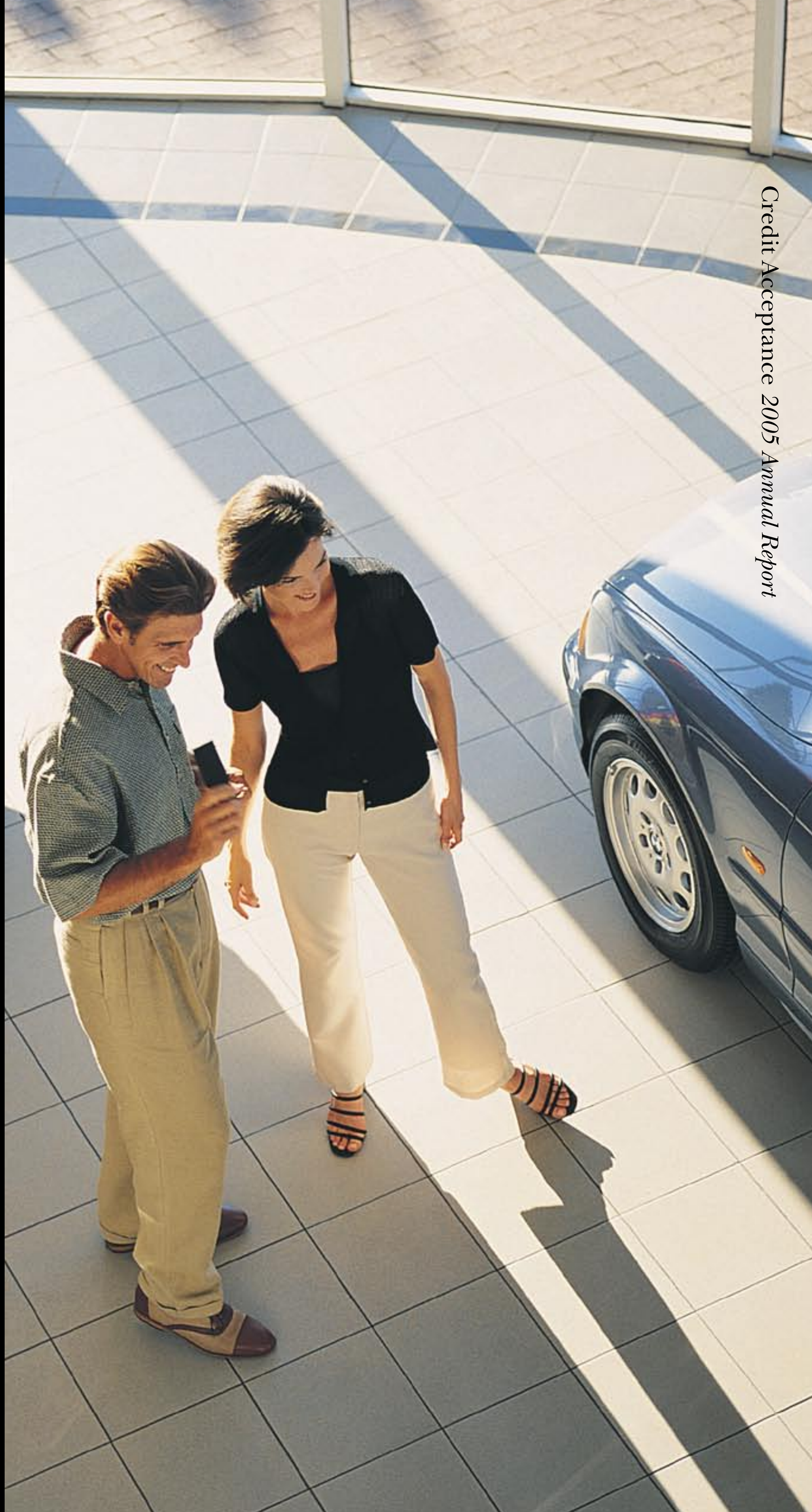
Credit Acceptance *2005 Annual Report*

We change lives®...one at a time!



Hear from a few of our customers…

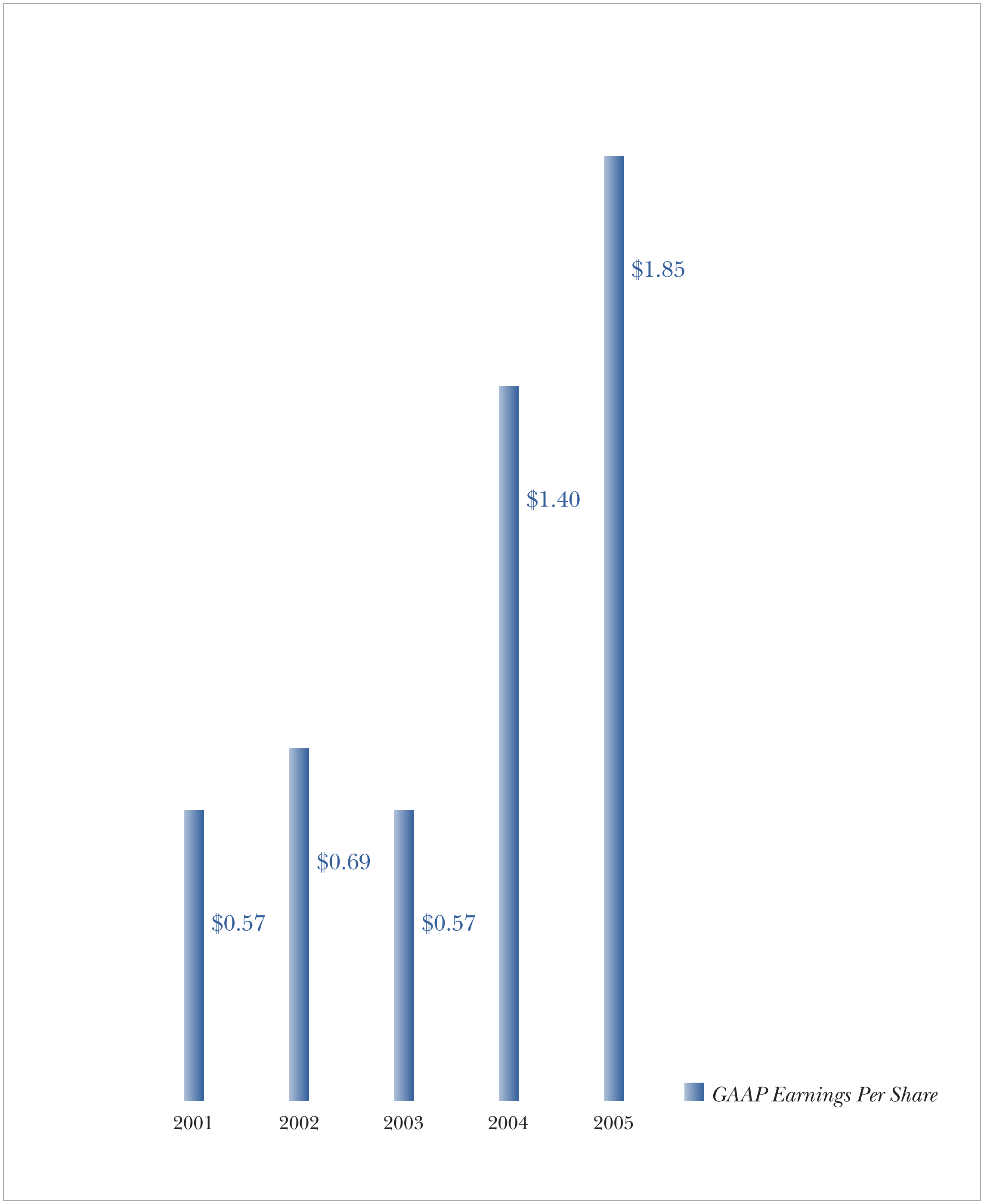
whose lives we've changed.

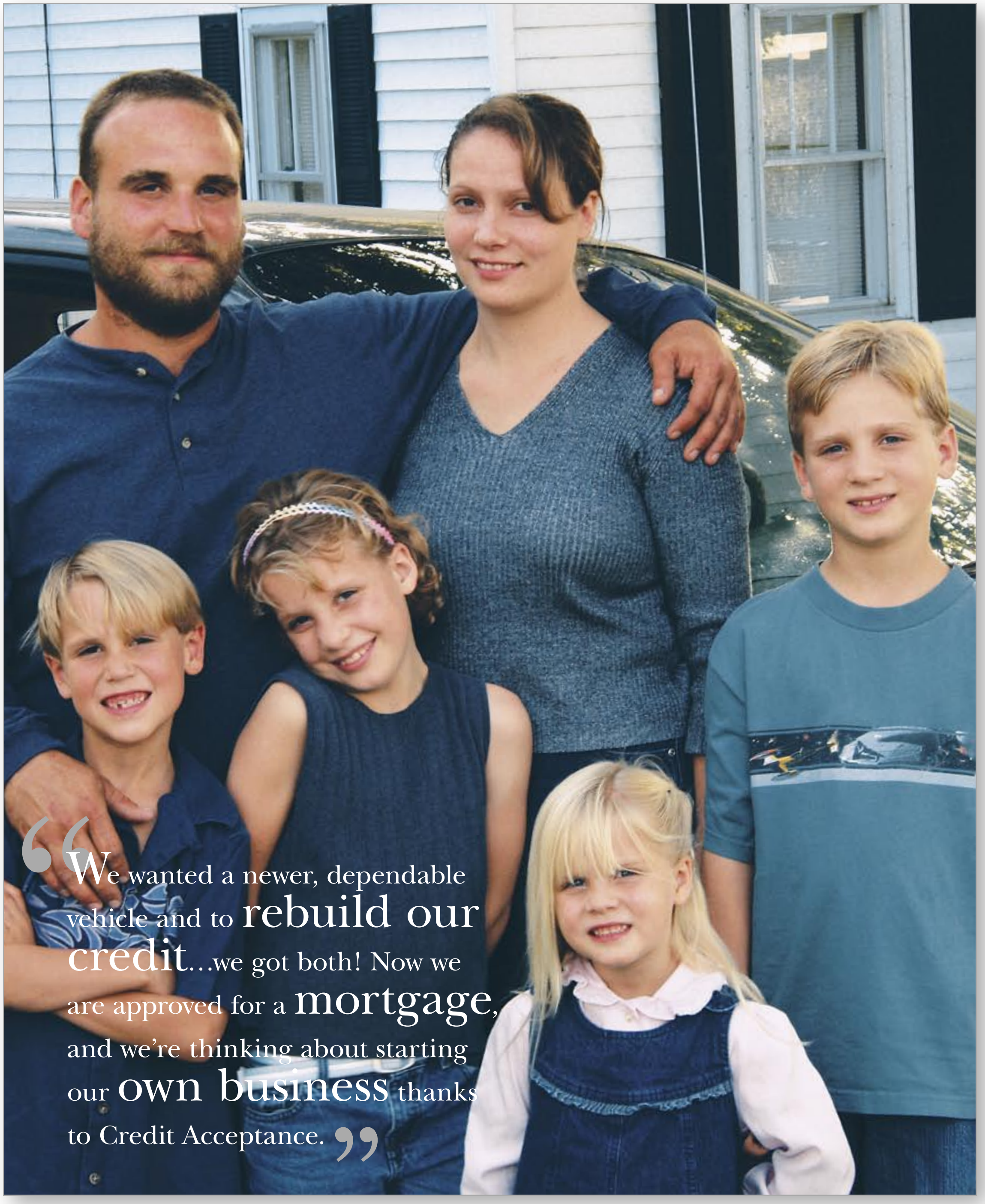
Credit Acceptance *2005 Annual Report*

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

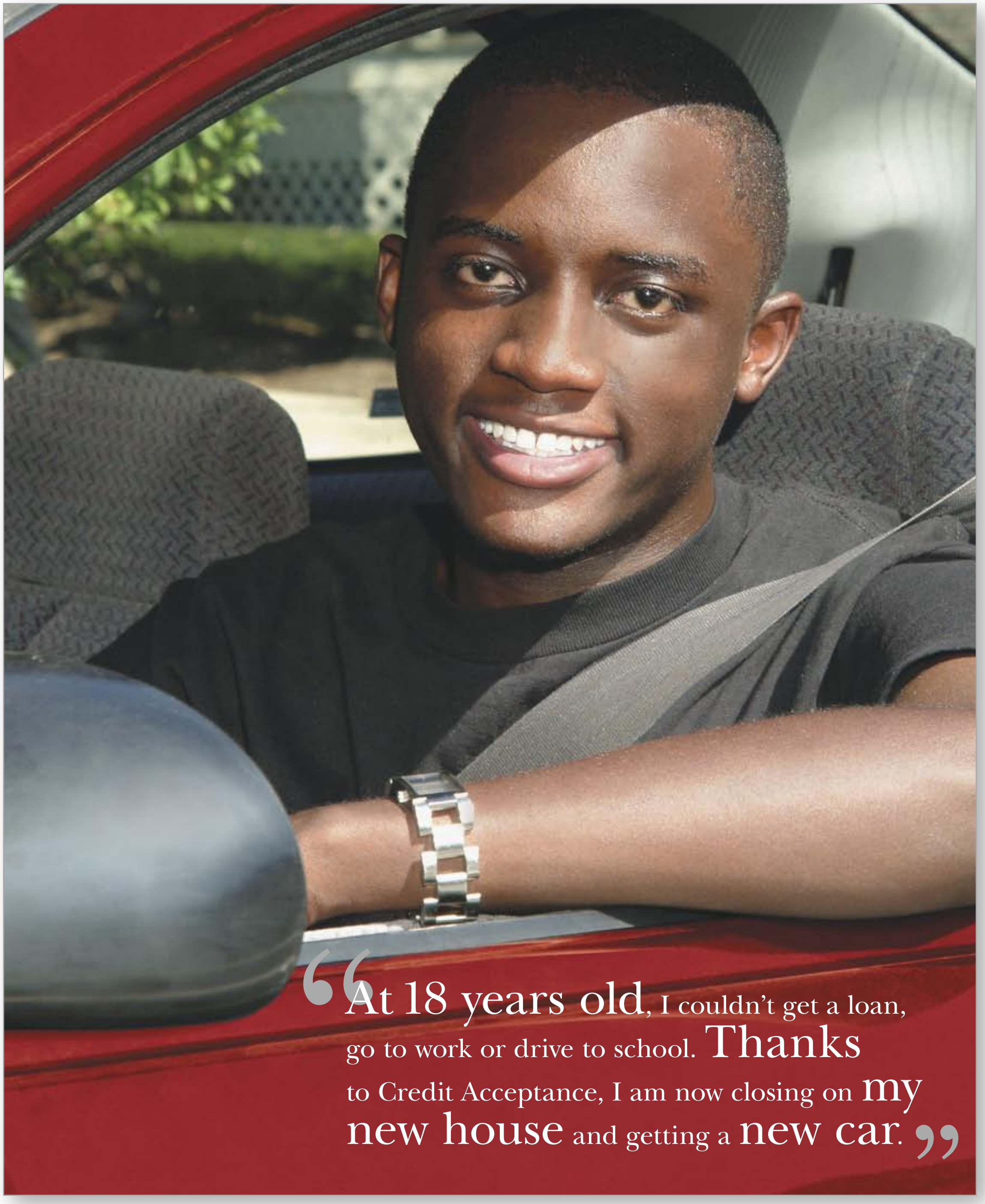
Without our product, consumers may be unable to purchase a vehicle or they may purchase an unreliable one, or they may not have the opportunity to improve their credit standing. As we report to the three national credit reporting agencies, a significant number of our customers improve their lives by improving their credit score and move on to more traditional sources of financing. Credit Acceptance is publicly traded under the symbol CACC. For more information, visit us at creditacceptance.com.

A Record Year



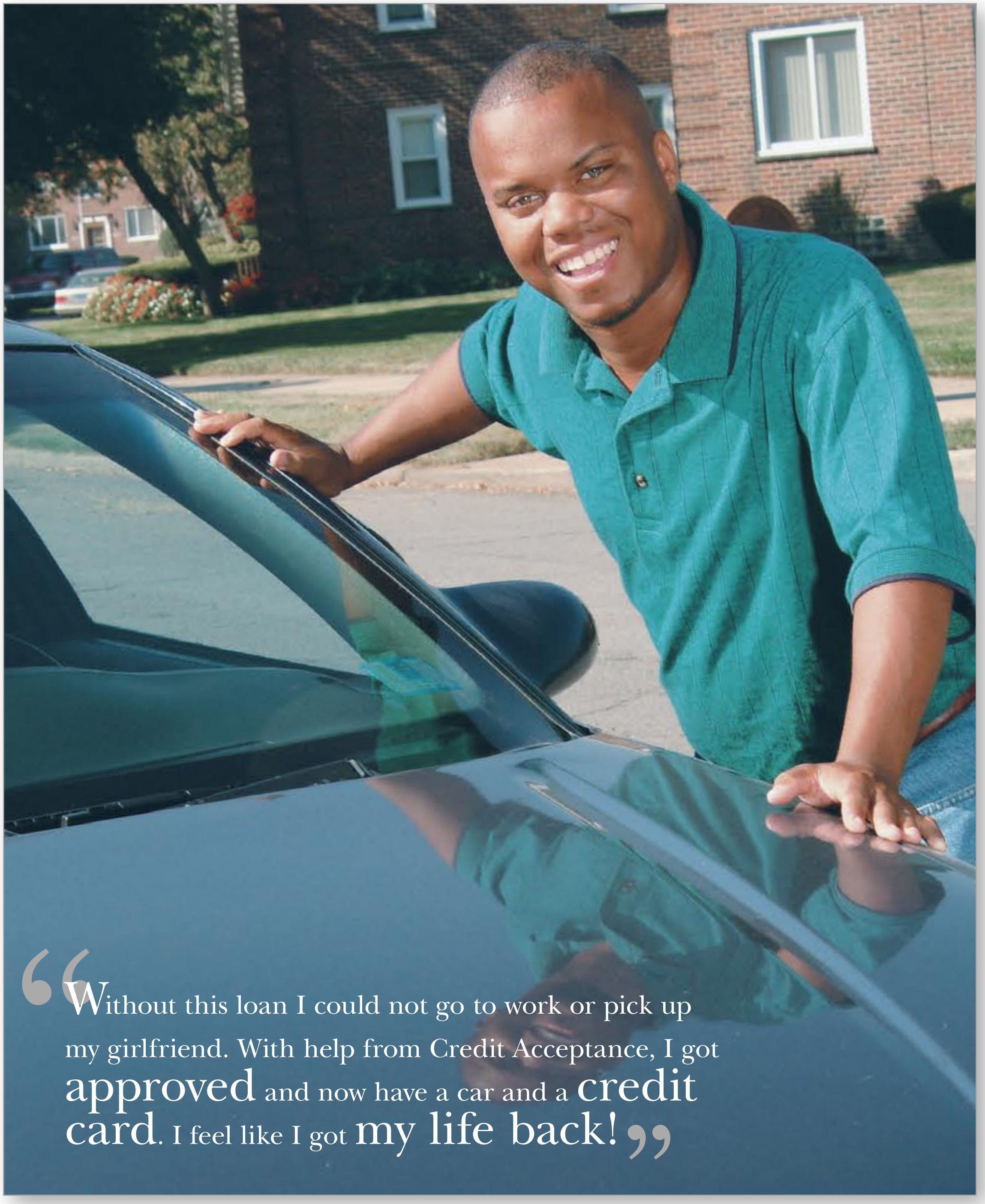


"We wanted a newer, dependable vehicle and to **rebuild our credit**...we got both! Now we are approved for a **mortgage**, and we're thinking about starting our **own business** thanks to Credit Acceptance."



"At 18 years old, I couldn't get a loan, go to work or drive to school. Thanks to Credit Acceptance, I am now closing on my new house and getting a new car."

Gerald Garaba *1 Life Changed!*


"Without this loan I could not go to work or pick up my girlfriend. With help from Credit Acceptance, I got approved and now have a car and a credit card. I feel like I got my life back!"

OUR CUSTOMERS

Our customers come from all walks of life. They are people who are in need of a quality automobile but who are unable to gain access to traditional financing because they have either no credit history or a low credit score. Without our Guaranteed Credit Approval Program, these customers may be unable to purchase a vehicle or they may purchase an unreliable one, or they may not have the opportunity to improve their credit standing. As we report to the three national credit reporting agencies, a significant number of our customers improve their lives by improving their credit score and move on to more traditional sources of financing.

Thousands and thousands of lives changed...one at a time!

2005—A VERY SUCCESSFUL YEAR BY ALL MEASURES

When looking at 2005, we can be very pleased with our Company's results. More than ever, the power of Guaranteed Credit Approval is clearly evident to our dealer-partners, our mutual customers, our shareholders and our team members. However, as my father always said, "The measure of success depends on which yardstick you measure with."

If you are one of our growing number of dealer-partners, your yardstick should measure the value that our Guaranteed Credit Approval Program is bringing to your business—the excitement of new sales, new customers and improved profits.

If you are one of the more than 83,000 new customers that we provided financing to in 2005, your yardstick should measure the opportunity you now have to reestablish your credit and change your life. By making on-time payments, you have the ability to improve your credit score and see your life dramatically improve as you reenter the financial mainstream.

If you are a shareholder, your yardstick should measure the 32% growth in earnings per share and the 50% growth in Economic Profit for 2005. You should also measure the experience and dedication of the Credit Acceptance management team, and its ability to continue improving results long into the future. You will find that our team, driven by a passion to change the lives of all involved, will exceed your standards of excellence.

If you are a member of the Credit Acceptance team, your yardstick should measure the opportunities and rewards offered to you by a dynamic, growing organization. This year, our team members participated in a number of charitable and community events. I am very proud of their contributions to the communities in which we live and work, as well as their contributions to our Company's financial accomplishments.

Now, if you were the Chairman of Credit Acceptance, your yardstick would certainly take all these factors into account, and by every measure you would find 2005 to have been a very satisfying year.

Donald A. Foss
Chairman and Founder

SHAREHOLDER LETTER

A message from our CEO

We made good progress last year in growing our business and improving its profitability. Revenue and net income both increased at double-digit rates. While the pace of loan origination growth slowed considerably, we are satisfied with our overall performance. We are especially satisfied because the competitive environment became more difficult in 2005, after a number of years of favorable conditions. We would characterize the current environment as modestly irrational: more rational than we experienced in the mid-1990s, but with considerable evidence of industry participants operating with unsustainable business models. Nevertheless, if we can continue to grow our business and improve its profitability in the current environment, we will be well positioned when more favorable conditions eventually return.

FINANCIAL RESTATEMENT

As most of you are aware, we spent much of 2005 restating our historical financial results. Since 1992, when we became a public company, we had accounted for our business as a lender to consumers. In March of 2005, our external auditors came to the conclusion that our accounting should change. Their opinion was based on no new facts or changes in accounting rules; it was simply a matter of interpreting the same facts and arriving at a different conclusion. We were surprised by this turn of events. Several years earlier, we had come to the conclusion that our historical accounting method was awkward, and that other accounting methods could be supported that would improve our ability to explain our financial results to shareholders. As a result, we had challenged our external auditors on several occasions to allow us to change our accounting method. Their response was always that our historical accounting method was the only one acceptable under GAAP.

Following the auditors' change of opinion, we requested guidance from the SEC, and in June of 2005, the SEC decided that we should shift our accounting method from that of a lender to consumers to that of a lender to automobile dealers and servicer of loans generated by dealers.

Under different circumstances, we would have welcomed the opportunity to develop a better accounting method. As it was, the timing of our external auditors' decision last year left us in the awkward position of not being able to produce audited financial statements for a considerable period of time. However, thanks to a heroic effort by our internal accounting team and the strong support of our lenders, we were able to complete the restatement effort without any lasting negative impact.

Our restated earnings for the five-year period 2000–2004 are shown below in comparison to our previously reported earnings:

(Dollars in Thousands)	**Net income—restated**	**Net income—as previously reported**	**Difference**
2000	$ 22,463	$ 22,379	$ 84
2001	24,671	28,415	(3,744)
2002	29,774	28,365	1,409
2003	24,669	25,832	(1,163)
2004	57,325	37,014	20,311
2000–2004	$158,902	$142,005	$16,897

For the five-year period, our reported earnings under the new accounting method are $16.9 million higher than our previously reported earnings. We believe that the restated results validate our previously expressed conclusion that the Company's true earnings were being understated by our old GAAP methodology.

In our view, our new GAAP accounting method fairly reflects the economic performance of our business, with one exception. The one exception is that, under GAAP, favorable changes in expected cash flows from loans receivable are recorded as income over time, while unfavorable changes are recorded as a current-period expense. To explain why we believe that, as a general rule, the new accounting fairly reflects our performance, and also explain the exception to this rule, we need to start from the beginning.

Our business is simple—we make auto loans. We are an indirect lender, meaning that the loans are originated by an automobile dealer and immediately assigned to us. The compensation we pay to the automobile dealer in exchange for the loan is paid in two parts. A portion is paid at the time of origination, and the remainder is paid over time based on the performance of the loan. The amount paid at the time of origination is called an advance; the portion paid over time is called dealer holdback.

For accounting purposes, we are now considered a lender to the dealer-partner, not the consumer. As a result, the cash amount advanced to the dealer-partner at the time of origination is recorded as an asset on our balance sheet under "Loans receivable."

Finance charge revenue is the Company's primary revenue source. It equals the cash collections from the loan (i.e., repayments by the consumer), less the amounts paid to the dealer (advance + dealer holdback). In other words, loan revenue equals the cash inflows from the loan less the cash outflows to acquire the loan. This amount, plus a modest amount of revenue from other sources, less our operating expenses, interest and taxes, is the sum that will ultimately be paid to shareholders or reinvested in new assets.

Under our new accounting methodology, loan revenue is recognized on a level yield basis. That is, the amount of loan revenue recognized in a given period, divided by the loan asset, is a constant percentage. Recognizing loan revenue on a level yield basis is reasonable, conforms to industry practice, and matches the economics of the business.

An initial expected yield is assigned to each dealer advance. The yield is the rate that, when applied to expected future cash flows from the underlying consumer loan, results in a present value equal to the initial cash amount of the advance. So far, so good.

