

TWO THOUSAND SEVENTEEN

# Annual Report

## Corporate Profile

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

Without our financing programs, consumers are often unable to purchase vehicles or they purchase unreliable ones. Further, as we report to the three national credit reporting agencies, an important ancillary benefit of our programs is that we provide consumers with an opportunity to improve their lives by improving their credit score and move on to more traditional sources of financing. Credit Acceptance is publicly traded on the NASDAQ under the symbol CACC. For more information, visit [CreditAcceptance.com](https://www.CreditAcceptance.com).



*Buying a car was nearly impossible. I contacted a couple different dealers but I was denied because of my credit score. I was told I needed a co-signer and I was adamant about getting a car by myself. I really wanted to do this on my own and be financially independent. I was ecstatic when I was financed through Credit Acceptance! I was able to get the car that I wanted at the payments I could afford. It was amazing. On-time payments enabled me to raise my credit score and apply for a mortgage and get approved to buy a house. Buying a car and a house is the American dream.*

**– Mia Dahn (Athens, OH)**

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# Shareholder Letter

## A MESSAGE FROM OUR CHIEF EXECUTIVE OFFICER

During 2017, we completed our 25<sup>th</sup> full year as a public company. Over those 25 years, GAAP net income per share (diluted) has grown at a compounded annual rate of 21.1%, with an average annual return on equity of 22.9%. We have done even better over the last 16 years: GAAP net income per share (diluted) has grown at a compounded annual rate of 26.3%, with an average annual return on equity of 28.1%.

Last year, GAAP net income per share (diluted) grew 47.4% to \$24.04, with a return on equity of 36.9%. This result includes the impact of the Tax Cuts and Jobs Act, which increased GAAP net income per share (diluted) by \$5.10. Excluding this impact, net income per share grew 16.1%, with a return on equity of 29.1%.

The table below summarizes our GAAP results for 1992–2017:

	GAAP net income per share (diluted)	Year-to-year change in GAAP net income per share	Return on equity <sup>1</sup>
1992	\$ 0.20		24.1%
1993	\$ 0.29	45.0%	25.6%
1994	\$ 0.49	69.0%	31.5%
1995	\$ 0.68	38.8%	21.5%
1996	\$ 0.89	30.9%	18.7%
1997	\$ 0.03	–96.6%	0.6%
1998	\$ 0.53	1,666.7%	9.5%
1999	\$ (0.27)	–150.9%	–3.9%
2000	\$ 0.51	—	9.1%
2001	\$ 0.57	11.8%	9.1%
2002	\$ 0.69	21.1%	10.1%
2003	\$ 0.57	–17.4%	7.5%
2004	\$ 1.40	145.6%	18.4%
2005	\$ 1.85	32.1%	21.8%
2006	\$ 1.66	–10.3%	20.2%
2007	\$ 1.76	6.0%	23.1%
2008	\$ 2.16	22.7%	22.2%
2009	\$ 4.62	113.9%	35.6%
2010	\$ 5.67	22.7%	34.8%
2011	\$ 7.07	24.7%	40.0%
2012	\$ 8.58	21.4%	37.8%
2013	\$ 10.54	22.8%	38.0%
2014	\$ 11.92	13.1%	37.0%
2015	\$ 14.28	19.8%	35.4%
2016	\$ 16.31	14.2%	31.1%
2017	\$ 24.04	47.4%	36.9%
Compound annual growth rate 1992–2017		21.1%	

<sup>1</sup> Return on equity is defined as GAAP net income for the applicable period divided by average shareholders' equity for such period.

## BACKGROUND

Credit Acceptance works with car dealers nationwide to enable them to sell vehicles to consumers who wish to finance their vehicle purchase. We allow the dealer to finance any customer, regardless of his or her credit history. This gives the dealer the ability to sell a vehicle to a customer that, without us, the dealer would have to turn away. The incremental sale creates incremental profit for the dealer, and the potential for incremental repeat and referral business.

The benefit of our program from the customer's perspective is also significant. We provide an opportunity for our customers, many of whom have been turned down for financing from other lenders, to purchase a vehicle and establish or reestablish a positive credit history, thereby moving their financial lives in a positive direction.

Our company, like most of our competitors, is an indirect auto finance company, which means the financing contract is originated by the auto dealer and immediately assigned to us in exchange for compensation. The transaction between the dealer and the consumer is technically not a loan, but instead something called a retail installment contract. However, for simplicity and to conform to the language we use in our disclosures, I will refer in this letter to retail installment contracts as loans and to indirect auto finance companies as lenders.

The auto finance market is large and fragmented, with over \$1.2 trillion in outstanding balances as of December 31, 2017. We compete with banks, credit unions, auto finance companies affiliated with auto manufacturers, and independent auto finance companies. Our approach to the market is unique for two reasons. First, every customer, regardless of credit history, is offered an opportunity to purchase a vehicle. Second, for most of the vehicle sales we finance, the dealer shares in the cash flows from the loan. (Dealers are compensated by receiving 80% of all net collections throughout the life of a loan.) This is a critical element of our success as it creates an alignment of interests. The dealer benefits if the customer is successful in repaying his loan and reestablishing his credit. Therefore, the dealer has an incentive to sell a vehicle at a price the customer can afford and a vehicle that will last the term of the loan. In addition, the dealer has an incentive to help the customer after the sale if there are issues with the vehicle.

## HISTORY

Credit Acceptance was founded in 1972 by our former Chairman of the Board, Don Foss. From 1972 through the early 1990s, there were very few companies attempting to serve the market segment that Don had identified. As a result, during this period we had an almost unlimited opportunity to write new business at very high levels of profitability. Following our initial public stock offering in June of 1992, our business grew rapidly. Over the next four years, earnings per share (diluted) grew at a compounded annual rate of 45.2% per year, from \$0.20 in 1992 to \$0.89 in 1996.

But our reported results during this period did not reflect the true economic performance of our business, which was rapidly deteriorating. Following our initial public offering, we began to see a dramatic increase in competition, in part inspired by our prior success. In 1993 and 1994, the loans we were originating were still very profitable. But by the end of 1995, this was no longer true. Because we did not have the right tools in place to monitor the profitability of the loans we were originating, we continued to grow rapidly in 1995, 1996 and most of 1997.

During the third quarter of 1997, we installed a new system that provided us with the data we needed to begin forecasting the future cash flows expected from each loan. While our initial efforts at forecasting were not perfect, obtaining this new capability was a key milestone in our history. But before we could take full advantage of it, we first had to repair the damage caused by our prior mistakes. In the third quarter of 1997, we recorded a \$60.0 million charge to reflect our revised estimate of the cash flows our loan portfolio would generate. The charge caused a loss of \$27.7 million for the quarter. I and Doug Busk, who is still a key member of our leadership team, traveled all over the country meeting with lenders and rating agencies to explain what had occurred and

plead for mercy. It was a humbling experience and one I promised myself I would not repeat. While our lenders agreed to waive our covenant violations, it was clear the period of easily accessible capital had come to an end. Our share price, which had peaked at \$28.75 per share in October of 1995, had fallen to a low of \$3.00 per share in October of 1997.

We spent much of 1998 and 1999 reducing our debt balances and using the insights we had learned from our new system to invest our existing capital in loans that would be more profitable. We eliminated unprofitable dealer relationships and began to establish advance rates on new loans that reflected the cash flows we were forecasting from those loans. (An advance is the amount paid to dealers when loans are originated.) We made steady progress, greatly assisted by the fact that many of our competitors had made even worse mistakes and were forced to exit our market entirely.

Our mistakes from the past, however, were not yet behind us, and in 1999 we recorded an additional \$60.8 million charge reflecting even lower estimated cash flows for loans originated in 1995–1997 than we had recorded previously. This charge caused a loss for the third quarter of 1999 of \$33.6 million and a loss of \$12.6 million for the year, a result which would have been worse if not for a \$10.0 million after-tax gain from the sale of a credit reporting business we had acquired in 1996. The loss made 1999 the only unprofitable year in our history. While this disappointing result made our job of obtaining additional capital more difficult, this obstacle was less important than it had been in 1997. We had repaid a significant portion of our debt and were more focused on investing the capital we did have at a higher rate of return.

Another important milestone occurred in 1999. Tom Tryforos joined our Board. My relationship with Tom goes back to the early 1990s. Tom invested in Credit Acceptance shortly after our initial public offering and shrewdly sold his investment as competition in our market began to intensify. He was able to exit with a nice profit on his investment. I spent a fair amount of time in investor relations during this period and, although I was inexperienced, I was smart enough to recognize that Tom was different from any other investor I had met. He had an annoying knack of asking questions that I realized were of critical importance but that I had never thought to ask myself. I lost contact with him for a few years after he sold his position but he resurfaced again in 1997 after our share price had dropped. He had decided to reinvest, and I began speaking to him on a regular basis. I took the opportunity to learn as much as I could from Tom, and his influence made a significant difference not only in my career but also in the Company's success in the years that followed. The Company's relationship with Tom was formalized in July of 1999, when he joined our Board. Not only was Tom still asking all the right questions, but he was now helping us find the answers. One of the first changes he made as a Board member was to establish a minimum required return on capital. The message was clear: If we couldn't earn more than our cost of capital, we needed to give that capital back to shareholders. This message got our attention, since at the time we weren't meeting his minimum requirement.

In 2000, we continued to focus on improving our return on capital. By the end of 2000, we had undergone a dramatic transformation. From 1992 until 1997, the amount of capital we required increased at a remarkable rate. At year-end 1992, we had had \$42 million in capital invested. By year-end 1997, that number had grown to \$641 million. Over that same period, we had gone from writing loans that produced returns on capital in excess of 20% to writing those that barely earned a return at all. By the end of 2000, invested capital had declined to \$414 million, but for the first time in many years, the return on capital of the loans we originated during the year exceeded our cost of capital. By only investing our capital when we could earn an appropriate return, we went from consuming capital rapidly to generating excess capital, which we used to continue repaying outstanding debt. After showing a loss of \$12.6 million in 1999, or \$0.27 per share (diluted), we reported earnings for 2000 of \$22.5 million, or \$0.51 a share (diluted).

With Tom's help, we found another important way to use our capital: We began to repurchase our shares. From August of 1999, when our share repurchase program began, through the end of 2000, we repurchased over 3.8 million shares of stock at an average price of \$5.24. Based on our share price today, the shares we repurchased for just over \$20 million during that period are now worth over \$1.2 billion. Tom earned his Board fees that year, which at the time were \$1,500 per quarter.

In 2001, we began to grow our loan volumes again. By this time, we had transformed our sales force from a small team located at our headquarters to a much larger, field-based team located in the markets we served. During that year, we implemented our Internet-based loan origination system, called CAPS, which enabled us to greatly simplify our program and make it easier for dealers to use. CAPS allowed us to implement even more precise pricing based on the individual characteristics of each application we received, and allowed us to provide offers to the dealer much faster. Perhaps most important, CAPS made it easier for us to experiment, and we began piloting different requirements for new loans, including writing longer-term loans than we had previously. In 2001, we grew loans receivable by 21.8% and we reported earnings of \$24.7 million, or \$0.57 a share.

I was named CEO in January of 2002. Over the next 16 years, GAAP net income per share (diluted) increased at a compounded annual rate of 26.3%. We faced challenges during this period, many of which related to the impact of competitive and economic cycles. I will discuss these cycles in more detail in the next section. But over the last 16 years, we succeeded in spite of the challenges. We continued to focus on investing our capital wisely, and consistently earned a return on capital well above its cost, even in years when our loans performed worse than we expected. We gave even more attention to our core business, exiting several non-core businesses that we had started prior to 2002. We continued to use excess capital to repurchase stock, buying approximately 29.5 million shares from 2001 to 2017. But mostly, we focused on applying the many lessons we had learned over the years to improve our product and our culture. Today, we have a product that provides enormous benefits to our dealers and our customers, and a culture that attracts talented people to our company and enables them to perform to their potential. Our work environment has been recognized for each of the last five years by *Fortune* magazine in its annual list of 100 Best Companies to Work For.

## IMPACT OF BUSINESS CYCLES ON OUR PERFORMANCE

It is important for shareholders to understand the impact of the external environment on our performance. Both competitive cycles and economic cycles have affected our results historically and are likely to do so in the future.

### *Competitive cycles*

We have gone through several cycles of competition. From 1972 through the early 1990s, we had very little competition. This changed following our initial public offering in 1992, as I described earlier. In late 1997, competition retreated when capital became unavailable. But competition started to return in 2003. The environment became increasingly difficult as it became easier for competitors to obtain capital. The cycle came to a halt toward the end of 2007, when capital markets tightened as result of the global financial crisis.

In contrast to the poor results we delivered during the first cycle, we produced very good ones during the 2003–2007 cycle. We had improved many important aspects of our business between the first and second cycles, including our ability to predict loan performance, deploy risk-adjusted pricing, monitor loan performance and execute key functions consistently.

As a result of the increasingly difficult competitive environment, and our reluctance to increase the money we advanced to dealers for the loans (since larger advances would have diminished our margin of safety), volume per dealer declined 41.7% from 2003 to 2007. In order to grow, we

focused on increasing the number of active dealers. This strategy was successful—the number of active dealers in 2007 was triple the number in 2003, and GAAP net income per share (diluted) more than tripled, to \$1.76 in 2007 from \$0.57 in 2003.

The cycle ended in late 2007. In contrast to the first cycle, which ended when capital providers understandably lost confidence in the industry as a result of poor financial results, this cycle ended for reasons that had little to do with anything that occurred in our industry. Instead, this cycle ended as a result of the global financial crisis triggered by the collapse of the housing market. Capital again began to retreat from our industry, and many of our competitors either exited the market entirely or dramatically reduced originations. Competition began to return to our market in 2010, but the environment nevertheless remained favorable in that year and in 2011. As a result, we made considerable progress during the 2008–2011 period. While the number of active dealers grew more slowly than it had in 2004–2007, the lack of significant competition allowed us to reduce advance rates and dramatically improve per unit profitability. The following table compares the results from each of the two periods:

Period	Active dealers			GAAP net income per share (diluted)			
	Start of period	End of period	Compound annual growth rate	Start of period	End of period	Compound annual growth rate	
2003–2007	950	2,827	31.3%	\$ 0.57	\$ 1.76		32.6%
2007–2011	2,827	3,998	9.1%	\$ 1.76	\$ 7.07		41.6%

Although we had success during both periods, it was much easier to grow GAAP net income per share during 2008–2011 than it had been in the prior cycle. While we fared much better than our competitors thanks to our conservative balance sheet and high returns on capital, capital constraints did not allow us in 2008 and 2009 to write as much business as we would have liked. Absent these capital constraints, the results would have been even better.

The favorable environment began to change rapidly starting in 2012 as capital returned to our market. By 2013, the number of vehicles financed for customers with subprime credit scores—one indicator of the degree of competition—had surpassed the comparable number in 2007, the last year of the prior cycle. Since 2013, the environment has continued to be challenging.

As we did in the 2003–2007 cycle, we have again focused on growing our profits by growing the number of active dealers. This strategy has become more difficult with time due to the challenge of increasing a larger active dealer base at the same rate. When the last cycle started, in 2003, we had only 950 active dealers. By 2011, the number had grown to 3,998. Despite the much larger dealer base, our strategy again produced impressive results over the first four years (2012–2015) of the latest competitive cycle, with both active dealers and GAAP net income per share (diluted) more than doubling. The table below updates the prior table with the results for 2012–2015:

Period	Active dealers			GAAP net income per share (diluted)			
	Start of period	End of period	Compound annual growth rate	Start of period	End of period	Compound annual growth rate	
2003–2007	950	2,827	31.3%	\$ 0.57	\$ 1.76		32.6%
2007–2011	2,827	3,998	9.1%	\$ 1.76	\$ 7.07		41.6%
2011–2015	3,998	9,064	22.7%	\$ 7.07	\$ 14.28		19.2%

The current cycle has now lasted longer than either of the prior two cycles. As of the date of this letter, it is hard to see anything on the horizon that will cause this current cycle to end.

The longer the cycle continues and the larger our active dealer base becomes, the more difficult it will be to grow active dealers and profitability. These challenges began to impact our results in 2016. Although active dealers increased by 16.2% in 2016 and unit volume increased by 10.9%,



unit volume growth slowed considerably as the year progressed. Volumes grew 21.1% during the first quarter, 15.1% during the second quarter and 12.0% during the third quarter. During the fourth quarter of 2016, unit volume declined by 5.6%.

To improve our chances of success, in August of 2016 we began to expand our field sales force. Historically, there has been a strong correlation between the number of loans we originate and the size of our sales force. In July of 2016, we had a sales force of 247 people. By the end of the third quarter of 2017, we had increased it to 325. During the first three quarters of 2017, the expansion of our sales force did not improve our results, as unit volume declined by 3.8%. But during the fourth quarter of 2017, unit volume increased by 10.8%, with most of that growth coming from salespeople who had been added since the expansion began.

The difficulty we experienced over the last two years was not unexpected. In my letters for the 2014, 2015 and 2016 annual reports, I expressed caution about our ability to grow a larger active dealer base during a difficult competitive environment. While our most recent quarter's results are a positive sign, unless the competitive environment becomes more favorable, growing active dealers and unit volumes will be a continuing and likely a growing challenge.

### **Economic cycles**

Economic cycles affect our business as well. Increases in the unemployment rate put downward pressure on loan performance, and conditions in the capital markets make it more difficult to access the capital we need to fund our business.

From 1972 through 1991, the United States experienced two significant increases in the unemployment rate. The first occurred in 1974–1975 and the second in 1980–1982. However, the information we accumulated during these periods was largely anecdotal, as we did not capture loan performance data during this early stage of the Company's development.

We began to capture loan performance data in 1991 (although we did not have the tools to adequately assess this data until 1997). The period from 1991 through April of 2008 was a time of relatively stable unemployment levels. The only significant increase in unemployment rates occurred in 2001. But that was a year in which we made major changes to our origination systems and loan programs that made it harder for us to draw clear conclusions from what we observed. As a result, prior to the most recent economic downturn, we had only a limited ability to predict the impact of sharply rising unemployment rates on our loan portfolio. One conclusion we did draw (from the limited information we had accumulated for the period 1972 through April 2008) was that our loans would likely perform better than many outside observers would expect. However, that conclusion was far from certain.

The most recent financial crisis began to unfold in 2007. Adding to the challenge was the fact that 2007 was also a period of intense competition within our industry. As I discuss in more detail in a later section, loans originated during highly competitive periods tend to perform worse. From April 2008 through October 2009, the national unemployment rate increased from 5.0% to 10.0%. This combination of events—intense competition, followed by severe economic deterioration—provided a perfect test of our business model, one that would confirm either our views or the views of skeptics. We believe that our financial results during the financial crisis demonstrate that we passed the test with flying colors. GAAP net income per share (diluted) rose 22.7% in 2008 and 113.9% in 2009.

We did experience deterioration in our loan performance, but it was modest. In contrast, many of our competitors experienced a much greater fall-off in their loan performance and reported poor financial results. Because our competitors generally target low levels of per loan profitability and use debt much more extensively than we do, any adverse change in the economic environment is likely to have a much more damaging impact on their results than on ours.



## Access to capital

Besides impacting loan performance, the financial crisis made it more difficult to access capital. The tightening of the capital markets began in mid-2007 and continued throughout 2008 and much of 2009. During 2008, we had enough success obtaining capital to be able to originate \$786.4 million in new loans, an increase of 14.1% from 2007.

The capital markets became less accessible as 2008 progressed, however. As a result, we began to slow originations growth through pricing changes which began in March and continued throughout the remainder of 2008. During 2009, we continued to slow originations based on the capital we had available. We originated \$619.4 million of new loans, 21.2% less than in 2008. While we would have preferred a higher level of originations, we did not have access to the new capital we would have required on terms that we found acceptable.

Our access to capital improved at the end of 2009, and since that time capital has been readily available. However, we believe we are well positioned should capital become more difficult to obtain. Since 2009, we have taken several steps to improve our position: We have (1) completed four offerings of senior notes, two series of which are currently outstanding and which provide us with \$550.0 million of long-term debt capital; (2) lengthened the terms of our asset-backed financings; (3) increased our revolving credit facilities from \$540.0 million at the end of 2009 to \$1.2 billion currently; and (4) lengthened the terms of these facilities so the earliest date they mature is August 2019. We maintain a considerable amount of available borrowing capacity under our revolving credit facilities at all times: As of the date of this letter, we have \$1.0 billion of such unused capacity.

Lengthening the term of our debt facilities, issuing higher-cost long-term debt and keeping available a significant portion of our revolving credit facilities increase our funding costs and reduce short-term profitability. However, these steps greatly improve our ability to fund new loans should capital markets become inaccessible. While we were able to produce outstanding results during the financial crisis, we believe the steps we have taken will allow us to do even better should a similar crisis occur in the future.

While accessing capital will at times be challenging, we believe we offer our lenders an extremely secure investment. The combination of our high returns on capital, conservative use of debt and unique risk-sharing arrangement with our dealers means our lenders enjoy a large margin of safety. We have a long, public track record of predicting the performance of our loans with reasonable precision. (I will discuss that record in detail in a later section.) Importantly, because of their large margin of safety, our lenders do not require anything close to our historical level of forecasting precision in order for their loans to us to remain secure. Simply put, we need to recover only slightly more than half of our forecasted cash flows in order for our lenders to be repaid 100% of their loans to us, including interest.

## ADJUSTED RESULTS

Our reported financial results include both GAAP and adjusted numbers. Historically, to arrive at the latter, we have adjusted the GAAP results to normalize tax rates, eliminate non-recurring expenses and eliminate discontinued operations. For simplicity, I have excluded these adjustments from prior-year letters. However, there are three other adjustments which I have previously discussed: (1) a floating yield adjustment, (2) a program fee yield adjustment and (3) a senior notes adjustment. Due to the significant impact of the Tax Cuts and Jobs Act passed in December 2017, I have also included an income tax adjustment in the current-year letter. All four adjustments are explained below:

### *Floating yield adjustment*

The purpose of this adjustment is to modify the calculation of our GAAP-based finance charge revenue so that both favorable and unfavorable changes in expected cash flows from loans receivable are treated consistently. To make the adjustment understandable, we must first explain how GAAP requires us to account for finance charge revenue, which is our primary revenue source.

The automobile dealer receives two types of payments from us. The first payment is made at the time of origination. The remaining payments are remitted over time based on the performance of the loan. The amount we pay at the time of origination is called an advance; the portion paid over time is called dealer holdback.

The finance charge revenue we will recognize over the life of the loan equals the cash we collect from the loan (i.e., repayments by the consumer), less the amounts we pay to the dealer (advance + dealer holdback). In other words, the finance charge revenue we will recognize over the life of the loan 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 current GAAP accounting methodology, finance charge 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.

Where GAAP diverges from economic reality is in the way it deals with changes in expected cash flows. The expected cash flows from a loan portfolio are not known with certainty. Instead, they are estimated. From an economic standpoint, if forecasted cash flows from one loan pool increase by \$1,000 and forecasted cash flows from another loan pool decrease by \$1,000, no change in our shareholders' economic position has occurred<sup>1</sup>. GAAP, however, requires the Company to record the \$1,000 decrease as an expense in the current period (recorded as a provision for credit losses<sup>2</sup>), and to record the \$1,000 favorable change as income over the remaining life of the loan pool.

For those relying on our GAAP financial statements, this disparate treatment has the effect of understating net income in the current period, and overstating it in future periods.

The floating yield adjustment reverses the GAAP-caused distortion by treating both favorable and unfavorable changes in expected cash flows consistently. That is, both types of changes are treated as adjustments to our loan yield over time. In addition, the floating yield adjustment has the benefit of simplifying our adjusted<sup>3</sup> financial results by eliminating the provision for credit losses, which is both volatile and not well understood by analysts who cover our stock.

### ***Program fee yield adjustment***

Before I explain this adjustment, I should disclose that it has had no impact on adjusted results since 2012<sup>4</sup>, and its impact on prior periods is arguably not of great importance. However, for historical consistency, I have decided to keep this adjustment as part of the table I include in my letter. Depending on your standards for accounting precision, you may wish to skip my explanation of this adjustment.

The purpose of this adjustment is to make the results for program fee revenue comparable across time periods. In 2001, the Company had begun charging dealers a monthly program fee. In accordance with GAAP, this fee was being recorded as revenue in the month the fee was charged. However, based on feedback from field sales personnel and dealers, the Company concluded that structuring the fee in this way was contributing to increased dealer attrition. To address the problem, the Company changed its method for collecting these fees.

As of January 1, 2007, the Company began to take the program fee out of future dealer holdback payments instead of collecting it in the current period. The change reduced per loan profitability, since cash that previously was collected immediately is now collected over time. In addition, the change required us to modify our GAAP accounting method for program fees. Starting January 1, 2007, the Company began to record program fees for GAAP purposes as an adjustment to the loan yield, effectively recognizing the fees over the term of the dealer loan. This revised GAAP treatment is more consistent with the cash economics. To allow for proper comparisons, the program fee adjustment applies the revised GAAP treatment to all pre-2007 periods.

<sup>1</sup> This example assumes that the forecasted changes for these two loan pools exhibit the same cash flow timing.

<sup>2</sup> The amount of current period provision expense recorded under GAAP is based on the present value of the decrease in forecasted cash flows, where the present value reflects both the amount and timing of the forecasted change.

<sup>3</sup> The adjusted financial results can be derived from the data in our press releases.

<sup>4</sup> Since all pre-2007 program fees had been recognized by year-end 2011.

### **Senior notes adjustment**

On January 22, 2014, we issued \$300 million of 6.125% senior notes due 2021 (the “2021 notes”). On February 21, 2014, we used the net proceeds from the 2021 notes, together with borrowings under our revolving credit facilities, to redeem in full the \$350 million outstanding principal amount of our 9.125% senior notes due 2017 (the “2017 notes”).

Under GAAP, the redemption of the 2017 notes was considered an extinguishment of debt. For the quarter ended March 31, 2014, our GAAP financial results included a pre-tax loss of \$21.8 million on extinguishment of debt. In addition, the quarter included \$1.4 million of additional interest expense caused by the one-month lag from the issuance of the 2021 notes to the redemption of the 2017 notes. These two items collectively reduced 2014 consolidated net income by \$14.6 million, or \$0.62 per diluted share.

Under our non-GAAP approach, we deferred the two items as debt-issuance costs, and are recognizing them ratably as interest expense over the term of the 2021 notes. The non-GAAP approach records the net benefit of the refinancing—i.e., the lower interest cost of the 2021 notes less the cost of paying off the 2017 notes early—over the period the 2021 notes will be outstanding.

### **Income tax adjustment**

The purpose of this adjustment is to report adjusted results using a 37% income tax rate, which represents our long-term effective tax rate for 2001–2017. For most years, the required adjustment is modest. However, in 2017, our reported GAAP net income per share (diluted) included approximately \$99.8 million attributable to a one-time benefit related to the enactment of the Tax Cuts and Jobs Act in December of 2017. As a result of the Act, which reduced our federal tax rate from 35% to 21%, we revalued our net deferred tax liability with a corresponding reduction to our income tax expense. The adjustment of \$102.4 million shown in the table for 2017 reverses the impact of the deferred tax liability revaluation as well as other adjustments necessary to record our income tax expense at 37% of our pre-tax earnings.

We believe the income tax adjustment provides a more accurate reflection of the performance of our business, since we are recognizing a provision for income taxes at the applicable long-term effective tax rate for the period.

The following tables show net income and net income per share (diluted) for 2001–2017 after the four adjustments:

(\$ in millions)	GAAP net income	Floating yield adjustment	Program fee adjustment <sup>1</sup>	Senior notes adjustment	Income tax adjustment	Adjusted net income <sup>2</sup>	Year-to-year change
2001	\$ 24.7	\$ 1.2	\$ (1.1)	\$ —	\$ 2.0	\$ 26.8	
2002	\$ 29.8	\$ 2.8	\$ (2.2)	\$ —	\$ 2.9	\$ 33.3	24.3%
2003	\$ 24.7	\$ 1.4	\$ (2.1)	\$ —	\$ 5.7	\$ 29.7	–10.8%
2004	\$ 57.3	\$ (0.1)	\$ (1.0)	\$ —	\$ (1.8)	\$ 54.4	83.2%
2005	\$ 72.6	\$ (2.2)	\$ (2.1)	\$ —	\$ 0.1	\$ 68.4	25.7%
2006	\$ 58.6	\$ 0.4	\$ (2.8)	\$ —	\$ (1.7)	\$ 54.5	–20.3%
2007	\$ 54.9	\$ 3.6	\$ 5.0	\$ —	\$ (1.2)	\$ 62.3	14.3%
2008	\$ 67.2	\$ 13.1	\$ 2.0	\$ —	\$ 0.4	\$ 82.7	32.7%
2009	\$ 146.3	\$ (19.6)	\$ 0.8	\$ —	\$ (1.8)	\$ 125.7	52.0%
2010	\$ 170.1	\$ 0.5	\$ 0.3	\$ —	\$ (10.4)	\$ 160.5	27.7%
2011	\$ 188.0	\$ 7.1	\$ 0.3	\$ —	\$ (1.3)	\$ 194.1	20.9%
2012	\$ 219.7	\$ —	\$ —	\$ —	\$ (3.5)	\$ 216.2	11.4%
2013	\$ 253.1	\$ (2.5)	\$ —	\$ —	\$ (2.3)	\$ 248.3	14.8%
2014	\$ 266.2	\$ (6.0)	\$ —	\$ 12.5	\$ (1.0)	\$ 271.7	9.4%
2015	\$ 299.7	\$ 12.9	\$ —	\$ (2.0)	\$ (0.8)	\$ 309.8	14.0%
2016	\$ 332.8	\$ 28.1	\$ —	\$ (2.1)	\$ 1.8	\$ 360.6	16.4%
2017	\$ 470.2	\$ 34.1	\$ —	\$ (2.1)	\$ (102.4)	\$ 399.8	10.9%
Compound annual growth rate 2001–2017							18.4%

	GAAP net income per share (diluted)	Floating yield adjustment per share (diluted)	Program fee adjustment per share (diluted) <sup>1</sup>	Senior notes adjustment per share (diluted)	Income tax adjustment per share (diluted)	Adjusted net income per share (diluted) <sup>2</sup>	Year-to-year change
2001	\$ 0.57	\$ 0.03	\$ (0.03)	\$ —	\$ 0.05	\$ 0.62	
2002	\$ 0.69	\$ 0.06	\$ (0.05)	\$ —	\$ 0.07	\$ 0.77	24.2%
2003	\$ 0.57	\$ 0.03	\$ (0.05)	\$ —	\$ 0.13	\$ 0.68	–11.7%
2004	\$ 1.40	\$ —	\$ (0.03)	\$ —	\$ (0.04)	\$ 1.33	95.6%
2005	\$ 1.85	\$ (0.06)	\$ (0.05)	\$ —	\$ —	\$ 1.74	30.8%
2006	\$ 1.66	\$ 0.01	\$ (0.08)	\$ —	\$ (0.05)	\$ 1.54	–11.5%
2007	\$ 1.76	\$ 0.11	\$ 0.16	\$ —	\$ (0.04)	\$ 1.99	29.2%
2008	\$ 2.16	\$ 0.42	\$ 0.07	\$ —	\$ 0.01	\$ 2.66	33.7%
2009	\$ 4.62	\$ (0.62)	\$ 0.03	\$ —	\$ (0.06)	\$ 3.97	49.2%
2010	\$ 5.67	\$ 0.02	\$ 0.01	\$ —	\$ (0.35)	\$ 5.35	34.8%
2011	\$ 7.07	\$ 0.26	\$ 0.01	\$ —	\$ (0.04)	\$ 7.30	36.4%
2012	\$ 8.58	\$ —	\$ —	\$ —	\$ (0.13)	\$ 8.45	15.8%
2013	\$ 10.54	\$ (0.11)	\$ —	\$ —	\$ (0.09)	\$ 10.34	22.4%
2014	\$ 11.92	\$ (0.27)	\$ —	\$ 0.56	\$ (0.04)	\$ 12.17	17.7%
2015	\$ 14.28	\$ 0.62	\$ —	\$ (0.10)	\$ (0.03)	\$ 14.77	21.4%
2016	\$ 16.31	\$ 1.37	\$ —	\$ (0.10)	\$ 0.09	\$ 17.67	19.6%
2017	\$ 24.04	\$ 1.74	\$ —	\$ (0.11)	\$ (5.23)	\$ 20.44	15.7%
Compound annual growth rate 2001–2017							24.4%

<sup>1</sup> The program fee adjustment was concluded in 2011.

<sup>2</sup> The adjusted net income and adjusted net income per share (diluted) results and year-to-year changes shown in the tables differ slightly from those published in the Company's year-end earnings releases. That is because the earnings release figures include additional adjustments related to non-recurring expenses and discontinued operations. Those additional adjustments have been excluded from the tables for simplicity.

As the second table shows, adjusted net income per share (diluted) increased 15.7% in 2017. Since 2001, adjusted net income per share (diluted) has increased at a compounded annual rate of 24.4%. While this compounded annual rate is very similar to the one for GAAP net income per share (diluted) of 26.3%, in certain years the adjustments led to significant differences between GAAP and adjusted results.

The program fee adjustment had a significant impact in 2007, while the floating yield adjustment had a significant impact in 2008 and 2009. During 2008, we reduced our expectations for loan performance, causing GAAP net income to be less than adjusted net income (since GAAP requires decreases in expected cash flows to be recorded as an expense in the current period). Then, as 2009 progressed, it became clear that we had reduced our expectations by too much in 2008, so in 2009 we reversed a portion of the expense. In addition, the new loans we wrote in 2009 performed better than we expected.

The effect of better-than-expected results was to make GAAP net income in 2009 considerably higher than adjusted net income—the opposite of the relationship seen in 2008. When the two years are combined, the GAAP result is very similar to the adjusted result; however, when 2008 and 2009 are viewed separately, we believe that the adjusted results more accurately reflect our performance in each year.

In 2017, GAAP net income per share exceeded adjusted net income per share by \$3.60, or 17.6%. The income tax adjustment (\$5.23) and the senior notes adjustment (\$0.11) reduced adjusted net income per share, while the floating yield adjustment (\$1.74) had the opposite impact. A comparison of our GAAP and adjusted results in 2017 illustrates why we think adjusted results are a more accurate representation of our business performance. First, the income tax adjustment eliminated the gain related to the revaluation of our deferred tax liability described above. While the gain was real, since it reflects the lower taxes we will now pay in the future, it is non-recurring and unrelated to our business performance. The senior notes adjustment was modest but reflects a consistent treatment for the adjustment recorded in 2014 to treat the loss on extinguishment of debt as a financing cost.

The floating yield adjustment increased 2017 adjusted net income per share (diluted) by \$1.74. In my explanation above of the floating yield adjustment, I used an example where the estimated cash flows from one dealer pool increase by \$1,000 and those from another pool decrease by the same amount. If this occurs, GAAP requires a provision expense to be recorded in the current period even though our economic position is unchanged.

