ONYX ACCEPTANCE CORP
Form 10-Q
November 14, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM __________________ TO___________________________

COMMISSION FILE NUMBER: 28050

ONYX ACCEPTANCE CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	33-0577635 (I.R.S. EMPLOYER IDENTIFICATION NO.)

ONYX ACCEPTANCE CORPORATION
27051 TOWNE CENTRE DRIVE
FOOTHILL RANCH, CA 92610
(949) 465-3900
(ADDRESS AND TELEPHONE NUMBER OF PRINCIPAL EXECUTIVE OFFICES)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

As of November 14, 2002 there were 5,086,793 shares of registrant s Common Stock, par value $.01 per share outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
	(DOLLARS IN THOUSANDS)	
ASSETS		
Cash and cash equivalents	$104	$1,135
Restricted cash	4,785	
Credit enhancement assets, at fair value	180,870	184,300
Contracts held for sale	213,698	189,265
Contracts held for investment (net of allowance)	4,521	2,259
Other assets	9,241	9,326
Total assets	$413,219	$386,285
LIABILITIES		
Accounts payable	$33,117	$27,024
Debt:		
Warehouse lines	214,008	190,008
Excess service lines	52,359	68,355

Subordinated debt/other	21,471	16,232
Total debt	287,838	274,595
Other liabilities	29,107	24,965
Total liabilities	350,062	326,584
EQUITY		
Common stock Par value $.01 per share; authorized 15,000,000 shares; issued and outstanding 5,086,793 as of September 30, 2002 and 5,078,046 as of December 31, 2001	51	51
Paid in capital	32,651	32,647
Retained earnings	27,375	25,960
Accumulated other comprehensive income, net of tax	3,080	1,043
Total equity	63,157	59,701
Total liabilities and equity	$413,219	$386,285

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
	(UNAUDITED)		(UNAUDITED)	
REVENUES:				
Interest income	$10,298	$7,833	$28,159	$21,249
Interest expense	2,845	2,849	9,003	10,775
Net interest income	7,453	4,984	19,156	10,474
Gain on sale of contracts, net	3,625	6,591	10,302	26,167
Service fee income	12,842	13,936	39,472	41,934
Total Revenues	23,920	25,511	68,930	78,575
EXPENSES:				
Provision for credit losses	818	502	(461)	966
Interest expense-other	1,225	812	3,154	3,032
OPERATING EXPENSES:				
Salaries and benefits				

	13,549	13,228	40,998	39,895
Systems and servicing	777	476	2,156	3,573
Telephone and data lines	1,056	1,201	2,541	3,680
Depreciation	806	1,094	2,676	3,568
General and administrative expenses	4,592	5,957	15,449	16,989
Total Operating Expenses	20,780	21,956	63,820	67,705
Total Expenses	22,823	23,270	66,513	71,703
Income before Income Taxes	1,097	2,241	2,417	6,872
Income Taxes	455	899	1,002	2,821

Net Income	$642	$1,342	$1,415	$4,051
Net Income per share Basic	$0.13	$0.27	$0.28	$0.81
Net Income per share Diluted	$0.12	$0.25	$0.27	$0.78
Basic Shares Outstanding	5,086,793	5,047,292	5,084,914	5,008,767
Diluted Shares Outstanding	5,142,298	5,354,351	5,194,178	5,214,455

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(IN THOUSANDS)
(UNAUDITED)

	SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME NET OF TAX	TOTAL
BALANCE, DECEMBER 31, 2001	5,078	$ 51	$32,647	$25,960	$ 1,043	$59,701

Stock issued for options exercised
9 4 4
Comprehensive income:

Unrealized gains in securitized assets, net of tax of $2.0 million
2,777 2,777
Unrealized loss on hedging activities, net of tax of $525 thousand
(740) (740)
Net income
1,415 1,415

Total comprehensive income
1,415 2,037 3,452

BALANCE, SEPTEMBER 30, 2002

5,087	$51	$32,651	$27,375	$3,080	$63,157

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2002	**2001**
	(Dollars in Thousands)	
OPERATING ACTIVITIES:		
Net cash used in operating activities	$(9,067)	$(44,552)
INVESTING ACTIVITIES:		
Cash used for purchases of property and equipment	(998)	(2,140)
FINANCING ACTIVITIES:		
Proceeds from exercise of employee options	4	47
Payments on capital lease obligations	(331)	
Proceeds from lease refinance	900	206
Payments on residual lines of credit	(102,474)	(13,884)
Proceeds from drawdown on residual lines of credit	86,480	32,600
Paydown of warehouse lines related to securitizations	(900,223)	(925,310)
Proceeds from warehouse lines	924,223	958,305
Proceeds from issuance of subordinated debt	8,120	
Principal payments on subordinated debt	(2,880)	(2,427)
Net cash provided by financing activities	13,819	49,537

Increase in cash and cash equivalents	3,754	2,845
Cash and cash equivalents at beginning of period	1,135	3,130
Cash and cash equivalents at end of period	$4,889	$5,975

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1   NATURE OF OPERATIONS

Onyx is a specialized consumer finance company engaged in the purchase, origination, securitization and servicing of Contracts originated by franchised and select independent automobile dealerships in the United States. The Company focuses its efforts on acquiring Contracts that are collateralized by late model used and, to a lesser extent, new automobiles, that are entered into with purchasers whom the Company believes have a favorable credit profile. Since commencing the purchase of Contracts in February 1994, the Company has acquired more than $8.3 billion in Contracts and currently has relationships with over 10,600 dealerships.

