Credit Acceptance Announces 4th Quarter Earnings and 2003 Earnings

SOUTHFIELD, Mich., Jan 28, 2004 (BUSINESS WIRE) -- Credit Acceptance Corporation (Nasdaq:CACC) Credit Acceptance Corporation (the "Company") announced consolidated net income for the three months ended December 31, 2003 of $9,762,000 or $0.22 per diluted share compared to $5,090,000 or $0.12 per diluted share for the same period in 2002. For the year ended December 31, 2003, consolidated net income was $28,181,000 or $0.65 per diluted share compared to $28,365,000 or $0.65 per diluted share for the same period in 2002.

Excluding the impact of one-time items and foreign exchange losses on forward contracts, consolidated net income for the three months and year ended December 31, 2003 was $10,584,000 or $0.24 per diluted share and $36,543,000 or $0.84 per diluted share, respectively, compared to $4,798,000 or $0.11 per diluted share and $26,800,000 or $0.62 per diluted share for the same periods in 2002.

As a result of the decision in the second quarter of 2003 to stop loan originations in the United Kingdom and Canada and the decision to stop lease originations in early 2002, the Company's sole active business unit consists of providing "guaranteed credit approval" through a network of automobile dealer-partners located in the United States.

Segment Information

(Dollars in thousands, except per share data)	Three Months Ended December 31,		
	2003	2002	% Change
Net Income (Loss)			
United States (1), (2)	$8,689	$4,835	79.7 %
United Kingdom (3), (4)	781	800	(2.4)
Automobile Leasing	216	(531)	140.7
Other	76	(14)	642.9
Consolidated	$9,762	$5,090	91.8 %
Net Income (Loss) Per Diluted Share			
United States (1), (2)	$0.20	$0.11	81.8 %
United Kingdom (3), (4)	0.02	0.02	0.0
Automobile Leasing	0.00	(0.01)	100.0
Other	0.00	0.00	0.0
Consolidated	$0.22	$0.12	83.3 %

(Dollars in thousands, except per share data)	Years Ended December 31,		
	2003	2002	% Change
Net Income (Loss)			
United States (1), (2)	$33,014	$23,790	38.8 %
United Kingdom (3), (4)	(4,646)	6,277	(174.0)
Automobile Leasing	(323)	(1,824)	82.3
Other	136	122	11.5

Consolidated	$28,181	$28,365	(0.6)%

Net Income (Loss) Per Diluted Share

United States (1), (2)	$0.77	$0.55	40.0 %
United Kingdom (3), (4)	(0.11)	0.14	(178.6)
Automobile Leasing	(0.01)	(0.04)	75.0
Other	0.00	0.00	0.0
Consolidated	$0.65	$0.65	0.0 %

(1) For the three months and year ended December 31, 2003, net income includes: a foreign currency exchange loss due to the fair value recognition of forward contracts associated with the anticipated cash flows from the United Kingdom operation, which decreased net income by $1,129,000 after-tax, or $0.03 per diluted share, for the three month period and $1,831,000 after-tax, or $0.04 per diluted share, for the year; and a reduction in Michigan single business tax expense resulting from a reduction in the amount of income apportioned to the state of Michigan, which increased net income by $307,000 after-tax, or $0.01 per diluted share. For the year ended December 31, 2003, net income also includes interest income from the Internal Revenue Service, which increased net income by $400,000 after-tax, or $0.01 per diluted share.

(2) For the three months and year ended December 31, 2002, net income includes: a reduction in state tax related expense resulting from the re-characterization of income, which increased net income by $462,000 after-tax, or $0.01 per diluted share, for the three month period and $1,425,000 after-tax, or $0.03 per diluted share, for the year; an adjustment to federal tax related expense related to repatriation of earnings in the United Kingdom, which increased net income by $570,000 after-tax, or $0.02 per diluted share, for the three month period and decreased net income by $2,994,000 after-tax, or $0.07 per diluted share, for the year; and a loss on the disposal of computer hardware, which decreased net income by $740,000 after-tax, or $0.02 per diluted share. Net income for the year ended December 31, 2002 also includes interest income from the Internal Revenue Service, which increased net income by $3,127,000 after-tax, or $0.07 per diluted share.

(3) For the year ended December 31, 2003, net income includes impairment and other expenses associated with the decision to liquidate the United Kingdom operation, which decreased net income by $7,238,000 after-tax, or $0.17 per diluted share.

(4) For the year ended December 31, 2002, net income includes a change in ancillary product revenue recognition policy, which increased net income by $747,000 after-tax, or $0.02 per diluted share.

