Based on the difference between the underlying benchmark rate on Warehouse Facility II as of December 31, 2012 and the interest rate cap rate, the interest rate on Warehouse Facility II could increase by a maximum of 6.53%. This maximum interest rate increase would reduce annual after-tax earnings by approximately $3.3 million, assuming we maintain a level amount of floating rate debt.

As of December 31, 2012, we had two interest rate cap agreements outstanding to manage the interest rate risk on Warehouse Facility III. However, as of December 31, 2012, there was no floating rate debt outstanding under this facility.

As of December 31, 2012, we had $37.6 million in floating rate debt outstanding under Warehouse Facility IV covered by an interest rate cap with a cap rate of 5.50% on the underlying benchmark rate. Based on the difference between the underlying benchmark rate on Warehouse Facility IV as of December 31, 2012 and the interest rate cap rate, the interest rate on Warehouse Facility IV could increase by a maximum of 5.29%. This maximum interest rate increase would reduce annual after-tax earnings by approximately $1.3 million, assuming we maintain a level amount of floating rate debt.

New Accounting Updates

See Note 2 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference, for information concerning the following new accounting updates and the impact of the implementation of these updates on our financial statements:

- Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts
- Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs
- Presentation of Comprehensive Income

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Forward-Looking Statements

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

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all of our forward-looking statements. These forward-looking statements represent our outlook only as of the date of this report. While we believe that our forward-looking statements are reasonable, actual results could differ materially since the statements are based on our current expectations, which are subject to risks and uncertainties. Factors that might cause such a difference include, but are not limited to, the factors set forth under Item 1A of this Form 10-K, which is incorporated herein by reference, elsewhere in this report and the risks and uncertainties discussed in our other reports filed or furnished from time to time with the SEC.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by Item 7A is incorporated herein by reference from the information in Item 7 under the caption "Market Risk" in this Form 10-K.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and
Shareholders of Credit Acceptance Corporation

We have audited the accompanying consolidated balance sheets of Credit Acceptance Corporation (a Michigan corporation) and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Credit Acceptance Corporation and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Credit Acceptance Corporation and subsidiaries' internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 20, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ GRANT THORNTON LLP

Southfield, Michigan
February 20, 2013

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CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share data)	As of December 31, 2012	2011
ASSETS:		
Cash and cash equivalents	$ 9.0	$ 4.7
Restricted cash and cash equivalents	92.4	104.7
Restricted securities available for sale	46.1	0.8
Loans receivable (including $5.9 and $4.9 from affiliates as of December 31, 2012 and December 31, 2011, respectively)	2,109.9	1,752.9
Allowance for credit losses	(176.4)	(154.3)
Loans receivable, net	1,933.5	1,598.6
Property and equipment, net	22.2	18.5
Income taxes receivable	1.1	0.5
Other assets	28.9	30.8
Total Assets	$ 2,133.2	$ 1,758.6
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Accounts payable and accrued liabilities	$ 105.8	$ 95.8
Revolving secured line of credit	43.5	43.9
Secured financing	853.0	599.3
Mortgage note	4.0	4.3
Senior notes	350.3	350.4
Deferred income taxes, net	148.4	123.4
Income taxes payable	6.3	1.5
Total Liabilities	1,511.3	1,218.6
Commitments and Contingencies - See Note 17		
Shareholders' Equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized, none issued	-	-
Common stock, $.01 par value, 80,000,000 shares authorized, 24,114,896 and 25,623,684 shares issued and outstanding as of December 31, 2012 and December 31, 2011, respectively	0.2	0.3
Paid-in capital	53.4	38.8
Retained earnings	568.4	500.9
Accumulated other comprehensive loss	(0.1)	-
Total Shareholders' Equity	621.9	540.0
Total Liabilities and Shareholders' Equity	$ 2,133.2	$ 1,758.6

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

(In millions, except share and per share data)	For the Years Ended December 31, 2012	2011	2010
Revenue:			
Finance charges	$ 538.2	$ 460.6	$ 388.0
Premiums earned	47.1	40.0	32.7
Other income	23.9	24.6	21.4
Total revenue	609.2	525.2	442.1
Costs and expenses:			
Salaries and wages	82.2	63.0	61.3
General and administrative	30.5	25.6	26.4
Sales and marketing	31.2	23.6	19.7
Provision for credit losses	24.0	29.0	10.0
Interest	63.4	57.2	47.8
Provision for claims	34.8	30.4	23.4
Total costs and expenses	266.1	228.8	188.6
Income before provision for income taxes	343.1	296.4	253.5
Provision for income taxes	123.4	108.4	83.4
Net income	$ 219.7	$ 188.0	$ 170.1
Net income per share:			
Basic	$ 8.65	$ 7.15	$ 5.79
Diluted	$ 8.58	$ 7.07	$ 5.67
Weighted average shares outstanding:			
Basic	25,409,655	26,302,289	29,393,309
Diluted	25,598,956	26,600,855	29,984,819

