ONYX ACCEPTANCE CORP
Form 10-K/A
September 23, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

(Mark One)

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

For the fiscal year ended December 31, 2002

or

o **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	**33-0577635**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

Onyx Acceptance Corporation
27051 Towne Centre Drive, Suite 100
Foothill Ranch, CA 92610
(Address of principal executive offices)(Zip code)

(949) 465-3900
(Registrant s telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock ($0.01 Par Value)

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this

Form 10-K or any amendments to this Form 10-K. þ

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes o No þ

Based on the closing sale price of $4.10 the registrant s Common Stock as quoted on the Nasdaq National Market on June 28, 2002, the aggregate market value of such stock held by non-affiliates of the registrant was approximately $12.9 million on that date.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for the Annual Meeting of Stockholders currently expected to be held on May 29, 2003, to be filed with the Commission pursuant to Regulation 14A, are incorporated by reference in Part III of this Report.

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This amendment on Form 10-K/A amends Items 6, 7, and 8 of Part II, Item 14 of Part III and Item 15 of Part IV of the Annual Report of Onyx Acceptance Corporation (the Company) on Form 10-K previously filed for the fiscal year ended December 31, 2002. This amendment is filed in connection with the restatement of our results of operations for the year ended December 31, 2002. The circumstances necessitating the restatement and their effects on the year ended December 31, 2002 are more fully described in note 2 of the Notes to Condensed Consolidated Financial Statements.

ANNUAL REPORT ON FORM 10-K/A

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PART II

Item 6. ***Selected Financial Data***

SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

	For the Years Ended December 31,				
	1998	1999	2000	2001	2002
					(Restated) (7)
	(Dollars in thousands, except for per share amounts)				
Statement of Operations Data:					
REVENUE:					
Net interest income(6)	$ 10,950	$ 9,727	$ 4,307	$ 12,981	$ 26,457
Servicing fee income(6)	17,444	31,023	51,521	57,256	51,973
Gain on sale of contracts (net)	36,417	53,920	45,029	30,765	13,695
Total revenues	64,811	94,670	100,857	101,002	92,125
EXPENSES:					
Provision for credit losses(5)	1,580	1,246	990	1,079	(8)
Interest expense other(6)	4,419	5,727	5,592	2,917	4,255
Operating expenses	48,426	70,959	84,304	89,535	84,660
Total expenses	54,425	77,932	90,886	93,531	88,907
Income before income taxes	10,386	16,738	9,971	7,471	3,218
Income taxes	4,310	6,946	4,136	3,061	1,335
Net income	$ 6,076	$ 9,792	$ 5,835	$ 4,410	$ 1,883
Net income per share of Common Stock:					
Basic	$ 0.99	$ 1.59	$ 1.03	$ 0.88	$ 0.37
Diluted	$ 0.95	$ 1.50	$ 1.00	$ 0.84	$ 0.36
Basic shares outstanding (in thousands)	6,112	6,174	5,657	5,026	5,085
Diluted shares outstanding (in thousands)	6,425	6,514	5,811	5,232	5,179
Operating Data:					
Contracts purchased during the period	$1,038,535	$1,559,004	$1,671,703	$1,606,330	$1,614,041
Number of contracts purchased during the period	86,150	127,628	131,648	115,141	108,212
Contracts securitized during the period	$ 911,760	$1,450,000	$1,720,000	$1,600,000	$1,675,000
Number of active dealerships (at end of period)	5,401	7,617	9,741	10,115	10,827
Operating expenses as percentage of average serviced portfolio during the period(1)	4.7%	4.1%	3.4%	3.1%	2.9%
Selected Portfolio Data:					
Serviced portfolio (at end of period)	$1,345,961	$2,133,460	$2,690,607	$2,864,338	$2,905,968

Average serviced portfolio during the period(1)	$1,023,237	$1,728,875	$2,456,796	$2,818,572	$2,883,497
Number of contracts in serviced portfolio (at end of period)	131,862	209,745	269,372	289,426	291,898
Weighted average annual percentage rate (at end of period)(2)	14.72%	14.77%	14.67%	13.38%	11.87%
Delinquencies as a percentage of the dollar amount of serviced portfolio (at end of period)(3)	2.54%	2.81%	4.14%	4.01%	2.58%
Net charge-offs as a percentage of the average serviced portfolio during the period(1)	1.72%	1.85%	2.30%	2.78%	2.77%

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	As of December 31,				
	1998	1999	2000	2001	2002
					(Restated) (7)
			(Dollars in thousands)		
Balance Sheet Data:					
Cash and cash equivalents	$ 1,929	$ 5,190	$ 3,130	$ 1,135	$ 72
Restricted cash					3,430
Contracts held for sale(4)	151,952	229,475	173,784	191,716	174,501
Contracts held for investment(4)				3,539	8,406
Credit enhancement assets	112,953	142,884	146,013	184,300	177,108
Total assets	275,422	393,835	331,380	386,285	367,157
Warehouse borrowings	150,044	232,288	172,509	190,008	166,007
Excess servicing and residual lines	49,556	55,880	41,138	68,355	45,599
Subordinated debt	10,000	10,000	19,505	16,232	27,128
Stockholders equity	43,824	53,108	55,593	59,701	64,913

(1) Averages are based on daily balances.

