CREDIT ACCEPTANCE CORP
Form 10-K
February 24, 2012

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, 2011

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 [ ] No [X]

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 5,759,970 shares of the Registrant's common stock held by non-affiliates on June 30, 2011 was approximately $486.5 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, 2012, there were 25,622,480 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 2012 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, 2011

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

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

Consumers and Dealer-Partners 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 product, 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 program 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.

Dealer-Partners. Our program increases Dealer-Partners' profits in the following ways:

- Enables Dealer-Partners to sell cars to consumers who may not be able to obtain financing without our program. In addition, consumers often become repeat customers by financing future vehicle purchases either through our program or, after they have successfully established or reestablished their credit, through conventional financing.
- Allows Dealer-Partners to share in the profit, not only from the sale of the vehicle, but also from its financing.
- Enables Dealer-Partners to attract consumers by advertising "guaranteed credit approval", where allowed by law. The consumers will often use other services of the Dealer-Partners and refer friends and relatives to them.
- Enables Dealer-Partners 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 auto loans, and related products and services to consumers through our network of Dealer-Partners. For information regarding our reportable segment and related entity-wide disclosures, see Note 15 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 Dealer-Partners (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 Dealer-Partners (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 12 quarters:

Quarter Ended	Portfolio Program	Purchase Program
March 31, 2009	82.3%	17.7%
June 30, 2009	86.0%	14.0%
September 30, 2009	89.0%	11.0%
December 31, 2009	90.8%	9.2%
March 31, 2010	90.9%	9.1%
June 30, 2010	90.5%	9.5%
September 30, 2010	90.5%	9.5%
December 31, 2010	91.8%	8.2%
March 31, 2011	92.9%	7.1%
June 30, 2011	92.1%	7.9%
September 30, 2011	92.3%	7.7%
December 31, 2011	92.6%	7.4%

Portfolio Program

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

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

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

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

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

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

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

Dealer-Partners have an opportunity to receive an accelerated Dealer Holdback payment each time 100 Consumer Loans have been assigned to us. The amount paid to the Dealer-Partner 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-Partner with a cash profit at the time of sale, the Dealer-Partner's risk in the Consumer Loan is limited. We cannot demand repayment of the advance from the Dealer-Partner except in the event the Dealer-Partner is in default of the dealer servicing agreement. Advances are made only after the consumer and Dealer-Partner have signed a Consumer Loan contract, we have received the original Consumer Loan contract and supporting documentation, and we have approved all of the related stipulations for funding. The Dealer-Partner can also opt to repurchase Consumer Loans that have been assigned to us under the Portfolio Program, at their discretion, for a fee.

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

Purchase Program

The Purchase Program differs from our Portfolio Program in that the Dealer-Partner 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-Partner and then purchased by us.

Program Enrollment

Dealer-Partners 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, 2011:

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
From September 1, 2009 to May 31, 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
Prior to September 1, 2009	Upfront, one-time fee of $9,850	Agreement to allow us to retain 50% of their first accelerated Dealer Holdback payment

For all Dealer-Partners 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.

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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 Dealer-Partners under the Portfolio Program, (2) finance charge income from Purchased Loans, (3) fees earned from our third party ancillary product offerings, (4) monthly program fees of $599, charged to Dealer-Partners 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: ancillary product profit sharing income, dealer support products and services, marketing income, and dealer enrollment fees. 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 from continuing operations of each of these sources:

	For the Years Ended December 31,		
Percent of Total Revenue from Continuing Operations	2011	2010	2009
Finance charges	87.7%	87.8%	86.6%
Premiums earned	7.6%	7.4%	8.8%
Other income	4.7%	4.8%	4.6%
Total revenue from continuing operations	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.

Operations

Sales and Marketing. Our target market is approximately 55,000 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 Dealer-Partners, enroll new Dealer-Partners, and support active Dealer-Partners. The number of Dealer-Partner enrollments and active Dealer-Partners for each of the last five years are presented in the table below:

For the Years Ended December 31,	Dealer-Partner Enrollments	Active Dealer-Partners (1)
2007	1,835	2,827
2008	1,646	3,264
2009	1,338	3,168
2010	1,263	3,206
2011	1,953	3,998

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

Once Dealer-Partners have enrolled in our programs, the market area managers work closely with the newly enrolled Dealer-Partners to help them successfully launch our programs within their dealerships. Market area managers also provide active Dealer-Partners with ongoing support and consulting focused on improving the Dealer-Partners' 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-Partner is required to enter into a dealer servicing agreement with Credit Acceptance that defines the legal relationship between Credit Acceptance and the Dealer-Partner. The dealer servicing agreement assigns the responsibilities for administering, servicing, and collecting the amounts due on Consumer Loans from the Dealer-Partners to us. Under the typical dealer servicing agreement, a Dealer-Partner 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.

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

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

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

- any unreimbursed collection costs on Dealer Loans;
- any unpaid advances and all amounts owed by the Dealer-Partner 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-Partner.

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

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

- the consumer and Dealer-Partner 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-Partner 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-Partner when a consumer enters into a contract with a Dealer-Partner that sets forth the terms of the agreement between the consumer and the Dealer-Partner 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. In the majority of states, Consumer Loans are written on a contract form provided by us. Although the Dealer-Partner is named in the Consumer Loan contract, the Dealer-Partner generally does not have legal ownership of the Consumer Loan for more than a moment and we, not the Dealer-Partner, 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.

Virtually all Consumer Loans submitted to us for assignment are processed through our Credit Approval Processing System (“CAPS”). CAPS allows Dealer-Partners to input a consumer’s credit application and view the response from us via the Internet. CAPS allows Dealer-Partners to: (1) receive a quick approval from us; and (2) interact with our proprietary credit scoring system to optimize the structure of each transaction prior to delivery. 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-Partner can submit any legally compliant Consumer Loan to us for assignment, the decision whether to provide funding to the Dealer-Partner and the amount of any funding is made solely by us. Through our Dealer-Partner Service Center (“DPSC”) 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-Partner. We use a company in India to support the DPSC 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 Dealer-Partners 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-Partner fees for future Consumer Loan assignments; require the Consumer Loan(s) to be repurchased; or terminate our relationship with the Dealer-Partner.

Our business model allows us to share the risk and reward of collecting on the Consumer Loans with the Dealer-Partners. Such sharing is intended to motivate the Dealer-Partner 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 DPSC works closely with Dealer-Partners to assist them in resolving any documentation deficiencies or funding stipulations. We believe this arrangement aligns our interests with the interests of the Dealer-Partner and the consumer.

We measure various criteria for each Dealer-Partner against other Dealer-Partners in their area as well as the top performing Dealer-Partners. Dealer-Partners 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 Dealer-Partners as an advance or to acquire a Purchased Loan. We provide each Dealer-Partner 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	2011	2010	2009	2008	2007
Average size of Consumer Loan accepted	$ 15,686	$ 14,480	$ 12,689	$ 14,518	$ 13,878
Percentage growth (decline) in average size of Consumer Loan	8.3%	14.1%	-12.6%	4.6%	9.1%
Average initial term (in months)	46	41	38	42	41

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The increases in the average size of Consumer Loans accepted and the average initial term of the Consumer Loans during 2011 were primarily due to pricing changes we made during the first and fourth quarters of 2010 and the second and third quarters of 2011.

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 neither process is successful, 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 Loans assigned after July 1990 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 outsource a portion of our collection function to companies in India and in Costa Rica. These outsourced collectors service accounts using the CS and typically service accounts that are less than sixty days past due.

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Ancillary Products

We provide Dealer-Partners the ability to offer vehicle service contracts to consumers. 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 have relationships with third party administrators ("TPAs") whereby the TPAs 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 Dealer-Partners 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 provide Dealer-Partners with an additional advance based on the retail price of the vehicle service contract. 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. Effective January 1, 2010, the fee we receive increased due to a change in our relationship with the TPAs. Prior to 2010, we relied on the TPAs to market their vehicle service contracts to our Dealer-Partners. Effective January 1, 2010, we now market the vehicle service contracts directly to our Dealer-Partners.

VSC Re Company ("VSC Re"), our wholly-owned subsidiary, is engaged in the business of reinsuring coverage under vehicle service contracts sold to consumers by Dealer-Partners on vehicles financed by us. Prior to October 31, 2009, VSC Re reinsured vehicle service contracts that were underwritten by two of our third party insurers. Since October 31, 2009, VSC Re has reinsured 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 formed VSC Re in order to enhance our control and security of the trust assets that are used to pay future vehicle service contract claims. The amount of income we earn from the vehicle service contracts over time is not impacted by the formation of VSC Re, as both before and after the formation, the income we recognize, excluding our fees, is based on the amount by which vehicle service contract premiums exceed claims. The only change in our risk associated with adverse claims experience relates to our net investment in VSC Re, which is now at risk in the event claims exceed premiums. Under the prior structure, our risk was limited to the amount of premiums contributed to the trusts.

We also have relationships with TPAs that allow Dealer-Partners to offer a Guaranteed Asset Protection ("GAP") product to consumers whereby the TPA processes claims that are underwritten by a third party insurer. GAP provides the consumer protection by paying the difference between the loan balance and the amount covered by the consumer's insurance policy in the event of a total loss of the vehicle due to severe damage or theft. We receive a fee for all GAP contracts sold by our Dealer-Partners when the vehicle is financed by us, and do not bear any risk of loss for claims. The fee is included in the retail price of the GAP contract which is added to the Consumer Loan. We provide Dealer-Partners with an additional advance based on the retail price of the GAP contract. We recognize our 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 TPAs allows us to receive profit sharing payments depending on the performance of the GAP program. Profit sharing payments from the third party are received once a year, if eligible.