The Company generates revenues primarily through the purchase, origination, warehousing, subsequent securitization and ongoing servicing of Contracts. The Company earns net interest income on Contracts held during the warehousing period. Upon the securitization and sale of Contracts, the Company recognizes a gain on sale of Contracts, receives excess cash flows generated by owner trusts, and earns fees from servicing the securitized Contracts.

RECLASSIFICATION

Certain amounts in the prior quarter and year to date condensed consolidated financial statements have been reclassified to conform to the corresponding 2002 presentation.

NOTE 2   BASIS OF PRESENTATION

The condensed consolidated financial statements included herein are unaudited and have been prepared by Onyx Acceptance Corporation (Onyx or the Company) in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the regulations. In the opinion of management, the financial statements reflect all adjustments (all of a normal and recurring nature) which are necessary for a fair statement of the financial position, results of operations and cash flows for the interim period. Operating results for the three and nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. The condensed consolidated financial statements should be read in conjunction with the audited financial statements and footnotes thereto for the year ended December 31, 2001 included in the Company s 2001 Annual Report on Form 10-K.

USE OF ESTIMATES

In conformity with generally accepted accounting principles, management utilizes assumptions and estimates that affect the reported values of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for each reporting period. The more significant estimates made in the preparation of the Company s condensed consolidated financial statements relate to the credit enhancement assets and the gain on sale of motor vehicle retail installment sales and loan contracts (Contracts). Such assumptions include, but are not limited to, estimates of loan prepayments, defaults, recovery rates and present value discount rates. The Company uses a combination of its own historical experience and expectation of future performance to determine such estimates. Actual results may differ from the Company s estimates due to numerous factors both within and beyond the control of Company management. Changes in these factors could require the Company to revise its assumptions concerning the amount of voluntary prepayments, the frequency and/or severity of defaults and the recovery rates associated with the disposition of repossessed vehicles.

NOTE 3   RESTRICTED CASH

Restricted cash represents amounts held in reserve accounts providing credit enhancement on the Company s outstanding on balance sheet residual securitization.

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NOTE 4 CONTRACTS HELD FOR SALE

Contracts held for sale consisted of the following, and are carried at the lower of cost or market value:

	September 30, 2002	December 31, 2001
	(In Thousands)	
Gross contracts held for sale	$218,407	$193,879
Less unearned interest	(1,608)	(2,164)
Contracts held for sale	216,799	191,715
Dealer participation (net)	(3,101)	(2,450)
Total	$213,698	$189,265

NOTE 5 CONTRACTS HELD FOR INVESTMENT

Contracts held for investment are net of a $1.9 million allowance for future losses for September 30, 2002 and a $1.3 million allowance for December 31, 2001. Amounts held for investment include Contracts that do not qualify for Contract securitizations as a result of delinquency status or minimum balance.

NOTE 6 CREDIT ENHANCEMENT ASSETS

SFAS 140 requires that following a transfer of financial assets, an entity is to recognize the assets it controls and the liabilities it has incurred, and derecognize assets for which control has been surrendered and liabilities that have been extinguished.

Credit enhancement assets consisted of the following:

	September 30, 2002	December 31, 2001
	(In Thousands)	

Trust receivable	$3,500	$3,980
RISA	177,370	180,320
Total	$180,870	$184,300

Trust receivables represents initial deposits in spread accounts.

Retained interest in securitized assets (RISA) is capitalized upon securitization of Contracts, and represents the present value of the estimated future earnings to be received by the Company from the excess spread created in securitization transactions. Excess spread is calculated by taking the difference between the weighted average coupon rate of the Contracts sold and the weighted average security rate paid to the investors less contractually specified servicing and guarantor fees and projected credit losses, after giving effect to estimated prepayments.

Prepayment and credit loss assumptions are utilized to project future cash flows upon securitization and are based on historical experience. In calculating the gain on sale, the Company uses a 1.75% prepayment rate for all outstanding securitizations resulting in an average Contract life range of 1.6 to 1.7 years. Net credit loss assumptions at the time of securitization ranged from 3.5% to 4.7% cumulative depending upon the credit statistics of the underlying portfolio to be securitized. Credit losses are estimated using cumulative loss frequency and severity estimates by management. All assumptions are evaluated each quarter and adjusted, if appropriate, to reflect the actual performance of the underlying Contracts. The fair value of the RISA at quarter-end is calculated by discounting the excess spread at a rate management believes to be representative of market at the time of securitization. Historically, this rate has equaled 3.5% over the weighted average security rate paid to investors. As a result of recent market transactions during the first quarter of 2002, Management revised the assumptions used in deriving an appropriate discount rate. Management has developed a systematic methodology that is a function of both market benchmark rates and the seasoning of a securitization s cash flow. As of September 30, 2002, the discount rate used for valuing RISA ranged from 8.8% to 11.3%, and loss assumptions ranged from 3.8% to 5.8% cumulative. For the securitization executed during the third quarter of 2002, Management applied a discount rate of 11.3% and a cumulative loss assumption of 3.8%.

Emerging Issues Task Force (EITF) 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets established new income and impairment recognition standards for interests in certain securitized assets. The Company adopted EITF 99-20 effective April 1, 2001. Under the provisions of EITF 99-20, the holder of beneficial interests should recognize the excess of all estimated cash flows attributable to the beneficial interest estimated at the

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acquisition date over the initial investment (