

ONYX ACCEPTANCE CORP

Form 10-Q

November 14, 2003

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

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 NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES NO

As of November 14, 2003 there were 5,128,610 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, 2003 | DECEMBER 31, 2002 |
|--|--------------------------|-------------------------|
| (DOLLARS IN THOUSANDS) | | |
| ASSETS | | |
| Cash and cash equivalents | \$ 19,149 | \$ 72 |
| Restricted cash | | 3,430 |
| Credit enhancement assets, at fair value | 177,923 | 177,108 |
| Contracts held for sale | 186,630 | 170,353 |
| Contracts held for investment (net of allowance) | 7,992 | 6,555 |
| Other assets | 9,825 | 9,639 |
| | <u> </u> | <u> </u> |
| Total assets | \$401,519 | \$ 367,157 |
| | <u> </u> | <u> </u> |
| LIABILITIES | | |
| Accounts payable | \$ 27,005 | \$ 33,871 |
| Debt: | | |
| Warehouse lines | 185,005 | 166,007 |
| Residual lines | 33,604 | 45,599 |
| Subordinated debt | 45,436 | 27,128 |
| | <u> </u> | <u> </u> |
| Total debt | 264,045 | 238,734 |
| Other liabilities | 36,525 | 29,639 |
| | <u> </u> | <u> </u> |
| Total liabilities | 327,575 | 302,244 |
| EQUITY | | |
| Common stock | | |
| Par value \$.01 per share; authorized 15,000,000 shares; issued and outstanding 5,118,206 as of September 30, 2003 and 5,086,793 as of December 31, 2002 | 51 | 51 |
| Paid in capital | 32,803 | 32,652 |
| Retained earnings | 31,334 | 27,843 |
| Accumulated other comprehensive income, net of tax | 9,756 | 4,367 |
| | <u> </u> | <u> </u> |
| Total equity | 73,944 | 64,913 |
| | <u> </u> | <u> </u> |
| Total liabilities and equity | \$401,519 | \$ 367,157 |
| | <u> </u> | <u> </u> |

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, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | | | | |
| REVENUES: | | | | |
| Interest income | \$ 8,670 | \$ 10,145 | \$ 30,140 | \$ 28,006 |
| Interest expense | 1,666 | 2,845 | 6,071 | 9,003 |
| Net interest income | 7,004 | 7,300 | 24,069 | 19,003 |
| Gain on sale of contracts (net) | 8,725 | 3,255 | 18,057 | 9,932 |
| Service fee income | 13,616 | 12,842 | 40,042 | 39,472 |
| Total Revenues | 29,345 | 23,397 | 82,168 | 68,407 |
| EXPENSES: | | | | |
| Provision for credit losses | 967 | 818 | 2,221 | (461) |
| Interest expense-other | 2,250 | 1,225 | 4,994 | 3,154 |
| OPERATING EXPENSES: | | | | |
| Salaries and benefits | 13,474 | 13,549 | 41,236 | 40,998 |
| Systems and servicing | 1,088 | 777 | 3,135 | 2,156 |
| Telephone and data lines | 781 | 1,056 | 2,366 | 2,541 |
| Depreciation | 575 | 806 | 1,885 | 2,676 |
| General and administrative expenses | 7,068 | 4,592 | 20,362 | 15,449 |
| Total Operating Expenses | 22,986 | 20,780 | 68,984 | 63,820 |
| Total Expenses | 26,203 | 22,823 | 76,199 | 66,513 |
| Income before income taxes | 3,142 | 574 | 5,969 | 1,894 |
| Income Taxes | 1,304 | 238 | 2,478 | 785 |
| Net Income | \$ 1,838 | \$ 336 | \$ 3,491 | \$ 1,109 |
| Net Income per share Basic | \$ 0.36 | \$ 0.07 | \$ 0.69 | \$ 0.22 |
| Net Income per share Diluted | \$ 0.31 | \$ 0.07 | \$ 0.63 | \$ 0.21 |
| Basic Shares Outstanding | 5,103,395 | 5,086,793 | 5,092,998 | 5,084,914 |
| Diluted Shares Outstanding | 6,002,979 | 5,142,298 | 5,514,459 | 5,194,178 |

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, 2002 | 5,087 | \$ 51 | \$32,652 | \$27,843 | \$ 4,367 | \$64,913 |
| Issuance of Common Stock | 31 | | 151 | | | 151 |
| Comprehensive income: | | | | | | |
| Unrealized gain in securitized assets, net of tax of \$3.9 million | | | | | 5,445 | 5,445 |
| Unrealized loss on hedging activities, net of tax of \$40 thousand | | | | | (56) | (56) |
| Net income | | | | 3,491 | | 3,491 |
| Total comprehensive income | | | | 3,491 | 5,389 | 8,880 |
| BALANCE, SEPTEMBER 30, 2003 | 5,118 | \$ 51 | \$32,803 | \$31,334 | \$ 9,756 | \$73,944 |

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, | |
|---|------------------------------------|------------|
| | 2003 | 2002 |
| | (Dollars in Thousands) | |
| OPERATING ACTIVITIES: | | |
| Net cash used in operating activities | \$ (8,360) | \$ (9,067) |
| INVESTING ACTIVITIES: | | |
| Cash used for purchases of property and equipment | (975) | (998) |
| FINANCING ACTIVITIES: | | |
| Proceeds from exercise of employee options | 151 | 4 |
| Payments on capital lease obligations | (480) | (331) |
| Proceeds from lease refinance | | 900 |
| Payments on residual lines of credit | (41,393) | (102,474) |
| Proceeds from drawdown on residual lines of credit | 29,398 | 86,480 |
| Paydown of warehouse lines related to securitizations | (1,170,121) | (900,223) |
| Proceeds from warehouse lines | 1,189,120 | 924,223 |
| Proceeds from issuance of subordinated debt | 25,179 | 8,120 |
| Principal payments on subordinated debt | (6,872) | (2,880) |
| Net cash provided by financing activities | 24,982 | 13,819 |
| Increase in cash and cash equivalents | 15,647 | 3,754 |
| Decrease in restricted cash | 3,430 | |
| Cash and cash equivalents at beginning of period | 72 | 1,135 |
| Cash and cash equivalents at end of period | \$ 19,149 | \$ 4,889 |

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 Acceptance Corporation, a Delaware Corporation, (Onyx), and its wholly owned special purpose subsidiaries Onyx Acceptance Financial Corporation (O AFC), Onyx Acceptance Funding Corporation (OFC), and Onyx Acceptance Receivables Corporation (O ARC), its wholly owned subsidiary, ABNI Inc. (ABNI), and its majority owned subsidiary, Credit Union Acceptance Corporation, (CUAC), (collectively, the Company), is a specialized consumer finance company engaged in the purchase, securitization and servicing of motor vehicle retail installment contracts originated by franchised and select independent automobile dealerships (collectively the Contracts). Onyx was incorporated on August 17, 1993, and commenced operations in February 1994. Onyx provides an independent source to automobile dealers to finance their customers purchases of new and used vehicles. The Company attempts to meet the needs of dealers through consistent buying practices, competitive rates, a dedicated customer service staff, fast turnaround time and systems designed to expedite the processing of credit applications.

RECLASSIFICATION

Certain amounts in the 2002 periods condensed consolidated financial statements have been reclassified to conform to the corresponding 2003 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, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The condensed consolidated financial statements should be read in conjunction with the audited financial statements and footnotes thereto for the year ended December 31, 2002 included in the Company s 2002 Annual Report on Form 10-K/A.

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

The Company s restricted cash balance may, from time to time, consist of one or more of the following components: funds held in reserve accounts supporting an on balance sheet residual securitization transaction; cash collateral to meet margin requirements related to hedging activities; and cash collateral to cure potential borrowing base deficiencies associated with the Company s warehouse lines.

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Contracts held for sale are carried at the lower of cost or market value on an aggregate basis. Contracts held for sale include contracts reacquired upon the exercise of clean up calls and available for sale as part of future securitizations. At the time of such calls, any unamortized RISA balance, net of associated other comprehensive income remaining in stockholders' equity is reclassified from credit enhancement assets and accounted for as loan premium on the reacquired Contracts. Loan premiums are amortized in a manner that results in a constant effective yield over the remaining life of the Contracts. In amortizing loan premium, the Company anticipates prepayments will occur at a rate consistent with that utilized in valuing its residual interests (approximately 1.75% per month) over the estimated remaining contractual life of the Contracts at the date such Contracts are reacquired. If the Company's actual prepayment experience differs materially from anticipated prepayment experience, the Company will recalculate the effective yield to reflect actual payments to date and anticipated future payments. The unamortized loan premium is adjusted, through a charge or credit to interest income, to the amount that would have existed had the new effective yield been applied since the acquisition of the Contracts.

| | September 30, 2003 | December 31, 2002 |
|-------------------------------|-----------------------|----------------------|
| (In Thousands) | | |
| Gross Contracts held for sale | \$ 188,812 | \$ 171,785 |
| Loan premium | 3,942 | 3,981 |
| Less unearned interest | (845) | (1,265) |
| Contracts held for sale | 191,909 | 174,501 |
| Dealer participation | (5,279) | (4,148) |
| Total | \$ 186,630 | \$ 170,353 |

As of September 30, 2003, 27% of Contracts held for sale were originated in California, versus 30% as of December 31, 2002.

NOTE 5 CONTRACTS HELD FOR INVESTMENT

Contracts held for investment are net of a \$2.3 million allowance for probable losses at September 30, 2003 and a \$1.9 million allowance at December 31, 2002. Amounts held for investment include Contracts that do not qualify for securitizations as a result of delinquency status, minimum balance or minimum remaining term.

Contracts held for investment consist of the following:

| | September 30, 2003 | December 31, 2002 |
|-------------------------------------|-----------------------|----------------------|
| (In Thousands) | | |
| Gross Contracts held for investment | \$ 10,267 | \$ 8,430 |
| Less unearned interest | (20) | (24) |
| Contracts held for investment | 10,247 | 8,406 |
| Allowance | (2,255) | (1,851) |
| Total | \$ 7,992 | \$ 6,555 |

NOTE 6 CREDIT ENHANCEMENT ASSETS

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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:

| | <u>September 30, 2003</u> | <u>December 31, 2002</u> |
|-------------------|-------------------------------|------------------------------|
| | (In Thousands) | |
| Trust receivables | \$ 5,000 | \$ 3,506 |
| RISA | 172,923 | 173,602 |
| | <u> </u> | <u> </u> |
| Total | \$177,923 | \$177,108 |
| | <u> </u> | <u> </u> |

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Trust receivables represent initial deposits in spread accounts.