During 2006, we began to provide Dealer-Partners in certain states the ability to purchase Global Positioning Systems ("GPS") with Starter Interrupt Devices ("SID"). Through this program, Dealer-Partners can install a GPS-based SID ("GPS-SID") on vehicles financed by us that can be activated if the consumer fails to make payments on their account, and can result in the prompt repossession of the vehicle. Dealer-Partners purchase the GPS-SID directly from third parties. The third parties pay us a marketing fee for each device sold and installed, at which time the marketing fee revenue is recognized in other income within our consolidated statements of income.

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Discontinued Operations

Effective June 30, 2003, we stopped originating Consumer Loans in the United Kingdom and we sold the remainder of the portfolio on December 30, 2005. The United Kingdom business was formally dissolved in 2010. The results for the United Kingdom business are reported as a discontinued operation in the consolidated statements of income for all periods presented.

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 Dealer-Partners 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 DPSC and sales personnel.

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Customer and Geographic Concentrations

No single Dealer-Partner accounted for more than 10% of total revenues during any of the last three years. Additionally, no single Dealer-Partner's Loans receivable balance accounted for more than 10% of total Loans receivable balance as of December 31, 2011 or 2010. 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 Dealer-Partners during 2011, 2010 and 2009:

(In thousands)	For the Year Ended December 31, 2011			
	Consumer Loan Assignments		Active Dealer-Partners (2)	
	Dollar Volume (1)	% of Total	Number	% of Total
Michigan	$ 135,272	10.6%	282	7.1%
New York	98,631	7.7%	228	5.7%
Texas	80,895	6.3%	313	7.8%
Ohio	73,841	5.8%	243	6.1%
Pennsylvania	66,894	5.3%	184	4.6%
All other states	819,201	64.3%	2,748	68.7%
Total	$ 1,274,734	100.0%	3,998	100.0%

(In thousands)	For the Year Ended December 31, 2010			
	Consumer Loan Assignments		Active Dealer-Partners (2)	
	Dollar Volume (1)	% of Total	Number	% of Total
Michigan	$ 92,694	10.4%	224	7.0%
New York	74,072	8.4%	190	5.9%
Texas	54,406	6.1%	250	7.8%
Ohio	51,271	5.8%	201	6.3%
Mississippi	45,369	5.1%	81	2.5%
All other states	569,527	64.2%	2,260	70.5%
Total	$ 887,339	100.0%	3,206	100.0%

(In thousands)	For the Year Ended December 31, 2009			
	Consumer Loan Assignments		Active Dealer-Partners (2)	
	Dollar Volume (1)	% of Total	Number	% of Total
Michigan	$ 63,960	10.3%	197	6.2%
New York	45,129	7.3%	178	5.6%
Texas	44,912	7.3%	250	7.9%
Ohio	36,186	5.8%	187	5.9%
Alabama	32,933	5.3%	126	4.0%
All other states	396,256	64.0%	2,230	70.4%
Total	$ 619,376	100.0%	3,168	100.0%

(1)

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

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

Geographic Financial Information

For the three years ended December 31, 2011, 2010 and 2009, revenues from continuing operations were primarily derived from operations in the United States and long-lived assets were primarily located in the United States. For additional geographic financial information, see Note 15 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

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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 Dealer-Partners 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.

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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.

Our Dealer-Partners must also comply with credit and trade practice statutes and regulations. Failure of our Dealer-Partners 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 Dealer-Partners in connection with Consumer Loans assigned to us from Dealer-Partners 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 Dealer-Partners 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 Dealer-Partners provide that the Dealer-Partner shall indemnify us with respect to any loss or expense we incur as a result of the Dealer-Partner'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 Dealer-Partners, enrolling new Dealer-Partners, and supporting active Dealer-Partners. 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 finance, information technology, policy & compliance, business information services, analytics, corporate legal, training & development, and human resources activities.

As of December 31, 2011, we had 1,037 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	2011	2010
Originations	306	245
Servicing	491	411
Support	240	206
Total	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-Partner 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.

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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.

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 Dealer-Partners, 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.

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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. In light of the recent difficulties that faced the financial services industry and the financial markets, 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. Concerns over the availability and cost of credit, the U.S. mortgage market, a declining real estate market and geopolitical issues contribute to increased volatility and diminished expectations for the economy and financial markets going forward. 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.

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We rely on Dealer-Partners to originate Consumer Loans for assignment under our programs. High levels of Dealer-Partner 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 Dealer-Partners, we may also be named as a co-defendant in lawsuits filed by consumers principally against Dealer-Partners. We may also have disputes and litigation with Dealer-Partners relating to our dealer servicing and related agreements, including claims for, among other things, breach of contract or other duties purportedly owed to the Dealer-Partners. The damages and penalties that may be claimed by consumers or Dealer-Partners 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 operations are dependent on technology.

Virtually all Consumer Loans submitted to us for assignment are processed through our internet-based CAPS application, which enables our Dealer-Partners 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, the vulnerability of the Internet, operating malfunctions 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.

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.

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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 third parties to administer vehicle service contract and GAP products underwritten by third party insurers and financed by us. We depend on these TPAs to evaluate and pay claims in an accurate and timely manner. We also have relationships with third parties to sell and administer GPS-SID. If our relationships with the TPAs 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 TPAs 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.

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 Dealer-Partners 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 Dealer-Partners, which could make it difficult for us to attract new consumers and Dealer-Partners and maintain existing Dealer-Partners. 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 Dealer-Partners in several states could adversely affect us.

We are partnered with Dealer-Partners throughout the United States. During the year ended December 31, 2011, our five largest states (measured by advances paid to Dealer-Partners on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealer-Partners to purchase Consumer Loans assigned under our Purchase Program) contained 31.3% of our Dealer-Partners. 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 Dealer-Partners in these five states due to the number of Dealer-Partners 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-Partner attrition or a reduction in demand for our service that could materially adversely affect our financial position, liquidity and results of operations.

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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 or otherwise misappropriate our customers' personal information or loan information, or if we give third parties or our team members improper access to our customers' personal information or loan 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 security breaches or to alleviate problems caused by security breaches. 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.

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 a portion of our collections functions to companies in India and Costa Rica and a portion of our DPSC functions to a company in India. While we believe there are benefits to these arrangements, outsourcing 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. For example, the outsourcing of collection functions could result in lower collection rates on our Consumer Loans than we would have achieved had we performed the same functions internally. 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 other 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.

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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.

ITEM 2. PROPERTIES

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 120,000 square feet of the building, with most of the remainder of the building leased to various tenants.

We lease approximately 14,000 square feet of office space in Southfield, Michigan and approximately 20,000 square feet of office space in Henderson, Nevada. The leases for the Southfield, Michigan space expire in April 2013 and August 2013. The lease for the Henderson, Nevada space expires in November 2014.

ITEM 3. LEGAL PROCEEDINGS

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 Dealer-Partners, we may also be named as a co-defendant in lawsuits filed by consumers principally against Dealer-Partners. We may also have disputes and litigation with Dealer-Partners relating to our dealer servicing and related agreements, including claims for, among other things breach of contract or other duties purportedly owed to the Dealer-Partners. The damages and penalties that may be claimed by consumers or Dealer-Partners 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 16 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, 2011 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 2011 and 2010.

	2011		2010	
Quarters Ended	High	Low	High	Low
March 31	$ 72.55	$ 53.04	$ 53.97	$ 38.57
June 30	84.50	71.00	49.65	41.24
September 30	86.87	56.55	63.45	47.18
December 31	93.10	60.09	63.58	54.12

As of February 17, 2012, we had 132 shareholders of record and approximately 3,200 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, 2007 and ending on December 31, 2011 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, 2007 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. As of December 31, 2011, we had authorization to repurchase up to $24.9 million of our common stock.

The following table summarizes our stock repurchases for the three months ended December 31, 2011:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value that May Yet Be Used to Purchase Shares Under the Plans or Programs
October 1 through October 31, 2011	-	$ -	-	$ 29,113,295
November 1 through November 30, 2011	55,133	76.25	55,133	24,909,622
December 1 through December 31, 2011	-	-	-	24,909,622
	55,133	$ 76.25	55,133	

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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, 2011, 2010 and 2009, 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 thousands, except per share data)	Years Ended December 31,				
	2011	2010	2009	2008	2007
Income Statement Data:					
Revenue	$ 525,192	$ 442,135	$ 380,664	$ 312,186	$ 239,927
Costs and expenses:					
Salaries and wages	63,038	61,327	66,893	68,993	55,396
General and administrative	25,625	26,432	30,391	27,536	27,202
Sales and marketing	23,520	19,661	14,808	16,776	17,493
Provision for credit losses	28,956	10,037	(12,164)	46,029	19,947
Interest	57,236	47,752	32,399	43,189	36,669
Provision for claims	30,399	23,429	19,299	2,651	39
Total costs and expenses	228,774	188,638	151,626	205,174	156,746
Income from continuing operations before provision for income taxes	296,418	253,497	229,038	107,012	83,181
Provision for income taxes	108,374	83,390	82,992	39,944	29,567
Income from continuing operations	188,044	170,107	146,046	67,068	53,614
(Loss) gain from discontinued United Kingdom operations	-	(30)	209	109	1,302
Net income	$ 188,044	$ 170,077	$ 146,255	$ 67,177	$ 54,916
Net income per share:					
Basic	$ 7.15	$ 5.79	$ 4.78	$ 2.22	$ 1.83
Diluted	$ 7.07	$ 5.67	$ 4.62	$ 2.16	$ 1.76
Income from continuing operations per share:					
Basic	$ 7.15	$ 5.79	$ 4.77	$ 2.22	$ 1.78
Diluted	$ 7.07	$ 5.67	$ 4.61	$ 2.16	$ 1.72
(Loss) gain from discontinued United Kingdom operations per share:					
Basic	$ -	$ -	$ 0.01	$ -	$ 0.04
Diluted	$ -	$ -	$ 0.01	$ -	$ 0.04
Weighted average shares outstanding:					
Basic	26,302	29,393	30,590	30,250	30,053
Diluted	26,601	29,985	31,669	31,105	31,154
Balance Sheet Data:					
Loans receivable, net	$ 1,598,573	$ 1,218,013	$ 1,050,013	$ 1,017,917	$ 810,553
All other assets	160,025	125,502	126,223	121,437	131,629
Total assets	$ 1,758,598	$ 1,343,515	$ 1,176,236	$ 1,139,354	$ 942,182
Total debt	$ 997,847	$ 685,667	$ 506,979	$ 641,714	$ 532,130