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)	For the Years Ended December 31, 2012	2011	2010
Net income	$ 219.7	$ 188.0	$ 170.1
Other comprehensive income (loss), net of tax:			
Unrealized gain on derivatives qualifying as hedges			
Unrealized gain on cash flow hedge, net of tax of $(0.2) for 2010	-	-	0.3
Less: reclassification adjustment for loss on cash flow hedge included in net income, net of tax of $(0.1) and $(0.3) for 2011 and 2010, respectively	-	0.1	0.5
Unrealized loss on available for sale securities			
Unrealized loss on securities, net of tax of $0.1 for 2012	(0.1)	-	-
Other comprehensive income (loss)	(0.1)	0.1	0.8
Comprehensive income	$ 219.6	$ 188.1	$ 170.9

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except share data)

	Common Stock					
	Number	Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2010	31,038,217	$ 0.3	$ 24.4	$ 474.4	$ (0.9)	$ 498.2
Net income	-	-	-	170.1	-	170.1
Other comprehensive income	-	-	-	-	0.8	0.8
Stock-based compensation	-	-	4.1	-	-	4.1
Restricted stock awards, net of forfeitures	12,565	-	-	-	-	-
Repurchase of common stock	(4,047,311)	-	(1.0)	(201.2)	-	(202.2)
Stock options exercised	300,475	-	2.9	-	-	2.9
Tax benefits from stock-based compensation plans	-	-	0.6	-	-	0.6
Balance, December 31, 2010	27,303,946	0.3	31.0	443.3	(0.1)	474.5
Net income	-	-	-	188.0	-	188.0
Other comprehensive income	-	-	-	-	0.1	0.1
Stock-based compensation	-	-	1.9	-	-	1.9
Restricted stock awards, net of forfeitures	(842)	-	-	-	-	-
Repurchase of common stock	(1,979,444)	-	(0.4)	(130.4)	-	(130.8)
Stock options exercised	300,024	-	2.9	-	-	2.9
Tax benefits from stock-based compensation plans	-	-	3.4	-	-	3.4
Balance, December 31, 2011	25,623,684	0.3	38.8	500.9	-	540.0
Net income	-	-	-	219.7	-	219.7
Other comprehensive income (loss)	-	-	-	-	(0.1)	(0.1)
Stock-based compensation	-	-	12.2	-	-	12.2
Restricted stock awards, net of forfeitures	195,679	-	-	-	-	-
Repurchase of common stock	(1,740,372)	(0.1)	(0.2)	(152.2)	-	(152.5)
Stock options exercised	35,905	-	0.6	-	-	0.6
Tax benefits from stock-based compensation plans	-	-	2.0	-	-	2.0
Balance, December 31, 2012	24,114,896	$ 0.2	$ 53.4	$ 568.4	$ (0.1)	$ 621.9

