Credit Acceptance Announces: Fourth Quarter And 2004 Earnings

SOUTHFIELD, Mich., Mar 24, 2005 (PRIMEZONE via COMTEX) -- Credit Acceptance Corporation (Nasdaq:CACC) (the "Company") announced consolidated net income for the three months ended December 31, 2004 of $7.4 million or $0.19 per diluted share compared to $9.8 million or $0.22 per diluted share for the same period in 2003. For the year ended December 31, 2004, consolidated net income was $37.0 million or $0.90 per diluted share compared to $25.8 million or $0.60 per diluted share for the same period in 2003.

The decrease in consolidated net income for the quarter ended December 31, 2004 compared to the same quarter in 2003 was primarily due to: (i) an increase in the provision for credit losses related to an enhancement to our methodology for estimating the present value of the dealer holdback payments (see discussion in "Discounted future cash flows"), (ii) a decrease in ancillary product income due to the Company's change in accounting policy during the first quarter of 2004 for recognizing income on third-party vehicle service contracts sold, (iii) increased general and administrative expenses related to increased accounting and audit fees associated with Sarbanes-Oxley compliance and (iv) increased sales and marketing expenses due to increasing our sales force and expanding our annual dealer-partner convention. Partially offsetting these items was (i) an increase in finance charges due to an increase in the size of the loan portfolio and 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 (ii) a decrease in foreign exchange loss related to the fair value of forward contracts during 2004.

Results for the fourth quarter and year ended December 31, 2004 compared to the same periods in 2003 include the following:

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-- Loan origination volume grew 26.8% for the year and 20.2% for
   the quarter
-- Loan origination volume increases were achieved with no material
   changes in credit policy or pricing
-- Collection results were generally consistent with forecasts
-- The number of active dealer-partners grew 32.6% for the year and
   34.7% for the quarter
-- Average active dealer-partner unit volumes decreased by 8.1% for
   the year and 11.7% for the quarter
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The accounting for our business is complex. The next three sections of this press release provide information that explains and reconciles the differences between GAAP net income and adjusted net income.

Adjusted net income

Adjusted net income is detailed in the table below. Although adjusted income is not audited and is not consistent with accounting principles generally accepted in the United States ("GAAP"), the Company utilizes adjusted net income to calculate adjusted economic profit, which management and the Board of Directors use as the primary measure of financial performance and to calculate bonuses. Adjusted net income adjusts GAAP net income for non-recurring items, consistent with prior press releases. In addition, this quarter contains an adjustment not presented in prior periods. This additional adjustment reflects the difference between the carrying value of our loan portfolio under GAAP and the estimated discounted value of future cash flows from our loan portfolio. For a complete discussion, see "Discounted future cash flows" below.

Adjusted net income for the three months ended December 31, 2004 was $13.8 million or $0.35 per diluted share compared to $12.8 million or $0.29 per diluted share for the same period in 2003. Adjusted net income for the year ended December 31, 2004 was $52.5 million or $1.28 per diluted share compared to $42.2 million or $0.97 per diluted share for the same period in 2003.

Adjusted EPS increased by 20.7% for the quarter and 32.0% for the year primarily due to the growth in loans receivable, an increase in the profitability of the loan portfolio and share repurchases, partially offset by a decrease in non-U.S. segment income due to these segments being in liquidation. The increased profitability of the loan portfolio is primarily the result of increased revenue from ancillary products and lower operating expenses, as a percentage of revenue, partially offset by higher sales and marketing expenses.

Reconciliation of Reported Net Income to Adjusted Net Income

(Dollars in thousands, except per share data)

	Three Months Ended December 31, 2004	Three Months Ended December 31, 2003	Years Ended December 31, 2004	Years Ended December 31, 2003
Reported net income (a)	$ 7,423	$ 9,762	$ 37,014	$ 25,832
Foreign exchange (gain) loss due to forward contracts (b)	48	1,129	(1,080)	1,831
Reduction in Michigan single business tax (c)	--	(307)	--	(307)
United Kingdom impairment expenses (c)	--	--	--	7,238
Interest income from Internal Revenue Service (c)	--	--	--	(400)
Net income excluding certain items	$ 7,471	$ 10,584	$ 35,934	$ 34,194
Adjustment to record the GAAP net investment in loans receivable at the discounted value of future cash flows (d)	6,799	2,047	18,678	5,920
Adjustment resulting in comparable tax rate for both periods (e)	(493)	200	(2,079)	2,079
Adjusted net income	$ 13,777	$ 12,831	$ 52,533	$ 42,193
Diluted weighted average shares outstanding	39,473,105	43,958,520	41,017,205	43,409,007
Adjusted net income per diluted share	$ 0.35	$ 0.29	$ 1.28	$ 0.97