Other liabilities	220,800	183,374	171,047	159,889	144,602
Total liabilities	1,218,647	869,041	678,026	801,603	676,732
Shareholders' equity (A)	539,951	474,474	498,210	337,751	265,450
Total liabilities and shareholders' equity	$ 1,758,598	$ 1,343,515	$ 1,176,236	$ 1,139,354	$ 942,182

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

For the year ended December 31, 2011, consolidated net income was $188.0 million, or $7.07 per diluted share, compared to $170.1 million, or $5.67 per diluted share, for the same period in 2010 and $146.3 million, or $4.62 per diluted share, for the same period in 2009. The growth in 2011 consolidated net income was primarily due to an increase in the size of our Loan portfolio. The growth in 2010 consolidated net income was primarily due to (1) an increase in the size of our Loan portfolio and (2) an improvement in the performance 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 1.8:1 as of December 31, 2011. 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-Partner at a price designed to achieve an acceptable return on capital. If Consumer Loan performance equals or exceeds our original expectation, it is likely our target return on capital will be achieved.

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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, 2011, with the forecasts as of December 31, 2010, as of December 31, 2009, 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, 2011	December 31, 2010	December 31, 2009	Initial Forecast	December 31, 2010	December 31, 2009	Initial Forecast
2002	70.5%	70.5%	70.4%	67.9%	0.0%	0.1%	2.6%
2003	73.7%	73.7%	73.7%	72.0%	0.0%	0.0%	1.7%
2004	73.0%	73.0%	73.1%	73.0%	0.0%	-0.1%	0.0%
2005	73.6%	73.7%	73.7%	74.0%	-0.1%	-0.1%	-0.4%
2006	70.0%	70.2%	70.3%	71.4%	-0.2%	-0.3%	-1.4%
2007	68.1%	67.9%	68.3%	70.7%	0.2%	-0.2%	-2.6%
2008	70.0%	69.9%	70.0%	69.7%	0.1%	0.0%	0.3%
2009	79.4%	78.5%	75.6%	71.9%	0.9%	3.8%	7.5%
2010	76.8%	75.8%	-	73.6%	1.0%	-	3.2%
2011	73.2%	-	-	72.5%	-	-	0.7%

Consumer Loans assigned in 2002, 2003, 2009 and 2010 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, 2011, forecasted collection rates improved for Consumer Loans assigned during 2007, 2009, 2010, and 2011 and declined for Consumer Loans assigned during 2006. The forecasted collection rates 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, 2011. 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, 2011			
Consumer Loan Assignment Year	Forecasted Collection %	Advance % (1)	Spread %	% of Forecast Realized (2)
2002	70.5%	42.2%	28.3%	99.6%
2003	73.7%	43.4%	30.3%	99.5%
2004	73.0%	44.0%	29.0%	99.4%
2005	73.6%	46.9%	26.7%	99.2%

2006	70.0%	46.6%	23.4%	98.3%
2007	68.1%	46.5%	21.6%	96.6%
2008	70.0%	44.6%	25.4%	92.0%
2009	79.4%	43.9%	35.5%	82.6%
2010	76.8%	44.7%	32.1%	53.4%
2011	73.2%	45.5%	27.7%	18.0%

(1) Represents advances paid to Dealer-Partners on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealer-Partners 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 2008 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 2010 and 2011, the spread decreased as we increased advance rates during this period in an attempt to maximize the amount of economic profit we generate in response to an increase in the amount of capital available to fund new Loans.

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, 2011 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	68.0%	45.8%	22.2%
	2008	70.5%	43.3%	27.2%
	2009	79.5%	43.5%	36.0%
	2010	76.8%	44.4%	32.4%
	2011	73.1%	45.1%	28.0%
Purchased Loans	2007	68.3%	49.1%	19.2%
	2008	69.1%	46.7%	22.4%
	2009	79.3%	45.4%	33.9%
	2010	76.8%	46.7%	30.1%
	2011	74.0%	49.3%	24.7%

(1) Represents advances paid to Dealer-Partners on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealer-Partners 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 Dealer-Partners forfeiting their rights to Dealer Holdback. We transfer the Dealer-Partner'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.

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Consumer Loan Volume

The following table summarizes changes in Consumer Loan assignment volume in each of the last 12 quarters as compared to the same period in the previous year:

	Year over Year Percent Change	
Three Months Ended	Unit Volume	Dollar Volume (1)
March 31, 2009	-13.0%	-28.9%
June 30, 2009	-16.2%	-33.5%
September 30, 2009	-5.7%	-13.0%
December 31, 2009	7.6%	5.9%
March 31, 2010	11.2%	21.6%
June 30, 2010	22.7%	42.2%
September 30, 2010	26.9%	51.5%
December 31, 2010	37.7%	66.9%
March 31, 2011	36.7%	59.3%
June 30, 2011	28.7%	41.3%
September 30, 2011	28.6%	40.5%
December 31, 2011	25.3%	32.1%

(1) Represents advances paid to Dealer-Partners on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealer-Partners 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. Unit and dollar volumes were positively impacted by an increase in active Dealer-Partners and advance rate increases made during the first and fourth quarters of 2010 and the second and third quarters of 2011. Dollar volumes were also positively impacted by an increase in the size of the average Consumer Loan assignment. While the advance rate increases reduced the return on capital we expect to earn on new assignments, we believe it is very likely the advance increases had a positive impact on economic profit. Unit volume for the one month ended January 31, 2012 increased by 19.5% as compared to the same period in 2011.

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

	For the Years Ended December 31,			% Change	
	2011	2010	2009	2011 to 2010	2010 to 2009
Consumer Loan unit volume	178,074	136,813	111,029	30.2%	23.2%
Active Dealer-Partners (1)	3,998	3,206	3,168	24.7%	1.2%
Average volume per active Dealer-Partner	44.5	42.7	35.0	4.2%	22.0%

(1) Active Dealer-Partners are Dealer-Partners 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 Dealer-Partners:

	For the Years Ended December 31,			For the Years Ended December 31,		
	2011	2010	% Change	2010	2009	% Change
Consumer Loan unit volume from Dealer-Partners active both periods	154,447	128,635	20.1%	118,586	97,919	21.1%
Dealer-Partners active both periods	2,548	2,548	-	2,218	2,218	-
Average volume per Dealer-Partners active both periods	60.6	50.5	20.1%	53.5	44.1	21.1%
Consumer Loan unit volume from new Dealer-Partners	22,419	17,023	31.7%	17,023	18,789	-9.4%
New active Dealer-Partners (1)	1,403	926	51.5%	926	1,055	-12.2%
Average volume per new active Dealer-Partners	16.0	18.4	-13.0%	18.4	17.8	3.4%
Attrition (2)	-6.0%	-11.8%		-11.8%	-16.7%	

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

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

Consumer Loans are assigned to us 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,		
	2011	2010	2009
Dealer Loan unit volume as a percentage of total unit volume	92.5%	90.9%	86.6%

Dealer Loan dollar volume as a percentage of total dollar volume (1)	90.4%	88.7%	83.3%

(1) Represents advances paid to Dealer-Partners on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealer-Partners 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, 2011, Dealer Loan unit and dollar volume as a percentage of total unit and dollar volume were generally consistent with the same periods in 2010 and 2009.

As of December 31, 2011 and 2010, the net Dealer Loans receivable balance was 85.4% and 79.5%, 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 thousands, except per share data)	For the Years Ended December 31,			% Change	
	2011	2010	2009	2011 to 2010	2010 to 2009
Revenue:					
Finance charges	$ 460,622	$ 388,050	$ 329,437	18.7%	17.8%
Premiums earned	40,019	32,659	33,605	22.5%	-2.8%
Other income	24,551	21,426	17,622	14.6%	21.6%
Total revenue	525,192	442,135	380,664	18.8%	16.1%
Costs and expenses:					
Salaries and wages	63,038	61,327	66,893	2.8%	-8.3%
General and administrative	25,625	26,432	30,391	-3.1%	-13.0%
Sales and marketing	23,520	19,661	14,808	19.6%	32.8%
Provision for credit losses	28,956	10,037	(12,164)	188.5%	182.5%
Interest	57,236	47,752	32,399	19.9%	47.4%
Provision for claims	30,399	23,429	19,299	29.7%	21.4%
Total costs and expenses	228,774	188,638	151,626	21.3%	24.4%
Income from continuing operations before provision for income taxes	296,418	253,497	229,038	16.9%	10.7%
Provision for income taxes	108,374	83,390	82,992	30.0%	0.5%
Income from continuing operations	188,044	170,107	146,046	10.5%	16.5%
(Loss) gain from discontinued United Kingdom operations	-	(30)	209	100.0%	-114.4%
Net income	$ 188,044	$ 170,077	$ 146,255	10.6%	16.3%
Net income per share:					
Basic	$ 7.15	$ 5.79	$ 4.78		
Diluted	$ 7.07	$ 5.67	$ 4.62		
Income from continuing operations per share:					
Basic	$ 7.15	$ 5.79	$ 4.77		
Diluted	$ 7.07	$ 5.67	$ 4.61		
(Loss) gain from discontinued United Kingdom operations per share:					
Basic	$ -	$ -	$ 0.01		
Diluted	$ -	$ -	$ 0.01		
Weighted average shares outstanding:					
Basic	26,302	29,393	30,590		
Diluted	26,601	29,985	31,669		