Reconciliation of Reported Net Income to Adjusted Net Income

The following table reconciles the reported net income and adjusted net income (reported net income excluding certain adjustments) for the three months and years ended December 31, 2003 and 2002:

	Three Months Ended December 31,		Years Ended December 31,	
(Dollars in thousands, except per share data)	2003	2002	2003	2002

Reported net income	$9,762	$5,090	$28,181	$28,365
Foreign exchange loss due to forward contracts	1,129	-	1,831	-
Reduction in Michigan single business tax	(307)	-	(307)	-
United Kingdom impairment expenses	-	-	7,238	-
Interest income from Internal Revenue Service	-	-	(400)	(3,127)
2002 tax items, net	-	(1,032)	-	1,569
Loss on disposal of computer hardware	-	740	-	740
Ancillary product revenue recognition policy change	-	-	-	(747)
Adjusted net income	$10,584	$4,798	$36,543	$26,800
Diluted weighted average shares outstanding	43,958,520	42,852,646	43,409,007	43,362,741
Adjusted net income per diluted share	$0.24	$0.11	$0.84	$0.62

Results for the three months and year ended December 31, 2003 include an expense of $1,129,000 after-tax, or $0.03 per diluted share and $1,831,000 after-tax, or $0.04 per diluted share, respectively, related to foreign currency exchange losses from forward contracts entered into during the third quarter. From the date the contracts were entered into, the weakening of the United States dollar versus the British pound sterling caused a reduction in the fair value of the forward contracts and an approximately equal increase in the amount of expected future cash flows. For the quarter ended December 31, 2003, the amount of the loss recognized by the Company on these forward contracts was offset by an approximately equal increase in shareholders' equity.

The Company intends to utilize proceeds from businesses being liquidated to: (i) fund dealer-partner advances on loans originated in the United States and (ii) fund share repurchases. During the three months ended December 31, 2003, the Company received $13.6 million in liquidation proceeds and made share repurchases of $477,000. Subsequent to December 31, 2003, the Company made additional share repurchases of $37.4 million through a modified Dutch auction tender offer.

Detail of expected future net liquidation proceeds follows:

(Dollars in thousands)	As of December 31, 2003
United Kingdom	$30,100
Canada	4,200
Automobile Leasing	2,500
	$36,800

United States Loan Originations

(Dollars in thousands)	Three Months Ended December 31,			Years Ended December 31,		
	2003	2002	% Change	2003	2002	% Change
Loan originations	$177,678	$130,616	36.0%	$785,667	$571,690	37.4%
Number of						

loans originated	13,847	10,759	62,334	49,650
Number of active dealer-partners (1)	763	555	916	789
Loans per active dealer-partner	18.1	19.4	68.1	62.9
Average loan size	$12.8	$12.1	$12.6	$11.5

(1) Active dealer-partners are dealer-partners who submitted at least one loan during the period.

The increase in loan originations in the United States in 2003 is due to: (i) an increase in the number of active dealer-partners due to increased dealer-partner enrollments and reduced levels of dealer-partner attrition, (ii) a continued increase in the number of loans per active dealer-partner and (iii) an increase in the average loan size.

The Company made no material changes in credit policy or pricing in the fourth quarter, other than routine changes designed to maintain current profitability levels.

Historically, the Company has experienced an adverse change in the profitability of loan originations during periods of high growth. While the growth rates experienced in the United States in 2003 are higher than the Company's expected long-term growth rate, the Company believes that the investments in infrastructure in 2002, combined with decreases in loan origination volumes in 2002, have adequately prepared the Company for this growth.

Return on Capital Analysis

Return on capital is equal to net operating profit after-tax (net income plus interest expense after-tax) divided by average capital as follows:

(Dollars in thousands)	Three Months Ended December 31,		Years Ended December 31,	
	2003	2002	2003	2002
Net income	$9,762	$5,090	$28,181	$28,365
Interest expense	$2,793	$1,932	$8,057	$9,058
(1 - tax rate)	65.0%	65.0%	65.0%	65.4%
Interest expense after-tax	$1,815	$1,256	$5,237	$5,920
Net operating profit after-tax	$11,577	$6,346	$33,418	$34,285
Average capital	$457,516	$448,696	$443,150	$469,423
Return on capital	10.1%	5.7%	7.5%	7.3%
Adjusted return on capital (1)	10.8%	5.4%	9.4%	7.0%

(1) Adjusted return on capital is calculated the same as unadjusted but utilizes adjusted net income as presented in the reconciliation of reported net income to adjusted net income table.