Retained interest in securitized assets (RISA) capitalized upon securitization of Contracts, 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 earnings and are based on historical experience. At the time of securitization, the Company uses a 1.75% prepayment rate for all outstanding securitizations with an average Contract life range of 1.7 to 1.8 years. Net credit loss assumptions at the time of securitization range from 3.6% 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. Future earnings are discounted at a rate management believes to be representative of market at the time of securitization, which was 10.75% for the 2003-C securitization. As of September 30, 2003, the discount rates used for valuing RISA on our securitizations ranged from 8.3% to 10.8% and net loss assumptions ranged from 3.4% to 6.4% cumulative.

During the quarter ended September 30, 2003, the Company recorded an impairment loss of \$0.45 million, compared to \$5.5 million for the quarter ended September 30, 2002. Impairment charges are netted against gain on sale as reported in the statement of income.

In initially valuing the RISA and determining estimated cash flows, the Company establishes an off balance sheet allowance for probable credit losses. The allowance is based upon historical experience, the credit statistics of the underlying portfolio and management's estimate of future performance regarding credit losses. The amount is reviewed periodically and adjustments are made if actual experience or other factors indicate that future performance may differ from management's prior estimates.

The following table presents the estimated future undiscounted RISA earnings to be received from securitizations. Estimated future undiscounted RISA earnings are 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 the contractually specified servicing fee of 1.0%, financial guaranty insurance premiums and other costs and fees, after giving effect to estimated prepayments and assuming no losses. To arrive at the RISA, this amount is reduced by the off balance sheet allowance established for probable future losses and by discounting to present value.

| | September 30, 2003 | December 31, 2002 |
|---|-----------------------------|-----------------------------|
| | (In Thousands) | |
| Estimated net undiscounted RISA earnings | \$ 315,659 | \$ 321,685 |
| Off balance sheet allowance for losses | (105,182) | (109,490) |
| Discount to present value | (37,554) | (38,593) |
| | <u> </u> | <u> </u> |
| Retained interest in securitized assets | \$ 172,923 | \$ 173,602 |
| | <u> </u> | <u> </u> |
| Outstanding balance of contracts sold through securitizations | \$2,650,991 | \$2,726,878 |

In January of 2003, the Financial Accounting Standards Board issued the pronouncement, Financial Interpretation Number 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 provides guidance in determining which off balance sheet assets, liabilities and obligations should be consolidated with the Company's financial statements. The guidance as outlined in FIN 46 provides that qualified special purpose entities as defined by FAS 140, like those the Company employs, are excluded from the scope of FIN 46.

NOTE 7 NET INCOME PER SHARE

In accordance with Statement of Financial Accounting Standards No. 128, the following is an illustration of the dilutive effect of the Company's potential common stock on net income per share.

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------|------------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| (Dollars in Thousands, Except Per Share Data) | | | | |
| Net Income | \$ 1,838 | \$ 336 | \$ 3,491 | \$ 1,109 |
| Weighted average shares outstanding | 5,103 | 5,087 | 5,093 | 5,085 |
| Net effect of dilutive stock options/warrants | 900 | 55 | 421 | 109 |
| Diluted weighted average shares outstanding | 6,003 | 5,142 | 5,514 | 5,194 |
| Net income per share: | | | | |
| Basic EPS | \$ 0.36 | \$ 0.07 | \$ 0.69 | \$ 0.22 |
| Diluted EPS | \$ 0.31 | \$ 0.07 | \$ 0.63 | \$ 0.21 |

As of September 30, 2003 and 2002, 49,182 and 1.3 million of combined options and warrants, respectively, were not included in the calculation of full dilution for the respective quarters, as they were anti-dilutive.

NOTE 8 STOCK OPTIONS

Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation (SFAS No. 123), and Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123 encourages, but does not require, companies to recognize compensation expense associated with stock based compensation plans over the anticipated service period based on the fair value of the award on the date of grant. As allowed by SFAS 123 and 148, the Company has continued to account for stock-based compensation plans under APB 25. The fair value of the options was estimated at date of grant using a Black-Scholes single-option pricing model using the following assumptions:

| | September 30, | |
|---------------------------------|---------------|------------|
| | 2003 | 2002 |
| Risk free interest rate | 2.9% | 3.8% |
| Expected stock price volatility | 79.7% | 87.6% |
| Expected life of options | four years | four years |
| Expected dividends | none | none |

The following table presents the pro forma disclosures required for SFAS 123 and SFAS 148 for the three and nine-month periods ended September 30:

| | For the Quarters Ended, September 30, | | For the Nine Months Ended, September 30, | |
|---|---|--------|--|----------|
| | 2003 | 2002 | 2003 | 2002 |
| (Dollars in Thousands, Except Per Share Data) | | | | |
| Net income, as reported (in thousands) | \$ 1,838 | \$ 336 | \$ 3,491 | \$ 1,109 |
| | \$ 110 | \$ 116 | \$ 332 | \$ 308 |

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Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects (in thousands)

| | | | | |
|-------------------------------------|----------|--------|----------|---------|
| | — | — | — | — |
| Pro forma net income (in thousands) | \$ 1,728 | \$ 220 | \$ 3,159 | \$ 801 |
| Earnings per share: | | | | |
| Basic as reported | \$ 0.36 | \$0.07 | \$ 0.69 | \$ 0.22 |
| Basic pro forma | \$ 0.34 | \$0.04 | \$ 0.62 | \$ 0.16 |
| Diluted as reported | \$ 0.31 | \$0.07 | \$ 0.63 | \$ 0.21 |
| Diluted pro forma | \$ 0.29 | \$0.04 | \$ 0.57 | \$ 0.15 |

NOTE 9 CONTINGENCIES

Management believes that the Company has taken prudent steps to address the litigation risks associated with the Company's business. However, there can be no assurance that the Company will be able to successfully defend against all such claims or that the determination of any such claim in a manner adverse to the Company would not have a material adverse effect on the Company's automobile finance business. Based upon information presently available, the Company believes that all current proceedings should not have a material adverse effect upon the Company's results of operations, cash flows or financial condition.

NOTE 10 SUBSEQUENT EVENTS

In October of 2003, the Company completed a securitization in the amount of \$400.0 million. The Company's CSFB-Europe residual line was renewed in October 2003 until January, 2004; additionally, the size of the CSFB-Europe facility was reduced to \$21.4 million to align with the Company's borrowing requirements.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

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 \$9.9 billion in Contracts and currently has relationships with over 11,000 dealerships. The Company has expanded its operations from a single office in California to 18 Auto Finance Centers serving many regions of the United States.

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. Net interest income is the difference between the income earned on interest earning assets and the interest paid on interest bearing liabilities. 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.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are an integral part of the compilation of the Company's financial condition and results of operations. Critical accounting policies require complicated and often intricate calculations and judgments because they often rely on estimates based on continually changing market conditions. The following is a summary of accounting policies we consider critical.

RETAINED INTEREST IN SECURITIZED ASSETS (RISA)

RISA 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. The estimates that Management makes during the execution of the securitization relate to the expected prepayment rate of the Contracts in the transaction, the discount rate to be applied to the cash flows and the amount of cumulative net losses that will be experienced by the Contracts that are sold in the transaction. As these estimates are made at the inception of the transaction, they will have a degree of uncertainty as the transaction ages. A major variable to these estimates relates to the general state of the economy at any given time and its effect on the performance of the Contracts in the transaction. The Company recognizes the excess of all estimated cash flows attributable to the RISA estimated at the acquisition date over the initial investment (accretable yield) as interest income over the estimated life of the RISA using the effective yield method. If estimated cash flows change, then the accretable yield is recalculated and the periodic accretion is adjusted prospectively. If the estimated fair value of the RISA has declined below its carrying amount, an other-than-temporary decline is considered to exist if there has been a decline in the estimated present value of future cash flows and the difference between the carrying value and fair value of the RISA is recorded as an impairment loss through the income statement.

RISA is classified in a manner similar to available for sale assets and as such is marked to market each quarter. Market value changes are calculated by discounting the estimated cash flows using a current market discount rate. Each quarter Management reviews its estimates of the cash flows and adjusts any that are inconsistent with its current estimates. If the effect of the new estimates reduces the present value of the cash flows and if the fair market value has declined below the carrying amount of the transaction, Management will record an impairment loss on the transaction. If the new estimated present value has declined but the carrying amount remains below the fair value, any change in the market value of the RISA is reported as a separate component of shareholders' equity on the consolidated statements of financial condition as accumulated other comprehensive income (loss), net of applicable taxes.

HEDGING ACTIVITIES

The Contracts originated and held by us earn interest at a fixed rate and, accordingly, we have exposure to changes in interest rates during the warehouse period. We therefore employ a hedging strategy that is intended to minimize the risk of interest rate fluctuations. Such transactions involve the execution of forward interest rate swaps and/or the use of a pre-funding structure for securitizations.

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Management monitors the hedging activities on a frequent basis to ensure that the value of hedges, their correlation to the Contracts being hedged and the amounts being hedged continue to provide effective protection against interest rate risk. Our hedging strategy requires estimates of monthly Contract acquisition volume and timing of securitizations. The amount and timing of hedging transactions are determined by senior management, and are based upon the amount of Contracts purchased and the interest rate environment.

The Company uses forward interest rate swaps to hedge the variability in the forecasted future net cash flows it will receive from the RISA attributable to the risk of changing interest rates. The Company's interest rate swap agreements involve arrangements to pay a fixed interest rate and receive a floating interest rate, at specified intervals, calculated on agreed-upon amortizing notional amounts. The debt and amounts that the Company hedges are determined based on prevailing market conditions and the current shape of the yield curve. Interest rate swap agreements are executed as an integral part of specific securitization transactions. Interest rate swap agreements are unwound upon securitization, whereby the gain or loss on the hedge is recorded to income and the associated component of the gain or loss previously recorded in other comprehensive income is reversed. As of September 30, 2003, the Company had \$250 million of forward interest rate swaps outstanding with a AA-rated counterparty.

Derivative instruments used by Onyx involve, to varying degrees, elements of credit risk in the event a counterparty should default and market risk as the instruments are subject to rate and price fluctuations. Credit risk is managed through the use of credit standard guidelines, counterparty diversification, monitoring of counterparty financial condition and International Swap Dealers Association master netting agreements in place with all derivative counterparties.