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Continuing Operations

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

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

(In thousands)	Change
Income from continuing operations for the year ended December 31, 2010	$ 170,107
Increase in finance charges	72,572
Increase in premiums earned	7,360
Increase in other income	3,125
Increase in operating expenses (1)	(4,763)
Increase in provision for credit losses	(18,919)
Increase in interest	(9,484)
Increase in provision for claims	(6,970)
Increase in provision for income taxes	(24,984)
Income from continuing operations for the year ended December 31, 2011	$ 188,044

(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 thousands)	For the Years Ended December 31,		
	2011	2010	Change
Average net Loans receivable balance	$ 1,425,060	$ 1,128,012	$ 297,048
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 thousands) Impact on finance charges:	For the Year Ended December 31, 2011
Due to an increase in the average net Loans receivable balance	$ 102,188
Due to a decrease in the average yield	(29,616)
Total increase in finance charges	$ 72,572

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 Dealer-Partners, 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 $7.4 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 third party insurers during the fourth quarter of 2009.

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Other Income. For the year ended December 31, 2011, other income increased $3.1 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 our third party GAP provider, 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 third party vehicle service contract provider 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 $18.9 million, or 188.5%, as compared to 2010. 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-Partner and Purchased Loans are grouped by month of purchase. As a result, regardless of the overall performance of the portfolio of Consumer Loans, a provision can be required if any individual Loan pool performs worse than expected. Conversely, a previously recorded provision can be reversed if any previously impaired individual Loan pool experiences an improvement in performance.

During the 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 $28.9 million for the year ended December 31, 2011, of which $29.6 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.

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Interest. For the year ended December 31, 2011, interest expense increased $9.5 million, or 19.9%, as compared to 2010. The following table shows interest expense, the average outstanding debt balance, and the pre-tax average cost of debt for the year ended December 31, 2011:

(Dollars in thousands)	For the Years Ended December 31, 2011	2010
Interest expense	$ 57,236	$ 47,752
Average outstanding debt balance	892,283	581,074
Pre-tax 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 pre-tax 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 pre-tax 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.

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.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

The following table highlights changes in income from continuing operations for the year ended December 31, 2010, as compared to 2009:

(In thousands)	Change
Income from continuing operations for the year ended December 31, 2009	$ 146,046
Increase in finance charges	58,613
Decrease in premiums earned	(946)
Increase in other income	3,804
Decrease in operating expenses (1)	4,672
Increase in provision for credit losses	(22,201)
Increase in interest	(15,353)
Increase in provision for claims	(4,130)
Increase in provision for income taxes	(398)
Income from continuing operations for the year ended December 31, 2010	$ 170,107

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

Finance Charges. For the year ended December 31, 2010, finance charges increased $58.6 million, or 17.8%, as compared to 2009. The increase was the result of an increase in the average yield on our Loan portfolio and an increase in the average net Loans receivable balance, as follows:

(Dollars in thousands)	For the Years Ended December 31,		
	2010	2009	Change
Average yield on our Loan portfolio	34.4%	31.5%	2.9%
Average net Loans receivable balance	$ 1,128,012	$ 1,046,378	$ 81,634

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The following table summarizes the impact each component had on the increase in finance charges for the year ended December 31, 2010:

(In thousands)	For the Year Ended December 31, 2010
Impact on finance charges:	
Due to an increase in the average yield	$ 32,912
Due to an increase in the average net Loans receivable balance	25,701
Total increase in finance charges	$ 58,613

The increase in the average yield on our Loan portfolio for the year ended December 31, 2010 was due to improvements in forecasted collection rates on Loans assigned in 2009 and 2010 as well as higher yields on Consumer Loans assigned during the first quarter of 2010. The increase in the average net Loans receivable balance was primarily due to growth in new Loan volume throughout 2010.

Premiums Earned. For the year ended December 31, 2010, premiums earned decreased $0.9 million, or 2.8%, as compared to 2009. The decrease was primarily due to a decline in the size of our reinsurance portfolio, which resulted from the termination of our arrangement with one of our third party insurers during the fourth quarter of 2009.

Other Income. For the year ended December 31, 2010, other income increased $3.8 million, or 21.6%, as compared to 2009. The increase in other income was primarily a result of $3.4 million of income recognized during the second quarter of 2010 related to an arrangement with one of our third party vehicle service contract providers. This arrangement was discontinued in 2008 and no additional income is expected beyond the amount recognized to date. While we continue to generate income from vehicle service contracts, such amounts are captured through VSC Re and recorded over the life of the contracts as premiums earned less provision for claims.

Operating Expenses. For the year ended December 31, 2010, operating expenses decreased $4.7 million, or 4.2%, as compared to the same period in 2009. The change in operating expenses is due to the following:

- A decrease in salaries and wages expense of $5.6 million, or 8.3%, resulting from decreased support expenses associated with information technology activities, and reduced servicing expenses related to efficiencies realized through the implementation of strategic initiatives and fewer delinquent accounts.
- A decrease in general and administrative expense of $4.0 million, or 13.0%, primarily due to decreased support expenses, including legal costs, consulting fees related to the IRS examination, sales tax expense, and depreciation expense related to a reduction in capital expenditures. These decreases were partially offset by increased consulting fees related to the development of software.
- An increase in sales and marketing expense of $4.9 million, or 32.8%, primarily due to the expansion of our field sales force and increased sales commissions resulting from an increase in the commission per Consumer Loan assignment and growth in Consumer Loan assignment volume.

Provision for Credit Losses. For the year ended December 31, 2010, the provision for credit losses increased $22.2 million, or 182.5%, as compared to 2009. During the year ended December 31, 2010, overall Consumer Loan performance exceeded our expectations during the year. However, the performance of certain Loan pools declined from our expectations during the year, resulting in 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. During the year ended December 31, 2009, overall Consumer Loan performance exceeded our expectations at the start of the year. Consistent with the overall performance of the portfolio, the performance of impaired Loan pools exceeded our expectations during the year, resulting in a reversal of provision for credit losses of $12.2 million for the year ended December 31, 2009, of which $4.0 million related to Dealer Loans and $8.2 related to Purchased Loans.

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Interest. For the year ended December 31, 2010, interest expense increased $15.4 million, or 47.4%, as compared to 2009. The following table shows interest expense, the average outstanding debt balance, and the pre-tax average cost of debt for the year ended December 31, 2010:

(Dollars in thousands)	For the Years Ended December 31, 2010	2009
Interest expense	$ 47,752	$ 32,399
Average outstanding debt balance	581,074	575,482
Pre-tax average cost of debt	8.2%	5.6%

For the year ended December 31, 2010, the increase in interest expense was primarily due to increases in our pre-tax average cost of debt due to the issuance of the Senior Notes during the first quarter of 2010 and higher average pricing on our revolving credit facilities.

Provision for Claims. For the year ended December 31, 2010, provision for claims increased $4.1 million, or 21.4%, as compared to 2009. The increase was due to an increase in claims paid per reinsured vehicle service contract, partially offset by a decline in the size of our reinsurance portfolio.

Provision for Income Taxes. For the year ended December 31, 2010, the effective tax rate decreased to 32.9%, from 36.2% compared to 2009. The decrease was primarily due to the reversal of certain reserves for uncertain tax positions that were resolved and settled with the IRS examination during 2010 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.

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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 Dealer-Partners 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 Dealer-Partners 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-Partner. 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-Partner.

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.

Key Factors: Variances in the amount and timing of future collections and Dealer Holdback payments 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, 2011 would have reduced 2011 net income by approximately $6.1 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. Premiums earned for the year ended December 31, 2009 include $3.5 million of revenue related to a revision in our revenue recognition timing. We revised our revenue recognition timing during the third quarter of 2009 in order to better match the timing with our expected costs of servicing those contracts.
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, 2011 would have affected 2011 net income by approximately $2.5 million.

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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 13 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, 2011 would have affected 2011 net income by approximately $0.1 million.

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 16 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 liability for unrecognized tax benefits and related interest and penalties. 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 had a favorable impact of $6.2 million (after-tax) on our net income for the year ended December 31, 2010. For additional information, see Note 10 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, 2011. For information regarding these financings and the covenants included in the related documents, see Note 7 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

On March 3, 2011, we issued $100.0 million aggregate principal amount of Senior Notes, which, together with the $250.0 million aggregate principal amount of Senior Notes we issued on February 1, 2010, are governed by an indenture, dated as of February 1, 2010, as amended and supplemented (the “Indenture”), among us, as the issuer; our subsidiaries Buyers Vehicle Protection Plan, Inc. and Vehicle Remarketing Services, Inc., as guarantors (the “Guarantors”); and U.S. Bank National Association, as trustee. The Senior Notes issued during the first quarter of 2011 have the same terms as the previously issued Senior Notes, other than issue price and issue date, and all of the Senior Notes are treated as a single class under the Indenture.

