



## Credit Acceptance Announces 2nd Quarter Earnings

SOUTHFIELD, Mich., Aug 4, 2004 (BUSINESS WIRE) -- Credit Acceptance Corporation (Nasdaq:CACC) Credit Acceptance Corporation (the "Company") announced consolidated net income for the three months ended June 30, 2004 of \$12,606,000 or \$0.30 per diluted share compared to \$1,008,000 or \$0.02 per diluted share for the same period in 2003. For the six months ended June 30, 2004, consolidated net income was \$14,136,000 or \$0.34 per diluted share compared to \$9,601,000 or \$0.23 per diluted share for the same period in 2003.

The increase in consolidated net income for the three months ended June 30, 2004 compared to the same period in 2003 was primarily due to: (i) the United Kingdom impairment expenses recognized during the second quarter of 2003, (ii) an increase in the size of the loan portfolio due to an increase in loan originations, (iii) an increase in the average annualized yield on the loan portfolio due to a decrease in the percentage of non-accrual loans to total loans, and (iv) a decrease in operating expenses as a percentage of revenue due to increased operational efficiencies. Partially offsetting these items was a decrease in ancillary product income due to the Company's change in policy during the first quarter of 2004 for recognizing income on third-party vehicle service contracts sold.

The increase in consolidated net income for the six months ended June 30, 2004 compared to the same period in 2003 was primarily due to: (i) the United Kingdom impairment expenses recognized during the second quarter of 2003, (ii) an increase in the size of the loan portfolio due an increase in loan originations, and (iii) a decrease in operating expenses as a percentage of revenue due to increased operational efficiencies. Partially offsetting these items were: (i) an increase in the provision for credit losses due to the Company's change in estimate during the first quarter of 2004 for recording losses on its loan portfolio and the Company's revised methodology during the first quarter of 2004 for calculating finance charge income and the related provision for earned but unpaid servicing fees and (ii) a decrease in ancillary product income due to the Company's change in policy during the first quarter of 2004 for recognizing income on third-party vehicle service contracts sold.

Excluding the impact of certain items, consolidated adjusted net income for the three and six months ended June 30, 2004 was \$13,047,000 or \$0.32 per diluted share and \$24,048,000 or \$0.58 per diluted share, respectively, compared to \$7,933,000 or \$0.19 per diluted share and \$15,441,000 or \$0.36 per diluted share for the same periods in 2003.

The increase in consolidated adjusted net income for the three months ended June 30, 2004 compared to the same period in 2003 was primarily due to: (i) an increase in the size of the loan portfolio due an increase in loan originations, (ii) an increase in the average annualized yield on the loan portfolio due to a decrease in the percentage of non-accrual loans to total loans, and (iii) a decrease in operating expenses as a percentage of revenue due to increased operational efficiencies. The increase in consolidated adjusted net income for the six months ended June 30, 2004 compared to the same period in 2003 is primarily due to: (i) an increase in the size of the loan portfolio due to an increase in loan originations, (ii) a decrease in operating expenses as a percentage of revenue due to increased operational efficiencies, and (iii) a decrease in the provision for credit losses inherent in the loan portfolio due to a favorable trend in loss estimates during 2004.

### Reconciliation of Reported Net Income to Adjusted Net Income

The Company's reported net income includes certain items set forth in the table below that the Company believes should be excluded or adjusted in measuring the performance of the business when comparing current period results with the same period in the prior year. Management believes this information is important because it allows shareholders to better compare results between periods and make more informed assumptions about future results. In addition, the Company uses adjusted net income for performance purposes in determining bonus compensation paid under the Company's incentive compensation plans. The following table reconciles reported net income to adjusted net income for the three and six months ended June 30, 2004 and 2003:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Dollars in thousands, except per share data)	2004	2003	2004	2003
Reported net income	\$12,606	\$1,008	\$14,136	\$9,601
Inclusion of dealer				

holdback in estimate of losses on the loan portfolio (1)	-	-	6,110	-
Revised methodology for recognizing finance charges (1)	-	-	2,282	-
Foreign exchange gain due to forward contracts (2)	(590)	-	(688)	-
United Kingdom impairment expenses (3)	-	7,238	-	7,238
Interest income from Internal Revenue Service (3)	-	-	-	(400)
	-----	-----	-----	-----
Net income excluding certain items	\$12,016	\$8,246	\$21,840	\$16,439
Change in vehicle service contract revenue if new policy had been retroactively applied (4)	1,031	(313)	2,208	(998)
	-----	-----	-----	-----
Adjusted net income	\$13,047	\$7,933	\$24,048	\$15,441
	=====	=====	=====	=====
Diluted weighted average shares outstanding	41,413,308	42,868,265	41,790,255	42,629,844
Adjusted net income per diluted share	\$0.32	\$0.19	\$0.58	\$0.36
	=====	=====	=====	=====

(1) These items represent changes in estimates or changes in methodology that impact the current year. While these changes impacted the accounting for finance charges and the allowance for credit losses during the first quarter of 2004, the timing of cash flows generated from loan collections has not changed. Refer to Note 2 of the Consolidated Financial Statements included in the Company's Form 10-Q for further information.

