

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1997

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-20202

CREDIT ACCEPTANCE CORPORATION

(Exact name of registrant as specified in its charter)

Michigan	38-1999511
-----	-----
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification)
25505 West Twelve Mile Road, Suite 3000, Southfield, Michigan	48034-8339
-----	-----
(Address of principal executive offices)	(zip code)
Registrant's telephone number, including area code	(248) 353-2700
-----	-----

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Class	Outstanding at August 12, 1997
Common Stock - \$.01 par value	46,112,448

## TABLE OF CONTENTS

PART I.	FINANCIAL INFORMATION	PAGE NO.
Item 1.	Financial Statements	
	Consolidated Balance Sheets - As of December 31, 1996 and June 30, 1997 .....	1
	Consolidated Income Statements - Three and six month periods ended June 30, 1996 and June 30, 1997 .....	2
	Consolidated Statements of Cash Flows - Six months ended June 30, 1996 and June 30, 1997 .....	3
	Consolidated Statement of Shareholders' Equity - Six months ended June 30, 1997 .....	4
	Notes to Consolidated Financial Statements .....	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations .....	6
Item 3.	Quantitative and Qualitative Disclosures About Market Risk .....	11
PART II.	OTHER INFORMATION	
Item 2.	Changes in Securities .....	12
Item 4.	Submission of Matters to a Vote of Security Holders .....	12
Item 6.	Exhibits and Reports on Form 8-K .....	12
	Signatures .....	13
	Index of Exhibits .....	14
	Exhibits.....	15

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

CREDIT ACCEPTANCE CORPORATION  
CONSOLIDATED BALANCE SHEETS

	As of 12/31/96	As of 6/30/97
	-----	-----
(Dollars in thousands)		(Unaudited)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 229	\$ 135
Investments	6,320	7,538
Installment contracts receivable	1,042,146	1,185,592
Allowance for credit losses	(12,195)	(14,556)
	-----	-----
Installment contracts receivable, net	1,029,951	1,171,036
Floor plan receivables	15,493	16,320
Notes receivable	2,663	1,818
Property and equipment, net	14,958	18,036
Other assets, net	4,804	5,067
	-----	-----
<b>TOTAL</b>	<b>\$1,074,418</b>	<b>\$1,219,950</b>
	=====	=====
<b>LIABILITIES</b>		
Senior notes	123,400	195,150
Lines of credit	161,482	155,775
Mortgage loan payable to bank	4,017	3,909
Accounts payable and accrued liabilities	29,121	24,836
Income taxes payable	2,569	5,390
Deferred dealer enrollment fees, net	2,264	1,477
Dealer holdbacks, net	496,434	552,840
Deferred income taxes	8,988	8,409
	-----	-----
<b>TOTAL LIABILITIES</b>	<b>828,275</b>	<b>947,786</b>
	-----	-----
<b>SHAREHOLDERS' EQUITY</b>		
Common stock	458	461
Paid-in capital	125,398	128,262
Retained earnings	116,486	140,574
Cumulative translation adjustment	3,801	2,867
	-----	-----
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>246,143</b>	<b>272,164</b>
	-----	-----
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$1,074,418</b>	<b>\$1,219,950</b>
	=====	=====

CREDIT ACCEPTANCE CORPORATION  
CONSOLIDATED INCOME STATEMENTS  
(Unaudited)

(Dollars in thousands, except per share data)	3 Months Ended 6/30/96	3 Months Ended 6/30/97	6 Months Ended 6/30/96	6 Months Ended 6/30/97
	-----	-----	-----	-----
<b>REVENUE</b>				
Finance charges	\$22,159	\$32,602	\$42,532	\$63,293
Interest and other income	3,556	7,494	6,459	14,399
Dealer enrollment fees	1,261	2,132	2,225	3,922
Premiums earned	2,236	2,625	4,601	5,008
	-----	-----	-----	-----
Total revenue	29,212	44,853	55,817	86,622
<b>COSTS AND EXPENSES</b>				
Salaries and wages	2,965	4,261	5,705	8,071
General and administrative	3,513	5,315	6,753	9,494
Provision for credit losses	2,721	7,669	5,447	14,722
Sales and marketing	945	2,059	1,847	3,957
Provision for claims	777	878	1,534	1,681
Interest	2,751	6,808	4,824	12,477
	-----	-----	-----	-----
Total costs and expenses	13,672	26,990	26,110	50,402
<b>OPERATING INCOME</b>				
	15,540	17,863	29,707	36,220
	-----	-----	-----	-----
Foreign exchange gain(loss)	3	5	1	(15)
	-----	-----	-----	-----
<b>INCOME BEFORE INCOME TAXES</b>	15,543	17,868	29,708	36,205
Provision for income taxes	5,406	5,818	10,383	12,117
	-----	-----	-----	-----
<b>NET INCOME</b>	\$10,137	\$12,050	\$19,325	\$24,088
	=====	=====	=====	=====
Net income per common share	\$ 0.22	\$ 0.26	\$ 0.42	\$ 0.52
	=====	=====	=====	=====
Weighted average shares outstanding	46,479,968	46,594,721	46,458,038	46,748,606
	=====	=====	=====	=====

CREDIT ACCEPTANCE CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(Dollars in thousands)

	6 Months Ended 6/30/96	6 Months Ended 6/30/97
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 19,325	\$ 24,088
Adjustments to reconcile net income to net cash provided by operating activities -		
Provision for deferred income taxes	627	(579)
Depreciation and amortization	651	1,005
Loss on retirement of property and equipment	-	512
Provision for credit losses	5,447	14,722
Change in operating assets and liabilities -		
Accounts payable and accrued liabilities	2,051	(4,285)
Income taxes payable	(214)	2,821
Unearned insurance premiums, insurance reserves, and fees	660	836
Deferred dealer enrollment fees, net	743	(787)
Other assets	910	(263)
	30,200	38,070
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Principal collected on installment contracts receivable	133,874	187,986
Purchase of marketable securities	(1,276)	(1,218)
Increase in floor plan receivables	(1,747)	(827)
Decrease in notes receivable	224	845
Purchase of property and equipment	(2,231)	(4,595)
	128,844	182,191
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of mortgage loan payable to bank	(101)	(108)
Advances to dealers and payments of dealer holdback	(233,949)	(288,223)
Net borrowings under line of credit agreement	74,031	(5,707)
Proceeds from sale of senior notes	-	71,750
Proceeds from stock options exercised	649	2,867
	(159,370)	(219,421)
Effect of exchange rate changes on cash	326	(934)
<b>NET DECREASE IN CASH</b>	<b>0</b>	<b>(94)</b>
Cash and cash equivalents - beginning of period	1	229
Cash and cash equivalents - end of period	\$ 1	\$ 135

CREDIT ACCEPTANCE CORPORATION  
 CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
 for the six months ended June 30, 1997  
 (Unaudited)

(Dollars in thousands)	Common Stock -----	Paid-In Capital -----	Cumulative Translation Adjustment -----	Retained Earnings -----
Balance as of December 31, 1996	\$ 458	\$125,398	\$3,801	\$116,486
Net income	-	-	-	24,088
Foreign currency translation adjustment	-	-	(934)	-
Stock options exercised	3	2,864	-	-
	-----	-----	-----	-----
Balance as of June 30, 1997	\$ 461	\$128,262	\$2,867	\$140,574
	=====	=====	=====	=====

CREDIT ACCEPTANCE CORPORATION  
Notes to Consolidated Financial Statements  
(Unaudited)

1. GENERAL

The unaudited consolidated operating results have been prepared on the same basis as the audited financial statements and, in the opinion of management, include all adjustments, consisting of normal recurring items, necessary for a fair presentation of the periods. The results of operations for interim periods are not necessarily indicative of actual results achieved for full fiscal years.

As contemplated by the Securities and Exchange Commission under rule 10-01 of Regulation S-X, the accompanying consolidated financial statements and related notes have been condensed and do not contain certain information included in the Company's annual consolidated financial statements and notes thereto. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10K for the year ended December 31, 1996.

2. NET INCOME PER SHARE

The net income per share amounts are based on the average number of common shares and common stock equivalents outstanding. All per share amounts have been adjusted to reflect all stock splits declared by the Company.

3. NEW ACCOUNTING STANDARDS

Effective January 1, 1997 the Company adopted Statement of Financial Accounting Standard No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The new accounting standard provides accounting and reporting guidance for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996 and is applied prospectively. The adoption of this accounting standard has not affected the Company's financial position or results of operations.

Statement of Financial Accounting Standard No. 128 (SFAS 128), "Earnings per Share," which supersedes APB Opinion No. 15, "Earnings per Share," was issued in February 1997. SFAS 128 requires dual presentation of basic and diluted earnings per share (EPS) for complex capital structures on the face of the income statement. Basic EPS is computed by dividing income by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from the exercise or conversion of securities into common stock, such as stock options. SFAS 128 is required to be adopted for year-end 1997; earlier application is not permitted. The Company does not expect EPS measured under SFAS 128 to be materially different than EPS measured under APB No. 15.