This example is very similar to what occurred in 2017. Approximately 42.0% of our dealer pools experienced an unfavorable change in cash flow estimates during 2017, totaling \$67.3 million, while the remaining 58.0% experienced a favorable change, totaling \$61.7 million. The net impact of these changes was a decrease in our expected cash flows of \$5.6 million. This unfavorable change represents a reduction in revenue that we expect to realize over time through cash collections on our loan portfolio. Our adjusted results record this reduction in revenue in a logical and straightforward manner—over the life of the expected cash flows at a constant yield. In contrast, our GAAP results, through the asymmetrical treatment of individual loan pools, reflect this overall unfavorable change by recording a current-period provision expense of \$103.4 million<sup>1</sup>.

Over time, our cumulative earnings will be the same, regardless of which accounting method is used. The floating yield adjustment that caused adjusted results to exceed GAAP results in 2015 and 2016—and would have done so in 2017 in the absence of the income tax adjustment—will have the opposite impact at some point in the future. This pattern can be seen most recently for the 2011–2014 period. In 2011, the floating yield adjustment caused adjusted results to exceed GAAP results. As our loan growth slowed, the floating yield adjustment caused GAAP results to exceed adjusted results in 2013, and would have done the same in 2014 if the senior notes adjustment had not been applied.

<sup>1</sup> The amount of current-period provision expense recorded under GAAP is based on the present value of the decrease in expected cash flows, where the present value reflects both the amount and the timing of the forecasted change. The provision expense for 2017 exceeded the amount of the unfavorable change in cash flow estimates primarily because of a deceleration in cash flow timing for these dealer pools in addition to the decrease in the amount of expected cash flows.

## ECONOMIC PROFIT

We use a financial metric called Economic Profit to evaluate our financial results and determine incentive compensation. Besides including the adjustments discussed above, Economic Profit differs from GAAP net income in one other important respect: Economic Profit includes a cost for equity capital.

The following table summarizes Economic Profit for 2001–2017<sup>1</sup>:

(\$ in millions)						
	Adjusted net income	Imputed cost of equity <sup>2</sup>	Economic Profit	Year-to-year change		
2001	\$ 26.8	\$ (29.7)	\$ (2.9)			
2002	\$ 33.3	\$ (35.5)	\$ (2.2)	—		
2003	\$ 29.7	\$ (34.7)	\$ (5.0)	—		
2004	\$ 54.4	\$ (34.5)	\$ 19.9	—		
2005	\$ 68.4	\$ (34.5)	\$ 33.9	70.4 %		
2006	\$ 54.5	\$ (29.6)	\$ 24.9	–26.5 %		
2007	\$ 62.3	\$ (27.3)	\$ 35.0	40.6 %		
2008	\$ 82.7	\$ (35.8)	\$ 46.9	34.0 %		
2009	\$ 125.7	\$ (45.9)	\$ 79.8	70.1 %		
2010	\$ 160.5	\$ (47.8)	\$ 112.7	41.2 %		
2011	\$ 194.1	\$ (51.0)	\$ 143.1	27.0 %		
2012	\$ 216.2	\$ (56.6)	\$ 159.6	11.5 %		
2013	\$ 248.3	\$ (75.1)	\$ 173.2	8.5 %		
2014	\$ 271.7	\$ (87.5)	\$ 184.2	6.4 %		
2015	\$ 309.8	\$ (93.2)	\$ 216.6	17.6 %		
2016	\$ 360.6	\$ (113.8)	\$ 246.8	13.9 %		
2017	\$ 399.8	\$ (142.8)	\$ 257.0	4.1 %		
Compound annual growth rate 2004 —2017				21.7%		

Economic Profit improved 4.1% in 2017, to \$257.0 million from \$246.8 million in 2016. In 2001, Economic Profit had been a negative \$2.9 million.

<sup>1</sup> See Exhibit A for a reconciliation of the above adjusted financial measures to the most directly comparable GAAP financial measures.

<sup>2</sup> We determine the imputed cost of equity by using a formula that considers the risk of the business and the risk associated with our use of debt. The formula is as follows: average equity x {(the average 30-year Treasury rate + 5%) + [(1 – tax rate) x (the average 30-year Treasury rate + 5% – pre-tax average cost-of-debt rate) x average debt / (average equity + average debt x tax rate)]}.



Economic Profit is a function of three variables: the adjusted average amount of capital invested, the adjusted return on capital, and the adjusted weighted average cost of capital. The following table summarizes our financial performance in these areas since 2001<sup>1</sup>:

(\$ in millions)	Adjusted average capital invested	Adjusted return on capital	Adjusted weighted average cost of capital	Spread
2001	\$ 469.9	7.8%	8.4%	-0.6%
2002	\$ 462.0	8.4%	8.9%	-0.5%
2003	\$ 437.5	7.9%	9.0%	-1.1%
2004	\$ 483.7	12.8%	8.6%	4.2%
2005	\$ 523.4	14.7%	8.3%	6.4%
2006	\$ 548.5	12.6%	8.1%	4.5%
2007	\$ 710.1	12.0%	7.0%	5.0%
2008	\$ 975.0	11.2%	6.4%	4.8%
2009	\$ 998.7	14.7%	6.7%	8.0%
2010	\$ 1,074.2	17.7%	7.2%	10.5%
2011	\$ 1,371.1	16.8%	6.4%	10.4%
2012	\$ 1,742.8	14.7%	5.5%	9.2%
2013	\$ 2,049.2	14.1%	5.7%	8.4%
2014	\$ 2,338.1	13.2%	5.3%	7.9%
2015	\$ 2,831.9	12.7%	5.0%	7.7%
2016	\$ 3,572.0	11.9%	5.0%	6.9%
2017	\$ 4,276.4	11.2%	5.2%	6.0%
Compound annual growth rate 2001—2017		14.8%		

<sup>1</sup> See Exhibit A for a reconciliation of the above adjusted financial measures to the most directly comparable GAAP financial measures.

As the table shows, we earned less than our cost of capital in 2001, 2002 and 2003. Although we were making steady progress in improving per loan profitability during this period, we were forced to reduce originations in 2002 due to capital constraints, and we recorded a \$7.2 million (after-tax) impairment expense in 2003 related to the liquidation of our United Kingdom operation. Both of these actions negatively impacted the reported results.

In each year from 2004 through 2017, Economic Profit was positive, and in each of those years except 2006, Economic Profit improved. The 2006 decline in Economic Profit was due to two factors: a \$7.0 million after-tax charge related to the settlement of litigation that had arisen from an activity occurring more than 10 years prior; and a \$4.4 million after-tax gain from discontinued operations recorded in 2005. Were it not for these two unusual items, Economic Profit would have grown in 2006 as well.

Since 2004, the first year Economic Profit was a positive number, we have grown Economic Profit at a compounded annual rate of 21.7%. However, the rate of growth has slowed. From 2004 to 2011, Economic Profit grew at a compounded annual rate of 32.6%. From 2011 to 2017, it grew at only 10.3%. We have continued to grow adjusted average capital rapidly, with compounded annual

growth from 2011 to 2017 of 20.9% compared to 16.0% from 2004 to 2011. In addition, our results have been helped by a lower weighted average cost of capital, which declined 120 basis points from 2011 to 2017. However, our return on capital has steadily declined, from 16.8% in 2011 to 11.2% last year. In the fourth quarter of 2017, our return on capital was even lower, 10.6%, the lowest quarterly return on capital since 2003.

Our challenge continues to be growing a larger capital base at a rapid rate while contending with a difficult competitive environment. While we have succeeded in growing adjusted average capital, we have been required to accept a lower return on capital in order to do so. To be fair, my starting point for the above comparison is 2011, when our return on capital was unsustainably high as a result of an unusually favorable competitive environment. And it is worth noting that our current after-tax return on capital is still a very attractive return for a consumer finance company. But it is also clear that we will need to find other ways to grow adjusted average capital if we are to achieve higher levels of Economic Profit in the future.

Using Economic Profit as our primary financial performance measure makes it unlikely we will allow the return on capital to drop much further. As the spread between the return on capital and the weighted average cost of capital narrows, the break-even level of growth required to offset a further narrowing increases. For example, in 2011, when the spread between the return on capital and weighted average cost of capital was 10.4%, a 100-basis-point reduction in this spread would have required growth in average capital of 10.6% in order to achieve an equivalent amount of Economic Profit  $(10.4\% / (10.4\% - 1.0\%) - 1)$ . Today, that same 100-basis-point reduction in the spread would require growth of 20.0%  $(6.0\% / (6.0\% - 1.0\%) - 1)$ .

While the combination of a difficult competitive environment, the challenge of growing a larger capital base at a rapid rate, and the steady decline in our return on capital may paint a bleak picture, there is room for optimism. First, as mentioned earlier, we finished 2017 on a high note with unit volume growth of 10.8%, as the investments we made in a larger field sales force began to show a positive result. Second, we made changes to our pricing in 2016 and 2017 that are intended to increase the per unit profitability of new loans. Third, as adjusted average capital has increased, expenses as a percentage of adjusted average capital have declined, from 14.2% in 2004 to 5.9% in 2017. Because of the fixed nature of a portion of our expenses, we expect this trend will continue as long as we grow. Finally, and perhaps most importantly, the reduction in our federal tax rate (from 35% to 21%), which takes effect in 2018, will provide a one-time increase to our return on capital. Long term, the impact of the tax cut on our profitability will depend on the extent to which the competitive market responds to lower tax rates by passing along the benefit to auto dealers and consumers. Our competitors could do this by increasing the amount they pay dealers for the loans, reducing the interest rates they charge consumers, accepting higher-risk loans, or in a number of other ways. The effect of any of these changes could very well eliminate the benefit the tax cut has in future originations. At the very least, the lower tax rate will enhance the profitability of our existing loan portfolio. The profitability of loans we originate in the future may be enhanced as well if the market doesn't require us to reduce our return on capital in order to remain competitive.

Given the current competitive environment and challenge of growing a larger capital base, it is unrealistic to expect us to achieve the same rate of growth in Economic Profit that we have achieved since 2004. However, we do think additional gains are possible. To the extent such gains occur, we expect they will be a direct result of our daily efforts to improve our product and our culture. What we won't do is take risks that we think are unwise in an effort to grow beyond the natural constraints that are part of any business. We will continue to focus on what we know best and we will continue to invest your capital in ways we believe make sense. What we can't invest with a margin of safety we will return to you.

## LOAN PERFORMANCE

One of the most important variables determining our financial success is loan performance. The most critical time to correctly assess future loan performance is at loan inception, since that is when we determine the advance we pay to the dealer.

At loan inception, we use a statistical model to estimate the expected collection rate for each loan. The statistical model is called a credit scorecard. Most consumer finance companies use such a tool to forecast the performance of the loans they originate. Our credit scorecard combines credit bureau data, customer data supplied in the credit application, vehicle data, dealer data, and data captured from the loan transaction such as the amount of the down payment received from the customer or the initial loan term. We developed our first credit scorecard in 1998 and have revised it several times since then. An accurate credit scorecard allows us to properly price new loan originations, which improves the probability that we will actually realize our expected returns on capital.

Subsequent to loan inception, we continue to evaluate the expected collection rate for each loan. Our evaluation becomes more accurate as the loans age, since we use actual loan performance data in our forecast. By comparing our current expected collection rate for each loan with the rate we projected at the time of origination, we are able to assess the accuracy of that initial forecast.

The following table compares, for each of the last 17 years, our most current forecast of loan performance with our initial forecast:

	December 31, 2017, forecast	Initial forecast	Variance
2001	67.3%	70.4%	-3.1%
2002	70.4%	67.9%	2.5%
2003	73.7%	72.0%	1.7%
2004	73.0%	73.0%	0.0%
2005	73.6%	74.0%	-0.4%
2006	70.0%	71.4%	-1.4%
2007	68.1%	70.7%	-2.6%
2008	70.5%	69.7%	0.8%
2009	79.5%	71.9%	7.6%
2010	77.6%	73.6%	4.0%
2011	74.7%	72.5%	2.2%
2012	73.8%	71.4%	2.4%
2013	73.5%	72.0%	1.5%
2014	71.7%	71.8%	-0.1%
2015	65.5%	67.7%	-2.2%
2016	64.8%	65.4%	-0.6%
2017	65.6%	64.0%	1.6%
Average <sup>1</sup>	69.8%	69.1%	0.7%

<sup>1</sup> Calculated using a weighted average based on loan origination dollars.

Loan performance can be explained by a combination of internal and external factors. Internal factors include the quality of our origination and collection processes, the quality of our credit scorecard, and changes in our policies governing new loan originations. External factors include the unemployment rate, the retail price of gasoline, vehicle wholesale values, and the cost of other required expenditures (such as for food and energy) that impact our customers. In addition, the level of competition is thought to impact loan performance through something called adverse selection.

Adverse selection as it relates to our market refers to an inverse correlation between the accuracy of an empirical scorecard and the number of lenders that are competing for the loan. Said another way, without any competition it is relatively easy to build a scorecard which accurately assesses the probability of payment based on attributes collected at the time of loan origination. As competition increases, creating an accurate scorecard becomes more challenging.

To illustrate adverse selection, we will give a simple example. Assume that the scorecard we use to originate loans is based on a single variable, the amount of the customer's down payment, and that the higher the down payment, the higher the expected collection rate. Assume that for many years, we have no competitors and we accumulate performance data indicating that loans with down payments above \$1,000 consistently produce the same average collection rate. Then assume that we begin to compete with another lender whose scorecard ignores down payment and instead emphasizes the amount of the customer's weekly income.

As the new lender begins to originate loans, our mix of loans will be impacted as follows: We will start to receive loans for borrowers with lower average weekly incomes as the new lender originates loans for borrowers with higher weekly incomes—i.e., borrowers whose loans we would have previously originated. Furthermore, since our scorecard only focuses on down payment, the shift in our borrower mix will not be detected by our scorecard, and our collection rate expectation will remain unchanged. It is easy to see that this shift in borrower characteristics will have a negative impact on loan performance, and that this impact will be missed by our scorecard.

Although the real world is more complex than this simple example—with hundreds of lenders competing for loans and with each lender using many variables in its scorecard—adverse selection is something that probably does impact loan performance.

Over the 17-year period shown in the table above, our loans have performed on average 70 basis points better than our initial forecasts. Loans originated in seven of the 17 years have yielded actual collection results worse than our initial estimates.

Loans originated in 2001 had an unfavorable variance of 310 basis points. We attribute this result to major changes we made that year in our origination systems and loan programs, as well as a new collection system we implemented the following year.

Loans originated in 2005, 2006 and 2007 performed worse than our initial forecasts by 40, 140 and 260 basis points, respectively. Since these loans were made in a highly competitive period and serviced during a severe economic downturn, this result is not surprising. What is noteworthy, however, is that the underperformance was modest. To put the underperformance in perspective, we estimate that a 100-basis-point change in our collection forecast impacts the return on capital by 30–50 basis points. As a result, loans originated during this period were still very profitable, even though they performed worse than we had forecast.

Loans originated in 10 of the 17 years performed better than or as well as our initial forecasts. The performance of loans originated in 2009 and 2010 exceeded our initial forecasts by 760 and 400 basis points, respectively. These large positive variances were due to reductions we made in our initial forecasts during this period based on our concerns about how the economic environment might impact loan performance. In retrospect, our adjustments were too large, and the loans originated during those two years performed better than we had forecast. It is instructive that our largest forecasting errors over the past 17 years have occurred because we were too pessimistic about loan performance, not because we were too optimistic—a result which we do not believe is typical in our industry.

The most recent forecast for 2012 loans exceeded our initial estimate by 240 basis points. As competition intensified, the variance declined and then turned negative from 2013 to 2015, with 2015 loans performing worse than our initial forecast by 220 basis points. As we observed this trend

playing out in 2016, we made several adjustments to our initial forecast intended to eliminate the unfavorable variance. While it is still too early to draw a definitive conclusion, so far the adjustments appear to have had the intended impact, with a positive 160-basis-point variance on 2017 originations. Because of the lag between the time the loan is originated and the time when the true performance of the loan becomes clear, we are continually monitoring loan performance and reacting to what we observe. During periods of intense competition, when adverse selection is most severe, it is critical to evaluate the performance of our loan portfolio as objectively as possible. Downward adjustments to our initial forecast have an adverse impact on origination volumes, since the amount we advance to the dealer for each loan is based on the amount of cash flows we expect. The slower rate of originations growth we experienced in 2016 and 2017 was, in part, due to the changes we made to our initial forecasts.

Although evaluating the performance of our loans is important, we realize that expecting to predict the future with exacting precision is unrealistic. For that reason, we maintain a significant margin of safety. The return on capital we expect to earn on new originations is well above our cost of capital. Although 2015 and 2016 loans have performed worse than we forecasted at origination, they will still be very profitable. An unfavorable variance simply means that our pricing was somewhat less than perfect—we wrote a greater number of loans in 2015 and 2016 at lower per unit profitability than we would have with perfect foresight. The amount of Economic Profit generated (which is unit volume multiplied by Economic Profit per loan) was less than it would have been with a perfectly accurate forecast.

## UNIT VOLUME

The following table summarizes unit volume growth for 2001–2017:

	Unit volume	Year-to-year change
2001	61,928	
2002	49,801	–19.6%
2003	61,445	23.4%
2004	74,154	20.7%
2005	81,184	9.5%
2006	91,344	12.5%
2007	106,693	16.8%
2008	121,282	13.7%
2009	111,029	–8.5%
2010	136,813	23.2%
2011	178,074	30.2%
2012	190,023	6.7%
2013	202,250	6.4%
2014	223,998	10.8%
2015	298,288	33.2%
2016	330,710	10.9%
2017	328,507	–0.7%
<i>Compound annual growth rate 2001–2017</i>		11.0%

In 2017, unit volumes declined 0.7%. Since 2001, unit volumes have grown at a compounded annual rate of 11.0%.

Unit volume is a function of the number of active dealers and the average volume per dealer. The following table summarizes the trend in each of these variables from 2001 to 2017:

	Active dealers	Year-to-year change	Unit volume per dealer	Year-to-year change
2001	1,180		52.5	
2002	843	-28.6%	59.1	12.6%
2003	950	12.7%	64.7	9.5%
2004	1,212	27.6%	61.2	-5.4%
2005	1,759	45.1%	46.2	-24.5%
2006	2,214	25.9%	41.3	-10.6%
2007	2,827	27.7%	37.7	-8.7%
2008	3,264	15.5%	37.2	-1.3%
2009	3,168	-2.9%	35.0	-5.9%
2010	3,206	1.2%	42.7	22.0%
2011	3,998	24.7%	44.5	4.2%
2012	5,319	33.0%	35.7	-19.8%
2013	6,394	20.2%	31.6	-11.5%
2014	7,247	13.3%	30.9	-2.2%
2015	9,064	25.1%	32.9	6.5%
2016	10,536	16.2%	31.4	-4.6%
2017	11,551	9.6%	28.4	-9.6%

As the table shows, the gain in unit volumes since 2001 has resulted, in most years, from an increase in the number of active dealers partially offset by a reduction in volume per dealer.

We have grown the number of active dealers in 14 of the last 16 years. In 2002 and 2009, the number of active dealers decreased as capital constraints required us to restrict the number of new dealer enrollments. As mentioned previously, we face two challenges in growing our active dealer base. First, increased competition makes it more difficult to enroll new dealers and more difficult to retain those who have already enrolled, since they have more alternatives to choose from. Second, as the number of active dealers increases, it becomes harder to grow at the same rate. In spite of these two challenges, we grew active dealers by 9.6% in 2017, a result we attribute to the expansion of our field sales force and success with our Purchase program, which I will discuss in the next section. While we believe there is additional opportunity to grow active dealers, doing so will be difficult until the competitive environment improves.

After peaking in 2003 at 64.7 loans, volume per dealer declined in 11 of the next 14 years, a result we attribute to the challenge of achieving the same productivity per dealer as the number of dealers increases. In 2010 and 2011, volume per dealer increased due to a favorable competitive environment. (While the environment was favorable in 2008 and 2009 as well, we were capital-constrained, which caused us to reduce volume per dealer through pricing.) In 2015, volume per dealer also increased, a result we attribute to several changes we made to our program in that year, including offering longer loan terms and implementing an electronic contracting solution. The electronic contracting solution simplifies our origination process for the dealer and enables us to fund our dealers more rapidly, without the need to send us a hard copy of the loan documents. Volume per dealer decreased in 2016 by 4.6% and in 2017 by 9.6%. Last year, volume per dealer was negatively impacted by the reduction in our initial collection forecast I mentioned earlier. This reduction occurred in September of 2016 and impacted year-over-year comparisons for the first three quarters of 2017. In the fourth quarter of 2017, volume per dealer grew 2.1%. While this was a positive result, it is obviously premature to draw any conclusions about what it might mean for future periods.

## PURCHASE PROGRAM

We have two programs: the Portfolio program and the Purchase program. The Portfolio program, which we have offered since the late 1980s, has produced over 85% of our unit volume since 2005. This program provides dealers with a cash payment at the time the loan is originated (the "advance") and additional payments over time based on the performance of the loan (the "dealer holdback"). There are several aspects of the Portfolio program that we believe are advantageous. First, as described earlier, paying the dealer based on the performance of the loan creates an alignment of interests. Second, the dealer holdback provides a layer of protection in case our actual collection results are less than we forecasted. If that occurs, we offset a significant portion of the shortfall by reducing our dealer holdback liability. Finally, if loan performance is equal to or better than our expectations, the dealer ultimately makes more money using the Portfolio program than he does using the Purchase program. We love it when our dealers experience a financial reward for helping the customer succeed.

The Purchase program is a more traditional indirect auto finance product in that the dealer receives only a single payment at loan origination in exchange for assigning the loan to us. There is no financial incentive for the dealer tied to the performance of the loan, and we are not insulated from credit risk. With Purchase loans, if actual collections are less than we forecasted, our revenue is impacted by the full amount of any shortfall.

Given the advantages of the Portfolio program, we strongly prefer to invest in it as much of our capital as possible. However, because it generates high returns on capital, in most periods we have been unable to grow the program rapidly enough for it to absorb all of the capital generated. We developed the Purchase program both to attract dealers who have historically not been interested in our Portfolio program, and to gain an additional way to invest capital at attractive returns.

The Purchase program has been offered since 2005. The following table summarizes volume from each program since that time:

Consumer loan assignment year	Total		Portfolio program		Purchase program	
	Unit volume	Year-to-year change	Unit volume	Year-to-year change	Unit volume	Year-to-year change
2005	81,184		73,708		7,476	
2006	91,344	12.5%	87,519	18.7%	3,825	-48.8%
2007	106,693	16.8%	87,872	0.4%	18,821	392.1%
2008	121,282	13.7%	85,092	-3.2%	36,190	92.3%
2009	111,029	-8.5%	96,076	12.9%	14,953	-58.7%
2010	136,813	23.2%	124,388	29.5%	12,425	-16.9%
2011	178,074	30.2%	164,653	32.4%	13,421	8.0%
2012	190,023	6.7%	177,985	8.1%	12,038	-10.3%
2013	202,250	6.4%	189,101	6.2%	13,149	9.2%
2014	223,998	10.8%	203,155	7.4%	20,843	58.5%
2015	298,288	33.2%	260,604	28.3%	37,684	80.8%
2016	330,710	10.9%	260,026	-0.2%	70,684	87.6%
2017	328,507	-0.7%	238,313	-8.4%	90,194	27.6%
<i>Compound annual growth rate 2005-2017</i>		12.4%		10.3%		23.1%



Purchase loans have been profitable each year, including those years impacted by the financial crisis. However, we recognize that if collections fall short of our forecast, the impact on profitability will be much greater with Purchase loans than with Portfolio loans. In other words, while Purchase loans have been very profitable historically, they are more risky.

The following table compares, for Portfolio loans and Purchase loans, our latest collection forecast with our initial forecast:

Consumer loan assignment year	Portfolio program			Purchase program		
	Forecasted collection percentage as of <sup>1</sup>		Variance	Forecasted collection percentage as of <sup>1</sup>		Variance
	December 31, 2017	Initial forecast		December 31, 2017	Initial forecast	
2005	73.6%	74.0%	-0.4%	75.7%	74.7%	1.0%
2006	69.9%	71.3%	-1.4%	75.6%	74.0%	1.6%
2007	68.0%	70.2%	-2.2%	68.6%	72.7%	-4.1%
2008	70.8%	70.2%	0.6%	69.8%	68.8%	1.0%
2009	79.2%	72.1%	7.1%	80.8%	70.5%	10.3%
2010	77.5%	73.6%	3.9%	78.7%	73.1%	5.6%
2011	74.6%	72.4%	2.2%	76.3%	72.7%	3.6%
2012	73.6%	71.3%	2.3%	75.9%	71.4%	4.5%
2013	73.4%	72.1%	1.3%	74.3%	71.6%	2.7%
2014	71.6%	71.9%	-0.3%	72.7%	70.9%	1.8%
2015	64.8%	67.5%	-2.7%	69.8%	68.5%	1.3%
2016	63.9%	65.1%	-1.2%	67.5%	66.5%	1.0%
2017	65.0%	63.8%	1.2%	67.1%	64.6%	2.5%
Average <sup>2</sup>	69.6%	69.1%	0.5%	70.6%	68.4%	2.2%

<sup>1</sup> The forecasted collection rates presented for Portfolio loans and Purchase loans reflect the loan classification at the time of assignment. Under our Portfolio program, certain events may result in dealers' forfeiting their rights to dealer holdback. We transfer the dealer's loans from the Portfolio loan portfolio to the Purchase loan portfolio in the period this forfeiture occurs. For the current year's letter, we have changed the presentation of current forecasted collection rates for each consumer loan assignment year to exclude the impact of transfers. For the prior-year letter, the presentation of current forecasted collection rates for each consumer loan assignment year reflected the loan classification that resulted from the transfers.

<sup>2</sup> Calculated using a weighted average based on loan origination dollars.

The table shows that over the last 13 years, Purchase loans have performed modestly better than Portfolio loans, as indicated by their weighted average variances (of 220 basis points and 50 basis points, respectively). Purchase loans did perform worse than Portfolio loans in 2007, but we have made changes to our Purchase program since that time based on what we have learned.

Not all dealers are eligible for the Purchase program. We use data we have accumulated over time to decide which dealers are eligible. Most Purchase loans are generated from larger, franchised dealerships, a segment that has historically been difficult to penetrate with our Portfolio program.

In recent years, we have experienced rapid growth in Purchase loans as we have expanded our eligibility criteria and increased the amount we pay the dealer for the loans. We believe our current pricing still leaves us with a significant margin of safety and allows us to invest additional capital at attractive returns. If the competitive environment improves, we expect we will have more opportunity to invest our capital in Portfolio loans. If we do, we will likely reduce the portion of our capital invested in Purchase loans.

## SHAREHOLDER DISTRIBUTIONS

Like any profitable business, we generate cash. Historically, we have used this cash to fund originations growth, repay debt or fund share repurchases.

We have used excess capital to repurchase shares when prices are at or below our estimate of intrinsic value (which is the discounted value of future cash flows). As long as the share price is at or below intrinsic value, we prefer share repurchases to dividends for several reasons. First, repurchasing shares below intrinsic value increases the value of the remaining shares. Second, distributing capital to shareholders through a share repurchase gives shareholders the option to defer taxes by electing not to sell any of their holdings. A dividend does not allow shareholders to defer taxes in this manner. Finally, repurchasing shares enables shareholders to increase their ownership, receive cash or do both based on their individual circumstances and view of the value of a Credit Acceptance share. (They do both if the proportion of shares they sell is smaller than the ownership stake they gain through the repurchase.) A dividend does not provide similar flexibility.

Since beginning our share repurchase program in mid-1999, we have repurchased approximately 33.4 million shares at a total cost of \$1.6 billion. In 2017, we repurchased approximately 610,000 shares at a total cost of \$123.5 million.

At times, it will appear we have excess capital but we won't be active in repurchasing our shares. This can occur for several reasons. First, the assessment of our capital position involves a high degree of judgment. We need to consider future expected capital needs and the likelihood that this capital will be available. Simply put, when our debt-to-equity ratio falls below the normal trend line, it doesn't necessarily mean we have concluded that we have excess capital. Our first priority is always to make sure we have enough capital to fund our business, and such assessments are always made using conservative assumptions. Second, we may have excess capital but conclude our shares are overvalued relative to intrinsic value or are trading at a level where we believe it's likely they could be purchased at a lower price at some point in the future. The assessment of intrinsic value is also highly judgmental. Fortunately for shareholders, we have two members of our Board, Tom Tryforos and Scott Vassalluzzo, who have had long and remarkable careers in investing in equities and are perfectly suited for the task of assessing the value of our business. My track record is less impressive. For reasons I can't defend, I have often argued on the side of waiting for a lower price. After many years of being wrong, I have learned to defer to Tom and Scott on this topic. The final reason we may be inactive in repurchasing shares has been the most common one over the years. We have often found ourselves with excess capital at a time when the share price was attractive, but we were in possession of material information that had not yet been made public. During such periods, we suspend our share repurchases until the information has been disclosed.

Unless we disclose a different intention, shareholders should assume we are following the approach outlined in this section. Our first priority will be to fund the business. If we conclude we have excess capital, we will return that capital to shareholders through share repurchases. If we are inactive for a period, shareholders should not assume that we believe our shares are overvalued.

## KEY SUCCESS FACTORS

Our 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 45 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 a significant number of 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 millions 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 financing for consumers, regardless of their credit history, while maintaining 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 produced poor financial results. Approximately 45% 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 has significant influence over loan performance. Learning how to create relationships with dealers who share our passion for changing lives has been one of our most important accomplishments.
- We have developed a strong management team. Because we are successful at retaining our managers, they become stronger each year as they gain experience with our business. Our senior management team, consisting of 28 individuals, averages 15 years of experience with our company. While we have added talent selectively over the past few years, the experience of our team is a key advantage. 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. At times in our history, 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 perfecting this product and providing it profitably.
- We have developed a unique software application, CAPS, for originating auto loans. Traditional indirect lending is inefficient. Many traditional lenders take one to four hours to process a loan application, and they decline most of the applications they process. We take 60 seconds, and we approve 100% of the applications submitted, 24 hours a day, seven days a week. In addition, our CAPS system makes our program easier for dealers to use, and allows us to deploy much more precise risk-adjusted pricing.

- We have developed a high-quality field sales force. Our sales team provides real value to our dealers. Team members act as consultants as we teach dealers how to successfully serve our market segment.
- We have developed the ability to execute our loan origination process consistently over time. Consistent execution is difficult, as it requires us to maintain an appropriate balance between providing excellent service to our dealers and ensuring the loans we originate meet our standards. We measure both loan compliance and dealer satisfaction to assess our performance, and use these measures to make adjustments when necessary.
- We are well positioned from a capital perspective. As mentioned above, we maintain diverse funding sources, have lengthened the term of our debt facilities and maintain substantial unused and available credit lines. Our capital structure remains conservative and our lending relationships, which we have developed over a long period of time, remain strong. We believe our lenders were impressed with our performance during the financial crisis, and their confidence in our company was enhanced as a result.
- We devote a large portion of our time to something we call organizational health. Organizational health is about putting our team members in position to do their best work. For that, we focus consistently on 10 elements of operational effectiveness, including setting clear expectations, managing performance, providing training, maintaining effective incentive compensation plans, establishing the right environment and providing the technology and processes required for operational excellence. These efforts make a difference. Recently, we were named to *Fortune* magazine's 2018 list of 100 Best Companies to Work For. This is the fifth consecutive year we have achieved this honor.

## A FINAL NOTE

Our President, Steve Jones, has decided to retire effective June 30 of this year. Steve and I have worked together for over 20 years and he has served as our President since April of 2007. Steve started his career in our U.K. operation. Although I was not our CEO at the time, I was given responsibility for the U.K. operation. While I believed our U.K. business had potential, it presented many challenges at the time, including significant turnover in leadership, which left us in a fragile and risky position. When I met Steve, he was leading our U.K. loan servicing function. I got to know Steve during this period and realized he was the answer to my problems. This was a pattern that repeated itself for the next 20 years. We have faced many challenges, but Steve proved himself to be a world-class problem solver, a clear thinker and a great leader. His contribution to our success has been vital, and he has made my life much easier in the process. At the time Steve took over as Managing Director of our U.K. operation in late 1999, neither Steve nor I had experience running a business. We learned together, and I have benefited greatly from his influence over many years.

Steve's retirement is a significant event for our company. While our success does not depend on any one individual, I expect the transition will include some challenges. At the same time, I have confidence in our team. It is deeper and more talented than it has ever been, and this period of transition will present an opportunity for others to contribute in different ways.

One member of Steve's team received notable recognition this past year. Kathy Kantzer, Senior Vice President, received a leadership award from Great Place to Work®, the organization that selects the companies that are recognized each year in *Fortune* magazine's list of 100 Best Companies to Work For. The award recognized the achievements of top women leaders from companies that made the 2018 list, of which we were one. Kathy certainly deserved the award and is another great example of how our people have contributed to our success. Kathy's responsibilities include managing a team of approximately 500 people responsible for customer service and loan servicing. The work her team does is both important and challenging, and her people are highly engaged. As part of our application for the *Fortune* Top 100 list, our people participate in an annual survey administered by Great Place to Work. Last year, 96% of those responding to the survey on Kathy's team viewed our company as a great place to work, a result we would love to have achieved for the entire company. We ranked #61 on the 2018 Top 100 list. A higher ranking is certainly achievable if we can figure out how to emulate her success.

In last year's letter, I talked about the seven individuals who comprise our senior leadership team. Although some aspects of our performance in 2017 fell short of our collective expectations, these team members responded to the challenges by displaying the same admirable qualities I described last year. Perhaps their most important accomplishment has been the creation of a culture that attracts great people and provides them with an environment where they can do their best work.

Our business is difficult. We compete with banks that have a significant cost-of-funds advantage through their low-cost deposits. We compete with much larger companies that have an advantage due to economies of scale. And we compete with credit unions that aren't required to earn a profit. Our only advantage is our people. We start with customers that other companies avoid, and we provide these individuals with an opportunity to improve their lives using our product. I am proud of what our people have accomplished, and I am grateful for their efforts.



Brett A. Roberts  
Chief Executive Officer  
April 11, 2018

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Certain statements herein are forward-looking statements that are subject to certain risks. Please see "Forward-Looking Statements" on page 41 of our Annual Report on Form 10-K for the year ended December 31, 2017.