(a) Reported net income for the year ended December 31, 2003 has been restated to reflect the correction of an accounting error related to income taxes discovered by the Company during the 2004 year-end closing process. Refer to Restatement of Prior Periods included in Summary Financial Data for further information.

(b) This item represents gains and losses resulting from changes in foreign currency exchange rates that are offset by changes in the currency translation adjustment included in shareholders' equity due to the changes in the value of foreign-currency-denominated net assets held.

(c) The Company expects items of this nature to be non-recurring.

(d) See discussion below ("Discounted future cash flows"). This adjustment is the after-tax change in the "excess" during the period presented.

(e) This adjustment allows the reader to compare the current period to the prior period assuming a consistent tax rate.

Discounted future cash flows

As previously discussed, management and the Board of Directors use adjusted net income to calculate adjusted economic profit, which is the primary measure of financial performance since it more closely reflects how the business is managed than GAAP results. The biggest difference between GAAP net income and adjusted net income is the difference between the present value of future loan cash flows and the GAAP reported value of those loans. This segment of our release reports the amounts, reasons and significance of this difference.

We started disclosing the estimated present value of future loan cash flows (less the related dealer holdback liability) in the second quarter of 2004. The initial disclosure was intended to inform shareholders that, based on our estimates, we believed the discounted future cash flows from our loan portfolio, less dealer holdbacks, exceeded the comparable amount recorded on our GAAP basis balance sheet (the "excess"). We provided two reasons for this result. First, under GAAP, while the Company records an allowance for credit losses for any dealer-partner loan pool that exceeds the estimated 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 when received while the estimated present value of future cash flows includes estimated future recoveries. Recoveries consist of collections on previously charged off receivables.

During the third quarter of 2004, we again provided an estimate of the excess. Since there were excess numbers for both June 30, 2004 and September 30, 2004, shareholders could calculate the income statement impact of this new disclosure, as explained in the investor relations section of our website at www.creditacceptance.com in our December 20 and October 19 answers to investor questions. We suggested shareholders pay attention to the change in the excess over a long time period and cautioned against drawing any short term conclusions about our quarterly profitability as we believed by their nature these quarterly excess estimates would likely be subject to volatility.

This quarter we decided to include the impact of the excess in our adjusted income calculation for two reasons. First, we calculated, and report in this press release, comparable quarterly numbers back to December 31, 2002, thus providing a longer-term basis for comparison. Second, we believe our 2004 GAAP earnings are very difficult to understand. For example, the GAAP provision for credit losses continues to grow, even though collection rates have continued to be consistent with our expectations. The GAAP allowance for credit losses as of December 31, 2004 is far in excess of the estimated cash losses that will eventually be charged against it.

The following summarizes future loan payment inflows and dealer holdback outflows estimated by the Company as well as the estimated present values of these net cash flows:

(In thousands)	Estimate as of	
	December 31, 2004	December 31, 2003
Loan payments	$882,118	$713,330
Dealer holdback payments	228,044	179,499
Net cash flow	$654,074	$533,831
Present value of net cash flow (a)	$501,343	$407,231

(a) Calculated utilizing a discount rate comparable with the rate used to calculate the Company's allowance for credit losses under

GAAP (approximately 29% as of December 31, 2004 and 2003).

The estimated present value of future cash flows from loans, less the related dealer holdback liability, is higher than the adjusted net investment in loans on the Company's balance sheet as of December 31, 2004 and 2003, respectively, as follows:

(In thousands)	Estimate as of	
	December 31, 2004	December 31, 2003
Consolidated loans receivable, net	$ 974,476	$ 857,802
Consolidated dealer holdbacks, net	504,722	423,861
Net investment in loans before adjustments	469,754	433,941
Less: portion related to United Kingdom and Canada	(8,161)	(34,970)
Plus: repossessed assets and other	8,975	6,587
Adjusted net investment in loans	470,568	405,558
Estimated present value of future cash flows from loans receivable, less estimated dealer holdback payments	501,343	407,231
Excess of estimated present value of future cash flows over recorded net investment (pre-tax) (a)	$ 30,775	$ 1,673

(a) While the table above presents the difference between the recorded net investment and the estimated present value of future cash flows, a wide range of actual results is possible. Given the large dollar amount of the estimated present value of future cash flows, even a modest percentage change in the Company's forecast would likely result in a large change in the reported variance between the Company's recorded net investment and the present value of estimated future cash flows.