Statement of Financial Accounting Standard No. 129, "Disclosure of Information About Capital Structure," was issued in February 1997. The Company does not expect it to result in any material change in its financial statements.

Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income," was issued in July 1997. SFAS 130 establishes standards for reporting and displaying comprehensive income. Management does not expect the adoption of this statement to have a significant impact on the financial position and results of the operations of the Company. This statement is effective for financial statements for fiscal years beginning after December 15, 1997.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 1997 Compared to Three and Six Months Ended June 30, 1996

Total Revenue. Total revenue increased from \$29.2 million and \$55.8 million for the three and six months ended June 30, 1996 to \$44.9 million and \$86.6 million for the same periods in 1997, representing increases of 53.5% and 55.2%, respectively. These increases are primarily due to an increase in finance charge revenue resulting from an increase in the dollar value of installment contracts receivable. The increase in contracts receivable is primarily the result of an increase in the number of dealers participating in the Company's program and an increase in the average contract size. The Company enrolled 1,045 new dealers into the Company's program during the six months ended June 30, 1997, bringing the total number of dealers as of June 30, 1997 to 6,166 compared to 4,511 as of June 30, 1996.

The average yield on the Company's installment contract portfolio was approximately 11.5% and 11.4% for the six months ended June 30, 1996 and 1997, respectively. The decrease in the average yield principally resulted from an increase in the percent of installment contracts which were greater than 120 days contractually past due (which were 32.8% and 35.5% of gross installment contracts as of June 30, 1996 and 1997, respectively). The level of contractual past due contracts, while significant, is mitigated by the fact that when an installment contract is 120 days contractually past due, the Company (i) transfers the contract to a non-accrual status; and (ii) makes a provision to credit losses equal to the earned but unpaid revenue previously recognized on such installment contract. In addition, the decline in the average yield was also the result of an increase in the average outstanding term of the Company's installment contract portfolio.

Also contributing to the increase in total revenue was interest and other income which increased as a percent of total revenue from 12.2% and 11.6% for the three and six months ended June 30, 1996 to 16.7% and 16.6% for the same periods in 1997. These increases are primarily due to an increase in revenue from commissions relating to third party credit life and service contract products offered by dealers. Earned dealer enrollment fees increased, as a percent of total revenue, from 4.3% and 4.0% for the three and six months ended June 30, 1996 to 4.8% and 4.5% for the same periods in 1997. The increases are due to the continued increase in the number of dealers participating in the Company's financing program. Premiums earned decreased, as a percent of total revenue from 7.6% and 8.2% for the three and six months ended June 30, 1996 to 5.9% and 5.8% for the same periods in 1997. These decreases are primarily the result of a decrease in premiums written under the Company's collateral protection and credit life insurance programs.

Salaries and Wages. Salaries and wages, as a percent of total revenue, decreased from 10.1% and 10.2% for the three and six months ended June 30, 1996 to 9.5% and 9.3% for the same periods in 1997. The Company continues to benefit from increased efficiencies which have allowed it to increase revenue with a less than proportionate increase in personnel costs.

General and Administrative. General and administrative expenses, as a percent of total revenue, decreased from 12.0% and 12.1% for the three and six months ended June 30, 1996 to 11.8% and 11.0% for the same periods in 1997. These decreases reflect the Company's ability to benefit from economies-of-scale, increasing revenue with less than proportionate increases in general and administrative costs. Partially offsetting these decreases was the \$500,000 write-off during the three months ended June 30, 1997 of computer software no longer used in the Company's operations.

Provision for Credit Losses. The amount provided for credit losses, as a percent of total revenue, increased from 9.3% and 9.8% for the three and six months ended June 30, 1996 to 17.1% and 17.0% for the same



periods in 1997. The increases are primarily the result of amounts provided to increase reserves to cover anticipated losses on dealer advance balances. These reserves are established when the Company estimates that the amounts to be received through the collection of the dealers installment contract receivable pool will be insufficient to recover the dealer advance balance. The company anticipates that as it continues to evaluate its relationship with certain dealers, amounts provided to cover losses on Dealer advance balances for the remainder of 1997, as a percent of total revenue, will continue at higher levels than amounts provided historically.

**Sales and Marketing.** Sales and marketing expenses, as a percent of total revenue, increased from 3.2% and 3.3% during the three and six months ended June 30, 1996 to 4.6% during the same periods in 1997. These increases are primarily the result of increased sales commissions as a result of the increased enrollment of new dealers into the Company's program, as well as increases in other costs directly associated with the enrollment of new dealers.

**Provision for Claims.** The amount provided for insurance and service contract claims, as a percent of total revenue, decreased from 2.7% during the three and six months ended June 30, 1996 to 2.0% during the same periods in 1997. This decrease corresponds with a decrease, as a percent of total revenue, in premiums earned from 7.7% and 8.2% for the three and six months ended June 30, 1996 to 5.9% and 5.8% for the same periods in 1997.

**Interest Expense.** Interest expense, as a percent of total revenue, increased from 9.4% and 8.6% for the three and six months ended June 30, 1996 to 15.1% and 14.4% for the same periods in 1997. These increases, are the result of an increase in the amount of average outstanding borrowings. To a lesser extent, interest expense increased due to a higher average interest rate as a result of the sale of \$71.75 million in senior notes in March, 1997. The Company expects to continue to borrow in future periods to assist in funding the continued growth of the Company.

**Operating Income.** As a result of the aforementioned factors, operating income increased from \$15.5 million and \$29.7 million for the three and six months ended June 30, 1996 to \$17.9 million and \$36.2 million for the same periods in 1997, representing increases of 14.9% and 21.9%, respectively.

**Foreign Exchange Gain (Loss).** The Company incurred a foreign exchange gain of \$3,000 and \$1,000 for the three and six months ended June 30, 1996 and a foreign exchange gain of \$5,000 and a foreign exchange loss of \$15,000 for the three and six months ended June 30, 1997. The gain and loss result from the effect of exchange rate fluctuations between the U.S. dollar and foreign currencies on unhedged intercompany balances between the Company and its subsidiaries which operate outside the United States.

**Provision for Income Taxes.** The provision for income taxes increased from \$5.4 million and \$10.4 million during the three and six months ended June 30, 1996 to \$5.8 million and \$12.1 million during the same periods in 1997. The increase is due to a higher level of pretax income in 1997. For the six months ended June 30, the effective tax rate was 33.5% in 1997 and 35.0% in 1996. The decrease in the effective tax rate is due primarily to the utilization of a \$331,000 net operating loss carryforward.

## INSTALLMENT CONTRACTS RECEIVABLE

The following table summarizes the composition of installment contracts receivable at the dates indicated:

(Dollars in thousands)	AS OF 12/31/96 -----	AS OF 06/30/97 ----- (Unaudited)
Gross installment contracts receivable	\$1,251,139	\$1,420,620
Unearned finance charges	(201,760)	(226,959)
Unearned insurance premiums, insurance reserves, and fees	(7,233)	(8,069)
Installment contracts receivable	\$1,042,146 =====	\$1,185,592 =====
Non-accrual installment contracts as a percent of total gross installment contracts	34.1% =====	35.5% =====

A summary of changes in gross installment contracts receivable is as follows:

(Dollars in thousands)	THREE MONTHS ENDED JUNE 30, -----		SIX MONTHS ENDED JUNE 30, -----	
	1996 ----- (Unaudited)	1997 ----- (Unaudited)	1996 ----- (Unaudited)	1997 ----- (Unaudited)
Balance, beginning of period	\$885,121	\$1,360,899	\$ 790,607	1,251,139
Gross amount of installment contracts accepted	220,288	242,660	424,214	533,641
Cash collections on installment contracts receivable	(92,514)	(130,833)	(179,792)	(258,806)
Charge offs	(31,750)	(55,317)	(53,884)	(101,594)
Currency Translation	(a)	3,211	(a)	(3,760)
Balance, end of period	\$981,145 =====	\$1,420,620 =====	\$ 981,145 =====	\$1,420,620 =====

(a) immaterial

## DEALER HOLDBACKS

The following table summarizes the composition of dealer holdbacks at the dates indicated:

(Dollars in thousands)	AS OF 12/31/96 -----	AS OF 06/30/97 ----- (Unaudited)
Dealer holdbacks	\$ 998,593	\$1,134,941
Less: Advances (net of reserves of \$8,754 and \$19,816 at December 31, 1996 and June 30, 1997, respectively)	(502,159)	(582,101)
Dealer holdbacks, net	\$ 496,434 =====	\$ 552,840 =====

## CREDIT POLICY AND EXPERIENCE

The Company maintains an allowance for credit losses which, in the opinion of management, adequately reserves against expected future losses in the portfolio of receivables. The risk of loss to the Company related to the installment contracts receivable balance relates primarily to the earned but unpaid servicing fee or finance charge recognized on contractually delinquent accounts. To the extent that the Company does not collect the gross amount of the contract, the remaining gross installment receivable contracts balance is charged off against dealer holdbacks, unearned finance charges and the allowance for credit losses. The Company also maintains a reserve against advances to dealers that are not expected to be recovered through collections on the related installment contract receivable portfolio. Advance balances are continually reviewed by management, and those which are deemed to be unrecoverable are charged against the reserve. Credit loss experience, changes in the character and size of the receivables portfolio and the advance balance, and management's judgment are primary factors used in assessing the overall adequacy of the allowance and advance reserve and the resulting provisions for credit losses. Ultimate losses may vary from current estimates and the amount of the provision, which is a current expense, may be either greater or less than actual charge offs.