(2) This item represents a current year gain which is offset by a reduction in shareholders' equity due to the decline in value of foreign currency denominated assets.

(3) The Company expects items of this type to be infrequent.

(4) This adjustment allows the reader to compare the current year to the prior year assuming a consistent accounting treatment of vehicle service contract revenue. While the accounting treatment of vehicle service contract revenue changed as a result of facts arising in the first quarter of 2004, the timing of cash flows generated from vehicle service contract revenue has not materially changed under the agreements entered into during the first quarter. Refer to Note 2 of the Consolidated Financial Statements included in the Company's Form 10-Q for further information.

#### Segment Information

(Dollars in thousands, except per share data)	Three Months Ended June 30,		
	2004	2003	% Change
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Reported Net Income (Loss)

United States	\$12,341	\$8,703	41.8 %
United Kingdom	186	(7,594)	102.4
Automobile Leasing	233	(153)	252.3
Other	(154)	52	(396.2)

Consolidated	\$12,606	\$1,008	1,150.6 %
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Reported Net Income (Loss) Per Diluted Share

United States	\$0.29	\$0.20	45.0 %
United Kingdom	-	(0.18)	100.0
Automobile Leasing	0.01	-	0.0
Other	-	-	0.0

Consolidated	\$0.30	\$0.02	1,400.0 %
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Six Months Ended June 30,

(Dollars in thousands, except per share data)

2004	2003	% Change
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Reported Net Income (Loss)

United States	\$13,444	\$16,181	(16.9)%
United Kingdom	412	(6,288)	106.6
Automobile Leasing	537	(468)	214.7
Other	(257)	176	(246.0)

Consolidated	\$14,136	\$9,601	47.2 %
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Reported Net Income (Loss) Per Diluted Share

United States	\$0.33	\$0.39	(15.4)%
United Kingdom	0.01	(0.15)	106.7
Automobile Leasing	0.01	(0.01)	200.0
Other	(0.01)	-	0.0

Consolidated	\$0.34	\$0.23	47.8 %
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Loan Originations in the United States

(Dollars in thousands)

Three Months Ended June 30,

2004	2003	% Change
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Loan originations	\$215,103	\$184,079	16.9 %
Number of loans originated	17,268	14,736	17.2
Number of active dealer-partners (1)	899	677	32.8
Loans per active dealer-partner	19.2	21.8	(11.8)

Average loan size	\$12.5	\$12.5	-
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(Dollars in thousands)	Six Months Ended June 30,		
	2004	2003	% Change
Loan originations	\$514,399	\$398,359	29.1 %
Number of loans originated	41,109	32,942	24.8
Number of active dealer-partners (1)	958	721	32.9
Loans per active dealer-partner	42.9	45.7	(6.1)
Average loan size	\$12.5	\$12.1	3.5

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

#### Loan Portfolio Performance in the United States

The following table compares the Company's forecast of collection rates for loans originated by year as of June 30, 2004 with the forecast as of December 31, 2003:

Loan Origination Year	December 31, 2003		Variance
	June 30, 2004 Forecasted Collection %	Forecasted Collection %	
1992	81.6%	81.5%	0.1%
1993	75.8%	75.7%	0.1%
1994	61.9%	61.8%	0.1%
1995	55.1%	55.2%	-0.1%
1996	55.2%	55.3%	-0.1%
1997	58.1%	58.1%	0.0%
1998	67.2%	67.2%	0.0%
1999	71.5%	71.5%	0.0%
2000	71.7%	71.7%	0.0%
2001	66.7%	67.0%	-0.3%
2002	68.9%	69.4%	-0.5%
2003	73.2%	72.8%	0.4%

The Company made no material changes in credit policy or pricing in the second quarter of 2004, other than routine changes designed to maintain current profitability levels.

The following summarizes the amount of estimated future loan payment inflows and dealer holdback outflows:

(In thousands)	Estimate as of June 30, 2004
Loan payments	\$827,532
Dealer holdback payments	213,453
Net cash flow	\$614,079

These estimated cash flows will occur over time. The estimated present value of these net cash flows is \$494.3 million utilizing a discount rate of 30%, comparable with the rate used to calculate the Company's allowance for credit losses under accounting principles generally accepted in the United States (GAAP).