The excess increased substantially during 2004, primarily due to growth in our portfolio and to changes in accounting policies during 2004 that reduced the recorded net investment in loans receivable. These changes include changes in revenue recognition for vehicle service contracts and changes in the calculation of the required allowance for credit losses.

The following table compares the estimated present value of future cash flows from loans receivable, less dealer holdback payments, to the net investment in loans receivable at the end of each period back through December 31, 2002. In order to produce the most meaningful income statement adjustment, we have used the benefit of hindsight and improved forecasting methods to calculate prior periods. As a result, the excess shown for June 30, 2004 and September 30, 2004 is lower than reported previously and amounts for periods prior to June 30, 2004 are different than what would have been calculated at that time. The most significant difference between the excess reported below, and the excess reported in prior periods, relates to assumptions regarding the timing of dealer holdback payments.

	Estimate as of			
(In thousands)	12/31/04	9/30/04	6/30/04	3/31/04
Adjusted net investment in loans	$470,568	$475,001	$454,355	$436,946

Estimated present value of future cash flows from loans receivable, less estimated dealer holdback payments	501,343	495,182	473,601	454,813
Excess of estimated present value of future cash flows over recorded net investment (pre-tax)	$ 30,775	$ 20,181	$ 19,246	$ 17,867
Pre-tax change of the excess of estimated present value of future cash flows over recorded net investment	$ 10,594	$ 935	$ 1,379	$ 16,194
Adjustment to record the net investment in loans receivable to the discounted value of future cash flows (after-tax)	$ 6,799	$ 600	$ 885	$ 10,394

	Estimate as of				
(In thousands)	12/31/03	9/30/03	6/30/03	3/31/03	12/31/02
Adjusted net investment in loans	$405,558	$399,029	$382,186	$359,692	$336,821
Estimated present value of future cash flows from loans receivable, less estimated dealer holdback payments	407,231	397,512	378,284	355,749	329,270
Excess of estimated present value of future cash flows over recorded net investment (pre-tax)	$ 1,673	$ (1,517)	$ (3,902)	$ (3,943)	$ (7,551)
Pre-tax change of the excess of estimated present value of future cash flows over recorded net investment	$ 3,190	$ 2,385	$ 41	$ 3,608	
Adjustment to record the net investment in loans receivable to the discounted value of future cash flows (after-tax)	$ 2,047	$ 1,531	$ 26	$ 2,316	

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The Company's forecasts are not adjusted for seasonality although seasonal patterns to the Company's business exist. As such, the quarterly changes in the present value will vary throughout the year but will be comparable to the prior year quarter.

We believe adjusted net income provides shareholders with a better understanding of our financial performance. We continue to believe adjusted income will be subject to volatility as our estimates of future cash flows have in the past and are likely to continue to change from time to time. This is appropriate and consistent with the nature of our business since the estimate of discounted future cash flows is a complex calculation impacted by numerous assumptions.

Loan Portfolio Performance

The following information relates to the loan portfolio performance in the United States segment, the Company's only business segment that continues to originate new loans.

The following table presents forecasted collection rates, advance rates, the spread (the forecasted collection rate less the advance rate), and the percentage of the forecasted collections that have been realized as of December 31, 2004. The amounts presented are expressed as a percent of the original loan amount by year of loan origination.