The Senior Notes mature on February 1, 2017 and bear interest at a rate of 9.125% per annum, computed on the basis of a 360-day year comprised of twelve 30-day months and payable semi-annually on February 1 and August 1 of each year. The Senior Notes issued during the first quarter of 2011 were issued at a price of 106.0% of their aggregate principal amount, resulting in gross proceeds of $106.0 million, and a yield to maturity of 7.83% per annum.

During the second quarter of 2011, we extended the maturity of our revolving secured line of credit facility from June 22, 2012 to June 22, 2014. Additionally, the amount of the facility was increased from $170.0 million to $205.0 million. The financial covenant that required us to maintain a minimum ratio of assets to debt and the floor on the LIBOR rate were eliminated.

During the second quarter of 2011, we extended the date on which Warehouse Facility II will cease to revolve from June 15, 2013 to June 17, 2014. The interest rate on borrowings under the facility was decreased from the commercial paper rate plus 3.5% to the commercial paper rate plus 2.75%.

During the second quarter of 2011, we decreased the interest rate on Warehouse Facility III from LIBOR plus 3.0% to LIBOR plus 1.6%.

During the third quarter of 2011, we entered into Warehouse Facility IV with a facility limit of $75.0 million. The facility will cease to revolve on February 19, 2014. Borrowings under the facility will bear interest at a rate equal to LIBOR plus 2.75%.

During the fourth quarter of 2011, we completed a $200.5 million Term ABS financing which was used to repay outstanding indebtedness. The financing has an expected annualized cost of approximately 3.5% (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.

Cash and cash equivalents increased to $4.7 million as of December 31, 2011 from $3.8 million as of December 31, 2010. Our total balance sheet indebtedness increased to $997.8 million as of December 31, 2011 from $685.7 million as of December 31, 2010 primarily due to the growth in new Consumer Loan assignments and the completion of a tender offer to purchase $125.0 million of our common stock using the proceeds from the issuance of $100.0 million of Senior Notes and borrowings under our revolving secured line of credit facility.

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Restricted cash and cash equivalents increased to $104.7 million as of December 31, 2011 from $66.5 million as of December 31, 2010. The following table summarizes restricted cash and cash equivalents:

(In thousands)	As of December 31, 2011	2010
Cash related to secured financings	$ 62,536	$ 35,160
Cash held in trusts for future vehicle service contract claims (1)	42,143	31,376
Total restricted cash and cash equivalents	$ 104,679	$ 66,536

(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, 2011, the outstanding cash balance includes $42,026 related to VSC Re and $117 related to a discontinued profit sharing arrangement. As of December 31, 2010, the outstanding cash balance includes $31,246 related to VSC Re and $130 related to a discontinued profit sharing arrangement.

As of December 31, 2011 and 2010, restricted securities available for sale were $0.8 million for both years. Restricted securities available for sale consist of amounts held in accordance with vehicle service contract trust agreements.

Contractual Obligations

A summary of the total future contractual obligations requiring repayments as of December 31, 2011 is as follows:

(In thousands)	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)	$ 997,469	$ 51,614	$ 539,878	$ 55,977	$ 350,000	$ -
Operating lease obligations	1,612	678	918	16	-	-
Purchase obligations (2)	272	272	-	-	-	-
Other future obligations (3)	9,995	-	-	-	-	9,995
Total contractual obligations (4)	$ 1,009,348	$ 52,564	$ 540,796	$ 55,993	$ 350,000	$ 9,995

(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 $0.4 million. We are also obligated to make interest payments at the applicable interest rates, as discussed in Note 7 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, 2011, the forecasted amounts outstanding on all other debt and the actual interest rates in effect as of December 31, 2011, interest is expected to be approximately $49.1 million during 2012; $47.0 million during 2013; and $119.6 million during 2014 and thereafter.

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

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

(4) We have contractual obligations to pay Dealer Holdback to our Dealer-Partners; however, as payments of Dealer Holdback are contingent upon the receipt of consumer payments and the repayment of advances, these obligations are excluded from the table above.

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

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, 2011, we had $43.9 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, 2011, we had $163.2 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, 2011 and the interest rate cap rate, the interest rate on Warehouse Facility II could increase by a maximum of 6.51%. This maximum interest rate increase would reduce annual after-tax earnings by approximately $6.7 million, assuming we maintain a level amount of floating rate debt.

As of December 31, 2011, we had $37.5 million in floating rate debt outstanding under Warehouse Facility III 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 III as of December 31, 2011 and the interest rate cap rate, the interest rate on Warehouse Facility III could increase by a maximum of 6.46%. This maximum interest rate increase would reduce annual after-tax earnings by approximately $1.5 million, assuming we maintain a level amount of floating rate debt. Additionally, we had $32.5 million of floating rate debt outstanding on Warehouse Facility III, without interest rate protection. Assuming we maintain a level amount of unprotected floating rate debt on Warehouse Facility III, our annual after-tax earnings would decrease by $0.2 million for a 1.0% increase in the interest rate.

As of December 31, 2011, we had $37.5 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, 2011 and the interest rate cap rate, the interest rate on Warehouse Facility IV could increase by a maximum of 5.20%. This maximum interest rate increase would reduce annual after-tax earnings by approximately $1.2 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, 2011 and 2010, 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, 2011. 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, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 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, 2011, 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 24, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ GRANT THORNTON LLP

Southfield, Michigan
February 24, 2012

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CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)	As of December 31, 2011	2010
ASSETS:		
Cash and cash equivalents	$ 4,657	$ 3,792
Restricted cash and cash equivalents	104,679	66,536
Restricted securities available for sale	810	805
Loans receivable (including $4,949 and $9,031 from affiliates as of December 31, 2011 and December 31, 2010, respectively)	1,752,891	1,344,881
Allowance for credit losses	(154,318)	(126,868)
Loans receivable, net	1,598,573	1,218,013
Property and equipment, net	18,472	16,311
Income taxes receivable	506	12,002
Other assets	30,901	26,056
Total Assets	$ 1,758,598	$ 1,343,515
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Accounts payable and accrued liabilities	$ 95,858	$ 75,297
Revolving secured line of credit	43,900	136,700
Secured financing	599,281	300,100
Mortgage note	4,288	4,523
Senior notes	350,378	244,344
Deferred income taxes, net	123,449	108,077
Income taxes payable	1,493	-
Total Liabilities	1,218,647	869,041
Commitments and Contingencies - See Note 16		
Shareholders' Equity:		
Preferred stock, $.01 par value, 1,000 shares authorized, none issued	-	-
Common stock, $.01 par value, 80,000 shares authorized, 25,624 and 27,304 shares issued and outstanding as of December 31, 2011 and December 31, 2010, respectively	256	273
Paid-in capital	38,801	30,985
Retained earnings	500,888	443,326
Accumulated other comprehensive income (loss)	6	(110)
Total Shareholders' Equity	539,951	474,474
Total Liabilities and Shareholders' Equity	$ 1,758,598	$ 1,343,515

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	For the Years Ended December 31, 2011	2010	2009
Revenue:			
Finance charges	$ 460,622	$ 388,050	$ 329,437
Premiums earned	40,019	32,659	33,605
Other income	24,551	21,426	17,622
Total revenue	525,192	442,135	380,664
Costs and expenses:			
Salaries and wages	63,038	61,327	66,893
General and administrative	25,625	26,432	30,391
Sales and marketing	23,520	19,661	14,808
Provision for credit losses	28,956	10,037	(12,164)
Interest	57,236	47,752	32,399
Provision for claims	30,399	23,429	19,299
Total costs and expenses	228,774	188,638	151,626
Income from continuing operations before provision for income taxes	296,418	253,497	229,038
Provision for income taxes	108,374	83,390	82,992
Income from continuing operations	188,044	170,107	146,046
Discontinued operations			
(Loss) gain from discontinued United Kingdom operations	-	(30)	137
Credit for income taxes	-	-	(72)
(Loss) gain from discontinued United Kingdom operations	-	(30)	209
Net income	$ 188,044	$ 170,077	$ 146,255
Net income per share:			
Basic	$ 7.15	$ 5.79	$ 4.78
Diluted	$ 7.07	$ 5.67	$ 4.62
Income from continuing operations per share:			
Basic	$ 7.15	$ 5.79	$ 4.77
Diluted	$ 7.07	$ 5.67	$ 4.61
(Loss) gain from discontinued United Kingdom operations per share:			
Basic	$ -	$ -	$ 0.01
Diluted	$ -	$ -	$ 0.01
Weighted average shares outstanding:			
Basic	26,302	29,393	30,590
Diluted	26,601	29,985	31,669

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	For the Years Ended December 31, 2011	2010	2009
Net income	$ 188,044	$ 170,077	$ 146,255
Other comprehensive income, net of tax:			
Unrealized (loss) gain on derivatives qualifying as hedges			
Unrealized (loss) gain on cash flow hedge, net of tax of $6, $(192) and $372 for 2011, 2010 and 2009, respectively	(10)	331	(645)
Less: reclassification adjustment for loss on cash flow hedge included in net income, net of tax of $(71), $(275) and $(1,329) for 2011, 2010 and 2009, respectively	121	471	2,312
Unrealized gain (loss) on available for sale securities			
Unrealized gain (loss) on securities, net of tax of $(1), $12 and $2 for 2011, 2010 and 2009, respectively	3	(22)	(3)
Less: reclassification adjustment for loss (gain) on sale of securities included in net income, net of tax of $(1), $(8) and $3 for 2011, 2010 and 2009, respectively	2	14	(6)
Other comprehensive income	116	794	1,658
Comprehensive income	$ 188,160	$ 170,871	$ 147,913