## EXHIBIT A

### RECONCILIATION OF GAAP FINANCIAL RESULTS TO NON-GAAP MEASURES

(\$ in millions)

	GAAP net income	Floating yield adjustment	Program fee adjustment	Senior notes adjustment	Income tax adjustment	Adjusted net income <sup>1</sup>	Imputed cost of equity	Economic Profit
2001	\$ 24.7	\$ 1.2	\$ (1.1)	\$ —	\$ 2.0	\$ 26.8	\$ (29.7)	\$ (2.9)
2002	\$ 29.8	\$ 2.8	\$ (2.2)	\$ —	\$ 2.9	\$ 33.3	\$ (35.5)	\$ (2.2)
2003	\$ 24.7	\$ 1.4	\$ (2.1)	\$ —	\$ 5.7	\$ 29.7	\$ (34.7)	\$ (5.0)
2004	\$ 57.3	\$ (0.1)	\$ (1.0)	\$ —	\$ (1.8)	\$ 54.4	\$ (34.5)	\$ 19.9
2005	\$ 72.6	\$ (2.2)	\$ (2.1)	\$ —	\$ 0.1	\$ 68.4	\$ (34.5)	\$ 33.9
2006	\$ 58.6	\$ 0.4	\$ (2.8)	\$ —	\$ (1.7)	\$ 54.5	\$ (29.6)	\$ 24.9
2007	\$ 54.9	\$ 3.6	\$ 5.0	\$ —	\$ (1.2)	\$ 62.3	\$ (27.3)	\$ 35.0
2008	\$ 67.2	\$ 13.1	\$ 2.0	\$ —	\$ 0.4	\$ 82.7	\$ (35.8)	\$ 46.9
2009	\$ 146.3	\$ (19.6)	\$ 0.8	\$ —	\$ (1.8)	\$ 125.7	\$ (45.9)	\$ 79.8
2010	\$ 170.1	\$ 0.5	\$ 0.3	\$ —	\$ 10.4	\$ 160.5	\$ (47.8)	\$ 112.7
2011	\$ 188.0	\$ 7.1	\$ 0.3	\$ —	\$ (1.3)	\$ 194.1	\$ (51.0)	\$ 143.1
2012	\$ 219.7	\$ —	\$ —	\$ —	\$ (3.5)	\$ 216.2	\$ (56.6)	\$ 159.6
2013	\$ 253.1	\$ (2.5)	\$ —	\$ —	\$ (2.3)	\$ 248.3	\$ (75.1)	\$ 173.2
2014	\$ 266.2	\$ (6.0)	\$ —	\$ 12.5	\$ (1.0)	\$ 271.7	\$ (87.5)	\$ 184.2
2015	\$ 299.7	\$ 12.9	\$ —	\$ (2.0)	\$ (0.8)	\$ 309.8	\$ (93.2)	\$ 216.6
2016	\$ 332.8	\$ 28.1	\$ —	\$ (2.1)	\$ 1.8	\$ 360.6	\$ (113.8)	\$ 246.8
2017	\$ 470.2	\$ 34.1	\$ —	\$ (2.1)	\$ (102.4)	\$ 399.8	\$ (142.8)	\$ 257.0

(\$ in millions)

	GAAP average capital invested <sup>2</sup>	Floating yield adjustment	Program fee adjustment	Senior notes adjustment	Deferred debt issuance adjustment <sup>3</sup>	Income tax adjustment	Adjusted average capital invested
2001	\$ 466.2	\$ 3.4	\$ (0.3)	\$ —	\$ 0.6	\$ —	\$ 469.9
2002	\$ 457.1	\$ 5.8	\$ (1.4)	\$ —	\$ 0.5	\$ —	\$ 462.0
2003	\$ 430.3	\$ 7.9	\$ (2.4)	\$ —	\$ 1.7	\$ —	\$ 437.5
2004	\$ 476.5	\$ 8.7	\$ (3.3)	\$ —	\$ 1.8	\$ —	\$ 483.7
2005	\$ 519.4	\$ 7.5	\$ (4.5)	\$ —	\$ 1.0	\$ —	\$ 523.4
2006	\$ 548.0	\$ 5.5	\$ (7.0)	\$ —	\$ 2.0	\$ —	\$ 548.5
2007	\$ 706.1	\$ 8.2	\$ (5.9)	\$ —	\$ 1.7	\$ —	\$ 710.1
2008	\$ 960.7	\$ 13.8	\$ (2.4)	\$ —	\$ 2.9	\$ —	\$ 975.0
2009	\$ 983.6	\$ 13.2	\$ (1.0)	\$ —	\$ 2.9	\$ —	\$ 998.7
2010	\$ 1,057.3	\$ 5.2	\$ (0.5)	\$ —	\$ 12.2	\$ —	\$ 1,074.2
2011	\$ 1,346.0	\$ 9.4	\$ (0.3)	\$ —	\$ 16.0	\$ —	\$ 1,371.1
2012	\$ 1,715.3	\$ 11.1	\$ —	\$ —	\$ 16.4	\$ —	\$ 1,742.8
2013	\$ 2,024.5	\$ 9.9	\$ —	\$ —	\$ 14.8	\$ —	\$ 2,049.2
2014	\$ 2,324.8	\$ 6.7	\$ —	\$ (7.0)	\$ 13.6	\$ —	\$ 2,338.1
2015	\$ 2,792.8	\$ 7.0	\$ —	\$ 14.7	\$ 17.4	\$ —	\$ 2,831.9
2016	\$ 3,513.1	\$ 29.6	\$ —	\$ 12.7	\$ 16.6	\$ —	\$ 3,572.0
2017	\$ 4,200.2	\$ 51.6	\$ —	\$ 10.6	\$ 18.1	\$ (4.1)	\$ 4,276.4

<sup>1</sup> The adjusted net income results differ slightly from those published in the Company's year-end earnings releases. That is because the earnings release figures include additional adjustments related to non-recurring expenses and discontinued operations. Those additional adjustments have been excluded from this table for simplicity.

<sup>2</sup> Average capital invested is defined as average debt plus average shareholders' equity.

<sup>3</sup> The deferred debt issuance adjustment reverses the impact of the reclassification of deferred debt issuance costs from other assets to GAAP average debt as a result of the adoption by the Financial Accounting Standards Board of Accounting Standards Update (ASU) No. 2015-03, as amended by ASU No. 2015-05. The net effect of this adjustment is to report adjusted average capital on the same basis as reported in historical shareholder letters.

	GAAP return on capital <sup>4</sup>	Floating yield adjustment	Program fee adjustment	Senior notes adjustment	Deferred debt issuance adjustment <sup>5</sup>	Income tax adjustment	Adjusted return on capital
2001	7.4%	0.2%	-0.2%	0.0%	0.0%	0.4%	7.8%
2002	7.7%	0.5%	-0.4%	0.0%	0.0%	0.6%	8.4%
2003	6.8%	0.2%	-0.4%	0.0%	0.0%	1.3%	7.9%
2004	13.5%	-0.3%	-0.1%	0.0%	0.0%	-0.3%	12.8%
2005	15.6%	-0.6%	-0.3%	0.0%	0.0%	0.0%	14.7%
2006	13.3%	-0.1%	-0.3%	0.0%	0.0%	-0.3%	12.6%
2007	11.0%	0.4%	0.8%	0.0%	0.0%	-0.2%	12.0%
2008	9.8%	1.2%	0.2%	0.0%	0.0%	0.0%	11.2%
2009	17.0%	-2.2%	0.1%	0.0%	0.0%	-0.2%	14.7%
2010	18.9%	0.0%	0.0%	0.0%	-0.2%	-1.0%	17.7%
2011	16.7%	0.4%	0.0%	0.0%	-0.2%	-0.1%	16.8%
2012	15.1%	-0.1%	0.0%	0.0%	-0.1%	-0.2%	14.7%
2013	14.5%	-0.2%	0.0%	0.0%	-0.1%	-0.1%	14.1%
2014	13.1%	-0.3%	0.0%	0.5%	-0.1%	0.0%	13.2%
2015	12.5%	0.4%	0.0%	-0.1%	-0.1%	0.0%	12.7%
2016	11.3%	0.7%	0.0%	-0.1%	0.0%	0.0%	11.9%
2017	13.0%	0.7%	0.0%	-0.1%	-0.1%	-2.3%	11.2%

	GAAP weighted average cost of capital <sup>5</sup>	Floating yield adjustment	Program fee adjustment	Senior notes adjustment	Deferred debt issuance adjustment <sup>3</sup>	Income tax adjustment	Adjusted weighted average cost of capital <sup>6</sup>
2001	8.4%	0.0%	0.0%	0.0%	0.0%	0.0%	8.4%
2002	8.8%	0.0%	0.0%	0.0%	0.0%	0.0%	8.9%
2003	9.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.0%
2004	8.6%	0.0%	0.0%	0.0%	0.0%	0.0%	8.6%
2005	8.2%	0.0%	0.0%	0.0%	0.0%	0.0%	8.3%
2006	8.1%	0.0%	0.0%	0.0%	0.0%	0.0%	8.1%
2007	7.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.0%
2008	6.4%	0.0%	0.0%	0.0%	0.0%	0.0%	6.4%
2009	6.7%	0.0%	0.0%	0.0%	0.0%	0.0%	6.7%
2010	7.3%	0.0%	0.0%	0.0%	-0.1%	0.0%	7.2%
2011	6.5%	0.0%	0.0%	0.0%	-0.1%	0.0%	6.4%
2012	5.6%	0.0%	0.0%	0.0%	-0.1%	0.0%	5.5%
2013	5.7%	0.0%	0.0%	0.0%	0.0%	0.0%	5.7%
2014	5.2%	0.1%	0.0%	0.0%	0.0%	0.0%	5.3%
2015	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%
2016	4.9%	0.1%	0.0%	0.0%	0.0%	0.0%	5.0%
2017	5.1%	0.1%	0.0%	0.0%	0.0%	0.0%	5.2%

<sup>4</sup> Return on capital is defined as net income plus after-tax interest expense divided by average capital.

<sup>5</sup> The weighted average cost of capital includes both a cost of equity and a cost of debt. The cost of equity capital is determined based on a formula that considers the risk of the business and the risk associated with our use of debt. The formula utilized for determining the cost of equity capital is as follows: (the average 30-year Treasury rate + 5%) + [(1 - tax rate) x (the average 30-year Treasury rate + 5% - pre-tax average cost-of-debt rate) x average debt / (average equity + average debt x tax rate)].

<sup>6</sup> The adjusted weighted average cost of capital includes both a cost of adjusted equity and a cost of debt. The cost of adjusted equity capital is calculated using the same formula as above except that adjusted average equity is used in the calculation instead of average equity.

NOTE: Amounts may not recalculate due to rounding.



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2017**

**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**

*(State or other jurisdiction of incorporation or organization)*

**38-1999511**

*(I.R.S. Employer Identification No.)*

**25505 W. Twelve Mile Road**

**Southfield, Michigan**

*(Address of principal executive offices)*

**48034-8339**

*(Zip Code)*

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

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class**

Common Stock

**Name of each exchange on which registered**

The Nasdaq Stock Market

Securities registered pursuant to section 12(g) of the Act:

**None**

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

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 8,740,796 shares of the Registrant's common stock held by non-affiliates on June 30, 2017 was approximately \$2,247.6 million. For purposes of this computation all officers, directors and 10% beneficial owners of the Registrant are assumed to be affiliates. Such determination should not be deemed an admission that such officers, directors and beneficial owners are, in fact, affiliates of the Registrant.

At February 2, 2018, there were 19,310,049 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 2018 Annual Meeting of Shareholders (the "Proxy Statement") filed pursuant to Regulation 14A are incorporated herein by reference into Part III of this Annual Report on Form 10-K (this "Form 10-K").

**CREDIT ACCEPTANCE CORPORATION**  
**YEAR ENDED DECEMBER 31, 2017**

**INDEX TO FORM 10-K**

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## PART I

### ITEM 1. BUSINESS

#### General

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

Without our financing programs, consumers are often unable to purchase vehicles or they purchase unreliable ones. Further, as we report to the three national credit reporting agencies, an important ancillary benefit of our programs is that we provide consumers with an opportunity to improve their lives by improving their credit score and move on to more traditional sources of financing.

Credit Acceptance was founded to collect retail installment contracts (referred to as “Consumer Loans”) originated by automobile dealerships owned by Donald Foss, our founder, significant shareholder and former Chairman of the Board. During the 1980s, we began to market this service to non-affiliated dealers and, at the same time, began to offer dealers a non-recourse cash payment (referred to as an “advance”) against anticipated future collections on Consumer Loans serviced for that dealer.

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

Substantially all of the Consumer Loans assigned to us are made to consumers with impaired or limited credit histories. The following table shows the percentage of Consumer Loans assigned to us with either FICO® scores below 650 or no FICO® scores:

Consumer Loan Assignment Volume	For the Years Ended December 31,		
	2017	2016	2015
Percentage of total unit volume with either FICO® scores below 650 or no FICO® scores	95.6%	95.8%	96.1%

#### Business Segment Information

We currently operate in one reportable segment which represents our core business of offering Dealers financing programs and related products and services that enable them to sell vehicles to consumers, regardless of their credit history. For information regarding our one reportable segment and related entity-wide disclosures, see Note 15 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

## Principal Business

We offer our Dealers financing programs that enable them to sell vehicles to consumers, regardless of their credit history. We have two programs: the Portfolio Program and the Purchase Program. Under the Portfolio Program, we advance money to Dealers (referred to as a “Dealer Loan”) in exchange for the right to service the underlying Consumer Loans. Under the Purchase Program, we buy the Consumer Loans from the Dealers (referred to as a “Purchased Loan”) and keep all amounts collected from the consumer. Dealer Loans and Purchased Loans are collectively referred to as “Loans”. The following table shows the percentage of Consumer Loans assigned to us under each of the programs for each of the last three years:

For the Years Ended December 31,	Unit Volume		Dollar Volume (1)	
	Portfolio Program	Purchase Program	Portfolio Program	Purchase Program
2015	87.4%	12.6%	82.8%	17.2%
2016	78.6%	21.4%	71.4%	28.6%
2017	72.5%	27.5%	68.5%	31.5%

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

### Portfolio Program

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

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

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

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

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

If the collections on Consumer Loans from a Dealer’s pool are not sufficient to repay the advance balance and any other amounts due to us, the Dealer will not receive Dealer Holdback. Certain events may also result in Dealers forfeiting their rights to Dealer Holdback, including becoming inactive before assigning at least 100 Consumer Loans.

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

Since typically the combination of the advance and the consumer’s down payment provides the Dealer with a cash profit at the time of sale, the Dealer’s risk in the Consumer Loan is limited. We cannot demand repayment of the advance from the Dealer except in the event the Dealer is in default of the Dealer servicing agreement. Advances are made only after the consumer and Dealer have signed a Consumer Loan contract, we have received the executed Consumer Loan contract and supporting documentation in either physical or electronic form, and we have approved all of the related stipulations for funding.

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

#### Purchase Program

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

#### Program Enrollment

Dealers may enroll in our Portfolio Program by (1) paying an up-front, one-time fee of \$9,850, or (2) agreeing to allow us to retain 50% of their first accelerated Dealer Holdback payment. Access to the Purchase Program is typically only granted to Dealers that meet one of the following:

- received first accelerated Dealer Holdback payment under the Portfolio Program;
- franchise dealership; or
- independent dealership that meets certain criteria upon enrollment.

#### Revenue Sources

Credit Acceptance derives its revenues from the following principal sources:

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

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

Percent of Total Revenue	For the Years Ended December 31,		
	2017	2016	2015
Finance charges	91.1%	90.2%	88.5%
Premiums earned	3.7%	4.4%	5.8%
Other income	5.2%	5.4%	5.7%
Total revenue	100.0%	100.0%	100.0%

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

## Operations

*Sales and Marketing.* Our target market is approximately 60,000 independent and franchised automobile dealers in the United States. We have market area managers located throughout the United States that market our programs to prospective Dealers, enroll new Dealers, and support active Dealers. The number of Dealer enrollments and active Dealers for each of the last three years are presented in the table below:

For the Years Ended December 31,	Dealer Enrollments	Active Dealers (1)
2015	4,285	9,064
2016	4,100	10,536
2017	4,491	11,551

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

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

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

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

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

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

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

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

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

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

- the consumer and Dealer have signed a Consumer Loan contract; and
- we have received the executed Consumer Loan contract and supporting documentation in either physical or electronic form.

For accounting and financial reporting purposes, a Consumer Loan is considered to have been assigned to us after the following has occurred:

- the Consumer Loan has been legally assigned to us; and
- we have made a funding decision and generally have provided funding to the Dealer in the form of either an advance under the Portfolio Program or one-time purchase payment under the Purchase Program.

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

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

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

We audit Consumer Loan files for legal and underwriting guidelines on a daily basis in order to assess whether our Dealers are operating in accordance with the terms and conditions of our Dealer servicing agreement. We occasionally identify breaches of the Dealer servicing agreement and depending upon the circumstances, and at our discretion, we may:

- change pricing or charge the Dealer fees for future Consumer Loan assignments;
- reassign the Consumer Loans back to the Dealer and require repayment of the related advances and/or purchase payments; or
- terminate our relationship with the Dealer.

Consumer Loans that have been assigned to us can be reassigned back to the Dealer, at the Dealer's discretion, as follows:

- An individual Consumer Loan may be reassigned within 180 days of assignment. We require repayment of the related advance or purchase payment and, if requested more than 90 days after assignment, payment of a fee; and
- All Consumer Loans assigned under the Portfolio Program may be reassigned through termination of the Dealer servicing agreement, as described under "Dealer Servicing Agreement," above.



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

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

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

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

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

Collectors service Consumer Loans through our servicing platform, which consists of the following two systems:

- The collection system, which assigns Consumer Loans to collectors through a predictive dialer and records all collection activity, including:
  - details of past phone conversations with the consumer;
  - collection letters sent;
  - promises to pay;
  - broken promises;
  - repossession orders; and
  - collection attorney activity.
- The servicing system, which maintains a record of all transactions relating to Consumer Loan assignments and is a primary source of data utilized to:
  - determine the outstanding balance of the Consumer Loans;
  - forecast future collections;
  - establish the amount of revenue recognized by us;
  - calculate Dealer Holdback payments;
  - analyze the profitability of our program; and
  - evaluate our proprietary credit scoring system.

## Ancillary Products

We provide Dealers the ability to offer vehicle service contracts to consumers through our relationships with Third Party Providers (“TPPs”). A vehicle service contract provides the consumer protection by paying for the repair or replacement of certain components of the vehicle in the event of a mechanical failure. The wholesale cost of the vehicle service contract is charged to the Dealer’s advance balance, and paid to the TPP, net of an administrative fee retained by us. We recognize our fee as part of finance charges on a level-yield basis based upon forecasted cash flows. The difference between the wholesale cost and the retail price to the consumer is paid to the Dealer as a commission. The commission is charged to the Dealer’s advance balance. TPPs process claims on vehicle service contracts that are underwritten by third party insurers. We bear the risk of loss for claims on certain vehicle service contracts that are reinsured by us. We market the vehicle service contracts directly to our Dealers. Our agreement with one of our TPPs allows us to receive profit sharing payments depending on the performance of the vehicle service contracts.

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

We provide Dealers the ability to offer Guaranteed Asset Protection (“GAP”) to consumers through our relationships with TPPs. GAP provides the consumer protection by paying the difference between the loan balance and the amount covered by the consumer’s insurance policy in the event of a total loss of the vehicle due to severe damage or theft. The wholesale cost of GAP is charged to the Dealer’s advance balance, and paid to the TPP, net of an administrative fee retained by us. We recognize our fee as part of finance charges on a level-yield basis based upon forecasted cash flows. The difference between the wholesale cost and the retail price to the consumer is paid to the Dealer as a commission. The commission is charged to the Dealer’s advance balance. TPPs process claims on GAP contracts that are underwritten by third party insurers. Our agreements with certain TPPs allow us to receive profit sharing payments depending on the performance of the GAP contracts.

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

## Competition

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

## Customer and Geographic Concentrations

No single Dealer accounted for more than 10% of total revenues during any of the last three years. Additionally, no single Dealer's Loans receivable balance accounted for more than 10% of total Loans receivable balance as of December 31, 2017 or 2016. The following tables provide information regarding the five states that were responsible for the largest dollar volume of Consumer Loan assignments and the related number of active Dealers during 2017, 2016 and 2015:

(Dollars in millions)	For the Year Ended December 31, 2017			
	Consumer Loan Assignments		Active Dealers (2)	
	Dollar Volume (1)	% of Total	Number	% of Total
Michigan	\$ 285.7	10.0%	792	6.9%
Ohio	209.8	7.3%	777	6.7%
Texas	189.7	6.6%	847	7.3%
New York	176.4	6.1%	690	6.0%
Maryland	132.0	4.6%	291	2.5%
All other states	1,879.5	65.4%	8,154	70.6%
Total	\$ 2,873.1	100.0%	11,551	100.0%

(Dollars in millions)	For the Year Ended December 31, 2016			
	Consumer Loan Assignments		Active Dealers (2)	
	Dollar Volume (1)	% of Total	Number	% of Total
Michigan	\$ 255.1	9.7%	756	7.2%
Ohio	179.0	6.8%	674	6.4%
Texas	173.3	6.6%	755	7.2%
New York	166.4	6.3%	657	6.2%
Maryland	130.3	4.9%	242	2.3%
All other states	1,731.4	65.7%	7,452	70.7%
Total	\$ 2,635.5	100.0%	10,536	100.0%

(Dollars in millions)	For the Year Ended December 31, 2015			
	Consumer Loan Assignments		Active Dealers (2)	
	Dollar Volume (1)	% of Total	Number	% of Total
Michigan	\$ 232.3	10.7%	675	7.5%
New York	173.2	8.0%	615	6.8%
Ohio	144.3	6.7%	572	6.3%
Texas	128.8	5.9%	610	6.7%
Maryland	97.2	4.5%	208	2.3%
All other states	1,391.2	64.2%	6,384	70.4%
Total	\$ 2,167.0	100.0%	9,064	100.0%

- (1) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.
- (2) Active Dealers are Dealers who have received funding for at least one Loan during the year.

## Geographic Financial Information

For the three years ended December 31, 2017, 2016 and 2015, all of our revenues were derived from the United States. As of December 31, 2017 and 2016, all of our long-lived assets were located in the United States.

## Regulation

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

In July 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was enacted and a number of its provisions became effective in July 2011. The Dodd-Frank Act restructured and enhanced the regulation and supervision of the financial services industry and created the Consumer Financial Protection Bureau (the “CFPB”). The CFPB has rulemaking and enforcement authority over certain non-depository institutions, including us. The CFPB is specifically authorized, among other things, to take actions to prevent companies providing consumer financial products or services and their service providers from engaging in unfair, deceptive or abusive acts or practices in connection with consumer financial products and services, and to issue rules requiring enhanced disclosures for consumer financial products or services. Under the Dodd-Frank Act, the CFPB also may restrict the use of pre-dispute mandatory arbitration clauses in contracts between covered persons and consumers for a consumer financial product or service. The CFPB also has authority to interpret, enforce and issue regulations implementing enumerated consumer laws, including certain laws that apply to our business. Further, the CFPB has issued rules allowing it to supervise non-depository “larger participants” in certain markets for consumer financial services and products. On June 10, 2015, the CFPB released its larger participant rule defining which nonbank automotive finance companies will be subject to supervision. The rule provides that nonbank auto finance companies that make, acquire or refinance 10,000 or more loans or leases in a year will come under CFPB supervision. The rule was officially published in the Federal Register on June 30, 2015, and became effective on August 31, 2015. As expected, we are subject to supervision by the CFPB.

The Dodd-Frank Act and regulations promulgated thereunder, including by the CFPB, are likely to affect our cost of doing business, may limit or expand our permissible activities, may affect the competitive balance within our industry and market areas and could have a material adverse effect on us. For example, on March 21, 2013, the CFPB issued Bulletin 2013-02 addressing Indirect Auto Lending and Compliance with the Equal Credit Opportunity Act, in which the CFPB stated that policies of indirect auto lenders that allow auto dealers to mark up lender-established buy rates and that compensate dealers for those markups in the form of dealer reserve could present a risk that they will result in impermissible pricing disparities on the basis of race, national origin and potentially other prohibited bases. Our management continues to assess the Dodd-Frank Act’s probable impact on our business, financial condition and results of operations, and to monitor developments involving the entities charged with promulgating regulations thereunder. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and on us in particular, is uncertain at this time.

In addition to the CFPB, other state and federal agencies have the ability to regulate aspects of our business. For example, the Dodd-Frank Act provides a mechanism for state Attorneys General to investigate us. In addition, the Federal Trade Commission has jurisdiction to investigate aspects of our business. We expect that regulatory investigation by both state and federal agencies will continue and that the results of these investigations could have a material adverse impact on us.

On December 4, 2014, we received a civil investigative demand from the Office of the Attorney General of the Commonwealth of Massachusetts relating to the origination and collection of non-prime auto loans in Massachusetts. On November 20, 2017, we received a second civil investigation demand from the Office of the Attorney General of the Commonwealth of Massachusetts seeking updated information on its original civil investigation demand, additional information related to the Company's origination and collection of Consumer Loans, and information regarding securitization activities. On December 9, 2014, we received a civil investigative subpoena from the U.S. Department of Justice pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 directing us to produce certain information relating to subprime automotive finance and related securitization activities. On September 18, 2015, we received a subpoena from the Attorney General of the State of New York, Civil Rights Bureau relating to the Company's origination and collection of Consumer Loans in the state of New York. On March 18, 2016, we received a subpoena from the Attorney General of the State of Maryland, relating to the Company's repossession and sale policies and procedures in the state of Maryland. On November 7, 2016, we received a civil investigative demand from the Federal Trade Commission seeking information on the Company's policies, practices and procedures in allowing car dealers to use GPS Starter Interrupters on consumer vehicles. On June 14, 2017, we were informed that the Consumer Financial Protection Bureau's Office of Fair Lending and Equal Opportunity is investigating whether the Company may have violated the Equal Credit Opportunity Act and Regulation B. On August 14, 2017, we received a subpoena from the Attorney General of the State of Mississippi, relating to the origination and collection of non-prime auto loans in the state of Mississippi. We are cooperating with these inquiries and cannot predict the eventual scopes, durations or outcomes at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from these investigations. We may from time to time become subject to other investigations or regulatory reviews undertaken by governmental authorities.

In addition, governmental regulations which would deplete the supply of used vehicles, such as environmental protection regulations governing emissions or fuel consumption, could have a material adverse effect on us.

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

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

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

## **Team Members**

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

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

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

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

As of December 31, 2017, we had 1,817 full and part-time team members. Our team members have no union affiliations and we believe our relationship with our team members is in good standing. The table below presents team members by operating function:

Operating Function	Number of Team Members As of December 31,		
	2017	2016	2015
Originations	517	453	409
Servicing	810	728	640
Support	490	428	376
Total	1,817	1,609	1,425

#### Available Information

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

#### ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

The agreements that govern our debt contain covenants that restrict our ability to, among other things:

- incur and guarantee debt;
- pay dividends or make other distributions on or redeem or repurchase our stock;
- make investments or acquisitions;
- create liens on our assets;
- sell assets;
- merge with or into other companies; and
- enter into transactions with stockholders and other affiliates.

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

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

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

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

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

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

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

We have a substantial amount of debt, which could have negative consequences, including the following:

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

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

The automobile finance market for consumers who do not qualify for conventional automobile financing is large and highly competitive. The market is served by a variety of companies including "buy here, pay here" dealerships. The market is also currently served by banks, captive finance affiliates of automobile manufacturers, credit unions and independent finance companies both publicly and privately owned. Many of these companies are much larger and have greater financial resources than are available to us, and many have long standing relationships with automobile dealerships. Providers of automobile financing have traditionally competed based on the interest rate charged, the quality of credit accepted, the flexibility of loan terms offered and the quality of service provided to dealers and consumers. We may be unable to compete successfully in the automobile finance market or, due to the intense competition in this market, our results of operations, cash flows and financial condition may be adversely affected as we adjust our business in response to competitive pressures. Increasing advance rates on Loans has the impact of reducing the return on capital we expect to earn on Loans. Additionally, if we are unsuccessful in maintaining and expanding our relationships with Dealers, we may be unable to accept Consumer Loans in the volume and on the terms that we anticipate.

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

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

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

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



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

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

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

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

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

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

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

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

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

Technological advancements or changes to trends in the automobile industry such as new autonomous driving technologies or car- and ride-sharing programs could decrease consumer demand for automobiles. Decreased consumer demand for automobiles could negatively impact demand for our financing programs as well as weaken collateral values of automobiles, which could materially adversely affect our financial position, liquidity and results of operations.

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

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

For a description of significant litigation to which we are a party, see Note 16 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

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

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

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

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

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

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

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

**Our use of electronic contracts could impact our ability to perfect our ownership or security interest in Consumer Loans.**

We have modified our systems to permit origination and assignment of Consumer Loans in electronic form. We have engaged a TPP to facilitate the process of creating, establishing control of and storing electronic contracts in a manner that enables us to perfect our ownership or security interest in the electronic contracts by satisfying the requirements for “control” of electronic chattel paper under the Uniform Commercial Code.

Although the law governing the perfection of ownership and security interests in electronic contracts was enacted in 2001, the statutory requirements for the relevant control arrangements have not been meaningfully tested in court. In addition, market practices regarding control of electronic contracts are still developing. As a result, there is a risk that the systems employed by us or any TPP to maintain control of the electronic contracts may not be sufficient as a matter of law to give us a perfected ownership or security interest in the Consumer Loans evidenced by electronic contracts. In addition, technological failure, including failure in the security or access restrictions with respect to the systems, and operational failure, such as the failure to implement and maintain adequate internal controls and procedures, could also affect our ability to obtain or maintain a perfected ownership or security interest in the Consumer Loans evidenced by electronic contracts (or the priority of such interests). Our failure or inability to perfect our ownership or security interest in the Consumer Loans could materially adversely affect our financial position, liquidity and results of operations.

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

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

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

Our senior management average over 15 years of experience with us. Our success is dependent upon the management and the leadership skills of this team. In addition, competition from other companies to hire our team members possessing the necessary skills and experience required could contribute to an increase in team member turnover. The loss of any of these individuals or an inability to attract and retain additional qualified team members could adversely affect us. There can be no assurance that we will be able to retain our existing senior management or attract additional qualified team members.

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

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

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

Dealers are located throughout the United States. During the year ended December 31, 2017, our five largest states (measured by advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program) contained 29.4% of our Dealers. While we believe we have a diverse geographic presence, for the near term, we expect that significant amounts of Consumer Loan assignments will continue to be generated by Dealers in these five states due to the number of Dealers in these states and currently prevailing economic, demographic, regulatory, competitive and other conditions in these states. Changes to conditions in these states could lead to an increase in Dealer attrition or a reduction in demand for our service that could materially adversely affect our financial position, liquidity and results of operations.

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

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

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

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

**A small number of our shareholders have the ability to significantly influence matters requiring shareholder approval and such shareholders have interests which may conflict with the interests of our other security holders.**

As of December 31, 2017, based on filings made with the SEC and other information made available to us, Prescott General Partners, LLC and its affiliates beneficially owned 16.0% of our common stock, Donald Foss, our founder and former Chairman of the Board, beneficially owned 14.3% of our common stock, and Jill Foss Watson, Mr. Foss's daughter, beneficially owned 13.0% of our common stock. As a result, these few shareholders are able to significantly influence matters presented to shareholders, including the election and removal of directors, the approval of significant corporate transactions, such as any reclassification, reorganization, merger, consolidation or sale of all or substantially all of our assets, and the control of our management and affairs, including executive compensation arrangements. Their interests may conflict with the interests of our other security holders.

On January 3, 2017, Mr. Foss retired as an officer, director and employee of the Company and entered into a shareholder agreement with the Company. Under the shareholder agreement, Mr. Foss agreed, until the final adjournment of the tenth annual meeting of shareholders held by the Company after the date of the shareholder agreement, to cause all shares beneficially owned by him or any of his affiliates or associates to be voted in accordance with the recommendation of the Company's Board of Directors with respect to election and removal of directors, certain routine matters and any other proposal to be submitted to the Company's shareholders with respect to any extraordinary transaction providing for the acquisition of all of the Company's outstanding common stock.

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

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

**Our ability to hire and retain foreign information technology personnel could be hindered by immigration restrictions.**

A significant portion of our information technology team is composed of foreign nationals whose ability to work for us depends on obtaining the necessary H-1B visas. The H-1B visa category allows U.S. employers to hire qualified foreign nationals to perform services in specialty occupations that require the attainment of at least a bachelor's degree or its equivalent. Our ability to hire and retain these foreign nationals and their ability to remain and work in the United States are affected by various laws and regulations, including limitations on the number of available H-1B visas, which the U.S. government allocates by lottery. Changes in the laws or regulations affecting the availability, allocation and/or cost of H-1B visas, eligibility for the H-1B visa category, or otherwise affecting the admission or retention of skilled foreign nationals by U.S. employers, or any increase in demand for H-1B visas relative to the limited supply of those visas, may adversely affect our ability to hire or retain foreign information technology personnel and may, as a result, increase our operating costs and impair our business operations.

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our headquarters is located at 25505 West Twelve Mile Road, Southfield, Michigan 48034, in an office building we purchased in 1993, which includes approximately 136,000 square feet of space on five floors.

We lease approximately 85,000 square feet of office space in Southfield, Michigan and approximately 31,000 square feet of office space in Henderson, Nevada. The multiple leases for the Southfield, Michigan space expire in September 2018, April 2019 and July 2021. The lease for the Henderson, Nevada space expires in December 2022. We have renewal options on all of our office space leases. Additionally, there currently is a significant amount of unoccupied office space available for lease in the markets where we operate.

**ITEM 3. LEGAL PROCEEDINGS**

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

For a description of significant litigation to which we are a party, see Note 16 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

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

#### Stock Price

During the year ended December 31, 2017, our common stock was traded on The Nasdaq Global Select Market® (“NASDAQ”) under the symbol “CACC”. The following table sets forth the high and low sale prices as reported by the NASDAQ for the common stock for the relevant periods during 2017, 2016 and 2015.

Quarters Ended	2017		2016		2015	
	High	Low	High	Low	High	Low
March 31	\$ 221.00	\$ 183.01	\$ 223.57	\$ 161.00	\$ 209.99	\$ 129.82
June 30	264.43	182.50	209.99	166.90	246.45	191.25
September 30	284.75	239.00	209.99	172.38	277.98	178.79
December 31	338.12	274.02	221.10	160.63	258.58	159.43

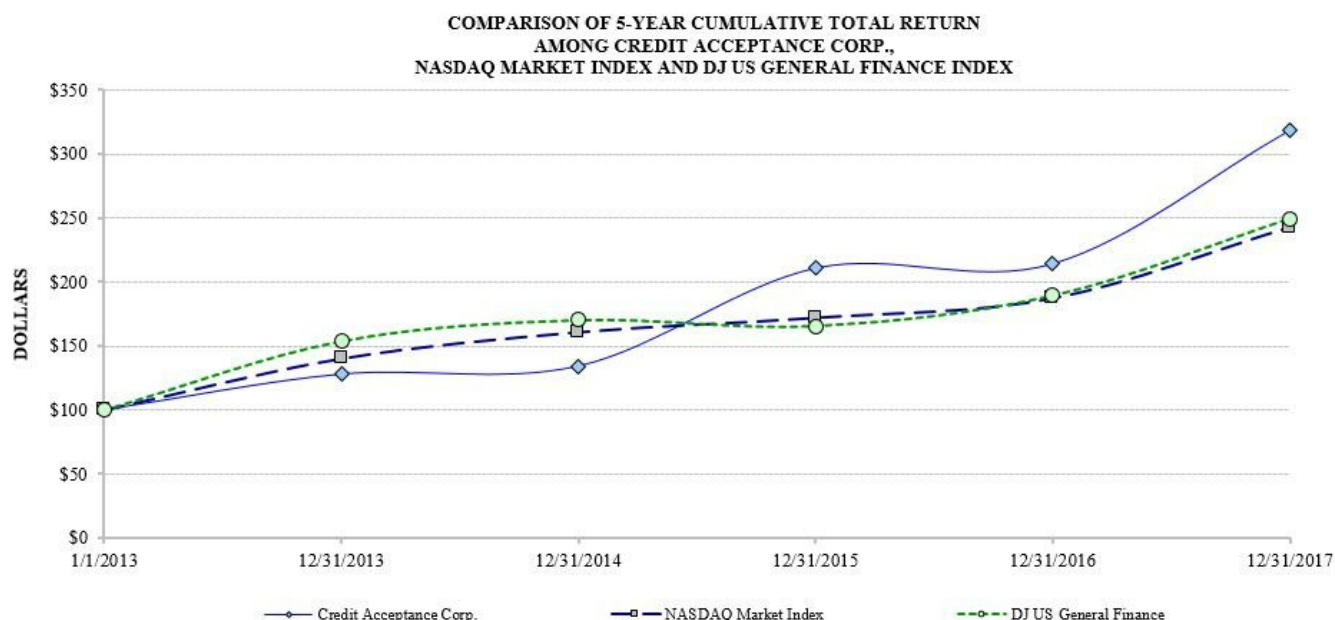
As of February 2, 2018, we had 193 shareholders of record and approximately 10,200 beneficial holders of our common stock based upon securities position listings furnished to us.