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	For the Years Ended December 31, 2012	2011	2010
Cash Flows From Operating Activities:			
Net income	$ 219.7	$ 188.0	$ 170.1
Adjustments to reconcile cash provided by operating activities:			
Provision for credit losses	24.0	29.0	10.0
Depreciation	5.1	4.1	4.4
Amortization	7.1	5.9	6.6
Loss on retirement of property and equipment	-	-	0.1
Loss on impairment of software	-	-	1.4
Provision for deferred income taxes	25.0	15.3	13.9
Stock-based compensation	12.2	1.9	4.1
Change in operating assets and liabilities:			
Increase (decrease) in accounts payable and accrued liabilities	10.0	20.7	(0.7)
(Increase) decrease in income taxes receivable	(0.6)	11.5	(8.1)
Increase in income taxes payable	4.8	1.5	-
Decrease (increase) in other assets	1.3	(2.2)	(1.1)
Net cash provided by operating activities	308.6	275.7	200.7
Cash Flows From Investing Activities:			
Decrease (increase) in restricted cash and cash equivalents	12.3	(38.1)	15.9
Purchases of restricted securities available for sale	(57.1)	(0.5)	(1.1)
Proceeds from sale of restricted securities available for sale	2.0	0.1	2.1
Maturities of restricted securities available for sale	9.6	0.4	1.3
Principal collected on Loans receivable	1,162.8	996.9	785.9
Advances to Dealers	(1,253.6)	(1,152.5)	(786.9)
Purchases of Consumer Loans	(108.8)	(122.2)	(100.4)
Accelerated payments of Dealer Holdback	(43.7)	(47.4)	(32.6)
Payments of Dealer Holdback	(115.7)	(85.2)	(44.2)
Net decrease in other loans	0.1	0.8	0.2
Purchases of property and equipment	(8.8)	(6.3)	(3.5)
Net cash used in investing activities	(400.9)	(454.0)	(163.3)
Cash Flows From Financing Activities:			
Borrowings under revolving secured line of credit	2,507.4	2,384.9	1,097.9
Repayments under revolving secured line of credit	(2,507.8)	(2,477.7)	(1,058.5)
Proceeds from secured financing	1,742.0	1,164.5	327.7
Repayments of secured financing	(1,488.3)	(865.3)	(432.2)
Principal payments under mortgage note and capital lease obligations	(0.3)	(0.3)	(0.5)
Proceeds from sale of senior notes	-	106.0	243.7
Payments of debt issuance costs	(6.5)	(8.4)	(15.2)
Repurchase of common stock	(152.5)	(130.8)	(202.2)
Proceeds from stock options exercised	0.6	2.9	2.9
Tax benefits from stock-based compensation plans	2.0	3.4	0.6
Net cash provided by (used in) financing activities	96.6	179.2	(35.8)
Net increase in cash and cash equivalents	4.3	0.9	1.6
Cash and cash equivalents, beginning of period	4.7	3.8	2.2
Cash and cash equivalents, end of period	$ 9.0	$ 4.7	$ 3.8

Supplemental Disclosure of Cash Flow Information:			
Cash paid during the period for interest	$ 56.2	$ 51.4	$ 42.5
Cash paid during the period for income taxes	$ 92.4	$ 76.5	$ 81.8

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Principal Business. Since 1972, Credit Acceptance Corporation (referred to as the "Company", "Credit Acceptance", "we", "our" or "us") has offered automobile dealers financing programs that enable them to sell vehicles to consumers, regardless of their credit history. Our financing programs are offered through a nationwide network of automobile dealers who benefit from sales of vehicles to consumers who otherwise could not obtain financing; from repeat and referral sales generated by these same customers; and from sales to customers responding to advertisements for our product, but who actually end up qualifying for traditional financing.

We refer to automobile dealers who participate in our programs and who share our commitment to changing consumers' lives as "Dealers". Upon enrollment in our financing programs, the Dealer enters into a Dealer servicing agreement with us that defines the legal relationship between Credit Acceptance and the Dealer. The Dealer servicing agreement assigns the responsibilities for administering, servicing, and collecting the amounts due on retail installment contracts (referred to as "Consumer Loans") from the Dealers to us. We are an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the Dealer and assigned to us.

We have two programs: the Portfolio Program and the Purchase Program. Under the Portfolio Program, we advance money to Dealers (referred to as a "Dealer Loan") in exchange for the right to service the underlying Consumer Loans. Under the Purchase Program, we buy the Consumer Loans from the Dealers (referred to as a "Purchased Loan") and keep all amounts collected from the consumer. Dealer Loans and Purchased Loans are collectively referred to as "Loans". The following table shows the percentage of Consumer Loans assigned to us based on unit volumes under each of the programs for each of the last three years:

For the Years Ended December 31,	Portfolio Program	Purchase Program
2010	90.9%	9.1%
2011	92.5%	7.5%
2012	93.7%	6.3%

Portfolio Program

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

- a down payment from the consumer;
- a non-recourse cash payment ("advance") from us; and
- after the advance has been recovered by us, the cash from payments made on the Consumer Loan, net of certain collection costs and our servicing fee ("Dealer Holdback").

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

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

- First, to reimburse us for certain collection costs;
- Second, to pay us our servicing fee, which generally equals 20% of collections;
- Third, to reduce the aggregate advance balance and to pay any other amounts due from the Dealer to us; and
- Fourth, to the Dealer as payment of Dealer Holdback.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

1. DESCRIPTION OF BUSINESS – (Concluded)

Dealers have an opportunity to receive an accelerated Dealer Holdback payment each time 100 Consumer Loans have been assigned to us. The amount paid to the Dealer is calculated using a formula that considers the forecasted collections and the advance balance on the related Consumer Loans.