The estimated present value of future cash flows from loans, less the related dealer holdback liability, is approximately \$40.3 million higher than the adjusted net investment in loans on our balance sheet calculated as follows:

As of June 30, 2004

Consolidated loans receivable, net	\$939,748
Consolidated dealer holdbacks	475,415
-----	
Net investment in loans before adjustments	464,333
Less: portion related to United Kingdom and Canada	(17,167)
Plus: repossessed assets and other	6,795
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Adjusted net investment in loans	453,961
Estimated present value of future cash flows from loans receivable, less estimated dealer holdback payments	494,282
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Excess of estimated present value of future cash flows over recorded net investment (pretax)	\$40,321
=====	

There are two primary reasons why the Company's recorded net investment in loans receivable is less than the present value of future cash flows. First, under GAAP, while the Company records an allowance for credit losses for any dealer-partner loan pool that exceeds the present value of future cash flows, the Company does not "write-up" loan pools carried at less than the present value of future cash flows. Second, under GAAP, the Company records recoveries as they are received. Recoveries consist of collections on previously charged off receivables. The present value of future recoveries is included in the estimated cash flow numbers above, but is not yet reflected in the Company's reported GAAP results.

The Company cautions that the above disclosure is based upon a forecast. While the Company believes its forecast is based on reasonable assumptions, there can be no assurance that the Company's forecast will be accurate. While the table above presents the difference between the recorded net investment and the estimated present value of future cash flows as a single number, a wide range of actual results is possible. Given the large dollar amount of the estimated present value of future cash flows, a modest percentage change in our forecast would likely result in a large change in the reported variance between our recorded net investment and the estimated present value of future cash flows.

#### Adjusted Return on Capital

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
-----				
Average debt	\$164,338	\$101,821	\$145,580	\$101,147
Average shareholders' equity	314,255	336,740	321,425	332,798
-----				
Average capital	\$478,593	\$438,561	\$467,005	\$433,945
=====				

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

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
-----				
Adjusted net income	\$13,047	\$7,933	\$24,048	\$15,441
Interest expense after-tax	1,542	911	3,232	1,948
-----				

Adjusted net operating profit

after-tax	14,589	8,844	27,280	17,389
	=====	=====	=====	=====
Average capital	\$478,593	\$438,561	\$467,005	\$433,945
	=====	=====	=====	=====
Adjusted return on capital	12.2%	8.1%	11.7%	8.0%

#### Adjusted Economic Profit

The Company defines adjusted economic profit as adjusted net operating profit after-tax less an imputed cost of equity. Adjusted economic profit measures how efficiently the Company utilizes its total capital, both debt and equity. To consider the cost of both debt and equity, the Company's calculation of adjusted economic profit deducts from adjusted net income a cost of equity equal to 10% of average equity, which approximates the S&P 500's rate of return since 1965. Management uses economic profit to assess the Company's performance as well as to make capital allocation decisions. Management believes this information is important to shareholders because it allows shareholders to compare the returns earned by the Company investing capital in its core business with the return they could expect if the Company returned capital to shareholders and they invested in other securities.

The following table presents the calculation of the Company's adjusted economic profit (loss) for the periods indicated (dollars in thousands, except per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Adjusted economic profit				
Adjusted net income (1)	\$13,047	\$7,933	\$24,048	\$15,441
Imputed cost of equity at 10% (2)	(7,856)	(8,419)	(16,071)	(16,640)
	-----	-----	-----	-----
Total adjusted economic profit (loss)	\$5,191	\$(486)	\$7,977	\$(1,199)
	=====	=====	=====	=====
Diluted weighted average shares outstanding	41,413,308	42,868,265	41,790,255	42,629,844
Adjusted economic profit (loss) per share (3)	\$0.13	\$(0.01)	0.19	(0.03)

(1) Adjusted net income from the Reconciliation of Reported Net Income to Adjusted Net Income.

(2) Cost of equity is equal to 10% (on an annual basis) of average shareholders' equity, which was \$314,255,000 and \$321,425,000 for the three months and six months ended June 30, 2004, respectively, and \$336,740,000 and \$332,798,000 for the same periods in 2003.

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

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](http://www.creditacceptance.com) for a complete discussion of the results of operations and financial data for the three and six months ended June 30, 2004.

New Policy for Corporate Information Requests

The Company announced a new policy for handling requests for corporate information, including questions by security analysts and investors. Effective immediately, all requests must be submitted in writing. Requests can be mailed to: Credit Acceptance, Attention: Investor Relations, 25505 West Twelve Mile Road, Suite 3000, Southfield, MI 48034, or sent by email to [ir@creditacceptance.com](mailto:ir@creditacceptance.com).