Where GAAP diverges from economic reality is in the way it deals with changes in expected cash flows. The expected cash flows from a dealer loan portfolio are not known with certainty. Instead, they are estimated. If forecasted cash flows from one dealer loan increase by $1,000 and forecasted cash flows from another dealer loan decrease by $1,000, no change in the shareholders' economic position has occurred. GAAP, however, requires the Company to record the $1,000 decrease as an expense in the current period, and to record the $1,000 favorable change as income over the remaining life of the loan. Shareholders relying on our GAAP financial statements would see earnings which understate our economic performance in the current period, and earnings which overstate our economic performance in future periods.

To allow shareholders to evaluate our performance more accurately, we have started to report "floating yield" earnings, which are identical to GAAP earnings except that both favorable and unfavorable changes in expected cash flows are recorded as adjustments to our loan yield and therefore impact our earnings over time. In other words, both types of changes are treated consistently, which eliminates the distortion caused by GAAP.

ADJUSTED FINANCIAL RESULTS

The results presented in this section include the floating yield adjustment. Although the historical floating yield adjustments are small, we do not believe this will continue to be the case going forward.

The table below summarizes our adjusted financial results for the period 2001–2005:

	Reported earnings per share	Floating yield adjustment per share	Adjusted earnings per share	Adjusted earnings per share growth rate
2001	$0.57	$ 0.03	$0.60	
2002	$0.69	$ 0.06	$0.75	25.1%
2003	$0.57	$ 0.03	$0.60	–20.2%
2004	$1.40	—	$1.40	132.6%
2005	$1.85	$(0.05)	$1.80	28.6%
2001–2005				31.5%

Adjusted earnings per share increased 28.6% in 2005. Since 2001, adjusted earnings per share have grown at an annual compounded rate of 31.5%. Importantly, our earnings per share growth has occurred without an increase in our use of debt. Since 2001, we have reduced our debt outstanding by $55.4 million, and have reduced the ratio of debt to shareholders' equity to 0.4:1.0 from 0.6:1.0.

We use a financial metric called Economic Profit to evaluate our financial results and drive incentive compensation plans. Economic Profit differs from net income determined under GAAP in one important respect: Economic Profit includes a cost for equity capital.

The following table summarizes Economic Profit on a per share basis for each of the past five years:

	Adjusted earnings per share	Imputed cost of equity capital per share	Adjusted economic profit per share
2001	$0.60	$(0.64)	$(0.04)
2002	$0.75	$(0.70)	$ 0.05
2003	$0.60	$(0.77)	$(0.17)
2004	$1.40	$(0.78)	$ 0.62
2005	$1.80	$(0.87)	$ 0.93

Economic Profit improved to $0.93 per share in 2005 from a loss of $0.04 per share in 2001. Economic Profit is a function of three variables: the average amount of capital invested, the adjusted return on capital, and the weighted average cost of capital. The following table summarizes our financial performance in these areas for the last five years:

(Dollars in Thousands)	Average capital invested	Adjusted return on capital	Weighted average cost of capital	Spread
2001	$470,242	7.6%	7.9%	–0.3%
2002	$463,431	8.2%	7.7%	0.5%
2003	$439,903	7.0%	8.7%	–1.7%
2004	$487,075	13.3%	8.1%	5.2%
2005	$527,947	15.0%	8.1%	6.9%
Percentage change 2001–2005	12.3%	97.4%		

As this table shows, the improvement in our financial results over the period was primarily due to the improvement in our adjusted return on capital. The adjusted return on capital improved as a result of an increase in the return on capital of loans originated in the United States and a decrease in the percentage of our total capital deployed in unprofitable non-core businesses. The following table illustrates the change in these two variables:

	2001		2005	
	% of capital	**Adjusted return on capital**	**% of capital**	**Adjusted return on capital**
U.S. segment	69.4%	8.1%	98.9%	14.1%
All other segments	30.6%	6.3%	1.1%	95.5%
	100.0%	7.6%	100.0%	15.0%

In 2001, we had a significant percentage of our capital deployed in unprofitable non-core businesses. By 2005, we had successfully liquidated the non-core businesses and redeployed our capital more effectively in our core U.S. business. (The large return on capital in 2005 for "all other segments" can be disregarded as it includes a non-recurring gain on the sale of our United Kingdom portfolio.) The liquidation of the non-core businesses had two salutary effects: One was the obvious benefit illustrated by the tables above. The other, an even larger benefit, was that management was able to focus 100% of its energy on our core business. This heightened focus played no small part in helping us improve the return on capital in the U.S. segment, which has been the primary driver of our success.

The return on capital reported in our financial statements reflects the profitability of our entire portfolio of loans, which includes loans originated recently as well as those originated in prior years. During periods when loan profitability is improving, reported profitability will typically lag the profitability of recent loans. During periods of declining profitability, reported profitability will typically exceed the profitability of recent loans.

The improvement in the return on capital reported in our financial statements in 2005 is a result of the improved profitability of originations in 2004 (as compared to 2003) and in 2003 (as compared to 2002). We believe loans originated in 2005 will earn roughly the same return on capital as those originated in 2004. The change in trend from one of improving profitability of originations to one of stable profitability is clearly an important development for shareholders to digest as they think about the value of our business. It likely means that, until the current trend changes, improvements in Economic Profit will be driven largely by our ability to grow loan originations and capital invested.

Loan origination volume

Although the dollar amount of originations impacts short-term financial results, unit volume growth is a better measure of operating performance. In 2005, we achieved a 10.0% increase in the number of consumer loans originated, and in 2004, a 21.9% increase. Unit volumes are determined by three variables: the number of new dealer-partners, dealer-partner attrition, and the average volume per dealer-partner.

New dealer-partners—The number of new dealer-partners added in each of the last five years is summarized in the following table:

	New Dealer-Partners
2001	300
2002	157
2003	336
2004	460
2005	745

Note: Excludes new dealer-partners that have enrolled in the Company's program but have not submitted at least one loan during the period.

Over the past five years, we have been successful in developing relationships with new dealers. During 2003 and 2004, the increase in new dealer-partners was roughly proportional to the percentage increase in the size of our sales team. In 2005, the number of new dealer-partners increased much faster than the size of our sales team, a result which we attribute primarily to our decision to allow dealer-partners to enroll without paying the $9,850 enrollment fee. Prospective dealer-partners choosing not to pay the fee agree instead to allow us to keep 50% of their first accelerated dealer holdback payment. At this stage, we have enough data to conclude that dealer-partners who do not pay the fee are not nearly as productive as dealer-partners who do pay it. After factoring this in, we believe having two options for enrollment instead of one is a modest winner for shareholders, but has had less of a positive effect than we hoped.

Attrition—Average dealer-partner attrition for each of the last five years is as follows:

	Attrition
2001	10.7%
2002	14.4%
2003	7.7%
2004	7.9%
2005	5.6%

Note: Dealer-partner attrition is measured according to the following formula: unit volume of customer loans received during the prior year from dealer-partners who are inactive in the current year, divided by unit volume of customer loans (from all dealer-partners) from the prior year.

Attrition has fallen significantly since 2001. (The jump in 2002 was due to our being forced to reduce the number of dealer-partners in our program after the loss of a key funding source.) Although we are pleased with the trend over the past five years, we believe additional improvement is possible. There are two primary reasons for attrition: (1) dealer-partners produce a substandard collection rate and are terminated; (2) dealer-partners are unable to commit the necessary resources to be successful. One of our biggest opportunities lies in developing solutions that make it easier for dealer-partners to succeed. Over the past two years, we have made considerable progress in this area by creating new solutions for training dealer-partners, helping them locate inventory that fits our program, and helping them attract potential customers.

Volume per dealer-partner—The following table summarizes average dealer-partner volumes for each of the last six years:

	Unit volume per dealer-partner	% change
2000	39.6	
2001	53.6	35.4%
2002	61.0	13.8%
2003	68.1	11.6%
2004	62.5	–8.2%
2005	47.3	–24.3%

After increasing for three consecutive years, average dealer-partner volumes declined in both 2004 and 2005. We attribute those declines to the competitive environment. Our industry goes through cycles of competition that, at certain times, make it virtually impossible to grow volume per dealer and simultaneously write profitable business. Since only about 2% of the automobile dealers in the United States were active in our program last year, we do not need to focus exclusively on raising volume per dealer in order to grow. Until the market improves, we intend to focus on adding new dealer-partners to our program. In addition, we intend to continue to make improvements to our program, which we believe will allow us to write as much profitable business per dealer-partner as the market allows.

Use of debt

At year-end, our ratio of debt to equity was 0.4:1.0. Given current profitability levels, we are comfortable we can support a much higher level of debt than we currently utilize. As of now, we have more equity capital than we need, and as a result we will be returning capital to shareholders during 2006. Most companies in our industry have ratios of debt to equity that are far in excess of any number we have considered. Long-term, we expect to use a greater proportion of debt than we have used in the past, but that proportion will still be conservative by industry standards.

Historically, we have returned excess capital to shareholders through share repurchases. Since our share repurchase program began in mid-1999, we have repurchased 11.2 million shares at an average price of $12.68. During 2004, we repurchased 5.7 million shares at an average price of $18.60. We were not able to repurchase shares in 2005 as a result of the pending restatement. Going forward, we will continue to use excess capital to repurchase shares when prices are below our estimate of intrinsic value (the discounted value of future cash flows). If our share price exceeds our estimate of intrinsic value, we will return excess capital through dividends.

KEY FACTORS IN OUR SUCCESS

Our recent financial success is a result of having a unique and valuable product and of putting in many years of hard work to develop the business.

Our core product has remained essentially unchanged for 33 years. We provide auto loans to consumers regardless of their credit history. Our customers consist of individuals who have typically been turned away by other lenders. Traditional lenders have many reasons for declining a loan. We have always believed that individuals, if given an opportunity to establish or reestablish a positive credit history, will take advantage of it. As a result of this belief, we have changed the lives of thousands of people.

However, as we have found, having a unique and valuable product is only one of the elements we need if we are to make our business successful. There are others, and many have taken years to develop. The following summarizes the key elements of our success today:

- *We have developed the ability to offer Guaranteed Credit Approval while maintaining an acceptable level of credit losses and achieving an appropriate return on capital. It took years to develop the processes and accumulate the customer and loan performance data that we use to make profitable loans in our segment of the market.*
- *We understand the daily execution required to successfully service a portfolio of automobile loans to customers in our target market. There are many examples of companies in our industry that underestimated the effort involved and are now bankrupt. Approximately 60% of our team members work directly on some aspect of servicing our loan portfolio, and we are fortunate to have such a capable and engaged group.*
- *We have learned how to develop relationships with dealers that are profitable. Forging a profitable relationship requires us to select the right dealer, align incentives, communicate constantly and create processes to enforce standards. In our segment of the market, the dealer-partner has significant influence over loan performance. Learning how to create relationships with dealer-partners who share our passion for changing lives has been one of our most important accomplishments.*
- *We have developed a much more complete program for helping dealers serve this segment of the market. Over the years, many dealer-partners have been overwhelmed by the work required to be successful in our program. Many dealer-partners have quit, telling us the additional profits generated from our program were not worth the effort. We have continually*

worked to provide solutions for the many obstacles that our dealer-partners encounter. It is impossible to quantify the impact of these initiatives on our loan volume because of the changing competitive environment. However, anecdotal evidence suggests our efforts have been worthwhile. Continuing to make our program easier for dealer-partners will likely produce additional benefits in the future.

- *We have developed a strong management team. Our team is deeper and more talented than at any other time in our history. Our success in growing the business while simultaneously improving our returns on capital could not have occurred without the dedication and energy of this talented group.*
- *We have strengthened our focus on our core business. Historically, our focus had been diluted by the pursuit of other, non-core opportunities. Today, we offer one product and focus 100% of our energy and capital on providing that product profitably.*
- *We have developed unique technology for originating auto loans. Our patented, Internet-based Credit Approval Processing System ("CAPS") has increased dealer-partner volumes, simplified our program, reduced loan-processing costs, and allowed us to improve our returns on capital through more intelligent loan pricing. Traditional indirect lending is inefficient. Most traditional lenders take 1–4 hours to process a loan application, and they decline most of the applications they process. We take 30 seconds, and we approve 100% of the applications submitted, 24 hours a day, seven days a week.*
- *We have developed a high-quality field sales force. Our sales team provides real value to our dealer-partners. Team members act as consultants as we teach dealer-partners how to successfully serve our market segment. Our sales force is compensated in part based on collection results, ensuring a long-term focus.*

Our team members are proud of our achievements. They have worked hard to operate our business with integrity and with the right objectives in mind. Their recent success is well earned, and we are optimistic that future results will be even better.

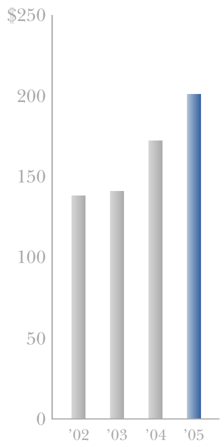
We take great pleasure in providing value to our customers and our dealer-partners. We hope the attached DVD gives shareholders additional insight into the value we deliver. You expect and should receive a fair return on your investment in Credit Acceptance. In addition, you can be proud of the benefits being enjoyed by thousands of individuals whose lives we change.

We appreciate your support and look forward to another successful year.

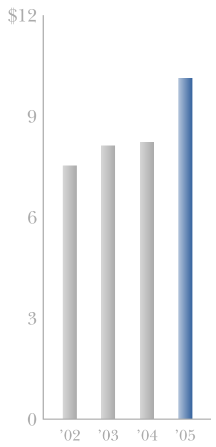
Brett A. Roberts
Chief Executive Officer

(Dollars in thousands, except per share data)	2005	2004
Revenue	$ 201,268	$172,071
Net income	$ 72,601	$ 57,325
Diluted earnings per share	$ 1.85	$ 1.40
Consumer loans accepted	$1,001,119	$959,617
Assets	$ 619,394	$591,313
Loans receivable, net	$ 563,528	$526,011
Debt	$ 146,905	$193,547
Shareholders' equity	$ 373,026	$300,890
Debt to equity ratio	0.4:1.0	0.6:1.0
Actual shares outstanding	37,027,286	36,897,242
Book value per share	$ 10.07	$ 8.15
Change in book value per share	23.5%	0.1%

Revenue
(in millions)



Book Value Per Share



The National Dealer-Partner Council (NDPC) is a select group of successful Credit Acceptance dealer-partners chosen to act as a sounding board and to pilot new products, enhancements, services and processes with the goal of making the Guaranteed Credit Approval Program more profitable.

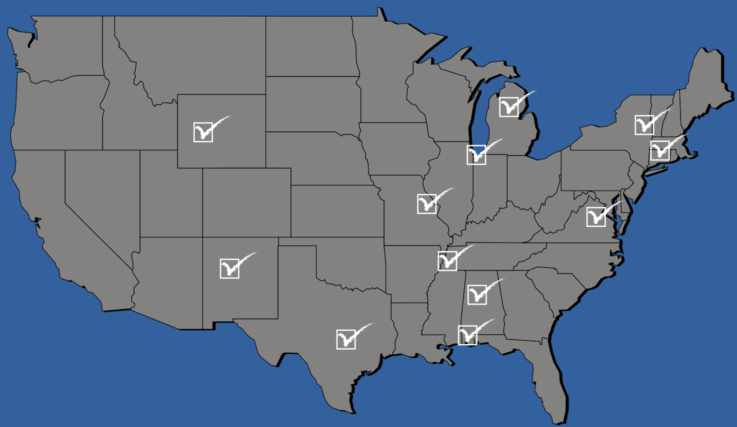
Once voted on the council, each member serves two years and is requested to attend four quarterly working meetings per year. The Chairman and Vice Chairman of the Council are selected by their peers and are eligible only after having served one complete year on the NDPC. Members are encouraged to bring up new ideas and enhancements to the Guaranteed Credit Approval Program and to participate in the testing and prioritization of all new products, enhancements, and services during their tenure.


Daniel Mink “Since partnering with Credit Acceptance, we have been able to change the lives of hundreds of families in the Killeen, Texas market with the Credit Acceptance Program. Basically, we’ve been able to create ‘customers for life’ out of what used to be customers for the competition! The Guaranteed Credit Approval point of sale materials allow us to attract customers to our dealership that NEVER would have visited us before, adding millions to our bottom line.

I am proud to be a Credit Acceptance dealer-partner and honored to have been selected as Vice Chairman of the 2005 Credit Acceptance National Dealer-Partner Council. In 2004 my dealership’s sales grew by more than 158% as a direct result of the collective efforts, ideas, and initiatives developed by this elite group of dedicated dealer-partners and the entire Credit Acceptance Team.”

Anthony Underwood “With the Credit Acceptance Guaranteed Credit Approval Program, we change lives by turning empathy into action. Everyone wins. It gives consumers who are often unable to purchase a quality vehicle the opportunity to get reliable transportation and to rebuild their credit.

My partnership with Credit Acceptance allows me to accomplish my financial goals and fulfill my obligation of giving back to the community. We really believe in what we are doing.”



CORE VALUES

• ***Honesty*** We have the courage and integrity to face the truth of each situation…with facts as they are…not as we would like them to be…we communicate openly…our actions are consistent with our words.

• ***Teamwork*** We take pride in our collective accomplishments…we take responsibility for our collective mistakes…we understand we can accomplish more by including others in what we do…we celebrate our victories…we treat each other with respect.

“Being employed with Credit Acceptance is a rewarding experience. I take pride in my job and love working with other team-oriented, high-class professionals. The values of the Company and those of my department truly make it a great place to work! Surrounded by such a great team, I am honored to have received the ‘Rookie of the Year’ Award.”

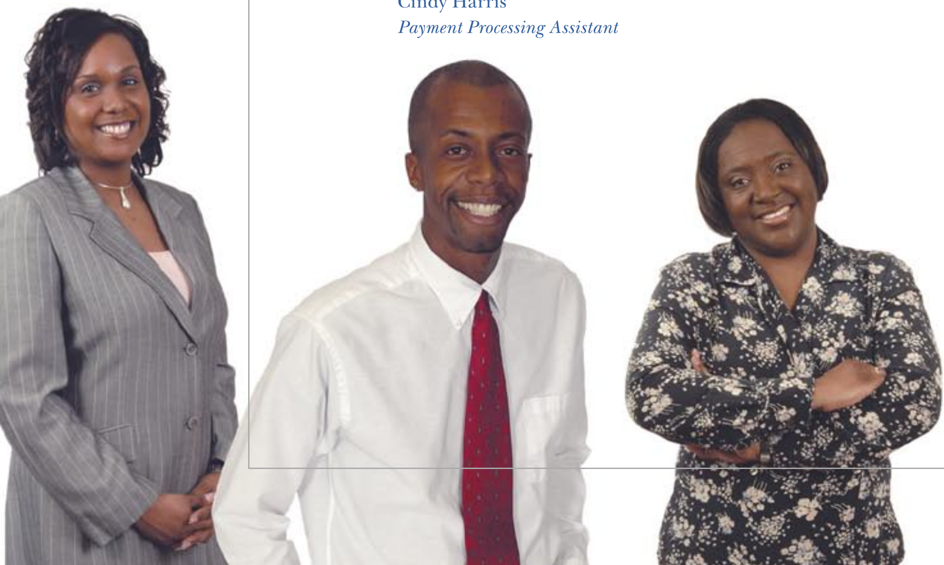
Cindy Harris
Payment Processing Assistant

“During my six months at Credit Acceptance, I’ve experienced a great deal of very satisfying moments. It feels great to help change peoples lives. Receiving the ‘Rookie of the Year’ was special. I really feel I am part of a winning team…from my managers to my co-workers.”

Raymond Newton
Front End Collector

“Credit Acceptance not only changes the lives of its customers, but it changes the lives of its team members! It has changed mine and is the reason I take pride in doing my best each and every day. The honor is mine to be a part of a company that offers quality service to our dealer-partners, employees and mutual customers.”

Cynthia Gallant
Credit Analyst



• ***Learning*** We relentlessly search out new ideas regardless of the source…we strive for continuous self-improvement…we listen and learn from each other.

• ***Urgency*** We approach our objectives with passion and urgency…we are faced with infinite possibilities for growth, achievement and experiences constrained only by time…we are constantly reminded that time is limited and should be consumed as our most precious asset.

• ***Fun*** We believe that fun is created through an environment filled with trust, challenge, personal growth and hard work…knowing that we are helping people improve.

"I believe I have found my niche at Credit Acceptance. One could go on and on with superlatives regarding Credit Acceptance and remain deficient in describing the impact this Corporation has on our lives."

Wilma Bell
Inbound Collector

"During my tenure at Credit Acceptance, I have enjoyed very rewarding and challenging opportunities. I enjoy helping our customers resolve their financial hardships to reach their goal of economic stability. I am honored to have received the award for 'Living The Core Values.'"

Kelly Shaughnessy
Front End Collections Supervisor

"I am blessed to be an award winner for 'Living The Core Values' of Teamwork, Honesty, Urgency, Learning, and Fun. I am thankful to my teammates for recognizing and nominating me for this prestigious award. Credit Acceptance has changed my life…for the better!"

Deloris McQuarters
Remarketing Coordinator


"We change lives®…
one at a time!"

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2005 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, Suite 3000	**48034-8339**
Southfield, Michigan	*(Zip Code)*
(Address of Principal Executive Offices)	

Registrant's telephone number, including area code: (248) 353-2700
Securities Registered Pursuant to Section 12(b) of the Act: None
Securities Registered Pursuant to Section 12(g) of the Act: Common Stock

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

The aggregate market value of 7,405,675 shares of the Registrant's common stock held by non-affiliates on June 30, 2005 was approximately $110.3 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 28, 2006, there were 37,087,686 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 2006 Annual Meeting of Shareholders (the "Proxy Statement") filed pursuant to Regulation 14A are incorporated herein by reference into Part III.

CREDIT ACCEPTANCE CORPORATION
YEAR ENDED DECEMBER 31, 2005

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PART I

ITEM 1. *Business*

General

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

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

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

The Company’s Internet address is www.creditacceptance.com. The Company makes available, free of charge on the web site, copies of reports it files with or furnishes to the Securities and Exchange Commission as soon as reasonably practicable after the Company electronically files or furnishes such reports.

Although the Company is assigned the Consumer Loans, thereby perfecting its security interest in the Consumer Loans and the collections owed on the Consumer Loans, and although the Company appears on the related vehicle title as lienholder, the Company is considered, for accounting purposes, to be a lender to dealer-partners in the United States and Canada and a lender to consumers in the United Kingdom. For additional information see Note 1 to the consolidated financial statements, which is incorporated herein by reference.

Principal Business

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

- (i) a down payment from the consumer;
- (ii) a cash advance from the Company; and
- (iii) after the advance has been recovered by the Company, the cash from payments made on the Consumer Loan, net of certain collection costs and the Company’s servicing fee (“dealer holdback”).

The Company's servicing fee is equal to a fixed percentage (typically 20%) of each payment collected. In addition, the Company receives fees for other products and services. Consumers and dealer-partners benefit as follows:

Consumers. The Company helps change the lives of consumers who do not qualify for conventional automobile financing by helping them obtain quality transportation and, equally important, providing an opportunity to establish or reestablish their credit through the timely repayment of their Consumer Loan.

Dealer-Partners. The Company's 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 the Company's program. In addition, consumers often become repeat customers by financing future vehicle purchases either through the Company's program or, after they have successfully established or reestablished their credit, through conventional financing.
- Allows dealer-partners to share in the profits 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.

Credit Acceptance derives its revenues from the following principal sources:

(i) Finance charges, which are comprised of: (a) servicing fees earned as a result of servicing Consumer Loans assigned to the Company by dealer-partners and (b) fees earned from the Company's third party ancillary product offerings, which primarily consist of service contract programs;

(ii) license fees, which represent monthly fees from the Company's patented Internet-based Credit Approval Processing System ("CAPS");

(iii) other income, which primarily consists of: premiums earned on credit life insurance programs; net gains resulting from lease terminations; fees charged to dealer-partners at the time they enroll in the Company's program; and lease revenue earned from investments in operating leases.

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	**2005**	2004	2003
Finance charges	**87.6%**	87.5%	83.5%
License fees	**4.9%**	3.4%	2.7%
Other income	**7.5%**	9.1%	13.8%
Total revenue	**100.0%**	100.0%	100.0%

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

The Company is organized into three primary business segments: United States, United Kingdom, and Other. The Other segment consists of the Company's automobile leasing business, Canadian automobile financing business, and secured lines of credit and floorplan financing products. In early 2002, the Company stopped originating automobile leases and effective June 30, 2003 stopped accepting Consumer Loans originated in the United Kingdom and Canada. The Company sold the remaining Consumer Loan portfolio of its United Kingdom subsidiary on December 30, 2005. As of December 31, 2005, the Company had 99.4% of its capital invested in the United States business segment. For information regarding the Company's reportable segments, see Note 11 to the consolidated financial statements, which is incorporated herein by reference.

Operations in the United States

Sales and Marketing. The Company's target market is a select group of the more than 70,000 independent and franchised automobile dealers in the United States. The marketing of the Company's program is intended to: (i) result in a network consisting of the highest quality dealer-partners who share the Company's commitment to changing lives and (ii) increase the value of the Company's program to the Company's dealer-partners. Dealer-partners pay a one-time enrollment fee of $9,850 to join the Company's program. In return, the Company provides the dealer-partner with sales promotion kits, signs, training and the first month's access to CAPS. During the first quarter of 2005, the Company implemented a new policy. The new policy allows prospective dealer-partners to enroll in the Company's program without paying the $9,850 enrollment fee. Prospective dealer-partners choosing this option instead agree to allow the Company to keep 50% of the first accelerated dealer holdback payment. This payment, called Portfolio Profit Express, is paid to qualifying dealer-partners after 100 Consumer Loans have been originated and assigned to the Company.

Dealer-partner enrollments in the United States for each of the last five years are presented in the table below.

Year	Number of Dealer-Partner Enrollments
2001	224
2002	143
2003	399
2004	534
2005	956

A new dealer-partner is required to execute a dealer servicing agreement, which defines the legal relationship between the Company and the dealer-partner. The servicing agreement assigns the responsibilities for administering, servicing and collecting the amounts due on Consumer Loans to the Company. The servicing agreement provides that collections received by Credit Acceptance 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 Credit Acceptance for certain collection costs;
- Second, to pay Credit Acceptance its servicing fee;
- Third, to reduce the aggregate advance balance and to pay any other amounts due from the dealer-partner to the Company; and
- Fourth, to the dealer-partner as payment for amounts contractually due under the servicing agreement.