Servicing fees, which are booked as finance charges, are recognized under the interest method of accounting until the underlying obligation is 120 days contractually past due. At such time, the Company suspends the accrual of revenue and makes a provision for credit losses equal to the earned but unpaid revenue. In all cases, installment contracts on which no material payment has been received for one year are charged off against the related dealer holdback and the allowance for credit losses. As future payments on any remaining aggregate contracts from a given dealer are available to recover all advances from such dealer, the risk of loss to the Company is mitigated.

The following tables set forth information relating to charge offs, the allowance for credit losses, the reserve on advances, and dealer holdbacks (Dollars in thousands).

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1996	1997	1996	1997
	-----		-----	
	(Unaudited)		(Unaudited)	
Provision for credit losses-installment contracts	\$ 1,295	\$ 2,062	\$ 2,814	\$ 4,615
Provision for credit losses-advances	1,426	5,607	2,633	10,107
Charged against dealer holdbacks	25,379	44,237	43,092	81,223
Charged against unearned finance charges	5,663	9,876	9,578	18,133
Charged against allowance for credit losses	708	1,204	1,214	2,238
	-----	-----	-----	-----
Total contracts charged off	\$31,750	\$55,317	\$53,884	\$101,594
	=====	=====	=====	=====
Net charge offs against the reserve on advances	\$ 23	\$ 994	\$ 67	\$ 1,321

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	1996	1997	1996	1997
	(Unaudited)		(Unaudited)	
ALLOWANCE FOR CREDIT LOSSES				
Balance, beginning of period .....	\$ 8,770	\$13,665	\$ 7,757	\$12,194
Provision for losses .....	1,295	2,062	2,814	4,615
Charge offs .....	(708)	(1,204)	(1,214)	(2,238)
Currency Translation .....	(a)	33	(a)	(15)
Balance, end of period .....	\$ 9,355	\$14,556	\$ 9,357	\$14,556

(a) immaterial

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	1996	1997	1996	1997
	(Unaudited)		(Unaudited)	
RESERVE ON ADVANCES				
Balance, beginning of period .....	\$4,377	\$14,168	\$ 3,214	\$ 8,754
Provision for advance losses .....	1,426	5,607	2,633	10,107
Advance reserve fees .....	-	944	-	2,274
Charge offs .....	(23)	(994)	(67)	(1,321)
Currency Translation .....	(a)	91	(a)	2
Balance, end of period .....	\$5,780	\$19,816	\$ 5,780	\$19,816

(a) Immaterial

	AS OF JUNE 30, 1996	AS OF JUNE 30, 1997
	(Unaudited)	
Allowance for credit losses as a percent of gross installment contracts receivable	1.0%	1.0%
Reserve on advances as a percent of advances	1.6%	3.3%
Dealer holdbacks as a percent of gross installment contracts receivable	79.7%	79.9%

The Company's relatively low level of amounts charged against the allowance for credit losses is due to, among other factors:

- (i) the requirement that each installment contract accepted must meet established, formula-based criteria prior to the Company making an advance on such contract;
- (ii) experienced personnel, using computer-assisted accounts receivable management and collection systems;
- (iii) the security interest the Company receives in the vehicle at the time it accepts an installment contract; and
- (iv) the high level of dealer holdbacks, relative to the amount of installment contracts.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's principal need for capital is to fund cash advances made to dealers in connection with the acceptance of installment contracts and for the payment of dealer holdbacks to dealers who have repaid their advance balances. These cash outflows to dealers increased from \$233.9 million during the six months ended June 30, 1996 to \$288.7 million during the same period in 1997. These amounts were funded from cash collections on installment contracts, income from operations, advances under the Company's credit agreement and proceeds from the sale of \$71.75 million in senior notes in March 1997. During the first six months of 1997, the Company borrowed approximately \$66.0 million under various agreements to assist in funding the Company's operations. The increased need for capital is primarily a result of the continued growth in new installment contracts accepted. To a lesser extent, the increased need for capital is also due to an increase in the amount advanced per contract, continued increases in dealers' utilization of service contract products offered by the Company, and amounts needed to fund the continued growth of the Company's operations in the United Kingdom and to a lesser extent, Canada and Ireland.

The Company has a \$250 million credit agreement with a commercial bank syndicate. The agreement consists of a \$150 million line of credit facility with a commitment period through May 15, 1998 and a \$100 million revolving credit facility with a commitment period through May 15, 2000. Both facilities are subject to annual extension for additional one year periods at the request of the Company with the consent of each of the banks in the facility. The borrowings are unsecured with interest payable at the Eurocurrency rate plus a minimum of 61.25 basis points and a maximum of 120 basis points (currently 82.5 basis points) dependent on the Company's debt rating, or at the prime rate. The Eurocurrency borrowings may be fixed for periods up to one year. The credit agreement has certain restrictive covenants, including limits on the ratio of the Company's debt-to-equity, limits on the Company's investment in its subsidiaries in the United Kingdom, and requirements that the Company maintain a specified minimum level of net worth. As of June 30, 1997, there was approximately \$155.8 million outstanding under these facilities.

The Company also has a 2.0 million British pound sterling line of credit agreement with a commercial bank in the United Kingdom, which is used to fund the day to day cash flow requirements of the Company's subsidiary which operates in the United Kingdom. The borrowings are secured by a letter of credit issued by the Company's principal commercial bank with interest payable at the United Kingdom bank's base rate (currently 6.5%) plus 65 basis points or at the LIBOR rate plus 56.25 basis points. The rates may be fixed for periods up to six months. As of June 30, 1997, there were no outstandings under this facility.

The Company maintains a significant dealer holdback on installment contracts accepted which assists the Company in funding its long-term cash flow requirements. In future periods, the Company's short and long-term cash flow requirements will continue to be funded primarily through earnings from operations, cash flow from the collection of installment contracts, the Company's credit facilities and sales of debt securities pursuant to a shelf registration statement filed with the Securities and Exchange Commission. The Company will continue to utilize various sources of financing available from time to time to fund the continuing growth of the Company, both in the United States and abroad. The Company believes that such amounts will be sufficient to meet its short-term and long-term cash flow requirements.

The foregoing discussion and analysis contains a number of "forward looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934, both as amended, with respect to expectations for future periods which are subject to various uncertainties, including competition from traditional financing sources and from non-traditional lenders, adverse changes in applicable laws and regulations, adverse changes in economic conditions, adverse changes in the automobile or finance industries or in the non-prime consumer finance market and the Company's ability to continue to increase the volume of installment contracts accepted.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

## PART II.

## Item 2. Changes in Securities.

On July 1, 1997, the Company's Articles of Incorporation were amended to increase the number of authorized shares of common stock from 60,000,000 to 80,000,000.

## Item 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Shareholders on May 19, 1997 at which the shareholders considered the following:

1. The election of six directors. Each of the nominees for director at the meeting was an incumbent and all nominees were elected. The following table sets forth the number of shares for and withheld with respect to each nominee.

Nominee	Votes For	Votes Withheld
Donald A. Foss	42,325,671	33,178
Richard E. Beckman	42,325,671	33,178
Harry E. Craig	42,325,571	33,278
Thomas A. FitzSimmons	42,325,671	33,178
David T. Harrison	42,325,671	33,178
Sam M. LaFata	42,325,671	33,178

2. To approve a proposal to amend the Articles of Incorporation of the Company to increase the number of authorized Common Shares to 80,000,000.

Votes For	Votes Against	Abstain	Broker Non-Vote
41,599,409	741,828	17,612	0

3. To approve a proposal to amend the 1992 Stock Option Plan to increase the number of shares subject to the plan to 5,000,000.

Votes For	Votes Against	Abstain	Broker Non-Vote
39,779,449	2,505,398	54,815	19,187

## Item 6. Exhibits and Reports on Form 8-K

## (a) Exhibits

See Index of Exhibits following the signature page.

## (b) Reports on Form 8-K

The Company was not required to file a current report on Form 8-K during the quarter ended June 30, 1997 and none were filed during that period.