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

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

Purchase Program

The Purchase Program differs from our Portfolio Program in that the Dealer receives a one-time payment from us at the time of assignment to purchase the Consumer Loan instead of a cash advance at the time of assignment and future Dealer Holdback payments. For accounting purposes, the transactions described under the Purchase Program are considered to be originated by the Dealer and then purchased by us.

Program Enrollment

Dealers may enroll in our program by choosing one of our two enrollment options (referred to as "Option A" and "Option B"). In recent years, the terms of Option A have remained consistent while the terms of Option B have varied. The following table summarizes the terms of our enrollment options for the three year period ending December 31, 2012:

Effective Period	Option A	Option B
Since June 1, 2011	Upfront, one-time fee of $9,850	Agreement to allow us to retain 50% of their first accelerated Dealer Holdback payment
Prior to June 1, 2011	Upfront, one-time fee of $9,850	Upfront, one-time fee of $1,950 and

agreement to allow us to retain 50% of their first accelerated Dealer Holdback payment

For all Dealers enrolling in our program, access to the Purchase Program is typically only granted after the first accelerated Dealer Holdback payment has been received under the Portfolio Program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include our accounts and our wholly-owned subsidiaries. All significant intercompany transactions have been eliminated. Our primary subsidiaries as of December 31, 2012 are: Buyer's Vehicle Protection Plan, Inc. ("BVPP"), Vehicle Remarketing Services, Inc. ("VRS"), VSC Re Company ("VSC Re"), CAC Warehouse Funding Corp. II, CAC Warehouse Funding III, LLC, CAC Warehouse Funding LLC IV, Credit Acceptance Funding LLC 2010-1, Credit Acceptance Funding LLC 2011-1, Credit Acceptance Funding LLC 2012-1 and Credit Acceptance Funding LLC 2012-2.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Business Segment Information

We currently operate in one reportable segment which represents our core business of offering Dealers financing programs and related products and services that enable them to sell vehicles to consumers regardless of their credit history. For information regarding our one reportable segment and related entity wide disclosures, see Note 16 to the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The accounts which are subject to significant estimation include the allowance for credit losses, finance charge revenue, premiums earned, stock-based compensation expense, contingencies, and uncertain tax positions. Actual results could materially differ from those estimates.

Cash and Cash Equivalents

Cash equivalents consist of readily marketable securities with original maturities at the date of acquisition of three months or less. As of December 31, 2012 and 2011, we had $4.8 million and $4.1 million, respectively, in cash and cash equivalents that was not insured by the Federal Deposit Insurance Corporation ("FDIC"). As of January 1, 2013, the temporary unlimited coverage for noninterest-bearing transaction accounts expired, which increased the amount of cash and cash equivalents not insured by the FDIC to $8.2 million.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents decreased to $92.4 million as of December 31, 2012 from $104.7 million as of December 31, 2011. The following table summarizes restricted cash and cash equivalents:

(In millions)	As of December 31, 2012	2011
Cash related to secured financings	$ 90.2	$ 62.5
Cash held in trusts for future vehicle service contract claims (1)	2.2	42.2
Total restricted cash and cash equivalents	$ 92.4	$ 104.7

(1) The unearned premium and claims reserve associated with the trusts are included in accounts payable and accrued liabilities in the consolidated balance sheets. As of December 31, 2012, the outstanding cash balance includes $2.2 million related to VSC Re. As of December 31, 2011, the outstanding cash balance includes $42.1 million related to VSC Re and $0.1 million related to a discontinued profit sharing arrangement.

As of December 31, 2012 and 2011, we had $82.0 million and $97.5 million, respectively, in restricted cash and cash equivalents that was not insured by the FDIC. As of January 1, 2013, the temporary unlimited coverage for noninterest-bearing transaction accounts expired, which increased the amount of restricted cash and cash equivalents not insured by the FDIC to $90.4 million.

Restricted Securities Available for Sale

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Finance Charges

Finance charges is comprised of: (1) servicing fees earned as a result of servicing Consumer Loans assigned to us by Dealers under the Portfolio Program; (2) finance charge income from Purchased Loans; (3) fees earned from our third party ancillary product offerings; (4) monthly program fees charged to Dealers under the Portfolio Program; and (5) fees associated with certain Loans. We recognize finance charges under the interest method such that revenue is recognized on a level-yield basis based upon forecasted cash flows. For Dealer Loans only, certain direct origination costs such as salaries and credit reports are deferred and the net costs are recognized as an adjustment to finance charges over the life of the related Dealer Loan on a level-yield basis.