Written responses will be posted on the investor relations section of our corporate website at [www.creditacceptance.com](http://www.creditacceptance.com) and furnished to the Securities and Exchange Commission on Form 8-K.

#### Cautionary Statement Regarding Forward Looking Information

Certain statements in this release that are not historical facts, such as those using terms like "believes," "expects," "anticipates," "assumptions," "forecasts," "estimates" and 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 the Company's 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 current expectations, which are subject to risks and uncertainties. Factors that might cause such a difference include the following:

- the Company's potential inability to accurately forecast and estimate the amount and timing of future collections,
- increased competition from traditional financing sources and from non-traditional lenders,
- the unavailability of funding at competitive rates of interest,
- 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,
- an increase in the amount or severity of litigation against the Company,
- the loss of key management personnel,
- the effect 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 statements whether as a result of new information, future events or otherwise, except as required by applicable law.

#### Description of Credit Acceptance Corporation

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

Without our product, consumers are often unable to purchase a vehicle or they purchase an unreliable one and are not provided the opportunity to improve their credit standing. As we report to the three national credit reporting agencies, a significant number of our customers improve their lives by improving their credit score and move on to more traditional sources of financing. Credit Acceptance is publicly traded on the NASDAQ National Market under the symbol CACC. For more information, visit [www.creditacceptance.com](http://www.creditacceptance.com).

CREDIT ACCEPTANCE CORPORATION

Consolidated Income Statements  
(Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenue:				
Finance charges	\$33,731	\$26,431	\$60,964	\$50,687
Ancillary product income	2,459	4,233	5,326	9,966
Lease revenue	405	1,784	1,052	4,120
Other income	4,694	3,598	9,468	8,258
Total revenue	41,289	36,046	76,810	73,031
Costs and expenses:				
Salaries and wages	8,963	8,687	17,759	17,204
General and administrative	5,214	5,272	10,968	10,812
Provision for credit losses	2,187	2,863	14,734	7,051
Sales and marketing	2,474	2,483	5,017	4,660
Interest	2,373	1,401	4,973	2,997
Stock-based compensation expense	864	1,428	1,431	1,803
United Kingdom asset impairment	-	10,493	-	10,493
Other expense	324	1,376	781	3,023
Total costs and expenses	22,399	34,003	55,663	58,043
Operating income	18,890	2,043	21,147	14,988
Foreign exchange gain	906	14	1,057	29
Income before provision for income taxes	19,796	2,057	22,204	15,017
Provision for income taxes	7,190	1,049	8,068	5,416
Net income	\$12,606	\$1,008	\$14,136	\$9,601
Net income per common share:				
Basic	\$0.32	\$0.02	\$0.36	\$0.23
Diluted	\$0.30	\$0.02	\$0.34	\$0.23
Weighted average shares outstanding:				



Basic	39,240,321	42,321,170	39,516,011	42,317,443
Diluted	41,413,308	42,868,265	41,790,255	42,629,844

CREDIT ACCEPTANCE CORPORATION

Consolidated Balance Sheets  
(Unaudited)

(Dollars in thousands, except per share data)	As of	
	June 30, 2004	December 31, 2003
ASSETS:		
Cash and cash equivalents	\$28,364	\$36,044
Loans receivable	976,315	875,417
Allowance for credit losses	(36,567)	(17,615)
Loans receivable, net	939,748	857,802
Notes, lines of credit and floorplan receivables, net (including \$1,617 and \$1,583 from affiliates as of June 30, 2004 and December 31, 2003, respectively)	6,073	6,562
Investment in operating leases, net	1,888	4,447
Property and equipment, net	19,177	18,503
Income taxes receivable	7,458	5,795
Other assets	14,646	14,627
Total Assets	\$1,017,354	\$943,780
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Lines of credit	\$30,600	\$-
Secured financing	130,428	100,000
Mortgage note and capital lease obligations	10,254	6,467
Accounts payable and accrued liabilities	36,481	33,117
Dealer holdbacks, net	475,415	423,861
Deferred income taxes, net	13,820	24,529
Total Liabilities	696,998	587,974
Shareholders' Equity:		
Preferred stock, \$ .01 par value, 1,000,000 shares authorized, none issued	-	-
Common stock, \$ .01 par value, 80,000,000 shares authorized, 39,244,203 and 42,128,087 shares issued and outstanding as of June 30, 2004 and December 31, 2003, respectively	392	421
Paid-in capital	76,394	125,078
Retained earnings	241,175	227,039
Accumulated other comprehensive income - cumulative translation adjustment	2,395	3,268
Total Shareholders' Equity	320,356	355,806

Total Liabilities and Shareholders' Equity	\$1,017,354	\$943,780
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**SOURCE: Credit Acceptance Corporation**

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