SIGNATURES

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

CREDIT ACCEPTANCE CORPORATION

(Registrant)

Date: /S/Brett A. Roberts  
-----  
Brett A. Roberts  
Executive Vice President and Chief Financial Officer  
  
Signing on behalf of the registrant and as  
principal financial officer.

Date: /S/John P. Cavanaugh  
-----  
John P. Cavanaugh  
Corporate Controller and Assistant Secretary  
  
Principal accounting officer.

## INDEX OF EXHIBITS

Exhibit Number -----	Description -----
3(a) (1)	Articles of Incorporation, as amended July 1, 1997
4(c) (1)	First Amendment and Consent, dated June 4, 1997, to Second Amended and Restated Credit Agreement dated as of December 4, 1996 and a memorandum evidencing extension of maturity dates.
10(f) (3)	Credit Acceptance Corporation 1992 Stock Option Plan, as amended and restated May 1997
11	Statement of Computation of Net Income Per Common Share
27	Financial Data Schedule



## RESTATED ARTICLES OF INCORPORATION

Pursuant to the provisions of Act 284, Public Acts of 1972, the undersigned corporation executes the following Articles:

1. The present name of the corporation is CREDIT ACCEPTANCE CORPORATION.
2. The corporation identification number (CID) assigned by the Bureau is 020-465.
3. The former name of the corporation is AUTO FINANCE CORPORATION.
4. The date of filing the original Articles of Incorporation was August 23, 1972.

The following Restated Articles of Incorporation supersede the Articles of Incorporation as amended and shall be the Articles of Incorporation for the corporation:

## ARTICLE I

The name of the corporation is CREDIT ACCEPTANCE CORPORATION.

## ARTICLE II

The purpose or purposes for which the corporation is formed are to engage in any activity within the purposes for which corporations may be organized under the Michigan Business Corporation Act.

## ARTICLE III

The total authorized capital stock is:

1. Common stock: 25,000,000 shares

Preferred stock: 1,000,000 shares

2. A statement of all or any of the relative rights, preferences and limitations of the shares of each class is as follows:

Subject to the preferences accorded the holders of Preferred Stock pursuant to these Articles of Incorporation or action of the Board of Directors taken with respect to such preferences, holders of Common Stock are entitled to receive such dividends as may be declared by the Board of Directors of the corporation from time to time and, in the event of any liquidation, dissolution or winding up of the corporation, the holders of Common Stock will be entitled to receive pro rata all of the remaining assets of the corporation available for distribution. Each issued and outstanding share of Common Stock is entitled to one vote.

The Board of Directors of the corporation is authorized from time to time to issue shares of Preferred

Stock in one or more series, each series to bear a distinctive designation and to have such relative rights, powers, preferences, limitations and restrictions as shall be stated in the resolution or resolutions, when filed, shall constitute amendments to these Articles of Incorporation.

#### ARTICLE IV

The current resident agent is Allan V. Apple, 21301 Civic Center Drive, Southfield, Michigan 48037.

#### ARTICLE V

No director of the corporation shall be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, provided that the foregoing shall not eliminate or limit the liability of a director for any of the following: (i) breach of the director's duty of loyalty to the corporation or its shareholders; (ii) acts or omissions not in good faith or that involve intentional misconduct or knowing violation of law; (iii) a violation of Section 551(1) of the Michigan Business Corporation Act; (iv) a transaction from which the director derived an improper personal benefit; or (v) an act or omission occurring prior to the date this article becomes effective. If the Michigan Business Corporation Act hereafter is amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the corporation, in addition to the limitation on personal liability contained herein, shall be limited to the fullest extent permitted by the amended Michigan Business Corporation Act. No amendment or repeal of this Article V shall apply to or have any effect on the liability or alleged liability of any director of the corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

#### ARTICLE VI

Directors and officers of the corporation shall be indemnified in connection with any actual or threatened action or proceeding (including civil, criminal, administrative or investigative proceedings) arising out of their service to the corporation or to another organization at the corporation's request, and shall be paid expenses incurred in defending any such proceeding in advance of its final disposition to the fullest extent permitted by law. Persons who are not directors or officers of the Company may be similarly indemnified in respect of such service to the extent authorized at any time by the Board of Directors or the Bylaws of the corporation. The provisions of this Article shall be applicable to actions or proceedings commenced after the adoption hereof, whether arising from acts or omissions occurring before or after the adoption hereof, and to persons who have ceased to be directors, officers or employees, and shall inure to the benefit of their heirs, executors and administrators. The right to indemnification and advancement of expenses conferred hereunder shall be a contract right which may not be modified retroactively without the written consent of the director or officer and shall not be deemed exclusive of any other rights to indemnification or advancement of expenses such person may have or to which such person may be entitled.

If a claim under this Article VI is not paid in full by the corporation within thirty days after a written claim has been received by the corporation, the indemnitee may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit or in a suit brought by the corporation to recover advances, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such claim. In any action brought by the indemnitee to enforce a right hereunder (other than an action brought to enforce a claim for expenses incurred in defending any proceeding

in advance of its final disposition where the required undertaking has been tendered to the corporation) it shall be a defense that, and in any action brought by the corporation to recover advances the corporation shall be entitled to recover such advances if, the indemnitee has not met the applicable standard of conduct set forth in the Michigan Business Corporation Act. Neither the failure of the corporation (including its Board of Directors, a committee of its Board of Directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the Michigan Business Corporation Act, nor an actual determination by the corporation (including its Board of Directors, a committee of its Board of Directors, independent legal counsel, or its shareholders) that the indemnitee has not met such applicable standard of conduct, shall be a defense to an action brought by the indemnitee or create a presumption that the indemnitee has not met the applicable standard of conduct. In any action brought by the indemnitee to enforce a right hereunder or by the corporation to recover payments by the corporation of advances, the burden of proof shall be on the corporation.

These Restated Articles of Incorporation were duly adopted on the 3rd day of March, 1992, in accordance with the provisions of Section 642 of the Michigan Business Corporation Act and were duly adopted by the written consent of all the shareholders entitled to vote in accordance with Section 407(2) of the Michigan Business Corporation Act.

Signed this 10th day of March, 1992

By /S/ Donald Foss  
-----  
(Signature)

Donald Foss  
-----  
(Type or Print Name)

Chairman of the Board and CEO  
-----  
(Type or Print Title)

WHEN FILED, RETURN TO:

Mark A. Metz  
Dykema Gossett  
400 Renaissance Center  
35th Floor  
Detroit, Michigan 48243

CERTIFICATE OF AMENDMENT TO THE ARTICLES OF INCORPORATION  
For use by Domestic Corporations  
(Please read information and instructions on last page)

Pursuant to the provisions of Act 284, Public Acts of 1972 (profit corporations), or Act 162, Public Acts of 1982 (nonprofit corporations), the undersigned corporation executes the following Certificate:

1. The present name of the corporation is: CREDIT ACCEPTANCE CORPORATION

2. The Corporation identification number (CID) assigned by the Bureau is:  
020-465

3. The location of its registered office is:  
21301 Civic Center Drive, Southfield, Michigan 48037  
-----  
(Street Address) (City) (Zip Code)

4. Article III of the Articles of Incorporation is hereby amended to read as follows:

See Exhibit A, attached hereto and made a part hereof

5. COMPLETE SECTION (a) IF THE AMENDMENT WAS ADOPTED BY THE UNANIMOUS CONSENT OF THE INCORPORATOR(S) BEFORE THE FIRST MEETING OF THE BOARD OF DIRECTORS OR TRUSTEES; OTHERWISE, COMPLETE SECTION (b)

a. / / The foregoing amendment to the Articles of Incorporation was duly adopted on the \_\_\_ day of \_\_\_\_\_, 19\_\_\_, in accordance with the provisions of the Act by the unanimous consent of the Incorporator(s) before the first meeting of the board of directors or trustees.

Signed this \_\_\_ day of \_\_\_\_\_, 19\_\_\_.

-----  
(Signature) (Signature)

-----  
(Type or Print Name) (Type or Print Name)

-----  
(Signature) (Signature)

-----  
(Type or Print Name) (Type or Print Name)

b. /X/ The foregoing amendment to the Articles of Incorporation was duly adopted on the 10th day of June, 1992. This amendment: (check one of the following)

/ / was duly adopted in accordance with Section 611(2) of the Act by the vote of the shareholders if a profit corporation, or by the vote of the shareholders or members if a nonprofit corporation, or by the vote of the directors if a nonprofit corporation organized on a nonstock directorship basis. The necessary votes were cast in favor of the amendment.

/ / was duly adopted by the written consent of all the directors pursuant to Section 525 of the Act and the corporation is a nonprofit corporation organized on a nonstock directorship basis.