Under the typical servicing agreement, a dealer-partner represents that it will only submit Consumer Loans to Credit Acceptance which satisfy criteria established by the Company, meet certain conditions with respect to the binding nature and the status of the security interest in the purchased vehicle, and comply with applicable state, federal and foreign laws and regulations. Dealer-partners receive a monthly statement from the Company, summarizing all activity on Consumer Loans assigned by such dealer-partner.

In the event that the Company discovers a misrepresentation by the dealer-partner relating to a Consumer Loan submitted to the Company, the Company can demand that the Consumer Loan be repurchased for the current balance of the Consumer Loan less the amount of any unearned finance charge plus the applicable termination fee, which is generally $500. Upon receipt of such amount in full, the Company will reassign the Consumer Loan receivable and its security interest in the financed vehicle to the dealer-partner.

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

(1) the dealer-partner's refusal to allow the Company to audit its records relating to the Consumer Loans assigned to the Company;
(2) the dealer-partner, without the Company's 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
(3) the appointment of a receiver for, or the bankruptcy or insolvency of, the dealer-partner.

While a dealer-partner can cease submitting Consumer Loans to the Company at any time without terminating the servicing agreement, if the dealer-partner elects to terminate the servicing agreement or in the event of a default, the dealer-partner must immediately pay the Company:

(i) any unreimbursed collection costs;
(ii) any unpaid advances and all amounts owed by the dealer-partner to the Company; and
(iii) a termination fee equal to 15% of the then outstanding amount of the Consumer Loans accepted by the Company.

Upon receipt of such amounts in full, the Company would reassign the Consumer Loan and its security interest in the financed vehicle to the dealer-partner. In the event of a termination by the Company (or any other termination if the Company and the dealer-partner agree), the Company may continue to service Consumer Loans 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 the Company's program, the dealer-partner may begin submitting Consumer Loans to the Company for servicing, administration, and collection. A Consumer Loan occurs 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 automobile. 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. Virtually all of the Consumer Loans accepted by the Company in the United States are processed through CAPS. CAPS was offered to all dealer-partners located in the United States beginning in January 2001, and allows dealer-partners to input a consumer's credit application and view the response from the Company via the Internet. CAPS allows dealer-partners to: (i) receive an approval from the Company much faster than with traditional methods; and (ii) interact with the Company's credit scoring system to improve the structure of each transaction prior to delivery. All responses include the amount of the advance, as well as any stipulations required for funding. The amount of the advance is determined using a computer model which considers a number of factors including the timing and amount of cash flows expected on the related Consumer Loan and the Company's target return on capital at the time the Consumer Loan is assigned. The estimated future cash flows are determined based upon a proprietary credit scoring system, which considers numerous variables, including 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. The Company's credit scoring system forecasts the collection rate based upon the historical performance of Consumer Loans in the Company's portfolio that share similar characteristics. The performance of the credit scoring system is evaluated monthly by comparing projected to actual Consumer Loan performance. Adjustments are made to the credit scoring system when necessary.

While a dealer-partner can assign any legally compliant Consumer Loan to the Company for servicing, administration and collection, the decision whether to pay an advance to the dealer-partner and the amount of any advance is made solely by the Company. The Company performs all significant functions relating to the processing of the Consumer Loan applications and bears certain costs of Consumer Loan acceptance, including the cost of assessing the adequacy of Consumer Loan documentation, compliance with underwriting guidelines and the cost of verifying employment, residence and other information submitted by the dealer-partner.

CAPS interfaces with the Company's Application and Contract System ("ACS"). Consumer Loan information included in CAPS is automatically entered into ACS through a download from CAPS. Additional Consumer Loan information is entered into ACS manually. ACS provides credit scoring capability as well as the ability to process Consumer Loan packages. ACS compares Consumer Loan data against information provided during the approval process and allows the funding analyst to check that all stipulations have been met prior to funding. Consumer Loan contracts are written on a contract form provided by the Company and the Consumer Loan transaction typically is not completed until the dealer-partner has received approval from the Company. The assignment of the Consumer Loan from the dealer-partner to the Company occurs after both the consumer and dealer-partner sign the contract and the original contract is received and approved by the Company. 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 the Company, not the dealer-partner, is listed as lien holder on the vehicle title. The consumer's payment obligation is directly to the Company. Payments are generally made by the consumer directly to the Company. The consumer's failure to pay amounts due under the Consumer Loan will result in collection action by the Company.

The Company generally offers the dealer-partner a non-recourse advance against anticipated future collections on the Consumer Loan. 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. The Company cannot demand repayment from the dealer-partner of the advance except in the event the dealer-partner is in default of the servicing agreement. Advances are made only after the Consumer Loan is approved, accepted by and assigned to the Company and all other stipulations required for funding have been satisfied.

Cash advanced to dealer-partners is automatically assigned to the originating dealer-partner's open pool of advances. The Company records the amount advanced to the dealer-partner as a Dealer Loan ("Dealer Loan"), which is classified within Loans receivable in the Company's consolidated balance sheets. At the dealer-partner's option, a pool containing more than one hundred Consumer Loans can be closed and subsequent advances assigned to a new pool. All advances due from a dealer-partner are secured by the future collections on the dealer-partner's portfolio of Consumer Loans assigned to the Company. The Company perfects its security interest by taking possession of the Consumer Loans. Net collections on all related Consumer Loans within the pool, after payment of the Company's servicing fee and reimbursement of certain collection costs, are applied to reduce the aggregate advance balance owing against those Consumer Loans within the pool. Once the advance balance has been repaid, the dealer-partner is entitled to receive future net collections from Consumer Loans within that pool, after payment of the Company's servicing fee and reimbursement of certain collection costs. If the collections on Consumer Loans from a dealer-partner's pool are not sufficient to repay the advance balance, the dealer-partner will not receive dealer holdback. Additionally, for dealer-partners with more than one pool, the pools are cross-collateralized so the performance of other pools is considered in determining eligibility for dealer holdback.

Dealer-partners have an opportunity to receive a portion of the dealer holdback on an accelerated basis at the time a pool of one hundred or more Consumer Loans is closed. The eligibility to receive accelerated dealer holdback and the amount paid to the dealer-partner is calculated using a formula that considers the collection rate and the advance balance on the closed pool.

The Company's business model allows it 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 the Company's underwriting guidelines, and provide appropriate service and support to the consumer after the sale. The Company believes this arrangement aligns the interests of the Company, the dealer-partner and the consumer. The Company measures various criteria for each dealer-partner against other dealer-partners in their area as well as the top performing dealer-partners. Sales representatives are required to present the analysis to the dealer-partner and to develop an action plan on a quarterly basis with the dealer-partner to improve the dealer-partner's overall success with the Company's program.

Information on the Company's Consumer Loans accepted in the United States, the Company's only business segment that continues to accept assignments of new Consumer Loans, for each of the last five years is presented in the following table:

	For the Years Ended December 31,				
Average Consumer Loan Data	**2005**	2004	2003	2002	2001
Average size of Consumer Loan accepted	**$11,980**	$12,634	$12,143	$11,202	$10,397
Percentage growth in average size of Consumer Loan	**(5.2)%**	4.0%	8.4%	7.7%	32.1%
Average initial maturity (in months)	**34**	37	37	36	36
Average advance per Consumer Loan	**$ 6,058**	$ 6,105	$ 5,649	$ 5,115	$ 4,988

Servicing and Collections. The Company's collectors are organized into teams. The Company's first payment missed team services Consumer Loans of consumers who have failed to make one of their first three payments on time. A collection call is generally placed to these consumers within one day after the payment is due. Once a consumer has made their first three payments, the consumers are segmented by delinquency and phone contact profile. The daily contact strategy matches delinquency and contact segments with appropriate collector skill sets with the goal of maximizing cash collections. The Company has an incentive system to encourage collectors to collect the full amount due and eliminate the delinquency on Consumer Loans assigned to their team. Collectors may recommend repossession of the vehicle based on a variety of factors including the amount of the delinquency and the estimated value of the vehicle. These recommendations are typically reviewed by a collection team supervisor.

When a Consumer Loan is approved for repossession, the account is transferred to the Company's 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 a redemption with the Company, whereby 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 reinstated, in exchange for reducing or eliminating the past due balance. If the redemption process is not successful, the vehicle is typically sold at a wholesale automobile auction. Prior to sale, the vehicle is usually inspected by the Company's remarketing representatives who authorize 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: (i) the Company's senior collection team, in the event that the consumer is willing to make payments on the deficiency balance; or (ii) where permitted by law, the Company's legal team, if it is believed that legal action is required to reduce the deficiency balance owing on the Consumer Loan. The Company's legal team assigns Consumer Loans to third party collection attorneys who file a claim and upon obtaining a judgment, garnish wages or other assets.

Collectors rely on two systems to service accounts, the Collection System ("CS") and the Loan Servicing System ("LSS"). The CS and LSS are connected through a batch interface. The present CS has been in service since June 2002. 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 management reporting including data utilized to:

(i) evaluate the Company's proprietary credit scoring system;
(ii) forecast future collections;
(iii) establish the amount of revenue recognized by the Company; and
(iv) analyze the profitability of the Company's program.

During the third quarter of 2005, the Company began an initiative to outsource a portion of its collection function overseas to India. Collectors in India service accounts using the Collection System and typically work on accounts that are less than sixty days past due. The Company expects the outsourcing to minimize the geographic risk of having two collection centers in the United States, and to reduce costs with the same collection performance.

Service Contracts and Insurance Products

The Company provides dealer-partners the ability to offer vehicle service contracts to consumers. Under this program, the sales price of the service contract is added to the amount due under the Consumer Loan. The cost of the service contract, plus a commission earned by the dealer-partner on the sale of the service contract is added to the advance balance. A portion of the amount added to the advance balance is retained by the Company as a fee. Third party vehicle service contract administrators ("TPAs") bear all of the risk of loss on claims. During 2004, the Company entered into agreements with two new TPAs where the Company receives underwriting profits from the TPAs based on the level of future claims paid. Funds paid by the Company to the TPA to pay future claims are held in trusts. The assets and liabilities of the trusts have been consolidated on the Company's balance sheet in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46, "Consolidation of

Variable Interest Entities" ("FIN 46"). As of December 31, 2005, the trusts had $10.6 million in assets available to pay claims and a related claims reserve of $10.4 million. For additional information regarding the two new TPAs, see Note 1 to the consolidated financial statements, which is incorporated herein by reference. The Company previously offered a vehicle service contract program where the Company bore the risk of loss on claims relating to the service contracts. The Company discontinued offering this product effective November 1, 2003, as the product was not competitive with the third party vehicle service contract products offered by the Company.

The Company maintains relationships with certain insurance carriers which provide dealer-partners the ability to offer consumers credit life and disability insurance. Should the consumer elect to purchase this insurance, the premium on the insurance policy is added to the amount due under the Consumer Loan and to the advance balance. The Company is not involved in the actual sale of the insurance; however, the insurance carrier cedes the premiums, less a fee, to a wholly-owned subsidiary of the Company, which reinsures the coverage under the policy. As a result, the Company, through its subsidiary, bears the risk of loss, and earns revenues from premiums ceded and the investment of such funds. The Company's reserve for insurance claims was $0.2 million and $0.4 million at December 31, 2005 and 2004, respectively.

During the first quarter of 2005, the Company began offering Guaranteed Asset Protection ("GAP") debt cancellation terms in its contracts. GAP provides the consumer protection by forgiving the difference between the loan balance and the consumer's insurance coverage limit in the event the vehicle is totaled or stolen. The Company receives a fee for every GAP provision sold by its dealer-partners.

Businesses in Liquidation

United Kingdom

Effective June 30, 2003, the Company decided to stop originating Consumer Loans in the United Kingdom. The Company sold the remaining Consumer Loan portfolio of its United Kingdom subsidiary on December 30, 2005. The selling price was approximately $4.3 million resulting in a pre-tax gain of approximately $3.0 million.

Other

Effective June 30, 2003, the Company decided to stop accepting Consumer Loans in Canada. Prior to this decision, the Company accepted and serviced Consumer Loans in Canada on approximately the same basis as in the United States.

In January 2002, the Company decided to exit the automobile leasing business. Prior to this decision, the Company assumed ownership of automobile leases from dealer-partners for an amount based on the value of the vehicle as determined by an industry guidebook, assumed ownership of the related vehicle from the dealer-partner and received title to the vehicle. This program differed from the Company's principal business in that, the Company assumed ownership of the vehicles and assumed no liability to the dealer-partner for dealer holdback payments.

Secured Line of Credit Loans. The Company offered line of credit arrangements to certain dealers who were not participating in the Company's core program. These lines of credit are secured primarily by loans, originated and serviced by the dealer, with additional security provided by the personal guarantee of the dealership's owner. The effective interest rate on these loans varies based upon the amount loaned to the dealer and the percentage of collections on the loan portfolio required to be remitted to the Company. During the third quarter of 2001, the Company discontinued offering this program to new dealers, and is in the process of reducing the amount of capital invested in this business.

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

Credit Loss Policy

For information regarding the Company's accounting policy for the allowance for credit losses, see Note 1 to the consolidated financial statements, which is incorporated herein by reference.

Competition

The market for consumers who do not qualify for conventional automobile financing is large and highly competitive. The Company's largest competition comes from "buy here, pay here" dealerships where the dealer finances the customer's purchase and services the Consumer Loan themselves. 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 resources than the Company. These companies typically target higher credit tier customers within the Company's market. In seeking to establish the Company as one of the principal financing sources of its dealer-partners, the Company competes predominantly on the basis of a high level of dealer-partner service and strong dealer-partner relationships, and by offering guaranteed credit approval for consumers. While the Company is only aware of a few companies that offer guaranteed credit approval, there is the potential that significant direct competition could emerge and that the Company may be unable to compete successfully.

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 Dealer Loan balance accounted for more than 10% of total Dealer Loans as of December 31, 2005 or as of December 31, 2004. The following table provides information regarding the five states that are responsible for the largest dollar amount of Consumer Loans accepted in the United States during 2005:

	Consumer Loans Accepted		Active Dealer-Partners(1)	
(Dollars in thousands)	**Amount**	**% of Total**	**Number**	**% of Total**
Michigan	$ 84,338	8.4%	161	9.1%
Alabama	67,508	6.7	59	3.3
Mississippi	67,252	6.7	56	3.2
New York	59,461	5.9	108	6.1
Texas	58,678	5.9	109	6.2
All other states	663,882	66.4	1,273	72.1
Total	$1,001,119	100.0%	1,766	100.0%

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

The following table provides information regarding the five states that are responsible for the largest dollar amount of Consumer Loans accepted in the United States during 2004:

(Dollars in thousands)	Consumer Loans Accepted		Active Dealer-Partners[(1)]	
	Amount	% of Total	Number	% of Total
Michigan	$ 77,923	8.1%	114	9.4%
Alabama	62,081	6.5	35	2.9
Mississippi	58,840	6.1	44	3.6
Virginia	57,066	5.9	64	5.3
Maryland	56,119	5.8	60	4.9
All other states	647,588	67.6	898	73.9
Total	$959,617	100.0%	1,215	100.0%

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

While not considered to be a concentration, the Company's transactions with related parties are significant. For information regarding the Company's transactions with related parties, see Note 7 to the consolidated financial statements, which is incorporated herein by reference.

Geographic Financial Information

The following table sets forth, for each of the last three years for the Company's domestic and foreign operations, the amount of revenues, and long-lived assets:

(In thousands)	As of and for the Years Ended December 31,		
	2005	2004	2003
Revenues from Continuing Operations			
United States	**$200,640**	$171,111	$139,086
Other foreign	**628**	960	1,956
Total revenues from continuing operations	**$201,268**	$172,071	$141,042
Long-lived assets			
United States	**$ 17,992**	$ 19,474	$ 18,045
United Kingdom	**—**	232	496
Total long-lived assets	**$ 17,992**	$ 19,706	$ 18,541

Regulation

The Company's businesses are subject to various state, federal and foreign laws and regulations, which:

(i) require licensing and qualification,
(ii) regulate interest rates, fees and other charges,
(iii) require specified disclosures to consumers,
(iv) govern the sale and terms of the ancillary products; and
(v) define the Company's rights to collect Consumer Loans and repossess and sell collateral.

Failure to comply with, or an adverse change in, these laws or regulations could have a material adverse effect on the Company by, among other things, limiting the states or countries in which the Company may operate, restricting the Company's ability to realize the value of the collateral securing the Consumer Loans, or resulting in potential liability related to the servicing of Consumer Loans accepted from dealer-partners. In addition, governmental regulations depleting the supply of used vehicles, such as environmental protection regulations governing emissions or fuel consumption, could have a material adverse effect on the Company. The Company is not aware of any such legislation currently pending that could have a material adverse effect on the Company.

The sale of insurance products in connection with Consumer Loans assigned to the Company by dealer-partners is also subject to state laws and regulations. However, as the Company does not deal directly with consumers in the sale of insurance products, it does not believe that such laws and regulations significantly affect its business. Nevertheless, there can be no assurance that insurance regulatory authorities in the jurisdictions in which such products are offered by dealer-partners will not seek to regulate the Company or restrict the operation of the Company's business in such jurisdictions. Any such action could materially adversely affect the income received from such products. The Company's credit life and disability reinsurance and property and casualty insurance subsidiaries are licensed and subject to regulation in the Turks and Caicos Islands.

The Company believes that it maintains all material licenses and permits required for its current operations and is in substantial compliance with all applicable laws and regulations. The Company's servicing agreement with dealer-partners provides that the dealer-partner shall indemnify the Company with respect to any loss or expense the Company incurs as a result of the dealer-partner's failure to comply with applicable laws and regulations.

Team Members

As of December 31, 2005, the Company had 777 team members. The Company's team members have no union affiliations and the Company believes its relationship with its team members is good. The table below presents team members by department:

Department	Number of Team Members December 31, 2005	2004
Collection and Servicing	**474**	482
Loan Origination and Processing	**52**	43
Sales and Marketing	**92**	81
Finance and Accounting	**37**	32
Information Systems	**67**	57
Management and Support	**55**	62
Total	**777**	757

ITEM 1A. *Risk Factors*

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

The ability to accurately forecast Consumer Loan performance is critical to the Company's success. At the time of Consumer Loan acceptance, the Company forecasts future expected cash flows from the Consumer Loan. Based on these forecasts, the Company makes an advance to the related dealer-partner at a level designed to achieve an acceptable return on capital. If Consumer Loan performance equals or exceeds original expectations, it is likely the target return on capital will be achieved. However, actual cash flows from any individual Dealer Loan are often different than cash flows estimated at Dealer Loan inception. If such difference is favorable, the difference is recognized into income over the remaining life of the Dealer Loan through a yield adjustment. If such difference is unfavorable, an allowance for credit losses is established and a corresponding provision for credit losses is recorded as a current period expense. Because there are differences between estimated cash flows at inception and actual cash flows, an allowance is required for a significant portion of the Company's Dealer Loan portfolio. There can be no assurance that estimates will be accurate or that Consumer Loan performance will be as expected. If the Company produces disappointing operating results, it will likely be because future Consumer Loan performance was overestimated. In the event that the Company underestimates the default risk or under-prices products, the financial position, liquidity and results of operations will be adversely affected, possibly to a material degree.

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

The automobile finance market is highly fragmented and is served by a variety of companies. The Company's largest competition comes from "buy here, pay here" dealerships where the dealer finances the consumer's purchase and services the Consumer Loan themselves. 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 the Company, 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. In seeking to establish the Company as one of the principal financing sources of its dealer-partners, the Company competes predominately on the basis of a high level of dealer service and strong dealer relationships, and by offering guaranteed credit approval for consumers. While the Company is only aware of a few companies that offer guaranteed credit approval, there is potential that significant direct competition could emerge and that the Company may be unable to compete successfully.

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

The Company depends on borrowings under the revolving credit facility and warehouse revolving facility and various other financing alternatives available, in addition to cash flow generated by operations, to fund advances to dealer-partners and for the payment of dealer holdbacks. The $135.0 million revolving credit facility matures on June 20, 2008. As of the filing date of this report, the Company has one warehouse credit facility with various financial institutions providing for available borrowings of up to a total of $325.0 million. This facility matures on February 14, 2007. In addition, the Warehouse Facility must be refinanced within 90 days of February 15, 2006 and within 360 days of the most recent refinancing occurring after February 15, 2006. There can be no assurance that new or additional financing can be obtained, or that it will be available on acceptable terms. If its various financing alternatives were to become limited or unavailable, the Company would have to limit business activity and operations could be materially adversely affected.

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

The Company currently has substantial outstanding indebtedness and its credit facilities allow the Company to incur significant amounts of additional debt. The ability to make payment of principal or interest on indebtedness will depend in part on the Company's future operating performance, which to a certain extent is subject to economic, financial, competitive and other factors beyond the Company's control. If the Company is unable to generate sufficient cash flow in the future to service its debt, it may be required to refinance all or a portion of its existing debt or to obtain additional financing. There can be no assurance that any such refinancing will be possible or that any additional financing can be obtained on satisfactory terms.

The substantial regulation to which the Company is subject limits the business and could result in potential liability.

The Company's business is subject to various laws and regulations which require licensing and qualification; limit interest rates, fees and other charges associated with the Consumer Loans assigned to the Company; 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, or an adverse change in, these laws or regulations could have a material adverse effect on the Company by, among other things, limiting the jurisdictions in which the Company may operate, restricting the ability to realize the value of the collateral securing the loans, making it more costly or burdensome to do business, or resulting in potential liability. 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 the Company.

The sale of insurance products in connection with Consumer Loans assigned to the Company by dealer-partners is also subject to state laws and regulations. As the holder of the Consumer Loans that contain these products, some of these state laws and regulations may apply to the Company's servicing and collection of the Consumer Loans. Although the Company does not believe that such laws and regulations significantly affect its business because it does not deal directly with consumers in the sale of insurance products, there can be no assurance that insurance regulatory authorities in the jurisdictions in which such products are offered by dealer-partners will not seek to regulate or restrict the operation of the business in such jurisdictions. Any such action could materially adversely affect the income received from such products.

Adverse changes in economic conditions could adversely affect the Company's financial position, liquidity and results of operations and its ability to enter into future financing transactions.

The Company is subject to general economic conditions which are beyond its control. During periods of economic slowdown or recession, delinquencies, defaults, repossessions and losses generally increase. These periods also may be 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. Because the 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. In addition, during an economic slowdown or recession, the Company's servicing costs may increase without a corresponding increase in service fee income. Any sustained period of increased delinquencies, defaults, repossessions or losses or increased servicing costs could also materially adversely affect the Company's financial position, liquidity and results of operations and its ability to enter into future financing transactions.

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

As a result of the consumer-oriented nature of the industry in which the Company operates and uncertainties with respect to the application of various laws and regulations in some circumstances, the Company is 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. Some litigation against the Company could take the form of class action complaints by consumers. As the assignee of Consumer Loans originated by dealer-partners, it may also be named as a co-defendant in lawsuits filed by consumers principally against dealer-partners. The damages and penalties claimed by consumers in these types of matters can be substantial. The relief requested by the plaintiffs varies but includes requests for compensatory, statutory and punitive damages. A significant judgment against the Company in connection with any litigation could have a material adverse affect on the Company's financial condition and results of operations.

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

The Company's senior management average over 8 years of experience with the Company. The Company's success is dependent upon the management and the leadership skills of these managers. In addition, competition from other companies to hire the Company's personnel possessing the necessary skills and experience required could contribute to an increase in employee turnover. The loss of any of these individuals or an inability to attract and retain additional qualified personnel could adversely affect the Company. There can be no assurance that the Company will be able to retain its existing senior management personnel or attract additional qualified personnel.

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

Natural disasters, acts of war, terrorist attacks and the escalation of military activity in response to such 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. Such 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 such threats could affect the business in ways that cannot be predicted. The effect of any of these events or threats could have an adverse effect on the Company's business, financial condition and results of operations.

ITEM 1B. *Unresolved Staff Comments*

Not applicable.

ITEM 2. *Properties*

United States and Other

The Company's headquarters are located at 25505 West Twelve Mile Road, Southfield, Michigan 48034. The Company purchased the office building in 1993 and has a mortgage loan from a commercial bank that is secured by a first mortgage lien on the property. The office building includes approximately 118,000 square feet of space on five floors. The Company occupies approximately 78,000 square feet of the building, with most of the remainder of the building leased to various tenants.

The Company leases approximately 20,000 square feet of office space in Henderson, Nevada. The lease expires in October 2009.

United Kingdom

The Company leases approximately 10,000 square feet of office space in an office building in Worthing, West Sussex, in the United Kingdom. As of December 31, 2005, the Company did not occupy any space within the building under a lease expiring in September 2007, however, the Company did sub-lease approximately 3,700 square feet of the office building during 2005.

ITEM 3. *Legal Proceedings*

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

For a description of material pending litigation to which the Company is a party, see Note 12 to the consolidated financial statements, which is incorporated herein by reference.

ITEM 4. *Submission of Matters to a Vote of Security Holders*

No matters were submitted to a vote of the shareholders during the fourth quarter of 2005.

PART II

ITEM 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Stock Price

During 2004 and 2005 (through July 19, 2005), the Company's common stock was traded on The Nasdaq Stock Market® ("the Nasdaq") under the symbol CACC. As of July 19, 2005, the Company's common stock was delisted from the Nasdaq and is currently traded on the Pink Sheets Electronic Quotation Service 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 each quarter during 2004 and 2005 that the common stock was traded on the Nasdaq (through July 19, 2005) and the high and low [bid] prices for the common stock for the remainder of 2005 as reported by the Pink Sheets Electronic Quotation Service. [Such bid information reflects inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.]

	2005		2004	
Quarter Ended	**High**	**Low**	High	Low
March 31	**$26.46**	**$19.16**	$20.65	$14.97
June 30	**20.09**	**12.90**	19.25	12.55
September 30	**16.25**	**12.08**	20.00	12.65
December 31	**17.90**	**14.50**	26.92	18.52

As of March 1, 2006, the number of beneficial holders and shareholders of record of the common stock was 1,288 based upon securities position listings furnished to the Company.

During the first quarter of 2006, the Company applied for the relisting of its common stock on the Nasdaq National Market. The listing of the common stock on the Nasdaq National Market requires compliance with, among other things, various quantitative requirements, such as a minimum level of public market float, a minimum level of publicly owned shares, a minimum level of round lot holders and a minimum level of tangible net worth, as well as certain qualitative requirements. Whether the relevant criteria have been satisfied is determined at Nasdaq's discretion. The Company anticipates that if its application is approved, the relisting process should be completed by April 30, 2006.