All derivatives are recognized on the balance sheet at their fair value. On the date that the Company enters into a derivative contract, it designates the derivative as a hedge of a forecasted transaction of the variability of cash flows that are to be received or paid in connection with the securitization (a cash flow hedge). Changes in the fair value of a derivative that are highly effective and previously designated to qualify as a cash flow hedge to the extent that the hedge is effective, are recorded in other comprehensive income until earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of a variable asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings.

RESULTS OF OPERATIONS

The Company had net income of \$1.8 million and \$3.5 million for the quarter and nine-month periods ended September 30, 2003, compared to net income of \$0.3 million and \$1.1 million for the same periods in 2002. The increase in net income was principally due to a combination of an increase in gains recorded, a reduction in impairment charges and a reduction in interest expense during the three and nine-month periods ended September 30, 2003 versus the same periods in 2002.

Net Interest Income. Net interest income consists primarily of 1) the difference between the finance revenue earned on Contracts held on balance sheet during the warehousing period and the interest costs associated with the Company's borrowings to purchase such Contracts; and 2) the difference between income accreted on RISA and the interest costs associated with residual line borrowings secured by RISA.

Net interest income was \$7.0 million and \$24.1 million for the quarter and nine-month periods ended September 30, 2003, compared to \$7.3 million and \$19.0 million for the same periods in 2002.

Finance revenue earned on Contracts held for sale and investment decreased by approximately \$0.45 million and was principally due to the timing and size of the Company's 2003-C securitization's pre-funding arrangement, which resulted in a reduction of the average balance of Contracts held for sale and investment during the quarter versus the same three-month period in 2002. For the three months ended September 30, 2003, the average balance of Contracts held for sale and investment was \$142.7 million, compared to \$158.0 million for the same period in 2002. Additionally, income accreted on RISA decreased by \$0.5 million and was principally due to a lower average balance of RISA. For the three-month period ended September 30, 2003, the average balance of RISA was \$171.7 million, compared to \$180.3 million for the same period in 2002. The reduction in the RISA balance principally reflects impairment charges taken and normal amortization. The reduction in interest income for the quarter was partially offset by a reduction in interest expense on the Company's residual lines of credit, stemming from a clean-up call executed on the 2002-A residual securitization in August of 2003. During the quarter, interest expense incurred on the residual lines of credit totaled \$0.7 million, compared to \$1.8 million for the same period in 2002.

The increase in net interest income for the nine-month period was principally due to (i) a reduction in interest expense incurred on the Company's residual lines of credit, and (ii) a larger average balance of higher yielding Contracts that were held on the balance

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sheet, when compared to the same nine-month period in 2002. Interest expense in connection with the Company's residual lines decreased by \$2.7 million for the nine-month period ended September 30, 2003, and was principally due to the clean-up call executed on the 2002-A residual securitization in August of 2003. Finance revenue earned on Contracts held for sale and investment was \$13.1 million for the nine-month period ended September 30, 2003, versus \$12.3 million for the same period in 2002. The Company has increased the fair value on certain of its outstanding ABS transactions through other comprehensive income on the statement of financial condition. The increase is principally due to the improved loss performance of certain ABS transactions, and will result in higher earnings on the RISA assets in future quarters. The table below depicts the major components of net interest income.

| | For the Three Months Ended, September 30, | | For the Nine Months Ended, September 30, | |
|---|---|-----------------|---|------------------|
| | 2003 | 2002 | 2003 | 2002 |
| (Dollars in Thousands) | | | | |
| Income: | | | | |
| Finance Revenue (net of participation amortization) | \$ 3,806 | \$ 4,304 | \$ 13,147 | \$ 12,311 |
| RISA income | 4,864 | 5,841 | 16,993 | 15,695 |
| Total interest income | 8,670 | 10,145 | 30,140 | 28,006 |
| Expense: | | | | |
| Warehouse lines | 990 | 1,077 | 3,265 | 3,453 |
| Residual lines | 676 | 1,768 | 2,806 | 5,550 |
| Total interest expense | 1,666 | 2,845 | 6,071 | 9,003 |
| Net interest income | \$ 7,004 | \$ 7,300 | \$ 24,069 | \$ 19,003 |

Contractual servicing fee income is earned at a rate of 1.0% per annum on the outstanding principal balance of Contracts securitized. Servicing fee income is related to the size of the serviced portfolio and also includes investment interest, late fees, extension fees, document fees and other fees charged to customer accounts. Service fee income was \$13.6 million and \$40.0 million for the quarter and nine-month period ended September 30, 2003, compared to \$12.8 million and \$39.5 million for the same periods in 2002. The relatively small increase in service fee income reflects the stability in the size of the serviced portfolio. As of September 30, 2003, the Company's serviced portfolio was \$2.8 billion, compared to \$2.9 billion as of September 2002.

Gain on Sale of Contracts. The Company computes a gain on sale with respect to Contracts securitized based on the present value of the estimated future excess cash flows to be received from such Contracts using a market discount rate. The present value of the estimated future excess cash flows is recorded as a credit enhancement asset on the statement of financial condition. The gain recorded in the statement of income is equal to the credit enhancement asset recorded as adjusted for prepaid dealer participation, issuance costs, the gain or loss on the termination of the cash flow hedge and impairment charges. The gain on the sale of Contracts is affected by the amount of Contracts securitized and the net interest rate spread on those Contracts.

The Company completed one securitization in the amount of \$400 million during the quarter, resulting in a gain on sale of Contracts of \$9.2 million or 2.3% of the dollar amount of Contracts securitized, compared to a securitization of \$450 million during the third quarter of 2002, which resulted in a gain on sale of Contracts totaling \$8.8 million or 1.96% of the dollar amount of the Contracts securitized. For the nine-month period ended September 30, 2003 the Company completed three securitizations in the amount of \$1.2 billion for a combined gain of \$26.7 million, compared to \$1.23 billion with a combined gain of \$19.0 million for 2002. The Company recorded a \$0.45 million pre-tax impairment charge on its RISA assets during the third quarter of 2003, and a \$5.5 million pre-tax impairment charge for the same period in 2002. For the nine months ended September 30, 2003, the Company recorded a combined impairment of \$8.7 million, versus \$9.9 million for the same period in 2002. While the Company has experienced a significant reduction in its overall delinquency and loss rates on its 2001 and 2002 securitizations, certain pre-2001 securitizations continue to experience higher losses and delinquency rates reflecting current economic conditions. The impairment charges have been recorded to reduce the previously recorded gain on sale on the impaired assets.

The increase in gains recorded for 2003 was principally due to the increase in the weighted average net spread realized. The net interest rate spread is the difference between the weighted average Contract rate of the securitized assets and the weighted average investor rate inclusive of

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all costs related to the transaction. Interest rate spread is affected by product mix, general market conditions and overall market interest rates. The risks inherent in interest rate fluctuations are partially reduced through hedging activities. For the securitizations executed during the nine months ended September 20, 2003, the weighted average interest rate spread, before issuance costs, was 4.73%, compared to 4.32% for the same period in 2002. Additionally, the Company reduced the cumulative loss rate on its 2003 securitizations to reflect the improved credit statistics of the underlying Contracts in the transaction.

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| | 2003-A | 2003-B | 2003-C | 2002-A | 2002-B | 2002-C |
|---|--------|--------|--------|--------|--------|--------|
| Weighted average A.P.R. | 9.79% | 9.14% | 8.75% | 10.68% | 10.46% | 10.45% |
| Projected loss rate (Annualized) | (2.21) | (2.20) | (2.07) | (2.50) | (2.32) | (2.19) |
| Service fee, dealer participation & other | (2.19) | (2.01) | (1.99) | (2.23) | (2.19) | (2.13) |
| Cost of funds, including investor rate | (3.24) | (2.78) | (2.48) | (4.34) | (4.62) | (4.21) |
| Net spread | 2.15% | 2.15% | 2.21% | 1.61% | 1.33% | 1.92% |

Provision for Credit Losses. The Provision for credit losses represents net credit losses incurred on Contracts held for investment. The provision for credit losses increased to \$967 thousand and \$2.2 million for the quarter and nine months ended September 30, 2003, respectively, compared to \$818 thousand and \$(461) thousand for the same periods in 2002. The negative provision for credit losses for the nine months ended September 30, 2002, reflects a sales tax refund of approximately \$2.0 million received during the second quarter of 2002. The refund has been treated as a recovery as it relates to pro-rata sales taxes paid by the Company in financing the purchases of vehicles for which the related Contracts have been previously charged-off. The Company plans to pursue additional refunds from applicable states in the forthcoming quarters. During the first quarter of 2003, charges of approximately \$1.4 million were incurred in connection with the liquidation of the Company's repossession inventory. These charges have been reclassified to collection expense in the Company's 2003 year-to-date presentation of its statement of income to conform with the current period presentation.

Other Interest Expense. Other interest expense was \$2.25 million and \$4.99 million for the quarter and nine months ended September 30, 2003, respectively, compared to \$1.22 million and \$3.15 million for the same periods in 2002. Other interest expense includes interest and amortized fees on the Company's subordinated debt, capital lease obligations and the expenses associated with the ineffective portion of hedging activities under the guidelines of FAS 133. The increase in interest expense for the quarter and nine months ended September 30, 2003 was principally due to interest recorded in connection with the Company's renewable notes program launched during the first quarter of 2002. As of September 30, 2003, the balance of renewable notes was approximately \$33.4 million, compared to approximately \$7.9 million as of September 30, 2002. The weighted average interest rate on the balance of the renewable notes outstanding as of September 30, 2003 was 8.83%. The renewable notes have varying maturities ranging from three months to 10 years.

Operating Expenses. The Company has made a significant effort to control operating expenses through renegotiation of existing service contracts and the further implementation of technology and automation, including the conversion of its loan accounting and collection systems to an in-house system and the development of an automated front-end credit application system. While these improvements have increased operating efficiencies, the Company has experienced an increase in charges associated with external collection agencies, insurance and legal services creating a combined increase of approximately \$2.5 million for the quarter and \$5.6 million for the nine month period ending September 30, 2003. Total operating expenses were \$23.0 million for the quarter ended September 30, 2003 compared to \$20.8 million for the same period in 2002. For the nine month period ended September 30, 2003, total operating expenses were \$69.0 million, compared to \$63.8 million of the same period in 2002.