/ / was duly adopted by the written consent of the shareholders or members having not less than the minimum number of votes required by statute in accordance with Section 407(1) and (2) of the Act if a nonprofit corporation, and Section 407(1) of the Act if a profit corporation. Written notice to shareholders or member who have not consented in writing has been given. (Note: Written consent by less than all of the shareholders or members is permitted only if such provision appears in the Articles of Incorporation.)

/ / was duly adopted by the written consent of all the shareholders or members entitled to vote in accordance with Section 407(3) of the Act if a non-profit corporation, and Section 407(2) of the Act if a profit corporation.

Signed this 10th day of June, 1992

By /s/ Richard E. Beckman

-----

(Only signature of: President, Vice-President, Chairperson and Vice-Chairperson)

Richard E. Beckman

Vice-President-Finance

-----

(Type or Print Name)

(Type or Print Title)

## EXHIBIT A

## ARTICLE III

The total authorized capital stock is:

1. Common stock: 25,000,000 shares

Preferred stock: 1,000,000 shares

2. A statement of all or any of the relative rights, preferences and limitations of the shares of each class is as follows:

Subject to the preferences accorded the holders of Preferred Stock pursuant to these Articles of Incorporation or action of the Board of Directors taken with respect to such preferences, holders of Common Stock are entitled to receive such dividends as may be declared by the Board of Directors of the corporation from time to time and, in the event of any liquidation, dissolution or winding up of the corporation, the holders of Common Stock will be entitled to receive pro rata all of the remaining assets of the corporation available for distribution. Each issued and outstanding share of Common Stock is entitled to one vote.

The Board of Directors of the corporation is authorized from time to time to issue shares of Preferred Stock in one or more series, each series to bear a distinctive designation and to have such relative rights, powers, preferences, limitations and restrictions as shall be stated in the resolution or resolutions of the Board of Directors providing for the issuance thereof. Such resolutions, when filed, shall constitute amendments to these Articles of Incorporation.

No holder of any shares of any class of stock of this corporation shall have any preemptive or preferential right to subscribe for, or to purchase, any part of a new or additional issue of stock or any other reacquired shares of stock of any class whatsoever or of any securities convertible into stock of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration.

CERTIFICATE OF AMENDMENT TO THE ARTICLES OF INCORPORATION  
For use by Domestic Profit Corporations  
(Please read information and instructions on the last page)

Pursuant to the provisions of Act 284, Public Acts of 1972 (profit corporation), or Act 162, Public Acts of 1982 (nonprofit corporations), the undersigned corporation executes the following Certificate:

- 1. The present name of the corporation is: Credit Acceptance Corporation
- 2. The identification number assigned by the Bureau is: 020-465
- 3. The location of the registered office is:

2301 Civic Center Drive, Southfield, Michigan 48037  
 -----  
 (Street Address) (City) (Zip Code)

- 4. Part I of Article III of the Articles of Incorporation is hereby amended to read as follows:

- 1. Common Stock: 60,000,000 shares, \$.01 par value
- Preferred Stock: 1,000,000 shares, \$.01 par value

- 5. COMPLETE THIS SECTION (a) IF THE AMENDMENT WAS ADOPTED BY THE UNANIMOUS CONSENT OF THE INCORPORATOR(S) BEFORE THE FIRST MEETING OF THE BOARD OF DIRECTORS OR TRUSTEES: OTHERWISE, COMPLETE SECTION (b). DO NOT COMPLETE BOTH.

a. / / The foregoing amendment to the Articles of Incorporation was duly adopted on the \_\_\_ day of \_\_\_\_\_, 19\_\_\_, in accordance with the provisions of the Acts by the unanimous consent of the incorporator(s) before the first meeting of the B Directors or Trustees.

Signed this \_\_\_ day of \_\_\_\_\_, 19\_\_\_.

----- (Signature)	----- (Signature)
----- (Type or Print Name)	----- (Type or Print Name)
----- (Signature)	----- (Signature)
----- (Type or Print Name)	----- (Type or Print Name)

b. /X/ The foregoing amendment to the Articles of Incorporation was duly adopted on the 23rd day of May, 1994. The amendment: (check one of the following)

- /X/ was duly adopted in accordance with Section 611(2) of the Act by the vote of the shareholders if a profit corporation, or by the vote of the shareholders or members if a nonprofit corporation, or by the vote of the directors if a nonprofit corporation organized on a nonstock directorship basis. The necessary votes were cast in favor of the amendment.
- / / was duly adopted by the written consent of all directors pursuant to Section 525 of the Act and the corporation is a nonprofit corporation organized on a nonstock directorship basis.
- / / was duly adopted by the written consent of the shareholders or members having not less than the minimum number of votes required by statute in accordance with Section 407(1) and (2) of the Act if a nonprofit corporation, or Section 407(1) of the Act if a profit corporation. Written notice to shareholders who have not consented in writing has been given. (Note: Written consent by less than all of the shareholders or members is permitted only if such provision appears in the Articles of Incorporation.)
- / / was duly adopted by the written consent of all the shareholders or members entitled to vote in accordance with section 407(3) of the Act if a nonprofit corporation, or Section 407(2) of the Act if a profit corporation.

Signed this 8th day of June, 1994

By /s/ Richard E. Beckman

-----  
(Only Signature of President, Vice-President,

Chairperson, or Vice-Chairperson

Richard E. Beckman	Vice President, Treasurer and Chief Financial Officer
--------------------	--

-----  
(Type or Print Name)

(Type or Print Title)



CERTIFICATE OF CHANGE OF REGISTERED OFFICE AND/OR  
CHANGE OF RESIDENT AGENT

For use by Domestic and Foreign Corporations and Limited Liability Companies

(Please read information and instructions on reverse side)

Pursuant to the provisions of Act 284, Public Acts of 1972 (profit corporations), Act 162, Public Acts of 1982 (nonprofit corporations), or Act 23, Public Acts of 1993 (limited liability companies), the undersigned corporation or limited liability company executes the following Certificate:

1. The name of the corporation or limited liability company is:

Credit Acceptance Corporation

2. The identification number assigned by the Bureau is: 020-465

3. a. The name of the resident agent on file with the Bureau is: Allan V. Apple

b. The location of its registered office is:

21301 Civic Center Drive, Southfield, Michigan 48076-3911

-----  
(Street Address) (City) (Zip Code)

c. The mailing address of the above registered office on file with the Bureau is:

21301 Civic Center Drive, Southfield, Michigan 48076-3911

-----  
(P.O. Box) (City) (Zip Code)

ENTER IN ITEM 4 THE INFORMATION AS IT SHOULD NOW  
APPEAR ON THE PUBLIC RECORD

4. a. The name of the resident agent is: Allan V. Apple

b. The address of the registered office is:

25505 West Twelve Mile Road, Suite 3000, Southfield, Michigan 48034-8339

-----  
(Street Address) (City) (Zip Code)

c. The mailing address of the registered office IF DIFFERENT THAN 4B is:

-----  
(P.O. Box) (City) (Zip Code)

5. The above changes were authorized by resolution duly adopted by: 1. ALL CORPORATIONS: its board of directors; 2. PROFIT CORPORATIONS ONLY: the resident agent, if only the address of the registered office is changed, in which case a copy of this statement has been mailed to the corporation; 3. LIMITED LIABILITY COMPANIES: an operating agreement, affirmative vote of a majority of the members pursuant to section 502(1), managers pursuant to section 405, or the resident agent, if only the address of the registered office is changed. The corporation or limited liability company further states that the address of its registered office and the address of its resident agent, as changed, are identical.

Date Signed: 8/29/94

Signed by: /s/ Richard E. Beckman

Richard E. Beckman, Vice Chairman

-----  
(Type or Print Name) (Type or Print Title)

CERTIFICATE OF CHANGE OF REGISTERED OFFICE AND/OR  
CHANGE OF RESIDENT AGENT

For use by Domestic and Foreign Corporations and Limited Liability Companies

(Please read information and instructions on reverse side)

Pursuant to the provisions of Act 284, Public Acts of 1972 (profit corporations), Act 162, Public Acts of 1982 (nonprofit corporations), or Act 23, Public Acts of 1993 (limited liability companies), the undersigned corporation or limited liability company executes the following Certificate:

1. The name of the corporation or limited liability company is:

Credit Acceptance Corporation

2. The identification number assigned by the Bureau is: 020-465

3.a. The name of the resident agent on file with the Bureau is: Allan V. Apple

b. The location of its registered office is:

25505 West Twelve Mile Road, Suite 3000, Southfield, Michigan 48034

-----  
(Street Address) (City) (Zip Code)

c. The mailing address of the above registered office on file with the Bureau is:

-----  
(P.O. Box) (City) (Zip Code)

ENTER IN ITEM 4 THE INFORMATION AS IT SHOULD NOW

APPEAR ON THE PUBLIC RECORD

4.a. The name of the resident agent is: Richard E. Beckman

b. The address of the registered office is:

25505 West Twelve Mile Road, Suite 3000, Southfield, Michigan 48034

-----  
(Street Address) (City) (Zip Code)

c. The mailing address of the registered office IF DIFFERENT THAN 4B is:

-----  
(P.O. Box) (City) (Zip Code)

5. The above changes were authorized by resolution duly adopted by: 1. ALL CORPORATIONS: its board of directors; 2. PROFIT CORPORATIONS ONLY: the resident agent if only the address of the registered office is changed, in which case a copy of this statement has been mailed to the corporation; 3. LIMITED LIABILITY COMPANIES: an operating agreement, affirmative vote of a majority of the members pursuant to section 502(1), managers pursuant to section 405, or the resident agent if only the address of the registered office is changed. The corporation or limited liability company further states that the address of its registered office and the address of its resident agent, as changed, are identical.