Dividends

The Company has not paid any cash dividends during the periods presented. The Company's credit agreements contain financial covenants pertaining to the Company's ratio of liabilities to tangible net worth and amount of tangible net worth, which may indirectly limit the payment of dividends on common stock.

Equity Compensation Plans

The Company's Incentive Compensation Plan (the "Incentive Plan"), which was approved by shareholders on May 13, 2004, provides for the granting of restricted stock, restricted stock units, stock options, and performance awards to employees, officers, and directors. The Company also has two stock option plans pursuant to which it has granted stock options with time or performance-based vesting requirements to employees, officers, and directors. The Company's 1992 Stock Option Plan (the "1992 Plan") was approved by shareholders in 1992 prior to the Company's initial public offering and was terminated as to future grants on May 13, 2004, when shareholders approved the Incentive Plan. The Company's Director Stock Option Plan (the "Director Plan") was approved by shareholders in 2002 and was terminated as to future grants on May 13, 2004, with shareholder approval of the Incentive Plan. The following table sets forth, with respect to each of the option plans, (i) the number of shares of common stock to be issued upon the exercise of outstanding options, (ii) the weighted average exercise price of outstanding options, and (iii) the number of shares remaining available for future issuance, as of December 31, 2005:

Plan Category	Number of shares to be issued upon exercise of outstanding options	Weighted-Average exercise price of outstanding options	Number of shares remaining available for future issuance under equity compensation plans[(a)]
Equity compensation plans approved by shareholders:			
1992 Plan	3,459,044	$ 6.98	—
Director Plan	200,000	12.13	—
Incentive Plan	—	—	900,977
Total	3,659,044	$ 7.26	900,977

(a) For additional information regarding the Company's stock compensation plans, see Note 9 to the consolidated financial statements, which is incorporated herein by reference.

Stock Repurchases

There were no stock repurchases by the Company during the three months ended December 31, 2005.

On August 5, 1999, the Company announced a stock repurchase program of up to 1.0 million shares of the Company's common stock. The program authorized the Company to repurchase common shares in the open market or in privately negotiated transactions at price levels the Company deems attractive. Since August 1999, the Company's board of directors has authorized several increases to the stock repurchase program, the most recent occurring on March 10, 2004, which increased the total number of shares authorized to be repurchased to 7.0 million shares. As of December 31, 2005, the Company has repurchased approximately 6.4 million shares under this program at a cost of $51.9 million. On February 10, 2006, the Company announced that it had commenced a modified Dutch auction tender offer to purchase up to 5.0 million of its outstanding common stock at a price per share of $21.00 to $25.00. The tender offer will expire on March 13, 2006.

ITEM 6. *Selected Financial Data*

The selected income statement and balance sheet data presented below are derived from the Company's audited and unaudited consolidated financial statements and should be read in conjunction with the Company's consolidated financial statements for the years ended December 31, 2005, 2004, and 2003, and notes thereto and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations", included elsewhere in this Annual Report. Certain amounts for prior periods have been reclassified to conform to the current presentation.

(Dollars in Thousands, Except per Share Data)	**2005**	2004	2003	2002	Unaudited 2001
INCOME STATEMENT DATA:					
Revenue	**$201,268**	$172,071	$141,042	$138,070	$124,621
Costs and expenses	**94,724**	87,395	79,681	95,341	93,560
Operating income	**106,544**	84,676	61,361	42,729	31,061
Foreign exchange gain (loss)	**1,812**	1,650	(2,767)	(3)	(42)
Income from continuing operations before provision for income taxes	**108,356**	86,326	58,594	42,726	31,019
Provision for income taxes	**40,159**	30,073	27,369	18,747	13,417
Income from continuing operations	**68,197**	56,253	31,225	23,979	17,602
Gain (loss) from operations of discontinued United Kingdom segment[a]	**6,194**	1,556	(7,047)	8,630	10,218
Provision (benefit) for income taxes	**1,790**	484	(491)	2,835	3,149
Gain (loss) from discontinued operations	**4,404**	1,072	(6,556)	5,795	7,069
Net income	**$ 72,601**	$ 57,325	$ 24,669	$ 29,774	$ 24,671
Net income per common share:					
Basic	**$ 1.96**	$ 1.48	$ 0.58	$ 0.70	$ 0.59
Diluted	**$ 1.85**	$ 1.40	$ 0.57	$ 0.69	$ 0.57
Income from continuing operations per common share:					
Basic	**$ 1.84**	$ 1.46	$ 0.74	$ 0.57	$ 0.42
Diluted	**$ 1.74**	$ 1.37	$ 0.72	$ 0.55	$ 0.41
Weighted average shares outstanding:					
Basic	**36,991,136**	38,617,787	42,195,340	42,438,292	42,140,961
Diluted	**39,207,680**	41,017,205	43,409,007	43,362,741	43,150,804

(continued)

(Dollars in Thousands, Except per Share Data)	**2005**	2004	2003	2002	Unaudited 2001
BALANCE SHEET DATA:					
Loans receivable, net	**$563,528**	$526,011	$476,128	$456,908	$501,535
All other assets	**55,866**	65,302	68,720	68,251	87,782
Total assets	**$619,394**	$591,313	$544,848	$525,159	$589,317
Total debt	**$146,905**	$193,547	$106,447	$109,663	$202,290
Dealer reserve payable, net	**—**	15,675	35,198	47,262	61,013
Other liabilities	**99,463**	81,201	59,908	52,222	45,469
Total liabilities	**246,368**	290,423	201,553	209,147	308,772
Shareholders' equity[(b)]	**373,026**	300,890	343,295	316,012	280,545
Total liabilities and shareholders' equity	**$619,394**	$591,313	$544,848	$525,159	$589,317

(a) Includes gain on sale of United Kingdom loan portfolio of $3.0 million recognized in 2005 and impairment expenses of $10.5 million recognized in 2003 following the decision to liquidate the United Kingdom operation.

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

ITEM 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Executive Summary

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

The Company is an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the dealer-partner and immediately assigned to the Company. The compensation paid to the dealer-partner in exchange for the Consumer Loan is paid in two parts. A portion of the compensation is paid at the time of origination, and a portion is paid based on the performance of the loan. The amount paid at the time of origination is called an advance; the portion paid over time is called dealer holdback. For accounting purposes, a majority of the transactions described above are not considered to be Consumer Loan transactions. Instead the Company's accounting reflects that of a lender to the dealer-partner. This classification for accounting purposes is primarily a result of (i) the dealer-partner's financial interest in the Consumer Loan and (ii) certain elements of the Company's legal relationship with the dealer-partner. Because the legal agreement between the Company and the dealer-partner in the United Kingdom is structured differently, the Company's United Kingdom business is accounted for as a consumer lender. This difference is due to slight differences in the servicing agreements between the Company and the dealer-partner for each respective country. In the United States and Canada, if the Company discovers a misrepresentation by the dealer-partner relating to a Consumer Loan assigned to the Company, the Company can demand that the Consumer Loan be repurchased for the current balance of the Consumer Loan less the amount of any unearned finance charge plus the applicable termination fee, which is generally $500. Upon receipt of such amount in full, the Company will reassign the Consumer Loan receivable and its security interest in the financed vehicle to the dealer-partner. The dealer-partner can also opt to repurchase Consumer Loans at their own discretion. To date, no dealer-partner has repurchased receivables under this option. This repurchase right is not part of the servicing agreement in the United Kingdom. In addition, a small percentage of transactions in the United States are considered to be Consumer Loans for accounting purposes. For the majority of the Company's transactions, the cash amount advanced to the dealer-partner is recorded as an asset on the Company's balance sheet. The aggregate amount of all advances to an individual dealer-partner, plus accrued income, less repayments comprises the Dealer Loan recorded in Loans receivable. For the remaining business, the amount due from the consumer is recorded as a Consumer Loan in Loans receivable and a liability for estimated dealer holdback payments is recorded. For additional information regarding the Company's accounting for Loans receivable, see Note 1 to the consolidated financial statements, which is incorporated herein by reference.

An initial yield is assigned to each dealer advance. The yield is the rate that, when applied to expected future cash flows, result in a present value equal to the initial cash amount of the advance. The expected future cash flows are the expected collections from the Consumer Loan, less the amount of expected future dealer holdback payments.

The Company believes it has been successful in improving the profitability of its Dealer Loans in recent years primarily as a result of increasing the spread between the forecasted collection rate and the advance rate, and increasing revenue from ancillary products. Dealer Loan origination dollar volume increased 8.0% in 2005 due to an increase in the number of active dealer-partners and an increase in the number of active dealer-partners partially offset by a decrease in the number of transactions per active dealer-partner. Since the Company believes it is one of only a few financial services companies serving the Company's target market, the Company believes that it has an opportunity to grow its business profitably in the future.

Critical success factors for the Company include access to capital and the ability to accurately forecast Consumer Loan performance. The Company's strategy for accessing the capital required to grow its business is to: (i) maintain consistent financial performance, (ii) maintain modest financial leverage, and (iii) maintain multiple funding sources. The Company's funded debt to equity ratio is 0.4 to 1.0 at December 31, 2005. The Company currently funds its business through a bank line of credit facility and commercial bank conduit-financed secured financings.

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

Consumer Loan Performance in the United States

The United States is the Company's only business segment that continues to originate Dealer Loans. The following table compares the Company's forecast of Consumer Loan collection rates for loans accepted by year in the United States as of December 31, 2005 with the forecast as of December 31, 2004. The data presented in the table is presented in accordance with the Company's current accounting methodology and is based on the following: (i) collection and advance rates included in the table are calculated as a percentage of funded loans, defined as Consumer Loans on which an advance has been paid to the dealer-partner and (ii) advance rates represent the cash amount paid to the dealer-partner or paid to third parties for ancillary products.

Loan Origination Year	**December 31, 2005 Forecasted Collection %**	December 31, 2004 Forecasted Collection %	Variance
1995	**54.9%**	54.9%	0.0%
1996	**55.0%**	55.0%	0.0%
1997	**58.3%**	58.4%	(0.1%)
1998	**67.7%**	67.7%	0.0%
1999	**72.7%**	72.8%	(0.1%)
2000	**73.2%**	73.2%	0.0%
2001	**67.2%**	67.2%	0.0%
2002	**70.3%**	70.2%	0.1%
2003	**74.0%**	74.0%	0.0%
2004	**72.9%**	73.4%	(0.5%)

The following table presents forecasted Consumer Loan collection rates, advance rates, the spread (the forecasted collection rate less the advance rate), and the percentage of the forecasted collections that have been realized as of December 31, 2005 for the United States business segment.

	As of December 31, 2005			
Year of Origination	**Forecasted Collection %**	**Advance %**	**Spread %**	**% of Forecast Realized**
1995	**54.9%**	**44.2%**	**10.7%**	**100.0%**
1996	**55.0%**	**46.9%**	**8.1%**	**99.8%**
1997	**58.3%**	**47.9%**	**10.4%**	**99.2%**
1998	**67.7%**	**46.1%**	**21.6%**	**98.5%**
1999	**72.7%**	**48.9%**	**23.8%**	**97.6%**
2000	**73.2%**	**48.0%**	**25.2%**	**96.7%**
2001	**67.2%**	**45.8%**	**21.4%**	**96.4%**
2002	**70.3%**	**42.2%**	**28.1%**	**94.1%**
2003	**74.0%**	**43.4%**	**30.6%**	**82.8%**
2004	**72.9%**	**44.0%**	**28.9%**	**59.7%**
2005	**73.6%**	**47.1%**	**26.5%**	**22.7%**

Accurately forecasting future collection rates is critical to the Company's success. The risk of a forecasting error declines as Consumer Loans age. For example, the risk of a material forecasting error for business written in 1999 is very small since 97.6% of the total amount forecasted has already been realized. In contrast, the Company's forecast for recent Consumer Loans is less certain. If the Company produces disappointing operating results, it will likely be because the Company overestimated future Consumer Loan collections. Although the Company makes every effort to estimate collection rates as accurately as possible, there can be no assurance that the Company's estimates will be accurate or that Consumer Loan performance will be as expected.

A wider spread between the forecasted collection rate and the advance rate reduces the Company's risk of credit losses. Because collections are applied to advances on an individual dealer-partner basis, a wide spread does not eliminate the risk of losses, but it does reduce the risk significantly. While the spread has decreased from 2004 to 2005, the Company believes it is still at a sufficient level to minimize the Company's risk of being able to recover the cash advance.

During the first quarter of 2005, the Company made the following changes that impacted pricing: (i) effective February 1, 2005, the monthly rate for CAPS fees increased from $499 to $599, (ii) effective March 1, 2005, the Company increased advance rates by approximately 1.5%, and (iii) early in the first quarter, the Company began offering GAP debt cancellation terms in its contracts. GAP provides the consumer protection by forgiving the difference between the loan balance and the consumer's insurance coverage limit in the event the vehicle is totaled or stolen. The Company receives a fee for every GAP provision sold by its dealer-partners. The Company believes that the net impact of these three changes will result in Consumer Loans accepted during 2005 producing approximately the same level of profitability as Consumer Loans accepted in 2004. There were no other material changes in credit policy or pricing during 2005, other than routine changes designed to maintain current profitability levels.

Results of Operations

The tables in this section present income statement data on a consolidated basis as well as for the Company's three business segments, United States, United Kingdom, and Other.

Consolidated

(Dollars in thousands)	**Year Ended December 31, 2005**	**% of Revenue**	Year Ended December 31, 2004	% of Revenue	Year Ended December 31, 2003	% of Revenue
REVENUE:						
Finance charges	**$176,369**	**87.6%**	$150,651	87.5%	$117,758	83.5%
License fees	**9,775**	**4.9**	5,835	3.4	3,836	2.7
Other income	**15,124**	**7.5**	15,585	9.1	19,448	13.8
Total revenue	**201,268**	**100.0**	172,071	100.0	141,042	100.0
COSTS AND EXPENSES:						
Salaries and wages	**36,853**	**18.3**	32,720	19.0	28,377	20.1
General and administrative	**20,834**	**10.4**	20,724	12.0	18,573	13.2
Sales and marketing	**14,275**	**7.1**	11,915	6.9	8,006	5.7
Provision for credit losses	**5,705**	**2.8**	6,526	3.8	8,835	6.3
Interest	**13,886**	**6.9**	11,660	6.8	8,057	5.7
Stock-based compensation expense	**2,240**	**1.1**	2,580	1.5	3,316	2.4
Other expense	**931**	**0.5**	1,270	0.7	4,517	3.2
Total costs and expenses	**94,724**	**47.1**	87,395	50.7	79,681	56.6
Operating income	**106,544**	**52.9**	84,676	49.3	61,361	43.4
Foreign exchange gain (loss)	**1,812**	**0.9**	1,650	1.0	(2,767)	(2.0)
Income from continuing operations before provision for income taxes	**108,356**	**53.8**	86,326	50.3	58,594	41.4
Provision for income taxes	**40,159**	**20.0**	30,073	17.5	27,369	19.4
Income from continuing operations	**68,197**	**33.8**	56,253	32.8	31,225	22.0

(continued)

(Dollars in thousands)	**Year Ended December 31, 2005**	**% of Revenue**	Year Ended December 31, 2004	% of Revenue	Year Ended December 31, 2003	% of Revenue
Discontinued operations						
Gain (loss) from operations of discontinued United Kingdom segment before provision for income taxes(1)	**6,194**	**3.1**	1,556	0.9	(7,047)	(5.0)
Provision (benefit) for income taxes	**1,790**	**0.9**	484	0.3	(491)	(0.3)
Gain (loss) from discontinued operations	**4,404**	**2.2**	1,072	0.6	(6,556)	(4.7)
Net income	**$ 72,601**	**36.0%**	$ 57,325	33.4%	$ 24,669	17.3%
Net income per common share:						
Basic	**$ 1.96**		$ 1.48		$ 0.58	
Diluted	**$ 1.85**		$ 1.40		$ 0.57	
Income from continuing operations per common share:						
Basic	**$ 1.84**		$ 1.46		$ 0.74	
Diluted	**$ 1.74**		$ 1.37		$ 0.72	

(1) Includes gain on sale of United Kingdom loan portfolio of $3.0 million recognized during the fourth quarter of 2005 and impairment expenses of $10.5 million recognized in 2003 following the decision to liquidate the United Kingdom operation.

Continuing Operations

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

For the year ended December 31, 2005, consolidated net income from continuing operations increased to $68.2 million, or $1.74 per diluted share, compared to $56.3 million, or $1.37 per diluted share, for the same period in 2004. The increase in consolidated net income from continuing operations was primarily due to: (i) a 17.1% increase in finance charge income due to an increase in the size of the Dealer Loan portfolio during 2005, (ii) a $3.9 million increase in license fees, which represent monthly fees charged to dealer-partners for access to CAPS, primarily due to an increase in the number of active dealer-partners, (iii) a decrease in general and administrative expenses, as a percentage of revenue, of 1.6%, primarily related to the resolution of a dispute over previously paid audit fees, and (iv) a $0.8 million decrease in the provision for credit losses primarily due to a reduction in the provision for credit losses required to maintain the initial yield established at the inception of a Dealer Loan.

The results of operations for the Company as a whole are attributable to changes described by segment in the discussion of the results of operations in the United States, United Kingdom, and Other business segments. The following discussion of interest expense is provided on a consolidated basis, as the explanation is not meaningful by business segment.

Interest. Consolidated interest expense from continuing operations increased to $13.9 million in 2005 from $11.7 million in 2004. The increase in consolidated interest expense from continuing operations was due to an increase in average outstanding debt as a result of stock buybacks in the third quarter of 2004 and an increase in the weighted average interest rate to 7.4% in 2005 from 7.0 % in 2004. The increase in the interest rate is primarily the result of increased market rates partially offset by the decreased impact of fixed fees on the Company's secured financing and line of credit facility due to higher average outstanding borrowings.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

For the year ended December 31, 2004, consolidated net income from continuing operations increased to $56.3 million, or $1.37 per diluted share, compared to $31.2 million, or $0.72 per diluted share, for the same period in 2003. The increase in consolidated net income from continuing operations was primarily due to: (i) a 27.9% increase in finance charge income due to an increase in the size of the Dealer Loan portfolio during 2004 and an increase in the yield due to an increase in forecasted collection rates on these Dealer Loans, (ii) a decrease in the Company's effective tax rate to 34.8% from 46.7% primarily due to a change in the Company's international tax structure during 2004 and the impact of the repatriation of foreign earnings in 2003, and (iii) a foreign exchange gain of $1.7 million in 2004 compared to a loss of $2.8 million in 2003. The foreign exchange gains and losses were primarily the result of changes in the fair value of forward contracts entered into during the third quarter of 2003, and (iv) a $2.3 million decrease in the provision for credit losses primarily due to a reduction in the provision for credit losses required to maintain the initial yield established at the inception of a Dealer Loan.

The results of operations for the Company as a whole are attributable to changes described by segment in the discussion of the results of operations in the United States, United Kingdom, and Other business segments. The following discussion of interest expense is provided on a consolidated basis, as the explanation is not meaningful by business segment.

Interest. Consolidated interest expense increased to $11.7 million in 2004 from $8.1 million in 2003. The increase in consolidated interest expense was due to an increase in average outstanding debt as a result of stock repurchases and an increase in Dealer Loans outstanding funded using the warehouse financing, partially offset by a decrease in the weighted average interest rate to 7.0% in 2004 from 7.8% in 2003. The decrease in the weighted average interest rate is primarily the result of the decreased impact of fixed fees on the Company's secured financings and line of credit facility due to higher average outstanding borrowings.

The following table presents income statement data for the Company's United States business segment:

(Dollars in thousands)	**Year Ended December 31, 2005**	**% of Revenue**	Year Ended December 31, 2004	% of Revenue	Year Ended December 31, 2003	% of Revenue
REVENUE:						
Finance charges	**$176,173**	**88.1%**	$149,998	89.5%	$116,156	89.3%
License fees	**9,775**	**4.9**	5,835	3.5	3,836	2.9
Other income	**13,964**	**7.0**	11,721	7.0	10,086	7.8
Total revenue	**199,912**	**100.0**	167,554	100.0	130,078	100.0
COSTS AND EXPENSES:						
Salaries and wages	**36,612**	**18.3**	32,111	19.2	27,136	20.9
General and administrative	**20,548**	**10.3**	20,304	12.1	17,435	13.4
Sales and marketing	**14,275**	**7.1**	11,915	7.1	7,944	6.1
Provision for credit losses	**5,709**	**2.9**	5,332	3.2	6,003	4.6
Interest	**13,304**	**6.7**	11,009	6.6	6,329	4.9
Stock-based compensation expense	**2,240**	**1.1**	2,580	1.5	3,316	2.5
Other expense	**305**	**0.2**	344	0.2	541	0.4
Total costs and expenses	**92,993**	**46.6**	83,595	49.9	68,704	52.8

(continued)

(Dollars in thousands)	**Year Ended December 31, 2005**	**% of Revenue**	Year Ended December 31, 2004	% of Revenue	Year Ended December 31, 2003	% of Revenue
Operating income	**106,919**	**53.4**	83,959	50.1	61,374	47.2
Foreign exchange gain (loss)	**1,056**	**0.5**	1,661	1.0	(2,862)	(2.2)
Income from continuing operations before provision for income taxes	**107,975**	**53.9**	85,620	51.1	58,512	45.0
Provision for income taxes	**40,276**	**20.1**	29,767	17.8	27,237	20.9
Income from continuing operations	**$ 67,699**	**33.8%**	$ 55,853	33.3%	$ 31,275	24.1%

United States

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Finance Charges. Finance charges increased to $176.2 million in 2005 from $150.0 million in 2004 primarily due to an increase in the size of the Dealer Loan portfolio resulting from an increase in the number of active dealer-partners, partially offset by a decrease in the number of transactions per active dealer-partner.

The number of active dealer-partners is a function of new dealer-partner enrollments and attrition. Active dealer-partners are dealer-partners who submit at least one loan during the period. The following table summarizes the changes in active dealer-partners and corresponding unit volume for the twelve months ended December 31, 2005 and 2004:

	Twelve Months Ended December 31, 2005			Twelve Months Ended December 31, 2004		
	Dealer-Partners	**Unit Volume**	**Average**	Dealer-Partners	Unit Volume	Average
Production from year ended December 31 of the prior year	**1,215**	**75,955**	**62.5**	916	62,334	68.1
Attrition(1)	**(239)**	**(4,291)**	**18.0**	(182)	(4,459)	24.5
Volume change from dealer-partners active in both periods	**n/a**	**(5,147)**	**n/a**	n/a	2,875	n/a
Current period volume from dealer-partners active both periods	**976**	**66,517**	**68.2**	734	60,750	82.8
New dealer-partners(2)	**745**	**16,278**	**21.8**	460	14,482	31.5
Restarts(3)	**45**	**772**	**17.2**	21	723	34.4
Current period production	**1,766**	**83,567**	**47.3**	1,215	75,955	62.5

(1) Dealer-partner attrition is measured according to the following formula: dealer-partners active during the prior period who become inactive during the current period.

(2) Excludes new dealer-partners that have enrolled in the Company's program, but have not submitted at least one Consumer Loan during the period.

(3) Restarts are previously active dealer-partners that were inactive during the prior period who became active during the current period.

The increase in new dealer-partner enrollments in 2005 was impacted by a new policy implemented in the first quarter of 2005. The new policy allows prospective dealer-partners to enroll in the Company's program without paying the $9,850 enrollment fee. Prospective dealer-partners choosing this option instead agree to allow the Company to keep 50% of the first accelerated dealer holdback payment. This payment, called Portfolio Profit Express, is paid to qualifying dealer-partners after 100 Consumer Loans have been originated and assigned to the Company. Based on the historical average of Portfolio Profit Express payments, the Company expects average enrollment fee revenue per dealer-partner for those dealer-partners electing the new option and reaching 100 Consumer Loans will be approximately $15,000 to $20,000. Approximately 57% of the dealer-partners that enrolled during 2005 took advantage of this new enrollment option.

License Fees. License fees increased to $9.8 million in 2005 from $5.8 million in 2004 due to an increase in the number of active dealer-partners. License fees represent monthly fees charged to dealer-partners for access to CAPS. The average number of dealer-partners billed for CAPS fees in 2005 was 1,360 compared to 938 in 2004. Effective February 1, 2005, the monthly rate for CAPS fees increased from $499 to $599.

Salaries and Wages. Salaries and wages, as a percentage of revenue, decreased to 18.3% in 2005 from 19.2% in 2004 primarily due to a decrease in servicing salaries, as a percentage of revenue, of 0.5% due to increased operational efficiencies.

General and Administrative. General and administrative expenses, as a percentage of revenue, decreased to 10.3% in 2005 from 12.1% in 2004. The decrease was primarily due to the resolution of a dispute over previously paid audit fees.

Sales and Marketing. Sales and marketing expenses, as a percentage of revenue, remained consistent at 7.1% in 2005 and in 2004 primarily due to an increase in dealer-partner support products and services, as a percentage of revenue, of 0.4%, offset by a decrease in sales commissions, as a percentage of revenue, of 0.4%. The increase in expenses related to dealer-partner support products and services was primarily due to an increase in sales promotion kits and signs primarily due to an increase in dealer-partner enrollments. The decrease in sales commissions, as a percentage of revenue, is primarily due to Dealer Loan origination volume growing at a slower rate than finance charge revenue.

Provision for Credit Losses. The provision for credit losses increased to $5.7 million in 2005 from $5.3 million in 2004. The provision for credit losses consists primarily of a provision to reduce the carrying value of Dealer Loans to maintain the initial yield established at the inception of the Dealer Loan. Additionally, the provision for credit losses includes a provision for losses on notes receivable and a provision for earned but unpaid revenue related to license fees. The increase in the provision for credit losses in 2005 was primarily due to a one-time pre-tax charge of $2.9 million in the third quarter of 2005 related to a reduction in forecasted collection rates resulting from Hurricanes Katrina and Rita partially offset by a decrease in the provision for credit losses required to maintain the initial yield established at the inception of the Dealer Loan.

Stock-based Compensation Expense. Stock-based compensation expense decreased to $2.2 million in 2005 from $2.6 million in 2004 primarily due to a decline in the number of unvested stock options outstanding.