#### Dividends

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

#### Stock Performance Graph

The following graph compares the percentage change in the cumulative total shareholder return on our common stock during the period beginning January 1, 2013 and ending on December 31, 2017 with the cumulative total return on the NASDAQ Market Index and a peer group index based upon approximately 100 companies included in the Dow Jones – US General Financial Index. The comparison assumes that \$100 was invested on January 1, 2013 in our common stock and in the foregoing indices and assumes the reinvestment of dividends.



## ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below are derived from our audited consolidated financial statements and should be read in conjunction with our consolidated financial statements as of and for the years ended December 31, 2017, 2016 and 2015, and notes thereto and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this Form 10-K, which is incorporated herein by reference.

(Dollars in millions, except per share data)

	Years Ended December 31,				
	2017	2016	2015	2014	2013
<b>Income Statement Data:</b>					
<b>Revenue:</b>					
Finance charges	\$ 1,011.5	\$ 874.3	\$ 730.5	\$ 630.4	\$ 590.4
Premiums earned	41.1	43.0	48.2	52.3	51.5
Other income	57.4	51.9	46.6	40.8	40.2
Total revenue	1,110.0	969.2	825.3	723.5	682.1
<b>Costs and expenses:</b>					
Salaries and wages	140.1	126.5	116.4	100.2	87.3
General and administrative	55.5	48.2	37.8	34.3	34.4
Sales and marketing	58.4	49.4	45.9	36.8	34.5
Provision for credit losses	129.3	90.2	41.5	12.8	21.9
Interest	120.2	97.7	76.0	56.7	65.0
Provision for claims	22.7	26.0	33.2	40.0	40.8
Loss on extinguishment of debt	—	—	—	21.8	—
Total costs and expenses	526.2	438.0	350.8	302.6	283.9
Income before provision for income taxes	583.8	531.2	474.5	420.9	398.2
Provision for income taxes	113.6	198.4	174.8	154.7	145.1
Net income	\$ 470.2	\$ 332.8	\$ 299.7	\$ 266.2	\$ 253.1
<b>Net income per share:</b>					
Basic	\$ 24.12	\$ 16.37	\$ 14.35	\$ 11.96	\$ 10.61
Diluted	\$ 24.04	\$ 16.31	\$ 14.28	\$ 11.92	\$ 10.54
<b>Weighted average shares outstanding:</b>					
Basic	19,497,719	20,331,769	20,891,695	22,257,104	23,850,789
Diluted	19,558,936	20,410,116	20,980,753	22,331,401	24,009,593
<b>Balance Sheet Data:</b>					
Loans receivable, net	\$ 4,619.6	\$ 3,886.6	\$ 3,101.5	\$ 2,512.9	\$ 2,212.8
All other assets	366.0	331.4	271.1	258.3	207.2
Total assets	\$ 4,985.6	\$ 4,218.0	\$ 3,372.6	\$ 2,771.2	\$ 2,420.0
Total debt	\$ 3,070.8	\$ 2,603.7	\$ 2,067.8	\$ 1,738.3	\$ 1,379.0
Other liabilities	379.0	440.6	376.7	330.7	290.9
Total liabilities	3,449.8	3,044.3	2,444.5	2,069.0	1,669.9
Shareholders' equity (1)	1,535.8	1,173.7	928.1	702.2	750.1
Total liabilities and shareholders' equity	\$ 4,985.6	\$ 4,218.0	\$ 3,372.6	\$ 2,771.2	\$ 2,420.0

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

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

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

### **Overview**

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

For the year ended December 31, 2017, consolidated net income was \$470.2 million, or \$24.04 per diluted share, compared to \$332.8 million, or \$16.31 per diluted share, for the same period in 2016 and \$299.7 million, or \$14.28 per diluted share, for the same period in 2015. The growth in 2017 consolidated net income was primarily due to the enactment of the Tax Cuts and Jobs Act in December 2017, which increased consolidated net income by \$99.8 million, and an increase in the average balance of our Loan portfolio, partially offset by a revision to our Loan net cash flow timing forecast during the fourth quarter of 2017, which decreased consolidated net income by \$30.8 million. The growth in 2016 consolidated net income was primarily due to an increase in the average balance of our Loan portfolio, partially offset by a decline in Consumer Loan performance.

### **Critical Success Factors**

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



## Consumer Loan Metrics

At the time a Consumer Loan is submitted to us for assignment, we forecast future expected cash flows from the Consumer Loan. Based on the amount and timing of these forecasts and expected expense levels, an advance or one-time purchase payment is made to the related Dealer at a price designed to maximize economic profit.

We use a statistical model to estimate the expected collection rate for each Consumer Loan at the time of assignment. We continue to evaluate the expected collection rate of each Consumer Loan subsequent to assignment. Our evaluation becomes more accurate as the Consumer Loans age, as we use actual performance data in our forecast. By comparing our current expected collection rate for each Consumer Loan with the rate we projected at the time of assignment, we are able to assess the accuracy of our initial forecast. The following table compares our forecast of Consumer Loan collection rates as of December 31, 2017, with the forecasts as of December 31, 2016, as of December 31, 2015, and at the time of assignment, segmented by year of assignment:

Consumer Loan Assignment Year	Forecasted Collection Percentage as of (1)				Current Forecast Variance from		
	December 31, 2017	December 31, 2016	December 31, 2015	Initial Forecast	December 31, 2016	December 31, 2015	Initial Forecast
2008	70.5%	70.4%	70.3%	69.7%	0.1%	0.2%	0.8%
2009	79.5%	79.4%	79.4%	71.9%	0.1%	0.1%	7.6%
2010	77.6%	77.6%	77.4%	73.6%	0.0%	0.2%	4.0%
2011	74.7%	74.7%	74.2%	72.5%	0.0%	0.5%	2.2%
2012	73.8%	73.7%	73.2%	71.4%	0.1%	0.6%	2.4%
2013	73.5%	73.4%	73.4%	72.0%	0.1%	0.1%	1.5%
2014	71.7%	71.8%	72.6%	71.8%	-0.1%	-0.9%	-0.1%
2015	65.5%	66.1%	67.8%	67.7%	-0.6%	-2.3%	-2.2%
2016	64.8%	65.1%	—	65.4%	-0.3%	—	-0.6%
2017	65.6%	—	—	64.0%	—	—	1.6%

- (1) Represents the total forecasted collections we expect to collect on the Consumer Loans as a percentage of the repayments that we were contractually owed on the Consumer Loans at the time of assignment. Contractual repayments include both principal and interest. Forecasted collection rates are negatively impacted by canceled Consumer Loans as the contractual amount owed is not removed from the denominator for purposes of computing forecasted collection rates in the table.

Consumer Loans assigned in 2009 through 2013 and 2017 have yielded forecasted collection results materially better than our initial estimates, while Consumer Loans assigned in 2015 have yielded forecasted collection results materially worse than our initial estimates. For Consumer Loans assigned in 2008, 2014 and 2016, actual results have been close to our initial estimates.

For the year ended December 31, 2017, forecasted collection rates improved for Consumer Loans assigned in 2017, declined for Consumer Loans assigned in 2015 and 2016 and were generally consistent with expectations at the start of the period for all other assignment years presented.

For the year ended December 31, 2016, forecasted collection rates improved for Consumer Loans assigned in 2010 through 2012, declined for Consumer Loans assigned in 2014 through 2016 and were generally consistent with expectations at the start of the period for all other assignment years presented.

The changes in forecasted collection rates impacted forecasted net cash flows (forecasted collections less forecasted Dealer Holdback payments) as follows:

(In millions)	For the years ended December 31,		
	2017	2016	2015
<b>Increase (decrease) in forecasted net cash flows</b>			
Dealer Loans	\$ (5.6)	\$ (35.4)	\$ 3.6
Purchased Loans	41.7	15.3	20.3
Total Loans	\$ 36.1	\$ (20.1)	\$ 23.9

In addition to the statistical model used to forecast collection rates, we use a model to forecast the timing of future net cash flows. During the fourth quarter of 2017, we updated our net cash flow timing model to incorporate more recent data. The revised forecast resulted in an expected cash flow stream with a lower net present value as compared to the prior forecast, as less cash flows are expected in earlier periods and more cash flows are expected in later periods.

The reduction in net present value was primarily the result of a change in the expected timing of cash flows from longer-term Consumer Loans. Due to our limited historical experience with longer-term Consumer Loans, our prior model relied on extrapolations from the historical performance of shorter-term Consumer Loans to predict the timing of future net cash flows on longer-term Consumer Loans. We now have additional historical experience on these longer-term loans which we used to refine our estimate.

The revision to our net cash flow timing forecast does not impact the amount of undiscounted net cash flows we expect to receive. As a result, the dollar amount of future net portfolio revenue (finance charges less provision for credit losses) is not impacted by the revision. However, the revision does impact the period in which those net revenues will be recorded as a portion of the impact of the revised timing estimate was recorded as a current period expense and a portion was recorded as a yield adjustment. For the fourth quarter of 2017, the revision increased provision for credit losses by \$41.6 million, reduced finance charge revenue by \$7.3 million and reduced net income by \$30.8 million. The revision reduced the yield on our loan portfolio by 90 basis points, which will impact the timing of revenue recognition in future periods.

During the fourth quarter of 2016, we enhanced our methodology for forecasting the amount and timing of future collections on Consumer Loans through the utilization of more recent data and new forecast variables. Implementation of the enhanced forecasting methodology as of October 31, 2016 did not have a material impact on provision for credit losses or net income; however, it did reduce forecasted net cash flows by \$1.8 million, all of which related to Dealer Loans. The implementation also decreased the forecasted collection rates for Consumer Loans assigned in 2015 and 2016 and increased the forecasted collection rates for Consumer Loans assigned in 2011 through 2013.

The following table presents information on the average Consumer Loan assignment for each of the last ten years:

Consumer Loan Assignment Year	Average		
	Consumer Loan (1)	Advance (2)	Average Initial Term (in months)
2008	\$ 14,518	\$ 6,479	42
2009	12,689	5,565	38
2010	14,480	6,473	41
2011	15,686	7,137	46
2012	15,468	7,165	47
2013	15,445	7,344	47
2014	15,692	7,492	47
2015	16,354	7,272	50
2016	18,218	7,976	53
2017	20,230	8,746	55

- (1) Represents the repayments that we were contractually owed on Consumer Loans at the time of assignment, which include both principal and interest.  
(2) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.

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

The following table presents forecasted Consumer Loan collection rates, advance rates, the spread (the forecasted collection rate less the advance rate), and the percentage of the forecasted collections that had been realized as of December 31, 2017. All amounts, unless otherwise noted, are presented as a percentage of the initial balance of the Consumer Loan (principal + interest). The table includes both Dealer Loans and Purchased Loans.

Consumer Loan Assignment Year	As of December 31, 2017			
	Forecasted Collection %	Advance % (1)	Spread %	% of Forecast Realized (2)
2008	70.5%	44.6%	25.9%	99.8%
2009	79.5%	43.9%	35.6%	99.8%
2010	77.6%	44.7%	32.9%	99.5%
2011	74.7%	45.5%	29.2%	98.9%
2012	73.8%	46.3%	27.5%	98.2%
2013	73.5%	47.6%	25.9%	96.0%
2014	71.7%	47.7%	24.0%	88.9%
2015	65.5%	44.5%	21.0%	72.7%
2016	64.8%	43.8%	21.0%	47.5%
2017	65.6%	43.2%	22.4%	15.3%

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

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

The risk of a material change in our forecasted collection rate declines as the Consumer Loans age. For 2013 and prior Consumer Loan assignments, the risk of a material forecast variance is modest, as we have currently realized in excess of 90% of the expected collections. Conversely, the forecasted collection rates for more recent Consumer Loan assignments are less certain as a significant portion of our forecast has not been realized.

The spread between the forecasted collection rate and the advance rate has ranged from 21.0% to 35.6% over the last 10 years. The spread was at the high end of this range in 2009 and 2010, when the competitive environment was unusually favorable, and much lower during other years (2014 through 2017) when competition was more intense. The decline in the advance rate from 2016 to 2017 reflects the lower initial forecast on Consumer Loan assignments received in 2017, partially offset by an increase in Purchased Loans as a percentage of total unit volume. The increase in the spread from 2016 to 2017 was the result of the performance of 2017 Consumer Loans, which has materially exceeded our initial estimates, partially offset by a change in the mix of Consumer Loan assignments received during 2017, including an increase in Purchased Loans as a percentage of total unit volume.

The following table compares our forecast of Consumer Loan collection rates as of December 31, 2017 with the forecasts at the time of assignment, for Dealer Loans and Purchased Loans separately.

Consumer Loan Assignment Year	Dealer Loans			Purchased Loans		
	Forecasted Collection Percentage as of (1)			Forecasted Collection Percentage as of (1)		
	December 31, 2017	Initial Forecast	Variance	December 31, 2017	Initial Forecast	Variance
2008	70.8%	70.2%	0.6%	69.8%	68.8%	1.0%
2009	79.2%	72.1%	7.1%	80.8%	70.5%	10.3%
2010	77.5%	73.6%	3.9%	78.7%	73.1%	5.6%
2011	74.6%	72.4%	2.2%	76.3%	72.7%	3.6%
2012	73.6%	71.3%	2.3%	75.9%	71.4%	4.5%
2013	73.4%	72.1%	1.3%	74.3%	71.6%	2.7%
2014	71.6%	71.9%	-0.3%	72.7%	70.9%	1.8%
2015	64.8%	67.5%	-2.7%	69.8%	68.5%	1.3%
2016	63.9%	65.1%	-1.2%	67.5%	66.5%	1.0%
2017	65.0%	63.8%	1.2%	67.1%	64.6%	2.5%

- (1) The forecasted collection rates presented for Dealer Loans and Purchased Loans reflect the Consumer Loan classification at the time of assignment. Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's Consumer Loans from the Dealer Loan portfolio to the Purchased Loan portfolio in the period this forfeiture occurs. During 2017, we changed the presentation of current forecasted collection rates for each Consumer Loan assignment year to exclude the impact of transfers. Prior to 2017, the presentation of current forecasted collection rates for each Consumer Loan assignment year reflected the current Consumer Loan classification.

The following table presents forecasted Consumer Loan collection rates, advance rates, and the spread (the forecasted collection rate less the advance rate) as of December 31, 2017 for Dealer Loans and Purchased Loans separately. All amounts are presented as a percentage of the initial balance of the Consumer Loan (principal + interest).

Consumer Loan Assignment Year	Dealer Loans			Purchased Loans		
	Forecasted Collection % (1)	Advance % (1)(2)	Spread %	Forecasted Collection % (1)	Advance % (1)(2)	Spread %
2008	70.8%	43.3%	27.5%	69.8%	47.1%	22.7%
2009	79.2%	43.4%	35.8%	80.8%	46.0%	34.8%
2010	77.5%	44.4%	33.1%	78.7%	47.3%	31.4%
2011	74.6%	45.1%	29.5%	76.3%	49.3%	27.0%
2012	73.6%	46.0%	27.6%	75.9%	50.0%	25.9%
2013	73.4%	47.2%	26.2%	74.3%	51.5%	22.8%
2014	71.6%	47.2%	24.4%	72.7%	51.8%	20.9%
2015	64.8%	43.4%	21.4%	69.8%	50.2%	19.6%
2016	63.9%	42.1%	21.8%	67.5%	48.6%	18.9%
2017	65.0%	42.1%	22.9%	67.1%	45.8%	21.3%

- (1) The forecasted collection rates and advance rates presented for Dealer Loans and Purchased Loans reflect the Consumer Loan classification at the time of assignment. Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's Consumer Loans from the Dealer Loan portfolio to the Purchased Loan portfolio in the period this forfeiture occurs. During 2017, we changed the presentation of forecasted collection rates and advance rates for each Consumer Loan assignment year to exclude the impact of transfers. Prior to 2017, the presentation of forecasted collection rates and advance rates for each Consumer Loan assignment year reflected the current Consumer Loan classification.
- (2) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program as a percentage of the initial balance of the Consumer Loans. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.

During the fourth quarter of 2017, we transferred \$89.0 million of Dealer Loans along with the related allowance for credit losses balance of \$31.8 million to Purchased Loans. Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. Substantially all of these transfers relate to Dealers where events had occurred in prior periods that met our criteria for forfeiture. However, while we intended to exercise our rights to Dealer Holdback in the period the forfeiture event occurred, we did not exercise our rights for these Dealers until the fourth quarter of 2017.

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

The spread on Dealer Loans increased from 21.8% in 2016 to 22.9% in 2017 as a result of the performance of 2017 Consumer Loans in our Dealer Loan portfolio, which has exceeded our initial estimates, while those assigned to us in 2016 have declined from our initial estimates, partially offset by a change in the mix of Consumer Loan assignments.

The spread on Purchased Loans increased from 18.9% in 2016 to 21.3% in 2017 as a result of the performance of 2017 Consumer Loans in our Purchased Loan portfolio, which exceeded our initial estimates by a greater margin than those assigned to us in 2016, partially offset by a change in the mix of Consumer Loan assignments.

## Access to Capital

Our strategy for accessing capital on acceptable terms needed to maintain and grow the business is to: (1) maintain consistent financial performance; (2) maintain modest financial leverage; and (3) maintain multiple funding sources. Our funded debt to equity ratio was 2.0 to 1 as of December 31, 2017. We currently utilize the following primary forms of debt financing: (1) a revolving secured line of credit; (2) Warehouse facilities; (3) Term ABS financings; and (4) senior notes.

## Consumer Loan Volume

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

For the Year Ended December 31,	Year over Year Percent Change	
	Unit Volume	Dollar Volume (1)
2015	33.2%	29.3%
2016	10.9%	21.6%
2017	-0.7%	9.0%

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

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

Unit volume declined 0.7% while dollar volume grew 9.0% during 2017 as the number of active Dealers grew 9.6% while average volume per active Dealer declined 9.6%. Dollar volume grew while unit volume declined during 2017 due to an increase in the average advance paid per unit. This increase was the result of an increase in the average size of the Consumer Loans assigned primarily due to increases in the average initial loan term and average vehicle selling price and an increase in Purchased Loans as a percentage of total unit volume, partially offset by a decrease in the average advance rate due to a decrease in the average initial forecast of the Consumer Loans assigned.

Unit and dollar volumes grew 10.9% and 21.6%, respectively, during 2016 as the number of active Dealers grew 16.2% while average volume per active Dealer declined 4.6%. Dollar volume grew faster than unit volume during 2016 due to an increase in the average advance paid per unit. This increase was the result of an increase in the average size of the Consumer Loans assigned primarily due to an increase in the average initial loan term and an increase in Purchased Loans as a percentage of total unit volume, partially offset by a decrease in the average advance rate due to a decrease in the average initial forecast of the Consumer Loans assigned.

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

	For the Years Ended December 31,			For the Years Ended December 31,		
	2017	2016	% Change	2016	2015	% Change
Consumer Loan unit volume	328,507	330,710	-0.7%	330,710	298,288	10.9%
Active Dealers (1)	11,551	10,536	9.6%	10,536	9,064	16.2%
Average volume per active Dealer	28.4	31.4	-9.6%	31.4	32.9	-4.6%
Consumer Loan unit volume from Dealers active both periods	278,497	295,444	-5.7%	282,129	273,839	3.0%
Dealers active both periods	7,524	7,524	—	6,925	6,925	—
Average volume per Dealer active both periods	37.0	39.3	-5.7%	40.7	39.5	3.0%
Consumer Loan unit volume from Dealers <u>not</u> active both periods	50,010	35,266	41.8%	48,581	24,449	98.7%
Dealers <u>not</u> active both periods	4,027	3,012	33.7%	3,611	2,139	68.8%
Average volume per Dealer <u>not</u> active both periods	12.4	11.7	6.0%	13.5	11.4	18.4%

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

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

	For the Years Ended December 31,			For the Years Ended December 31,		
	2017	2016	% Change	2016	2015	% Change
Consumer Loan unit volume from new Dealers	46,985	46,232	1.6%	46,232	52,577	-12.1%
New active Dealers (1)	3,740	3,406	9.8%	3,406	3,404	0.1%
Average volume per new active Dealer	12.6	13.6	-7.4%	13.6	15.4	-11.7%
Attrition (2)	-10.7%	-8.2%		-8.2%	-6.9%	

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

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

Consumer Loans are assigned to us as either Dealer Loans through our Portfolio Program or Purchased Loans through our Purchase Program. The following table shows the percentage of Consumer Loans assigned to us under each of the programs for each of the last three years:

For the Years Ended December 31,	Unit Volume		Dollar Volume (1)	
	Portfolio Program	Purchase Program	Portfolio Program	Purchase Program
2015	87.4%	12.6%	82.8%	17.2%
2016	78.6%	21.4%	71.4%	28.6%
2017	72.5%	27.5%	68.5%	31.5%

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

As of December 31, 2017 and 2016, the net Dealer Loans receivable balance was 68.2% and 74.6%, respectively, of the total net Loans receivable balance.

## Results of Operations

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

### *Year Ended December 31, 2017 Compared to Year Ended December 31, 2016*

(Dollars in millions, except per share data)

	For the Years Ended December 31,			
	2017	2016	\$ Change	% Change
<b>Revenue:</b>				
Finance charges	\$ 1,011.5	\$ 874.3	\$ 137.2	15.7%
Premiums earned	41.1	43.0	(1.9)	-4.4%
Other income	57.4	51.9	5.5	10.6%
Total revenue	1,110.0	969.2	140.8	14.5%
<b>Costs and expenses:</b>				
Salaries and wages (1)	140.1	126.5	13.6	10.8%
General and administrative (1)	55.5	48.2	7.3	15.1%
Sales and marketing (1)	58.4	49.4	9.0	18.2%
Provision for credit losses	129.3	90.2	39.1	43.3%
Interest	120.2	97.7	22.5	23.0%
Provision for claims	22.7	26.0	(3.3)	-12.7%
Total costs and expenses	526.2	438.0	88.2	20.1%
Income before provision for income taxes	583.8	531.2	52.6	9.9%
Provision for income taxes	113.6	198.4	(84.8)	-42.7%
Net income	\$ 470.2	\$ 332.8	\$ 137.4	41.3%
Net income per share:				
Basic	\$ 24.12	\$ 16.37	\$ 7.75	47.3%
Diluted	\$ 24.04	\$ 16.31	\$ 7.73	47.4%
Weighted average shares outstanding:				
Basic	19,497,719	20,331,769	(834,050)	-4.1%
Diluted	19,558,936	20,410,116	(851,180)	-4.2%
(1) Operating expenses	\$ 254.0	\$ 224.1	\$ 29.9	13.3%

*Finance Charges.* The increase of \$137.2 million, or 15.7%, was primarily the result of an increase in the average net Loans receivable balance partially offset by a decrease in the average yield on our Loan portfolio, as follows:

(Dollars in millions)

	For the Years Ended December 31,		
	2017	2016	Change
Average net Loans receivable balance	\$ 4,276.4	\$ 3,534.0	\$ 742.4
Average yield on our Loan portfolio	23.7%	24.7%	-1.0%



The following table summarizes the impact each component had on the overall increase in finance charges for the year ended December 31, 2017:

(In millions)

Impact on finance charges:	For the Year Ended December 31, 2017
Due to an increase in the average net Loans receivable balance	\$ 183.7
Due to a decrease in the average yield	(46.5)
Total increase in finance charges	\$ 137.2

The increase in the average net Loans receivable balance was primarily due to the dollar volume of new Consumer Loan assignments exceeding the principal collected on Loans receivable. The average yield on our Loan portfolio for the year ended December 31, 2017 decreased as compared to the same period in 2016 due to lower yields on new Consumer Loan assignments.

*Other Income.* The increase of \$5.5 million, or 10.6%, was primarily due to an increase in ancillary product profit sharing income due to growth in our Loan portfolio, partially offset by a decrease in GPS Starter Interrupt Device fee income due to a decrease in the number of units purchased by Dealers from our third party provider in the current year.

*Operating Expenses.* The increase of \$29.9 million, or 13.3%, was primarily due to the following:

- An increase in salaries and wages expense of \$13.6 million, or 10.8%, comprised of the following:
  - An increase of \$7.9 million in stock-based compensation expense primarily due to 2017 stock awards.
  - A decrease of \$4.8 million in cash-based incentive compensation expense primarily due to a decline in Company performance measures.
  - Excluding the changes in stock-based and cash-based incentive compensation expenses, salaries and wages expense increased \$10.5 million primarily related to an increase of \$6.2 million for our servicing function and \$3.9 million for our support function as a result of an increase in the number of team members.
- An increase in sales and marketing expense of \$9.0 million, or 18.2%, primarily due to an increase in the size of our sales force.
- An increase in general and administrative expense of \$7.3 million, or 15.1%, primarily as a result of an increase in legal fees.

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

During the year ended December 31, 2017, overall Consumer Loan performance was generally consistent with our expectations at the start of the year. However, the performance of certain Loan pools declined from our expectations during the year, resulting in a provision for credit losses of \$129.3 million for the year ended December 31, 2017, of which \$103.4 million related to Dealer Loans and \$25.9 million related to Purchased Loans. Provision for credit losses included an additional expense of \$41.6 million related to the revision of our net cash flow timing forecast during the fourth quarter of 2017, of which \$31.9 million related to Dealer Loans and \$9.7 million related to Purchased Loans. For additional information, see Note 5 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

During the year ended December 31, 2016, overall Consumer Loan performance declined from our expectations at the start of the year, resulting in a provision for credit losses of \$90.2 million for the year ended December 31, 2016, of which \$87.3 million related to Dealer Loans and \$2.9 million related to Purchased Loans.



*Interest.* The increase of \$22.5 million, or 23.0%, was due to increases in the average outstanding debt balance and our average cost of debt, as follows:

(Dollars in millions)

	For the Years Ended December 31,		
	2017	2016	Change
Interest expense	\$ 120.2	\$ 97.7	\$ 22.5
Average outstanding debt principal balance (1)	2,944.8	2,459.5	485.3
Average cost of debt	4.1%	4.0%	0.1%

(1) Includes the unamortized debt discount and excludes deferred debt issuance costs.

The average outstanding debt balance increased primarily due to debt proceeds used to fund growth in new Consumer Loan assignments and stock repurchases. The increase in our average cost of debt was primarily a result of a change in the mix of our outstanding debt.

*Provision for Income Taxes.* For the year ended December 31, 2017, the effective income tax rate decreased to 19.5% from 37.3% for the year ended December 31, 2016. The decrease was primarily due to the enactment of the Tax Cuts and Jobs Act in December 2017, which resulted in the reversal of \$99.8 million of provision for income taxes. While the new federal statutory income tax rate was not effective until January 1, 2018, we were required to revalue deferred taxes and uncertain tax positions as of December 31, 2017 at the new federal statutory income tax rate. Based on currently enacted federal and state statutory income tax rates, we believe our long-term effective income tax rate will decrease from 37% in past years to approximately 23% in 2018 and future years. For additional information, see Note 11 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

**Year Ended December 31, 2016 Compared to Year Ended December 31, 2015**

(Dollars in millions, except per share data)

	For the Years Ended December 31,			
	2016	2015	\$ Change	% Change
<b>Revenue:</b>				
Finance charges	\$ 874.3	\$ 730.5	\$ 143.8	19.7%
Premiums earned	43.0	48.2	(5.2)	-10.8%
Other income	51.9	46.6	5.3	11.4%
Total revenue	969.2	825.3	143.9	17.4%
<b>Costs and expenses:</b>				
Salaries and wages (1)	126.5	116.4	10.1	8.7%
General and administrative (1)	48.2	37.8	10.4	27.5%
Sales and marketing (1)	49.4	45.9	3.5	7.6%
Provision for credit losses	90.2	41.5	48.7	117.3%
Interest	97.7	76.0	21.7	28.6%
Provision for claims	26.0	33.2	(7.2)	-21.7%
Total costs and expenses	438.0	350.8	87.2	24.9%
Income before provision for income taxes	531.2	474.5	56.7	11.9%
Provision for income taxes	198.4	174.8	23.6	13.5%
Net income	\$ 332.8	\$ 299.7	\$ 33.1	11.0%
Net income per share:				
Basic	\$ 16.37	\$ 14.35	\$ 2.02	14.1%
Diluted	\$ 16.31	\$ 14.28	\$ 2.03	14.2%
Weighted average shares outstanding:				
Basic	20,331,769	20,891,695	(559,926)	-2.7%
Diluted	20,410,116	20,980,753	(570,637)	-2.7%
(1) Operating expenses	\$ 224.1	\$ 200.1	\$ 24.0	12.0%

*Finance Charges.* The increase of \$143.8 million, or 19.7%, was primarily the result of an increase in the average net Loans receivable balance partially offset by a decrease in the average yield on our Loan portfolio, as follows:

(Dollars in millions)

	For the Years Ended December 31,		
	2016	2015	Change
Average net Loans receivable balance	\$ 3,534.0	\$ 2,829.9	\$ 704.1
Average yield on our Loan portfolio	24.7%	25.8%	-1.1%

The following table summarizes the impact each component had on the overall increase in finance charges for the year ended December 31, 2016:

(In millions)

Impact on finance charges:	For the Year Ended December 31, 2016
Due to an increase in the average net Loans receivable balance	\$ 181.8
Due to a decrease in the average yield	(38.0)
Total increase in finance charges	\$ 143.8

The increase in the average net Loans receivable balance was primarily due to the dollar volume of new Consumer Loan assignments exceeding the principal collected on Loans receivable. The average yield on our Loan portfolio for the year ended December 31, 2016 decreased as compared to the same period in 2015 due to lower yields on new Consumer Loan assignments.

*Premiums Earned.* The decrease of \$5.2 million, or 10.8%, was primarily due to a decrease in the size of our reinsurance portfolio, which was the result of a decline in premiums written on vehicle service contracts. While we have experienced growth in our Loan portfolio, the percentage of Consumer Loan assignments with reinsured vehicle service contracts has declined.

*Other Income.* The increase of \$5.3 million, or 11.4%, was primarily due to growth in our Loan portfolio, resulting in increases of \$3.7 million in ancillary product profit sharing and \$2.3 million in remarketing fees, partially offset by a decrease in GPS-SID fees of \$2.9 million due to a decrease in the number of units purchased by Dealers from our third party provider in the current year.

*Operating Expenses.* The increase of \$24.0 million, or 12.0%, was primarily due to the following:

- An increase in general and administrative expense of \$10.4 million, or 27.5%, primarily as a result of increases in legal fees and information technology expenses.
- An increase in salaries and wages expense of \$10.1 million, or 8.7%, comprised of the following:
  - An increase of \$15.1 million in salaries and wages expense, excluding stock-based compensation expense, primarily related to an increase in the number of team members, including increases of \$8.3 million for our support function, \$4.6 million for our servicing function and \$2.2 million for our originations function.
  - A decrease of \$5.0 million in stock-based compensation expense primarily due to declining expense recognition related to long-term stock awards granted in prior years and amounts recorded in the prior year related to a change in the expected vesting period of performance-based stock awards.

*Provision for Credit Losses.* During the year ended December 31, 2016, overall Consumer Loan performance declined from our expectations at the start of the year, resulting in a provision for credit losses of \$90.2 million for the year ended December 31, 2016, of which \$87.3 million related to Dealer Loans and \$2.9 million related to Purchased Loans.

During the year ended December 31, 2015, overall Consumer Loan performance was generally consistent with our expectations at the start of the year. However, the performance of certain Loan pools declined from our expectations during the year, resulting in a provision for credit losses of \$41.5 million for the year ended December 31, 2015, of which \$41.8 million related to Dealer Loans partially offset by a reversal of provision of \$0.3 million related to Purchased Loans.

*Interest.* The increase of \$21.7 million, or 28.6%, was due to increases in the average outstanding debt balance and our average cost of debt, as follows:

(Dollars in millions)

	For the Years Ended December 31,		
	2016	2015	Change
Interest expense	\$ 97.7	\$ 76.0	\$ 21.7
Average outstanding debt principal balance (1)	2,459.5	1,964.4	495.1
Average cost of debt	4.0%	3.9%	0.1%

(1) Includes the unamortized debt discount and excludes deferred debt issuance costs.

The average outstanding debt balance increased primarily due to debt proceeds used to fund growth in new Consumer Loan assignments and stock repurchases. The increase in our average cost of debt was primarily a result of a change in the mix of our outstanding debt.

*Provision for Claims.* The decrease of \$7.2 million, or 21.7%, was due to a decrease in claims paid per reinsured vehicle service contract and a decrease in the size of our reinsurance portfolio.

*Provision for Income Taxes.* For the year ended December 31, 2016, the effective income tax rate increased to 37.3% from 36.8% for the year ended December 31, 2015. The increase was primarily due to higher effective income tax rates in certain state tax jurisdictions.

## Critical Accounting Estimates

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

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

### Finance Charge Revenue & Allowance for Credit Losses

*Nature of Estimates Required.* We estimate the amount and timing of future collections and Dealer Holdback payments. These estimates impact Loans receivable and allowance for credit losses on our balance sheet and finance charges and provision for credit losses on our income statement.

*Assumptions and Approaches Used.* For accounting purposes, we are not considered to be an originator of Consumer Loans, but instead are considered to be a lender to our Dealers for Consumer Loans assigned under our Portfolio Program, and a purchaser of Consumer Loans assigned under our Purchase Program. As a result of this classification, our accounting policies for recognizing finance charge revenue and determining our allowance for credit losses may be different from other lenders in our market, who, based on their different business models, may be considered to be a direct lender to consumers for accounting purposes. For additional information regarding our classification as a lender to our Dealers for accounting purposes, see Note 1 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

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

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

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

During the fourth quarter of 2017, we updated our net cash flow timing model to incorporate more recent data. The revised forecast resulted in an expected cash flow stream with a lower net present value as compared to the prior forecast, as less cash flows are expected in earlier periods and more cash flows are expected in later periods.