Dated Signed: 5/25/95

Signed by /s/ Robert A. Derwa

Robert A. Derwa, President

-----  
(Type or Print Name) (Type of Print Title)

CERTIFICATE OF AMENDMENT TO THE ARTICLES OF INCORPORATION

OF

CREDIT ACCEPTANCE CORPORATION

(a Michigan corporation)

Pursuant to the provision of Act 284, public Acts of 1972, as amended, the undersigned corporation executes the following certificate:

- 1. The present name of the Corporation is CREDIT ACCEPTANCE CORPORATION
- 2. The corporation identification number (CID) assigned by the Bureau is: 020-465.
- 3. The location of its registered office is: 25505 West Twelve Mile Road, Suite 3000, Southfield, Michigan 48034.
- 4. Part 1 of Article III of the Articles of Incorporation is hereby amended to read as follows:
  - 1. Common Stock: 80,000,000 shares, \$.01 par value
  - Preferred Stock 1,000,000 shares, \$.01 par value

The foregoing amendment to the Articles of Incorporation was duly adopted on the 19th day of May, 1997 by the shareholders at a meeting. The necessary votes were cast in favor of the amendment.

Signed this 26th day of June, 1997.

By: /s/ Richard E. Beckman  
 -----  
 (Signature of President, Vice President,  
 Chairperson or Vice Chairperson)  
 Richard E. Beckman, President  
 -----

(Type or Print Name) (Type or Print Title)

Name of person or organization remitting fees:	Preparer's name and business telephone number
Credit Acceptance Corporation	Mark A. Metz (313) 568-5434

## FIRST AMENDMENT TO CREDIT AGREEMENT AND CONSENT

This FIRST AMENDMENT TO CREDIT AGREEMENT AND CONSENT ("First Amendment") is made as of this 4th day of June, 1997 by and among Credit Acceptance Corporation, a Michigan corporation ("Company"), the Permitted Borrowers signatory hereto (each, a "Permitted Borrower" and collectively, the "Permitted Borrowers"), Comerica Bank and the other banks signatory hereto (individually, a "Bank" and collectively, the "Banks") and Comerica Bank, as agent for the Banks (in such capacity, "Agent").

## RECITALS

A. Company, Permitted Borrowers, Agent and the Banks entered into that certain Second Amended and Restated Credit Agreement dated as of December 4, 1996 (the "Credit Agreement") under which the Banks renewed and extended (or committed to extend) credit to the Company and the Permitted Borrowers, as set forth therein.

B. The Company and the Permitted Borrowers have requested that Agent and the Banks agree to make certain amendments to the Credit Agreement and consent to specified transactions, and Agent and the Banks are willing to do so, but only on the terms and conditions set forth in this First Amendment.

NOW, THEREFORE, Company, Permitted Borrowers, Agent and the Banks agree:

i. Section 1 of the Credit Agreement is hereby amended as follows:

(a) Subparagraph (a) of the definition of "Funding Conditions" is amended and restated in its entirety as follows:

"(a) within a period of one hundred eighty (180) days prior to the date any such Debt is incurred, Company shall have provided to the Agent and the Banks a Consolidated plan and financial projections meeting the requirements therefor as set forth in Section 7.3(h) of this Agreement;"

(b) Subparagraph (d) of the definition of "Funding Conditions" is amended to insert, following the word "Debt" (in the second line thereof), the words "(i) the proceeds of such Debt, net of third party expenses incurred by the Company in connection with the issuance of such Debt, shall be applied to reduce the principal balance outstanding under the Senior Debt or the Future Debt or (ii)".

(c) The definition of "Future Debt" is amended and restated in its entirety, as follows:

"'Future Debt' shall mean (i) Debt evidenced by Medium Term Notes and (ii) Debt evidenced by Long Term Notes; provided that the aggregate principal amount of all such Debt incurred from and after the date hereof shall not exceed Three Hundred Million Dollars (\$300,000,000); and provided further that, at the time any such Debt is incurred, the Funding Conditions have been satisfied.

"For the purposes of this definition of "Future Debt",

"(x) 'Long Term Notes' shall mean unsecured promissory notes to be issued by the Company (other than Debt evidenced by Medium Term Notes) issued as part of a private placement or carrying a public debt rating by a Rating Agency and which Debt shall have a term extending at least beyond the Revolving Credit Maturity Date then in effect, with an amortization schedule not greater than level amortization to maturity (but with no principal

payments required for a period of not less than 3 years) and with no call option or other provision for mandatory early repayment except for acceleration on default; and

"(y) 'Medium Term Notes' shall mean unsecured promissory notes to be issued by the Company pursuant to the registration statement to be filed with the Securities and Exchange Commission and carrying a public debt rating by a Rating Agency, with maturities of not less than three (3) or more than ten (10) years from the date of issuance, with amortization schedules not greater than level amortization to maturity and with no call option or other provision for mandatory early repayment except for acceleration on default; provided, however, that notes in an aggregate principal amount of up to Fifty Million Dollars (\$50,000,000) may be issued with maturities less than three (3) years or greater than ten (10) years and/or with a call option or other provision for mandatory early repayment, so long as such notes otherwise comply with the other limitations contained herein."

(d) The definition of "Senior Debt" is amended to change the reference to One Hundred Thirty Million Dollars (\$130,000,000.00) (in the third line thereof) to Two Hundred One Million Seven Hundred Fifty Thousand Dollars (\$201,750,000).

(e) The definition of "Senior Debt Documents" is amended to add, following the words "issued thereunder," (in the seventh line thereof), the words "and (iii) that certain Credit Acceptance Corporation Note Purchase Agreement dated as of March 25, 1997 (\$71,750,000 7.77% Senior Notes due October 1, 2001) and the senior notes issued thereunder,".

(f) The definition of "Significant Subsidiary(ies)" shall be amended, retroactive to March 31, 1997, to insert, following the words "total assets" (in the third line thereof), the parenthetical phrase "(but excluding in the calculation of total assets, for any Domestic Subsidiary, any assets which constitute intercompany loans, advances, or extensions of credit by such Subsidiary to Company outstanding from time to time)".

2. Section 7.3(f) of the Credit Agreement is amended to add to the end of said section (immediately preceding the semi-colon) the following:

"and, within five(5) Business Days from each incurrence thereof, written notice that new Future Debt has been incurred, accompanied by copies of the material documents governing such Debt and a certification that, both before and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing and the Company is otherwise in compliance with this Agreement".

3. Notwithstanding the limitations contained in Sections 8.1 and 8.8 of the Credit Agreement, the Majority Banks hereby consent (the "Consent") to the Company's repurchase of its outstanding shares of common stock (the "Stock Repurchases"); provided, however, that (i) the aggregate amount paid or incurred for Stock Repurchases shall not exceed Thirty Million Dollars (\$30,000,000), (ii) Stock Repurchases will be conducted only so long as no Default or Event of Default has occurred and is continuing (both before and after giving effect thereto, but also giving effect to this Consent) and (iii) unless extended in writing by the Majority Banks, this Consent to the making of Stock Repurchases shall expire at the close of Agent's business on May 15, 1998, after which no further Stock Repurchases shall be conducted pursuant to the terms hereof.

4. This First Amendment shall become operative upon satisfaction by the Company and the Permitted Borrowers, on or before July 31, 1997, of the following conditions:

- (i) Agent shall have received counterpart originals of this First Amendment, in each case duly executed and delivered by Company, the Permitted Borrowers and the Banks, in form satisfactory to Agent and the Banks; and

- (ii) Agent shall have received from the Company and each of the Permitted Borrowers a certification that all necessary actions have been taken by such parties to authorize execution and delivery of this First Amendment, supported by such resolutions or other evidence of corporate authority or action as reasonably required by Agent and the Majority Banks.

If the foregoing conditions have not been satisfied or waived on or before July 31, 1997, this First Amendment shall lapse and be of no further force and effect.

5. New Schedule 6.15 (Litigation) attached hereto as Attachment A shall replace existing Schedule 6.15 in its entirety.

6. Each of the Company and the Permitted Borrowers ratifies and confirms, as of the date hereof and after giving effect to the amendments contained herein, each of the representations and warranties set forth in Sections 6.1 through 6.22, inclusive, of the Credit Agreement and acknowledges that such representations and warranties are and shall remain continuing representations and warranties during the entire life of the Credit Agreement.