Salaries and Benefits Expense. The Company incurred salary and benefit expenses of \$13.5 million and \$41.2 million during the quarter and nine months ended September 30, 2003, respectively, compared to \$13.5 million and \$41.0 million during the same periods in 2002. Salary expense for the quarters ended September 30, 2003 and 2002 was \$9.5 million. For the nine months ended September 30, 2003 and 2002, salary expense was \$28.7 million and \$28.9 million, respectively. The Company has reduced its operating staff by approximately 4% since September of 2002 as a result of operating efficiencies gained during the past year. Additionally, the Company consolidated and renegotiated long-term service contracts with temporary staff agencies thereby reducing the related expenses by approximately \$496 thousand for the nine-month period in 2003 versus the same period in 2002. Decreases in salary and temporary staff charges were partially offset by increases in bonus incentives, annual merit increases and higher health care costs in connection with the Company's benefit plans.

System and Servicing Expense. System and servicing expense was \$1.1 million for the quarter ended September 30, 2003, an increase of approximately \$0.3 million versus the quarter ended September 30, 2002. For the nine months ended September 30, 2003, total system and servicing expense was \$3.1 million, compared to \$2.2 million for the same period in 2002. Toward the end of the third quarter of 2002, the Company implemented a third-party credit application system in an effort to reduce the time commitment to manually input the daily credit applications from its dealer customers. The new system streamlined the processing of a majority of the Company's credit applications, which resulted in the reduction of its data entry staff shortly after the deployment. Charges in connection this system were approximately \$305,000 and \$877,000 for the quarter and nine months ended September 30, 2003. The Company incurred approximately \$39,000 in expenses for the quarter and nine-month period ended September 30, 2002 for this system, as it was initially deployed in September, 2002.

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Telephone and Data Line Expenses. Telephone and data line expenses decreased to \$0.8 million and \$2.4 million for the quarter and nine months ended September 30, 2003, respectively, from \$1.1 million and \$2.5 million for the quarter and nine months ended September 30, 2002, respectively. As a result of Management's renegotiation of its existing service contracts late in 2001, the Company received refunds from its long-distance service carriers in the first quarter of 2002; the refunds totaled approximately \$172,000. Excluding the effects of the refunds, telephone and data line expenses remained materially unchanged versus 2002, as the Company's serviced portfolio remained at approximately \$2.9 billion.

Depreciation Expense. Depreciation expense decreased to \$0.6 million and \$1.9 million for the quarter and nine months ended September 30, 2003, respectively, from \$0.8 million and \$2.7 million for the quarter and nine months ended September 30, 2002, respectively. Substantially all of the system upgrades in connection with the Company's corporate office relocation to Foothill Ranch during 1999 have been fully depreciated. The Company uses a three-year life and a straight-line depreciation method for most capital purchases. The Company will continue to invest in technology and infrastructure to support the serviced portfolio as a means to increase operating efficiencies.

Other Operating Expenses. Other operating expenses include professional fees, marketing, supplies, facility related charges, collection expenses, insurance fees and credit bureau fees. Other operating expenses were \$7.1 million for the quarter ended September 30, 2003 versus \$4.6 million for the same period in 2002. For the nine months ended September 30, 2003 other operating expenses were \$20.4 million, versus \$15.5 million for the same period in 2002. The increase in other operating expense stems from higher fees paid to third party repossession agencies, and other expenses including insurance and legal fees.

Income Taxes. The Company files federal and certain state tax returns as a consolidated group. Tax liabilities from the consolidated returns are allocated in accordance with a tax sharing agreement based on the relative income or loss of each entity on a stand-alone basis. The effective tax rate for Onyx was 41.5% for the third quarters of 2003 and 2002.

FINANCIAL CONDITION

CONTRACTS HELD FOR SALE

Contracts held for sale are presented at the lower of cost or market value and totaled \$186.6 million at September 30, 2003, compared to \$170.4 million at December 31, 2002. The number and principal balance of Contracts held for sale is largely dependent upon the timing and size of the Company's securitizations.

CONTRACTS HELD FOR INVESTMENT

Contracts held for investment are net of a \$2.3 million allowance for probable losses as of September 30, 2003 and a \$1.9 million allowance as of December 31, 2002. Amounts held for investment include Contracts that do not qualify for Contract securitizations as a result of delinquency status or minimum balance. The Company maintains an allowance for credit losses to cover anticipated losses on the Contracts held for investment on the statement of financial condition. The allowance for credit losses is increased by charging the provision for credit losses and decreased by actual losses on the Contracts held for investment. The level of the allowance is based principally on the outstanding balance of Contracts held for investment and historical loss trends.

The following table illustrates the changes in the Company's Contract acquisition volume, securitization activity and servicing portfolio during the past five fiscal quarters:

SELECTED QUARTERLY FINANCIAL INFORMATION

| | For the Quarters Ended | | | | |
|--------------------------------------|------------------------|------------------|------------------|------------------|-------------------|
| | Sept. 30, 2003 | June 30, 2003 | Mar. 31, 2003 | Dec. 31, 2002 | Sept. 30, 2002 |
| (Dollars in Thousands) | | | | | |
| Contracts purchased during period | \$ 386,945 | \$ 424,575 | \$ 393,096 | \$ 389,743 | \$ 403,199 |
| Average monthly volume during period | 128,981 | 141,525 | 131,032 | 129,914 | 134,399 |
| | 400,000 | 400,000 | 400,000 | 450,000 | 450,000 |

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| | | | | | |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Contracts securitized during period | | | | | |
| Servicing portfolio at period end | 2,849,201 | 2,894,435 | 2,894,883 | 2,905,968 | 2,902,674 |

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ASSET QUALITY

The Company monitors and attempts to minimize delinquencies and losses through timely collections and the use of a predictive dialing system. At September 30, 2003, delinquencies represented 1.49% of the amount of Contracts in its serviced portfolio compared to 2.58% at December 31, 2002. Net charge-offs as a percentage of the average serviced portfolio were 1.98% for the quarter ended September 30, 2003, compared to 2.53% for the quarter ended September 30, 2002. In an effort to improve borrower credit statistics, the Company modified its incentive compensation system during the fourth quarter of 2000 to shift purchases of Contracts to a higher percentage of higher credit quality product. The result has been increased credit scores and an improvement in overall borrower statistics. Delinquency has declined due in part to the Contracts originated in 2001 and 2002. The Company continues to experience a higher loss rate on its older transactions that have been impacted by the slow-down in the economy and the softening of the used car market, which resulted in lower recovery rates on repossessions.

DELINQUENCY EXPERIENCE OF SERVICED PORTFOLIO

| | September 30, 2003 Amount | December 31, 2002 Amount |
|--|------------------------------|-----------------------------|
| | (Dollars in Thousands) | |
| Serviced portfolio | \$ 2,849,201 | \$ 2,905,968 |
| Delinquencies(1)(2) | | |
| 30 - 59 days | \$ 29,225 | \$ 51,645 |
| 60 - 89 days | 7,848 | 14,127 |
| 90+ days | 5,346 | 9,118 |
| | <u>\$ 42,419</u> | <u>\$ 74,890</u> |
| Total delinquencies as a percent of Serviced portfolio | 1.49% | 2.58% |

(1) Delinquencies include principal amounts only, net of repossessed inventory and accounts in bankruptcy. Delinquent thirty-plus day repossessed inventory as a percent of the serviced portfolio was 0.55% and 0.61% at September 30, 2003 and December 31, 2002, respectively. Delinquent thirty-plus day Contracts in bankruptcy as a percent of the serviced portfolio were 0.93% and 1.05% at September 30, 2003 and December 31, 2002, respectively.

(2) The period of delinquency is based on the number of days payments are contractually past due.

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LOAN LOSS EXPERIENCE OF SERVICING PORTFOLIO

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2003 | 2002 | 2003 | 2002 |
| (Dollars in Thousands) | | | | |
| Average servicing portfolio(1) | \$2,873,953 | \$2,902,140 | \$2,889,316 | \$2,877,018 |
| Number of gross charge-offs | 3,205 | 3,201 | 10,215 | 10,039 |
| Gross charge-offs | \$ 17,625 | \$ 21,620 | \$ 57,611 | \$ 76,499 |
| Net charge-offs(2) | \$ 14,255 | \$ 18,343 | \$ 47,433 | \$ 62,223 |
| Annualized net charge-offs as a percent of average Servicing portfolio | 1.98% | 2.53% | 2.19% | 2.88% |

(1) Average is based on daily balances.

(2) Net charge-offs are gross charge-offs minus recoveries on Contracts previously charged off.

The following table illustrates the cumulative net credit loss performance of each of the securitized pools outstanding for the period from the date of securitization through September 30, 2003, stated as a percentage of the original principal balance.