	December 31, 2004			
Year	Forecasted Collection %	Advance %	Spread %	% of Forecast Realized
1992	81.8%	35.3%	46.5%	100.0%
1993	76.0%	37.3%	38.7%	100.0%
1994	62.1%	41.8%	20.3%	100.0%
1995	55.3%	45.3%	10.0%	99.7%
1996	55.5%	48.4%	7.1%	99.0%
1997	58.6%	48.3%	10.3%	98.3%
1998	67.6%	49.4%	18.2%	98.3%
1999	72.0%	52.3%	19.7%	98.0%
2000	72.2%	50.9%	21.3%	97.2%
2001	67.3%	48.0%	19.3%	93.5%
2002	69.1%	45.7%	23.4%	84.1%
2003	71.8%	47.0%	24.8%	58.3%
2004	70.5%	48.3%	22.2%	25.3%

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

Year	December 31, 2004 Forecasted Collection %	December 31, 2003 Forecasted Collection %	Variance
1992	81.8%	81.5%	0.3%
1993	76.0%	75.7%	0.3%
1994	62.1%	61.8%	0.3%
1995	55.3%	55.2%	0.1%
1996	55.5%	55.3%	0.2%
1997	58.6%	58.1%	0.5%
1998	67.6%	67.2%	0.4%
1999	72.0%	71.5%	0.5%
2000	72.2%	71.7%	0.5%
2001	67.3%	67.0%	0.3%
2002	69.1%	69.4%	-0.3%

2003	71.8%	72.8%	-1.0%

Loan Originations (a)

(Dollars in thousands)

	Three Months Ended December 31,			Years Ended December 31,		
	2004	2003	% Change	2004	2003	% Change
Loan originations	$204,982	$170,481	20.2%	$959,617	$756,893	26.8%
Number of loans originated	16,471	13,847	18.9	75,955	62,334	21.9
Number of active dealer-partners (b)	1,028	763	34.7	1,215	916	32.6
Loans per active dealer-partner	16.0	18.1	(11.6)	62.5	68.1	(8.2)
Average loan size	$ 12.4	$ 12.3	0.8	$ 12.6	$ 12.1	4.0

(a) Loan origination information relates to the United States, the Company's only business segment that continues to originate new loans.
(b) Active dealer-partners are dealer-partners who submitted at least one loan during the period.

Adjusted Return on Capital

(Dollars in thousands)

	Three Months Ended December 31,		Years Ended December 31,	
	2004	2003	2004	2003
Average debt	$203,261	$106,680	$167,139	$103,772
Average adjusted shareholders' equity (a)	305,061	348,117	323,550	337,172
Average capital	$508,322	$454,797	$490,689	$440,944

(a) Adjusted for the impact of the Adjustment to record the GAAP net investment in loans receivable at the discounted value of future cash flows from the Reconciliation of Reported Net Income to Adjusted Net Income.

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 December 31,		Years Ended December 31,	
	2004	2003	2004	2003
Adjusted net income (a)	$ 13,777	$ 12,831	$ 52,533	$ 42,193
Interest expense after-tax	2,306	1,815	7,389	5,237
Adjusted net operating profit after-tax	$ 16,083	$ 14,646	$ 59,922	$ 47,430
Average capital	$508,322	$454,797	$490,689	$440,944
Adjusted return on capital	12.7%	12.9%	12.2%	10.8%

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

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 capital. 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 for the periods indicated:

(In thousands, except per share data)

	Three Months Ended December 31,		Years Ended December 31,	
	2004	2003	2004	2003
Adjusted net income (a)	$ 13,777	$ 12,831	$ 52,533	$ 42,193
Imputed cost of equity at 10% (b)	(7,627)	(8,703)	(32,355)	(33,717)
Total adjusted economic profit	$ 6,150	$ 4,128	$ 20,178	$ 8,476
Diluted weighted average shares outstanding	39,473,105	43,958,520	41,017,205	43,409,007
Adjusted economic profit per diluted				

share (c)	$ 0.16	$ 0.09	$ 0.49	$ 0.20

(a) Adjusted net income from the Reconciliation of Reported Net Income to Adjusted Net Income.
(b) Cost of equity is equal to 10% (on an annual basis) of average shareholders' equity, which is reflected in the Adjusted Return on Capital calculation above.
(c) Adjusted economic profit per diluted share equals the adjusted economic profit divided by the diluted weighted average number of shares outstanding.

Refer to the Company's Form 10-K, which will be filed 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 2004.

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 results, 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 or the inability to hire qualified 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.