The increase in the return on capital was the result of an increase in the percentage of total capital allocated to the Company's United States business segment, the business segment which generates the highest return on capital, and an increase in the return on capital in the United States business segment.

Economic Profit

Economic profit represents net operating profit after-tax less an imputed cost of equity. Economic profit measures how efficiently the Company utilizes its total capital, both debt and equity. The following table presents the calculation of the Company's economic profit (loss) for the periods indicated (dollars in thousands, except per share data):

	Three Months Ended December 31,		Years Ended December 31,	
	2003	2002	2003	2002
Economic profit (loss)				
Net income (1)	$9,762	$5,090	$28,181	$28,365
Imputed cost of equity at 10% (2)	(8,771)	(8,035)	(33,938)	(30,790)
Total economic profit (loss)	$991	$(2,945)	$(5,757)	$(2,425)
Diluted weighted average shares outstanding	43,958,520	42,852,646	43,409,007	43,362,741
Economic profit (loss) per diluted share (3)	$0.02	$(0.07)	$(0.13)	$(0.06)
Adjusted economic profit (loss) (4)	$1,813	$(3,237)	$2,605	$(3,990)
Adjusted economic profit (loss) per diluted share (4)	$0.04	$(0.08)	$0.06	$(0.09)

(1) Consolidated net income from the Consolidated Income Statements.

(2) Cost of equity is equal to 10% (on an annual basis) of average shareholders' equity, which was $350,836,000 and $339,378,000 for the three months and year ended December 31, 2003, respectively, and $321,391,000 and $307,895,000 for the same periods in 2002, respectively.

(3) Economic profit (loss) per share equals the economic profit (loss) divided by weighted average number of shares outstanding.

(4) Adjusted economic profit (loss) and adjusted economic profit (loss) per diluted share are calculated the same as unadjusted but utilize adjusted net income as presented in the reconciliation of reported net income to adjusted net income table.

Cautionary Statement Regarding Forward Looking Information

Certain statements in this release that are not historical facts, including those regarding the Company's future plans and objectives, are "forward-looking statements" within the meaning of the federal securities laws. These forward-looking statements represent our outlook only as of the date of this release. While the Company believes that its forward-looking statements are reasonable, actual results could differ materially since the statements are based on our current expectations, which are subject to risks and uncertainties. Factors that might cause such a difference include the following: increased competition from traditional financing sources and from non-traditional lenders, unavailability of funding at competitive rates of interest or the Company's potential inability to continue to obtain third party financing on favorable terms, the Company's potential inability to generate sufficient cash flow to service its debt and fund its future operations, adverse changes in applicable laws and regulations, adverse changes in economic conditions, adverse changes in the automobile or finance industries or in the non-prime consumer finance market, the Company's potential inability to maintain or increase the volume of automobile loans, the Company's potential inability to accurately forecast and estimate future collections and historical collection rates and the associated default risk, the Company's potential inability to accurately estimate the residual values of leased vehicles, an increase in the amount or severity of litigation against the Company, the loss of key management personnel, the effects of terrorist attacks and potential attacks, and various other factors discussed in the Company's reports filed with the Securities and Exchange Commission. Other factors not currently anticipated by management may also materially and adversely affect the Company's results of operations. The Company does not undertake, and expressly disclaims any obligation, to update or alter its forward-looking statements whether as a result of new information, future events or otherwise, except as required by applicable law.

Description of Credit Acceptance Corporation

Credit Acceptance is a financial services company specializing in products and services for a network of automobile dealer-partners. Credit Acceptance provides its dealer-partners with financing sources for consumers with limited access to credit and delivers credit approvals instantly through the internet. Other dealer-partner services include marketing, sales training and a wholesale purchasing cooperative. Through its financing program, Credit Acceptance helps consumers change their lives by providing them an opportunity to strengthen and reestablish their credit standing by making timely monthly payments. Credit Acceptance is publicly traded on the NASDAQ National Market under the symbol CACC. For more information, visit www.creditacceptance.com.

CREDIT ACCEPTANCE CORPORATION

Consolidated Income Statements

(Dollars in thousands, except per share data)	Three Months Ended December 31,		Years Ended December 31,	
	2003	2002	2003	2002
Revenue:				
Finance charges	$26,668	$23,319	$103,125	$97,744
Lease revenue	1,061	2,900	6,432	16,101
Ancillary product income	5,062	3,518	19,397	16,437
Premiums earned	740	1,017	2,986	4,512
Other income	3,494	3,465	13,848	19,540
Total revenue	37,025	34,219	145,788	154,334
Costs and expenses:				
General and administrative	4,673	6,662	20,034	24,551
Salaries and wages	8,572	6,906	33,655	29,042
Sales and marketing	1,948	2,079	8,494	7,623
Stock-based compensation expense	753	490	3,583	2,072
Provision for insurance and service contract claims	(91)	138	546	1,861
Provision for credit losses	1,105	7,962	10,459	23,935
Depreciation of leased assets	642	1,911	4,210	9,669
United Kingdom asset impairment expense	-	-	10,493	-
Interest	2,793	1,932	8,057	9,058
Total costs and expenses	20,395	28,080	99,531	107,811
Operating income	16,630	6,139	46,257	46,523
Foreign exchange loss	(1,730)	(2)	(2,767)	-

Income before provision for income taxes	14,900	6,137	43,490	46,523
Provision for income taxes	5,138	1,047	15,309	18,158
Net income	$9,762	$5,090	$28,181	$28,365
Net income per common share:				
Basic	$0.23	$0.12	$0.67	$0.67
Diluted	$0.22	$0.12	$0.65	$0.65
Weighted average shares outstanding:				
Basic	42,040,063	42,371,316	42,195,340	42,438,292
Diluted	43,958,520	42,852,646	43,409,007	43,362,741

CREDIT ACCEPTANCE CORPORATION

Consolidated Balance Sheets

(Dollars in thousands)	Years Ended December 31, 2003	2002
ASSETS:		
Cash and cash equivalents	$36,044	$13,466
Investments -- held to maturity	-	173
Loans receivable	872,970	770,069
Allowance for credit losses	(17,615)	(20,991)
Loans receivable, net	855,355	749,078
Floorplan receivables, net	2,449	4,450
Lines of credit, net	2,023	3,655
Notes receivable, net (including $1,583 and $1,513 from affiliates as of December 31, 2003 and 2002, respectively)	2,090	3,899
Investment in operating leases, net	4,447	17,879
Property and equipment, net	18,503	19,951
Income taxes receivable	5,795	-
Other assets	17,074	14,280
Total Assets	$943,780	$826,831
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Lines of credit	$-	$43,555
Secured financing	100,000	58,153
Mortgage note	5,418	6,195
Capital lease obligations	1,049	1,938
Accounts payable and accrued liabilities	33,117	28,341
Dealer holdbacks, net	423,861	347,040
Deferred income taxes, net	22,770	10,058
Income taxes payable	-	6,094

Total Liabilities	586,215	501,374
Shareholders' Equity:		
Common stock	421	423
Paid-in capital	125,078	124,772
Retained earnings	227,039	198,858
Accumulated other comprehensive income - cumulative translation adjustment	5,027	1,404
Total Shareholders' Equity	357,565	325,457
Total Liabilities and Shareholders' Equity	$943,780	$826,831

CREDIT ACCEPTANCE CORPORATION

Consolidated Statements of Cash Flows
(Dollars in thousands)

(Dollars in thousands)	Years Ended December 31, 2003	Years Ended December 31, 2002
Cash Flows From Operating Activities:		
Net income	$28,181	$28,365
Adjustments to reconcile net cash provided by operating activities:		
Provision for credit losses	10,459	23,935
Depreciation	4,469	4,718
Depreciation of leased assets	4,210	9,669
Loss on retirement of property and equipment	73	1,417
Foreign currency loss on forward contracts	2,817	-
Provision for deferred income taxes	12,712	1,838
Stock-based compensation	3,583	2,072
United Kingdom asset impairment	10,493	-
Change in operating assets and liabilities:		
Accounts payable and accrued liabilities	1,081	(11,106)
Income taxes payable	(6,094)	996
Income taxes receivable	(5,795)	-
Lease payments receivable	619	(1,031)
Unearned insurance premiums, insurance reserves and fees	(837)	(2,850)
Deferred dealer enrollment fees, net	878	140
Other assets	(2,794)	282
Net cash provided by operating activities	64,055	58,445
Cash Flows From Investing Activities:		
Proceeds from maturities of investments - held to maturity	173	-
Principal collected on loans receivable	348,932	339,371
Advances to dealers	(366,747)	(285,612)
Payments of dealer holdbacks	(28,954)	(32,890)
Operating lease acquisitions	-	(874)
Deferred costs from lease acquisitions	-	(201)
Operating lease liquidations	6,900	12,081
Decrease in floorplan receivables	1,596	1,940
Decrease (increase) in lines of credit	969	(273)
Increase in notes receivable -- affiliates	(70)	(5)

Decrease in notes receivable -- non-affiliates	1,848	706
Purchases of property and equipment	(3,094)	(6,440)
Net cash provided by (used in) investing activities	(38,447)	27,803
Cash Flows From Financing Activities:		
Net repayments under lines of credit	(43,555)	(29,660)
Proceeds from secured financings	100,000	103,551
Repayments of secured financings	(58,153)	(167,794)
Proceeds under capital lease obligations	32	2,249
Principal payments under capital lease obligations	(921)	(311)
Repayment of mortgage note	(777)	(723)
Repurchase of common stock	(5,316)	(7,018)
Proceeds from stock options exercised	2,037	3,608
Net cash used in financing activities	(6,653)	(96,098)
Effect of exchange rate changes on cash	3,623	7,543
Net increase (decrease) in cash and cash equivalents	22,578	(2,307)
Cash and cash equivalents, beginning of period	13,466	15,773
Cash and cash equivalents, end of period	$36,044	$13,466

CREDIT ACCEPTANCE CORPORATION

Summary Financial Data
(Dollars in thousands)

Loans Receivable

The following table summarizes the composition of loans receivable:

	As of December 31,	
	2003	2002
Gross loans receivable	$1,033,234	$910,417
Unearned finance charges	(157,707)	(136,954)
Unearned insurance premiums, insurance reserves and fees	(2,557)	(3,394)
Loans receivable	$872,970	$770,069
Non-accrual loans	$201,151	$212,373
Non-accrual loans as a percent of gross loans receivable	19.5%	23.3%

A summary of changes in gross loans receivable is as follows:

Three Months Ended Year Ended

	December 31,		December 31,	
	2003	2002	2003	2002
Balance, beginning of period	$1,032,185	$932,713	$910,417	$900,415
Gross amount of loans accepted	177,678	140,108	814,182	625,385
Net cash collections on loans	(115,299)	(106,390)	(457,406)	(440,851)
Charge-offs(a)	(73,920)	(59,412)	(261,365)	(186,788)
Recoveries	7,048	-	14,168	-
Net change in repossessed collateral	(1,780)	(211)	156	(2,212)
Currency translation	7,322	3,609	13,082	14,468
Balance, end of period	$1,033,234	$910,417	$1,033,234	$910,417

(a) Charge-offs presented net of recoveries for activity prior to July 1, 2003

CREDIT ACCEPTANCE CORPORATION

Summary Financial Data
(Dollars in thousands)

Loans Receivable - (concluded)

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

	Three Months Ended December 31,		Years Ended December 31,	
	2003	2002	2003	2002
Balance, beginning of period	$14,883	$17,568	$20,991	$13,906
Provision for loan losses	1,005	5,864	7,657	15,443
Charge-offs(a)	(1,548)	(2,537)	(17,736)	(8,800)
Recoveries	2,927	-	6,160	-
Currency translation	348	96	543	442
Balance, end of period	$17,615	$20,991	$17,615	$20,991

(a) Charge-offs presented net of recoveries for periods prior to July 1, 2003

Investment in Operating Leases

The following table summarizes the composition of investment in operating leases, net:

As of December 31,

	2003	2002
Gross leased assets	$10,274	$26,821
Accumulated depreciation	(6,664)	(12,304)
Gross deferred costs	1,513	3,956
Accumulated amortization of deferred costs	(1,307)	(2,706)
Lease payments receivable	631	2,112
Investment in operating leases	$4,447	$17,879

CREDIT ACCEPTANCE CORPORATION

Summary Financial Data

(Dollars in thousands)

Investment in Operating Leases - (concluded)

A summary of changes in the investment in operating leases is as follows:

	Three Months Ended December 31,		Years Ended December 31,	
	2003	2002	2003	2002
Balance, beginning of period	$6,364	$23,222	$17,879	$42,774
Gross operating leases originated	-	-	-	1,075
Depreciation of operating leases	(642)	(1,911)	(4,210)	(9,669)
Lease payments receivable	1,041	2,995	6,513	16,062
Collections on operating leases	(1,145)	(2,883)	(7,132)	(15,031)
Provision for lease losses	-	(1,231)	(1,703)	(5,251)
Operating lease liquidations	(1,250)	(2,331)	(7,323)	(12,100)
Currency translation	79	18	423	19
Balance, end of period	$4,447	$17,879	$4,447	$17,879

Dealer Holdbacks

The following table summarizes the composition of dealer holdbacks:

	As of December 31,	
	2003	2002
Dealer holdbacks	$828,720	$734,625
Less: advances	(404,859)	(387,585)
Dealer holdbacks, net	$423,861	$347,040

SOURCE: Credit Acceptance Corporation

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