7. Except as specifically set forth above, this First Amendment shall not be deemed to amend or alter in any respect the terms and conditions of the Credit Agreement, any of the Notes issued thereunder or any of the other Loan Documents, or to constitute a waiver by the Banks or Agent of any right or remedy under or a consent to any transaction not meeting the terms and conditions of the Credit Agreement, any of the Notes issued thereunder or any of the other Loan Documents.

8. Unless otherwise defined to the contrary herein, all capitalized terms used in this First Amendment shall have the meaning set forth in the Credit Agreement.

9. This First Amendment may be executed in counterpart in accordance with Section 13.10 of the Credit Agreement.

[SIGNATURES FOLLOW ON SUCCEEDING PAGES]



WITNESS the due execution hereof as of the day and year first above written.

COMERICA BANK,  
as Agent

CREDIT ACCEPTANCE CORPORATION

By: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

Its: \_\_\_\_\_

One Detroit Center  
500 Woodward Avenue  
Detroit, Michigan 48226  
Attention: Michael P. Stapleton

CREDIT ACCEPTANCE CORPORATION  
UK LIMITED

By: \_\_\_\_\_

Its: \_\_\_\_\_

CAC OF CANADA LIMITED

By: \_\_\_\_\_

Its: \_\_\_\_\_

CREDIT ACCEPTANCE CORPORATION  
IRELAND LIMITED

By: \_\_\_\_\_

Its: \_\_\_\_\_

BANKS:

COMERICA BANK

By: \_\_\_\_\_

Its: \_\_\_\_\_

LASALLE NATIONAL BANK

THE BANK OF NEW YORK

By: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

Its: \_\_\_\_\_

THE FIRST NATIONAL BANK OF CHICAGO

THE FIFTH THIRD BANK OF NORTHWESTERN OHIO, N.A.

By: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

Its: \_\_\_\_\_

THE SUMITOMO BANK, LIMITED, CHICAGO BRANCH

UNITED STATES NATIONAL BANK OF OREGON

By: \_\_\_\_\_

Its: \_\_\_\_\_

Its: \_\_\_\_\_

By: \_\_\_\_\_

and

THE BANK OF TOKYO-MITSUBISHI, LTD. (CHICAGO BRANCH)

By: \_\_\_\_\_

Its: \_\_\_\_\_

HARRIS TRUST AND SAVINGS BANK

THE LONG-TERM CREDIT BANK OF JAPAN, LTD. (CHICAGO BRANCH)

By: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

Its: \_\_\_\_\_

CREDIT LYONNAIS  
NEW YORK BRANCH

By: \_\_\_\_\_

Its: \_\_\_\_\_

FIRSTAR BANK MILWAUKEE, N.A.

By: \_\_\_\_\_

Its: \_\_\_\_\_

FIRST UNION NATIONAL BANK OF NORTH CAROLINA

By: \_\_\_\_\_

Its: \_\_\_\_\_

NATIONS BANK, N.A.

By: \_\_\_\_\_

Its: \_\_\_\_\_

THE BANK OF NOVA SCOTIA

By: \_\_\_\_\_

Its: \_\_\_\_\_

CIBC INC.

By: \_\_\_\_\_

Its: \_\_\_\_\_

ATTACHMENT A

Replacement Litigation Schedule  
[Attached hereto]

May 20, 1997

VIA FACSIMILE

TO: The Persons on the Attached Distribution List

FROM: Laurie E. Phelan, Esq.

RE: Second Amended and Restated CAC Credit Agreement dated as of December 4, 1996 (the "Credit Agreement") among the Banks signatory thereto, Comerica Bank as agent for the Banks, Credit Acceptance Corporation, and the Permitted Borrowers thereunder.

=====  
Ladies and Gentlemen:

On behalf of Comerica Bank, as agent for the Banks, please be advised that:

- (1) the Line of Credit Maturity Date (as defined in clause (i) of the definition thereof in the Credit Agreement) under the Credit Agreement has been extended from December 3, 1997 to May 15, 1998; and
- (2) the Revolving Credit Maturity Date (as defined in clause (i) of the definition thereof in the Credit Agreement) has been extended from December 4, 1999 to May 15, 2000.

Each Bank's Approval of Extensions of Maturity Dates has been lodged with the Agent. Please feel free to call me, Jai Kalia, or Michael Stapleton if you have any questions.

cc: Jai P. Kalia (w/originals)  
William B. Murdock (w/copies)  
Michael P. Stapleton (w/copies)  
Joseph J. Kochanek, Esq. (w/copies)

CREDIT ACCEPTANCE CORPORATION  
1992 STOCK OPTION PLAN  
(as amended and restated May 1997)

1. PURPOSE. The purpose of the Plan is to promote the best interests of the Company and its shareholders by giving participants a greater personal interest in the success of the Company in order to create additional incentive for participants to make greater efforts on behalf of the Company.

2. ADMINISTRATION. (a) The selection of participants in the Plan and decisions concerning the timing, pricing and amount of any grant of options under the Plan shall be made by the Committee. Except as provided in Section 12 of the Plan, the Committee shall interpret the Plan, prescribe, amend, and rescind rules and regulations relating to the Plan, and make all other determinations necessary or advisable for its administration. The decision of the Committee on any question concerning the interpretation of the Plan or any option granted under the Plan shall be final and binding upon all participants.

(b) The Committee may delegate to one or more officers or managers of the Company or a committee of such officers or managers, the authority, subject to such terms and limitations as the Committee shall determine, to grant options to, or to cancel, modify, waive rights with respect to, alter, discontinue or terminate options held by participants who are not officers or directors of the Company for purposes of Section 16 of the Securities Exchange Act of 1934, as amended.

3. PARTICIPANTS. Participants in the Plan shall be such key Employees as the Committee may select from time to time. The Committee may grant options to an individual upon the condition that the individual become an Employee, provided that the option shall be deemed to be granted only on the date the individual becomes an Employee.

4. STOCK. The stock subject to options under the Plan shall be the Common Stock, and may be either authorized and unissued shares or treasury shares held by the Company. The total amount of Common Stock on which options may be granted under the Plan shall not exceed 5,000,000 shares (as adjusted for all stock splits through January 1, 1995), subject to adjustment in accordance with Section 10. Shares subject to any unexercised portion of a terminated, canceled or expired option granted under the Plan may again be subjected to options under the Plan.

5. AWARD OF OPTIONS. Subject to the limitations set forth in the Plan, the Committee from time to time may grant options to such participants and for such number of shares of Common Stock and upon such other terms (including, without limitation, the exercise price and the times at which the option may be exercised) as it shall designate; provided that during any three-year period, no salaried Employee shall receive options to purchase more than 500,000 shares of Common Stock (as adjusted from time to time upon the occurrence of a corporate transaction or event described in the first sentence of Section 10). Each option shall be evidenced by a stock option agreement in such form and containing such provisions as the Committee shall deem appropriate, provided that such terms shall not be inconsistent with the Plan. The Committee may designate any option granted as either an Incentive Stock Option or a Nonqualified Stock Option, or the Committee may designate a portion of an option as an Incentive Stock Option or a Nonqualified Stock Option. Any participant may hold more than one option under the Plan and any other stock option plan of the Company. The date on which an option is granted shall be the date of the Committee's

authorization of the option or such later date as shall be determined by the Committee at the time the option is authorized.

Any option intended to constitute an Incentive Stock Option shall comply with the following requirements in addition to the other requirements of the Plan: (a) the exercise price per share for each Incentive Stock Option granted under the Plan shall be equal to the Fair Market Value per share of Common Stock on the date the option is granted; provided that no Incentive Stock Option shall be granted to any participant who owns (within the meaning of Section 424(d) of the Code) stock of the Company, or any Parent or Subsidiary, possessing more than 10% of the total combined voting power of all classes of stock of such Company, Parent or Subsidiary unless, at the date of grant of an option to such participant, the exercise price for the option is at least 110% of the Fair Market Value of the shares subject to option and the option, by its terms, is not exercisable more than five years after the date of grant; (b) the aggregate Fair Market Value of the underlying Common Stock at the time of grant as to which Incentive Stock Options under the Plan (or a plan of a Subsidiary) may first be exercised by a participant in any calendar year shall not exceed \$100,000 (to the extent that an option intended to constitute an Incentive Stock Option shall exceed the \$100,000 limitation, the portion of the option that exceeds such limitation shall be deemed to constitute a Nonqualified Stock Option); and (c) an Incentive Stock Option shall not be exercisable after the tenth anniversary of the date of grant or such lesser period as the Committee may specify from time to time.