Provision for Income Taxes. The effective tax rate increased to 36.6% in 2005 from 34.8% in 2004 primarily due to a change made to the Company's tax structure in 2004 to treat the Company's foreign subsidiaries as branches subject to United States tax jurisdiction.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Finance Charges. Finance charges increased to $150.0 million in 2004 from $116.2 million in 2003 primarily due to an increase in the size of the Dealer Loan portfolio resulting from an increase in the number of active dealer-partners and an increase in the average transaction size, partially offset by a decrease in the number of transactions per active dealer-partner.

The number of active dealer-partners is a function of new dealer-partner enrollments and attrition. Active dealer-partners are dealer-partners who submit at least one loan during the period. The following table summarizes the changes in active dealer-partners and corresponding unit volume for the twelve months ended December 31, 2004 and 2003:

	Twelve Months Ended December 31, 2004			Twelve Months Ended December 31, 2003		
	Dealer-Partners	Unit Volume	Average	Dealer-Partners	Unit Volume	Average
Production from year ended December 31 of the prior year	916	62.334	68.1	784	49,463	63.1
Attrition(1)	(182)	(4,459)	24.5	(231)	(3,604)	15.6
Volume change from dealer-partners active in both periods	n/a	2,875	n/a	n/a	4,487	n/a
Current period volume from dealer-partners active both periods	734	60,750	82.8	553	50,346	91.0
New dealer-partners(2)	460	14.482	31.5	333	11,267	33.8
Restarts(3)	21	723	34.4	30	721	24.0
Current period production	1,215	75,955	62.5	916	62,334	68.1

(1) Dealer-partner attrition is measured according to the following formula: dealer-partners active during the prior period who become inactive during the current period.

(2) Excludes new dealer-partners that have enrolled in the Company's program, but have not submitted at least one Consumer Loan during the period.

(3) Restarts are previously active dealer-partners that were inactive during the prior period who became active during the current period.

License Fees. License fees increased to $5.8 million in 2004 from $3.8 million in 2003 due to an increase in the number of active dealer-partners. License fees represent monthly fees charged to dealer-partners for access to CAPS.

Salaries and Wages. Salaries and wages, as a percentage of revenue, decreased to 19.2% in 2004 from 20.9% in 2003 primarily due to: (i) a decrease in servicing salaries, as a percentage of revenue, of 1.4% due to increased operational efficiencies and (ii) a decrease in corporate support salaries, as a percentage of revenue, of 0.7% in 2004, which is consistent with the Company's business plan of growing corporate infrastructure at a rate slower than the growth rate of the Dealer Loan portfolio.

Sales and Marketing. Sales and marketing expenses, as a percentage of revenue, increased to 7.1% in 2004 from 6.1% in 2003 primarily due to: (i) an increase in dealer-partner support products and services, as a percentage of revenue, of 0.3%, (ii) an increase in expenses related to the Company's national dealer-partner convention, as a percentage of revenue, of 0.2%, and (iii) an increase in sales commissions, as a percentage of revenue, of 0.1%. The increase in expenses related to dealer-partner support products and services was primarily due to: (i) the introduction of new dealer-partner inventory acquisition support products and consumer lead generation services in 2004 and (ii) an increase in sales promotion kits and signs primarily due to an increase in dealer-partner enrollments. The increase in expenses related to dealer-partner support products and services was offset by an approximately equal increase in other income resulting from the fees charged to dealer-partners for these products and services.

Provision for Credit Losses. The provision for credit losses decreased to $5.3 million in 2004 from $6.0 million in 2003. The provision for credit losses consists primarily of a provision to reduce the carrying value of Dealer Loans to maintain the initial yield established at the inception of the Dealer Loan. Additionally, the provision for credit losses includes a provision for losses on notes receivable and a provision for earned but unpaid revenue related to license fees. The decrease in the provision for credit losses in 2004 was primarily due to a reduction in the provision for credit losses required to maintain the initial yield established at the inception of the Dealer Loan.

Stock-based Compensation Expense. Stock-based compensation expense decreased to $2.6 million in 2004 from $3.3 million in 2003 primarily due to: (i) additional expense recognized during 2003 as a result of a reduction in the period over which certain performance-based stock options were expected to vest and (ii) a decline in the number of unvested stock options outstanding.

Foreign Exchange Gain (Loss). The Company recognized a foreign exchange gain of $1.7 million in 2004 compared to a loss of $2.9 million in 2003. The foreign exchange gains and losses were primarily the result of changes in the fair value of forward contracts entered into during the third quarter of 2003, as discussed in Note 1 to the consolidated financial statements, incorporated herein by reference.

Provision for Income Taxes. The effective tax rate decreased to 34.8% in 2004 from 46.5% in 2003 primarily due to a change made to the Company's tax structure in 2004 to treat the Company's foreign subsidiaries as branches subject to United States tax jurisdiction and the impact of the repatriation of foreign earnings in 2003.

United Kingdom

(Dollars in thousands)	**Year Ended December 31, 2005**	Year Ended December 31, 2004	Year Ended December 31, 2003
Discontinued operations			
Gain (loss) from operations of discontinued United Kingdom segment before provision for income taxes[(1)]	**$6,194**	$1,556	$(7,047)
Provision for income taxes	**1,790**	484	(491)
Gain (loss) on discontinued operations	**$4,404**	$1,072	$(6,556)

(1) Includes gain on sale of United Kingdom loan portfolio of $3.0 million recognized during the fourth quarter of 2005 and impairment expenses of $10.5 million recognized in 2003 following the decision to liquidate the United Kingdom operation.

Effective June 30, 2003, the Company decided to stop originating Consumer Loans in the United Kingdom.

The Company sold the remaining Consumer Loan portfolio of its United Kingdom subsidiary on December 30, 2005. The selling price was approximately $4.3 million resulting in a pre-tax gain of approximately $3.0 million.

Other

(Dollars in thousands)	**Year Ended December 31, 2005**	**% of Revenue**	Year Ended December 31, 2004	% of Revenue	Year Ended December 31, 2003	% of Revenue
REVENUE:						
Finance charges	**$ 196**	**14.5%**	$ 653	14.5%	$ 1,602	14.6%
Other income	**1,160**	**85.5**	3,864	85.5	9,362	85.4
Total revenue	**1,356**	**100.0**	4,517	100.0	10,964	100.0
COSTS AND EXPENSES:						
Salaries and wages	**241**	**17.8**	609	13.5	1,241	11.2
General and administrative	**286**	**21.1**	420	9.3	1,138	10.4
Sales and marketing	**—**	**—**	—	—	62	0.6
(Credit) provision for credit losses	**(4)**	**(0.3)**	1,194	26.4	2,832	25.8
Interest	**582**	**42.9**	651	14.4	1,728	15.8
Other expense	**626**	**46.2**	926	20.5	3,976	36.3
Total costs and expenses	**1,731**	**127.7**	3,800	84.1	10,977	100.1
Operating (loss) income	**(375)**	**(27.7)**	717	15.9	(13)	(0.1)
Foreign exchange gain (loss)	**756**	**55.8**	(11)	(0.3)	95	0.8
(Loss) income from continuing operations before (credit) provision for income taxes	**381**	**28.1**	706	15.6	82	0.7
(Credit) provision for income taxes	**(117)**	**(8.6)**	306	6.7	132	1.2
(Loss) income from continuing operations	**$ 498**	**36.7%**	$ 400	8.9%	$ (50)	(0.5)%

The Other segment consists of the Company's automobile leasing business, Canadian automobile financing business (accounted for as Dealer Loans) and secured lines of credit and floorplan financing products. In January 2002, the Company decided to stop originating automobile leases and effective June 30, 2003, the Company decided to stop originating Dealer Loans in Canada. As a result, the size of the lease portfolio and Dealer Loan portfolio in Canada have declined significantly. The Company has also significantly reduced its floorplan and secured line of credit portfolios since 2001. The declines in the revenues and expenses are primarily a result of these decisions.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to the allowance for credit losses, finance charge revenue, stock-based compensation expense, impairment of various assets, contingencies, and taxes. The Company believes the following critical accounting policies involve a high degree of judgment and complexity, and the use of different estimates or assumptions could produce materially different financial results.

Finance Charge Revenue

Balance Sheet Caption:	Loans receivable
Income Statement Caption:	Finance charges
Nature of Estimates Required:	Estimating revenue recognition using the interest rate method of accounting.
Assumptions and Approaches Used:	The Company recognizes finance charge income under an approach similar to the provisions of SOP 03-3 "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." SOP 03-3 requires the Company to recognize finance charges under the interest method such that revenue is recognized on a level yield basis based upon forecasted cash flows. As the forecasted cash flows change over time, the Company prospectively adjusts the rate upwards for positive changes but recognizes impairment for negative changes in the current period.
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.

Allowance for Credit Losses

Balance Sheet Caption:	Allowance for credit losses
Income Statement Caption:	Provision for credit losses
Nature of Estimates Required:	Estimating the amount and timing of future collections and dealer holdback payments.
Assumptions and Approaches Used:	The Company maintains an allowance for credit losses for any Dealer Loan balance that, based on current expectations, is not expected to achieve the weighted average initial yield established at the inception of the Dealer Loan. The Company compares the present value (discounted at the weighted average initial yield) of estimated future collections less the present value of the estimated related dealer holdback payments for each Dealer Loan to the recorded net investment in that Dealer Loan. If the present value of such cash flows is less than the carrying amount of the Dealer Loan, an allowance for credit losses is established to reduce the carrying amount to the calculated present value. The estimates of future collections and the related dealer holdback payments use various assumptions based on a dealer-partner's actual loss data and the Company's historical loss and collection experience. At December 31, 2005, a 1% decline in the forecasted future collections would result in approximately a $1.8 million pre-tax charge to the provision for credit losses. For additional information, see Note 1 to the consolidated financial statements, which is incorporated herein by reference.
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.

Stock-Based Compensation Expense

Balance Sheet Caption:	Paid-in capital
Income Statement Caption:	Stock-based compensation expense
Nature of Estimates Required:	Compensation expense for stock options is based on the fair value of the options on the date of grant, which is estimated by the Company, and is recognized over the expected vesting period of the options.
Assumptions and Approaches Used:	The Company uses the Black-Scholes option pricing model to estimate the fair value of stock option grants. This model calculates the fair value using various assumptions, including the expected life of the option, the expected volatility of the underlying stock, and the expected dividend yield on the underlying stock. In recognizing stock-based compensation expense, the Company makes assumptions regarding the expected forfeiture rate of stock options and the expected vesting date of performance-based options. For additional information, see Notes 1 and 9 to the consolidated financial statements, which are incorporated herein by reference.
Key Factors:	Changes in the expected vesting dates of performance-based stock options would impact the amount and timing of stock-based compensation expense recognized in future periods.

Impairment of Assets

Balance Sheet Caption:	Various assets
Income Statement Caption:	Impairment expense
Nature of Estimates Required:	Estimating impairment for businesses in liquidation on a quarterly basis.
Assumptions and Approaches Used:	The Company estimates impairment for each business in liquidation by comparing its future forecasted net cash flows to its net asset value. In estimating the future net cash flows of the business, the Company makes assumptions regarding the amount and timing of cash flows. For additional information, see Note 1 to the consolidated financial statements, which is incorporated herein by reference.
Key Factors:	Negative variances in future forecasted net cash flows from current estimates may result in the recognition of impairment expenses in future periods.

Litigation and Contingent Liabilities

Balance Sheet Caption:	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:	The Company, with assistance from its legal counsel, determines if the likelihood of an adverse judgment for various claims and litigation is remote, reasonably possible, or probable. To the extent the Company believes an adverse judgment is probable and the amount of the judgment is estimable, the Company recognizes a liability. For information regarding the potential various consumer claims against the Company, see Note 12 to the consolidated financial statements, 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.

Taxes

Balance Sheet Caption:	Deferred income taxes, net
Income Statement Caption:	Provision for income taxes
Nature of Estimates Required:	Estimating the recoverability of deferred tax assets.
Assumptions and Approaches Used:	The Company, based on historical and projected future financial results by tax jurisdiction, determines if it is more likely than not a deferred tax asset will be realized. To the extent the Company believes the recovery of all or a portion of a deferred tax asset is not likely, a valuation allowance is established. For additional information, see Note 8 to the consolidated financial statements, which is incorporated herein by reference.
Key Factors:	Changes in tax laws and variances in projected future results from current estimates that impact judgments made on valuation allowances could impact the Company's provision for income taxes in future periods.

Liquidity and Capital Resources

The Company's primary sources of capital are cash flows from operating activities, collections of Consumer Loans receivable and borrowings under the Company's lines of credit and secured financings. The Company's principal need for capital is to fund Dealer Loan originations and for the payment of dealer holdbacks.

The Company's cash flow requirements are dependent on levels of Dealer Loan originations. In 2005, the Company experienced an increase in Dealer Loan originations from 2004 primarily due to an increase in the number of active dealer-partners due to increased dealer-partner enrollments.

The Company currently finances its operations through: (i) a bank line of credit facility; (ii) secured financings; (iii) a mortgage loan; and (iv) capital lease obligations. For information regarding these financings and the covenants included in the related documents, see Note 6 to the consolidated financial statements, which is incorporated herein by reference. As of December 31, 2005, the Company was not in compliance with certain covenants under its debt agreements due to its inability to timely file its Annual Report on Form 10-K for the year ended December 31, 2004 and its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005, and September 30, 2005 due to the ongoing restatement of the Company's consolidated financial statements. The Company has received waivers of this requirement on its debt facilities and these waivers became permanent upon the filing of such reports in January 2006.

The Company's total balance sheet indebtedness decreased to $146.9 million at December 31, 2005 from $193.5 million at December 31, 2004. In addition to the balance sheet indebtedness as of December 31, 2005, the Company also has contractual obligations resulting in future minimum payments under operating leases.

A summary of the total future contractual obligations requiring repayments as of December 31, 2005 is as follows (in thousands):

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1–3 Years**	**3–5 Years**	**More than 5 Years**
Long-term debt obligations(1)	$145,339	$ 715	$144,624	$—	$—
Capital lease obligations	1,566	780	786	—	—
Operating lease obligations	2,051	684	1,367	—	—
Purchase obligations	—	—	—	—	—
Other long-term obligations	—	—	—	—	—
Total contractual obligations	$148,956	$2,179	$146,777	$—	$—

(1) Long-term debt obligations included in the above table consists solely of principal repayments. The Company is also obligated to make interest payments at the applicable interest rates, as discussed in Note 6 in the consolidated financial statements, which is incorporated herein by reference.

Repurchase and Retirement of Common Stock. For information regarding the Company's stock repurchase program, see Note 9 to the consolidated financial statements, which is incorporated herein by reference.

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. The Company's ability to borrow funds may be impacted by many economic and financial market conditions. If the various financing alternatives were to become limited or unavailable to the Company, the Company's operations could be materially and adversely affected.

Market Risk

The Company is exposed primarily to market risks associated with movements in interest rates and foreign currency exchange rates. The Company's policies and procedures prohibit the use of financial instruments for trading purposes. A discussion of the Company's accounting policies for derivative instruments is included in the Summary of Significant Accounting Policies in Note 1 to the consolidated financial statements, which is incorporated herein by reference.

Interest Rate Risk. The Company relies on various sources of financing, some of which is at floating rates of interest and exposes the Company to risks associated with increases in interest rates. The Company manages such risk primarily by entering into interest rate cap agreements.

As of December 31, 2005, the Company had $36.3 million of floating rate debt outstanding on its bank credit facilities, with no interest rate cap protection, and $101.5 million in floating rate debt outstanding under its secured financing, with an interest rate cap of 6.75%. Based on the difference between the Company's rates on its secured financing at December 31, 2005 and the interest rate cap, the Company's maximum interest rate risk on the September 2003 secured financing is 2.4%. This maximum interest rate risk would reduce annual after-tax earnings by approximately $1.6 million in 2005. For every 1% increase in rates on the Company's bank credit facilities, annual after-tax earnings would decrease by approximately $0.2 million in 2005. This analysis assumes the Company maintains a level amount of floating rate debt.

Foreign Currency Risk. The Company is exposed to changes in foreign exchange rates that could have a negative impact on earnings or asset and liability values from operations in foreign countries.

In the third quarter of 2003, the Company entered into a series of forward contracts with a commercial bank to manage foreign currency exchange risk associated with the cash flows anticipated from the exit of the United Kingdom operation. The Company believed that this transaction minimized the currency exchange risk associated with an adverse change in the relationship between the United States dollar and the British pound sterling as it repatriated cash from the United Kingdom operation. As the Company had not designated these contracts as hedges as defined under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138 and SFAS No. 149, changes in the fair value of these forward contracts increased or decreased net income. As of December 31, 2004, the fair value of the forward contracts was $1.2 million less than the notional amount of the contracts due to the weakening of the United States dollar versus the British pound sterling since the date the contracts were entered into. There were no contracts outstanding as of December 31, 2005.

At December 31, 2005, an immediate 10% weakening of the United States dollar would not have a material impact on shareholders' equity or net income.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"). This statement supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS 123(R) established standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123(R) focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123(R) is effective for the Company's fiscal year beginning January 1, 2006. As the Company began recognizing stock based compensation expense under the fair value recognition and measurement provisions of SFAS No. 123 during 2003, the adoption of SFAS No. 123(R) will not have a material impact on the Company.

Forward-Looking Statements

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

The Company claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all of its forward-looking statements. These forward-looking statements represent the Company's outlook only as of the date of this report. While the Company believes that its forward-looking statements are reasonable, actual results could differ materially since the statements are based on our current expectations, which are subject to risks and uncertainties. Factors that might cause such a difference include, but are not limited to, the factors set forth under "Item 1A. Risk Factors" elsewhere in this report and the risks and uncertainties discussed in the Company's 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 by reference from the information in Item 7 under the caption "Market Risk" in this Form 10-K.

ITEM 8. *Financial Statements and Supplementary Data*

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 and Subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. 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, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005 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), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Grant Thornton LLP

Southfield, Michigan
March 10, 2006

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)	December 31, 2005	December 31, 2004
ASSETS:		
Cash and cash equivalents	**$ 7,090**	$ 614
Restricted cash and cash equivalents	**13,473**	23,927
Restricted securities available for sale	**3,345**	928
Loans receivable (including $14,622 and $18,353 from affiliates in 2005 and 2004, respectively)	**694,939**	667,394
Allowance for credit losses	**(131,411)**	(141,383)
Loans receivable, net	**563,528**	526,011
Property and equipment, net	**17,992**	19,706
Income taxes receivable	**4,022**	9,444
Other assets	**9,944**	10,683
Total Assets	**$ 619,394**	$ 591,313
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Accounts payable and accrued liabilities	**$ 55,705**	$ 49,384
Dealer reserve payable, net	**—**	15,675
Line of credit	**36,300**	7,700
Secured financing	**101,500**	176,000
Mortgage note and capital lease obligations	**9,105**	9,847
Deferred income taxes, net	**43,758**	31,817
Total Liabilities	**246,368**	290,423
Contingencies (Note 12)		
Shareholders' Equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized, none issued	**—**	—
Common stock, $.01 par value, 80,000,000 shares authorized, 37,027,286 and 36,897,242 shares issued and outstanding at December 31, 2005 and 2004, respectively	**370**	369
Paid-in capital	**29,746**	25,640
Unearned stock-based compensation	**(1,566)**	—
Retained earnings	**344,513**	271,912
Accumulated other comprehensive (loss) income, net of tax of $20 and $2 at December 31, 2005 and 2004, respectively	**(37)**	2,969
Total Shareholders' Equity	**373,026**	300,890
Total Liabilities and Shareholders' Equity	**$ 619,394**	$ 591,313

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands, Except for Per Share Data)	For the Years Ended December 31, **2005**	2004	2003
REVENUE:			
Finance charges	**$176,369**	$150,651	$117,758
License fees	**9,775**	5,835	3,836
Other income	**15,124**	15,585	19,448
Total revenue	**201,268**	172,071	141,042
COSTS AND EXPENSES:			
Salaries and wages	**36,853**	32,720	28,377
General and administrative	**20,834**	20,724	18,573
Sales and marketing	**14,275**	11,915	8,006
Provision for credit losses	**5,705**	6,526	8,835
Interest	**13,886**	11,660	8,057
Stock-based compensation	**2,240**	2,580	3,316
Other expense	**931**	1,270	4,517
Total costs and expenses	**94,724**	87,395	79,681
Operating income	**106,544**	84,676	61,361
Foreign exchange gain (loss)	**1,812**	1,650	(2,767)
Income from continuing operations before provision for income taxes	**108,356**	86,326	58,594
Provision for income taxes	**40,159**	30,073	27,369
Income from continuing operations	**68,197**	56,253	31,225
Discontinued operations			
Gain (loss) from operations of discontinued United Kingdom segment before provision for income taxes	**6,194**	1,556	(7,047)
Provision (benefit) for income taxes	**1,790**	484	(491)
Gain (loss) on discontinued operations	**4,404**	1,072	(6,556)
Net income	**$ 72,601**	$ 57,325	$ 24,669
Net income per common share:			
Basic	**$ 1.96**	$ 1.48	$ 0.58
Diluted	**$ 1.85**	$ 1.40	$ 0.57
Income from continuing operations per common share:			
Basic	**$ 1.84**	$ 1.46	$ 0.74
Diluted	**$ 1.74**	$ 1.37	$ 0.72
Weighted average shares outstanding:			
Basic	**36,991,136**	38,617,787	42,195,340
Diluted	**39,207,680**	41,017,205	43,409,007

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In Thousands)	Total Shareholders' Equity	Comprehensive Income (Loss)	Common Stock Number	Common Stock Amount	Paid-In Capital	Unearned Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2003	$ 316,012		42,326	$423	$ 124,770	$ —	$189,918	$ 901
Comprehensive income:								
Net income	24,669	$24,669					24,669	
Other comprehensive income:								
Foreign currency translation adjustment, net of tax of $1,252	2,309	2,309						2,309
Tax on permanently reinvested other comprehensive loss		(69)						
Other comprehensive income		2,240						
Total comprehensive income		$26,909						
Stock-based compensation	3,583				3,583			
Repurchase and retirement of common stock	(5,316)		(464)	(5)	(5,311)			
Stock options exercised	2,038		266	3	2,035			
Balance, December 31, 2003	343,295		42,128	421	125,077	—	214,587	3,210
Comprehensive income:								
Net income	57,325	$57,325					57,325	
Other comprehensive loss:								
Unrealized loss on securities available for sale, net of tax of $2	(4)	(4)						(4)
Foreign currency translation adjustment, net of tax of ($1,760)	(237)	(237)						(237)
Total comprehensive income		$57,084						
Stock-based compensation	2,725				2,725			
Repurchase and retirement of common stock	(107,236)		(5,752)	(57)	(107,179)			
Stock options exercised	$ 5,022		521	$ 5	$ 5,017			

(continued)

(In Thousands)	Total Shareholders' Equity	Comprehensive Income (Loss)	Common Stock Number	Common Stock Amount	Paid-In Capital	Unearned Stock Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2004	$ 300,890		36,897	$369	$ 25,640	$ —	$271,912	$ 2,969
Comprehensive income:								
Net income	72,601	$72,601					72,601	
Other comprehensive loss:								
Unrealized loss on securities available for sale, net of tax of $20	(33)	(33)						(33)
Foreign currency translation adjustment, net of tax of $0	(2,973)	(2,973)						(2,973)
Total comprehensive income		$69,595						
Stock-based compensation	2,331				1,936	395		
Issuance of restricted stock, net of forfeitures	—		99	1	1,960	(1,961)		
Stock options exercised	210		31		210			
Balance, December 31, 2005	**$ 373,026**		**37,027**	**$370**	**$ 29,746**	**$(1,566)**	**$344,513**	**$ (37)**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	For the Years Ended December 31, **2005**	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	**$ 72,601**	$ 57,325	$ 24,669
Adjustments to reconcile cash provided by operating activities:			
Provision for credit losses	**3,979**	5,757	9,639
Depreciation	**5,209**	5,781	8,502
Loss on retirement of property and equipment	**76**	230	73
Foreign currency (gain) loss on forward contracts	**(1,033)**	(1,661)	2,817
Provision (credit) for deferred income taxes	**11,961**	12,859	(2,555)
Stock-based compensation	**2,331**	2,725	3,583
Gain on sale of United Kingdom loan portfolio	**(3,033)**	—	—
United Kingdom asset impairment	**—**	—	10,493
Change in operating assets and liabilities:			
Accounts payable and accrued liabilities	**7,354**	11,715	5,338
Income taxes receivable/payable	**5,422**	(11,530)	11,845
Other assets	**110**	621	8,555
Net cash provided by operating activities	**104,977**	83,822	82,959
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease (increase) in restricted cash	**10,454**	13,348	(27,203)
Purchases of restricted securities available for sale	**(3,239)**	(934)	—
Sales of restricted securities available for sale	**742**	—	—
Maturities of restricted securities available for sale	**27**	—	—
Principal collected on loans receivable	**468,273**	397,091	362,575
Advances to dealers and accelerated payments of dealer holdback	**(461,877)**	(427,866)	(334,720)
Originations and purchases of new Consumer Loans	**(13,354)**	(7,938)	(42,621)
Payments of dealer holdbacks	**(52,887)**	(34,421)	(28,127)
Proceeds from the sale of United Kingdom loan portfolio	**4,297**	—	—
Purchases of property and equipment	**(2,863)**	(3,567)	(3,273)
Net cash used in investing activities	**$ (50,427)**	$ (64,287)	$ (73,369)

(continued)

(Dollars in Thousands)	For the Years Ended December 31, 2005	2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under line of credit	**$ 250,700**	$ 314,000	$ 68,400
Repayments under line of credit	**(222,100)**	(306,300)	(111,955)
Proceeds from secured financings	**120,500**	288,000	100,000
Repayments of secured financings	**(195,000)**	(212,000)	(58,153)
Principal payments under mortgage and capital lease obligations	**(1,296)**	(2,821)	(1,540)
Proceeds from mortgage note refinancing	**—**	3,540	—
Repurchase of common stock	**—**	(107,236)	(5,316)
Proceeds from stock options exercised	**210**	5,022	2,038
Net cash used in financing activities	**(46,986)**	(17,795)	(6,526)
Effect of exchange rate changes on cash	**(1,088)**	(2,262)	(7,055)
Net increase (decrease) in cash and cash equivalents	**6,476**	(522)	(3,991)
Cash and cash equivalents, beginning of period	**614**	1,136	5,127
Cash and cash equivalents, end of period	**$ 7,090**	$ 614	$ 1,136
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the period for interest	**$ 13,244**	$ 10,920	$ 7,969
Cash paid during the period for income taxes	**$ 23,454**	$ 26,855	$ 16,081
Supplemental Disclosure of Non-Cash Transactions:			
Property and equipment acquired through capital lease obligations	**$ 531**	$ 2,038	$ 32

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(NOTE 1) Summary of Significant Accounting Policies

Description of Business

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

The Company refers to dealers who participate in its program and who share its commitment to changing consumers' lives as "dealer-partners". Upon enrollment in the Company's financing program, the dealer-partner enters into a servicing agreement with Credit Acceptance that defines the legal relationship between Credit Acceptance and the dealer-partner. The 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 the Company.