CREDIT ACCEPTANCE CORPORATION

Consolidated Income Statements
(Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended December 31, 2004	Three Months Ended December 31, 2003	Years Ended December 31, 2004	Years Ended December 31, Restated (a) 2003
Revenue:				
Finance charges	$ 38,121	$ 26,668	$ 133,913	$ 103,125
Ancillary product income	2,667	5,062	11,040	19,397
Lease revenue	184	1,061	1,507	6,432
Other income	5,428	4,421	19,951	17,288
Total revenue	46,400	37,212	166,411	146,242
Costs and expenses:				
Salaries and wages	8,924	8,572	36,490	33,655
Provision for credit losses	11,318	1,105	28,151	10,459
General and administrative	6,080	4,673	21,667	20,034
Sales and marketing	3,309	2,135	11,914	8,948
Interest	3,548	2,793	11,368	8,057
Stock-based compensation expense	548	753	2,725	3,583
United Kingdom asset impairment	--	--	--	10,493
Other expense	258	551	1,310	4,756
Total costs and expenses	33,985	20,582	113,625	99,985
Operating income	12,415	16,630	52,786	46,257
Foreign exchange gain (loss)	(81)	(1,730)	1,650	(2,767)
Income before provision for income taxes	12,334	14,900	54,436	43,490
Provision for income taxes	4,911	5,138	17,422	17,658
Net income	$ 7,423	$ 9,762	$ 37,014	$ 25,832
Net income per				

common share:				
Basic	$ 0.20	$ 0.23	$ 0.96	$ 0.61
Diluted	$ 0.19	$ 0.22	$ 0.90	$ 0.60
Weighted average shares outstanding:				
Basic	36,819,410	42,040,063	38,617,787	42,195,340
Diluted	39,473,105	43,958,520	41,017,205	43,409,007

(a) Provision for income taxes and net income for the year ended December 31, 2003 have been restated to reflect the correction of an accounting error related to income taxes discovered by the Company during the 2004 year-end closing process. Refer to Restatement of Prior Periods included in Summary Financial Data for further information.

CREDIT ACCEPTANCE CORPORATION

Consolidated Balance Sheets
(Unaudited)
(Dollars in thousands)

	As of December 31, 2004	As of December 31, Restated (a) 2003
ASSETS:		
Cash and cash equivalents	$ 22,481	$ 36,044
Loans receivable	1,021,879	875,417
Allowance for credit losses	(47,403)	(17,615)
Loans receivable, net	974,476	857,802
Notes, lines of credit and floorplan receivables, net (including $1,653 and $1,583 from affiliates as of December 31, 2004 and 2003, respectively)	4,340	6,562
Investment in operating leases, net	1,074	4,447
Property and equipment, net	19,651	18,503
Income taxes receivable	4,280	5,795
Other assets	17,018	14,627
Total Assets	$1,043,320	$ 943,780
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Accounts payable and accrued liabilities	$ 40,150	$ 33,117
Dealer holdbacks, net	504,722	423,861
Line of credit	7,700	--
Secured financing	176,000	100,000
Mortgage note and capital lease obligations	9,847	6,467
Deferred income taxes, net	14,149	25,823
Total Liabilities	752,568	589,268

Shareholders' Equity:		
Preferred stock, $ .01 par value, 1,000,000 shares authorized, none issued	--	--
Common stock, $ .01 par value, 80,000,000 shares authorized, 36,897,242 and 42,128,087 shares issued and outstanding as of December 31, 2004 and 2003, respectively	369	421
Paid-in capital	25,640	125,078
Retained earnings	262,759	225,745
Accumulated other comprehensive income, net of tax of $1,068 and $1,759 at year-end 2004 and 2003, respectively	1,984	3,268
Total Shareholders' Equity	290,752	354,512
Total Liabilities and Shareholders' Equity	$1,043,320	$ 943,780

(a) The balance sheet as of December 31, 2003 has been restated to reflect the correction of accounting errors related to income taxes discovered by the Company during the 2004 year-end closing process. Refer to Restatement of Prior Periods included in Summary Financial Data for further information.