The reduction in net present value was primarily the result of a change in the expected timing of cash flows from longer-term Consumer Loans. Due to our limited historical experience with longer-term Consumer Loans, our prior model relied on extrapolations from the historical performance of shorter-term Consumer Loans to predict the timing of future net cash flows on longer-term Consumer Loans. We now have additional historical experience on these longer-term loans which we used to refine our estimate.

The revision to our net cash flow timing forecast does not impact the amount of undiscounted net cash flows we expect to receive. As a result, the dollar amount of future net portfolio revenue (finance charges less provision for credit losses) is not impacted by the revision. However, the revision does impact the period in which those net revenues will be recorded as a portion of the impact of the revised timing estimate was recorded as a current period expense and a portion was recorded as a yield adjustment. For the fourth quarter of 2017, the revision increased provision for credit losses by \$41.6 million, reduced finance charge revenue by \$7.3 million and reduced net income by \$30.8 million. The revision reduced the yield on our loan portfolio by 90 basis points, which will impact the timing of revenue recognition in future periods.

During the fourth quarter of 2016, we enhanced our methodology for forecasting the amount and timing of future collections on Consumer Loans through the utilization of more recent data and new forecast variables. Implementation of the enhanced forecasting methodology as of October 31, 2016 did not have a material impact on provision for credit losses or net income; however, it did reduce forecasted net cash flows by \$1.8 million, all of which related to Dealer Loans. The implementation also decreased the forecasted collection rates for Consumer Loans assigned in 2015 and 2016 and increased the forecasted collection rates for Consumer Loans assigned in 2011 through 2013.

*Key Factors.* Variances in the amount and timing of future net cash flows from current estimates could materially impact earnings in future periods. A 1% decline in the forecasted future net cash flows on Loans as of December 31, 2017 would have reduced 2017 net income by approximately \$22.2 million.

#### Premiums Earned

*Nature of Estimates Required.* We estimate the pattern of future claims on vehicle service contracts. These estimates impact accounts payable and accrued liabilities on our balance sheet and premiums earned on our income statement.

*Assumptions and Approaches Used.* Premiums from the reinsurance of vehicle service contracts are recognized over the life of the policy in proportion to the expected costs of servicing those contracts. Expected costs are determined based on our historical claims experience. In developing our cost expectations, we stratify our historical claims experience into groupings based on contractual term, as this characteristic has led to different patterns of cost incurrence in the past. We will continue to update our analysis of historical costs under the vehicle service contract program as appropriate, including the consideration of other characteristics that may have led to different patterns of cost incurrence, and revise our revenue recognition timing for any changes in the pattern of our expected costs as they are identified.

*Key Factors.* Variances in the pattern of future claims from our current estimates would impact the timing of premiums recognized in future periods. A 10% change in premiums earned for the year ended December 31, 2017 would have affected 2017 net income by approximately \$2.6 million.

#### Stock-Based Compensation Expense

*Nature of Estimates Required.* Stock-based compensation expense is based on the fair value on the date the equity instrument is granted or awarded by us, and is recognized over the expected vesting period of the equity instrument. We also estimate expected forfeiture rates of restricted stock awards. These estimates impact paid in capital on our balance sheet and salaries and wages on our income statement.

*Assumptions and Approaches Used.* In recognizing restricted stock-based compensation expense, we make assumptions regarding the expected forfeiture rates of the restricted stock awards. We also make assumptions regarding the expected vesting dates of performance-based restricted stock awards.

The fair value of restricted stock awards are estimated as if they were vested and issued on the grant date and are recognized over the expected vesting period of the restricted stock award. For additional information, see Notes 2 and 14 to the consolidated financial statements contained in Item 8 of this Form 10-K, which are incorporated herein by reference.

*Key Factors.* Changes in the expected vesting dates of performance-based restricted stock awards and expected forfeiture rates would impact the amount and timing of stock-based compensation expense recognized in future periods. A 10% change in stock-based compensation expense for the year ended December 31, 2017 would have affected 2017 net income by approximately \$1.0 million.

### Contingencies

*Nature of Estimates Required.* We estimate the likelihood of adverse judgments against us and any resulting damages, fines or statutory penalties owed. These estimates impact accounts payable and accrued liabilities on our balance sheet and are general and administrative expenses on our income statement.

*Assumptions and Approaches Used.* With assistance from our legal counsel, we determine if the likelihood of an adverse judgment for various claims, litigation and regulatory investigations is remote, reasonably possible, or probable. To the extent we believe an adverse judgment is probable and the amount of the judgment is estimable, we recognize a liability. For information regarding current actions to which we are a party, see Note 16 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

*Key Factors.* Negative variances in the ultimate disposition of claims and litigation outstanding from current estimates could result in additional expense in future periods.

### Uncertain Tax Positions

*Nature of Estimates Required.* We estimate the impact of an uncertain income tax position on the income tax return. These estimates impact income taxes receivable and accounts payable and accrued liabilities on our balance sheet and provision for income taxes on our income statement.

*Assumptions and Approaches Used.* We follow a two-step approach for recognizing uncertain tax positions. First, we evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more-likely-than-not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, for positions that we determine are more-likely-than-not to be sustained, we recognize the tax benefit as the largest benefit that has a greater than 50% likelihood of being sustained. We establish a reserve for uncertain tax positions liability that is comprised of unrecognized tax benefits and related interest. We adjust this liability in the period in which an uncertain tax position is effectively settled, the statute of limitations expires for the relevant taxing authority to examine the tax position, or more information becomes available.

In December 2017, the Tax Cuts and Jobs Act was enacted, which decreased the federal statutory income tax rate. While the new federal statutory income tax rate was not effective until January 1, 2018, we were required to revalue uncertain tax positions as of December 31, 2017 at the new federal statutory income tax rate, which resulted in the reversal of \$5.1 million of provision for income taxes. On December 23, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118, which provides for a one-year measurement period from a registrant's reporting period that includes the Tax Cuts and Jobs Act's enactment date to allow the registrant sufficient time to obtain, prepare and analyze information to complete the accounting required under Accounting Standards Codification Topic 740. For information regarding the impact of the enactment of the Tax Cuts and Jobs Act, see Note 11 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

*Key Factors.* To the extent we prevail in matters for which a liability has been established or are required to pay amounts in excess of our established liability, our effective income tax rate in future periods could be materially affected.

### **Liquidity and Capital Resources**

We need capital to maintain and grow our business. Our primary sources of capital are cash flows from operating activities, collections of Consumer Loans and borrowings under: (1) a revolving secured line of credit; (2) Warehouse facilities; (3) Term ABS financings; and (4) senior notes. There are various restrictive covenants to which we are subject under each financing arrangement and we were in compliance with those covenants as of December 31, 2017. For information regarding these financings and the covenants included in the related documents, see Note 8 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

On February 23, 2017, we completed a \$350.0 million Term ABS financing, which was used to repay outstanding indebtedness. The financing has an expected annualized cost of approximately 3.1% (including the initial purchaser's fees and other costs), and it will revolve for 24 months, after which it will amortize based upon the cash flows on the contributed Loans.

On April 28, 2017, we increased the financing amount on Warehouse Facility IV from \$75.0 million to \$100.0 million and extended the date on which the facility will cease to revolve from April 30, 2018 to April 30, 2020. The interest rate on borrowings under the facility increased from LIBOR plus 200 basis points to LIBOR plus 225 basis points. There were no other material changes to the terms of the facility.

On June 28, 2017, we extended the maturity of our revolving secured line of credit facility with a commercial bank syndicate from June 22, 2019 to June 22, 2020. We also increased the amount of the facility from \$310.0 million to \$345.0 million until June 22, 2019, when the amount of the facility would decrease to \$300.0 million. There were no other material changes to the terms of the facility. On October 19, 2017, we further increased the amount of the facility to \$350.0 million until June 22, 2019 and changed the amount to which the facility will decrease on that date from \$300.0 million to \$315.0 million. There were no material changes to the terms of the facility.

On June 29, 2017, we completed a \$450.0 million Term ABS financing, which was used to repay outstanding indebtedness. The financing has an expected annualized cost of approximately 3.0% (including the initial purchaser's fees and other costs), and it will revolve for 24 months, after which it will amortize based upon the cash flows on the contributed Loans.

On July 18, 2017, we extended the date on which Warehouse Facility VI will cease to revolve from September 30, 2018 to September 30, 2020. There were no other material changes to the terms of the facility.

On October 26, 2017, we completed a \$350.0 million Term ABS financing, which was used to repay outstanding indebtedness. The financing has an expected annualized cost of approximately 3.2% (including the initial purchaser's fees and other costs), and it will revolve for 24 months, after which it will amortize based upon the cash flows on the contributed Loans.

On December 1, 2017, we entered into Warehouse Facility VII, a \$150.0 million revolving secured warehouse facility. The facility will cease to revolve on December 1, 2019, and must be repaid by November 30, 2021. Borrowings under the facility will generally bear interest at a rate equal to the commercial paper rate plus 190 basis points to class A lenders and the commercial paper rate plus 220 basis points to class B lenders.

On December 20, 2017, we extended the date on which Warehouse Facility II will cease to revolve from June 23, 2019 to December 20, 2020. The interest rate on borrowings under the facility decreased from LIBOR plus 225 basis points to LIBOR plus 175 basis points. There were no other material changes to the terms of the facility.

Cash and cash equivalents decreased to \$8.2 million as of December 31, 2017 from \$14.6 million as of December 31, 2016. As of December 31, 2017 and December 31, 2016 we had \$1,161.1 million and \$948.0 million in unused and available lines of credit, respectively. Our total balance sheet indebtedness increased to \$3,070.8 million as of December 31, 2017 from \$2,603.7 million as of December 31, 2016 primarily due to the growth in new Consumer Loan assignments and stock repurchases.



## Contractual Obligations

A summary of the total future contractual obligations requiring repayments as of December 31, 2017 is as follows:

(In millions)

	Payments Due by Period					
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Other
Long-term debt, including current maturities (1)	\$ 3,093.0	\$ 800.1	\$ 1,719.5	\$ 323.4	\$ 250.0	\$ —
Dealer Holdback (2)	805.1	136.2	246.4	254.7	167.8	—
Operating lease obligations	6.6	1.7	3.1	1.8	—	—
Purchase obligations (3)	4.2	1.2	2.4	0.6	—	—
Other future obligations (4)	31.9	—	—	—	—	31.9
Total contractual obligations	<u>\$ 3,940.8</u>	<u>\$ 939.2</u>	<u>\$ 1,971.4</u>	<u>\$ 580.5</u>	<u>\$ 417.8</u>	<u>\$ 31.9</u>

- (1) Long-term debt obligations included in the above table consist solely of principal repayments. The amounts are presented on a principal basis to exclude deferred debt issuance costs of \$20.9 million and the unamortized debt discount of \$1.3 million. We are also obligated to make interest payments at the applicable interest rates, as discussed in Note 8 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference. Based on the actual amounts outstanding under our revolving secured line of credit, our Warehouse facilities, and our senior notes as of December 31, 2017, the forecasted amounts outstanding on all other debt and the actual interest rates in effect as of December 31, 2017, interest is expected to be approximately \$99.5 million during 2018; \$74.0 million during 2019; and \$106.2 million during 2020 and thereafter.
- (2) We have contractual obligations to pay Dealer Holdback to our Dealers. Payments of Dealer Holdback are contingent upon the receipt of consumer payments and the repayment of advances. The amounts presented represent our forecast as of December 31, 2017.
- (3) Purchase obligations consist primarily of contractual obligations related to our information system and facility needs.
- (4) Other future obligations included in the above table consist solely of reserves for uncertain tax positions. Payments are contingent upon examination and would occur in the periods in which the uncertain tax positions are settled.

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

## Off-Balance Sheet Arrangements

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

## Market Risk

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

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

As of December 31, 2017, we had \$13.9 million of floating rate debt outstanding on our revolving secured line of credit, without interest rate protection. For every 1.0% increase in interest rates on our revolving secured line of credit, annual after-tax earnings would decrease by approximately \$0.1 million, assuming we maintain a level amount of floating rate debt.

As of December 31, 2017, we had interest rate cap agreements outstanding to manage the interest rate risk on Warehouse Facility II, Warehouse Facility IV, Warehouse Facility V and Warehouse Facility VII. However, as of December 31, 2017, there was no floating rate debt outstanding under these facilities.

As of December 31, 2017, we did not have a balance outstanding under Warehouse Facility VI, which does not have interest rate protection.

As of December 31, 2017, we had \$385.0 million in floating rate debt outstanding under Term ABS 2016-1 covered by an interest rate cap with a cap rate of 5.00% on the underlying benchmark rate. Based on the difference between the underlying benchmark rate on Term ABS 2016-1 as of December 31, 2017 and the interest rate cap rate, the interest rate on Term ABS 2016-1 could increase by a maximum of 3.44%. This maximum interest rate increase would reduce annual after-tax earnings by approximately \$10.2 million, assuming we maintain a level amount of floating rate debt.

### **New Accounting Updates**

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

- Restricted Cash
- Measurement of Credit Losses on Financial Instruments
- Leases
- Revenue from Contracts with Customers
- Improvements to Employee Share-Based Payment Accounting

### **Forward-Looking Statements**

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

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

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
Credit Acceptance Corporation

### Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Credit Acceptance Corporation (a Michigan corporation) and subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, 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) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 9, 2018 expressed an unqualified opinion.

### Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since 2005.

Southfield, Michigan  
February 9, 2018

## CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share data)

	As of December 31,	
	2017	2016
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 8.2	\$ 14.6
Restricted cash and cash equivalents	255.6	224.7
Restricted securities available for sale	46.1	45.3
Loans receivable (including \$1.4 from affiliates as of December 31, 2016)	5,049.0	4,207.0
Allowance for credit losses	(429.4)	(320.4)
Loans receivable, net	4,619.6	3,886.6
Property and equipment, net	20.5	18.2
Income taxes receivable	2.2	2.3
Other assets	33.4	26.3
Total Assets	<u>\$ 4,985.6</u>	<u>\$ 4,218.0</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 151.7	\$ 143.9
Revolving secured line of credit	13.9	—
Secured financing	2,514.1	2,062.4
Senior notes	542.8	541.3
Deferred income taxes, net	187.4	273.1
Income taxes payable	39.9	23.6
Total Liabilities	<u>3,449.8</u>	<u>3,044.3</u>
<b>Commitments and Contingencies - See Note 16</b>		
<b>Shareholders' Equity:</b>		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value, 80,000,000 shares authorized, 19,310,049 and 19,877,381 shares issued and outstanding as of December 31, 2017 and December 31, 2016, respectively	0.2	0.2
Paid-in capital	145.5	131.7
Retained earnings	1,390.3	1,042.0
Accumulated other comprehensive loss	(0.2)	(0.2)
Total Shareholders' Equity	<u>1,535.8</u>	<u>1,173.7</u>
Total Liabilities and Shareholders' Equity	<u>\$ 4,985.6</u>	<u>\$ 4,218.0</u>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

(Dollars in millions, except per share data)

	For the Years Ended December 31,		
	2017	2016	2015
<b>Revenue:</b>			
Finance charges	\$ 1,011.5	\$ 874.3	\$ 730.5
Premiums earned	41.1	43.0	48.2
Other income	57.4	51.9	46.6
Total revenue	1,110.0	969.2	825.3
<b>Costs and expenses:</b>			
Salaries and wages	140.1	126.5	116.4
General and administrative	55.5	48.2	37.8
Sales and marketing	58.4	49.4	45.9
Provision for credit losses	129.3	90.2	41.5
Interest	120.2	97.7	76.0
Provision for claims	22.7	26.0	33.2
Total costs and expenses	526.2	438.0	350.8
Income before provision for income taxes	583.8	531.2	474.5
Provision for income taxes	113.6	198.4	174.8
Net income	\$ 470.2	\$ 332.8	\$ 299.7
Net income per share:			
Basic	\$ 24.12	\$ 16.37	\$ 14.35
Diluted	\$ 24.04	\$ 16.31	\$ 14.28
Weighted average shares outstanding:			
Basic	19,497,719	20,331,769	20,891,695
Diluted	19,558,936	20,410,116	20,980,753

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	For the Years Ended December 31,		
	2017	2016	2015
Net income	\$ 470.2	\$ 332.8	\$ 299.7
Other comprehensive loss, net of tax:			
Unrealized loss on securities, net of tax	—	(0.1)	—
Other comprehensive loss	—	(0.1)	—
Comprehensive income	<u>\$ 470.2</u>	<u>\$ 332.7</u>	<u>\$ 299.7</u>

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in millions)

	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number	Amount				
Balance, January 1, 2015	20,597,671	\$ 0.2	\$ 88.7	\$ 613.4	\$ (0.1)	\$ 702.2
Net income	—	—	—	299.7	—	299.7
Stock-based compensation	—	—	12.4	—	—	12.4
Restricted stock awards, net of forfeitures	4,024	—	—	—	—	—
Repurchase of common stock	(470,071)	—	(0.6)	(85.9)	—	(86.5)
Restricted stock units converted to common stock	1,348	—	—	—	—	—
Tax benefits from stock- based compensation plans	—	—	0.3	—	—	0.3
Balance, December 31, 2015	20,132,972	0.2	100.8	827.2	(0.1)	928.1
Net income	—	—	—	332.8	—	332.8
Other comprehensive loss	—	—	—	—	(0.1)	(0.1)
Stock-based compensation	—	—	7.4	—	—	7.4
Restricted stock awards, net of forfeitures	6,643	—	—	—	—	—
Repurchase of common stock	(666,330)	—	(3.7)	(118.0)	—	(121.7)
Restricted stock units converted to common stock	404,096	—	—	—	—	—
Tax benefits from stock- based compensation plans	—	—	27.2	—	—	27.2
Balance, December 31, 2016	19,877,381	0.2	131.7	1,042.0	(0.2)	1,173.7
Net income	—	—	—	470.2	—	470.2
Stock-based compensation	—	—	15.4	—	—	15.4
Restricted stock awards, net of forfeitures	8,092	—	—	—	—	—
Repurchase of common stock	(610,260)	—	(1.6)	(121.9)	—	(123.5)
Restricted stock units converted to common stock	34,836	—	—	—	—	—
Balance, December 31, 2017	19,310,049	\$ 0.2	\$ 145.5	\$ 1,390.3	\$ (0.2)	\$ 1,535.8

See accompanying notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	For the Years Ended December 31,		
	2017	2016	2015
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 470.2	\$ 332.8	\$ 299.7
Adjustments to reconcile cash provided by operating activities:			
Provision for credit losses	129.3	90.2	41.5
Depreciation	6.0	6.1	5.7
Amortization	10.4	9.2	8.5
Loss on retirement of property and equipment	0.1	0.1	0.3
Provision (credit) for deferred income taxes	(85.6)	24.2	35.6
Stock-based compensation	15.4	7.4	12.4
Change in operating assets and liabilities:			
Increase in accounts payable and accrued liabilities	10.3	11.8	13.0
Decrease (increase) in income taxes receivable	0.1	7.7	(8.6)
Increase (decrease) in income taxes payable	16.3	23.6	(2.9)
Increase in other assets	(6.5)	(5.9)	(1.0)
Net cash provided by operating activities	566.0	507.2	404.2
<b>Cash Flows From Investing Activities:</b>			
Increase in restricted cash and cash equivalents	(30.9)	(57.3)	(9.8)
Purchases of restricted securities available for sale	(34.5)	(39.1)	(34.1)
Proceeds from sale of restricted securities available for sale	27.8	35.9	34.4
Maturities of restricted securities available for sale	5.6	5.8	4.1
Principal collected on Loans receivable	2,189.5	1,955.8	1,739.6
Advances to Dealers	(1,968.3)	(1,881.3)	(1,795.1)
Purchases of Consumer Loans	(904.8)	(754.2)	(371.9)
Accelerated payments of Dealer Holdback	(47.1)	(53.6)	(52.6)
Payments of Dealer Holdback	(131.6)	(142.0)	(150.1)
Purchases of property and equipment	(8.4)	(5.5)	(4.0)
Net cash used in investing activities	(902.7)	(935.5)	(639.5)
<b>Cash Flows From Financing Activities:</b>			
Borrowings under revolving secured line of credit	3,527.1	1,615.4	1,657.0
Repayments under revolving secured line of credit	(3,513.2)	(1,673.1)	(1,718.8)
Proceeds from secured financing	2,364.5	2,169.3	1,247.0
Repayments of secured financing	(1,907.5)	(1,575.8)	(1,101.4)
Proceeds from issuance of senior notes	—	—	248.2
Payments of debt issuance costs and debt extinguishment costs	(14.6)	(9.0)	(11.0)
Repurchase of common stock	(123.5)	(121.7)	(86.5)
Excess tax benefits from stock-based compensation plans	—	27.2	0.3
Other financing activities	(2.5)	4.3	0.4
Net cash provided by financing activities	330.3	436.6	235.2
Net increase (decrease) in cash and cash equivalents	(6.4)	8.3	(0.1)
Cash and cash equivalents, beginning of period	14.6	6.3	6.4
Cash and cash equivalents, end of period	\$ 8.2	\$ 14.6	\$ 6.3
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Cash paid during the period for interest	\$ 108.8	\$ 88.0	\$ 61.8
Cash paid during the period for income taxes	\$ 175.0	\$ 111.2	\$ 146.9

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. DESCRIPTION OF BUSINESS

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

Without our financing programs, consumers are often unable to purchase vehicles or they purchase unreliable ones. Further, as we report to the three national credit reporting agencies, an important ancillary benefit of our programs is that we provide consumers with an opportunity to improve their lives by improving their credit score and move on to more traditional sources of financing.

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

Substantially all of the Consumer Loans assigned to us are made to consumers with impaired or limited credit histories. The following table shows the percentage of Consumer Loans assigned to us with either FICO® scores below 650 or no FICO® scores:

Consumer Loan Assignment Volume	For the Years Ended December 31,		
	2017	2016	2015
Percentage of total unit volume with either FICO® scores below 650 or no FICO® scores	95.6%	95.8%	96.1%

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

For the Years Ended December 31,	Unit Volume		Dollar Volume (1)	
	Dealer Loans	Purchased Loans	Dealer Loans	Purchased Loans
2015	87.4%	12.6%	82.8%	17.2%
2016	78.6%	21.4%	71.4%	28.6%
2017	72.5%	27.5%	68.5%	31.5%

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

#### Portfolio Program

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

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

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

If the collections on Consumer Loans from a Dealer's pool are not sufficient to repay the advance balance and any other amounts due to us, the Dealer will not receive Dealer Holdback. Certain events may also result in Dealers forfeiting their rights to Dealer Holdback, including becoming inactive before assigning at least 100 Consumer Loans.

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

Since typically the combination of the advance and the consumer's down payment provides the Dealer with a cash profit at the time of sale, the Dealer's risk in the Consumer Loan is limited. We cannot demand repayment of the advance from the Dealer except in the event the Dealer is in default of the Dealer servicing agreement. Advances are made only after the consumer and Dealer have signed a Consumer Loan contract, we have received the executed Consumer Loan contract and supporting documentation in either physical or electronic form, and we have approved all of the related stipulations for funding.

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

### Purchase Program

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

### Program Enrollment

Dealers may enroll in our Portfolio Program by (1) paying an up-front, one-time fee of \$9,850, or (2) agreeing to allow us to retain 50% of their first accelerated Dealer Holdback payment. Access to the Purchase Program is typically only granted to Dealers that meet one of the following:

- received first accelerated Dealer Holdback payment under the Portfolio Program;
- franchise dealership; or
- independent dealership that meets certain criteria upon enrollment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Principles of Consolidation

The consolidated financial statements include our accounts and our wholly-owned subsidiaries. All significant intercompany transactions have been eliminated. Our primary subsidiaries as of December 31, 2017 are: Buyer's Vehicle Protection Plan, Inc. ("BVPP"), Vehicle Remarketing Services, Inc. ("VRS"), VSC Re Company ("VSC Re"), CAC Warehouse Funding Corp. II, CAC Warehouse Funding LLC IV, CAC Warehouse Funding LLC V, CAC Warehouse Funding LLC VI, CAC Warehouse Funding LLC VII, Credit Acceptance Funding LLC 2015-1, Credit Acceptance Funding LLC 2015-2, Credit Acceptance Funding LLC 2016-1, Credit Acceptance Funding LLC 2016-2, Credit Acceptance Funding LLC 2016-3, Credit Acceptance Funding LLC 2017-1, Credit Acceptance Funding LLC 2017-2 and Credit Acceptance Funding LLC 2017-3.

#### Business Segment Information

We currently operate in one reportable segment which represents our core business of offering financing programs that enable Dealers to sell vehicles to consumers regardless of their credit history. For information regarding our one reportable segment and related entity wide disclosures, see Note 15 to the consolidated financial statements.

#### Use of Estimates

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

#### Cash and Cash Equivalents

Cash equivalents consist of readily marketable securities with original maturities at the date of acquisition of three months or less. As of December 31, 2017 and 2016, we had \$7.8 million and \$14.3 million, respectively, in cash and cash equivalents that were not insured by the Federal Deposit Insurance Corporation ("FDIC").

#### Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of cash pledged as collateral for secured financings and cash held in a trust for future vehicle service contract claims. As of December 31, 2017 and 2016, we had \$255.1 million and \$224.1 million, respectively, in restricted cash and cash equivalents that were not insured by the FDIC.

#### Restricted Securities Available for Sale

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

#### Loans Receivable and Allowance for Credit Losses

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

- the consumer and Dealer have signed a Consumer Loan contract; and
- we have received the executed Consumer Loan contract and supporting documentation in either physical or electronic form.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

For accounting and financial reporting purposes, a Consumer Loan is considered to have been assigned to us after the following has occurred:

- the Consumer Loan has been legally assigned to us; and
- we have made a funding decision and generally have provided funding to the Dealer in the form of either an advance under the Portfolio Program or one-time purchase payment under the Purchase Program.

*Portfolio Segments and Classes.* We are considered to be a lender to our Dealers for Consumer Loans assigned under our Portfolio Program and a purchaser of Consumer Loans assigned under our Purchase Program. As a result, our Loan portfolio consists of two portfolio segments: Dealer Loans and Purchased Loans. Each portfolio segment is comprised of one class of Consumer Loan assignments, which is Consumer Loans originated by Dealers to finance purchases of vehicles and related ancillary products by consumers with impaired or limited credit histories.

*Dealer Loans.* Amounts advanced to Dealers for Consumer Loans assigned under the Portfolio Program are recorded as Dealer Loans and are aggregated by Dealer for purposes of recognizing revenue and evaluating impairment. We account for Dealer Loans based on forecasted cash flows instead of contractual cash flows as we do not expect to collect all of the contractually specified amounts due to the credit quality of the underlying Consumer Loans. The outstanding balance of each Dealer Loan included in Loans receivable is comprised of the following:

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

Less:

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

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

Future collections on Dealer Loans are forecasted for each individual Dealer based on the historical performance of Consumer Loans with similar characteristics, adjusted for recent trends in payment patterns. Dealer Holdback is forecasted for each individual Dealer based on the expected future collections and current advance balance of each Dealer Loan. Cash flows from any individual Dealer Loan are often different than estimated cash flows at the time of assignment. If such difference is favorable, the difference is recognized prospectively into income over the remaining life of the Dealer Loan through a yield adjustment. If such difference is unfavorable, a provision for credit losses is recorded immediately as a current period expense and a corresponding allowance for credit losses is established. Because differences between estimated cash flows at the time of assignment and actual cash flows occur often, an allowance is required for a significant portion of our Dealer Loan portfolio. An allowance for credit losses does not necessarily indicate that a Dealer Loan is unprofitable, and seldom are cash flows from a Dealer Loan insufficient to repay the initial amounts advanced to the Dealer.

*Purchased Loans.* Amounts paid to Dealers for Consumer Loans assigned under the Purchase Program are recorded as Purchased Loans and are aggregated into pools based on the month of purchase for purposes of recognizing revenue and evaluating impairment. We account for Purchased Loans based on forecasted cash flows instead of contractual cash flows as we do not expect to collect all of the contractually specified amounts due to the credit quality of the assigned Consumer Loans. The outstanding balance of each Purchased Loan pool included in Loans receivable is comprised of the following:

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

Less:

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

Future collections on Purchased Loans are forecasted for each individual pool based on the historical performance of Consumer Loans with similar characteristics, adjusted for recent trends in payment patterns. Cash flows from any individual pool of Purchased Loans are often different than estimated cash flows at the time of assignment. If such difference is favorable, the difference is recognized prospectively into income over the remaining life of the pool of Purchased Loans through a yield adjustment. If such difference is unfavorable, a provision for credit losses is recorded immediately as a current period expense and a corresponding allowance for credit losses is established.

Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's outstanding Dealer Loan balance to Purchased Loans in the period this forfeiture occurs. During the fourth quarter of 2017, we enhanced our accounting methodology for transferring loans. Beginning in the fourth quarter of 2017, we:

- transfer the related Dealer Loan allowance for credit losses balance to Purchased Loans in the period this forfeiture occurs; and
- aggregate these Purchased Loans by Dealer for purposes of recognizing revenue and evaluating impairment.

Prior to the fourth quarter of 2017, we:

- reversed the Dealer Loan allowance for credit losses balance through Dealer Loan provision for credit losses and established a new allowance for credit losses in Purchased Loans through Purchased Loan provision for credit losses; and
- aggregated these Purchased Loans by month of purchase for purposes of recognizing revenue and evaluating impairment.

*Credit Quality.* Substantially all of the Consumer Loans assigned to us are made to individuals with impaired or limited credit histories or higher debt-to-income ratios than are permitted by traditional lenders. Consumer Loans made to these individuals generally entail a higher risk of delinquency, default and repossession and higher losses than loans made to consumers with better credit. Since most of our revenue and cash flows are generated from these Consumer Loans, our ability to accurately forecast Consumer Loan performance is critical to our business and financial results. At the time the Consumer Loan is submitted to us for assignment, we forecast future expected cash flows from the Consumer Loan. Based on these forecasts, an advance or one-time purchase payment is made to the related Dealer at a price designed to maximize economic profit, a non-GAAP financial measure that considers our return on capital, our cost of capital and the amount of capital invested.

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

*Methodology Changes.* During 2017, we enhanced our methodology for transferring Loans and updated our net cash flow timing model. During 2016, we enhanced our methodology for forecasting the amount and timing of future collections on Consumer Loans. For additional information regarding these methodology changes, see Note 5 to the consolidated financial statements. For the three year period ended December 31, 2017, we did not make any other methodology changes for Loans that had a material impact on our financial statements.

### Property and Equipment

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

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

### Deferred Debt Issuance Costs

Deferred debt issuance costs associated with secured financings and senior notes are included as a deduction from the carrying amount of the related debt liability, and deferred debt issuance costs associated with our revolving secured line of credit are included in other assets. Expenses associated with the issuance of debt instruments are capitalized and amortized as interest expense over the term of the debt instrument using the effective interest method for asset-backed secured financings (“Term ABS”) and senior notes and the straight-line method for lines of credit and revolving secured warehouse (“Warehouse”) facilities. For additional information regarding deferred debt issuance costs, see Note 8 to the consolidated financial statements.

### Derivative Instruments

We rely on various sources of financing, some of which contain floating rates of interest and expose us to risks associated with increases in interest rates. We manage such risk primarily by entering into interest rate cap agreements (“derivative instruments”). These derivative instruments are not designated as hedges, and changes in their fair value increase or decrease interest expense.

We recognize derivative instruments as either other assets or accounts payable and accrued liabilities on our consolidated balance sheets. For additional information regarding our derivative instruments, see Note 9 to the consolidated financial statements.

### Finance Charges

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

We provide Dealers the ability to offer vehicle service contracts to consumers through our relationships with Third Party Providers (“TPPs”). A vehicle service contract provides the consumer protection by paying for the repair or replacement of certain components of the vehicle in the event of a mechanical failure. The wholesale cost of the vehicle service contract is charged to the Dealer’s advance balance, and paid to the TPP, net of an administrative fee retained by us. We recognize our fee as part of finance charges on a level-yield basis based upon forecasted cash flows. The difference between the wholesale cost and the retail price to the consumer is paid to the Dealer as a commission. The commission is charged to the Dealer’s advance balance. TPPs process claims on vehicle service contracts that are underwritten by third party insurers. We bear the risk of loss for claims on certain vehicle service contracts that are reinsured by us. We market the vehicle service contracts directly to our Dealers.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

We provide Dealers the ability to offer Guaranteed Asset Protection (“GAP”) to consumers through our relationships with TPPs. GAP provides the consumer protection by paying the difference between the loan balance and the amount covered by the consumer’s insurance policy in the event of a total loss of the vehicle due to severe damage or theft. The wholesale cost of GAP is charged to the Dealer’s advance balance, and paid to the TPP, net of an administrative fee retained by us. We recognize our fee as part of finance charges on a level-yield basis based upon forecasted cash flows. The difference between the wholesale cost and the retail price to the consumer is paid to the Dealer as a commission. The commission is charged to the Dealer’s advance balance. TPPs process claims on GAP contracts that are underwritten by third party insurers.

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

### Reinsurance

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

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

We have consolidated the trust assets within our financial statements based on our determination of the following:

- *We have a variable interest in the trust.* We have a residual interest in the assets of the trust, which is variable in nature, given that it increases or decreases based upon the actual loss experience of the related service contracts. In addition, VSC Re is required to absorb any losses in excess of the trust’s assets.
- *The trust is a variable interest entity.* The trust has insufficient equity at risk as no parties to the trust were required to contribute assets that provide them with any ownership interest.
- *We are the primary beneficiary of the trust.* We control the amount of premium written and placed in the trust through Consumer Loan assignments under our Programs, which is the activity that most significantly impacts the economic performance of the trust. We have the right to receive benefits from the trust that could potentially be significant. In addition, VSC Re has the obligation to absorb losses of the trust that could potentially be significant.

### Other Income

Other income consists of the following:

	For the Years Ended December 31,		
	2017	2016	2015
Ancillary product profit sharing	\$ 23.9	\$ 15.5	\$ 11.9
GPS-SID fees	11.1	13.5	16.4
Remarketing fees	10.9	9.2	6.9
Dealer support products and services	4.8	4.7	4.9
Dealer enrollment fees	3.9	5.0	4.8
Other	2.8	4.0	1.7
Total	\$ 57.4	\$ 51.9	\$ 46.6

Ancillary product profit sharing consists of payments received from TPPs based upon the performance of vehicle service contracts and GAP contracts, and are recognized as income over the life of the vehicle service contracts and GAP contracts.



## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**

GPS-SID fees consist of fees we receive from a TPP for providing Dealers in certain states the ability to purchase GPS Starter Interrupt Devices ("GPS-SID"). Through this program, Dealers can install GPS-SID on vehicles financed by us that can be activated if the consumer fails to make payments on their account, and can result in the prompt repossession of the vehicle. Dealers purchase GPS-SID directly from the TPP and the TPP pays us a vendor fee for each device sold. GPS-SID fee income is recognized when the unit is sold.