A Nonqualified Stock Option shall be exercisable for a term not to exceed 10 years, or such lesser period as the Committee shall determine. The exercise price per share of a Nonqualified Stock Option shall not be less than 85% of the Fair Market Value of the Common Stock on the date the option is granted.

6. PAYMENT FOR SHARES. The purchase price for shares of Common Stock to be acquired upon exercise of an option granted hereunder shall be paid in full, at the time of exercise, in any of the following ways: (a) in cash, (b) by certified check, bank draft or money order, (c) by tendering to the Company shares of Common Stock then owned by the participant, duly endorsed for transfer or with duly executed stock power attached, which shares shall be valued at their Fair Market Value as of the date of such exercise and payment or (d) by delivery to the Company of a properly executed exercise notice, acceptable to the Company, together with irrevocable instructions to the participant's broker to deliver to the Company a sufficient amount of cash to pay the exercise price and any applicable income and employment withholding taxes, in accordance with a written agreement between the Company and the brokerage firm ("Cashless Exercise") if, at the time of exercise, the Company has entered into such an agreement.

#### 7. WITHHOLDING TAXES.

The Company shall have the right to withhold from a participant's compensation or require a participant to remit sufficient funds to satisfy applicable withholding for income and employment taxes upon the exercise of an option. A participant may make an election, notice of which shall be in writing, to tender previously-acquired shares of Common Stock or have shares of Common Stock withheld from the exercise, provided that the shares have an aggregate Fair Market Value on the date of exercise of the option sufficient to satisfy in whole or in part the applicable withholding taxes, or the Cashless Exercise procedure described in Section 6 may be utilized to satisfy the withholding requirements related to the exercise of an option.

8. NON-ASSIGNABILITY. No option shall be transferable by a participant except by will or the laws of descent and distribution or, in the case of a Nonqualified Stock Option, pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder. During the lifetime of a participant, an option shall be exercised only by the optionee. No transfer of an option shall

be effective to bind the Company unless the Company shall have been furnished with written notice thereof and such evidence as the Company may deem necessary to establish the validity of the transfer and the acceptance by the transferee of the terms and conditions of the option.

9. TERMINATION OF EMPLOYMENT. Unless otherwise provided in the stock option agreement relating to a particular option: (a) if, prior to the date that such option shall first become exercisable, the participant's Employment shall be terminated, with or without cause, or by the act, death, Disability, or retirement of the participant, the participant's right to exercise the option shall terminate and all rights thereunder shall cease; and (b) if, on or after the date that such option shall first become exercisable, a participant's Employment shall be terminated for any reason other than death or Disability, the participant shall have the right, prior to the earlier of (i) the expiration of the option or (ii) three months after such termination of Employment, to exercise the option to the extent that it was exercisable and is unexercised on the date of such termination of Employment, subject to any other limitation on the exercise of the option in effect at the date of exercise; and (c) if, on or after the date that such option shall have become exercisable, the participant shall die or become Disabled while an Employee or while such option remains exercisable, the participant or the executor or administrator of the estate of the participant (as the case may be), or the person or persons to whom the option shall have been transferred by will or by the laws of descent and distribution, shall have the right, prior to the earlier of (i) the expiration of the option or (ii) one year from the date of the participant's death or termination due to such Disability to exercise the option to the extent that it was exercisable and unexercised on the date of death, subject to any other limitation on exercise in effect at the date of exercise.

The transfer of an Employee from one corporation to another among the Company, any Parent, any Subsidiary, or a leave of absence with the written consent of the Company, shall not constitute a termination of Employment for purposes of the Plan.

10. ADJUSTMENTS. In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event affects the Common Stock such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (a) the number and type of shares of Common Stock which thereafter may be made the subject of options, (b) the number and type of shares of Common Stock subject to outstanding options, and (c) the exercise price with respect to any option, or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding option; provided, however, in each case, that with respect to Incentive Stock Options no such adjustment shall be authorized to the extent that such authority would cause the Plan to violate Section 422 of the Code or any successor provision thereto; and provided further, however, that the number of shares of Common Stock subject to any option shall always be a whole number. In the event of a Change of Control, options under the Plan shall be treated as the Committee may determine (including acceleration of vesting and settlements of options) at the time of grant or at a subsequent date as provided in the stock option agreement reflecting the grant of such options.

11. RIGHTS PRIOR TO ISSUANCE OF SHARES. No participant shall have any rights as a shareholder with respect to any shares covered by an option until the issuance of a stock certificate to the participant for such shares. No adjustment shall be made for dividends or other rights with respect to such shares for which the record date is



prior to the date such certificate is issued.

12. **TERMINATION AND AMENDMENT.** The Board of Directors (the "Board") may terminate the Plan, or the granting of options under the Plan, at any time. No Incentive Stock Option shall be granted under the Plan after March 1, 2002. Termination of the Plan shall not affect the rights of the holders of any options previously granted.

The Board may amend or modify the Plan at any time and from time to time. No amendment, modification, or termination of the Plan shall in any manner affect any option granted under the Plan without the consent of the participant holding the option.

13. **APPROVAL OF PLAN.** The Plan shall be subject to the approval of the holders of at least a majority of the shares of Common Stock of the Company present and entitled to vote at a meeting of shareholders of the Company held within 12 months after adoption of the Plan by the Board. No option granted under the Plan may be exercised in whole or in part until the Plan has been approved by the shareholders as provided herein. If not approved by shareholders within such 12-month period, the Plan and any options granted hereunder shall become void and of no effect.

14. **EFFECT ON EMPLOYMENT.** Neither the adoption of the Plan nor the granting of any option pursuant to it shall be deemed to create any right in any individual to be retained as an Employee.

15. **CERTAIN DEFINITIONS.**

A "Change in Control" shall mean (i) consummation of any merger or consolidation with respect to which the Company or any Parent is a constituent corporation (other than a transaction for the purpose of changing the Company's corporate domicile), any liquidation or dissolution of the Company or any sale of all or substantially all of the Company's assets or (ii) a change in the identity of a majority of the members of the Company's Board of Directors within any twelve-month period, which change or changes are not recommended by the incumbent directors immediately prior to any such change or changes.

The "Code" is the Internal Revenue Code of 1986, as amended.

The "Committee" is a committee of two or more directors of the Company, each of whom is a "non-employee director" as defined in Rule 16b-3 under the Exchange Act.

The "Common Stock" is the common stock of the Company.

The "Company" is Credit Acceptance Corporation, a Michigan corporation.

"Disabled" or "Disability" means permanently disabled as defined in Section 22(e)(3) of the Code.

"Employee" means an individual with an "employment relationship" with the Company, or any Parent or Subsidiary, as defined in Regulation 1.421-7(h) promulgated under the Code, and shall include, without limitation, employees who are directors of the Company, or any Parent or Subsidiary.

"Employment" means the state of being an Employee.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" shall mean the average of the high and low sale prices per share of the Common Stock reported in the Wall Street Journal for the last preceding day on which the Common Stock was traded prior to the date with respect to which the fair market value is to be determined, as determined by the Committee in its sole discretion; provided, however, that Fair Market Value with respect to the initial option grants approved by the Committee on July 15, 1992 shall be deemed to be the initial public offering price per share of the Company's Common Stock of \$13.00 (\$6.50 after adjustment for the two-for-one stock split paid March 17, 1993).

An "Incentive Stock Option" is an option intended to meet the requirements of Section 422 of the Code.

A "Nonqualified Stock Option" is an option granted under the Plan other than an Incentive Stock Option.

"Parent" means any "parent corporation" of the Company as defined in Section 424(e) of the Code.

The "Plan" is the 1992 Stock Option Plan.

"Subsidiary" means any "subsidiary corporation" of the Company as defined in Section 424(f) of the Code.

CREDIT ACCEPTANCE CORPORATION  
 STATEMENT OF COMPUTATION OF NET  
 INCOME PER COMMON SHARE  
 (Unaudited)

(Dollars in thousands, except per share data)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	----- 1996	----- 1997	----- 1996	----- 1997
	-----	-----	-----	-----
ACTUAL				
Net Income	\$10,137	\$12,050	\$19,325	\$24,088
Weighted average common shares outstanding .....	45,576,894	46,112,448	45,540,966	46,094,448
Common stock equivalents .....	903,074	482,273	917,072	654,158
Weighted average common shares and common stock equivalents .....	46,479,968	46,594,721	46,458,038	46,748,606
Net earnings per share .....	\$ .22 =====	\$ .26 =====	\$ .42 =====	\$ .52 =====

6-MOS	DEC-31-1997	
	JAN-01-1997	
	JUN-30-1997	135
		7,538
		1,185,592
		14,556
		0
		0
		22,775
		4,739
		1,219,950
		0
		199,059
		0
		0
		461
		271,703
1,219,950		0
		86,622
		0
		21,517
		1,680
		14,722
		12,478
		36,225
		12,117
24,088		0
		0
		0
		24,088
		0.52
		0.52