CREDIT ACCEPTANCE CORPORATION

Consolidated Statements of Cash Flows
(Unaudited)
(Dollars In Thousands)

	For the Years Ended December 31,	
	2004	Restated (a) 2003
Cash Flows From Operating Activities:		
Net Income	$ 37,014	$ 25,832
Adjustments to reconcile cash provided by operating activities:		
Provision for credit losses	28,151	10,459
Depreciation	5,723	8,679
Loss on retirement of property and equipment	248	73
Foreign currency (gain) loss on forward contracts	(1,660)	2,817
(Credit) provision for deferred income taxes	(11,674)	16,750
Stock-based compensation	2,725	3,583
United Kingdom asset impairment	--	10,493
Change in operating assets and liabilities:		
Accounts payable and accrued liabilities	8,225	1,959
Income taxes receivable/payable	1,515	(11,889)
Lease payment receivable	47	619
Unearned commissions, insurance premiums and reserves	238	(837)
Other assets	(2,391)	(3,232)
Net cash provided by operating activities	68,161	65,306
Cash Flows From Investing Activities:		
Principal collected on loans receivable	434,707	348,932

Advances to dealers	(445,603)	(354,057)
Payments of dealer holdbacks	(33,012)	(28,954)
Accelerated payments of dealer holdbacks	(18,653)	(12,690)
Operating lease liquidations	2,360	6,900
Decrease in notes, lines of credit and floorplan receivables	1,049	4,343
Purchases of property and equipment	(4,067)	(3,062)
Proceeds from maturities of investments - held to maturity	--	173
Net cash used in investing activities	(63,219)	(38,415)
Cash Flows From Financing Activities:		
Net proceeds (repayments) under lines of credit	7,700	(43,555)
Proceeds from secured financings	180,000	100,000
Repayments of secured financings	(104,000)	(58,153)
Principal payments under capital lease obligations	(1,504)	(921)
Proceeds from mortgage note refinancing	3,540	--
Repayment of mortgage note	(742)	(777)
Repurchase of common stock	(107,236)	(5,316)
Proceeds from stock options exercised	5,021	2,037
Net cash used in financing activities	(17,221)	(6,685)
Effect of exchange rate changes on cash	(1,284)	2,372
Net (decrease) increase in cash and cash equivalents	(13,563)	22,578
Cash and cash equivalents, beginning of period	36,044	13,466
Cash and cash equivalents, end of period	$ 22,481	$ 36,044

(a) The statement of cash flows for the year ended December 31, 2003 has been restated to reflect the correction of accounting errors related to income taxes discovered by the Company during the 2004 year-end closing process. Refer to Restatement of Prior Periods included in Summary Financial Data for further information.

CREDIT ACCEPTANCE CORPORATION

Summary Financial Data
(Dollars in thousands)

Loans Receivable

The following table summarizes the composition of loans receivable:

	As of December 31,	
	2004	2003
Gross loans receivable	$ 1,228,124	$ 1,035,681
Unearned finance charges	(203,450)	(157,707)
Unearned insurance premiums, insurance reserves and fees	(2,795)	(2,557)
Loans receivable	$ 1,021,879	$ 875,417

Non-accrual loans	$ 224,659	$ 203,598
Non-accrual loans as a percent of total gross loans	18.3%	19.7%

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

	Three Months Ended December 31,		Year Ended December 31,	
	2004	2003	2004	2003
Balance, beginning of period	$1,222,733	$1,034,158	$1,035,681	$ 912,963
Gross amount of loans accepted	204,982	170,481	959,617	785,407
Net cash collections on loans	(150,304)	(121,099)	(575,316)	(481,579)
Charge-offs (A)	(77,583)	(73,919)	(295,892)	(261,365)
Recoveries (A)	7,766	7,047	32,035	14,168
Other fees	18,984	12,997	70,992	52,948
Net change in repossessed collateral	(1,009)	(1,306)	(2,101)	57
Currency translation	2,555	7,322	3,108	13,082
Balance, end of period	$1,228,124	$1,035,681	$1,228,124	$1,035,681

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

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

	Three Months Ended December 31,		Year Ended December 31,	
	2004	2003	2004	2003
Balance, beginning of period	$37,557	$14,883	$17,615	$ 20,991
Provision for credit losses	10,547	1,005	26,510	7,657
Charge-offs (A)	(3,762)	(1,548)	(8,657)	(17,736)
Recoveries (A)	2,756	2,927	11,595	6,160
Currency translation	305	348	340	543
Balance, end of period	$47,403	$17,615	$47,403	$ 17,615

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

CREDIT ACCEPTANCE CORPORATION

Summary Financial Data
(Dollars in thousands)

Dealer Holdbacks

The following table summarizes the composition of dealer holdbacks:

	As of December 31, 2004	As of December 31, 2003
Dealer holdbacks	$ 976,584	$ 828,720
Less: advances	(471,862)	(404,859)
Dealer holdbacks, net	$ 504,722	$ 423,861

Restatement of Prior Periods

During the course of the 2004 year-end closing process, the Company determined that it had incorrectly accounted for income taxes in prior periods as follows:

- During the third quarter of 2003, the Company had incorrectly recorded a deferred income tax asset for benefits related to its foreign subsidiaries under an intended change to its international tax structure that had not been executed by the Company as of December 31, 2003. As a result, the Company overstated deferred income tax assets and understated provision for income taxes by $2.3 million as of and for the year ended December 31, 2003. The deferred tax asset for these benefits should have been recognized when the Company actually executed the change to its tax structure during the second quarter of 2004. As a result, the Company overstated provision for income taxes by $2.7 million for the three months ended June 30, 2004.

- Deferred income taxes are required to be recognized for foreign currency translation adjustments when the Company's investments in its foreign subsidiaries are considered temporary and the differences will reverse in the foreseeable future. Prior to 2002, the Company considered all of its investments in its foreign subsidiaries to be permanent. During the third quarter of 2002, the Company determined that its investments in its United Kingdom and Ireland subsidiaries were no longer considered permanent, and during the second quarter of 2003, the Company determined that its investment in its Canadian subsidiary was no longer considered permanent. Upon these determinations, the Company should have recognized deferred income taxes related to the foreign currency translation adjustments of these subsidiaries. As a result of not recording these deferred taxes, the Company understated its deferred income tax liabilities and overstated its foreign currency translation adjustment, which is presented as accumulated other comprehensive income in the Company's balance sheet, by $1.8 million as of December 31, 2003. Correction of this error had no impact on net income.

-- The Company had a deferred tax liability recorded at December 31, 2003 that should have been reversed through provision for income taxes in periods prior to 2003. As a result, the Company overstated deferred income tax liabilities and understated retained earnings by $1.1 million at December 31, 2003.

The following table summarizes the reported and restated financial condition and the results of operations:

(Dollars in thousands, except per share data)

	As of December 31, 2004	As of December 31, 2003
Deferred income tax liabilities, net, as reported	$ 14,149	$ 22,770
Reversal of deferred income tax asset recognized for intended tax structure change	--	2,349
Reversal of deferred income tax liability	--	(1,055)
Recognition of deferred income tax liabilities related to foreign currency translation	--	1,759
Deferred income tax liabilities, net, as restated	$ 14,149	$ 25,823
Retained earnings, as reported	$ 262,759	$ 227,039
Reversal of deferred income tax asset recognized for intended tax structure change	--	(2,349)
Reversal of deferred income tax liability	--	1,055
Retained earnings, as restated	$ 262,759	$ 225,745
Accumulated other comprehensive income, as reported	$ 1,984	$ 5,027
Recognition of deferred income tax liabilities related to foreign currency translation	--	(1,759)
Accumulated other comprehensive income, as restated	$ 1,984	$ 3,268

	Three Months Ended December 31,		Years Ended December 31,	
	2004	2003	2004	2003
Provision for income taxes, as reported	$ 4,911	$ 5,138	$ 17,422	$ 15,309
Reversal of deferred income tax asset recognized for intended tax				

structure change	--	--	--	2,349
Provision for income taxes, as restated	$ 4,911	$ 5,138	$ 17,422	$ 17,658
Net income, as reported	$ 7,423	$ 9,762	$ 37,014	$ 28,181
Reversal of deferred income tax asset recognized for intended tax structure change	--	--	--	(2,349)
Net income, as restated	$ 7,423	$ 9,762	$ 37,014	$ 25,832
Earnings per share:				
Basic, as reported	$ 0.20	$ 0.23	$ 0.96	$ 0.67
Basic, as restated	$ 0.20	$ 0.23	$ 0.96	$ 0.61
Diluted, as reported	$ 0.19	$ 0.22	$ 0.90	$ 0.65
Diluted, as restated	$ 0.19	$ 0.22	$ 0.90	$ 0.60
Weighted average shares outstanding:				
Basic	36,819,410	42,040,063	38,617,787	42,195,340
Diluted	39,473,105	43,958,520	41,017,205	43,409,007

SOURCE: Credit Acceptance Corporation

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