Remarketing fees consist of fees retained from the sale of repossessed vehicles by VRS, our wholly-owned subsidiary that is responsible for remarketing vehicles for Credit Acceptance. VRS coordinates vehicle repossessions with a nationwide network of repossession contractors, the redemption of the vehicle by the consumer, or the sale of the vehicle through a nationwide network of vehicle auctions. VRS recognizes income from the retained fees at the time of the sale and does not retain a fee if a repossessed vehicle is redeemed by the consumer prior to the sale.

Dealer support products and services consist of income earned from products and services provided to Dealers to assist with their operations, including sales and marketing, purchasing supplies and materials and acquiring vehicle inventory. Income is recognized in the period the product or service is provided.

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

### **Stock-Based Compensation Plans**

We have stock-based compensation plans for team members and non-employee directors, which are described more fully in Note 14 to the consolidated financial statements. We apply a fair-value-based measurement method in accounting for stock-based compensation plans and recognize stock-based compensation expense over the requisite service period of the grant as salaries and wages expense.

### **Employee Benefit Plan**

We sponsor a 401(k) plan that covers substantially all of our team members. We offer matching contributions to the 401(k) plan based on each enrolled team members' eligible annual gross pay (subject to statutory limitations). Our matching contribution rate is equal to 100% of the first 2% participants contribute and an additional 50% of the next 4% participants contribute, for a maximum matching contribution of 4% of each participant's eligible annual gross pay. For the years ended December 31, 2017, 2016 and 2015, we recognized compensation expense of \$4.6 million, \$3.6 million, and \$3.1 million, respectively, for our matching contributions to the plan.

### **Income Taxes**

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

We follow a two-step approach for recognizing uncertain tax positions. First, we evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more-likely-than-not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, for positions that we determine are more-likely-than-not to be sustained, we recognize the tax benefit as the largest benefit that has a greater than 50% likelihood of being sustained. We establish a reserve for uncertain tax positions liability that is comprised of unrecognized tax benefits and related interest. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. We recognize interest and penalties related to uncertain tax positions in provision for income taxes. For additional information regarding our income taxes, see Note 11 to the consolidated financial statements.

### Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$0.4 million for the year ended December 31, 2017, and \$0.3 million for the years ended December 31, 2016 and 2015.

### New Accounting Updates Adopted During the Current Year

On December 23, 2017, the Securities and Exchange Commission's Office of the Chief Accountant ("SEC staff") issued Staff Accounting Bulletin No. 118 ("SAB 118"), which expresses the views of the SEC staff regarding the application of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740 (Income Taxes), in the reporting period that includes December 22, 2017—the date on which the Tax Cuts and Jobs Act ("2017 Act") was signed into law. SAB 118 provides guidance for registrants under three scenarios: (1) Measurement of certain income tax effects is complete—Registrants must reflect the tax effects of the 2017 Act for which the accounting is complete; (2) Measurement of certain income tax effects can be reasonably estimated—Registrants must report provisional amounts for those specific income tax effects of the 2017 Act for which the accounting is incomplete but a reasonable estimate can be determined. Provisional amounts or adjustments to provisional amounts identified in the measurement period, as defined, should be included as an adjustment to tax expense or benefit from continuing operations in the period the amounts are determined; and (3) Measurement of certain income tax effects cannot be reasonably estimated—Registrants are not required to report provisional amounts for any specific income tax effects of the 2017 Act for which a reasonable estimate cannot be determined, and would continue to apply ASC Topic 740 based on the provisions of the tax laws that were in effect immediately prior to the enactment of the 2017 Act. Registrants would report the provisional amounts of the tax effects of the 2017 Act in the first reporting period in which a reasonable estimate can be determined. SAB 118 further provides that the measurement period is complete when a company's accounting is complete and in no circumstances should the measurement period extend beyond one year from the enactment date. A registrant may be able to complete the accounting for some provisions earlier than others. As a result it may need to apply all three scenarios in determining the accounting for the 2017 Act based on the information that is available. The ultimate impact of the 2017 Act on our consolidated financial statements and related disclosures for 2017 and beyond may differ from our current estimates, possibly materially, due to, among other things, changes in interpretations and assumptions we have made, guidance that may be issued, and other actions we may take as a result of the 2017 Act that differ from those presently contemplated. For additional information, see Note 11 to the consolidated financial statements.

*Improvements to Employee Share-Based Payment Accounting.* In March 2016, the FASB issued Accounting Standards Update ("ASU") 2016-09, which simplifies the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods, beginning after December 15, 2016, with early adoption permitted. The adoption of ASU 2016-09 on January 1, 2017 changed where we recognize excess tax benefits and deficiencies from stock-based compensation plans in our consolidated financial statements on a prospective basis. We receive a tax deduction upon the vesting of restricted stock and the conversion of restricted stock units to common stock based on the fair value of the shares. The amount by which this tax deduction differs from the grant-date fair value that was recognized as stock-based compensation expense is referred to as an excess tax benefit or deficiency. For periods prior to adoption, these excess tax benefits or deficiencies were recognized in paid-in capital in our consolidated balance sheets and reported as a financing activity in our consolidated statements of cash flows. Upon adoption, these excess tax benefits or deficiencies are recognized in provision for income taxes in our consolidated statements of income and reported as an operating activity in our consolidated statements of cash flows. As a result of the adoption, excess tax benefits of \$2.5 million decreased our provision for income taxes, increased our net cash provided by operating activities and decreased our net cash provided by financing activities for the year ended December 31, 2017.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

### New Accounting Updates Not Yet Adopted

*Restricted Cash.* In November 2016, the FASB issued ASU 2016-18, which amends Topic 230 (Statement of Cash Flows) and requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is intended to reduce diversity in practice in how restricted cash or restricted cash equivalents are presented and classified in the statement of cash flows. ASU 2016-18 is effective for fiscal years, and interim periods, beginning after December 15, 2017, with early adoption permitted. The standard requires application using a retrospective transition method. The adoption of ASU 2016-18 will change the presentation and classification of restricted cash and restricted cash equivalents in our consolidated statements of cash flows.

*Measurement of Credit Losses on Financial Instruments.* In June 2016, the FASB issued ASU 2016-13, which includes an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes its estimate of expected credit losses as an allowance. ASU 2016-13 is effective for fiscal years, and interim periods, beginning after December 15, 2019. Early application is permitted for fiscal years, and interim periods, beginning after December 15, 2018. While we continue to assess the impact of ASU 2016-13, based on our preliminary assessment, we believe the adoption will have a material impact on our consolidated financial statements and related disclosures.

*Leases.* In February 2016, the FASB issued ASU 2016-02, which requires lessees to recognize a right-of-use asset and related lease liability for leases classified as operating leases at the commencement date that have lease terms of more than 12 months. This ASU retains the classification distinction between finance leases and operating leases. ASU 2016-02 is effective for fiscal years, and interim periods, beginning after December 15, 2018. Early application is permitted, but we have not yet adopted ASU 2016-02. We are currently assessing the impact the adoption of ASU 2016-02 will have on our consolidated financial statements and related disclosures.

*Revenue from Contracts with Customers.* In May 2014, the FASB issued ASU 2014-09, which supersedes the revenue recognition requirements Topic 605 (Revenue Recognition), and most industry-specific guidance. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). In August 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 by one year to fiscal years beginning after December 15, 2017. ASU 2015-14 also permits early adoption of ASU 2014-09, but not before the original effective date, which was for fiscal years beginning after December 15, 2016. We plan on adopting ASU 2014-09, as amended by ASU 2015-14, on January 1, 2018 using the modified retrospective method. Given that the guidance is not applicable to our finance charges and premiums earned sources of revenue, our assessment has focused on our other income source of revenue. We have completed our assessment and do not expect the adoption of ASU 2014-09, as amended by ASU 2015-14, to have a material impact on the timing of revenue recognition and financial statement presentation of our other income source of revenue.

### Subsequent Events

We have evaluated events and transactions occurring subsequent to the consolidated balance sheet date of December 31, 2017 for items that could potentially be recognized or disclosed in these financial statements. We did not identify any items which would require disclosure in or adjustment to the consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

### 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

*Cash and Cash Equivalents and Restricted Cash and Cash Equivalents.* The carrying amounts approximate their fair value due to the short maturity of these instruments.

*Restricted Securities Available for Sale.* The fair value of U.S. Government and agency securities and corporate bonds is based on quoted market values in active markets. For asset-backed securities and mortgage-backed securities we use model-based valuation techniques for which all significant assumptions are observable in the market.

*Loans Receivable, net.* The fair value is determined by calculating the present value of future net cash flows estimated by us utilizing a discount rate comparable with the rate used to calculate our allowance for credit losses.

*Revolving Secured Line of Credit.* The fair value is determined by calculating the present value of the debt instrument based on current rates for debt with a similar risk profile and maturity.

*Secured Financing.* The fair value of our Term ABS financings is determined using quoted market prices, however, these instruments trade in a market with a low trading volume. For our warehouse facilities, the fair values are determined by calculating the present value of each debt instrument based on current rates for debt with similar risk profiles and maturities.

*Senior Notes.* The fair value is determined using quoted market prices in an active market.

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

(In millions)

	As of December 31,			
	2017		2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 8.2	\$ 8.2	\$ 14.6	\$ 14.6
Restricted cash and cash equivalents	255.6	255.6	224.7	224.7
Restricted securities available for sale	46.1	46.1	45.3	45.3
Loans receivable, net	4,619.6	4,741.5	3,886.6	3,955.9
<b>Liabilities</b>				
Revolving secured line of credit	\$ 13.9	\$ 13.9	\$ —	\$ —
Secured financing	2,514.1	2,527.6	2,062.4	2,072.0
Senior notes	542.8	569.4	541.3	560.5

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

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

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

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

The following table provides the level of measurement used to determine the fair value for each of our financial instruments measured or disclosed at fair value:

(In millions)

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets</b>				
Cash and cash equivalents (1)	\$ 8.2	\$ —	\$ —	\$ 8.2
Restricted cash and cash equivalents (1)	255.6	—	—	255.6
Restricted securities available for sale (2)	37.1	9.0	—	46.1
Loans receivable, net (1)	—	—	4,741.5	4,741.5
<b>Liabilities</b>				
Revolving secured line of credit (1)	\$ 13.9	\$ —	\$ —	\$ 13.9
Secured financing (1)	—	2,527.6	—	2,527.6
Senior notes (1)	569.4	—	—	569.4

(In millions)

	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets</b>				
Cash and cash equivalents (1)	\$ 14.6	\$ —	\$ —	\$ 14.6
Restricted cash and cash equivalents (1)	224.7	—	—	224.7
Restricted securities available for sale (2)	37.1	8.2	—	45.3
Loans receivable, net (1)	—	—	3,955.9	3,955.9
<b>Liabilities</b>				
Revolving secured line of credit (1)	\$ —	\$ —	\$ —	\$ —
Secured financing (1)	—	2,072.0	—	2,072.0
Senior notes (1)	560.5	—	—	560.5

(1) Measured at amortized cost with fair value disclosed.

(2) Measured at fair value on a recurring basis.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**

**4. RESTRICTED SECURITIES AVAILABLE FOR SALE**

Restricted securities available for sale consist of the following:

(In millions)

As of December 31, 2017				
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	\$ 19.2	\$ —	\$ (0.2)	\$ 19.0
Corporate bonds	18.2	—	(0.1)	18.1
Asset-backed securities	6.6	—	—	6.6
Mortgage-backed securities	2.4	—	—	2.4
Total restricted securities available for sale	\$ 46.4	\$ —	\$ (0.3)	\$ 46.1

(In millions)

As of December 31, 2016				
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	\$ 20.4	\$ —	\$ (0.1)	\$ 20.3
Corporate bonds	16.9	0.1	(0.2)	16.8
Asset-backed securities	5.0	—	—	5.0
Mortgage-backed securities	3.2	—	—	3.2
Total restricted securities available for sale	\$ 45.5	\$ 0.1	\$ (0.3)	\$ 45.3

The fair value and gross unrealized losses for restricted securities available for sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

(In millions)

Securities Available for Sale with Gross Unrealized Losses as of December 31, 2017						
	Less than 12 Months		12 Months or More			
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
U.S. Government and agency securities	\$ 11.0	\$ (0.1)	\$ 7.9	\$ (0.1)	\$ 18.9	\$ (0.2)
Corporate bonds	11.1	(0.1)	1.9	—	13.0	(0.1)
Asset-backed securities	4.9	—	1.0	—	5.9	—
Mortgage-backed securities	1.2	—	1.2	—	2.4	—
Total restricted securities available for sale	\$ 28.2	\$ (0.2)	\$ 12.0	\$ (0.1)	\$ 40.2	\$ (0.3)

(In millions)

Securities Available for Sale with Gross Unrealized Losses as of December 31, 2016						
	Less than 12 Months		12 Months or More			
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
U.S. Government and agency securities	\$ 16.4	\$ (0.1)	\$ —	\$ —	\$ 16.4	\$ (0.1)
Corporate bonds	11.8	(0.2)	—	—	11.8	(0.2)
Asset-backed securities	2.8	—	—	—	2.8	—
Mortgage-backed securities	2.4	—	—	—	2.4	—
Total restricted securities available for sale	\$ 33.4	\$ (0.3)	\$ —	\$ —	\$ 33.4	\$ (0.3)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

(In millions)

Contractual Maturity	As of December 31,			
	2017		2016	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Within one year	\$ 2.5	\$ 2.5	\$ 1.6	\$ 1.6
Over one year to five years	40.5	40.2	39.3	39.1
Over five years to ten years	1.0	1.0	2.2	2.2
Over ten years	2.4	2.4	2.4	2.4
Total restricted securities available for sale	\$ 46.4	\$ 46.1	\$ 45.5	\$ 45.3

### 5. LOANS RECEIVABLE

Loans receivable consists of the following:

(In millions)

	As of December 31, 2017		
	Dealer Loans	Purchased Loans	Total
Loans receivable	\$ 3,518.1	\$ 1,530.9	\$ 5,049.0
Allowance for credit losses	(366.0)	(63.4)	(429.4)
Loans receivable, net	\$ 3,152.1	\$ 1,467.5	\$ 4,619.6

(In millions)

	As of December 31, 2016		
	Dealer Loans	Purchased Loans	Total
Loans receivable	\$ 3,209.0	\$ 998.0	\$ 4,207.0
Allowance for credit losses	(309.3)	(11.1)	(320.4)
Loans receivable, net	\$ 2,899.7	\$ 986.9	\$ 3,886.6

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

A summary of changes in Loans receivable is as follows:

(In millions)

	For the Year Ended December 31, 2017		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 3,209.0	\$ 998.0	\$ 4,207.0
New Consumer Loan assignments (1)	1,968.3	904.8	2,873.1
Principal collected on Loans receivable	(1,729.9)	(459.6)	(2,189.5)
Accelerated Dealer Holdback payments	47.1	—	47.1
Dealer Holdback payments	131.6	—	131.6
Transfers (2)	(93.1)	93.1	—
Write-offs	(16.4)	(5.7)	(22.1)
Recoveries (3)	1.5	0.3	1.8
Balance, end of period	<u>\$ 3,518.1</u>	<u>\$ 1,530.9</u>	<u>\$ 5,049.0</u>

(In millions)

	For the Year Ended December 31, 2016		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 2,823.4	\$ 521.7	\$ 3,345.1
New Consumer Loan assignments (1)	1,881.3	754.2	2,635.5
Principal collected on Loans receivable	(1,668.1)	(287.7)	(1,955.8)
Accelerated Dealer Holdback payments	53.6	—	53.6
Dealer Holdback payments	142.0	—	142.0
Transfers (2)	(10.1)	10.1	—
Write-offs	(14.4)	(0.4)	(14.8)
Recoveries (3)	1.3	0.1	1.4
Balance, end of period	<u>\$ 3,209.0</u>	<u>\$ 998.0</u>	<u>\$ 4,207.0</u>

(In millions)

	For the Year Ended December 31, 2015		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 2,389.8	\$ 330.0	\$ 2,719.8
New Consumer Loan assignments (1)	1,795.1	371.9	2,167.0
Principal collected on Loans receivable	(1,548.8)	(190.8)	(1,739.6)
Accelerated Dealer Holdback payments	52.6	—	52.6
Dealer Holdback payments	150.1	—	150.1
Transfers (2)	(10.6)	10.6	—
Write-offs	(6.4)	(0.2)	(6.6)
Recoveries (3)	1.6	0.2	1.8
Balance, end of period	<u>\$ 2,823.4</u>	<u>\$ 521.7</u>	<u>\$ 3,345.1</u>

- (1) The Dealer Loans amount represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program. The Purchased Loans amount represents one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program.
- (2) Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's outstanding Dealer Loan balance to Purchased Loans in the period this forfeiture occurs.
- (3) Represents collections received on previously written off Loans.

During the fourth quarter of 2017, we transferred \$89.0 million of Dealer Loans along with the related allowance for credit losses balance of \$31.8 million to Purchased Loans. Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. Substantially all of these transfers relate to Dealers where events had occurred in prior periods that met our criteria for forfeiture. However, while we intended to exercise our rights to Dealer Holdback in the period the forfeiture event occurred, we did not exercise our rights for these Dealers until the fourth quarter of 2017. We also enhanced our accounting methodology for transferring Loans. In the fourth quarter of 2017, we began transferring the related allowance for credit losses balance to Purchased Loans. Prior to the fourth quarter of 2017, rather than transferring the related allowance for credit losses



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

balance to Purchased Loans, we reversed the balance through Dealer Loan provision for credit losses and established a new allowance for credit losses in Purchased Loans through Purchased Loan provision for credit losses.

Contractual net cash flows are comprised of the contractual repayments of the underlying Consumer Loans for Dealer and Purchased Loans, less the related Dealer Holdback payments for Dealer Loans. The difference between the contractual net cash flows and the expected net cash flows is referred to as the nonaccretable difference. This difference is neither accreted into income nor recorded in our balance sheets. We do not believe that the contractual net cash flows of our Loan portfolio are relevant in assessing our financial position. We are contractually owed repayments on many Consumer Loans, primarily those older than 120 months, where we are not forecasting any future net cash flows.

The excess of expected net cash flows over the outstanding balance of Loans receivable, net is referred to as the accretable yield and is recognized on a level-yield basis as finance charge income over the remaining lives of the Loans. A summary of changes in the accretable yield is as follows:

(In millions)

	For the Year Ended December 31, 2017		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 982.6	\$ 348.1	\$ 1,330.7
New Consumer Loan assignments (1)	803.0	377.9	1,180.9
Accretion (2)	(766.6)	(253.6)	(1,020.2)
Provision for credit losses	103.4	25.9	129.3
Forecast changes	(5.6)	41.7	36.1
Transfers (3)	(28.2)	36.9	8.7
Balance, end of period	\$ 1,088.6	\$ 576.9	\$ 1,665.5

(In millions)

	For the Year Ended December 31, 2016		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 874.2	\$ 198.6	\$ 1,072.8
New Consumer Loan assignments (1)	782.6	284.7	1,067.3
Accretion (2)	(723.8)	(159.5)	(883.3)
Provision for credit losses	87.3	2.9	90.2
Forecast changes	(35.4)	15.3	(20.1)
Transfers (3)	(2.3)	6.1	3.8
Balance, end of period	\$ 982.6	\$ 348.1	\$ 1,330.7

(In millions)

	For the Year Ended December 31, 2015		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 725.2	\$ 136.5	\$ 861.7
New Consumer Loan assignments (1)	743.7	138.4	882.1
Accretion (2)	(637.2)	(102.7)	(739.9)
Provision for credit losses	41.8	(0.3)	41.5
Forecast changes	3.6	20.3	23.9
Transfers (3)	(2.9)	6.4	3.5
Balance, end of period	\$ 874.2	\$ 198.6	\$ 1,072.8

- (1) The Dealer Loans amount represents the net cash flows expected at the time of assignment on Consumer Loans assigned under our Portfolio Program, less the related advances paid to Dealers. The Purchased Loans amount represents the net cash flows expected at the time of assignment on Consumer Loans assigned under our Purchase Program, less the related one-time payments made to Dealers.
- (2) Represents finance charges excluding the amortization of deferred direct origination costs for Dealer Loans.
- (3) Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's outstanding Dealer Loan balance and related expected future net cash flows to Purchased Loans in the period this forfeiture occurs.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Additional information related to new Consumer Loan assignments is as follows:

(In millions)

	For the Year Ended December 31, 2017		
	Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)	\$ 3,131.6	\$ 1,973.7	\$ 5,105.3
Expected net cash flows at the time of assignment (2)	2,771.3	1,282.7	4,054.0
Fair value at the time of assignment (3)	1,968.3	904.8	2,873.1

(In millions)

	For the Year Ended December 31, 2016		
	Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)	\$ 2,997.0	\$ 1,553.2	\$ 4,550.2
Expected net cash flows at the time of assignment (2)	2,663.9	1,038.9	3,702.8
Fair value at the time of assignment (3)	1,881.3	754.2	2,635.5

(In millions)

	For the Year Ended December 31, 2015		
	Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)	\$ 2,821.4	\$ 741.1	\$ 3,562.5
Expected net cash flows at the time of assignment (2)	2,538.8	510.3	3,049.1
Fair value at the time of assignment (3)	1,795.1	371.9	2,167.0

- (1) The Dealer Loans amount represents the repayments that we were contractually owed at the time of assignment on Consumer Loans assigned under our Portfolio Program, less the related Dealer Holdback payments that we would be required to make if we collected all of the contractual repayments. The Purchased Loans amount represents the repayments that we were contractually owed at the time of assignment on Consumer Loans assigned under our Purchase Program.
- (2) The Dealer Loans amount represents the repayments that we expected to collect at the time of assignment on Consumer Loans assigned under our Portfolio Program, less the related Dealer Holdback payments that we expected to make. The Purchased Loans amount represents the repayments that we expected to collect at the time of assignment on Consumer Loans assigned under our Purchase Program.
- (3) The Dealer Loans amount represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program. The Purchased Loans amount represents one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

### Credit Quality

We monitor and evaluate the credit quality of Consumer Loans assigned under our Portfolio and Purchase Programs on a monthly basis by comparing our current forecasted collection rates to our initial expectations. For additional information regarding credit quality, see Note 2 to the consolidated financial statements. The following table compares our forecast of Consumer Loan collection rates as of December 31, 2017, with the forecasts as of December 31, 2016, as of December 31, 2015, and at the time of assignment, segmented by year of assignment:

Consumer Loan Assignment Year	Forecasted Collection Percentage as of (1)				Current Forecast Variance from		
	December 31, 2017	December 31, 2016	December 31, 2015	Initial Forecast	December 31, 2016	December 31, 2015	Initial Forecast
2008	70.5%	70.4%	70.3%	69.7%	0.1%	0.2%	0.8%
2009	79.5%	79.4%	79.4%	71.9%	0.1%	0.1%	7.6%
2010	77.6%	77.6%	77.4%	73.6%	0.0%	0.2%	4.0%
2011	74.7%	74.7%	74.2%	72.5%	0.0%	0.5%	2.2%
2012	73.8%	73.7%	73.2%	71.4%	0.1%	0.6%	2.4%
2013	73.5%	73.4%	73.4%	72.0%	0.1%	0.1%	1.5%
2014	71.7%	71.8%	72.6%	71.8%	-0.1%	-0.9%	-0.1%
2015	65.5%	66.1%	67.8%	67.7%	-0.6%	-2.3%	-2.2%
2016	64.8%	65.1%	—	65.4%	-0.3%	—	-0.6%
2017	65.6%	—	—	64.0%	—	—	1.6%

- (1) Represents the total forecasted collections we expect to collect on the Consumer Loans as a percentage of the repayments that we were contractually owed on the Consumer Loans at the time of assignment. Contractual repayments include both principal and interest. Forecasted collection rates are negatively impacted by canceled Consumer Loans as the contractual amount owed is not removed from the denominator for purposes of computing forecasted collection rates in the table.

Consumer Loans assigned in 2009 through 2013 and 2017 have yielded forecasted collection results materially better than our initial estimates, while Consumer Loans assigned in 2015 have yielded forecasted collection results materially worse than our initial estimates. For Consumer Loans assigned in 2008, 2014 and 2016, actual results have been very close to our initial estimates.

For the year ended December 31, 2017, forecasted collection rates improved for Consumer Loans assigned in 2017, declined for Consumer Loans assigned in 2015 and 2016 and were generally consistent with expectations at the start of the period for all other assignment years presented.

For the year ended December 31, 2016, forecasted collection rates improved for Consumer Loans assigned in 2010 through 2012, declined for Consumer Loans assigned in 2014 and 2015 and were generally consistent with expectations at the start of the period for all other assignment years presented.

In addition to the statistical model used to forecast collection rates, we use a model to forecast the timing of future net cash flows. During the fourth quarter of 2017, we updated our net cash flow timing model to incorporate more recent data. The revised forecast resulted in an expected cash flow stream with a lower net present value as compared to the prior forecast, as less cash flows are expected in earlier periods and more cash flows are expected in later periods.

The reduction in net present value was primarily the result of a change in the expected timing of cash flows from longer-term Consumer Loans. Due to our limited historical experience with longer-term Consumer Loans, our prior model relied on extrapolations from the historical performance of shorter-term Consumer Loans to predict the timing of future net cash flows on longer-term Consumer Loans. We now have additional historical experience on these longer-term loans which we used to refine our estimate.

The revision to our net cash flow timing forecast does not impact the amount of undiscounted net cash flows we expect to receive. As a result, the dollar amount of future net portfolio revenue (finance charges less provision for credit losses) is not impacted by the revision. However, the revision does impact the period in which those net revenues will be recorded as a portion of the impact of the revised timing estimate was recorded as a current period expense and a portion was recorded as a yield adjustment. For the fourth quarter of 2017, the revision increased provision for credit losses by \$41.6 million, reduced finance charge revenue by \$7.3 million and reduced net income by \$30.8 million. The revision reduced the yield on our loan portfolio by 90 basis points, which will impact the timing of revenue recognition in future periods.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

During the fourth quarter of 2016, we enhanced our methodology for forecasting the amount and timing of future collections on Consumer Loans through the utilization of more recent data and new forecast variables. Implementation of the enhanced forecasting methodology as of October 31, 2016 did not have a material impact on provision for credit losses or net income, however it did reduce forecasted net cash flows by \$1.8 million, all of which related to Dealer Loans. The implementation also decreased the forecasted collection rates for Consumer Loans assigned in 2015 and 2016 and increased the forecasted collection rates for Consumer Loans assigned in 2011 through 2013.

Advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program are aggregated into pools for purposes of recognizing revenue and evaluating impairment. As a result of this aggregation, we are not able to segment the carrying amounts of the majority of our Loan portfolio by year of assignment. We are able to segment our Loan portfolio by the performance of the Loan pools. Performance considers both the amount and timing of expected net cash flows and is measured by comparing the balance of the Loan pool to the discounted value of the expected future net cash flows of each Loan pool using the yield established at the time of assignment. The following table segments our Loan portfolio by the performance of the Loan pools:

(In millions)

As of December 31, 2017						
	Loan Pool Performance Meets or Exceeds Initial Estimates			Loan Pool Performance Less than Initial Estimates		
	Dealer Loans	Purchased Loans	Total	Dealer Loans	Purchased Loans	Total
Loans receivable	\$ 755.2	\$ 472.7	\$ 1,227.9	\$ 2,762.9	\$ 1,058.2	\$ 3,821.1
Allowance for credit losses	—	—	—	(366.0)	(63.4)	(429.4)
Loans receivable, net	\$ 755.2	\$ 472.7	\$ 1,227.9	\$ 2,396.9	\$ 994.8	\$ 3,391.7

(In millions)

As of December 31, 2016						
	Loan Pool Performance Meets or Exceeds Initial Estimates			Loan Pool Performance Less than Initial Estimates		
	Dealer Loans	Purchased Loans	Total	Dealer Loans	Purchased Loans	Total
Loans receivable	\$ 1,002.2	\$ 705.8	\$ 1,708.0	\$ 2,206.8	\$ 292.2	\$ 2,499.0
Allowance for credit losses	—	—	—	(309.3)	(11.1)	(320.4)
Loans receivable, net	\$ 1,002.2	\$ 705.8	\$ 1,708.0	\$ 1,897.5	\$ 281.1	\$ 2,178.6

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

A summary of changes in the allowance for credit losses is as follows:

(In millions)

	For the Year Ended December 31, 2017		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 309.3	\$ 11.1	\$ 320.4
Provision for credit losses	103.4	25.9	129.3
Transfers (1)	(31.8)	31.8	—
Write-offs	(16.4)	(5.7)	(22.1)
Recoveries (2)	1.5	0.3	1.8
Balance, end of period	<u>\$ 366.0</u>	<u>\$ 63.4</u>	<u>\$ 429.4</u>

(In millions)

	For the Year Ended December 31, 2016		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 235.1	\$ 8.5	\$ 243.6
Provision for credit losses	87.3	2.9	90.2
Write-offs	(14.4)	(0.4)	(14.8)
Recoveries (2)	1.3	0.1	1.4
Balance, end of period	<u>\$ 309.3</u>	<u>\$ 11.1</u>	<u>\$ 320.4</u>

(In millions)

	For the Year Ended December 31, 2015		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 198.1	\$ 8.8	\$ 206.9
Provision for credit losses	41.8	(0.3)	41.5
Write-offs	(6.4)	(0.2)	(6.6)
Recoveries (2)	1.6	0.2	1.8
Balance, end of period	<u>\$ 235.1</u>	<u>\$ 8.5</u>	<u>\$ 243.6</u>

- (1) Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's outstanding Dealer Loan balance to Purchased Loans in the period this forfeiture occurs. Beginning in the fourth quarter of 2017, we also transfer the related allowance for credit losses balance to Purchased Loans in the period this forfeiture occurs.
- (2) Represents collections received on previously written off Loans.

## 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

(In millions)

	As of December 31,	
	2017	2016
Land and land improvements	\$ 2.5	\$ 2.5
Building and improvements	15.6	14.5
Data processing equipment and software	31.3	29.5
Office furniture and equipment	3.8	3.9
Leasehold improvements	2.2	2.0
Total property and equipment	<u>55.4</u>	<u>52.4</u>
Less: Accumulated depreciation on property and equipment	<u>(34.9)</u>	<u>(34.2)</u>
Total property and equipment, net	<u>\$ 20.5</u>	<u>\$ 18.2</u>

Depreciation expense on property and equipment was \$6.0 million, \$6.1 million and \$5.7 million for the years ended December 31, 2017, 2016 and 2015, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**

**7. REINSURANCE**

A summary of reinsurance activity is as follows:

(In millions)

	For the Years Ended December 31,		
	2017	2016	2015
Net assumed written premiums	\$ 42.4	\$ 40.6	\$ 45.0
Net premiums earned	41.1	43.0	48.2
Provision for claims	22.7	26.0	33.2
Amortization of capitalized acquisition costs	1.0	1.1	1.2

The trust assets and related reinsurance liabilities are as follows:

(In millions)

		As of December 31,	
		2017	2016
	Balance Sheet location		
Trust assets	Restricted cash and cash equivalents	\$ 0.8	\$ 0.5
Trust assets	Restricted securities available for sale	46.1	45.3
Unearned premium	Accounts payable and accrued liabilities	34.1	32.8
Claims reserve (1)	Accounts payable and accrued liabilities	1.0	1.0

(1) The claims reserve represents our liability for incurred-but-not-reported claims and is estimated based on historical claims experience.

The following tables present information about incurred and paid claims development for the five-year period ended December 31, 2017:

(Dollars in millions)

Incident Year	Cumulative Incurred Claims					As of December 31, 2017	
	As of December 31,					Claims Reserve	Cumulative Number of Reported Claims
	2013	2014	2015	2016	2017		
2013	\$ 40.6	\$ 40.8	\$ 40.8	\$ 40.8	\$ 40.8	\$ —	40,350
2014		39.8	39.9	39.9	39.9	—	40,908
2015			33.1	33.4	33.4	—	32,907
2016				25.7	26.0	—	25,212
2017					22.3	1.0	19,762
Total					\$ 162.4	\$ 1.0	159,139

(In millions)

Incident Year	Cumulative Paid Claims				
	As of December 31,				
	2013	2014	2015	2016	2017
2013	\$ 38.9	\$ 40.8	\$ 40.8	\$ 40.8	\$ 40.8
2014		38.3	39.9	39.9	39.9
2015			31.9	33.4	33.4
2016				24.7	26.0
2017					21.3
Total					\$ 161.4

**Average Annual Percentage Payout of Incurred Claims by Age**

Claim Age (Years)	1	2	3	4	5
Payout Percentage	95.5%	4.5%	—%	—%	—%

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**

**8. DEBT**

Debt consists of the following:

(In millions)

	As of December 31, 2017			
	Principal Outstanding	Unamortized Debt Issuance Costs	Unamortized Discount	Carrying Amount
Revolving secured line of credit (1)	\$ 13.9	\$ —	\$ —	\$ 13.9
Secured financing (2)	2,529.1	(15.0)	—	2,514.1
Senior notes	550.0	(5.9)	(1.3)	542.8
Total debt	<u>\$ 3,093.0</u>	<u>\$ (20.9)</u>	<u>\$ (1.3)</u>	<u>\$ 3,070.8</u>

(In millions)

	As of December 31, 2016			
	Principal Outstanding	Unamortized Debt Issuance Costs	Unamortized Discount	Carrying Amount
Revolving secured line of credit (1)	\$ —	\$ —	\$ —	\$ —
Secured financing (2)	2,072.1	(9.7)	—	2,062.4
Senior notes	550.0	(7.1)	(1.6)	541.3
Total debt	<u>\$ 2,622.1</u>	<u>\$ (16.8)</u>	<u>\$ (1.6)</u>	<u>\$ 2,603.7</u>

- (1) Excludes deferred debt issuance costs of \$2.8 million and \$2.4 million as of December 31, 2017 and December 31, 2016, respectively, which are included in other assets.
- (2) Warehouse facilities and Term ABS financings.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

General information for each of our financing transactions in place as of December 31, 2017 is as follows:

(Dollars in millions)

Financings	Wholly-owned Subsidiary	Maturity Date	Financing Amount	Interest Rate as of December 31, 2017
Revolving Secured Line of Credit	n/a	06/22/20	\$ 350.0 (1)	At our option, either LIBOR plus 187.5 basis points or the prime rate plus 87.5 basis points
Warehouse Facility II (2)	CAC Warehouse Funding Corp. II	12/20/20 (3)	\$ 400.0	LIBOR plus 175 basis points (4)
Warehouse Facility IV (2)	CAC Warehouse Funding LLC IV	04/30/20 (3)	\$ 100.0	LIBOR plus 225 basis points (4)
Warehouse Facility V (2)	CAC Warehouse Funding LLC V	08/18/19 (5)	\$ 100.0	LIBOR plus 225 basis points (4)
Warehouse Facility VI (2)	CAC Warehouse Funding LLC VI	09/30/20 (3)	\$ 75.0	LIBOR plus 200 basis points
Warehouse Facility VII (2)	CAC Warehouse Funding LLC VII	12/01/19 (6)	\$ 150.0	Commercial paper rate plus 190 basis points for class A and plus 220 basis points for class B (4)
Term ABS 2015-1 (2)	Credit Acceptance Funding LLC 2015-1	01/16/17 (3)	\$ 300.6	Fixed rate
Term ABS 2015-2 (2)	Credit Acceptance Funding LLC 2015-2	08/15/17 (3)	\$ 300.2	Fixed rate
Term ABS 2016-1 (2)	Credit Acceptance Funding LLC 2016-1	02/15/18 (3)	\$ 385.0	LIBOR plus 195 basis points (4)
Term ABS 2016-2 (2)	Credit Acceptance Funding LLC 2016-2	05/15/18 (3)	\$ 350.2	Fixed rate
Term ABS 2016-3 (2)	Credit Acceptance Funding LLC 2016-3	10/15/18 (3)	\$ 350.0	Fixed rate
Term ABS 2017-1 (2)	Credit Acceptance Funding LLC 2017-1	02/15/19 (3)	\$ 350.0	Fixed rate
Term ABS 2017-2 (2)	Credit Acceptance Funding LLC 2017-2	06/17/19 (3)	\$ 450.0	Fixed rate
Term ABS 2017-3 (2)	Credit Acceptance Funding LLC 2017-3	10/15/19 (3)	\$ 350.0	Fixed rate
2021 Senior Notes	n/a	02/15/21	\$ 300.0	Fixed rate
2023 Senior Notes	n/a	03/15/23	\$ 250.0	Fixed rate

(1) The amount of the facility will decrease to \$315.0 million on June 22, 2019.