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Common Stock					
	Number	Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2009	30,607	$ 306	$ 11,829	$ 328,178	$ (2,562)	$ 337,751
Net income	-	-	-	146,255	-	146,255
Other comprehensive income	-	-	-	-	1,658	1,658
Stock-based compensation	-	-	6,805	-	-	6,805
Restricted stock awards, net of forfeitures	103	-	-	-	-	-
Repurchase of common stock	(31)	-	(541)	-	-	(541)
Stock options exercised	359	5	1,936	-	-	1,941
Tax benefits from stock-based compensation plans	-	-	4,341	-	-	4,341
Balance, December 31, 2009	31,038	311	24,370	474,433	(904)	498,210
Net income	-	-	-	170,077	-	170,077
Other comprehensive income	-	-	-	-	794	794
Stock-based compensation	-	-	4,127	-	-	4,127
Restricted stock awards, net of forfeitures	13	-	-	-	-	-
Repurchase of common stock	(4,047)	(41)	(1,022)	(201,184)	-	(202,247)
Stock options exercised	300	3	2,900	-	-	2,903
Tax benefits from stock-based compensation plans	-	-	610	-	-	610
Balance, December 31, 2010	27,304	273	30,985	443,326	(110)	474,474
Net income	-	-	-	188,044	-	188,044
Other comprehensive income	-	-	-	-	116	116
Stock-based compensation	-	-	1,881	-	-	1,881
Restricted stock awards, net of forfeitures	(1)	-	-	-	-	-
Repurchase of common stock	(1,979)	(20)	(384)	(130,482)	-	(130,886)
Stock options exercised	300	3	2,918	-	-	2,921
Tax benefits from stock-based compensation plans	-	-	3,401	-	-	3,401
Balance, December 31, 2011	25,624	$ 256	$ 38,801	$ 500,888	$ 6	$ 539,951

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Years Ended December 31, 2011	2010	2009
Cash Flows From Operating Activities:			
Net income	$ 188,044	$ 170,077	$ 146,255
Adjustments to reconcile cash provided by operating activities:			
Provision for credit losses	28,956	10,037	(12,164)
Depreciation	4,145	4,437	5,139
Amortization	5,904	6,643	4,521
Loss on retirement of property and equipment	28	65	100
Loss on impairment of software	-	1,362	-
Provision for deferred income taxes	15,309	13,863	17,740
Stock-based compensation	1,881	4,127	6,805
Change in operating assets and liabilities:			
Increase (decrease) in accounts payable and accrued liabilities	20,737	(730)	(4,029)
Decrease (increase) in income taxes receivable	11,496	(8,046)	(3,956)
Increase (decrease) in income taxes payable	1,493	-	(881)
(Increase) decrease in other assets	(2,345)	(1,137)	831
Net cash provided by operating activities	275,648	200,698	160,361
Cash Flows From Investing Activities:			
(Increase) decrease in restricted cash and cash equivalents	(38,143)	15,920	(2,123)
Purchases of restricted securities available for sale	(532)	(1,063)	(1,451)
Proceeds from sale of restricted securities available for sale	76	2,111	-
Maturities of restricted securities available for sale	454	1,256	1,661
Principal collected on Loans receivable	996,927	785,947	661,246
Advances to Dealer-Partners	(1,152,537)	(786,909)	(516,093)
Purchases of Consumer Loans	(122,197)	(100,430)	(103,283)
Accelerated payments of Dealer Holdback	(47,411)	(32,629)	(17,372)
Payments of Dealer Holdback	(85,184)	(44,220)	(44,269)
Net decrease (increase) in other loans	886	207	(152)
Purchases of property and equipment	(6,334)	(3,440)	(2,925)
Net cash used in investing activities	(453,995)	(163,250)	(24,761)
Cash Flows From Financing Activities:			
Borrowings under revolving secured line of credit	2,384,900	1,097,900	630,900
Repayments under revolving secured line of credit	(2,477,700)	(1,058,500)	(594,900)
Proceeds from secured financing	1,164,500	327,700	397,000
Repayments of secured financing	(865,319)	(432,197)	(566,578)
Principal payments under mortgage note and capital lease obligations	(235)	(559)	(1,157)
Proceeds from sale of senior notes	106,000	243,738	-
Payments of debt issuance costs	(8,370)	(15,171)	(7,581)
Repurchase of common stock	(130,886)	(202,247)	(541)
Proceeds from stock options exercised	2,921	2,903	1,941
Tax benefits from stock-based compensation plans	3,401	610	4,341
Net cash provided by (used in) financing activities	179,212	(35,823)	(136,575)
Effect of exchange rate changes on cash	-	(3)	(9)
Net increase (decrease) in cash and cash equivalents	865	1,622	(984)
Cash and cash equivalents, beginning of period	3,792	2,170	3,154
Cash and cash equivalents, end of period	$ 4,657	$ 3,792	$ 2,170

Supplemental Disclosure of Cash Flow Information:						
Cash paid during the period for interest	$	51,360	$	42,548	$	27,559
Cash paid during the period for income taxes	$	76,458	$	81,750	$	67,563

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

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

We have two programs: the Portfolio Program and the Purchase Program. Under the Portfolio Program, we advance money to Dealer-Partners (referred to as a “Dealer Loan”) in exchange for the right to service the underlying Consumer Loans. Under the Purchase Program, we buy the Consumer Loans from the Dealer-Partners (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 12 quarters:

Quarter Ended	Portfolio Program	Purchase Program
March 31, 2009	82.3%	17.7%
June 30, 2009	86.0%	14.0%
September 30, 2009	89.0%	11.0%
December 31, 2009	90.8%	9.2%
March 31, 2010	90.9%	9.1%
June 30, 2010	90.5%	9.5%
September 30, 2010	90.5%	9.5%
December 31, 2010	91.8%	8.2%
March 31, 2011	92.9%	7.1%
June 30, 2011	92.1%	7.9%
September 30, 2011	92.3%	7.7%
December 31, 2011	92.6%	7.4%

Portfolio Program

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

1. DESCRIPTION OF BUSINESS – (Continued)

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

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

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

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

Dealer-Partners have an opportunity to receive an accelerated Dealer Holdback payment each time 100 Consumer Loans have been assigned to us. The amount paid to the Dealer-Partner 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-Partner with a cash profit at the time of sale, the Dealer-Partner's risk in the Consumer Loan is limited. We cannot demand repayment of the advance from the Dealer-Partner except in the event the Dealer-Partner is in default of the dealer servicing agreement. Advances are made only after the consumer and Dealer-Partner have signed a Consumer Loan contract, we have received the original Consumer Loan contract and supporting documentation, and we have approved all of the related stipulations for funding. The Dealer-Partner can also opt to repurchase Consumer Loans that have been assigned to us under the Portfolio Program, at their discretion, for a fee.

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

Purchase Program

The Purchase Program differs from our Portfolio Program in that the Dealer-Partner 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-Partner and then purchased by us.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

1. DESCRIPTION OF BUSINESS – (Concluded)

Program Enrollment

Dealer-Partners 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, 2011:

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
From September 1, 2009 to May 31, 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
Prior to September 1, 2009	Upfront, one-time fee of $9,850	Agreement to allow us to retain 50% of their first accelerated Dealer Holdback payment

For all Dealer-Partners 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, 2011 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 2009-1, Credit Acceptance Funding LLC 2010-1 and Credit Acceptance Funding LLC 2011-1.

Business Segment Information

We currently operate in one reportable segment which represents our core business of offering auto loans, and related products and services to consumers through our network of Dealer-Partners. For information regarding our reportable segment and related entity wide disclosures, see Note 15 to the consolidated financial statements.

Discontinued Operations

Effective June 30, 2003, we stopped originating Consumer Loans in the United Kingdom and we sold the remainder of the portfolio on December 30, 2005. The United Kingdom business was formally dissolved in 2010. The results for the United Kingdom business are reported as a discontinued operation in the consolidated statements of income for all periods presented.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Cash and Cash Equivalents

Cash equivalents consist of readily marketable securities with original maturities at the date of acquisition of three months or less. At December 31, 2011 and 2010, we had $4.1 million and $3.5 million, respectively, in cash and cash equivalents that was not insured by the Federal Deposit Insurance Corporation ("FDIC").

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents increased to $104.7 million as of December 31, 2011 from $66.5 million as of December 31, 2010. The following table summarizes restricted cash and cash equivalents:

(In thousands)	As of December 31, 2011	2010
Cash related to secured financings	$ 62,536	$ 35,160
Cash held in trusts for future vehicle service contract claims (1)	42,143	31,376
Total restricted cash and cash equivalents	$ 104,679	$ 66,536

(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, 2011, the outstanding cash balance includes $42,026 related to VSC Re and $117 related to a discontinued profit sharing arrangement. As of December 31, 2010, the outstanding cash balance includes $31,246 related to VSC Re and $130 related to a discontinued profit sharing arrangement.

At December 31, 2011 and 2010, we had $97.5 million and $63.0 million, respectively, in restricted cash and cash equivalents that was not insured by the FDIC.