| MONTH | 99-A | 99-B | 99-C | 99-D | 00-A | 00-B | 00-C | 00-D | 01-A | 01-B | 01-C | 01-D | 02-A | 02-B | 02-C | 02-D | 03-A | 03-B | 03-C |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| | 0.00% | 0.00% | 0.01% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| | 0.02% | 0.03% | 0.03% | 0.01% | 0.02% | 0.02% | 0.01% | 0.00% | 0.00% | 0.01% | 0.00% | 0.00% | 0.01% | 0.00% | 0.00% | 0.00% | 0.00% | 0.01% | 0.00% |
| | 0.05% | 0.07% | 0.06% | 0.04% | 0.04% | 0.04% | 0.03% | 0.02% | 0.02% | 0.03% | 0.02% | 0.02% | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% | 0.02% | 0.00% |
| | 0.11% | 0.14% | 0.16% | 0.09% | 0.11% | 0.10% | 0.06% | 0.07% | 0.07% | 0.10% | 0.05% | 0.04% | 0.02% | 0.04% | 0.06% | 0.03% | 0.02% | 0.04% | 0.00% |
| | 0.21% | 0.27% | 0.28% | 0.15% | 0.18% | 0.17% | 0.11% | 0.15% | 0.12% | 0.18% | 0.11% | 0.08% | 0.07% | 0.10% | 0.11% | 0.07% | 0.07% | 0.07% | 0.00% |
| | 0.35% | 0.43% | 0.47% | 0.24% | 0.37% | 0.30% | 0.26% | 0.26% | 0.20% | 0.30% | 0.18% | 0.14% | 0.12% | 0.17% | 0.17% | 0.15% | 0.11% | 0.11% | 0.00% |
| | 0.49% | 0.60% | 0.64% | 0.43% | 0.63% | 0.44% | 0.41% | 0.39% | 0.31% | 0.39% | 0.29% | 0.22% | 0.19% | 0.23% | 0.26% | 0.30% | 0.17% | 0.17% | 0.00% |
| | 0.63% | 0.85% | 0.83% | 0.59% | 0.87% | 0.67% | 0.65% | 0.50% | 0.47% | 0.50% | 0.38% | 0.32% | 0.26% | 0.33% | 0.34% | 0.37% | 0.24% | 0.24% | 0.00% |
| | 0.81% | 1.07% | 1.09% | 0.76% | 1.05% | 0.90% | 0.85% | 0.65% | 0.60% | 0.65% | 0.48% | 0.44% | 0.34% | 0.41% | 0.42% | 0.44% | 0.44% | 0.44% | 0.00% |
| | 1.04% | 1.34% | 1.31% | 0.99% | 1.27% | 1.11% | 1.08% | 0.85% | 0.77% | 0.77% | 0.59% | 0.51% | 0.39% | 0.49% | 0.51% | 0.51% | 0.51% | 0.51% | 0.00% |
| | 1.29% | 1.56% | 1.47% | 1.20% | 1.59% | 1.38% | 1.29% | 1.03% | 0.95% | 0.89% | 0.70% | 0.59% | 0.48% | 0.58% | 0.60% | 0.59% | 0.59% | 0.59% | 0.00% |
| | 1.49% | 1.79% | 1.62% | 1.41% | 1.82% | 1.57% | 1.42% | 1.25% | 1.14% | 1.04% | 0.78% | 0.69% | 0.56% | 0.68% | 0.70% | 0.70% | 0.70% | 0.70% | 0.00% |
| | 1.72% | 1.90% | 1.77% | 1.52% | 2.03% | 1.84% | 1.65% | 1.41% | 1.31% | 1.19% | 0.89% | 0.77% | 0.64% | 0.75% | 0.79% | 0.79% | 0.79% | 0.79% | 0.00% |
| | 1.90% | 2.08% | 2.00% | 1.70% | 2.25% | 2.08% | 1.93% | 1.62% | 1.47% | 1.33% | 1.00% | 0.85% | 0.74% | 0.84% | 0.89% | 0.89% | 0.89% | 0.89% | 0.00% |
| | 2.10% | 2.23% | 2.08% | 2.00% | 2.48% | 2.26% | 2.16% | 1.86% | 1.64% | 1.43% | 1.11% | 0.94% | 0.83% | 0.93% | 0.93% | 0.93% | 0.93% | 0.93% | 0.00% |
| | 2.26% | 2.42% | 2.29% | 2.17% | 2.64% | 2.42% | 2.42% | 2.04% | 1.78% | 1.55% | 1.23% | 1.03% | 0.91% | 1.02% | 1.02% | 1.02% | 1.02% | 1.02% | 0.00% |
| | 2.46% | 2.63% | 2.48% | 2.40% | 2.80% | 2.69% | 2.65% | 2.20% | 1.96% | 1.67% | 1.34% | 1.10% | 1.00% | 1.10% | 1.10% | 1.10% | 1.10% | 1.10% | 0.00% |
| | 2.59% | 2.71% | 2.61% | 2.61% | 2.98% | 2.96% | 2.97% | 2.41% | 2.10% | 1.80% | 1.45% | 1.19% | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% | 1.12% | 0.00% |
| | 2.71% | 2.89% | 2.73% | 2.87% | 3.25% | 3.20% | 3.25% | 2.60% | 2.25% | 1.94% | 1.58% | 1.30% | 1.20% | 1.20% | 1.20% | 1.20% | 1.20% | 1.20% | 0.00% |
| | 2.83% | 3.08% | 2.92% | 3.05% | 3.52% | 3.44% | 3.48% | 2.75% | 2.36% | 2.09% | 1.71% | 1.39% | 1.27% | 1.27% | 1.27% | 1.27% | 1.27% | 1.27% | 0.00% |
| | 2.88% | 3.21% | 3.07% | 3.20% | 3.69% | 3.69% | 3.70% | 2.92% | 2.49% | 2.23% | 1.84% | 1.51% | 1.51% | 1.51% | 1.51% | 1.51% | 1.51% | 1.51% | 0.00% |
| | 3.03% | 3.31% | 3.22% | 3.33% | 3.91% | 3.94% | 3.95% | 3.03% | 2.61% | 2.35% | 1.92% | 1.59% | 1.59% | 1.59% | 1.59% | 1.59% | 1.59% | 1.59% | 0.00% |
| | 3.21% | 3.43% | 3.32% | 3.53% | 4.12% | 4.18% | 4.18% | 3.16% | 2.75% | 2.47% | 2.02% | 1.67% | 1.67% | 1.67% | 1.67% | 1.67% | 1.67% | 1.67% | 0.00% |
| | 3.28% | 3.55% | 3.43% | 3.70% | 4.32% | 4.39% | 4.37% | 3.32% | 2.86% | 2.57% | 2.13% | 2.13% | 2.13% | 2.13% | 2.13% | 2.13% | 2.13% | 2.13% | 0.00% |
| | 3.34% | 3.67% | 3.65% | 3.88% | 4.52% | 4.57% | 4.54% | 3.45% | 3.01% | 2.67% | 2.25% | 2.25% | 2.25% | 2.25% | 2.25% | 2.25% | 2.25% | 2.25% | 0.00% |
| | 3.47% | 3.77% | 3.79% | 4.03% | 4.71% | 4.74% | 4.74% | 3.59% | 3.12% | 2.77% | 2.33% | 2.33% | 2.33% | 2.33% | 2.33% | 2.33% | 2.33% | 2.33% | 0.00% |
| | 3.61% | 3.88% | 3.90% | 4.22% | 4.87% | 4.91% | 4.88% | 3.71% | 3.27% | 2.87% | 2.87% | 2.87% | 2.87% | 2.87% | 2.87% | 2.87% | 2.87% | 2.87% | 0.00% |
| | 3.67% | 4.01% | 4.03% | 4.42% | 5.04% | 5.07% | 5.03% | 3.86% | 3.41% | 2.96% | 2.96% | 2.96% | 2.96% | 2.96% | 2.96% | 2.96% | 2.96% | 2.96% | 0.00% |
| | 3.78% | 4.14% | 4.19% | 4.58% | 5.23% | 5.22% | 5.18% | 4.00% | 3.52% | 3.52% | 3.52% | 3.52% | 3.52% | 3.52% | 3.52% | 3.52% | 3.52% | 3.52% | 0.00% |
| | 3.85% | 4.25% | 4.28% | 4.71% | 5.35% | 5.36% | 5.33% | 4.09% | 3.60% | 3.60% | 3.60% | 3.60% | 3.60% | 3.60% | 3.60% | 3.60% | 3.60% | 3.60% | 0.00% |
| | 3.96% | 4.37% | 4.43% | 4.84% | 5.48% | 5.53% | 5.43% | 4.20% | 3.69% | 3.69% | 3.69% | 3.69% | 3.69% | 3.69% | 3.69% | 3.69% | 3.69% | 3.69% | 0.00% |
| | 4.07% | 4.49% | 4.60% | 4.98% | 5.61% | 5.67% | 5.57% | 4.28% | 4.28% | 4.28% | 4.28% | 4.28% | 4.28% | 4.28% | 4.28% | 4.28% | 4.28% | 4.28% | 0.00% |
| | 4.18% | 4.55% | 4.71% | 5.11% | 5.74% | 5.80% | 5.67% | 4.39% | 4.39% | 4.39% | 4.39% | 4.39% | 4.39% | 4.39% | 4.39% | 4.39% | 4.39% | 4.39% | 0.00% |
| | 4.25% | 4.66% | 4.83% | 5.21% | 5.85% | 5.91% | 5.77% | 4.47% | 4.47% | 4.47% | 4.47% | 4.47% | 4.47% | 4.47% | 4.47% | 4.47% | 4.47% | 4.47% | 0.00% |
| | 4.32% | 4.79% | 4.95% | 5.32% | 5.96% | 6.04% | 5.90% | 5.90% | 5.90% | 5.90% | 5.90% | 5.90% | 5.90% | 5.90% | 5.90% | 5.90% | 5.90% | 5.90% | 0.00% |
| | 4.37% | 4.86% | 5.00% | 5.46% | 6.06% | 6.15% | 5.99% | 5.99% | 5.99% | 5.99% | 5.99% | 5.99% | 5.99% | 5.99% | 5.99% | 5.99% | 5.99% | 5.99% | 0.00% |
| | 4.44% | 4.94% | 5.07% | 5.55% | 6.16% | 6.24% | 6.09% | 6.09% | 6.09% | 6.09% | 6.09% | 6.09% | 6.09% | 6.09% | 6.09% | 6.09% | 6.09% | 6.09% | 0.00% |
| | 4.51% | 5.00% | 5.15% | 5.63% | 6.25% | 6.35% | 6.17% | 6.17% | 6.17% | 6.17% | 6.17% | 6.17% | 6.17% | 6.17% | 6.17% | 6.17% | 6.17% | 6.17% | 0.00% |

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| | | | | | | |
|---|-------|-------|-------|-------|-------|-------|
| 0 | 4.56% | 5.05% | 5.22% | 5.71% | 6.33% | 6.43% |
| 1 | 4.66% | 5.12% | 5.30% | 5.78% | 6.41% | 6.53% |
| 2 | 4.69% | 5.17% | 5.36% | 5.84% | 6.48% | 6.60% |
| 3 | 4.72% | 5.21% | 5.42% | 5.89% | 6.54% | |
| 4 | 4.77% | 5.23% | | 5.95% | 6.59% | |

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Credit enhancement assets consisted of the following:

| | September 30, 2003 | December 31, 2002 |
|-------------------|-----------------------|----------------------|
| | (In Thousands) | |
| Trust receivables | \$ 5,000 | \$ 3,506 |
| RISA | 172,923 | 173,602 |
| Total | \$ 177,923 | \$ 177,108 |

Trust receivables represents initial deposits in spread accounts.

Retained interest in securitized assets (RISA) capitalized upon securitization of Contracts represent 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 earnings and are based on historical experience. 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. Future earnings are discounted at a rate management believes to be representative of market at the time of securitization.

LIQUIDITY AND CAPITAL RESOURCES

The Company requires substantial cash and capital resources to operate its business. Its primary uses of cash include: (i) acquisition of Contracts; (ii) payments of dealer participation; (iii) securitization costs; (iv) settlements of hedging transactions; (v) operating expenses; and (vi) interest expense. The capital resources available to the Company include: (i) interest income during the warehousing period; (ii) servicing fees; (iii) releases from spread accounts; (iv) settlements of hedging transactions; (v) sales of Contracts in securitizations; and (vi) borrowings under its credit facilities. Management believes that the resources available to the Company will provide the needed capital to fund Contract purchases, investments in origination and servicing capabilities, and ongoing operations.