(2) Financing made available only to a specified subsidiary of the Company.

(3) Represents the revolving maturity date. The outstanding balance will amortize after the revolving maturity date based on the cash flows of the pledged assets.

(4) Interest rate cap agreements are in place to limit the exposure to increasing interest rates.

(5) Represents the revolving maturity date. The outstanding balance will amortize after the revolving maturity date and any amounts remaining on August 18, 2021 will be due on that date.

(6) Represents the revolving maturity date. The outstanding balance will amortize after the revolving maturity date and any amounts remaining on November 30, 2021 will be due on that date.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Additional information related to the amounts outstanding on each facility is as follows:

(In millions)

	For the Years Ended December 31,	
	2017	2016
<b>Revolving Secured Line of Credit</b>		
Maximum outstanding principal balance	\$ 276.7	\$ 186.4
Average outstanding principal balance	80.3	30.8
<b>Warehouse Facility II</b>		
Maximum outstanding principal balance	\$ 275.0	\$ 200.1
Average outstanding principal balance	4.0	3.8
<b>Warehouse Facility IV</b>		
Maximum outstanding principal balance	\$ 12.0	\$ 12.0
Average outstanding principal balance	5.9	12.0
<b>Warehouse Facility V</b>		
Maximum outstanding principal balance	\$ 100.0	\$ 100.0
Average outstanding principal balance	7.8	1.6
<b>Warehouse Facility VI</b>		
Maximum outstanding principal balance	\$ 75.0	\$ 49.9
Average outstanding principal balance	7.8	3.3
<b>Warehouse Facility VII</b>		
Maximum outstanding principal balance	\$ —	\$ —
Average outstanding principal balance	—	—

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Dollars in millions)

	As of December 31,	
	2017	2016
<b>Revolving Secured Line of Credit</b>		
Principal balance outstanding	\$ 13.9	\$ —
Amount available for borrowing (1)	336.1	310.0
Interest rate	3.44%	—%
<b>Warehouse Facility II</b>		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	400.0	400.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	1.5
Interest rate	—%	—%
<b>Warehouse Facility IV</b>		
Principal balance outstanding	\$ —	\$ 12.0
Amount available for borrowing (1)	100.0	63.0
Loans pledged as collateral	—	23.0
Restricted cash and cash equivalents pledged as collateral	1.0	0.9
Interest rate	—%	2.77%
<b>Warehouse Facility V</b>		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	100.0	100.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	1.0
Interest rate	—%	—%
<b>Warehouse Facility VI</b>		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	75.0	75.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	—	0.1
Interest rate	—%	—%
<b>Warehouse Facility VII</b>		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	150.0	—
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	—
Interest rate	—%	—%
<b>Term ABS 2014-1</b>		
Principal balance outstanding	\$ —	\$ 106.5
Loans pledged as collateral	—	307.2
Restricted cash and cash equivalents pledged as collateral	—	28.3
Interest rate	—%	2.02%
<b>Term ABS 2014-2</b>		
Principal balance outstanding	\$ —	\$ 267.6
Loans pledged as collateral	—	413.9
Restricted cash and cash equivalents pledged as collateral	—	34.9
Interest rate	—%	2.10%

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**

**Term ABS 2015-1**

Principal balance outstanding	\$	78.0	\$	300.6
Loans pledged as collateral		238.4		374.5
Restricted cash and cash equivalents pledged as collateral		23.3		29.6
Interest rate		2.88%		2.26%

**Term ABS 2015-2**

Principal balance outstanding	\$	215.9	\$	300.2
Loans pledged as collateral		313.3		372.6
Restricted cash and cash equivalents pledged as collateral		26.4		28.1
Interest rate		2.72%		2.63%

**Term ABS 2016-1**

Principal balance outstanding	\$	385.0	\$	385.0
Loans pledged as collateral		467.2		474.0
Restricted cash and cash equivalents pledged as collateral		36.6		34.8
Interest rate		3.18%		2.65%

**Term ABS 2016-2**

Principal balance outstanding	\$	350.2	\$	350.2
Loans pledged as collateral		428.0		490.7
Restricted cash and cash equivalents pledged as collateral		33.2		34.4
Interest rate		2.83%		2.83%

**Term ABS 2016-3**

Principal balance outstanding	\$	350.0	\$	350.0
Loans pledged as collateral		425.7		489.6
Restricted cash and cash equivalents pledged as collateral		31.1		30.6
Interest rate		2.53%		2.53%

**Term ABS 2017-1**

Principal balance outstanding	\$	350.0	\$	—
Loans pledged as collateral		425.9		—
Restricted cash and cash equivalents pledged as collateral		30.8		—
Interest rate		2.78%		—%

**Term ABS 2017-2**

Principal balance outstanding	\$	450.0	\$	—
Loans pledged as collateral		545.8		—
Restricted cash and cash equivalents pledged as collateral		39.8		—
Interest rate		2.72%		—%

**Term ABS 2017-3**

Principal balance outstanding	\$	350.0	\$	—
Loans pledged as collateral		482.6		—
Restricted cash and cash equivalents pledged as collateral		29.6		—
Interest rate		2.88%		—%

**2021 Senior Notes**

Principal balance outstanding	\$	300.0	\$	300.0
Interest rate		6.125%		6.125%

**2023 Senior Notes**

Principal balance outstanding	\$	250.0	\$	250.0
Interest rate		7.375%		7.375%

(1) Availability may be limited by the amount of assets pledged as collateral.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

### Revolving Secured Line of Credit Facility

We have a \$350.0 million revolving secured line of credit facility with a commercial bank syndicate. The amount of the facility will decrease to \$315.0 million on June 22, 2019. Borrowings under the revolving secured line of credit facility, including any letters of credit issued under the facility, are subject to a borrowing-base limitation. This limitation equals 80% of the net book value of Loans, less a hedging reserve (not exceeding \$1.0 million), and the amount of other debt secured by the collateral which secures the revolving secured line of credit facility. Borrowings under the revolving secured line of credit facility agreement are secured by a lien on most of our assets.

### Warehouse Facilities

We have five Warehouse facilities with total borrowing capacity of \$825.0 million. Each of the facilities are with different lenders. Under each Warehouse facility, we can contribute Loans to our wholly-owned subsidiaries in return for cash and equity in each subsidiary. In turn, each subsidiary pledges the Loans as collateral to lenders to secure financing that will fund the cash portion of the purchase price of the Loans. The financing provided to each subsidiary under the applicable facility is generally limited to the lesser of 80% of the net book value of the contributed Loans plus the restricted cash and cash equivalents pledged as collateral on such Loans or the facility limit.

The financings create indebtedness for which the subsidiaries are liable and which is secured by all the assets of each subsidiary. Such indebtedness is non-recourse to us, even though we are consolidated for financial reporting purposes with the subsidiaries. Because the subsidiaries are organized as legal entities separate from us, their assets (including the contributed Loans) are not available to our creditors.

The subsidiaries pay us a monthly servicing fee equal to 6% of the collections received with respect to the contributed Loans. The fee is paid out of the collections. Except for the servicing fee and holdback payments due to Dealers, if a facility is amortizing, we do not have any rights in any portion of such collections until all outstanding principal, accrued and unpaid interest, fees and other related costs have been paid in full. If a facility is not amortizing, the applicable subsidiary may be entitled to retain a portion of such collections provided that the borrowing base requirements of the facility are satisfied.

### Term ABS Financings

We have wholly-owned subsidiaries (the “Funding LLCs”) that have completed secured financing transactions with qualified institutional investors or lenders. In connection with these transactions, we contributed Loans on an arms-length basis to each Funding LLC for cash and the sole membership interest in that Funding LLC. In turn, each Funding LLC, other than that of Term ABS 2016-1, contributed the Loans to a respective trust that issued notes to qualified institutional investors. The Funding LLC for the Term ABS 2016-1 transaction pledged the Loans to lenders. The Term ABS 2015-1, 2015-2, 2016-2, 2016-3, 2017-1, 2017-2 and 2017-3 transactions each consist of three classes of notes.

Each financing at the time of issuance has a specified revolving period during which we may be required, and are likely, to contribute additional Loans to each Funding LLC. If applicable, each Funding LLC will then contribute the Loans to their respective trust. At the end of the revolving period, the debt outstanding under each financing will begin to amortize.

The financings create indebtedness for which the trusts or Funding LLC are liable and which is secured by all the assets of each trust or Funding LLC. Such indebtedness is non-recourse to us, even though we are consolidated for financial reporting purposes with the trusts and the Funding LLCs. Because the Funding LLCs are organized as legal entities separate from us, their assets (including the contributed Loans) are not available to our creditors. We receive a monthly servicing fee on each financing equal to 6% of the collections received with respect to the contributed Loans. The fee is paid out of the collections. Except for the servicing fee and Dealer Holdback payments due to Dealers, if a facility is amortizing, we do not have any rights in any portion of such collections until all outstanding principal, accrued and unpaid interest, fees and other related costs have been paid in full. If a facility is not amortizing, the applicable subsidiary may be entitled to retain a portion of such collections provided that the borrowing base requirements of the facility are satisfied. However, in our capacity as servicer of the Loans, we do have a limited right to exercise a “clean-up call” option to purchase Loans from the Funding LLCs and/or the trusts under certain specified circumstances. For those Funding LLCs with a trust, when the trust’s underlying indebtedness is paid in full, either through collections or through a prepayment of the indebtedness, the trust is to pay any remaining collections over to its Funding LLC as the sole beneficiary of the trust. For all Funding LLCs, after the indebtedness is paid in full, any remaining collections will ultimately be available to be distributed to us as the sole member of the respective Funding LLC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

The table below sets forth certain additional details regarding the outstanding Term ABS Financings:

(Dollars in millions)

Term ABS Financings	Close Date	Net Book Value of Loans Contributed at Closing	24 Month Revolving Period
Term ABS 2015-1	January 29, 2015	\$ 375.9	Through January 16, 2017
Term ABS 2015-2	August 20, 2015	375.5	Through August 15, 2017
Term ABS 2016-1	February 26, 2016	481.4	Through February 15, 2018
Term ABS 2016-2	May 12, 2016	437.8	Through May 15, 2018
Term ABS 2016-3	October 27, 2016	437.8	Through October 15, 2018
Term ABS 2017-1	February 23, 2017	437.8	Through February 15, 2019
Term ABS 2017-2	June 29, 2017	563.2	Through June 17, 2019
Term ABS 2017-3	October 26, 2017	437.6	Through October 15, 2019

### Senior Notes

On March 30, 2015, we issued \$250.0 million aggregate principal amount of 7.375% senior notes due 2023 (the “2023 senior notes”). The 2023 senior notes were issued pursuant to an indenture, dated as of March 30, 2015, among the Company, as issuer, the Company’s subsidiaries Buyers Vehicle Protection Plan, Inc. and Vehicle Remarketing Services, Inc., as guarantors (collectively, the “Guarantors”), and U.S. Bank National Association, as trustee.

The 2023 senior notes mature on March 15, 2023 and bear interest at a rate of 7.375% per annum, computed on the basis of a 360-day year composed of twelve 30-day months and payable semi-annually on March 15 and September 15 of each year, beginning on September 15, 2015. The 2023 senior notes were issued at a price of 99.266% of their aggregate principal amount, resulting in gross proceeds of \$248.2 million, and a yield to maturity of 7.5% per annum. We used the net proceeds from the offering of the notes for general corporate purposes, including repayment of outstanding borrowings under our revolving secured line of credit facility.

On January 22, 2014, we issued \$300.0 million aggregate principal amount of 6.125% senior notes due 2021 (the “2021 senior notes”). The 2021 senior notes were issued pursuant to an indenture, dated as of January 22, 2014, among the Company, the Guarantors, and U.S. Bank National Association, as trustee.

The 2021 senior notes mature on February 15, 2021 and bear interest at a rate of 6.125% per annum, computed on the basis of a 360-day year composed of twelve 30-day months and payable semi-annually on February 15 and August 15 of each year, beginning on August 15, 2014. We used the net proceeds from the 2021 senior notes, together with borrowings under our revolving credit facilities, to redeem in full the \$350.0 million aggregate principal amount of our 9.125% first priority senior secured notes due 2017 (the “2017 senior notes”) on February 21, 2014. During the first quarter of 2014, we recognized a pre-tax loss on extinguishment of debt of \$21.8 million related to the redemption of the 2017 senior notes.

Both the 2021 senior notes and the 2023 senior notes (the “senior notes”) are guaranteed on a senior basis by the Guarantors, which are also guarantors of obligations under our revolving secured line of credit facility. Other existing and future subsidiaries of ours may become guarantors of the senior notes in the future. The indentures for the senior notes provide for a guarantor of the senior notes to be released from its obligations under its guarantee of the senior notes under specified circumstances.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

### Principal Debt Maturities

The scheduled principal maturities of our debt as of December 31, 2017 are as follows:

(In millions)

Year	Revolving Secured Line of Credit Facility	Warehouse Facilities	Term ABS Financings (1)	Senior Notes	Total
2018	\$ —	\$ —	\$ 800.1	\$ —	\$ 800.1
2019	—	—	1,015.6	—	1,015.6
2020	13.9	—	690.0	—	703.9
2021	—	—	23.4	300.0	323.4
2022	—	—	—	—	—
Thereafter	—	—	—	250.0	250.0
Total	\$ 13.9	\$ —	\$ 2,529.1	\$ 550.0	\$ 3,093.0

(1) The principal maturities of the Term ABS transactions are estimated based on forecasted collections.

### Debt Covenants

As of December 31, 2017, we were in compliance with our covenants under the revolving secured line of credit facility, including those that require the maintenance of certain financial ratios and other financial conditions. These covenants require a minimum ratio of (1) our net earnings, adjusted for specified items, before income taxes, depreciation, amortization and fixed charges to (2) our fixed charges. These covenants also limit the maximum ratio of our funded debt less unrestricted cash and cash equivalents to tangible net worth. Additionally, we must maintain consolidated net income of not less than \$1 for the two most recently ended fiscal quarters. Some of these covenants may indirectly limit the repurchase of common stock or payment of dividends on common stock.

Our Warehouse facilities and Term ABS financings also contain covenants that measure the performance of the contributed assets. As of December 31, 2017, we were in compliance with all such covenants. As of the end of the year, we were also in compliance with our covenants under the senior notes indentures.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**

**9. DERIVATIVE AND HEDGING INSTRUMENTS**

*Interest Rate Caps.* We utilize interest rate cap agreements to manage the interest rate risk on certain secured financings. The following tables provide the terms of our interest rate cap agreements that were in effect as of December 31, 2017 and 2016:

(Dollars in millions)

As of December 31, 2017						
Facility Amount	Facility Name	Purpose	Start	End	Notional	Cap Interest Rate (1)
\$ 400.0	Warehouse Facility II	Cap Floating Rate	12/2017	12/2020	\$ 205.0	5.50%
100.0	Warehouse Facility IV	Cap Floating Rate	04/2016	04/2019	75.0	5.50%
		Cap Floating Rate	05/2017	04/2021	25.0	6.50%
					100.0	
100.0	Warehouse Facility V	Cap Floating Rate	06/2015	07/2018	75.0	5.50%
385.0	Term ABS 2016-1	Cap Floating Rate	04/2016	02/2019	385.0	5.00%
150.0	Warehouse Facility VII	Cap Floating Rate	12/2017	11/2021	150.0	5.50%

(Dollars in millions)

As of December 31, 2016						
Facility Amount	Facility Name	Purpose	Start	End	Notional	Cap Interest Rate (1)
\$ 400.0	Warehouse Facility II	Cap Floating Rate	06/2016	12/2017	\$ 325.0	5.50%
75.0	Warehouse Facility IV	Cap Floating Rate	03/2014	03/2017	18.8	5.50%
		Cap Floating Rate	04/2016	04/2019	56.2	5.50%
					75.0	
100.0	Warehouse Facility V	Cap Floating Rate	06/2015	07/2018	75.0	5.50%
385.0	Term ABS 2016-1	Cap Floating Rate	04/2016	02/2019	385.0	5.00%

(1) Rate excludes the spread over the LIBOR rate.

The interest rate caps have not been designated as hedging instruments. As of December 31, 2017 and 2016, the interest rate caps had a fair value of \$0.0 million as the capped rates were significantly above market rates.

Information related to the effect of derivative instruments not designated as hedging instruments on our consolidated statements of income for the years ended December 31, 2017, 2016 and 2015 is as follows:

(In millions)

Derivatives Not Designated as Hedging Instruments	Location	Amount of (Loss)/ Gain Recognized in Income on Derivatives		
		For the Years Ended December 31,		
		2017	2016	2015
Interest rate caps	Interest expense	\$ (0.1)	\$ (0.1)	\$ —

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

## 10. RELATED PARTY TRANSACTIONS

In the normal course of our business, affiliated Dealers assigned Consumer Loans to us under the Portfolio and Purchase Programs. Dealer Loans and Purchased Loans with affiliated Dealers were on the same terms as those with non-affiliated Dealers. Affiliated Dealers were comprised of Dealers owned or controlled by: (1) Donald Foss, our founder, significant shareholder and former Chairman of the Board; and (2) a member of Mr. Foss's immediate family.

On January 3, 2017, Mr. Foss retired as officer, director and employee of the Company and entered into a shareholder agreement with the Company. Under the shareholder agreement, Mr. Foss agreed, until the final adjournment of the tenth annual meeting of shareholders held by the Company after the date of the shareholder agreement, to cause all shares of the Company beneficially owned by him or any of his affiliates or associates to be voted in accordance with the recommendation of the Company's Board of Directors with respect to election and removal of directors, certain routine matters and any other proposal to be submitted to the Company's shareholders with respect to any extraordinary transaction providing for the acquisition of all of the Company's outstanding common stock. As a result, we no longer consider the remaining Dealers owned or controlled by Mr. Foss or a member of Mr. Foss's immediate family to be affiliated with us while Mr. Foss's voting interests in the Company are subject to the voting restrictions under the shareholder agreement and accordingly, we have excluded these Dealers from the affiliated amounts reported effective January 3, 2017.

On June 7, 2016, Mr. Foss sold certain affiliated Dealers previously owned or controlled by him to a third party. As a result, we no longer consider these Dealers to be affiliated and, accordingly, we have excluded these Dealers from the affiliated amounts reported below effective June 7, 2016.

Affiliated Dealer Loan balances were \$0.0 million and \$1.4 million as of December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, affiliated Dealer Loan balances were 0.0% of total consolidated Dealer Loan balances.

There was no related party Loan activity during 2017. The following table summarizes our related party Loan activity for 2016 and 2015:

(Dollars in millions)

	For the Years Ended December 31,			
	2016		2015	
	Affiliated Dealer activity	% of consolidated	Affiliated Dealer activity	% of consolidated
Dealer Loan revenue	\$ 1.5	0.2%	\$ 2.5	0.4%
New Consumer Loan assignments (1)	8.9	0.3%	5.9	0.3%
Accelerated Dealer Holdback payments	0.2	0.4%	0.2	0.4%
Dealer Holdback payments	1.0	0.7%	1.4	0.9%

- (1) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**

**11. INCOME TAXES**

The income tax provision consists of the following:

(In millions)

	For the Years Ended December 31,		
	2017	2016	2015
Income before provision for income taxes:	\$ 583.8	\$ 531.2	\$ 474.5
Current provision for income taxes:			
Federal	184.6	157.2	127.9
State	13.5	15.8	10.6
	<u>198.1</u>	<u>173.0</u>	<u>138.5</u>
Deferred provision for income taxes:			
Federal	(88.4)	22.4	33.7
State	2.7	1.8	1.9
	<u>(85.7)</u>	<u>24.2</u>	<u>35.6</u>
Interest and penalties expense:			
Interest	1.2	1.2	0.7
Penalties	—	—	—
	<u>1.2</u>	<u>1.2</u>	<u>0.7</u>
Provision for income taxes	<u>\$ 113.6</u>	<u>\$ 198.4</u>	<u>\$ 174.8</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (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 millions)	As of December 31,	
	2017	2016
Deferred tax assets:		
Allowance for credit losses	\$ 100.4	\$ 118.2
Stock-based compensation	14.3	18.3
Deferred state net operating loss	8.1	6.5
Other, net	4.0	11.6
Deferred tax assets before valuation allowance	126.8	154.6
Less: valuation allowance	(5.5)	—
Total deferred tax assets	121.3	154.6
Deferred tax liabilities:		
Valuation of Loans receivable	300.4	417.8
Deferred Loan origination costs	1.5	2.5
Other, net	6.8	7.4
Total deferred tax liabilities	308.7	427.7
Net deferred tax liability	\$ 187.4	\$ 273.1

The deferred state net operating loss tax asset arising from the operating loss carry forward for state income tax purposes is expected to expire at various times beginning in 2023, if not utilized. We do not anticipate expiration of the net operating loss carry forwards prior to their utilization.

### Valuation allowance

As a result of the enactment of the 2017 Act, the Company established a \$5.5 million valuation allowance related to the executive compensation provisions of the law that limit a public entity's ability to deduct compensation for covered employees in excess of \$1.0 million for years after December 31, 2017, regardless of the nature of those payments. In prior years, performance-based compensation was excluded from the \$1.0 million limitation. This provision does not apply to compensation paid under written binding contracts that were in effect on November 2, 2017 unless such contracts are subsequently materially modified. Due to the lack of guidance for the new executive compensation provisions, the Company has made a reasonable estimate related to stock-based compensation, in accordance with SAB 118, and recorded a \$5.5 million adjustment to income tax expense for the year ended December 31, 2017. This estimate may be refined in future periods as further information becomes available.

### Valuation of Loans receivable

The 2017 Act revises the rules associated with the timing of the recognition of income for federal income tax purposes. The 2017 Act requires an accrual method taxpayer to recognize income no later than the taxable year in which such income is recognized as revenue in the financial statements, if the taxpayer is subject to the all events test—a requirement that all the events have occurred that fix the right to receive income, and that the amount can be determined with reasonable accuracy. The Senate Finance Committee intended that the new financial statement conformity requirement not be construed as preventing the use of special methods of accounting provided elsewhere in the Internal Revenue Code. It is unclear if our income recognition method related to the valuation of loans receivable is an allowable exception under the 2017 Act. As the Company is not able to determine a reasonable estimate based on current guidance, we will continue to apply ASC Topic 740, Income Taxes, in accordance with SAB 118 and based on the provisions of the tax laws that were in effect immediately prior to the 2017 Act being enacted. This treatment may change in future periods as further information becomes available.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

A reconciliation of the U.S. federal statutory income tax rate to our effective income tax rate is as follows:

	For the Years Ended December 31,		
	2017	2016	2015
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Effect of the 2017 Act	-17.1%	—%	—%
State income taxes	1.7%	2.0%	1.6%
Excess tax benefits from stock-based compensation plans	-0.4%	—%	—%
Other	0.3%	0.3%	0.2%
Effective income tax rate	19.5%	37.3%	36.8%

The difference between the U.S. federal statutory income tax rate and our effective income tax rate for 2017 is primarily due to the enactment of the 2017 Act, which resulted in the reversal of \$99.8 million of provision for income taxes. While the new federal statutory income tax rate was not effective until January 1, 2018, we were required to revalue deferred taxes and uncertain tax positions as of December 31, 2017 at the new federal statutory income tax rate. Based on currently enacted federal and state statutory income tax rates, we believe our long-term effective income tax rate will decrease from 37% in past years to approximately 23% in 2018 and future years.

The effective income tax rate for 2017 was also impacted by the adoption of ASU 2016-09 on January 1, 2017, which changed where we recognize excess tax benefits and deficiencies from stock-based compensation plans in our consolidated financial statements on a prospective basis. We receive a tax deduction upon the vesting of restricted stock and the conversion of restricted stock units to common stock based on the fair value of the shares. The amount that this tax deduction differs from the grant-date fair value that was recognized as stock-based compensation expense is referred to as an excess tax benefit or deficiency. For 2017, excess tax benefits of \$2.5 million were recognized in provision for income taxes, thus reducing our effective income tax rate. For 2016 and 2015, excess tax benefits of \$27.2 million and \$0.3 million, respectively, were recognized in paid-in capital in our consolidated balance sheets, which had no impact on our effective income tax rate.

The differences between the U.S. federal statutory income tax rate and our effective income tax rates for 2016 and 2015 are primarily due to state income taxes. The increase in the effective income tax rate for 2016 was primarily due to higher effective income tax rates in certain state tax jurisdictions.

The following table is a summary of changes in gross unrecognized tax benefits:

(In millions)

	For the Years Ended December 31,		
	2017	2016	2015
Unrecognized tax benefits at January 1,	\$ 27.7	\$ 21.8	\$ 16.6
Additions for tax positions of the current year	6.7	8.2	7.4
Additions for tax positions of prior years	0.3	—	—
Reductions for tax positions of prior years	(0.4)	—	—
Reductions as a result of a lapse of the statute of limitations	(2.4)	(2.3)	(2.2)
Unrecognized tax benefits at December 31,	\$ 31.9	\$ 27.7	\$ 21.8

The total amount of gross unrecognized tax benefit that, if recognized, would favorably affect our effective income tax rate in future periods, was \$31.9 million as of December 31, 2017. Accrued interest related to uncertain tax positions was \$6.1 million and \$4.9 million as of December 31, 2017 and 2016, respectively.

We are subject to income tax in federal and state jurisdictions. The IRS has completed their federal tax examinations for years prior to 2014. With respect to state jurisdictions, we are generally no longer subject to tax examinations on returns filed for years prior to 2010.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

### 12. NET INCOME PER SHARE

Basic net income per share has been computed by dividing net income by the basic number of weighted average shares outstanding. Diluted net income per share has been computed by dividing net income by the diluted number of weighted average shares outstanding using the treasury stock method. The share effect is as follows:

	For the Years Ended December 31,		
	2017	2016	2015
Weighted average shares outstanding:			
Common shares	19,245,188	20,065,423	20,364,435
Vested restricted stock units	252,531	266,346	527,260
Basic number of weighted average shares outstanding	19,497,719	20,331,769	20,891,695
Dilutive effect of restricted stock and restricted stock units	61,217	78,347	89,058
Dilutive number of weighted average shares outstanding	19,558,936	20,410,116	20,980,753

For the year ended December 31, 2017, there were 250 shares of restricted stock that were not included in the computation of diluted net income per share because their inclusion would have been anti-dilutive. For the years ended December 31, 2016 and 2015, there were no stock options, restricted stock or restricted stock units that would have been anti-dilutive.

### 13. STOCK REPURCHASES

The following table summarizes our stock repurchases for the years ended December 31, 2017, 2016, and 2015:

Stock Repurchases	For the Years Ended December 31,					
	2017		2016		2015	
	Number of Shares Repurchased	Cost	Number of Shares Repurchased	Cost	Number of Shares Repurchased	Cost
Open Market (1)	588,580	\$ 119.1	495,662	\$ 88.5	464,006	\$ 85.4
Other (2)	21,680	4.4	170,668	33.2	6,065	1.1
Total	610,260	\$ 123.5	666,330	\$ 121.7	470,071	\$ 86.5

- (1) Represents repurchases under authorizations by the board of directors for the repurchase of shares by us from time to time in the open market or in privately negotiated transactions. On February 13, 2017, the board of directors authorized the repurchase of up to one million shares of our common stock in addition to the board's prior authorizations. As of December 31, 2017, we had authorization to repurchase 776,208 shares of our common stock.
- (2) Represents shares of common stock released to us by team members as payment of tax withholdings upon the vesting of restricted stock and restricted stock units.

### 14. STOCK-BASED COMPENSATION PLANS

Pursuant to our Amended and Restated Incentive Compensation Plan (the "Incentive Plan"), we can grant stock-based awards in the form of restricted stock, restricted stock units and stock options to team members, officers, directors, and contractors at any time prior to March 26, 2022. On March 26, 2012, our board of directors approved an amendment to our Incentive Plan, increasing the number of shares authorized for issuance by 500,000 shares, to 2.0 million shares. The shares available for future grants under the Incentive Plan totaled 125,731 as of December 31, 2017.

#### *Restricted Stock*

We grant performance-based and time-based shares of restricted stock to team members in accordance with our Incentive Plan. The grant-date fair value per share is estimated to equal the market price of our common stock on the date of grant. Based on the terms of individual restricted stock grant agreements, shares vest under one of the following methods:

- Over a period of 15 years, based on continuous employment and a combination of the cumulative improvement in our annual adjusted economic profit, a non-GAAP financial measure, and the attainment of annual adjusted economic profit targets.
- Over a period of three years, based on continuous employment.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

A summary of the non-vested restricted stock activity under the Incentive Plan for the year ended December 31, 2017 is presented below:

Restricted Stock	Number of Shares	Weighted Average Grant-Date Fair Value Per Share
Non-vested as of December 31, 2016	168,546	\$ 111.91
Granted	8,543	200.79
Vested	(17,338)	127.83
Forfeited	(451)	198.81
Non-vested as of December 31, 2017	<u>159,300</u>	<u>\$ 114.70</u>

The grant-date weighted average fair value of shares granted in 2017, 2016 and 2015 was \$200.79, \$196.96, and \$183.30, respectively. The total fair value of shares vested was \$5.6 million in 2017, \$4.4 million in 2016 and \$2.6 million in 2015.

### *Restricted Stock Units*

We grant performance-based restricted stock units to team members and directors in accordance with our Incentive Plan. The grant-date fair value per share is estimated to equal the market price of our common stock on the date of grant. Each restricted stock unit represents and has a value equal to one share of common stock. Based on the terms of individual restricted stock grant agreements, restricted stock unit vest under one of the following methods:

- Over a period of ten years, based on continuous employment and the cumulative improvement in our annual adjusted economic profit.
- Over a period of five years, based upon the compounded annual growth rate in our adjusted economic profit.
- Over a period of one to four years, based on continuous employment and the compounded annual growth rate in our adjusted EPS, a non-GAAP financial measure.

A summary of the restricted stock unit activity under the Incentive Plan for the year ended December 31, 2017, is presented below:

Restricted Stock Units	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value Per Share	Aggregate Intrinsic Value (2) (in millions)	Weighted Average Remaining Contractual Term (in years)
Outstanding as of December 31, 2016	455,823	\$ 101.75		
Granted	108,100	206.45		
Converted	(34,836)	40.12		
Forfeited	(6,260)	178.07		
Outstanding as of December 31, 2017 (1)	<u>522,827</u>	\$ 126.59	\$ 169.1	5.2
Vested as of December 31, 2017	258,195	\$ 106.67	\$ 83.5	4.2

(1) No RSUs outstanding at December 31, 2017 were convertible to shares of common stock.

(2) The intrinsic value of RSUs is measured by applying the closing stock price as of December 31, 2017 to the applicable number of units.

The grant-date weighted average fair value of RSUs granted in 2017, 2016 and 2015 was \$206.45, \$181.04, and \$139.00, respectively. The total intrinsic value of RSUs converted to common stock during 2017, 2016 and 2015 was \$6.9 million, \$78.7 million, and \$0.2 million, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

### *Stock-based compensation expense*

Stock-based compensation expense consists of the following:

(In millions)

	For the Years Ended December 31,		
	2017	2016	2015
Restricted stock	\$ 2.9	\$ 2.8	\$ 3.2
Restricted stock units	12.5	4.6	9.2
Total	\$ 15.4	\$ 7.4	\$ 12.4

While the stock-based awards are often expected to vest in equal, annual installments over the corresponding requisite service periods of the grants, the related stock-based compensation expense is not recognized on a straight-line basis over the same periods. Each installment is accounted for as a separate award and as a result, the fair value of each installment is recognized as stock-based compensation expense on a straight-line basis over the related expected vesting period. Assuming performance targets are achieved in the periods currently estimated, we expect to recognize the remaining expense for stock-based awards outstanding as of December 31, 2017 over a weighted average period of 1.8 years, as follows:

(In millions)

For the Years Ended December 31,	Restricted Stock Units	Restricted Stock	Total Projected Expense
2018	\$ 8.0	\$ 2.1	\$ 10.1
2019	4.5	1.4	5.9
2020	2.2	1.1	3.3
2021	0.5	0.9	1.4
2022	0.1	0.8	0.9
Thereafter	—	1.7	1.7
Total	\$ 15.3	\$ 8.0	\$ 23.3

## 15. BUSINESS SEGMENT AND OTHER INFORMATION

### Business Segment Overview

We identify operating segments as components of our business for which separate financial information is regularly evaluated by the chief operating decision-maker (“CODM”) in making decisions regarding resource allocation and assessing performance. We periodically review and redefine our segment reporting as internal management reporting practices evolve and the components of our business change. Currently, the CODM reviews consolidated financial statements and metrics to allocate resources and assess performance. Thus, we have determined that we operate in one reportable operating segment. The consolidated financial statements reflect the financial results of our one reportable operating segment.

### Geographic Information

For the three years ended December 31, 2017, 2016 and 2015, all of our revenues were derived from the United States. As of December 31, 2017 and 2016, all of our long-lived assets were located in the United States.

### Products and Services Information

Our primary product consists of financing programs that enable Dealers to sell vehicles to consumers, regardless of their credit history. We also provide Dealers the ability to offer or purchase ancillary products on vehicles financed by us.

### Major Customer Information

We did not have any Dealers that provided 10% or more of our revenue during 2017, 2016, or 2015. Additionally, no single Dealer’s Loans receivable balance accounted for more than 10% of total Loans receivable as of December 31, 2017 or 2016.