We provide Dealers the ability to offer vehicle service contracts to consumers through our relationships with Third Party Product Providers (“TPPPs”). A vehicle service contract provides the consumer protection by paying for the repair or replacement of certain components of the vehicle in the event of a mechanical failure. We provide Dealers with an additional advance based on the retail price of the vehicle service contract. TPPPs process claims on vehicle service contracts that are underwritten by third party insurers. We receive a fee for all vehicle service contracts sold by our Dealers when the vehicle is financed by us. The fee is included in the retail price of the vehicle service contract which is added to the Consumer Loan. We recognize our fee from the vehicle service contracts as part of finance charges on a level-yield basis based upon forecasted cash flows. We bear the risk of loss for claims on certain vehicle service contracts that are reinsured by us. We market the vehicle service contracts directly to our Dealers.

We provide Dealers the ability to offer a Guaranteed Asset Protection (“GAP”) product to consumers through our relationships with TPPPs. GAP provides the consumer protection by paying the difference between the loan balance and the amount covered by the consumer’s insurance policy in the event of a total loss of the vehicle due to severe damage or theft. We provide Dealers with an additional advance based on the retail price of the GAP contract. TPPPs process claims on GAP contracts that are underwritten by third party insurers. We receive a fee for all GAP contracts sold by our Dealers when the vehicle is financed by us, and do not bear any risk of loss for claims. The fee is included in the retail price of the GAP contract which is added to the Consumer Loan. We recognize our fee from the GAP contracts as part of finance charges on a level-yield basis based upon forecasted cash flows.

Program fees represent monthly fees charged to Dealers for access to our Credit Approval Processing System (“CAPS”); administration, servicing and collection services offered by us; documentation related to or affecting our program; and all tangible and intangible property owned by Credit Acceptance. We charge a monthly fee of $599 to Dealers participating in our Portfolio Program and we collect it from future Dealer Holdback payments. As a result, we record program fees under the Portfolio Program as a yield adjustment, recognizing these fees as finance charge revenue over the forecasted net cash flows of the Dealer Loan.

Reinsurance

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

(In millions)	For the Years Ended December 31,		
	2012	2011	2010
Net assumed written premiums	$ 50.5	$ 47.6	$ 34.5
Net premiums earned	47.1	40.0	32.7
Provision for claims	34.8	30.4	23.4
Amortization of capitalized acquisition costs	1.3	1.0	0.8

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

(In millions)		As of December 31,	
	Balance Sheet location	2012	2011
Trust assets	Restricted cash and cash equivalents	$ 2.2	$ 42.1
Trust assets	Restricted securities available for sale	46.1	-
Unearned premium	Accounts payable and accrued liabilities	35.7	32.3
Claims reserve (1)	Accounts payable and accrued liabilities	1.4	1.3

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

Our determination to consolidate the VSC Re trusts was based on the following:

- First, we determined that the trusts qualified as variable interest entities. The trusts have insufficient equity at risk as no parties to the trusts were required to contribute assets that provide them with any ownership interest.
- Next, we determined that we have variable interests in the trusts. We have a residual interest in the assets of the trusts, which is variable in nature, given that it increases or decreases based upon the actual loss experience of the related service contracts. In addition, VSC Re is required to absorb any losses in excess of the trusts' assets.
- Next, we evaluated the purpose and design of the trusts. The primary purpose of the trusts is to provide TPPPs with funds to pay claims on vehicle service contracts and to accumulate and provide us with proceeds from investment income and residual funds.
- Finally, we determined that we are the primary beneficiary of the trusts. We control the amount of premium written and placed in the trusts through Consumer Loan assignments under our Programs, which is the activity that most significantly impacts the economic performance of the trusts. We have the right to receive benefits from the trusts that could potentially be significant. In addition, VSC Re has the obligation to absorb losses of the trusts that could potentially be significant.

Other Income

Other income consists of the following:

(In millions)	For the Years Ended December 31,					
	2012		2011		2010	
Dealer support products and services	$	8.0	$	7.3	$	7.2
Vendor fees		7.8		4.2		5.8
Dealer enrollment fees		4.0		3.5		2.7
Ancillary product profit sharing income		3.4		7.8		4.1
Other		0.7		1.8		1.6
Total	$	23.9	$	24.6		