The Company is considered a lender to dealer-partners in the United States and Canada and a lender to consumers in the United Kingdom. This difference is due to slight differences in the servicing agreements between the Company and the dealer-partner for each respective country. In the United States and Canada, if the Company discovers a misrepresentation by the dealer-partner relating to a Consumer Loan assigned to the Company, the Company can demand that the Consumer Loan be repurchased for the current balance of the Consumer Loan less the amount of any unearned finance charge plus the applicable termination fee, which is generally $500. Upon receipt of such amount in full, the Company will reassign the Consumer Loan receivable and its security interest in the financed vehicle to the dealer-partner. The dealer-partner can also opt to repurchase Consumer Loans at their own discretion. To date, no dealer-partner has repurchased receivables under this option. This repurchase stipulation is not part of the servicing agreement in the United Kingdom.

Loans receivable in the United States and Canada. The Company is not considered the originator of Consumer Loans in the United States and Canada for accounting purposes. Instead, the Company is a lender to dealer-partners. At the time of acceptance, Consumer Loans that meet certain criteria are eligible for a non-recourse cash payment to the dealer-partner (referred to as an "advance"), which is computed on a formula basis. Upon acceptance of an assigned Consumer Loan, the Company records the cash amount advanced to the dealer-partner as a Dealer Loan ("Dealer Loan") classified in Loans receivable in the consolidated financial statements.

Cash advanced to dealer-partners is automatically assigned to the originating dealer-partner's open pool of business. At the dealer-partner's option, a pool containing more than one hundred Consumer Loans can be closed and subsequent advances assigned to a new pool. All advances due from a dealer-partner are secured by the future collections on the dealer-partner's portfolio of Consumer Loans that have been assigned to the Company. Net collections on all related Consumer Loans within the pool, after payment of the Company's servicing fee and reimbursement of certain collection costs, are applied to reduce the aggregate advance balance owing against those Consumer Loans. Once the advance balance has been repaid, the dealer-partner is entitled to receive future collections from Consumer Loans within that pool, after payment of the Company's servicing fee and reimbursement of certain collection costs. If the collections on Consumer Loans from a dealer-partner's pool are not sufficient to repay the advance balance, the dealer-partner will not receive the portion of compensation that is paid based on the performance of the Consumer Loans ("dealer holdback"). Additionally, for dealer-partners with more than one pool, the pools are cross-collateralized so the performance of other pools is considered in determining eligibility for holdback payments.

(NOTE 1) Summary of Significant Accounting Policies—(Continued)

Loans receivable in the United Kingdom. Upon origination of a Consumer Loan, the Company records the total payments due under the Consumer Loan as a Loan receivable and the amount of its servicing fee as an unearned finance charge, which, for balance sheet purposes, is netted from the gross amount of the Consumer Loan and represents the interest element on the Consumer Loan from the Company's perspective. The Company records the remaining portion of the Consumer Loan (the gross amount of the Consumer Loan less the unearned finance charge) in Dealer reserve payable in the consolidated financial statements. At the time of acceptance, Consumer Loans that meet certain criteria are eligible for a cash advance to the dealer-partner, which is computed on a formula basis.

Cash advanced to dealer-partners is automatically assigned to the originating dealer-partner's open pool of advances. At the dealer-partner's option, a pool containing more than one hundred Consumer Loans can be closed and subsequent advances assigned to a new pool. All advances due from a dealer-partner are secured by the future collections on the dealer-partner's portfolio of Consumer Loans that have been assigned to the Company. Collections on all related Consumer Loans within the pool, after payment of the Company's servicing fee and reimbursement of certain collection costs, are applied to reduce the aggregate advance balance related to that pool. Once the advance balance has been repaid, the dealer-partner is entitled to receive future collections from Consumer Loans within that pool, after payment of the Company's servicing fee and reimbursement of certain collection costs. If the collections on Consumer Loans from a dealer-partner's pool are not sufficient to repay the advance balance, the dealer-partner will not receive the dealer holdback. Dealer-partner advances are netted against dealer holdbacks in the accompanying consolidated financial statements.

Businesses in Liquidation. Pursuant to Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", an impairment analysis is performed on the net asset value of the United Kingdom, Canadian, and Automobile Leasing operations on a quarterly basis. This analysis compares the undiscounted forecasted future net cash flows (including future servicing expenses and any payments due to dealer-partners under servicing agreements) of each operation to the operation's net asset value at the balance sheet date. If this analysis indicates impairment (i.e. the net asset value exceeds the undiscounted forecasted future net cash flows), the Company is required to write down the value of the asset to the present value of the forecasted net cash flows.

Effective June 30, 2003, the Company decided to stop originating Consumer Loans in the United Kingdom. In analyzing the expected cash flows from this operation, the Company assumed lower collection rates than assumed before the decision to liquidate. These lower collection rates reflect uncertainties (such as potentially higher employee turnover or reduced morale) in the servicing environment that may arise as a result of the decision to liquidate. As a result of this analysis, in the second quarter of 2003, the net asset value of the operation's Consumer Loan portfolio was deemed to be impaired and the Company recorded an after-tax expense of $6.4 million to reduce the carrying value of its Consumer Loan portfolio to the present value (using a discount rate of 13%) of the forecasted cash flows relating to the Consumer Loan portfolio less estimated future servicing expenses.

The Company sold the remaining Consumer Loan portfolio of its United Kingdom subsidiary on December 30, 2005. The selling price was approximately $4.3 million resulting in a pre-tax gain of approximately $3.0 million.

Effective June 30, 2003, the Company decided to stop originating Dealer Loans in Canada. Since Dealer Loans originated in Canada are serviced in the United States, the Company evaluated cash flows related to the Canadian operation based on the same collection rate assumptions as were used before the decision to liquidate. Based upon management's analysis as of December 31, 2005, no reduction of the carrying value of the Canadian Dealer Loan portfolio is required.

(NOTE 1) Summary of Significant Accounting Policies—(Continued)

In January 2002, the Company decided to stop originating automobile leases. As of December 31, 2005, there was no capital invested in this business.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which supersedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in Restructuring)." SFAS No. 146 requires a liability for a cost associated with an exit or disposal activity to be recognized and measured initially at its fair value in the period in which the liability is incurred, rather than at the time of commitment to an exit plan. The Company adopted this standard for exit or disposal activities initiated after December 31, 2002. As a result of the Company's decision to exit the United Kingdom business in the second quarter of 2003, the Company recognized: (i) $0.3 million after-tax increase in salaries and wages resulting from employee severance expenses and (ii) $0.1 million after-tax reduction in other income due to a refund of profit sharing income on ancillary products to an ancillary product provider which was based on volume targets no longer attainable due to the decision to stop Consumer Loan originations.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated. The Company's primary subsidiaries are: Buyer's Vehicle Protection Plan, Inc., and CAC of Canada Company.

Reportable Business Segments

The Company is organized into three primary business segments: United States, United Kingdom, and Other. See Note 11—Business Segment Information for information regarding the Company's reportable segments.

Use of Estimates

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

Cash and Cash Equivalents

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

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of amounts held in accordance with secured financing arrangements and reinsurance agreements.

(NOTE 1) Summary of Significant Accounting Policies—(Continued)

Restricted Securities Available for Sale

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

Restricted available-for-sale securities consist of the following:

	As of December 31, 2005			
(Dollars in thousands)	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
US Government and agency securities	**$1,336**	**$—**	**$(14)**	**$1,322**
Corporate bonds	**2,068**	**—**	**(45)**	**2,023**
Total restricted securities available for sale	**$3,404**	**$—**	**$(59)**	**$3,345**

	As of December 31, 2004			
(Dollars in thousands)	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
US Government and agency securities	$ 150	$—	$ (2)	$ 148
Corporate bonds	784	1	(5)	780
Total restricted securities available for sale	$ 934	$ 1	$ (7)	$ 928

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

	As of December 31,			
	2005		2004	
(Dollars in thousands)	**Cost**	**Estimated Fair Value**	**Cost**	**Estimated Fair Value**
Contractual Maturity				
Within one year	**$ —**	**$ —**	$ —	$ —
Over one year to five years	**3,028**	**2,971**	857	852
Over five years to ten years	**376**	**374**	77	76
Over ten years	**—**	**—**	—	—
Total restricted securities available for sale	**$3,404**	**$3,345**	$934	$928

(NOTE 1) Summary of Significant Accounting Policies—(Continued)

Finance Charges—United States and Canada

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

Buyers Vehicle Protection Plan, Inc. ("BVPP"), a wholly owned subsidiary of the Company, has relationships with third party vehicle service contract administrators ("TPAs") whereby the TPAs process claims on vehicle service contracts underwritten by third party insurers. BVPP receives a commission for all such vehicle service contracts sold by its dealer-partners where the vehicle service contract is financed by the Company, and does not bear any risk of loss for claims covered on these third party service contracts. The commission is included in the purchase price of the vehicle service contract included in the Consumer Loan. The Company advances to dealer-partners an amount based on the purchase price of the vehicle service contract on Consumer Loans accepted by the Company that include vehicle service contracts. In addition, BVPP had its own short-term limited extended service contract product offered by participating dealer-partners. In connection therewith, BVPP bears the risk of loss for any repairs covered under the service contract. The Company recognizes income and related expense for this service contract program on an accelerated basis over the life of the service contract. The Company stopped offering this product effective November 1, 2003.

During the first quarter of 2004, the Company entered into agreements with two new TPAs. The two new agreements differ from the prior agreement in three material respects: (i) the new agreements provide a commission to the Company on all vehicle service contracts sold by its dealer-partners, regardless of whether the vehicle service contract is financed by the Company, (ii) the Company experiences a higher commission on vehicle service contracts financed by the Company, and (iii) the new agreements allow the Company to participate in underwriting profits depending on the level of future claims paid. The two new agreements also require that net premiums on the vehicle service contracts be placed in trust accounts by the TPA. Funds in the trust accounts are utilized by the TPA to pay claims on the vehicle service contracts. Underwriting profits, if any, on the vehicle service contracts are distributed to the Company after the term of the vehicle service contracts have expired. Under FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), the Company is considered the primary beneficiary of the trusts. As a result, the assets and liabilities of the trusts have been consolidated on the Company's balance sheet. As of December 31, 2005, the trusts had $10.6 million in assets available to pay claims and a related claims reserve of $10.4 million. Cash and cash equivalents are included in restricted cash and cash equivalents and the claims reserve is included in accounts payable and accrued liabilities in the consolidated balance sheets. A third party insures claims in excess of funds in the trust accounts.

The Company recognizes the commission received from the TPAs for contracts financed by the Company as part of finance charges on a level yield basis based upon forecasted cash flows. Commissions on contracts not financed by the Company are recognized as finance charge income at the time the commissions are received.

During the first quarter of 2005, the Company began offering Guaranteed Asset Protection ("GAP") debt cancellation terms in its contracts . GAP provides the consumer protection by forgiving the difference between the loan balance and the consumer's insurance coverage limit in the event the vehicle is totaled or stolen. The Company receives a fee for every GAP provision sold by its dealer-partners. The Company recognizes the commission received for GAP products as part of finance charges on a level yield basis based upon forecasted cash flows.

(NOTE 1) Summary of Significant Accounting Policies—(Continued)

Loans Receivable and Allowance for Credit Losses—United States and Canada

The Company records the amount advanced to the dealer-partner as a Dealer Loan. The Dealer Loan is increased as revenue is recognized and decreased as collections are received. The Company follows an approach similar to the provisions of SOP 03-3 in determining its allowance for credit losses. Consistent with SOP 03-3, an allowance for credit losses is maintained at an amount that reduces the net asset value (Dealer Loan balance less the allowance) to the discounted value of forecasted future cash flows at the yield established at the inception of the Dealer Loan. This allowance is calculated on a dealer-partner by dealer-partner basis. The discounted value of future cash flows is comprised of estimated future collections on the Consumer Loans, less any estimated dealer holdback payments.

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

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

Finance Charges—United Kingdom

The Company recognizes finance charge income in the United Kingdom in accordance with the provisions of SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases (an Amendment of FASB Statements No. 13, 60, and 65 and a Rescission of FASB Statement No. 17)" ("SFAS No. 91"). SFAS No. 91 requires the Company to recognize finance charges under the interest method such that income is recognized on a level yield basis during the life of the underlying asset.

Loans Receivable, Allowance for Credit Losses, and Dealer Reserve Payable—United Kingdom

The Company maintains an allowance for credit losses to cover losses inherent in the Company's Consumer Loan portfolio. Such losses consist of Consumer Loans receivable determined to be uncollectible or that have expected future collections less than the full contractual amount, less any losses absorbed by dealer holdbacks. Dealer holdbacks in the United Kingdom are classified in Dealer reserve payable, net in the Company's consolidated financial statements. By definition, these losses equal the amount by which advances to dealer-partners plus accrued income (the "net investment") exceed the net present value of estimated future cash flows related to the Consumer Loans receivable less the present value of estimated dealer holdback payments.

To record losses, as required under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan—an amendment of FASB Statements No. 5 and 15", as amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures", the Company utilizes a present value methodology and compares the present value of estimated future collections less the present value of the estimated related dealer holdback payments for each dealer-partner's Consumer Loan portfolio to the Company's net investment in that portfolio. The Company maintains historical loss experience for each

(NOTE 1) Summary of Significant Accounting Policies—(Continued)

dealer-partner on a static pool basis and uses this information to forecast the timing and amount of the future collections and dealer holdback payments on each dealer-partner's Consumer Loan portfolio. In estimating future collections and dealer holdback payments for each dealer-partner, the Company considers: (i) a dealer-partner's actual loss data on a static pool basis and (ii) the Company's historical loss and collection experience. The Company's collection forecast for each dealer-partner is updated monthly, and considers the most recent static pool data available for each dealer-partner and the Company's entire portfolio of Consumer Loans. Forecasted collections and dealer holdback payments are discounted to present value using a rate equal to the rate of return expected at the origination of the Consumer Loan. To the extent that the present value of future collections less the present value of the related dealer holdback payments is less than the Company's net investment in the portfolio, the Company records an allowance equal to the difference between the net investment and the present value of future collections less the present value of the related dealer holdback payments. Proceeds from one dealer-partner's portfolio cannot be used to offset losses relating to another dealer-partner.

A significant percentage of charged-off Consumer Loans are absorbed by dealer holdbacks and, as a result, do not result in losses to the Company. The Company's primary protection against losses relates to appropriately managing the spread between the collection rate and the amount advanced to dealer-partners at Consumer Loan inception.

The Company's allowance for credit losses also covers earned but unpaid servicing fees on Consumer Loans receivable in non-accrual status (no payments received for 90 days). Servicing fees, which are recorded as finance charges, are recognized under the interest method of accounting until the earlier of the underlying obligation becoming 90 days past due on a recency basis or the repossession and sale of the vehicle securing the Consumer Loan. At such time, the Company suspends the recognition of revenue and records a provision for credit losses equal to the earned but unpaid revenue. Once a Consumer Loan is classified in non-accrual status, it remains in non-accrual status for the remaining life of the Consumer Loan. Revenue on non-accrual Consumer Loans is recognized on a cash basis.

Effective July 1, 2003, the Company retroactively eliminated the reserve for advance losses balance, which was previously classified within dealer holdbacks, net and transferred the balance into the allowance for credit losses which is classified within Loans receivable, net. In addition, the Company prospectively eliminated its charge-off policy related to dealer advances and modified its Loans receivable charge-off policy to require charge-off of Loans receivable after 270 days of no payment against dealer holdbacks, net and, if such holdback is insufficient, against the allowance for credit losses. In effect, the Company combined its advance and Loans receivable charge-off policies into a single policy whereby the Consumer Loan and related advance are charged-off at the same time. For the first six months of 2003, advances were charged-off when the Company's analysis forecasted no future collections on Consumer Loans relating to the dealer-partner advance pool. Prior to January 1, 2003, advances were charged-off or partially charged-off when the Company's analysis determined that the expected discounted cash flows associated with the related Consumer Loans were insufficient to recover the outstanding advance balance in the pool.

The Company records the gross amount of the Consumer Loan less the unearned finance charges as dealer reserve payable. Consumer Loans originated by and advances to each dealer-partner are automatically assigned to that dealer-partner's open pool of Consumer Loans. Periodically, pools are closed and subsequent Consumer Loans and advances are assigned to a new pool. Collections on the Consumer Loans within each pool, after payment of the Company's servicing fee and reimbursement of certain collection costs, are applied to reduce the aggregate advance balance relating to those Consumer Loans. Once the advance balance has been repaid, the dealer-partner is entitled to receive collections from the Consumer Loans within that pool.

(NOTE 1) Summary of Significant Accounting Policies—(Continued)

All advances from a dealer-partner are secured by all of the future collections on Consumer Loans originated by that dealer-partner. For balance sheet purposes, dealer holdbacks are shown in Dealer reserve payable, net of the current advance balance.

Property and Equipment

Additions to property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. 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 10 years. The cost of assets sold or retired and the related accumulated depreciation are removed from the accounts 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. Software developed for internal use is capitalized and generally amortized on a straight-line basis. The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Other Assets

Leased assets are depreciated to their residual values on a straight-line basis over the scheduled lease term. The Company established its residual values based upon an industry guidebook and data from repossessed vehicles sold at auction. Realization of the residual values is dependent on the Company's future ability to market the vehicles under then prevailing market conditions.

As of December 31, 2005 and 2004, deferred debt issuance costs were $5.4 million ($1.6 million net of amortization expense) and $7.7 million ($3.5 million net of amortization expense), respectively. Expenses associated with the issuance of debt instruments are capitalized and amortized over the term of the debt instrument on a level-yield basis for the term secured financings and on a straight-line basis for lines of credit and revolving secured financings.

Income Taxes

Provisions for federal, state and foreign income taxes are calculated on reported pre-tax earnings based on current tax law and also include, in the current period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. Significant judgment is required in determining income tax provisions and evaluating tax positions. The Company establishes reserves for income tax when, despite the belief that our tax positions are fully supportable, there remain certain positions that are probable to be challenged and possibly disallowed by various authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimable losses and related interest as deemed appropriate. To the extent that the probable tax outcome of these matters changes, such changes in estimate will impact the income tax provision in the period in which such determination is made.

Derivative Instruments

Interest Rate Caps. The Company purchases interest rate cap agreements to manage its interest rate risk on its secured financings. As the Company has not designated these agreements as hedges as defined under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138 and SFAS No. 149, changes in the fair value of these agreements will increase or decrease net income.

(NOTE 1) Summary of Significant Accounting Policies—(Continued)

As of December 31, 2005, the following interest rate cap agreements were outstanding (in thousands):

Notional Amount	Commercial Paper Cap Rate	Term	Fair Value
$100,000	6.75%	September 2005 through May 2008	$13
100,000	6.75%	September 2005 through May 2008	10
$200,000			$23

As of December 31, 2004, the following interest rate cap agreements were outstanding (in thousands):

Notional Amount	Commercial Paper Cap Rate	Term	Fair Value
$100,000	6.25%	September 2004 through January 2007	$30
100,000	6.25%	September 2004 through February 2007	13
$200,000			$43

Foreign Currency Forward Contracts. In the third quarter of 2003, the Company entered into a series of forward contracts with a commercial bank to manage foreign currency exchange risk associated with the cash flows anticipated from the exit of the United Kingdom operation. The Company did not have any outstanding contracts as of December 31, 2005. As of December 31, 2004, the Company had contracts outstanding to deliver 3.3 million British pounds sterling to the commercial bank which was exchanged into United States dollars at weighted average exchange rates of 1.57 United States dollars per British pound sterling, respectively, on a monthly basis through June 30, 2005. As the Company had not designated these contracts as hedges as defined under SFAS No. 133, changes in the fair value of these forward contracts increased or decrease net income. The fair value of the forward contracts was less than the notional amount of the contracts outstanding as of December 31, 2004 by $1.2 million due to the weakening of the United States dollar versus the British pound sterling since the date the contracts were entered into. The Company recognized a foreign currency gain of $1.0 million for 2005 related to the change in the fair value of the forward contracts primarily due to a decrease in the notional amount of the forward contracts from December 31, 2004 to June 30, 2005. The Company recognized a foreign currency gain of $1.7 million for 2004 primarily due to a decrease in the notional amount of the forward contracts, partially offset by the weakening of the United States dollar versus the British pound during 2004.

Stock Compensation Plans

At December 31, 2005, the Company has three stock-based compensation plans for employees and directors, which are described more fully in Note 9—Capital Transactions. Prior to April 1, 2003, the Company accounted for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees”, and related Interpretations. In the second quarter of 2003, the Company adopted the fair value recognition and measurement provisions of SFAS No. 123, “Accounting for Stock-Based Compensation”, as amended by SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure” for stock-based employee compensation. Under the retroactive restatement transition method selected by the Company described in SFAS No. 148, the Company restated all prior periods to reflect the stock-based compensation expense that would have been recognized had the recognition provisions of SFAS No. 123 been applied to all options granted to employees or directors after January 1, 1995.

(NOTE 1) Summary of Significant Accounting Policies—(Continued)

Foreign Currency Translation

The financial position and results of operations of the Company's foreign operations are measured using the local currency as the functional currency. Revenues and expenses are translated at average exchange rates during the year and assets and liabilities are translated at current exchange rates at the balance sheet date. Translation adjustments are reflected in accumulated other comprehensive income, as a separate component of shareholders' equity. Realized foreign currency transaction gains and losses are included in the statement of income.

Deferred income taxes are recognized for foreign currency translation adjustments when the Company's investments in its foreign subsidiaries are considered temporary and the differences will reverse in the foreseeable future. Prior to 2002, the Company considered all of its investments in its foreign subsidiaries to be permanent. During the first quarter of 2002, the Company determined that its investment in its United Kingdom subsidiary was no longer considered permanent, and during the second quarter of 2003, the Company determined that its investment in its Canadian subsidiary was no longer considered permanent. Upon these determinations, the Company recognized deferred income taxes related to the foreign currency translation adjustments of these subsidiaries.

During the fourth quarter of 2005, the Company determined that the liquidation of business in the United Kingdom and Canada were substantially complete. The Company recognized a $2.0 million non-taxable foreign currency exchange gain following this determination.

License Fees

The Company recognizes a monthly dealer-partner access fee for the Company's patented Internet-based proprietary Credit Approval Processing System ("CAPS") in the month the access is provided.

Other Income

Other income consists of the following (in thousands):

	Years Ended December 31,		
	2005	2004	2003
Premiums earned	**$ 2,004**	$ 2,457	$ 2,986
Dealer enrollment fees	**1,878**	1,453	786
Remarketing charges	**1,822**	1,655	1,492
Marketing materials	**1,103**	642	181
Rental revenue	**670**	788	900
Net gains on lease terminations	**376**	1,497	1,073
Lease revenue	**219**	1,507	6,432
Interest and fees on floorplan receivables, lines of credit, and notes receivable	**144**	792	1,416
Other	**6,908**	4,794	4,182
	$15,124	$15,585	$19,448

(NOTE 1) Summary of Significant Accounting Policies—(Continued)

Premiums earned include credit life and disability premiums and premiums from the Company's TPA payment protection program. CAC Reinsurance, Ltd. ("Credit Acceptance Reinsurance"), a wholly owned subsidiary of the Company, is engaged primarily in the business of reinsuring credit life and disability insurance policies issued to borrowers under Consumer Loans assigned by participating dealer-partners. The Company advances to dealer-partners an amount based on the credit life and disability insurance premium. The policies insure the consumer for the outstanding balance payable in the event of death or disability of the consumer. Premiums are ceded to Credit Acceptance Reinsurance on both an earned and written basis and are earned over the life of the Consumer Loans using pro rata and sum-of-digits methods. Credit Acceptance Reinsurance bears the risk of loss related to claims under the coverage ceded to it. The Company recognizes income and related expense for the TPA payment protection program on an accelerated basis over the life of the service contract.

Enrollment fees of $9,850 are generally paid by each dealer-partner signing a servicing agreement. In return for the enrollment fee, the Company provides the dealer-partner with sales promotion kits, signs, training and the first month's access to CAPS. Beginning in the fourth quarter of 2002, the enrollment fee in the United States was 100% refundable for 180 days. This program was discontinued in July 2005. The fees and the related direct incremental costs of enrolling these dealer-partners are deferred and amortized on a straight-line basis over the estimated life of the dealer-partner relationship. The Company estimates the amount of fees that will not be refunded and begins amortizing this portion of the deferred fees and costs immediately. After the 180-day refund period expires, the Company begins amortizing any remaining fees that have not been refunded along with the related costs. During the first quarter of 2005, the Company implemented a new policy. The new policy allows prospective dealer-partners to enroll in the Company's program without paying the $9,850 enrollment fee. Prospective dealer-partners choosing this option instead agree to allow the Company to keep 50% of the first accelerated dealer holdback payment. This payment, called Portfolio Profit Express, is paid to qualifying dealer-partners after 100 Consumer Loans have been originated and assigned to the Company.

The Company leases part of its headquarters to outside parties under non-cancelable operating leases. This activity is not a significant part of its business activities.

The Company recognizes gains on lease terminations when the proceeds from the sale of previously leased vehicles at auctions exceed the carrying values of the vehicles.

Income from operating lease vehicles is recognized on a straight-line basis over the scheduled lease term. Revenue recognition is suspended at the point the consumer becomes 90 days past due on a recency basis.