Restricted Securities Available for Sale

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

Restricted securities available for sale consisted of the following:

(In thousands)	As of December 31, 2011			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
US Government and agency securities	$ -	$ -	$ -	$ -
Corporate bonds	804	13	(7)	810
Total restricted securities available for sale	$ 804	$ 13	$ (7)	$ 810

(In thousands)	As of December 31, 2010			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
US Government and agency securities	$ 298	$ 3	$ -	$ 301
Corporate bonds	504	5	(5)	504
Total restricted securities available for sale	$ 802	$ 8	$ (5)	$ 805

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

(In thousands)	As of December 31,			
	2011		2010	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Contractual Maturity				
Within one year	$ 45	$ 44	$ 499	$ 496
Over one year to five years	759	766	303	309
Total restricted securities available for sale	$ 804	$ 810	$ 802	$ 805

Finance Charges

Finance charges is comprised of: (1) servicing fees earned as a result of servicing Consumer Loans assigned to us by Dealer-Partners under the Portfolio Program; (2) finance charge income from Purchased Loans; (3) fees earned from our third party ancillary product offerings; (4) monthly program fees charged to Dealer-Partners under the Portfolio Program; and (5) fees associated with certain Loans. We recognize finance 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 Dealer-Partners the ability to offer vehicle service contracts to consumers. 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 have relationships with third party administrators (“TPAs”) whereby the TPAs 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 Dealer-Partners 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 provide Dealer-Partners with an additional advance based on the retail price of the vehicle service contract. 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. Effective January 1, 2010, the fee we receive increased due to a change in our relationship with the TPAs. Prior to 2010, we relied on the TPAs to market their vehicle service contracts to our Dealer-Partners. Effective January 1, 2010, we now market the vehicle service contracts directly to our Dealer-Partners.

We also have relationships with TPAs that allow Dealer-Partners to offer a Guaranteed Asset Protection (“GAP”) product to consumers whereby the TPA processes claims that are underwritten by a third party insurer. GAP provides the consumer protection by paying the difference between the loan balance and the amount covered by the consumer’s insurance policy in the event of a total loss of the vehicle due to severe damage or theft. We receive a fee for all GAP contracts sold by our Dealer-Partners when the vehicle is financed by us, and do not bear any risk of loss for claims. The fee is included in the retail price of the GAP contract which is added to the Consumer Loan. We provide Dealer-Partners with an additional advance based on the retail price of the GAP contract. We recognize our 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 of $599 charged to Dealer-Partners 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 Dealer-Partners 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Reinsurance

VSC Re, our wholly-owned subsidiary, is engaged in the business of reinsuring coverage under vehicle service contracts sold to consumers by Dealer-Partners on vehicles financed by us. VSC Re currently reinsures vehicle service contracts that are underwritten by one of our 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.

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 thousands)	For the Years Ended December 31,		
	2011	2010	2009
Net assumed written premiums	$ 47,595	$ 34,461	$ 29,100
Net premiums earned	40,019	32,659	33,597
Provision for claims	30,399	23,429	19,300
Amortization of capitalized acquisition costs	1,047	763	737

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 thousands)		As of December 31,	
	Balance Sheet location	2011	2010
Trust assets	Restricted cash and cash equivalents	$ 42,026	$ 31,246
Unearned premium	Accounts payable and accrued liabilities	32,335	24,757
Claims reserve (1)	Accounts payable and accrued liabilities	1,297	1,029

(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 TPAs with funds to pay claims on vehicle service contracts and to accumulate and provide us with proceeds from investment income and residual funds.
-

Finally, we determined that we are the primary beneficiary of the trusts. We control the amount of premium written and placed in the trusts through Consumer Loan assignments under our Programs, which is the activity that most significantly impacts the economic performance of the trusts. We have the right to receive benefits from the trusts that could potentially be significant. In addition, VSC Re has the obligation to absorb losses of the trusts that could potentially be significant.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Other Income

Other income consists of the following:

(In thousands)	For the Years Ended December 31, 2011	2010	2009
Ancillary product profit sharing income	$ 7,817	$ 4,083	$ 228
Dealer support products and services	7,307	7,184	7,011
Marketing income	4,174	5,798	6,276
Dealer enrollment fees	3,437	2,743	1,943
Other	1,816	1,618	2,164
Total	$ 24,551	$ 21,426	$ 17,622

Ancillary product profit sharing income consists of payments received from TPAs based upon the performance of GAP and vehicle service contract products. Prior to the second quarter of 2011, we received and recognized GAP profit sharing payments annually in the first quarter of each year as the payments were not estimable. During the second quarter of 2011, we began recognizing this income over the life of the GAP contracts. The formation of VSC Re eliminated the profit sharing arrangements related to vehicle service contracts, except for vehicle service contracts written prior to 2008 through one of the TPAs. Vehicle service contract profit sharing payments are received periodically, if eligible. Vehicle service contract profit sharing payments are not estimable and therefore, revenue related to these payments is recognized in the period the payments are received.

Dealer support products and services revenue primarily consists of remarketing fees retained from the sale of repossessed vehicles by VRS, our wholly-owned subsidiary that is responsible for remarketing vehicles for Credit Acceptance. VRS coordinates vehicle repossessions with a nationwide network of repossession agents, the redemption of the vehicle by the consumer, or the sale of the vehicle through a nationwide network of vehicle auctions. VRS recognizes income from the retained fees at the time of the sale and does not retain a fee if a repossessed vehicle is redeemed by the consumer prior to the sale. Dealer support products and services revenue also includes income from products and services provided to Dealer-Partners to assist with their vehicle inventory and is recognized in the period the service is provided.

Marketing income primarily consists of payments received on a monthly basis from vendors that process payments. We recognize marketing income in the period the services are provided. Marketing income also includes fees we receive from third parties for providing Dealer-Partners in certain states the ability to purchase Global Positioning Systems ("GPS") with Starter Interrupt Devices ("SID"). Through this program, Dealer-Partners can install a GPS-based SID ("GPS-SID") on vehicles financed by us that can be activated if the consumer fails to make payments on their account, and can result in the prompt repossession of the vehicle. Dealer-Partners purchase the GPS-SID directly from third parties and the third parties pay us a marketing fee for each device sold. GPS-SID revenue is recognized when the unit is sold and installed in the consumer's vehicle.

Dealer enrollment fees include fees from Dealer-Partners that enroll in our programs. Depending on the enrollment option selected by the Dealer-Partner and the date of enrollment, Dealer-Partners may have enrolled by paying us an upfront, one-time fee, agreeing to allow us to retain 50% of their first accelerated Dealer Holdback payment, or both. For additional information regarding program enrollment, see Note 1 to the consolidated financial statements. A portion of the $9,850 upfront, one-time fee and all of the $1,950 upfront, one-time fee are considered to be dealer support products and services revenue. The remaining portion of the $9,850 fee is considered to be a dealer enrollment fee, which is amortized on a straight-line basis over the estimated life of the Dealer-Partner relationship. The 50% portion of the first accelerated Dealer Holdback payment is also considered to be a dealer enrollment fee. We do not recognize any of this dealer enrollment fee until the Dealer-Partner has met the eligibility requirements to receive an accelerated Dealer Holdback payment and the amount of the first payment, if any, has been calculated. Once the accelerated Dealer Holdback payment has been calculated, we defer the 50% portion that we keep and recognize it on a straight-line basis over the remaining estimated life of the Dealer-Partner relationship.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Loans Receivable and Allowance for Credit Losses

Consumer Loan Assignment. For accounting purposes, a Consumer Loan is considered to have been assigned to us after all of the following has occurred:

- the consumer and Dealer-Partner 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-Partner in the form of either an advance under the Portfolio Program or one-time purchase payment under the Purchase Program.

Portfolio Segments and Classes. We are considered to be a lender to our Dealer-Partners for Consumer Loans assigned under our Portfolio Program and a purchaser of Consumer Loans assigned under our Purchase Program. As a result, our Loan portfolio consists of two portfolio segments: Dealer Loans and Purchased Loans. Each portfolio segment is comprised of one class of Consumer Loan assignments, which is Consumer Loans with deteriorated credit quality that were originated by Dealer-Partners to finance consumer purchases of vehicles and related ancillary products.

Dealer Loans. Amounts advanced to Dealer-Partners for Consumer Loans assigned under the Portfolio Program are recorded as Dealer Loans and are aggregated by Dealer-Partner for purposes of recognizing revenue and evaluating impairment. We account for Dealer Loans in a manner consistent with loans acquired with deteriorated credit quality. The outstanding balance of each Dealer Loan included in Loans receivable is comprised of the following:

- the aggregate amount of all cash advances paid;
- finance charges;
- Dealer Holdback payments;
- accelerated Dealer Holdback payments; and
- recoveries.

Less:

- collections (net of certain collection costs); and
- write-offs.

An allowance for credit losses is maintained at an amount that reduces the net asset value (Dealer Loan balance less the allowance) to the value of forecasted future cash flows discounted at the yield established at the time of assignment. This allowance calculation is completed for each individual Dealer-Partner. The discounted value of future cash flows is comprised of estimated future collections on the Consumer Loans, less any estimated Dealer Holdback payments. We write off Dealer Loans once there are no forecasted future cash flows on any of the associated Consumer Loans, which generally occurs 120 months after the last Consumer Loan assignment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Future collections on Dealer 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. Cash flows from any individual Dealer Loan 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 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 Dealer Loan portfolio. An allowance for credit losses does not necessarily indicate that a Dealer Loan is unprofitable, and in recent years, very seldom are cash flows from a Dealer Loan insufficient to repay the initial amounts advanced to the Dealer-Partner.

Purchased Loans. Amounts paid to Dealer-Partners for Consumer Loans assigned under the Purchase Program are recorded as Purchased Loans and are aggregated into pools based on the month of purchase for purposes of recognizing revenue and evaluating impairment. We account for Purchased Loans as loans acquired with deteriorated credit quality. The outstanding balance of each Purchased Loan pool included in Loans receivable is comprised of the following:

- the aggregate amount of all amounts paid during the month of purchase to purchase Consumer Loans from Dealer-Partners;
- finance charges; and
- recoveries.

Less:

- collections (net of certain collection costs); and
- write-offs.