The Company's primary source of funds from continuing operations is securitization proceeds. The Company uses the cash generated from securitizations to pay down outstanding warehouse facilities. These facilities are then used to fund the purchase of Contracts. The Company has historically operated on a negative cash flow basis, excluding the effects of securitization transactions, from operating activities, but expects to generate positive cash flow on a monthly basis by year-end 2003, provided the volume of Contract purchases remains steady on an annual basis. The Company finances dealer participation payments and daily operations principally through credit facilities collateralized by its retained interest in securitized assets, as well as through proceeds from subordinated debt offerings. Cash used in operating activities was \$8.4 million for the nine months ended September 30, 2003, compared to \$9.1 million used during the same period in 2002, a decrease of approximately \$700,000. The change in cash used in operating activities is largely dependent upon the amount of cash released from spread accounts, the timing and size of securitization transactions including whether they include pre-funding agreements, the relative size of clean-up calls executed during the respective periods and the size of securitizations executed relative to the volume of Contracts originated during the warehouse period.

The Company continued to focus its efforts on building and maintaining its dealer relations through its existing branch locations and has not opened any new branches in 2003. Management is currently reviewing market conditions in both Ohio and New York and is exploring other east-coast locations as the overall economic environment improves in the forthcoming periods. Capital expenditures of \$975 thousand and \$998 thousand during the nine-month periods ended September 30, 2003 and 2002, respectively, were due to the ongoing maintenance and upgrade of the Company's servicing infrastructure.

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CP Facilities: As of September 30, 2003, the Company was party to two Contract warehousing programs (the CP Facilities), a \$300 million warehousing facility (the Triple-A CP Facility) with Triple-A One Funding Corporation (Triple-A), guaranteed by MBIA Insurance Corporation (MBIA) and a \$150 million warehouse facility (the CDC CP Facility) with CDC Financial Products Inc. (CDC), guaranteed by XL Capital Assurance Inc. Onyx Acceptance Financial Corporation (Finco), a special purpose subsidiary of the Company, is the borrower under the Triple-A CP Facility and Onyx Acceptance Receivables Corporation (Recco), a special purpose subsidiary of the Company, is the borrower under the CDC CP facility. Triple-A is a rated commercial paper asset-backed conduit sponsored by MBIA. The CP Facilities are used to fund the purchase or origination of Contracts. The Company pledges certain of its Contracts held for sale to borrow from the CP Facilities. The Triple-A CP Facility was renewed in November 2001 for a three-year term, subject to annual renewals by liquidity providers. The CDC CP Facility expires in January 2004 but may be renewed by agreement of the parties.

The Residual Lines: As of September 30, 2003, the Company, through a special purpose subsidiary of the Company, Onyx Acceptance Funding Corporation (Fundco), had two residual financing facilities: a \$35.0 million line with Merrill Lynch International, as buyer (MLI), and Merrill Lynch, Pierce, Fenner & Smith Inc., as agent (Merrill) and a \$35.0 million facility with Credit Suisse First Boston (Europe) Limited, as buyer (CSFB-Europe), and Credit Suisse First Boston Corporation, as agent (CSFB). (The MLI facility together with the CSFB-Europe facility are sometimes referred to herein as the Residual Lines). The Residual Lines are used by the Company to finance operating requirements. The lines utilize collateral-based formulas that set borrowing availability to a percentage of the value of excess cash flow to be received from certain securitizations. Each loan under the MLI line matures one year after the date of the loan. The CSFB-Europe line was renewed in October 2003 until January, 2004; the size of the CSFB-Europe facility was reduced to \$21.4 million to align with the Company's borrowing requirements. The MLI facility was executed in April of 2003.

Residual Securitizations: As an additional source of funds, the Company has utilized residual securitizations to pay down its residual financing facilities to increase the Company's liquidity. During the first quarter of 2000, the Company securitized the residual cash flows from 15 of its then outstanding securitizations. The proceeds of this transaction were used by the Company to pay down two residual financing facilities and pay off another residual financing facility. The Company refinanced this residual securitization in the amount of \$21.0 million during the second quarter of 2002 and in the amount of \$9.2 million during the fourth quarter of 2002. During the first quarter of 2002, the Company completed its second residual interest securitization for the purpose of providing additional borrowing capacity under its then existing residual lines. This transaction generated approximately \$75.0 million in proceeds; the Company executed a clean-up call on this transaction in August 2003.

Subordinated Debt: As of September 30, 2003, the Company had outstanding approximately \$45.4 million of subordinated debt. \$12.0 million of subordinated debt has a stated interest rate of 12.5% and a maturity of June 2006. The remaining balance of \$33.4 million was raised through the Company's renewable unsecured subordinated note program launched during the first quarter of 2002. The weighted average interest rate on the balance of the renewable notes outstanding as of September 30, 2003 was 8.83%. The renewable notes have varying maturities ranging from three months to 10 years.

The facilities and lines above contain affirmative, negative and financial covenants typical of such credit facilities. The Company was in compliance with these covenants as of September 30, 2003.

SECURITIZATIONS

Off balance sheet arrangements are used in the ordinary course of business. Generally, these transactions are structured as off balance sheet sales of Contracts. One of the most common forms of off balance sheet arrangements is Contract securitizations. Regular Contract securitizations are an integral part of the Company's business plan because they allow the Company to increase its liquidity, provide for redeployment of its capital and reduce risks associated with interest rate fluctuations. The Company has developed a securitization program that involves selling interests in pools of its Contracts to investors through the public issuance of AAA/Aaa rated asset-backed securities. Automobile securitizations are used by many financial institutions and are part of a multi-billion dollar annual market for asset-backed securities. As part of this process, management considers the relative risks and returns prior to initiating each securitization. These risks include, but are not limited to, interest rate fluctuations during the warehouse period, increased prepayments speeds and losses, loss of credit enhancement for the underlying securitization, loss of servicing rights and adverse economic conditions. These factors are explained in further detail in the section Risk Factors. The table below provides information about the trust's assets and liabilities as of September 30, 2003 and December 31, 2002.

| | September 30, 2003 | December 31, 2002 |
|-------------------|-----------------------|----------------------|
| | (In millions) | |
| Total assets | \$2,763 | \$2,805 |
| Total liabilities | \$2,657 | \$2,695 |

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The Company completed one AAA/Aaa rated publicly underwritten asset-backed securitization in the amount of \$400 million during the third quarter of 2003. Since 1994, the Company has securitized \$9.6 billion of its Contracts in 33 separate transactions. In each of its securitizations, the Company has sold its Contracts to a newly formed grantor or owner trust, which issued certificates or notes in an amount equal to the aggregate principal balance of the Contracts. The net proceeds of these securitizations were used to pay down outstanding indebtedness incurred under the Company's warehouse financing facilities to purchase Contracts, thereby creating availability for the purchase of additional Contracts.

To improve the level of profitability from the sale of securitized Contracts, the Company arranges for credit enhancement to achieve an improved credit rating on the asset-backed securities issued. This credit enhancement has taken the form of a financial guaranty insurance policy (the Financial Guarantee Insurance Policy) insuring the payment of principal and interest due on the asset-backed securities. The insurance policy has been issued by MBIA Insurance Corporation or a predecessor except for the securitizations executed during the first, third and fourth quarters of 2003, which were insured by XL Capital Assurance Inc.

The Company receives servicing fees for its duties relating to the accounting for and collection of the Contracts. In addition, the Company is entitled to the future excess cash flows arising from the trusts. Generally, the Company sells the Contracts at face value and without recourse, except that certain representations and warranties with respect to the Contracts are provided by the Company as the servicer and Finco as the seller to the trusts.

Gains on sale of Contracts arising from securitizations provide a significant portion of the Company's revenues. Several factors affect the Company's ability to complete securitizations of its Contracts, including conditions in the securities markets generally, conditions in the asset-backed securities market specifically, the credit quality of the Company's portfolio of Contracts and the Company's ability to obtain credit enhancement.

INTEREST RATE EXPOSURE AND HEDGING

The Company is able, through the use of varying maturities on advances from the CP Facilities, to lock in rates during the warehousing period, when in management's judgment it is appropriate to limit interest rate exposure during such warehousing period (See Risk Factors Interest Rate Risk).

The Company has the ability to move rates upward in response to rising borrowing costs because the Company currently does not originate loans near the maximum rates permitted by law. Further, the Company employs a hedging strategy which primarily consists of the execution of forward interest rate swaps. These hedges are entered into by the Company in numbers and amounts which generally correspond to the anticipated principal amount of the related securitization. Gains and losses relative to these hedges are recognized in full at the time of securitization as an adjustment to the gain on sale of the Contracts. The Company has only used counterparties with investment grade debt ratings from national rating agencies for its hedging transactions.

Management monitors the Company's hedging activities on a frequent basis to ensure that the value of hedges, their correlation to the Contracts being hedged and the amounts being hedged continue to provide effective protection against interest rate risk. The Company's hedging strategy requires estimates by management of monthly Contract acquisition volume and timing of its securitizations. If such estimates are materially inaccurate, then the Company's gain on sales of Contracts and results of operations and cash flows could be adversely affected. The amount and timing of hedging transactions are determined by senior management based upon the amount of Contracts purchased and the interest rate environment. Senior management currently expects to hedge substantially all of its Contracts pending securitization.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's earnings are affected by changes in interest rates as a result of its dependence upon the issuance of interest-bearing securities and the incurrence of debt to fund its lending activities. Several factors can influence the Company's ability to manage interest rate risk. First, Contracts are purchased at fixed interest rates, while the amounts borrowed under the warehouse credit facilities bear interest at variable rates that are subject to frequent adjustment to reflect prevailing market interest rates. Second, the interest rate demanded by investors in a securitization is a function of prevailing market rates for comparable transactions and the general interest rate environment. Because the Contracts originated by the Company have fixed interest rates, the Company bears the

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risk of smaller gross interest rate spreads in the event interest rates increase during the period between the date Contracts are purchased and the pricing and completion of securitization transactions.

The Company uses several strategies to minimize interest rate risk, including the utilization of derivative financial instruments, the regular securitization of Contracts and pre-funding of securitization transactions. Pre-funding securitizations is the practice of issuing more asset-backed securities than the amount of Contracts initially sold to the Trust. The proceeds from the pre-funded portion are held in an escrow account until additional Contracts are sold to the Trust in amounts up to the balance of the pre-funded escrow account. In pre-funded securitizations, borrowing costs are locked in with respect to the Contracts subsequently delivered to the Trust. However, the Company incurs an expense in pre-funded securitizations equal to the difference between the money market yields earned on the proceeds held in escrow prior to the subsequent delivery of Contracts and the interest rate paid on the asset-backed securities outstanding.

Derivative financial instruments are utilized to manage the gross interest rate spread on the Company's securitization transactions. The Company sells fixed rate Contracts to the trusts that, in turn, sell fixed rate securities to investors. The fixed rates on securities issued by the trusts are priced off index Swap rates on U.S. Treasury Notes with similar average maturities or various London Interbank Offered Rates (LIBOR). The Company periodically executes the sale of forward swap agreements to lock in the indexed rate for specific anticipated securitization transactions. The Company utilizes these derivative financial instruments to modify its net interest sensitivity to levels deemed appropriate by management based on the Company's risk tolerance. All transactions are entered into for purposes other than trading, and are settled quarterly upon pricing of the securitization.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As a consumer finance company, the Company is subject to various consumer claims and litigation seeking damages and statutory penalties based upon, among other things, disclosure inaccuracies and wrongful repossession, which could take the form of a plaintiff's class action complaint. The Company, as the assignee of finance Contracts originated by dealers, may also be named as a co-defendant in lawsuits filed by consumers principally against dealers. Finally, the Company also is subject to other litigation common to the motor vehicle finance industry and businesses in general. The damages and penalties claimed by consumers and others in these types of matters can be substantial. The relief requested by the plaintiffs varies but includes requests for compensatory, statutory and punitive damages.

Management believes that the Company has taken prudent steps to address the litigation risks associated with the Company's business. However, there can be no assurance that the Company will be able to successfully defend against all such claims or that the determination of any such claim in a manner adverse to the Company would not have a material adverse effect on the Company's automobile finance business.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the third quarter of the fiscal year covered by this Quarterly Report on Form 10-Q to a vote of security holders, through the solicitation of proxies or otherwise.

ITEM 5. OTHER INFORMATION

FORWARD LOOKING STATEMENTS

The preceding Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which provides a safe harbor for these types of statements. This Quarterly Report on Form 10-Q contains forward-looking statements which reflect the current views of Onyx Acceptance Corporation with respect to future events and financial performance. These forward looking statements are subject to certain risks and uncertainties, including those identified below which could cause actual results to differ materially from historical results or those anticipated. Forward-looking terminology can be identified by the use of terms such as may, will, expect, anticipate, estimate, should or or the negative thereof or other variations thereon or comparable terminology. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. Except as required by law, Onyx Acceptance Corporation undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The following factors among others, could cause actual results to differ materially from historical results or those anticipated: (1) the level of demand for auto contracts, which is affected by such external factors as the level of interest rates, the strength of the various segments of the economy, debt burden held by consumers and demographics of the lending markets of Onyx Acceptance Corporation; (2) continued dealer relationships; (3) fluctuations between consumer interest rates and the cost of funds; (4) federal and state regulation of auto finance operations; (5) competition within the consumer lending industry; (6) the availability and cost of securitization transactions and (7) the availability and cost of warehouse and residual financing.

RISK FACTORS

We Need Substantial Liquidity.

We require a substantial amount of liquidity to operate our business. Among other things, we use such liquidity to:

acquire Contracts;

pay dealer participation;

pay securitization costs and fund related accounts;

settle hedge transactions;

satisfy working capital requirements and pay operating expenses; and

pay interest expense.

A substantial portion of our revenues in any period is represented by gain on sale of Contracts generated by a securitization in such period, but the cash underlying such revenues is received over the life of the Contracts.

We have historically operated on a negative cash flow basis but expect to generate positive cash flow on a monthly basis by year-end 2003, provided the volume of Contract purchases remains steady on an annual basis. We have historically funded these negative operating cash flows principally through borrowings from financial institutions, sales of equity securities and sales of subordinated notes. We cannot assure you, however, that (1) we will have access to the capital markets in the future for equity, debt issuances or securitizations, or (2) financing through borrowings or other means will be available on acceptable terms to satisfy our cash requirements. If we are unable to access the capital markets or obtain acceptable financing, our results of operations, financial condition and cash flows would be materially and adversely affected. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

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We Depend on Warehouse Financing.

We depend on warehouse facilities with financial institutions to finance the purchase or origination of Contracts pending securitization. See Business Financing and Sale of Contracts. Our business strategy requires that such financing continue to be available during the warehousing period.

Whether the CP Facilities continue to be available to us depends on, among other things, whether we maintain a target net yield for the Contracts financed under the CP Facilities and comply with certain financial covenants contained in the sale and servicing agreements between us, as seller, and our respective wholly-owned special purpose subsidiary, Finco or Recco, as purchaser. These financial covenants include:

a minimum ratio of net worth plus subordinated debt to total assets;

a maximum ratio of credit enhancement assets to tangible net worth; and

earnings before interest, depreciation and taxes coverage ratio.

We cannot assure you that our CP Facilities will be available to us or that they will be available on favorable terms. If we are unable to arrange new warehousing credit facilities or extend our existing credit facilities when they expire, our results of operations, financial condition and cash flows could be materially and adversely affected.

We May Depend on Residual Financing.

When we sell our Contracts in securitizations, we receive cash and a residual interest in the securitized assets (RISA). The RISA represents the future cash flows to be generated by the Contracts in excess of the interest paid on the securities issued in the securitization and other costs of servicing the Contracts and completing the securitization. (See Management's Discussion and Analysis of Financial Condition and Results of Operations - Securitizations). We typically use the RISA from each securitization as collateral to borrow cash under our Residual Lines to finance our operations. The amount of cash advanced by our lenders under our Residual Lines depends on a collateral formula that is determined in large part by how well our securitized Contracts perform. If our portfolio of securitized Contracts experience higher delinquency and loss ratios than expected, then the amount of money we can borrow under the Residual Lines would be reduced. The reduction in availability under these Residual Lines could materially and adversely affect our operations, financial condition and cash flows. Additionally, we are subject, under the documentation governing the Residual Lines, to certain financial covenants. During the quarter, the Company recorded a \$0.45 million write-down of the Company's RISA asset stemming from higher than expected losses and delinquency on certain securitizations. The Company attributes a portion of the higher losses and delinquency experienced to the general economic slow-down the nation is experiencing.

We Depend on Residual Securitizations.

At times, we securitize future cash flows generated by RISA to pay off balances on our Residual Lines and increase liquidity. If our portfolio of securitized Contracts experience higher delinquency and loss ratios than expected, then the proceeds of a residual securitization could be significantly reduced, and the resulting risk associated with the securities could command a higher yield. The inability to successfully market a residual securitization could materially and adversely affect our operations, financial condition and cash flows.

We Depend on Securitizations to Generate Revenue.

We rely significantly upon securitizations to generate cash proceeds for repayment of our warehouse and our residual credit facilities and to create availability to purchase additional Contracts. Further, gain on sale of Contracts generated by our securitizations represents a significant portion of our revenues. Our ability to complete securitizations of our Contracts is affected by the following factors, among other things:

conditions in the securities markets generally;

conditions in the asset-backed securities market specifically;

the credit quality of our portfolio of Contracts; and

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our ability to obtain credit enhancement.

If we were unable to profitably securitize a sufficient number of our Contracts in a particular financial reporting period, then our revenues for such period could decline and could result in lower net income or a loss for such period. In addition, unanticipated delays in closing a securitization could also increase our interest rate risk by increasing the warehousing period for our Contracts. See Management's Discussion and Analysis of Results of Operations and Financial Condition Liquidity and Capital Resources, and Business Financing and Sale of Contracts.

We Depend on Credit Enhancement.

From inception through September 30, 2003, each of our securitizations has utilized credit enhancement in the form of a financial guarantee insurance policy in order to achieve AAA/Aaa ratings. This form of credit enhancement reduces the cost of the securitizations relative to alternative forms of credit enhancement currently available to us. We cannot assure you that:

we will be able to continue to obtain credit enhancement in any form from our current providers;

we will be able to obtain credit enhancement from any other provider of credit enhancement on acceptable terms; or

future securitizations will be similarly rated.

We also rely on financial guarantee insurance policies to reduce our borrowing cost under the CP Facilities. If our current providers' credit ratings are downgraded or if they withdraw the credit enhancement, we could be subject to higher interest costs for our future securitizations and financing costs during the warehousing period. Such events could have a material adverse effect on our results of operations, financial condition and cash flows.

We Are Subject to Interest Rate Fluctuations.

Our profitability is largely determined by the difference, or spread, between the effective rate of interest received by us on the Contracts acquired and the interest rates payable under our credit facilities during the warehousing period and for securities issued in securitizations.

Several factors affect our ability to manage interest rate risk. First, the Contracts are purchased or originated at fixed interest rates, while amounts borrowed under our credit facilities bear interest at variable rates that are subject to frequent adjustment to reflect prevailing rates for short-term borrowings. Our policy is to increase the buy rates we issue to dealerships in response to increases in our cost of funds during the warehousing period. However, there is generally a time lag before such increased borrowing costs can be offset by increases in the buy rates for Contracts and, in certain instances, the rates charged by our competitors may limit our ability to pass through our increased costs of warehouse financing.

Second, the spread can be adversely affected after a Contract is purchased or originated and while it is held during the warehousing period by increases in the prevailing rates in the commercial paper markets. While the CP Facilities permit us to select maturities to coincide with the projected end of the warehouse period, if we selected a shorter maturity or have a delay in completing a securitization, we would face this risk.

Third, the interest rate demanded by investors in securitizations is a function of prevailing market rates for comparable transactions and the general interest rate environment. Because the Contracts purchased or originated by us have fixed rates, we bear the risk of spreads narrowing because of interest-rate increases during the period from the date the Contracts are purchased until the pricing of our securitization of such Contracts. We employ a hedging strategy that is intended to minimize this risk and which historically has involved the execution of forward interest rate swaps or use of a pre-funding structure for our securitizations. However, we cannot assure you that this strategy will consistently or completely offset adverse interest-rate movements during the warehousing period or that we will not sustain losses on hedging transactions. Our hedging strategy requires estimates by management of monthly Contract acquisition volume and timing of our securitizations. If such estimates are significantly inaccurate, then our gains on sales of Contracts, results of operations and cash flows could be materially and adversely affected.

We also have exposure to interest rate fluctuations under the Residual Lines. In periods of increasing interest rates, our cash flows, results of operations and financial condition could be materially adversely affected.

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In addition, we have some interest rate exposure to falling interest rates to the extent that the interest rates charged on Contracts sold in a securitization with a pre-funding structure decline below the rates prevailing at the time that the securitization prices. Such a rate decline would reduce the interest rate spread because the interest rate on the notes and/or the certificates would remain fixed. This would negatively impact the gain on sale of Contracts and our results of operations and cash flows.

We Will Be Adversely Affected When Contracts are Prepaid or Defaulted.

Our results of operations, financial condition, cash flows, and liquidity depend, to a material extent, on the performance of Contracts purchased, originated, warehoused, and securitized by us. A portion of the Contracts acquired by us may default or prepay during the warehousing period. We bear the risk of losses resulting from payment defaults during the warehousing period. In the event of payment default, the collateral value of the financed vehicle may not cover the outstanding Contract balance and costs of recovery. We maintain an allowance for credit losses on Contracts held for investment, which reflects management's estimates of anticipated credit losses during such period. If the allowance is inadequate, then we would recognize as an expense the losses in excess of such allowance, and our results of operations could be adversely affected. In addition, under the terms of the CP Facilities, we are not able to borrow against defaulted Contracts.

Our servicing income can also be adversely affected by prepayments of or defaults under Contracts in the serviced portfolio. Our contractual servicing revenue is based on a percentage of the outstanding principal balance of such Contracts. Thus, if Contracts are prepaid or charged-off, then our servicing revenue will decline to the extent of such prepaid or charged-off Contracts.

The gain on sale of Contracts recognized by us in each securitization and the value of the retained interest in securitized assets (RISA) in each transaction reflects management's estimate of future credit losses and prepayments for the Contracts included in such securitization. If actual rates of credit loss or prepayments, or both, on such Contracts exceed those estimated, the value of the RISA would be impaired. We periodically review our credit loss and prepayment assumptions relative to the performance of the securitized Contracts and to market conditions. Our results of operations and liquidity could be adversely affected if credit loss or prepayment levels on securitized Contracts substantially exceed anticipated levels. Under certain circumstances, we would be required to record an impairment charge through a reduction to gain-on-sale. Further, any impairment of RISA could reduce the amount available to us under our Residual Lines, thus possibly requiring us to pay down amounts outstanding under these facilities or provide additional collateral to cure any borrowing base deficiency.

During the quarter and nine-month period ended September 30, 2003, the Company recorded an impairment loss of \$0.45 million and \$8.7 million, respectively, compared to \$5.5 million and \$9.9 million for the quarter and nine-month period ended September 30, 2002. The impairments principally reflect the adverse performance of securitizations executed during 1999 and 2000, stemming from higher than expected losses and delinquency.

Effects of Terrorist Attacks and Military Response.

The long-term economic impact of the events of September 11, 2001 and the United States' continuing military response, remain uncertain, but could have a material effect on general economic conditions, consumer confidence, and market liquidity. No assurance can be given as to the effect of these events on the performance of the Contracts. Any adverse impact resulting from these events could materially affect our results of operations, financial condition and cash flows.

In addition, activation of a substantial number of U.S. military reservists or members of the National Guard may significantly increase the proportion of Contracts whose interest rates are reduced by the application of the Soldiers' and Sailors' Civil Relief Act of 1940 (the Relief Act). The Relief Act provides, generally, that an obligor who is covered by the Relief Act may not be charged interest on the related Contract in excess of 6% annually during the period of the obligor's active duty.

We Will Be Adversely Affected If We Lose Servicing Rights.

Our results of operations, financial condition and cash flows would be materially and adversely affected if any of the following were to occur:

loss of the servicing rights under our sale and servicing agreements for the CP Facilities; or

loss of the servicing rights under the applicable sale and servicing agreement of an owner trust.

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We are entitled to receive servicing income only while we act as servicer under the applicable sale and servicing agreement. Under the CP Facilities, our right to act as servicer can be terminated by our lender or financial insurer, upon the occurrence of certain events.

Our Quarterly Earnings May Fluctuate.

Our revenues have fluctuated in the past and are expected to fluctuate in the future principally as a result of the following factors:

the timing and size of our securitizations;

the performance of our serviced portfolio;

variations in the volume of our Contract acquisitions;

the interest rate spread between our cost of funds and the average interest rate of purchased Contracts;

the effectiveness of our hedging strategies;

the investor rate for securitizations; and

a trigger event that would block release of excess cash flows from a securitization trust's spread account.

Any significant decrease in our quarterly revenues could have a material adverse effect on our results of operations, financial condition, cash flows and stock price.

We Depend on Key Personnel.

Our future operating results depend in significant part upon the continued service of our key senior management personnel, none of whom is bound by an employment agreement. Our future operating results also depend in part upon our ability to attract and retain qualified management, technical, and sales and support personnel for our operations. We cannot assure you that we will be successful in attracting or retaining such personnel. The loss of any key employee, the failure of any key employee to perform in his or her current position or our inability to attract and retain skilled employees, as needed, could materially and adversely affect our results of operations, financial condition and cash flows.

Our Industry is Highly Competitive.

Competition in the field of financing retail motor vehicle sales is intense. The automobile finance market is highly fragmented and historically has been serviced by a variety of financial entities including the captive finance affiliates of major automotive manufacturers, as well as banks, savings associations, independent finance companies, credit unions and leasing companies. Several of these competitors have greater financial resources than we do. Many of these competitors also have long-standing relationships with automobile dealerships, and offer dealerships or their customers other forms of financing or services not provided by us. Our ability to compete successfully depends largely upon our relationships with dealerships and the willingness of dealerships to offer those Contracts that meet our underwriting criteria to us for purchase. We cannot assure you that we will be able to continue to compete successfully in the markets we serve.

We May Be Harmed by Adverse Economic Conditions.

We are a motor vehicle consumer auto finance company whose activities are dependent upon the sale of motor vehicles. Our ability to continue to acquire Contracts in the markets in which we operate and to expand into additional markets is dependent upon the overall level of sales of new and used motor vehicles in those markets. A prolonged downturn in the sale of new and used motor vehicles, whether nationwide or in the California market, could have a material adverse impact upon us, our results of operations and our ability to implement our business strategy.

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The automobile industry generally is sensitive to adverse economic conditions both nationwide and in California, where we have our largest single-state exposure. Periods of rising interest rates, reduced economic activity or higher rates of unemployment generally result in a reduction in the rate of sales of motor vehicles and higher default rates on motor vehicle contracts. We cannot assure you that such economic conditions will not occur, or that such conditions will not result in severe reductions in our revenues or the cash flows available to us to permit us to remain current on our credit facilities.

We Are Subject to System Risks.

In July 2001, the Company converted from an external service provider for its loan accounting and collections system to an in-house system. If issues with the in-house system arise in the future, we may be unable to acquire Contracts and service the outstanding portfolio. The failure of this system could materially and adversely affect our results of operations, financial condition and cash flows.

We Are Subject to Many Regulations.

Our business is subject to numerous federal and state consumer protection laws and regulations, which, among other things:

- require us to comply with certain requirements due to our being a publicly traded company;

- require us to obtain and maintain certain licenses and qualifications;

- limit the interest rates, fees and other charges we are allowed to charge;

- limit or prescribe certain other terms of our Contracts;

- require us to protect the privacy of consumer information;

- require specific disclosures; and

- define our rights to repossess and sell collateral.

We believe that we are in compliance, in all material respects, with all such laws and regulations, and that such laws and regulations have had no material adverse effect on our ability to operate our business. However, we will be materially and adversely affected if we fail to comply with:

- applicable laws and regulations;

- changes in existing laws or regulations;

- changes in the interpretation of existing laws or regulations; or

- any additional laws or regulations that may be enacted in the future.

We Are Subject to Litigation Risks.

We are party to various legal proceedings, similar to actions brought against other companies in the motor vehicle finance industry and other businesses. Companies in the motor vehicle finance industry have also been named as defendants in an increasing number of class action lawsuits brought by purchasers of motor vehicles and others claiming violation of various federal and state consumer credit, as well as similar and other, laws and regulations.

While we intend to vigorously defend ourselves against such proceedings, there is a chance that our results of operations, financial condition and cash flows could be materially and adversely affected by unfavorable outcomes.

ITEM 2. PROPERTIES

The Company did not own any real property at September 30, 2003. The Company's leases approximately 82,000 square feet of office space for its headquarters located in Foothill Ranch, California. The Company also leases office space for its Auto Finance

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Centers and its Hazelwood, Missouri service center; the average size of an Auto Finance Center is generally four to five thousand square feet. The Hazelwood service center is in approximately 20,000 square feet. One Auto Finance Center is located in the corporate headquarters building.

ITEM 6. EXHIBITS AND REPORTS OF FORM 8-K

(a) Exhibits

| EXHIBIT NUMBER | EXHIBIT TITLE |
|-------------------|--|
| 10.132 | Sale and Servicing Agreement dated January 9, 2003, between Onyx Acceptance Corporation, a Delaware corporation, as seller and as servicer, and Onyx Acceptance Receivables Corporation, a Delaware corporation, as purchaser. |
| 10.133 | Credit Agreement, dated January 9, 2003, among Onyx Acceptance Receivables Corporation, a Delaware corporation (Recco), EIFFEL Funding, LLC, a Delaware limited liability company, as conduit lender and CDC Financial Products Inc., a Delaware corporation, as a lender and as program manager. |
| 10.134 | Security Agreement, dated January 9, 2003, among Onyx Acceptance Receivables Corporation, a Delaware corporation, Onyx Acceptance Corporation, as servicer and JP Morgan Chase Bank, a New York state banking corporation, as collateral agent on behalf of and for the benefit of the holders of the obligations. |
| 10.135 | Subordinated Security Agreement dated January 9, 2003 between Onyx Acceptance Receivables Corporation, a Delaware corporation, and Onyx Acceptance Corporation, a Delaware corporation. |
| 10.136 | Definitions List dated January 9, 2003, for the Recco, Onyx, Eiffel Funding LLC, CDC Financial Products Inc. and XL Capital Assurance Inc. commercial paper facility. |
| 21.1 | Subsidiaries of the Registrant. |
| 31 | Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

(b) REPORTS ON FORM 8-K

None.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ONYX ACCEPTANCE CORPORATION

Date: November 14, 2003

By: /s/ JOHN W. HALL

John W. Hall
President, CEO and Principal
Executive Officer

Date: November 14, 2003

By: /s/ DON P. DUFFY

Don P. Duffy
Executive Vice President,
CFO and Principal Financial Officer

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