Dealer-partners are charged an initial fee to floorplan a vehicle, and interest is recognized monthly based on the number of days a vehicle remains on the floorplan, with interest rates generally ranging from 12% to 18% per annum. Income from secured lines of credit is recognized under the interest method of accounting. Interest on notes receivable is recognized as income based on the outstanding monthly balance and is generally 5% to 18% per annum. When a floorplan receivable, line of credit, or note receivable is determined to be impaired, the recognition of income is suspended and the Company records a provision for losses equal to the difference between the carrying value and the present value of the expected cash flows.

Other income consists primarily of repossession fees, NSF fees, and dealer-partner training fees.

(NOTE 1) Summary of Significant Accounting Policies—(Concluded)

Employee Benefit Plan

The Company sponsors a 401(k) plan that covers substantially all of its employees. Employees may elect to contribute to the plan from 1% to 20% of their salary subject to statutory limitations. The Company makes matching contributions equal to 50% of the employee contributions, up to a maximum of $1,250 per employee. Prior to 2004, the Company made matching contributions equal to 25% of the employee contributions, up to a maximum of $625 per employee. The Company recognized compensation expense of $0.3 million in 2005 and 2004 and $0.1 million in 2003 for its matching contributions to the plan.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"). This statement supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS 123(R) established standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123(R) focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123(R) is effective for the Company's fiscal year beginning January 1, 2006. As the Company began recognizing stock based compensation expense under the fair value recognition and measurement provisions of SFAS No. 123 during 2003, the adoption of SFAS No. 123R will not have a material impact on the Company.

Reclassification

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

(NOTE 2) 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 the amounts held in accordance with secured financing arrangements and reinsurance agreements. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available for sale, and stated at fair value.

Net Investment in Loans Receivable. Loans receivable, net less dealer holdbacks, net represent the Company's net investment in Dealer Loans and Consumer Loans. The fair value is determined by calculating the present value of future loan payment inflows and dealer holdback outflows estimated by the Company utilizing a discount rate comparable with the rate used to calculate the Company's allowance for credit losses.

Debt. 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 the Company for debt with similar maturities.

Derivative Instruments. The fair value of interest rate caps and foreign currency forward contracts are based on quoted market values.

(NOTE 2) 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,			
	2005		2004	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
ASSETS				
Cash and cash equivalents and restricted cash	**$ 20,563**	**$ 20,563**	$ 24,541	$ 24,541
Restricted securities available for sale	**3,345**	**3,345**	928	928
Net investment in Loans receivable	**563,528**	**573,591**	510,336	519,532
Derivative instruments	**23**	**23**	43	43
LIABILITIES				
Line of credit	**36,300**	**36,300**	7,700	7,700
Secured financing	**101,500**	**101,500**	176,000	175,543
Mortgage note	**7,539**	**7,653**	8,216	7,876
Derivative instruments	**—**	**—**	1,156	1,156

(NOTE 3) Loans Receivable

Loans receivable consists of the following (in thousands):

	As of December 31,		
	2005	2004	2003
Dealer Loans receivable	**$675,692**	$626,284	$537,671
Consumer Loans receivable	**16,489**	43,008	88,446
Other Loans receivable	**3,777**	4,350	6,668
Unearned finance charges	**—**	(4,275)	(10,791)
Unearned insurance premiums, insurance reserves and fees	**(1,019)**	(1,973)	(2,557)
Loans receivable	**$694,939**	$667,394	$619,437

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

	For the Year Ended December 31, 2005			
	Dealer Loans	**Consumer Loans**	**Other Loans**	**Total**
Balance, beginning of period	**$ 626,284**	**$ 36,760**	**$ 4,350**	**$ 667,394**
New loans	**461,877**	**13,354**	**—**	**475,231**
Dealer holdback payments	**52,512**	**—**	**—**	**52,512**
Net cash collections on loans	**(454,636)**	**(16,871)**	**—**	**(471,507)**
Write-offs	**(10,215)**	**(10,760)**	**—**	**(20,975)**
Recoveries	**—**	**2,367**	**—**	**2,367**
Sale of United Kingdom loan portfolio	**—**	**(8,579)**	**—**	**(8,579)**
Net change in floorplan receivables, notes receivable and lines of credit	**—**	**—**	**(573)**	**(573)**
Other	**—**	**954**	**—**	**954**
Currency translation	**(130)**	**(1,755)**	**—**	**(1,885)**
Balance, end of period	**$ 675,692**	**$ 15,470**	**$ 3,777**	**$ 694,939**

(NOTE 3) Loans Receivable—(Continued)

	For the Year Ended December 31, 2004			
	Dealer Loans	**Consumer Loans**	**Other Loans**	**Total**
Balance, beginning of period	$ 537,671	$ 75,098	$ 6,668	$ 619,437
New loans	427,866	7,938	—	435,804
Dealer holdback payments	33,326	—	—	33,326
Net cash collections on loans	(365,119)	(27,615)	—	(392,734)
Write-offs	(7,104)	(23,783)	—	(30,887)
Recoveries	—	2,157	—	2,157
Net change in floorplan receivables, notes receivable and lines of credit	—	—	(2,318)	(2,318)
Other	—	584	—	584
Currency translation	(356)	2,381	—	2,025
Balance, end of period	$ 626,284	$ 36,760	$ 4,350	$ 667,394

	For the Year Ended December 31, 2003			
	Dealer Loans	**Consumer Loans**	**Other Loans**	**Total**
Balance, beginning of period	$ 462,508	$122,567	$12,326	$ 597,401
New loans	334,720	27,519	—	362,239
Dealer holdback payments	27,403	—	—	27,403
Net cash collections on loans	(285,522)	(46,221)	—	(331,743)
Write-offs	(2,468)	(39,106)	—	(41,574)
Recoveries	—	1,168	—	1,168
Net change in floorplan receivables, notes receivable and lines of credit	—	—	(5,658)	(5,658)
Other	—	837	—	837
Currency translation	1,030	8,334	—	9,364
Balance, end of period	$ 537,671	$ 75,098	$ 6,668	$ 619,437

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

	For the Year Ended December 31, 2005			
	Dealer Loans	**Consumer Loans**	**Other Loans**	**Total**
Balance, beginning of period	**$ 134,599**	**$ 6,774**	**$ 10**	**$141,383**
Provision for credit losses[1]	**6,290**	**(2,344)**	**(37)**	**3,909**
Write-offs	**(10,215)**	**(1,985)**	**—**	**(12,200)**
Recoveries	**—**	**2,312**	**—**	**2,312**
Sale of United Kingdom loan portfolio	**—**	**(3,439)**	**—**	**(3,439)**
Other change in floorplan receivables, notes receivable, and lines of credit	**—**	**—**	**27**	**27**
Currency translation	**48**	**(629)**	**—**	**(581)**
Balance, end of period	**$ 130,722**	**$ 689**	**$ —**	**$131,411**

(NOTE 3) Loans Receivable—(Concluded)

	For the Year Ended December 31, 2004			
	Dealer Loans	**Consumer Loans**	**Other Loans**	**Total**
Balance, beginning of period	$ 136,514	$ 6,689	$ 106	$143,309
Provision for credit losses(2)	5,094	(978)	1,174	5,290
Write-offs	(7,104)	(1,305)	—	(8,409)
Recoveries	—	2,023	—	2,023
Other change in floorplan receivables, notes receivable, and lines of credit	—	—	(1,270)	(1,270)
Currency translation	95	345	—	440
Balance, end of period	$ 134,599	$ 6,774	$ 10	$141,383

	For the Year Ended December 31, 2003			
	Dealer Loans	**Consumer Loans**	**Other Loans**	**Total**
Balance, beginning of period	$ 132,658	$ 6,550	$ 1,285	$140,493
Provision for credit losses(3)	6,109	744	1,100	7,953
Write-offs	(2,468)	(2,179)	—	(4,647)
Recoveries	—	1,123	—	1,123
Other change in floorplan receivables, notes receivable, and lines of credit	—	—	(2,279)	(2,279)
Currency translation	215	451	—	666
Balance, end of period	$ 136,514	$ 6,689	$ 106	$143,309

(1) Does not include a provision of $70 primarily related to earned but unpaid revenue related to license fees. Includes a negative provision for credit losses related to discontinued operations of $1,726.

(2) Does not include a provision of $467 for earned but unpaid revenue related to license fees. Includes a negative provision for credit losses related to discontinued operations of $769.

(3) Does not include a provision of $1,686 primarily related to the Company's lease portfolio. Includes a provision for credit losses related to discontinued operations of $804.

(NOTE 4) Leased Properties

The Company leases office space and office equipment. Management expects that in the normal course of business, leases will be renewed or replaced by other leases. Total rental expense on all operating leases was $1.0 million, $0.5 million, and $0.4 million for 2005, 2004, and 2003, respectively. Contingent rentals under the operating leases were insignificant. Minimum future lease commitments under operating leases as of December 31, 2005 are as follows (in thousands):

Minimum Future Lease Commitments	
2006	$ 684
2007	628
2008	424
2009	315
	$2,051

(NOTE 5) Property and Equipment

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

	As of December 31,	
	2005	2004
Land	**$ 2,586**	$ 2,586
Building and improvements	**9,798**	9,639
Data processing equipment and software	**30,148**	30,921
Office furniture and equipment	**1,727**	2,047
Leasehold improvements	**381**	369
	44,640	45,562
Less:		
Accumulated depreciation on property and equipment	**(25,168)**	(24,969)
Accumulated depreciation on leased assets	**(1,480)**	(887)
Total accumulated depreciation	**(26,648)**	(25,856)
	$ 17,992	$ 19,706

Property and equipment included capital leased assets of $2.7 million and $2.5 million as of December 31, 2005 and 2004, respectively. Depreciation expense on property and equipment was $5.2 million, $4.9 million, and $4.5 million in 2005, 2004, and 2003, respectively.

(NOTE 6) Debt

Lines of Credit

At December 31, 2005, the Company had a $135.0 million credit agreement with a commercial bank syndicate. The facility has a commitment period through June 20, 2008. At December 31, 2005, the agreement provided that, at the Company's option, interest is payable at either the Eurodollar rate plus 130 basis points (5.68% at December 31, 2005), or at the prime rate (7.25% at December 31, 2005). The Eurodollar borrowings may be fixed for periods of up to six months. Borrowings under the credit agreement are subject to a borrowing base limitation equal to 65% (increased to 75% in February 2006) of the net book value of Dealer Loans plus 65% (increased to 75% in February 2006) of the net book value of Consumer Loans purchased by the Company (not to exceed a maximum of 25% of the aggregate borrowing base limitation), less a hedging reserve (not exceeding $1.0 million), the amount of letters of credit issued under the line of credit, and the amount of other debt secured by the collateral which secures the line of credit. Currently, the borrowing base limitation does not inhibit the Company's borrowing ability under the line of credit. As of December 31, 2005, there was $93.3 million available under the line of credit.

(NOTE 6) Debt—(Continued)

The credit agreement has certain restrictive covenants, including a minimum required ratio of the Company's assets to debt, its debt to tangible net worth, and its earnings before interest, taxes and non-cash expenses to fixed charges. Additionally, the agreement requires that the Company maintain a specified minimum level of net worth. Borrowings under the credit agreement are secured by a lien on most of the Company's assets. The Company must pay annual and quarterly fees on the amount of the commitment. As of December 31, 2005 and December 31, 2004, there was $36.3 million and $7.7 million outstanding under this facility. The maximum amount outstanding was approximately $60.1 million and $118.1 million in 2005 and 2004, respectively. The weighted average balance outstanding was $38.4 million and $49.6 million in 2005 and 2004, respectively. The weighted average interest rate on line of credit borrowings outstanding on December 31, 2005 was 5.75%.

Secured Financing

In the third quarter of 2003, the Company's wholly-owned subsidiary, CAC Warehouse Funding Corp. II ("Warehouse Funding" or "2003-2"), completed a revolving secured financing transaction with an institutional investor. In the third quarter of 2004, Warehouse Funding increased the facility limit and renewed the commitment. Under the renewed facility, Warehouse Funding may receive up to $200.0 million (increased to $325.0 million in February 2006) in financing when the Company conveys Dealer Loans to Warehouse Funding for cash and equity in Warehouse Funding. Warehouse Funding will in turn pledge the Dealer Loans as collateral to the institutional investor to secure loans that will fund the cash portion of the purchase price of the Dealer Loans. As required under the agreement, all amounts outstanding under the facility were refinanced and the facility paid to zero in August 2004. This revolving facility, which matures on February 14, 2007, allows conveyances of Dealer Loans by the Company and related borrowing by Warehouse Funding in which Warehouse Funding will receive 75% of the net book value of the contributed Dealer Loans up to the $200.0 million (increased to $325.0 million in February 2006) facility limit. In addition to the maturity of the facility, there is a requirement that certain amounts outstanding under the facility be refinanced within 90 days of February 15, 2006 and within 360 days of the most recent refinancing occurring after February 15, 2006. If the refinancing does not occur or the requirement is not waived, or if the facility is not extended, the transaction will cease to revolve, will amortize as collections are received and, at the option of the institutional investors, may be subject to acceleration and foreclosure. Although Warehouse Funding will be liable for any secured financing under the facility, the financing will be non-recourse to the Company, even though Warehouse Funding and the Company are consolidated for financial reporting purposes. As Warehouse Funding is organized as a separate special purpose legal entity from the Company, assets of Warehouse Funding (including the conveyed Dealer Loans) will not be available to satisfy the general obligations of the Company. All the assets of Warehouse Funding have been encumbered to secure Warehouse Funding's obligations to its creditors. Borrowings under the facility will bear interest at a floating rate equal to the commercial paper rate plus 65 basis points (4.97% at December 31, 2005), which has been limited to a maximum rate of 6.75% through interest rate cap agreements executed in the third quarter of 2005. The interest rate at December 31, 2005 was 4.97%. The Company will receive a monthly servicing fee paid out of collections equal to 6% of the collections received with respect to the conveyed Dealer Loans. Except for the servicing fee and payments due to dealer-partners, the Company does not have any rights, in any portion of such collections. As of December 31, 2005 and December 31, 2004, there was $101.5 million and $76.0 million, respectively, outstanding under this facility.

In the third quarter of 2004, the Company's wholly-owned subsidiary, Credit Acceptance Funding LLC 2004-1 ("Funding 2004-1"), completed a secured financing transaction, in which Funding 2004-1 received $100.0 million in financing. In connection with this transaction, the Company conveyed, for cash and the sole membership interest in Funding 2004-1, Dealer Loans having a net book value of approximately $134.0 million to Funding 2004-1, which, in turn, conveyed the Dealer Loans to a trust, which issued $100.0 million in notes to qualified institutional investors. The Sale and Servicing Agreement dated August 25, 2004, as

(NOTE 6) Debt—(Continued)

amended, used terminology corresponding to the Company's historical method of accounting. As a result, the net book value of Dealer Loans would require adjustment to reflect the equivalent terms under the Company's new method of accounting. Radian Asset Assurance issued the primary financial insurance policy in connection with the transaction, and XL Capital Assurance issued a backup financial insurance policy. The policies guaranteed the timely payment of interest and ultimate repayment of principal on the final scheduled distribution date. The notes were rated "Aaa" by Moody's Investor Services and "AAA" by Standard & Poor's Rating Services. The proceeds of the initial conveyance to Funding 2004-1 were used by the Company to purchase Dealer Loans from Warehouse Funding. Until February 15, 2005, the Company conveyed additional Dealer Loans with a net book value of approximately $20.0 million to Funding 2004-1 which were then conveyed by Funding 2004-1 to the trust, and used by the trust as collateral in support of the outstanding debt. After February 15, 2005, the debt outstanding under this facility began to amortize. The secured financing created loans for which the trust was liable and which were secured by all the assets of the trust and of Funding 2004-1. Such loans were non-recourse to the Company, even though the trust, Funding 2004-1 and the Company were consolidated for financial reporting purposes. As Funding 2004-1 was organized as a separate legal entity from the Company, assets of Funding 2004-1 (including the conveyed Dealer Loans) were not available to satisfy the general obligations of the Company. All the assets of Funding 2004-1 were encumbered to secure Funding 2004-1's obligations to its creditors. The notes bore interest at a fixed rate of 2.53%. The annualized cost of the secured financing, including underwriter's fees, the insurance premiums and other costs was 6.6%. The Company received a monthly servicing fee paid out of collections equal to 6% of the collections received with respect to the conveyed Dealer Loans. Except for the servicing fee and payments due to dealer-partners, the Company did not receive, or have any rights in, any portion of such collections, except for a limited right in its capacity as Servicer to exercise a "clean-up call" option to purchase Dealer Loans from Funding 2004-1 under certain specified circumstances. As of December 31, 2004 there was $100.0 million outstanding under this secured financing transaction. In the fourth quarter of 2005, the Company exercised its "clean-up call" option to reacquire the remaining Dealer Loans from the trust and directed the trust to redeem the notes in full. The remaining assets of the trust, including remaining collections, were paid over to Funding 2004-1 as the sole beneficiary of the trust and then distributed to the Company as the sole member of Funding 2004-1. As a result, this secured financing transaction was terminated after a total term of 15 months.

The Company and its subsidiaries have completed a total of eleven secured financing transactions, ten of which have been repaid in full. Information about the outstanding secured financing transactions is as follows (dollars in thousands):

Issue Number	Close Date	Limit	Secured Financing Balance at December 31, 2005	Secured Dealer Loan Balance at December 31, 2005
2003-2	September 2003*	$325,000	**$101,500**	**$177,104**

**In February 2006, the 2003-2 Loan and Security Agreement was amended to increase the facility limit to $325 million and extend the commitment period to February 14, 2007.*

Mortgage Note Payable

The Company has a mortgage loan from a commercial bank that is secured by a first mortgage lien on the Company's headquarters building and an assignment of all leases, rents, revenues and profits under all present and future leases of the building. There was $7.5 million and $8.2 million outstanding on this loan as of December 31, 2005 and December 31, 2004, respectively. During the second quarter of 2004, the loan, which now matures on June 9, 2009, was refinanced and increased by $3.5 million under similar terms and conditions. The loan bears interest at a fixed rate of 5.35%, and requires monthly payments of $92,156 and a balloon payment at maturity for the balance of the loan.

(NOTE 6) Debt—(Concluded)

Capital Lease Obligations

As of December 31, 2005, the Company has various capital lease obligations outstanding for computer equipment, with monthly payments totaling $74,000. The total amount of capital lease obligations outstanding as of December 31, 2005 and 2004 was $1.6 million. These capital lease obligations bear interest at rates ranging from 7.87% to 9.31% and have maturity dates between March 2006 and July 2008.

Letters of Credit

Letters of credit are issued by a commercial bank and reduce amounts available under the Company's line of credit. As of December 31, 2005, the Company has four letters (decreased to two in February 2006) of credit relating to reinsurance agreements totaling $5.4 million (decreased to $2.6 million in February 2006). Such letters of credit expire on May 26, 2006, at which time they will be automatically extended for the period of one year unless the Company is notified otherwise by the commercial bank syndicate.

Principal Debt Maturities

The scheduled principal maturities of the Company's debt at December 31, 2005 are as follows (in thousands):

2006	$ 1,495
2007	102,884
2008	37,253
2009	5,273
	$146,905

Included in scheduled principal maturities are anticipated maturities of secured financing debt. The maturities of this debt are dependent on the timing of cash collections on the Dealer Loans, the amounts due to dealer-partners for payments of dealer holdbacks and changes in interest rates on the secured financing. Such amounts included in the table above are $101.5 million for 2007.

Debt Covenants

The Company's debt facilities require compliance with various restrictive debt covenants that require the maintenance of certain financial ratios and other financial conditions. The most restrictive covenants require a minimum ratio of the Company's assets to debt, its liabilities to tangible net worth, and its earnings before interest, taxes and non-cash expenses to fixed charges. The Company must also maintain a specified minimum level of net worth, which may indirectly limit the payment of dividends on common stock. Although the Company was not in compliance with its covenants due to its inability to timely file its Annual Report on Form 10-K for the year ended December 31, 2004 and its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005, and September 30, 2005, the Company had received waivers of this requirement on its debt facilities and these waivers became permanent upon the filing of such reports in January 2006.

(NOTE 7) Related Party Transactions

In the normal course of its business, the Company has Dealer Loans with affiliated dealer-partners owned by: (i) the Company's majority shareholder and Chairman; (ii) the Company's President; and (iii) a member of the Chairman's immediate family. The Company's Dealer Loans from affiliated dealer-partners and nonaffiliated dealer-partners are on the same terms. A summary of related party Dealer Loan activity is as follows (in thousands):

	As of December 31, 2005		As of December 31, 2004	
	Affiliated Dealer-Partner Balance	**% of Consolidated**	**Affiliated Dealer-Partner Balance**	**% of Consolidated**
Dealer loan balance	**$12,900**	**1.9%**	$16,700	2.7%

	For the Year Ended December 31, 2005		For the Year Ended December 31, 2004		For the Year Ended December 31, 2003	
	Affiliated Dealer-Partner Activity	**% of Consolidated**	**Affiliated Dealer-Partner Activity**	**% of Consolidated**	**Affiliated Dealer-Partner Activity**	**% of Consolidated**
Advances	**$9,600**	**2.1%**	$14,300	3.3%	$10,600	3.2%
Affiliated Dealer revenue	**$3,500**	**2.1%**	$ 4,200	2.9%	$ 3,600	3.2%

Pursuant to an employment agreement with the Company's President dated April 19, 2001, the Company loaned the President's dealerships approximately $0.9 million. The note, including all principal and interest, is due on April 19, 2011, bears interest at 5.22%, is unsecured, and is personally guaranteed by the Company's President. The balance of the note including accrued but unpaid interest was approximately $1.1 million as of December 31, 2005 and 2004. In addition, pursuant to the employment agreement, the Company loaned the President approximately $0.5 million. The note, including all principal and interest, is due on April 19, 2011, bears interest at 5.22% beginning January 1, 2002, and is unsecured. The balance of the note including accrued interest was approximately $0.6 million as of December 31, 2005 and 2004.

Total CAPS and dealer enrollment fees earned from affiliated dealer-partners were approximately $0.1 million for the years ended December 31, 2005, 2004, and 2003.

The Company paid for air transportation services provided by a company owned by the Company's majority shareholder and Chairman totaling $0.1 million for the year ended December 31, 2005 and $0.2 million for the years ended December 31, 2004 and 2003.

Prior to the third quarter of 2001, the Company offered a line of credit arrangement to certain dealerships who were not participating in the Company's core program. The Company ceased offering this program to new dealerships in the third quarter of 2001 and has been reducing the amount of capital invested in this program since that time. Beginning in 2002, entities owned by the Company's majority shareholder and Chairman began offering secured lines of credit to third parties in a manner similar to the Company's prior program. In December of 2004, the Company's majority shareholder and Chairman sold his ownership interest in these entities.

(NOTE 8) Income Taxes

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

	Years Ended December 31,		
	2005	2004	2003
Income from continuing operations before provision for income taxes:			
Domestic	**$107,420**	$85,428	$57,477
Foreign	**936**	898	1,117
	$108,356	$86,326	$58,594
Current provision for income taxes:			
Federal	**$ 26,465**	$12,013	$27,956
State	**1,979**	787	1,511
Foreign	**120**	734	486
	28,564	13,534	29,953
Deferred provision (credit) for income taxes:			
Federal	**10,182**	15,993	(2,385)
State	**1,455**	911	(218)
Foreign	**(42)**	(365)	19
	11,595	16,539	(2,584)
Provision for income taxes	**$ 40,159**	$30,073	$27,369

(NOTE 8) Income Taxes—(Continued)

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

	As of December 31,	
	2005	2004
Deferred tax assets:		
Allowance for credit losses	**$48,046**	$51,818
United Kingdom asset impairment	**—**	3,858
Accrued liabilities	**1,298**	1,366
Deferred dealer enrollment fees	**713**	788
Net operating losses	**189**	433
Stock-based compensation	**2,275**	1,575
Unrealized loss on currency	**—**	420
Other, net	**448**	368
Total deferred tax assets	**52,969**	60,626
Deferred tax liabilities:		
Valuation of receivables	**92,486**	85,577
Unearned finance charges	**—**	2,767
Depreciable assets	**2,343**	2,455
Deferred origination costs	**848**	441
Other, net	**1,050**	1,203
Total deferred tax liabilities	**96,727**	92,443
Net deferred tax liability	**$43,758**	$31,817

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

	Years Ended December 31,		
	2005	2004	2003
U.S. federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes	**2.1**	1.3	1.4
Foreign income taxes	**(0.2)**	—	0.2
Undistributed/distributed foreign earnings	**0.9**	(2.2)	11.1
Other	**(0.7)**	0.7	(1.0)
Provision for income taxes	**37.1%**	34.8%	46.7%

The change in effective tax rates for 2005, 2004, and 2003 differed from the federal statutory tax rate of 35% primarily due to the provision for U.S. taxes related to remittance of foreign earnings.

(NOTE 8) Income Taxes—(Concluded)

During 2002, the Company determined that the undistributed earnings of its United Kingdom and Ireland subsidiaries should no longer be considered to be permanently reinvested, and during 2003, the Company determined that the undistributed earnings of its Canadian subsidiary should no longer be considered to be permanently reinvested. As a result of these determinations, the Company recorded the amount of U.S. federal income taxes and withholding taxes related to the repatriation of these earnings. During 2005, 2004 and 2003, the Company remitted substantially all of its accumulated earnings as profits to the U.S. and accrued or paid U.S. income taxes accordingly.

(NOTE 9) Capital Transactions

Net Income Per Share

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

	Years Ended December 31,		
	2005	2004	2003
Weighted average common shares outstanding	**36,991,136**	38,617,787	42,195,340
Dilutive effect of stock options	**2,216,544**	2,399,418	1,213,667
Weighted average common shares and dilutive common shares	**39,207,680**	41,017,205	43,409,007

The computation of diluted net income per share for 2003 excludes the effect of the potential exercise of stock options to purchase 423,000 shares, because the effects of including them would have been anti-dilutive. There were no anti-dilutive potential shares for 2005 or 2004.

Stock Repurchase Program

On August 5, 1999, the Company announced a stock repurchase program of up to 1.0 million shares of the Company's common stock. The program authorized the Company to purchase common shares in the open market or in privately negotiated transactions at price levels the Company deems attractive. Since August 1999, the Company's board of directors has authorized several increases to the stock repurchase program, the most recent occurring on March 10, 2004, which increased the total number of shares authorized to be repurchased to 7.0 million shares. As of December 31, 2005, the Company has repurchased approximately 6.4 million shares under this program at a cost of $51.9 million.