An allowance for credit losses is maintained at an amount that reduces the net asset value (Purchased Loan pool balance less the allowance) to the value of forecasted future cash flows discounted at the yield established at the time of assignment. This allowance calculation is completed for each individual monthly pool of Purchased Loans. The discounted value of future cash flows is comprised of estimated future collections on the pool of Purchased Loans. We write off pools of Purchased Loans once there are no forecasted future cash flows on any of the Purchased Loans included in the pool, which generally occurs 120 months after the month of purchase.

Future collections on Purchased Loans are forecasted based on the historical performance of Consumer Loans with similar characteristics, adjusted for recent trends in payment patterns. Cash flows from any individual 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 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.

Credit Quality. 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 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 the Consumer Loan is submitted to us for assignment, we forecast future expected cash flows from the Consumer Loan. Based on these forecasts, an advance or one-time purchase payment is made to the related Dealer-Partner at a price designed to achieve an acceptable return on capital.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

We monitor and evaluate the credit quality of Consumer Loans on a monthly basis by comparing our current forecasted collection rates to our initial expectations. We use a statistical model that considers a number of credit quality indicators to estimate the expected collection rate for each Consumer Loan at the time of assignment. The credit quality indicators considered in our model include 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. We continue to evaluate the expected collection rate of each Consumer Loan subsequent to assignment primarily through the monitoring of consumer payment behavior. Our evaluation becomes more accurate as the Consumer Loans age, as we use actual performance data in our forecast. Since all known, significant credit quality indicators have already been factored into our forecasts and pricing, we are not able to use any specific credit quality indicators to predict or explain variances in actual performance from our initial expectations. Any variances in performance from our initial expectations are the result of Consumer Loans performing differently than historical Consumer Loans with similar characteristics. We periodically adjust our statistical pricing model for new trends that we identify though our evaluation of these forecasted collection rate variances.

When overall forecasted collection rates underperform our initial expectations for certain Consumer Loan assignment periods, the decline in forecasted collections has a more adverse impact on the profitability of the Purchased Loans than on the profitability of the Dealer Loans. For Purchased Loans, the decline in forecasted collections is absorbed entirely by us. For Dealer Loans, the decline in the forecasted collections is substantially offset by a decline in forecasted payments of Dealer Holdback.

Forecast Methodology Changes and Modifications. For the years ended December 31, 2011, 2010, and 2009, we did not make any methodology changes or significant modifications to our forecasts of future collections on Consumer Loans that had a material impact on our financial results.

Property and Equipment

Purchases of property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful life of the asset. Estimated useful lives are generally as follows: buildings – 40 years, building improvements – 10 years, data processing equipment – 3 years, software – 5 years, office furniture and equipment – 7 years, and leasehold improvements – the lesser of the lease term or 7 years. The cost of assets sold or retired and the related accumulated depreciation are removed from the balance sheet at the time of disposition and any resulting gain or loss is included in operations. Maintenance, repairs and minor replacements are charged to operations as incurred; major replacements and improvements are capitalized. We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Costs incurred during the application development stage of software developed for internal use are capitalized and generally depreciated on a straight-line basis over five years. Costs incurred to maintain existing product offerings are expensed as incurred. For additional information regarding our property and equipment, see Note 6 to the consolidated financial statements.

Deferred Debt Issuance Costs

As of December 31, 2011 and 2010, deferred debt issuance costs were $18.1 million and $15.6 million, respectively, and are included in other assets in the consolidated balance sheets. Expenses associated with the issuance of debt instruments are capitalized and amortized as interest expense over the term of the debt instrument using the effective interest method for Term ABS financings (as defined below in Note 7) and Senior Notes (as defined below in Note 7) and the straight-line method for lines of credit and Warehouse Facilities (as defined below in Note 7).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Income Taxes

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

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

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 liability for unrecognized tax benefits and related interest. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. We recognize interest and penalties related to uncertain tax positions in the provision for income taxes. For additional information regarding our income taxes, see Note 10 to the consolidated financial statements.

Derivative and Hedging Instruments

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 (“derivative instruments”).

For derivative instruments that are designated and qualify as hedging instruments, we formally document all relationships between the hedging instruments and hedged items, as well as their risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as cash flow hedges to specific assets and liabilities on the balance sheet. We also formally assess (both at the hedge’s inception and on a quarterly basis) whether the derivative instruments that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivative instruments may be expected to remain highly effective in the future periods. The effective portion of changes in the fair value of the derivative instruments is recorded in other comprehensive income, net of income taxes. If it is determined that a derivative instrument is not (or has ceased to be) highly effective as a hedge, we would discontinue hedge accounting prospectively and the ineffective portion of changes in fair value would be recorded in interest expense. For derivative instruments not designated as hedges, changes in the fair value of these agreements increase or decrease interest expense.

We recognize derivative instruments as either other assets or accounts payable and accrued liabilities on our consolidated balance sheets. For additional information regarding our derivative and hedging instruments, see Note 8 to the consolidated financial statements.

Stock-Based Compensation Plans

We apply a fair-value-based measurement method in accounting for stock-based compensation plans. We recognize stock-based compensation expense over the requisite service period of the grant as salaries and wages expense. As of December 31, 2011, we have three stock-based compensation plans for team members and non-employee directors, which are described more fully in Note 13 to the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Employee Benefit Plan

We sponsor a 401(k) plan that covers substantially all of our team members. We offer matching contributions to the 401(k) plan based on each enrolled team members' eligible annual gross pay (subject to statutory limitations). Effective January 1, 2010, the maximum employer contribution rate was increased to 100% of the first 1% participants contribute and an additional 50% of the next 5% participants contribute, for a maximum matching contribution of 3.5 % of each participant's eligible annual gross pay. During 2009, we contributed 50% of the first 6% participants contributed, for a maximum matching contribution of 3.0% of each participant's eligible annual gross pay. For the years ended December 31, 2011, 2010 and 2009, we recognized compensation expense of $1.6 million, $1.4 million, and $1.0 million, respectively, for our matching contributions to the plan.

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2011 and 2010, advertising expenses were $0.2 million and $0.1 million, respectively. There were nominal advertising expenses for the year ended December 31, 2009.

New Accounting Updates

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. In October 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-26, which amends Topic 944 (Financial Services – Insurance). ASU No. 2010-26 is intended to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The amendments specify which costs incurred in the acquisition of new and renewal contracts should be capitalized. ASU No. 2010-26 is effective for fiscal years beginning after December 15, 2011. While the guidance in this ASU is required to be applied prospectively upon adoption, retrospective application is also permitted (to all prior periods presented). Early adoption is also permitted, but only at the beginning of an entity's annual reporting period. The adoption of ASU No. 2010-26 beginning on January 1, 2012 is not expected to have a material impact on our consolidated financial statements.

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. In May 2011, the FASB issued ASU No. 2011-04 which amends Topic 820 (Fair Value Measurement). ASU No. 2011-04 is intended to provide a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The amendments in ASU No. 2011-04 include changes regarding how and when the valuation premise of highest and best use applies, the application of premiums and discounts, and new required disclosures. ASU No. 2011-04 is to be applied prospectively upon adoption and is effective for interim and annual periods beginning after December 15, 2011 with early adoption prohibited. While the adoption of ASU No. 2011-04 is not expected to have a material impact on our consolidated financial statements, we expect that it will expand our disclosures related to fair value measurements.

Presentation of Comprehensive Income. In June 2011, the FASB issued ASU No. 2011-05 which amends Topic 220 (Comprehensive Income). ASU No. 2011-05 is intended to enhance comparability between entities that report under US GAAP and those that report under IFRS, and to provide a more consistent method of presenting non-owner transactions that affect an entity's equity. ASU No. 2011-05 eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The amended guidance allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-05 is to be applied retrospectively upon adoption and is effective for interim and annual periods beginning after December 15, 2011 with early adoption permitted. The adoption of ASU No. 2011-05 during the fourth quarter of 2011 changed the presentation of our consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Concluded)

Reclassification

Certain amounts for prior periods have been reclassified to conform to the current presentation. We have changed the presentation of our consolidated statement of cash flows to present depreciation and amortization as separate operating activities. Under our previous presentation, depreciation and amortization were presented as a combined operating activity.

Subsequent Events

We have evaluated events and transactions occurring subsequent to the consolidated balance sheet date of December 31, 2011 for items that could potentially be recognized or disclosed in these financial statements. We did not identify any items which would require disclosure in or adjustment to the financial statements.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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3. FAIR VALUE OF FINANCIAL INSTRUMENTS – (Concluded)

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

(In thousands)	As of December 31,			
	2011		2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 4,657	$ 4,657	$ 3,792	$ 3,792
Restricted cash and cash equivalents	104,679	104,679	66,536	66,536
Restricted securities available for sale	810	810	805	805
Net investment in Loans receivable	1,598,573	1,615,009	1,218,013	1,224,830
Derivative instruments	16	16	56	56
Liabilities				
Revolving secured line of credit	$ 43,900	$ 43,900	$ 136,700	$ 136,700
Secured financing	599,281	598,622	300,100	302,377
Mortgage note	4,288	4,288	4,523	4,523
Senior notes	350,378	365,500	244,344	261,250
Derivative instruments	-	-	176	176

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

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

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

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

The following table provides the fair value measurements of applicable assets and liabilities, measured at fair value on a recurring basis, as of December 31, 2011 and 2010:

(In thousands)	As of December 31, 2011			As of December 31, 2010		
	Level 1	Level 2	Total Fair Value	Level 1	Level 2	Total Fair Value
Assets						
Restricted securities available for sale	$ 810	$ -	$ 810	$ 805	$ -	$ 805
Derivative instruments	-	16	16	-	56	56

Liabilities						
Derivative instruments	$ -	$ -	$ -	$ -	$ 176	$ 176

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4. LOANS RECEIVABLE

Loans receivable consists of the following: