Credit Acceptance Announces: 3rd Quarter Earnings

SOUTHFIELD, Mich., Nov 14, 2003 (BUSINESS WIRE) -- Credit Acceptance Corporation (Nasdaq:CACC) Credit Acceptance Corporation (the "Company") announced consolidated net income for the three months ended September 30, 2003 of $8,818,000 or $0.20 per diluted share compared to $8,612,000 or $0.20 per diluted share for the same period in 2002. For the nine months ended September 30, 2003, consolidated net income was $18,419,000 or $0.43 per diluted share compared to $23,275,000 or $0.53 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 and nine months ended September 30, 2003 was $9,520,000 or $0.22 per diluted share and $25,959,000 or $0.60 per diluted share, respectively, compared to $4,738,000 or $0.11 per diluted share and $22,002,000 or $0.51 per diluted share for the same periods in 2002.

As announced on October 30, 2003, the Company's third quarter earnings announcement was delayed due to a review of its periodic reports by the Securities and Exchange Commission. The financial reporting changes made as a result of this review, which are described below, did not impact the Company's previously reported earnings or shareholders' equity.

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 follows:

(Dollars in thousands, except per share data)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2003	2002	% Change	2003	2002	% Change
Net Income (Loss)						
United States (1), (2)	$8,142	$6,473	25.8 %	$24,325	$18,955	28.3 %
United Kingdom (3), (4)	861	2,994	(71.2)	(5,427)	5,477	(199.1)
Automobile Leasing	(69)	(437)	84.2	(539)	(1,293)	58.3
Other	(116)	(418)	72.2	60	136	(55.9)
Consolidated	$8,818	$8,612	2.4 %	$18,419	$23,275	(20.9)%
Net Income (Loss) Per Share						
United States (1), (2)	$0.19	$0.15	23.4 %	$0.56	$0.44	29.1 %
United Kingdom (3), (4)	0.02	0.07	(71.8)	(0.13)	0.13	(199.7)
Automobile Leasing	(0.00)	(0.01)	84.5	(0.01)	(0.03)	58.1
Other	(0.00)	(0.01)	72.8	0.00	0.00	(55.6)
Consolidated	$0.20	$0.20	0.4 %	$0.43	$0.53	(20.4)%

(1) For the three and nine months ended September 30, 2003, net income includes the 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 $702,000 after-tax, or $0.02 per diluted share. For the nine months ended September 30, 2003, net income 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 and nine months ended September 30, 2002, net income includes interest income from the Internal Revenue Service, which increased net income by $3,127,000 after-tax, or $0.07 per diluted share. For the nine months ended September 30, 2002, net income includes a reduction in state tax related expense, which increased net income by $963,000 after-tax, or $0.02 per diluted share, and an increase in federal tax related expense, which decreased net income by $3,564,000 after-tax, or $0.08 per diluted share.

(3) For the nine months ended September 30, 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 three and nine months ended September 30, 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.

The following table reconciles the reported net income and adjusted net income (reported net income excluding certain adjustments) for the three and nine months ended September 30, 2003 and 2002:

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Reported net income	$8,818	$8,612	$18,419	$23,275
Foreign exchange loss due to forward contracts	702	-	702	-
State tax expense resulting from re-characterization of income	-	-	-	(963)
United Kingdom repatriation tax expense	-	-	-	3,564
United Kingdom impairment expenses	-	-	7,238	-
Ancillary product revenue recognition policy change	-	(747)	-	(747)
Interest income from Internal Revenue Service	-	(3,127)	(400)	(3,127)
Adjusted net income	$9,520	$4,738	$25,959	$22,002
Diluted weighted average shares outstanding	43,959,924	43,122,046	43,247,518	43,517,380
Adjusted net income per share	$0.22	$0.11	$0.60	$0.51

Results for the three and nine months ended September 30, 2003 include an expense of $702,000 after-tax, or $0.02 per diluted share related to foreign currency exchange loss. During the quarter, the Company entered into forward contracts to ensure that currency fluctuations would not reduce the amount of United States dollars received from the liquidation of the United Kingdom operation. 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.

Under generally accepted accounting principles, the Company is required to record an expense to reduce the carrying value of the forward contracts to fair value, and separately to record the change in the amount of cash flows expected from the United Kingdom due to exchange rate fluctuations in shareholders' equity. These amounts were not equal for the three months ended September 30, 2003 because the change in shareholders' equity reflects the change in exchange rates for the quarter while the change in the value of the forward contracts reflects the change in exchange rates from the date the contracts were entered into until the end of the quarter. In future periods, the Company expects that the amount of the gain or loss recognized by the Company on the forward contracts will be approximately offset by an increase or decrease 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 September 30, 2003, the Company received $15.9 million in liquidation proceeds and made share repurchases of $2.8 million.

Detail of expected future net liquidation proceeds follows:

(Dollars in thousands)	As of September 30, 2003
United Kingdom	$39,500
Canada	6,000
Automobile Leasing	4,200
	$49,700

The Company reported loan originations in the United States for the three and nine months ended September 30, 2003 of $196.8 million and $608.0 million, respectively, compared to $134.2 million and $441.1 million in the same periods in 2002, representing increases of 46.7% and 37.8%. 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 third 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.

As a result of a Securities and Exchange Commission review of the Company's Form 10-K for the year ended December 31, 2002 and Form 10-Q for the period ended June 30, 2003, beginning in the third quarter of 2003 the Company made two changes to the presentation of its balance sheet.

(1) Repossessed assets were reclassified from Loans receivable to Other assets, and

(2) The Reserve for advance losses was eliminated and the balance was reclassified into the Allowance for credit losses.

As a result of the elimination of the Reserve for advance losses, the Allowance for credit losses will now have two components: (i) an allowance for earned but unpaid revenue, which prior to the change was the sole component of the Allowance for credit losses and (ii) an allowance for losses inherent in the Company's loan portfolio which prior to the change would have been reported in the Reserve for advance losses. The current treatment is consistent with the view that, from an accounting standpoint, losses covered by this allowance are a result of uncollectible loans and that advance losses do not represent a separate event of loss.

Additionally, as a result of the Reserve for advance losses being eliminated and the balance reclassified into the Allowance for credit losses, the Company implemented revised loan charge-off and recovery policies. These revised policies did not result in changes to the Company's forecasted loss rates or profitability. Other changes resulting from the review relate primarily to additional disclosure regarding the Company's business, operations and credit loss policy.

Refer to the Company's Form 10-Q, which will be filed today with the Securities and Exchange Commission, and will appear on the Company's website at www.creditacceptance.com for a complete discussion of the results of operations and financial data for the three and nine months ended September 30, 2003.

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 September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Revenue:				
Finance charges	$25,770	$24,018	$76,457	$74,425
Lease revenue	1,251	3,614	5,371	13,201
Ancillary product income	4,369	5,500	14,335	12,919
Premiums earned	734	1,001	2,246	3,495
Other income	3,738	8,535	10,354	16,075
Total revenue	35,862	42,668	108,763	120,115
Costs and expenses:				
General and administrative	4,679	5,789	15,361	17,889
Salaries and wages	7,879	7,184	25,083	22,136
Sales and marketing	1,886	1,954	6,546	5,544
Stock-based compensation expense	1,027	535	2,830	1,582
Provision for insurance and service contract claims	329	590	637	1,723

Provision for credit losses	2,303	8,896	9,354	15,973
Depreciation of leased assets	853	2,251	3,568	7,758
United Kingdom asset impairment expense	-	-	10,493	-
Interest	2,267	2,364	5,264	7,126
Total costs and expenses	21,223	29,563	79,136	79,731
Operating income	14,639	13,105	29,627	40,384
Foreign exchange gain (loss)	(1,066)	(25)	(1,037)	2
Income before provision for income taxes	13,573	13,080	28,590	40,386
Provision for income taxes	4,755	4,468	10,171	17,111
Net income	$8,818	$8,612	$18,419	$23,275
Net income per common share:				
Basic	$0.21	$0.20	$0.44	$0.55
Diluted	$0.20	$0.20	$0.43	$0.53
Weighted average shares outstanding:				
Basic	42,315,027	42,363,895	42,329,722	42,457,425
Diluted	43,959,924	43,122,046	43,247,518	43,517,380

CREDIT ACCEPTANCE CORPORATION
Consolidated Balance Sheets

(Dollars in thousands)	As of	
	Sept. 30, 2003	Dec. 31, 2002
ASSETS:		
Cash and cash equivalents	$15,450	$13,466
Investments -- held to maturity	9,789	173
Loans receivable	869,927	770,069
Allowance for credit losses	(14,883)	(20,991)
Loans receivable, net	855,044	749,078
Floorplan receivables, net	2,920	4,450
Lines of credit, net	2,290	3,655
Notes receivable, net (including $1,565 and $1,513 from affiliates as of September 30, 2003 and December 31, 2002, respectively)	2,076	3,899
Investment in operating leases	6,364	17,879
Property and equipment, net	18,294	19,951
Other assets	13,152	14,280

Total Assets	$925,379	$826,831
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LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Lines of credit	$ -	$43,555
Secured financing	100,000	58,153
Mortgage note	5,618	6,195
Capital lease obligations	1,258	1,938
Accounts payable and accrued liabilities	33,858	28,341
Dealer holdbacks, net	420,759	347,040
Deferred income taxes, net	17,048	10,058
Income taxes payable	2,538	6,094
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Total Liabilities	581,079	501,374
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Shareholders' Equity:		
Common stock	422	423
Paid-in capital	123,477	124,772
Retained earnings	217,277	198,858
Accumulated other comprehensive income - cumulative translation adjustment	3,124	1,404
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Total Shareholders' Equity	344,300	325,457
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Total Liabilities and Shareholders' Equity	$925,379	$826,831
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SOURCE: Credit Acceptance Corporation

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