In addition to the above stock repurchase program, the Company repurchased 4.9 million shares of its common stock at a cost of $91.0 million through two modified Dutch auction tender offers completed during 2004. On November 26, 2003, the Company announced a modified Dutch auction tender offer to purchase up to 2.6 million shares of its common stock at a purchase price of not less than $12.50 per share and not greater than $17.00 per share. Upon the expiration of the tender offer on January 6, 2004, the Company repurchased all of the 2.2 million tendered shares of its common stock at $17.00 per share. On

(NOTE 9) Capital Transactions—(Continued)

August 11, 2004, the Company announced a modified Dutch auction tender offer to purchase up to 3.0 million shares of its common stock at a purchase price of not less than $14.00 per share and not greater than $20.00 per share. Upon the expiration of the tender offer on September 9, 2004, the Company repurchased all of the 2.7 million tendered shares of its common stock at a price of $20.00 per share.

On February 10, 2006, the Company announced that it had commenced a modified Dutch auction tender offer to purchase up to 5.0 million of its outstanding common stock at a price per share of $21.00 to $25.00. The tender offer will expire on March 13, 2006.

Stock Compensation Plans

Pursuant to the Company's Incentive Compensation Plan (the "Incentive Plan"), which was approved by shareholders on May 13, 2004, the Company has reserved 1.0 million shares of its common stock for the future granting of restricted stock, restricted stock units, stock options, and performance awards to employees, officers, and directors at any time prior to April 1, 2014. All of the terms relating to vesting or other restrictions of restricted stock awards or restricted stock unit grants will be determined by the Company's compensation committee. Options granted under the Incentive Plan may be either incentive stock options or nonqualified stock options. The terms of options granted under the Incentive Plan will be set forth in agreements between the Company and the recipients and will be determined by the Company's compensation committee. The exercise price will not be less than the fair market value of the shares on the date of grant and, for incentive stock options, the exercise price must be at least 110% of fair market value if the recipient is the holder of more than 10% of the Company's common stock. All of the terms relating to the satisfaction of performance goals, the length of any performance period, the amount of any performance award granted, the amount of any payment or transfer to be made pursuant to any performance award, and any other terms and conditions of any performance award will be determined by the Company's compensation committee and included in an agreement between the recipient and the Company. As of December 31, 2005, the Company granted 99,023 shares of restricted stock to employees and officers under the Incentive Plan. The shares vest dependent upon attaining certain performance targets within seven years. In conjunction with this grant, during the first quarter of 2005 the Company recorded approximately $2.0 million of unearned stock-based compensation, representing the fair value of the restricted stock on the date of grant. Unearned stock-based compensation will be recognized as stock-based compensation expense over the expected vesting period of the restricted stock. The related stock-based compensation expense totaled $0.4 million for the year ended December 31, 2005. Shares available for future grants under the Incentive Plan totaled 900,977 at December 31, 2005.

Pursuant to the Company's 1992 Stock Option Plan (the "1992 Plan"), the Company had reserved 8.0 million shares of its common stock for the future granting of options to officers and other employees. The exercise price of the options is no less than the fair market value on the date of the grant. Options under the 1992 Plan generally become exercisable over a three to five year period, or the Company's attainment of certain performance related criteria, or immediately upon a change of Company control. The Company issued 15,000 and 138,500 options in 2004 and 2003, respectively, that will vest only if certain performance targets are met. No options were issued during 2005. Nonvested options are forfeited upon termination of employment and otherwise expire ten years from the date of grant. Shares available for future grants totaled 1,647,225 as of December 31, 2003. The 1992 Plan was terminated as to future grants on May 13, 2004, with shareholder approval of the Incentive Plan.

(NOTE 9) Capital Transactions—(Continued)

Pursuant to the Company's Director Stock Option Plan (the "Director Plan"), the Company had reserved 200,000 shares of its common stock for future granting of options to members of its Board of Directors. The exercise price of the options is equal to the fair market value on the date of grant. In 2004, the Company granted 100,000 options that will vest only if the Company meets certain performance targets. Nonvested options are forfeited if the participant should cease to be a director and otherwise expire ten years from the date of grant. The Director Plan was terminated as to future grants on May 13, 2004, with shareholder approval of the Incentive Plan.

Pursuant to the Company's Stock Option Plan for Dealers (the "Dealer Plan"), the Company had reserved 1.0 million shares of its common stock for the future granting of options to participating dealer-partners. Effective January 1, 1999, the Company suspended the granting of future options under the Dealer Plan. During 2003, the Dealer Plan was cancelled and all previously outstanding options under the Dealer Plan were either exercised or forfeited.

The Company accounts for the compensation costs related to its grants under the stock option plans in accordance with SFAS No. 123. The Company recognized stock-based compensation expense of $1.9 million, $2.7 million and $3.6 million for 2005, 2004 and 2003, respectively, for the 1992 Plan and Director Plan.

The fair value of each option granted used in determining the above stock-based compensation expense is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted-average assumptions used in the option-pricing model as well as the resulting weighted-average fair value of options granted are as follows:

	Years Ended December 31,		
	2005	2004	2003
1992 PLAN			
Risk-free interest rate	—	3.00%	3.50%
Expected life	—	5.0 years	4.0 years
Expected volatility	—	53.35%	63.03%
Dividend yield	—	—	—
Fair value of options granted	—	$8.07	$5.05
DIRECTOR PLAN			
Risk-free interest rate	—	2.71%	—
Expected life	—	5.0 years	—
Expected volatility	—	52.49%	—
Dividend yield	—	—	—
Fair value of options granted	—	$8.29	—

(NOTE 9) Capital Transactions—(Concluded)

Additional information relating to the stock option plans is as follows:

	1992 Plan		Director Plan		Dealer Plan	
	Number of Options	Weighted Average Exercise Price Per Share	Number of Options	Weighted Average Exercise Price Per Share	Number of Options	Weighted Average Exercise Price Per Share
Outstanding at January 1, 2003	4,374,254	$ 7.35	100,000	$ 7.00	69,100	$7.51
Options granted	138,500	10.10	—	—	—	—
Options exercised	(262,744)	7.69	—	—	(2,900)	7.13
Options forfeited	(178,110)	9.71	—	—	(66,200)	7.53
Outstanding at December 31, 2003	4,071,900	7.32	100,000	7.00	—	—
Options granted	15,000	16.45	100,000	17.25	—	—
Options exercised	(521,034)	9.64	—	—	—	—
Options forfeited	(59,347)	8.88	—	—	—	—
Outstanding at December 31, 2004	3,506,519	6.98	200,000	12.13	—	—
Options granted	—	—	—	—	—	—
Options exercised	(31,165)	6.77	—	—	—	—
Options forfeited	(17,660)	9.17	—	—	—	—
Outstanding at December 31, 2005	**3,457,694**	**$ 6.97**	**200,000**	**$12.13**	**—**	**$ —**
Exercisable at December 31:						
2003	1,660,184	$ 7.60	—	$ —	—	$ —
2004	2,131,528	6.79	50,000	7.00	—	—
2005	**3,383,573**	**6.95**	**140,000**	**9.93**	**—**	**—**

The following tables summarize information about options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercisable Prices	Outstanding as of 12/31/2005	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price Per Share	Exercisable as of 12/31/2005	Weighted-Average Exercise Price Per Share
1992 PLAN					
$ 3.63–$ 5.99	**366,309**	3.9 Years	$ 4.03	**366,309**	$ 4.03
6.00– 8.99	**2,281,536**	3.7	6.45	**2,229,043**	6.42
9.00– 11.99	**771,049**	6.2	9.58	**749,421**	9.57
12.00– 14.99	**23,800**	5.9	12.53	**23,800**	12.53
15.00– 17.05	**15,000**	8.1	16.45	**15,000**	16.45
Totals	**3,457,694**	4.3	$ 6.97	**3,383,573**	$ 6.95
DIRECTOR PLAN					
$ 7.00	**100,000**	5.5 Years	$ 7.00	**100,000**	$ 7.00
17.25	**100,000**	8.2	17.25	**40,000**	17.25
Totals	**200,000**	6.8	$12.13	**140,000**	$ 9.93

(NOTE 10) Discontinued Operations

On December 30, 2005, the Company sold the remaining Consumer Loan portfolio of its United Kingdom subsidiary. The selling price was $4.3 million resulting in a pre-tax gain of approximately $3.0 million. In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the financial results of these subsidiary companies were reported separately as discontinued operations in the Company’s Consolidated Statements of Income for all periods presented, since the operations and cash flows of these companies were eliminated from the ongoing operations of the Company. The Company expects to complete the liquidation of its remaining assets and liabilities by the end of 2007.

As a result of the decision to stop originating Consumer Loans in the United Kingdom, the Company had recorded an asset impairment expense of $10.5 million in the second quarter of 2003. These impairment charges were included in “Income from discontinued operations” in the Company’s Consolidated Statements of Income.

(NOTE 11) Business Segment Information

The Company classifies its operations into three reportable business segments: United States, United Kingdom, and Other.

Reportable Segment Overview

In the second quarter of 2003, the Company re-evaluated its business segments as a result of the decision to stop originating Consumer Loans in the United Kingdom and Dealer Loans in Canada. Business decisions, including resources to be allocated, are based on the financial performance of the operations that will continue to accept new business, separate from those that do not. The chief operating decision maker reviews financial information combined into six components: United States, United Kingdom, Automobile Leasing, Canada, Floorplan and Lines of Credit. Each component is an operating segment; however, Automobile Leasing, Canada, Floorplan and Lines of Credit are combined in an “all other” category as none meet the quantitative thresholds of a reportable segment. As a result, the Company has three reportable business segments: United States, United Kingdom, and Other. Prior year’s disclosures have been reclassified to conform to the current year presentation. The United States segment primarily consists of the Company’s United States automobile financing business. The United Kingdom segment primarily consists of the Company’s United Kingdom Consumer Loan operation. The Other segment consists of the Company’s automobile leasing business, Canadian automobile financing business and secured lines of credit and floorplan financing products. The Company is currently liquidating its operations in all segments other than the United States.

(NOTE 11) Business Segment Information—(Continued)

Measurement

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

	United States	United Kingdom	Other	Total Company
Year Ended December 31, 2005				
Finance charges	**$176,173**	**$ —**	**$ 196**	**$176,369**
License fees	**9,775**	**—**	**—**	**9,775**
Other income	**13,964**	**—**	**1,160**	**15,124**
Provision for credit losses	**5,709**	**—**	**(4)**	**5,705**
Interest expense	**13,304**	**—**	**582**	**13,886**
Depreciation expense	**4,832**	**—**	**179**	**5,011**
Provision (credit) for income taxes	**40,276**	**—**	**(117)**	**40,159**
Income from continuing operations	**67,699**	**—**	**498**	**68,197**
Gain on discontinued operations, net of tax	**—**	**4,404**	**—**	**4,404**
Segment assets	**614,149**	**2,715**	**2,530**	**619,394**
Year Ended December 31, 2004				
Finance charges	$149,998	$ —	$ 653	$150,651
License fees	5,835	—	—	5,835
Other income	11,721	—	3,864	15,585
Provision for credit losses	5,332	—	1,194	6,526
Interest expense	11,009	—	651	11,660
Depreciation expense	4,515	—	996	5,511
Provision (credit) for income taxes	29,767	—	306	30,073
Income from continuing operations	55,853	—	400	56,253
Gain on discontinued operations, net of tax	—	1,072	—	1,072
Segment assets	563,497	22,960	4,856	591,313
Year Ended December 31, 2003				
Finance charges	$116,156	$ —	$ 1,602	$117,758
License fees	3,836	—	—	3,836
Other income	10,086	—	9,362	19,448
Provision for credit losses	6,003	—	2,832	8,835
Interest expense	6,329	—	1,728	8,057
Depreciation expense	4,060	—	4,129	8,189
Provision (credit) for income taxes	27,237	—	132	27,369
Income from continuing operations	31,275	—	(50)	31,225
Loss on discontinued operations, net of tax	—	(6,556)	—	(6,556)
Segment assets	464,021	67,302	13,525	544,848

(NOTE 11) Business Segment Information—(Concluded)

The Company operates primarily in the United States and the United Kingdom (excluding Ireland). The table below presents the key financial information by geographic location (in thousands):

	United States	United Kingdom	All Other	Total Company
Year Ended December 31, 2005				
Finance charges	**$176,172**	**$ —**	**$ 197**	**$176,369**
License fees	**9,775**	**—**	**—**	**9,775**
Other income	**14,694**	**—**	**430**	**15,124**
Income from continuing operations	**67,339**	**—**	**858**	**68,197**
Gain on discontinued operations	**—**	**4,044**	**360**	**4,404**
Property and equipment, net	**17,992**	**—**	**—**	**17,992**
Year Ended December 31, 2004				
Finance charges	$150,002	$ —	$ 649	$150,651
License fees	5,835	—	—	5,835
Other income	15,274	—	311	15,585
Income from continuing operations	55,724	—	529	56,253
Gain on discontinued operations	—	770	302	1,072
Property and equipment, net	19,474	232	—	19,706
Year Ended December 31, 2003				
Finance charges	$116,165	$ —	$1,593	$117,758
License fees	3,836	—	—	3,836
Other income	19,085	—	363	19,448
Income from continuing operations	30,611	—	614	31,225
(Loss) gain on discontinued operations	—	(6,631)	75	(6,556)
Property and equipment, net	18,045	496	—	18,541

Information About Products and Services

The Company manages its product and service offerings primarily through those reportable segments. Therefore, in accordance with the provisions of SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”, no enterprise-wide disclosures of information about products and services are necessary.

Major Customers

The Company did not have any dealer-partners that provided 10% or more of the Company’s revenue during 2005, 2004, or 2003. Additionally, no single dealer-partner’s Dealer Loan accounted for more than 10% of total Dealer Loans as of December 31, 2005 or as of December 31, 2004.

(NOTE 12) Litigation and Contingent Liabilities

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

The Company is currently a defendant in a class action proceeding commenced on October 15, 1996 in the Circuit Court of Jackson County, Missouri and removed to the United States District Court for the Western District of Missouri. The complaint seeks unspecified money damages for alleged violations of a number of state and federal consumer protection laws. On October 9, 1997, the District Court certified two classes on the claims brought against the Company, one relating to alleged overcharges of official fees, the other relating to alleged overcharges of post-maturity interest. On August 4, 1998, the District Court granted partial summary judgment on liability in favor of the plaintiffs on the interest overcharge claims based upon the District Court's finding of certain violations but denied summary judgment on certain other claims. The District Court also entered a number of permanent injunctions, which among other things, restrained the Company from collecting on certain class accounts. The Court also ruled in favor of the Company on certain claims raised by class plaintiffs. Because the entry of an injunction is immediately appealable, the Company appealed the summary judgment order to the United States Court of Appeals for the Eighth Circuit. Oral argument on the appeals was heard on April 19, 1999. On September 1, 1999, the United States Court of Appeals for the Eighth Circuit overturned the August 4, 1998 partial summary judgment order and injunctions against the Company. The Court of Appeals held that the District Court lacked jurisdiction over the interest overcharge claims and directed the District Court to sever those claims and remand them to state court. On February 18, 2000, the District Court entered an order remanding the post-maturity interest class to the Circuit Court of Jackson County, Missouri while retaining jurisdiction on the official fee class. The Company then filed a motion requesting that the District Court reconsider that portion of its order of August 4, 1998, in which the District Court had denied the Company's motion for summary judgment on the federal Truth-In-Lending Act ("TILA") claim. On May 26, 2000, the District Court entered summary judgment in favor of the Company on the TILA claim and directed the Clerk of the Court to remand the remaining state law official fee claims to the appropriate state court. On September 18, 2001, the Circuit Court of Jackson County, Missouri mailed an order assigning this matter to a judge. On October 28, 2002, the plaintiffs filed a fourth amended complaint. The Company filed a motion to dismiss the plaintiff's fourth amended complaint on November 4, 2002. On November 18, 2002, the Company filed a memorandum urging the decertification of the classes. On February 21, 2003, the plaintiffs filed a brief opposing the Company's November 4, 2002 motion to dismiss the case. On May 19, 2004, the court released an order, dated January 9, 2004, that denied the Company's motion to dismiss. On November 16, 2005 the Court issued an order that, among other things, adopted the District Court's order certifying classes. The Company will continue its vigorous defense of all remaining claims. However, an adverse ultimate disposition of this litigation could have a material negative impact on the Company's financial position, liquidity and results of operations.

(NOTE 13) Quarterly Financial Data (Unaudited)

The following is a summary of the quarterly financial position and results of operations as of and for the years ended December 31, 2005 and 2004, which have been prepared in accordance with accounting principles generally accepted in the United States of America. Certain amounts for prior periods have been reclassified to conform to the current presentation.

	2005			
(In Thousands, Except Share and Per Share Data)	**1st Q**	**2nd Q**	**3rd Q**	**4th Q**
BALANCE SHEETS				
Loans receivable, net	**$554,557**	**$560,004**	**$566,394**	**$563,528**
All other assets	**63,199**	**73,380**	**72,960**	**55,866**
Total assets	**$617,756**	**$633,384**	**$639,354**	**$619,394**
Total debt	**$200,113**	**$205,284**	**$194,069**	**$146,905**
Dealer reserve payable, net	**12,003**	**8,243**	**6,007**	**—**
Other liabilities	**88,941**	**85,389**	**90,128**	**99,463**
Total liabilities	**301,057**	**298,916**	**290,204**	**246,368**
Shareholders' equity	**316,699**	**334,468**	**349,150**	**373,026**
Total liabilities and shareholders' equity	**$617,756**	**$633,384**	**$639,354**	**$619,394**
INCOME STATEMENTS				
Revenue	**$ 47,736**	**$ 50,336**	**$ 51,623**	**$ 51,573**
Costs and expenses	**23,611**	**24,298**	**28,435**	**18,380**
Operating income	**24,125**	**26,038**	**23,188**	**33,193**
Foreign exchange gain (loss)	**645**	**382**	**(8)**	**793**
Income from continuing operations before income taxes	**24,770**	**26,420**	**23,180**	**33,986**
Provision for income taxes	**9,240**	**9,817**	**9,231**	**11,871**
Income from continuing operations	**15,530**	**16,603**	**13,949**	**22,115**
Gain on discontinued operations, net of tax(1)	**184**	**450**	**645**	**3,125**
Net income	**$ 15,714**	**$ 17,053**	**$ 14,594**	**$ 25,240**
Net income per common share:				
Basic	**$ 0.43**	**$ 0.46**	**$ 0.39**	**$ 0.68**
Diluted	**$ 0.40**	**$ 0.44**	**$ 0.38**	**$ 0.65**
Income from continuing operations per common share:				
Basic	**$ 0.42**	**$ 0.45**	**$ 0.38**	**$ 0.60**
Diluted	**$ 0.39**	**$ 0.43**	**$ 0.36**	**$ 0.57**
Weighted average shares outstanding:				
Basic	**36,900,449**	**37,016,038**	**37,020,020**	**37,025,517**
Diluted	**39,457,287**	**39,064,886**	**38,912,822**	**39,088,720**

(1) Includes gain on sale of United Kingdom loan portfolio of $3.0 million recognized during the fourth quarter of 2005.

(NOTE 13) Quarterly Financial Data (Unaudited)—(Concluded)

(In Thousands, Except Share and Per Share Data)	2004 1st Q	2nd Q	3rd Q	4th Q
BALANCE SHEETS				
Loans receivable, net	$509,696	$515,000	$527,235	$526,011
All other assets	51,199	62,862	54,299	65,302
Total assets	$560,895	$577,862	$581,534	$591,313
Total debt	$156,458	$171,282	$208,848	$193,547
Dealer reserve payable, net	29,606	24,232	19,919	15,675
Other liabilities	69,265	59,498	64,669	81,201
Total liabilities	255,329	255,012	293,436	290,423
Shareholders' equity	305,566	322,850	288,098	300,890
Total liabilities and shareholders' equity	$560,895	$577,862	$581,534	$591,313
INCOME STATEMENTS				
Revenue	$ 39,232	$ 42,507	$ 44,268	$ 46,064
Costs and expenses	21,020	21,023	21,998	23,354
Operating income	18,212	21,484	22,270	22,710
Foreign exchange gain (loss)	151	906	674	(81)
Income from continuing operations before income taxes	18,363	22,390	22,944	22,629
Provision for income taxes	6,643	5,401	8,827	9,202
Income from continuing operations	11,720	16,989	14,117	13,427
Gain on discontinued operations, net of tax	232	184	151	505
Net income	$ 11,952	$ 17,173	$ 14,268	$ 13,932
Net income per common share:				
Basic	$ 0.30	$ 0.44	$ 0.37	$ 0.38
Diluted	$ 0.28	$ 0.41	$ 0.35	$ 0.35
Income from continuing operations per common share:				
Basic	$ 0.29	$ 0.43	$ 0.36	$ 0.36
Diluted	$ 0.28	$ 0.41	$ 0.34	$ 0.34
Weighted average shares outstanding:				
Basic	39,791,700	39,240,321	38,679,011	36,819,410
Diluted	42,159,338	41,413,308	40,943,604	39,473,105

ITEM 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

ITEM 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures.

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

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2005.

Management's Report on Internal Control over Financial Reporting.

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

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

The Company's management assessed the effectiveness of its internal control over financial reporting as of December 31, 2005 and concluded that they were effective. In making this assessment, management used the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Attestation Report of the Registered Public Accounting Firm.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by Grant Thornton LLP, the Company's independent registered public accounting firm, as stated in their report on page 102–103.

Changes in Internal Controls. The Company implemented changes in internal controls over financial reporting during the quarter ended March 31, 2005 to remediate the material weakness related to accounting for income taxes that existed at December 31, 2004 by strengthening the resources used in preparation of accounting for income taxes and implementing additional monitoring and oversight controls including engaging external tax advisors to assist in the review of our income tax calculations to ensure compliance with generally accepted accounting principles.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and
Shareholders of Credit Acceptance Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Credit Acceptance Corporation and its subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Credit Acceptance Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the COSO. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Credit Acceptance Corporation as of December 31, 2005 and 2004, and the related statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 and our report dated March 10, 2006 expressed an unqualified opinion on those financial statements.

Grant Thornton LLP

Southfield, MI
March 10, 2006

PART III

ITEM 10. *Directors and Executive Officers of the Registrant*

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

ITEM 11. *Executive Compensation*

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

ITEM 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Information is contained under the caption "Common Stock Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement and is incorporated herein by reference. In addition, the information contained in the "Equity Compensation Plans" subheading under Item 5 of this Report is incorporated herein by reference.

ITEM 13. *Certain Relationships and Related Transactions*

Information is contained under the caption "Certain Relationships and Transactions" in the Company's Proxy Statement and is incorporated herein by reference.

ITEM 14. *Principal Accountant Fees and Services*

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

PART IV

ITEM 15. *Exhibits and Financial Statement Schedules*

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

Report of Independent Public Accountants

Consolidated Financial Statements:
—Consolidated Balance Sheets as of December 31, 2005 and 2004
—Consolidated Income Statements for the years ended December 31, 2005, 2004 and 2003
—Consolidated Statements of Shareholders' Equity for the years ended December 31, 2005, 2004 and 2003
—Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004, 2003

Notes to Consolidated Financial Statements

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

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CREDIT ACCEPTANCE CORPORATION

By: /s/ BRETT A. ROBERTS

Brett A. Roberts
Chief Executive Officer
Date: March 10, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on March 10, 2006 on behalf of the registrant and in the capacities indicated.

Signature	Title
/s/ BRETT A. ROBERTS Brett A. Roberts	Chief Executive Officer (Principal Executive Officer)
/s/ KENNETH S. BOOTH Kenneth S. Booth	Chief Financial Officer (Principal Financial Officer, Principal Accounting Officer and Duly Authorized Officer)
/s/ HARRY E. CRAIG Harry E. Craig	Director
/s/ GLENDA J. CHAMBERLAIN Glenda J. Chamberlain	Director
/s/ DONALD A. FOSS Donald A. Foss	Director and Chairman of the Board
/s/ DANIEL P. LEFF Daniel P. Leff	Director
/s/ THOMAS N. TRYFOROS Thomas N. Tryforos	Director

Exhibit 31 (a)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT

I, Brett A. Roberts, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2005 of Credit Acceptance Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 10, 2006
/s/ Brett A. Roberts
Chief Executive Officer

Exhibit 31 (b)

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13A-14(A) OF THE SECURITIES EXCHANGE ACT

I, Kenneth S. Booth, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2005 of Credit Acceptance Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 10, 2006
/s/ Kenneth S. Booth
Chief Financial Officer

EXHIBIT 32 (a)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Credit Acceptance Corporation (the "Company") on Form 10-K for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brett A. Roberts, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brett A. Roberts

Chief Executive Officer
March 10, 2006

EXHIBIT 32 (b)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Credit Acceptance Corporation (the "Company") on Form 10-K for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth S. Booth, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kenneth S. Booth

Chief Financial Officer
March 10, 2006

BOARD OF DIRECTORS

Donald A. Foss
Chairman of the Board
Credit Acceptance Corporation

Harry E. Craig
Independent Personnel Consultant

Glenda J. Chamberlain
Executive Vice President and Chief Financial Officer
Whole Foods Market, Inc.

Daniel P. Leff
Managing Member
The Placid Group, LLC

Brett A. Roberts
Chief Executive Officer
Credit Acceptance Corporation

Thomas N. Tryforos
Private Investor

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OTHER INFORMATION

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25505 West Twelve Mile Road
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(248) 353-2700

Transfer Agent and Registrar
Computershare Investor Services, LLC
2 North LaSalle Street
Chicago, IL 60602
(312) 588-4990

Corporate Counsel
Dykema Gossett PLLC
Detroit, MI

Certified Public Accountants
Grant Thornton LLP
Southfield, MI

Stock Listing
CACC

Investor Relations
Information requests should be forwarded to:
Douglas W. Busk

Annual Shareholders Meeting
May 11, 2006
8:00 a.m.
1500 Town Center Drive
Southfield, MI 48075

Shareholders may obtain without charge a copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, by writing the Investor Relations Department at the corporate headquarters address or by accessing investor information on the Company's web-site at creditacceptance.com.

Credit Acceptance
We change lives!®

25505 West Twelve Mile Road, Southfield, MI 48034 (248) 353.2700
Visit us at *creditacceptance.com*