**16. COMMITMENTS AND CONTINGENCIES****Litigation and Other Legal Matters**

In the normal course of business and as a result of the consumer-oriented nature of the industry in which we operate, we and other industry participants are frequently subject to various consumer claims, litigation and regulatory investigations seeking damages, fines and statutory penalties. The claims allege, among other theories of liability, violations of state, federal and foreign truth-in-lending, credit availability, credit reporting, consumer protection, warranty, debt collection, insurance and other consumer-oriented laws and regulations, including claims seeking damages for physical and mental damages relating to the repossession and sale of consumers' vehicles and other debt collection activities. As the assignee of Consumer Loans originated by Dealers, we may also be named as a co-defendant in lawsuits filed by consumers principally against Dealers. We may also have disputes and litigation with Dealers. The claims may allege, among other theories of liability, that we breached our Dealer servicing agreement. The damages, fines and penalties that may be claimed by consumers, regulatory agencies or Dealers in these types of matters can be substantial. The relief requested by plaintiffs varies but may include requests for compensatory, statutory and punitive damages and injunctive relief, and plaintiffs may seek treatment as purported class actions. Current actions to which we are a party include the following matters.

On December 4, 2014, we received a civil investigative demand from the Office of the Attorney General of the Commonwealth of Massachusetts relating to the origination and collection of non-prime auto loans in Massachusetts. On November 20, 2017 we received a second civil investigation demand from the Office of the Attorney General of the Commonwealth of Massachusetts seeking updated information on its original civil investigation demand, additional information related to the Company's origination and collection of Consumer Loans, and information regarding securitization activities. We are cooperating with the inquiry and cannot predict the eventual scope, duration or outcome at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from this investigation.

On August 14, 2017, we received a subpoena from the Attorney General of the State of Mississippi, relating to the origination and collection of non-prime auto loans in the state of Mississippi. We are cooperating with the inquiry and cannot predict the eventual scope, duration or outcome at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from this investigation.

On June 14, 2017, we were informed that the Consumer Financial Protection Bureau's Office of Fair Lending and Equal Opportunity is investigating whether the Company may have violated the Equal Credit Opportunity Act and Regulation B. We are cooperating with the inquiry and cannot predict the eventual scope, duration or outcome at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from this inquiry.

On November 7, 2016, we received a civil investigative demand from the Federal Trade Commission seeking information on the Company's policies, practices and procedures in allowing car dealers to use GPS Starter Interrupters on consumer vehicles. We are cooperating with the inquiry and cannot predict the eventual scope, duration or outcome at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from this investigation.

On March 18, 2016, we received a subpoena from the Attorney General of the State of Maryland, relating to the Company's repossession and sale policies and procedures in the state of Maryland. We are cooperating with the inquiry and cannot predict the eventual scope, duration or outcome at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from this investigation.

On February 19, 2016, we received a First Amended Complaint filed by Westlake Services d/b/a Westlake Financial Service and Nowcom Corporation, alleging that the Company has attempted to monopolize the indirect financing profit sharing program market in violation of Section 2 of the Sherman Act and seeking, among other things, injunctive relief and unspecified money damages, which, if awarded, would likely be trebled pursuant to the Sherman Act. The case was filed in the United States District Court, Central District of California, Western Division. On April 6, 2016, the Court dismissed the claims brought by Nowcom Corporation. On January 5, 2018, the Court entered judgment in favor of the Company, dismissing the case with prejudice on the merits and ordering that the Company be awarded its costs of suit from Westlake Services, LLC. On February 2, 2018, Westlake Services, LLC filed a Notice of Appeal with the Court. We cannot predict the duration or outcome of this lawsuit at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from this lawsuit. The Company intends to vigorously defend itself in this matter.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

On September 18, 2015, we received a subpoena from the Attorney General of the State of New York, Civil Rights Bureau relating to the Company's origination and collection of Consumer Loans in the state of New York. We have cooperated with the inquiry, but cannot predict the eventual scope, duration or outcome at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from this investigation.

On December 9, 2014, we received a civil investigative subpoena from the U.S. Department of Justice pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 directing us to produce certain information relating to subprime automotive finance and related securitization activities. We have cooperated with the inquiry, but cannot predict the eventual scope, duration or outcome at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from this investigation.

An adverse ultimate disposition in any action to which we are a party or otherwise subject could have a material adverse impact on our financial position, liquidity and results of operations.

### Lease Commitments

We lease office space and office equipment. We expect that in the normal course of business, leases will be renewed or replaced by other leases. Total rental expense on all operating leases was \$1.5 million for 2017, 2016 and 2015, respectively. Contingent rentals under the operating leases were insignificant. Our total minimum future lease commitments under operating leases as of December 31, 2017 are as follows:

(In millions)

Year	Minimum Future Lease Commitments
2018	\$ 1.9
2019	1.6
2020	1.5
2021	1.1
2022	0.5
Total	<u>\$ 6.6</u>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONCLUDED)

## 17. QUARTERLY FINANCIAL DATA (unaudited)

The following quarterly financial data for the years ended December 31, 2017 and 2016 has been prepared in accordance with GAAP:

(In millions, except per share data)

Income Statement Data	2017			
	Quarters Ended			
	March 31	June 30	September 30	December 31
Revenue	\$ 262.8	\$ 276.0	\$ 283.9	\$ 287.3
Income before provision for income taxes	144.2	157.1	160.1	122.4
Net income	93.3	99.1	100.7	177.1
Net income per share (1):				
Basic	\$ 4.73	\$ 5.09	\$ 5.19	\$ 9.13
Diluted	\$ 4.72	\$ 5.09	\$ 5.19	\$ 9.10

(In millions, except per share data)

Income Statement Data	2016			
	Quarters Ended			
	March 31	June 30	September 30	December 31
Revenue	\$ 227.9	\$ 238.5	\$ 246.6	\$ 256.2
Income before provision for income taxes	118.4	134.7	136.5	141.6
Net income	74.4	84.9	85.9	87.6
Net income per share (1):				
Basic	\$ 3.64	\$ 4.17	\$ 4.22	\$ 4.35
Diluted	\$ 3.63	\$ 4.17	\$ 4.21	\$ 4.33

- (1) Basic and diluted net income per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted per share information may not equal annual basic and diluted net income per share.

**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.*

(a) *Disclosure Controls and Procedures.* Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Internal Control Over Financial Reporting.* There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Management's Report on Internal Control over Financial Reporting.*

We are 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. Our 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 our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated 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.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, we used the criteria set forth in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, we believe that as of December 31, 2017, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm, Grant Thornton LLP, audited our internal control over financial reporting as of December 31, 2017 and their report dated February 9, 2018 expressed an unqualified opinion on our internal control over financial reporting and is included in this Item 9A.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
Credit Acceptance Corporation

### Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Credit Acceptance Corporation (a Michigan corporation) and subsidiaries (the “Company”) as of December 31, 2017, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in the 2013 *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2017, and our report dated February 9, 2018 expressed an unqualified opinion on those financial statements.

### Basis for opinion

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, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and limitations of internal control over financial reporting

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.

/s/ GRANT THORNTON LLP

Southfield, Michigan  
February 9, 2018

**ITEM 9B. OTHER INFORMATION**

None.

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information is contained under the captions “Election of Directors” (excluding the “Report of the Audit Committee”) and “Section 16 (a) Beneficial Ownership Reporting Compliance” in our 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”) in our 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 our Proxy Statement and is incorporated herein by reference.

Our Amended and Restated Incentive Compensation Plan (the “Incentive Plan”), which was approved by shareholders on May 17, 2012, provides for the granting of restricted stock, restricted stock units and stock options to team members, officers, and directors. As of December 31, 2017, there were no options issued or outstanding under the Incentive Plan.

The following table sets forth (1) the number of shares of common stock to be issued upon the exercise of outstanding options or restricted stock units, (2) the weighted average exercise price of outstanding options, if applicable, and (3) the number of shares remaining available for future issuance, as of December 31, 2017:

<b>Plan Category</b>	<b>Number of shares to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options</b>	<b>Number of shares remaining available for future issuance under equity compensation plans (a)</b>
Equity compensation plan approved by shareholders:			
Incentive Plan	522,827	—	125,731

(a) For additional information regarding our equity compensation plans, see Note 14 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information is contained under the caption “Certain Relationships and Transactions” and “Election of Directors – Meetings and Committees of the Board of Directors” in our Proxy Statement and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information is contained under the caption “Independent Accountants” in our Proxy Statement and is incorporated herein by reference.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a)(1) The following consolidated financial statements of the Company and the Report of Independent Registered Public Accounting Firm are contained in Item 8 — Financial Statements and Supplementary Data of this Form 10-K, which is incorporated herein by reference.
- Report of Independent Registered Public Accounting Firm
- Consolidated Financial Statements:
- Consolidated Balance Sheets as of December 31, 2017 and 2016
  - Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015
  - Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015
  - Consolidated Statements of Shareholders' Equity for the years ended December 31, 2017, 2016 and 2015
  - Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015
- 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 below.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## EXHIBIT INDEX

The following documents are filed as part of this report. Those exhibits previously filed and incorporated herein by reference are identified below. Exhibits not required for this report have been omitted. Unless otherwise noted, the Company's commission file number for all exhibits incorporated by reference herein is 000-20202.

Exhibit No.	Description
3.1	Articles of Incorporation, as amended July 1, 1997 (incorporated by reference to Exhibit 3(a)(1) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997).
3.2	Amended and Restated Bylaws of the Company, as amended February 24, 2005 (incorporated by reference to Exhibit 3(b) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
4.1	Fifth Amended and Restated Credit Agreement, dated as of June 17, 2011, among the Company, the Banks signatory thereto and Comerica Bank, as agent for the Banks (incorporated by reference to Exhibit 4(f)(146) to the Company's Current Report on Form 8-K filed June 22, 2011).
4.2	Loan and Security Agreement, dated as of August 19, 2011 among the Company, CAC Warehouse Funding LLC IV, BMO Capital Markets Corp., Bank of Montreal and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4(f)(148) to the Company's Current Report on Form 8-K filed August 24, 2011).
4.3	Backup Servicing Agreement dated as of August 19, 2011, among the Company, CAC Warehouse Funding LLC IV, Wells Fargo Bank, National Association, Bank of Montreal and BMO Capital Markets Corp. (incorporated by reference to Exhibit 4(f)(149) to the Company's Current Report on Form 8-K filed August 24, 2011).
4.4	Amended and Restated Intercreditor Agreement, dated as of February 1, 2010, among Credit Acceptance Corporation, the other Grantors party thereto, representatives of the Secured Parties thereunder and Comerica Bank, as administrative agent under the Original Credit Agreement (as defined therein) and as collateral agent (incorporated by reference to Exhibit 4(g)(6) to the Company's Current Report on Form 8-K filed February 5, 2010).
4.5	First Amendment to the Fifth Amended and Restated Credit Agreement, dated as of June 15, 2012, among the Company, the Banks signatory thereto and Comerica Bank, as agent for the Banks (incorporated by reference to Exhibit 4.72 to the Company's Current Report on Form 8-K filed June 15, 2012).
4.6	Amended and Restated Backup Servicing Agreement dated as of December 27, 2012, among the Company, CAC Warehouse Funding Corporation II, Wells Fargo Securities, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.82 to the Company's Current Report on Form 8-K filed January 3, 2013).
4.7	First Amendment to Loan and Security Agreement dated as of April 5, 2013, among the Company, CAC Warehouse Funding LLC IV, Bank of Montreal, BMO Capital Markets Corp., and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.84 to the Company's Current Report on Form 8-K filed April 5, 2013).
4.8	Amended and Restated Sale and Contribution Agreement dated as of April 5, 2013, between the Company and CAC Warehouse Funding LLC IV (incorporated by reference to Exhibit 4.85 to the Company's Current Report on Form 8-K filed April 5, 2013).
4.9	Second Amendment to the Fifth Amended and Restated Credit Agreement, dated as of June 20, 2013, among the Company, the Banks signatory thereto and Comerica Bank, as agent for the Banks (incorporated by reference to Exhibit 4.92 to the Company's Current Report on Form 8-K filed June 24, 2013).
4.10	Third Amendment to the Fifth Amended and Restated Credit Agreement, dated as of December 9, 2013, among the Company and Comerica Bank, as agent for the Banks (incorporated by reference to Exhibit 4.103 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).
4.11	Fourth Amendment to the Fifth Amended and Restated Credit Agreement, dated as of January 15, 2014, among the Company, the banks signatory thereto and Comerica Bank, as agent for the Banks (incorporated by reference to Exhibit 4.117 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).
4.12	Indenture, dated as of January 22, 2014, among the Company, the Guarantors named therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.101 to the Company's Current Report on Form 8-K filed January 27, 2014).
4.13	Second Amendment to Loan and Security Agreement, dated as of December 4, 2013, among the Company, CAC Warehouse Funding LLC IV, Bank of Montreal, BMO Capital Markets Corp., and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.106 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).
4.14	First Amendment to Amended and Restated Sale and Contribution Agreement, dated as of December 4, 2013, between the Company and CAC Warehouse Funding LLC IV (incorporated by reference to Exhibit 4.107 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4.15	Sixth Amended and Restated Credit Agreement, dated as of June 23, 2014, among the Company, the Banks signatory thereto and Comerica Bank, as agent for the Banks (incorporated by reference to Exhibit 4.124 to the Company's Current Report on Form 8-K filed June 25, 2014).
4.16	Amendment No. 1 to Amended and Restated Backup Servicing Agreement, dated as of July 18, 2014, among the Company, CAC Warehouse Funding Corporation II, Wells Fargo Securities, LLC, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.126 to the Company's Current Report on Form 8-K filed July 23, 2014).
4.17	Loan and Security Agreement, dated as of September 15, 2014, among the Company, CAC Warehouse Funding LLC V, Fifth Third Bank and Systems & Services Technologies, Inc. (incorporated by reference to Exhibit 4.127 to the Company's Current Report on Form 8-K filed September 18, 2014).
4.18	Backup Servicing Agreement, dated as of September 15, 2014, among the Company, CAC Warehouse Funding LLC V, Fifth Third Bank and Systems & Services Technologies, Inc. (incorporated by reference to Exhibit 4.128 to the Company's Current Report on Form 8-K filed September 18, 2014).
4.19	Contribution Agreement, dated as of September 15, 2014, between the Company and CAC Warehouse Funding LLC V (incorporated by reference to Exhibit 4.129 to the Company's Current Report on Form 8-K filed September 18, 2014).
4.20	Indenture dated as of January 29, 2015, between Credit Acceptance Auto Loan Trust 2015-1 and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.58 to the Company's Current Report on Form 8-K filed February 3, 2015).
4.21	Sale and Servicing Agreement, dated as of January 29, 2015, among the Company, Credit Acceptance Auto Loan Trust 2015-1, Credit Acceptance Funding LLC 2015-1, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.59 to the Company's Current Report on Form 8-K filed February 3, 2015).
4.22	Backup Servicing Agreement, dated as of January 29, 2015, among the Company, Credit Acceptance Funding LLC 2015-1, Credit Acceptance Auto Loan Trust 2015-1, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.60 to the Company's Current Report on Form 8-K filed February 3, 2015).
4.23	Amended and Restated Trust Agreement dated as of January 29, 2015 between Credit Acceptance Funding LLC 2015-1, each of the members of the Board of Trustees of the Trust and U.S. Bank Trust National Association (incorporated by reference to Exhibit 4.61 to the Company's Current Report on Form 8-K filed February 3, 2015).
4.24	Sale and Contribution Agreement, dated as of January 29, 2015, between the Company and Credit Acceptance Funding LLC 2015-1 (incorporated by reference to Exhibit 4.62 to the Company's Current Report on Form 8-K filed February 3, 2015).
4.25	Indenture dated as of March 30, 2015, among the Company, the Guarantors named therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed March 31, 2015).
4.26	Third Amendment to Loan and Security Agreement, dated as of May 13, 2015, among the Company, CAC Warehouse Funding LLC IV, Bank of Montreal, BMO Capital Markets Corp., and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.71 to the Company's Current Report on Form 8-K filed May 15, 2015).
4.27	First Amendment to Backup Servicing Agreement, dated as of May 13, 2015, among the Company, CAC Warehouse Funding LLC IV, Bank of Montreal, BMO Capital Markets Corp., and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.72 to the Company's Current Report on Form 8-K filed May 15, 2015).
4.28	First Amendment to the Sixth Amended and Restated Credit Agreement, dated as of June 11, 2015, among the Company, the Banks which are parties thereto from time to time, and Comerica Bank (incorporated by reference to Exhibit 4.74 to the Company's Current Report on Form 8-K filed June 16, 2015).
4.29	First Amendment to Loan and Security Agreement, dated as of June 11, 2015, among the Company, CAC Warehouse Funding LLC V, Fifth Third Bank, and Systems & Services Technologies, Inc. (incorporated by reference to Exhibit 4.75 to the Company's Current Report on Form 8-K filed June 16, 2015).
4.30	Indenture dated as of August 20, 2015, between Credit Acceptance Auto Loan Trust 2015-2 and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.76 to the Company's Current Report on Form 8-K filed August 25, 2015).
4.31	Sale and Servicing Agreement, dated as of August 20, 2015, among the Company, Credit Acceptance Auto Loan Trust 2015-2, Credit Acceptance Funding LLC 2015-2, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.77 to the Company's Current Report on Form 8-K filed August 25, 2015).
4.32	Backup Servicing Agreement, dated as of August 20, 2015, among the Company, Credit Acceptance Funding LLC 2015-2, Credit Acceptance Auto Loan Trust 2015-2, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.78 to the Company's Current Report on Form 8-K filed August 25, 2015).



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4.33	Amended and Restated Trust Agreement dated as of August 20, 2015 between Credit Acceptance Funding LLC 2015-2, each of the members of the Board of Trustees of the Trust and U.S. Bank Trust National Association (incorporated by reference to Exhibit 4.79 to the Company's Current Report on Form 8-K filed August 25, 2015).
4.34	Sale and Contribution Agreement, dated as of August 20, 2015, between the Company and Credit Acceptance Funding LLC 2015-2 (incorporated by reference to Exhibit 4.80 to the Company's Current Report on Form 8-K filed August 25, 2015).
4.35	Loan and Security Agreement dated as of September 30, 2015, among the Company, CAC Warehouse Funding LLC VI, and Flagstar Bank, FSB (incorporated by reference to Exhibit 4.82 to the Company's Current Report on Form 8-K filed October 5, 2015).
4.36	Contribution Agreement, dated as of September 30, 2015, between the Company and CAC Warehouse Funding LLC VI (incorporated by reference to Exhibit 4.83 to the Company's Current Report on Form 8-K filed October 5, 2015).
4.37	Loan and Security Agreement dated as of February 26, 2016, among the Company, Credit Acceptance Funding LLC 2016-1, Wells Fargo Bank, National Association and Bank of Montreal (incorporated by reference to Exhibit 4.66 to the Company's Current Report on Form 8-K filed March 3, 2016).
4.38	Backup Servicing Agreement, dated as of February 26, 2016, among the Company, Credit Acceptance Funding LLC 2016-1, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.67 to the Company's Current Report on Form 8-K filed March 3, 2016).
4.39	Sale and Contribution Agreement, dated as of February 26, 2016, between the Company and Credit Acceptance Funding LLC 2016-1 (incorporated by reference to Exhibit 4.68 to the Company's Current Report on Form 8-K filed March 3, 2016).
4.40	Indenture dated as of May 12, 2016, between Credit Acceptance Auto Loan Trust 2016-2 and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.70 to the Company's Current Report on Form 8-K filed May 16, 2016).
4.41	Sale and Servicing Agreement, dated as of May 12, 2016, among the Company, Credit Acceptance Auto Loan Trust 2016-2, Credit Acceptance Funding LLC 2016-2, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.71 to the Company's Current Report on Form 8-K filed May 16, 2016).
4.42	Backup Servicing Agreement, dated as of May 12, 2016, among the Company, Credit Acceptance Funding LLC 2016-2, Credit Acceptance Auto Loan Trust 2016-2, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.72 to the Company's Current Report on Form 8-K filed May 16, 2016).
4.43	Amended and Restated Trust Agreement dated as of May 12, 2016 between Credit Acceptance Funding LLC 2016-2, each of the members of the Board of Trustees of the Trust and U.S. Bank Trust National Association (incorporated by reference to Exhibit 4.73 to the Company's Current Report on Form 8-K filed May 16, 2016).
4.44	Sale and Contribution Agreement, dated as of May 12, 2016, between the Company and Credit Acceptance Funding LLC 2016-2 (incorporated by reference to Exhibit 4.74 to the Company's Current Report on Form 8-K filed May 16, 2016).
4.45	Second Amendment to the Sixth Amended and Restated Credit Agreement, dated as of June 15, 2016, among the Company, the Banks signatory thereto and Comerica Bank, as agent for the Banks (incorporated by reference to Exhibit 4.76 to the Company's Current Report on Form 8-K filed June 20, 2016).
4.46	Sixth Amended and Restated Loan and Security Agreement dated as of June 23, 2016, among the Company, CAC Warehouse Funding Corporation II and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.77 to the Company's Current Report on Form 8-K filed June 28, 2016).
4.47	Fourth Amended and Restated Sale and Contribution Agreement, dated as of June 23, 2016, between the Company and CAC Warehouse Funding Corporation II (incorporated by reference to Exhibit 4.78 to the Company's Current Report on Form 8-K filed June 28, 2016).
4.48	Second Amendment to Loan and Security Agreement, dated as of August 18, 2016, among the Company, CAC Warehouse Funding LLC V, Fifth Third Bank and Systems & Services Technologies, Inc. (incorporated by reference to Exhibit 4.79 to the Company's Current Report on Form 8-K filed August 23, 2016).
4.49	First Amendment to Contribution Agreement, dated as of August 18, 2016, between the Company and CAC Warehouse Funding LLC V (incorporated by reference to Exhibit 4.80 to the Company's Current Report on Form 8-K filed August 23, 2016).
4.50	Indenture dated as of October 27, 2016, between Credit Acceptance Auto Loan Trust 2016-3 and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.81 to the Company's Current Report on Form 8-K filed October 31, 2016).
4.51	Sale and Servicing Agreement, dated as of October 27, 2016, among the Company, Credit Acceptance Auto Loan Trust 2016-3, Credit Acceptance Funding LLC 2016-3, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.82 to the Company's Current Report on Form 8-K filed October 31, 2016).
4.52	Backup Servicing Agreement, dated as of October 27, 2016, among the Company, Credit Acceptance Funding LLC 2016-3, Credit Acceptance Auto Loan Trust 2016-3, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.83 to the Company's Current Report on Form 8-K filed October 31, 2016).



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4.53	Amended and Restated Trust Agreement, dated as of October 27, 2016, among Credit Acceptance Funding LLC 2016-3, each of the members of the Board of Trustees of the Trust and U.S. Bank Trust National Association (incorporated by reference to Exhibit 4.84 to the Company's Current Report on Form 8-K filed October 31, 2016).
4.54	Sale and Contribution Agreement, dated as of October 27, 2016, between the Company and Credit Acceptance Funding LLC 2016-3 (incorporated by reference to Exhibit 4.85 to the Company's Current Report on Form 8-K filed October 31, 2016).
4.55	Indenture dated as of February 23, 2017, between Credit Acceptance Auto Loan Trust 2017-1 and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.73 to the Company's Current Report on Form 8-K filed March 1, 2017).
4.56	Sale and Servicing Agreement, dated as of February 23, 2017, among the Company, Credit Acceptance Auto Loan Trust 2017-1, Credit Acceptance Funding LLC 2017-1, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.74 to the Company's Current Report on Form 8-K filed March 1, 2017).
4.57	Backup Servicing Agreement, dated as of February 23, 2017, among the Company, Credit Acceptance Funding LLC 2017-1, Credit Acceptance Auto Loan Trust 2017-1, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.75 to the Company's Current Report on Form 8-K filed March 1, 2017).
4.58	Amended and Restated Trust Agreement, dated as of February 23, 2017, among Credit Acceptance Funding LLC 2017-1, each of the members of the Board of Trustees of the Trust and U.S. Bank Trust National Association (incorporated by reference to Exhibit 4.76 to the Company's Current Report on Form 8-K filed March 1, 2017).
4.59	Sale and Contribution Agreement, dated as of February 23, 2017, between the Company and Credit Acceptance Funding LLC 2017-1 (incorporated by reference to Exhibit 4.77 to the Company's Current Report on Form 8-K filed March 1, 2017).
4.60	Fourth Amendment to Loan and Security Agreement, dated as of April 28, 2017, among the Company, CAC Warehouse Funding LLC IV, Bank of Montreal, BMO Capital Markets Corp., and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.79 to the Company's Current Report on Form 8-K filed May 4, 2017).
4.61	Third Amendment to Sixth Amended and Restated Credit Agreement and Extension Agreement, dated as of June 28, 2017, among the Company, the Banks signatory thereto and Comerica Bank, as agent for the Banks (incorporated by reference to Exhibit 4.80 to the Company's Current Report on Form 8-K filed June 30, 2017).
4.62	Indenture dated as of June 29, 2017, between Credit Acceptance Auto Loan Trust 2017-2 and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.81 to the Company's Current Report on Form 8-K filed July 5, 2017).
4.63	Sale and Servicing Agreement, dated as of June 29, 2017, among the Company, Credit Acceptance Auto Loan Trust 2017-2, Credit Acceptance Funding LLC 2017-2, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.82 to the Company's Current Report on Form 8-K filed July 5, 2017).
4.64	Backup Servicing Agreement, dated as of June 29, 2017, among the Company, Credit Acceptance Funding LLC 2017-2, Credit Acceptance Auto Loan Trust 2017-2, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.83 to the Company's Current Report on Form 8-K filed July 5, 2017).
4.65	Amended and Restated Trust Agreement, dated as of June 29, 2017, among Credit Acceptance Funding LLC 2017-1, each of the members of the Board of Trustees of the Trust and U.S. Bank Trust National Association (incorporated by reference to Exhibit 4.84 to the Company's Current Report on Form 8-K filed July 5, 2017).
4.66	Sale and Contribution Agreement, dated as of June 29, 2017, between the Company and Credit Acceptance Funding LLC 2017-2 (incorporated by reference to Exhibit 4.85 to the Company's Current Report on Form 8-K filed July 5, 2017).
4.67	First Amendment to Loan and Security Agreement, dated as of July 18, 2017, among the Company, CAC Warehouse Funding LLC VI and Flagstar Bank, fsb (incorporated by reference to Exhibit 4.87 to the Company's Current Report on Form 8-K filed July 21, 2017).
4.68	New Bank Addendum, dated October 19, 2017 to the Sixth Amended and Restated Credit Acceptance Corporation Credit Agreement dated as of October 19, 2017, among the Company, each of the financial institutions parties thereto and Comerica Bank, as agent (incorporated by reference to Exhibit 4.94 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017).
4.69	Assignment Agreement, dated October 19, 2017, among the Company, the Banks signatory thereto and Comerica Bank, as agent, under the Sixth Amended and Restated Credit Acceptance Corporation Credit Agreement dated as of June 23, 2014 (incorporated by reference to Exhibit 4.95 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017).
4.70	Indenture dated as of October 26, 2017, between Credit Acceptance Auto Loan Trust 2017-3 and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.88 to the Company's Current Report on Form 8-K filed October 27, 2017).
4.71	Sale and Servicing Agreement, dated as of October 26, 2017, among the Company, Credit Acceptance Auto Loan Trust 2017-3, Credit Acceptance Funding LLC 2017-3, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.89 to the Company's Current Report on Form 8-K filed October 27, 2017).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4.72	Backup Servicing Agreement, dated as of October 26, 2017, among the Company, Credit Acceptance Funding LLC 2017-3, Credit Acceptance Auto Loan Trust 2017-3, and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.90 to the Company's Current Report on Form 8-K filed October 27, 2017).
4.73	Amended and Restated Trust Agreement, dated as of October 26, 2017, among Credit Acceptance Funding LLC 2017-3, each of the members of the Board of Trustees of the Trust and U.S. Bank Trust National Association (incorporated by reference to Exhibit 4.91 to the Company's Current Report on Form 8-K filed October 27, 2017).
4.74	Sale and Contribution Agreement, dated as of October 26, 2017, between the Company and Credit Acceptance Funding LLC 2017-3 (incorporated by reference to Exhibit 4.92 to the Company's Current Report on Form 8-K filed October 27, 2017).
4.75	Loan and Security Agreement, dated as of December 1, 2017, among the Company, CAC Warehouse Funding LLC VII, Credit Suisse AG, New York Branch and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.96 to the Company's Current Report on Form 8-K filed December 7, 2017).
4.76	Contribution Agreement, dated as of December 1, 2017, between the Company and CAC Warehouse Funding LLC VII (incorporated by reference to Exhibit 4.97 to the Company's Current Report on Form 8-K filed December 7, 2017).
4.77	Backup Servicing Agreement, dated as of December 1, 2017, among the Company, CAC Warehouse Funding LLC VII, Credit Suisse AG, New York Branch and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.98 to the Company's Current Report on Form 8-K filed December 7, 2017).
4.78	Amended and Restated Intercreditor Agreement, dated December 1, 2017, among the Company, CAC Warehouse Funding Corporation II, CAC Warehouse Funding LLC IV, CAC Warehouse Funding LLC V, CAC Warehouse Funding LLC VI, CAC Warehouse Funding LLC VII, Credit Acceptance Funding LLC 2017-3, Credit Acceptance Funding LLC 2017-2, Credit Acceptance Funding LLC 2017-1, Credit Acceptance Funding LLC 2016-3, Credit Acceptance Funding LLC 2016-2, Credit Acceptance Funding LLC 2016-1, Credit Acceptance Funding LLC 2015-2, Credit Acceptance Funding LLC 2015-1, Credit Acceptance Auto Loan Trust 2017-3, Credit Acceptance Auto Loan Trust 2017-2, Credit Acceptance Auto Loan Trust 2017-1, Credit Acceptance Auto Loan Trust 2016-3, Credit Acceptance Auto Loan Trust 2016-2, Credit Acceptance Auto Loan Trust 2015-2, Credit Acceptance Auto Loan Trust 2015-1, Wells Fargo Bank, National Association, as agent, Fifth Third Bank, as agent, Bank of Montreal, as agent, Flagstar Bank, FSB, as agent and Comerica Bank, as agent (incorporated by reference to Exhibit 4.99 to the Company's Current Report on Form 8-K filed December 7, 2017).
4.79	Amendment No. 1 to Sixth Amended and Restated Loan and Security Agreement, dated as of December 20, 2017, among the Company, CAC Warehouse Funding Corporation II and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.100 to the Company's Current Report on Form 8-K filed December 21, 2017).
10.1	Form of Restricted Stock Grant Agreement (incorporated by reference to Exhibit 10(q)(4) to the Company's Current Report on Form 8-K filed February 28, 2007).*
10.2	Credit Acceptance Corporation Amended and Restated Incentive Compensation Plan, as amended, April 6, 2009 (incorporated by reference to Annex A to the Company's Definitive Proxy Statement on Schedule 14A filed April 10, 2009).*
10.3	Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10(q)(11) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009).*
10.4	Form of Board of Directors Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10(q)(12) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009).*
10.5	Restricted Stock Unit Award Agreement, dated March 26, 2012, between the Company and Brett A. Roberts (incorporated by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012).*
10.6	Restricted Stock Award Agreement, dated March 26, 2012, between the Company and Brett A. Roberts (incorporated by reference to Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012).*
10.7	Credit Acceptance Corporation Amended and Restated Incentive Compensation Plan, as amended, March 26, 2012 (incorporated by reference to Annex A to the Company's Definitive Proxy Statement on Schedule 14A filed April 5, 2012).*
10.8	Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).*
10.9	Shareholder Agreement, dated as of January 3, 2017, between the Company and Donald A. Foss (incorporated by reference to Exhibit 10.18 to the Company's Current Report on Form 8-K filed January 4, 2017).*
10.10	Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017).*
10.11	Amendment to Shareholder Agreement dated September 15, 2017, between the Company and Donald A. Foss (incorporated by reference to Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017).*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10.12	Amendment to Shareholder Agreement dated November 29, 2017, between the Company and Donald A. Foss.*
12	Ratio of Earnings to Fixed Charges.
21	Schedule of Credit Acceptance Corporation Subsidiaries.
23	Consent of Grant Thornton LLP.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
32.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101(INS)	XBRL Instance Document.
101(SCH)	XBRL Taxonomy Extension Schema Document.
101(CAL)	XBRL Taxonomy Extension Calculation Linkbase Document.
101(DEF)	XBRL Taxonomy Extension Definition Linkbase Document.
101(LAB)	XBRL Taxonomy Label Linkbase Document.
101(PRE)	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Management contract or compensatory plan or arrangement.

Other instruments, notes or extracts from agreements defining the rights of holders of long-term debt of the Company or its subsidiaries have not been filed because (i) in each case the total amount of long-term debt permitted thereunder does not exceed 10% of the Company's consolidated assets and (ii) the Company hereby agrees that it will furnish such instruments, notes and extracts to the Securities and Exchange Commission upon its request.

Amendments and modifications to other exhibits previously filed have been omitted when in the opinion of the registrant such exhibits as amended or modified are no longer material or, in certain instances, are no longer required to be filed as exhibits.

### ITEM 16. FORM 10-K SUMMARY

None.

## 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*

*(Principal Executive Officer)*

Date: February 9, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on February 9, 2018 on behalf of the registrant and in the capacities indicated.

Signature	Title
<u>/s/ BRETT A. ROBERTS</u> Brett A. Roberts	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ KENNETH S. BOOTH</u> Kenneth S. Booth	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ THOMAS N. TRYFOROS</u> Thomas N. Tryforos	Lead Director
<u>/s/ GLENDA J. FLANAGAN</u> Glenda J. Flanagan	Director
<u>/s/ SCOTT J. VASSALLUZZO</u> Scott J. Vassalluzzo	Director

## **Executive Officers**

**Brett A. Roberts**

Chief Executive Officer

**Steven M. Jones**

President

**Kenneth S. Booth**

Chief Financial Officer

**Charles A. Pearce**

Chief Legal Officer and Corporate Secretary

**Arthur L. Smith**

Chief Analytics Officer

**John S. Soave**

Chief Information Officer

**Daniel A. Ulatowski**

Chief Sales Officer

**Douglas W. Busk**

Senior Vice President and Treasurer

## Board of Directors

### **Glenda J. Flanagan**

Executive Vice President and  
Senior Advisor  
Whole Foods Market, Inc.

### **Brett A. Roberts**

Chief Executive Officer  
Credit Acceptance Corporation

### **Thomas N. Tryforos**

Private Investor

### **Scott J. Vassalluzzo**

Managing Member  
Prescott General Partners LLC

## Other Information

### **Corporate Headquarters**

25505 West Twelve Mile Road  
Southfield, MI 48034  
(248) 353-2700

### **Transfer Agent and Registrar**

Computershare Trust Company, N.A.  
211 Quality Circle, Suite 210  
College Station, TX 77845  
(781) 575-3120

### **Corporate Counsel**

Skadden, Arps, Slate, Meagher & Flom LLP  
Chicago, IL

### **Certified Public Accountants**

Grant Thornton LLP  
Southfield, MI

### **Stock Listing**

NASDAQ: CACC

### **Investor Relations**

Information requests should be forwarded to:  
Douglas W. Busk  
(248) 353-2700 Ext. 4432

## Annual Meeting of Shareholders

**June 8, 2018**

**8:00 a.m.**

Corporate Headquarters  
25505 West Twelve Mile Road  
Southfield, MI 48034

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 our investor information on the Company's website at **CreditAcceptance.com**.



25505 West Twelve Mile Road  
Southfield, MI 48034

**CreditAcceptance.com**

248.353.2700