(2) The weighted averages are based on the serviced portfolio outstanding at the end of the period.

(3) Excludes repossessed inventory and accounts in bankruptcy.

(4) Contracts held for sale and investment excludes dealer participation and allowance for credit losses. See Note 4 to the Consolidated Financial Statements.

(5) The provision for credit losses for the year ended December 31, 2002 reflects a sales tax refund of approximately $2.0 million. 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.

(6) Effective April 1, 2001, the Company adopted EITF 99-20. Prior to the adoption of EITF 99-20, the balance of RISA was amortized against actual excess spread income earned on a monthly basis over the expected repayment life of the underlying Contracts. The adoption of EITF 99-20 resulted in amounts previously recognized as service fee income being recognized as interest income. Additionally, certain amounts in the prior years consolidated financial statements have been reclassified to conform to the 2002 presentation.

(7) The Company revised the amount of loan premium amortization on Contracts acquired in connection with clean up calls exercised on the Company s securitization pools. The amount previously reported by the Company understated the amount of premium amortization in the year ended December 31, 2002 by $570 thousand. In addition, the Company reduced the amount of gain on sale incorrectly recognized related to premium recorded on certain loans reacquired during the fourth quarter of 2002 by $209 thousand.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The Company revised the amount of loan premium amortization on Contracts acquired in connection with clean up calls exercised on the Company s securitization pools. The amount previously reported by the Company understated the amount of premium amortization in the year ended December 31, 2002 by $570 thousand. In addition, the Company reduced the amount of gain on sale incorrectly recognized related to premium recorded on certain loans reacquired during the fourth quarter of 2002 by $209 thousand.

All amounts contained in Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) reflect the restatement. The Company has only updated information in (MD&A) related to the restatement.

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 $8.7 billion in Contracts and currently has relationships with approximately 10,800 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. Upon the securitization and sale of Contracts, the Company recognizes a gain on sale of Contracts, receives future excess cash flows generated by securitization trusts, and earns fees from servicing the securitized Contracts.

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The following table illustrates the changes in the Company s Contract acquisition volume, total revenue, securitization activity and serviced portfolio during the past three fiscal years.

Selected Financial Information

	For the Years Ended December 31,		
	2000	2001	2002
			(restated)
		(Dollars in thousands)	
Contracts purchased during year	$1,671,703	$1,606,330	$1,614,041
Average monthly purchases during the year	139,308	133,860	134,503
Net interest income	4,307	12,981	26,457
Gain on sale of contracts	45,967	34,105	27,990
Impairment		(3,340)	(15,178)
Residual Securitization Sale	(938)		883
Service fee income	51,521	57,256	51,973
Total revenue(1)	100,857	101,002	92,125
Contracts securitized during the year	1,720,000	1,600,000	1,675,000
Serviced portfolio at year end	2,690,607	2,864,338	2,905,968

(1) Total revenue is comprised of net interest income, service fee income and gain on sale of contracts.

Contracts Purchased and Serviced Portfolio

In an effort to improve borrower credit statistics, the Company modified its incentive compensation system during the fourth quarter of 2000 to shift its purchases of Contracts to a higher percentage of higher credit quality product. The result has been increased credit scores, slower volume growth and an improvement in overall borrower statistics. This improvement continued throughout 2002. The reduction in growth also reflects the softening of the economy and, to a lesser extent, the events of September 11th and zero percent financing incentives offered by most of the automobile manufacturers. The reduction in Contract purchases, since the modification of the Company s compensation system, has resulted in a lower growth rate of the Company s serviced portfolio. The serviced portfolio at December 31, 1999, was $2.1 billion compared to $2.7 billion at December 31, 2000, an increase of 26.1%. This rate of growth declined to 6.5% for 2001 and 1.5% percent for 2002, as the serviced portfolio remained at approximately $2.9 billion for both December 31, 2001 and 2002.

With Contract purchases stable, management has continued to focus its efforts on reviewing and utilizing automation tools to assist in the underwriting and credit review processes. The resulting enhancements to the front-end credit decision processes are expected to improve the speed of the decision and the amount of information available to the credit officers. Management has also enhanced the post funding review process of the underwriting decision so that the process is more automated and can be customized to select and analyze Contracts meeting specific criteria.

Critical Accounting Policies

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

Credit enhancement assets consisted of the following:

	December 31,	
	2001	2002
	(In thousands)	
Trust receivables	$ 3,980	$ 3,506
RISA	180,320	173,602

Total	$184,300	$177,108

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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. The Company uses a 1.75% prepayment rate for all outstanding securitizations with an average Contract life range of 1.6 to 1.7 years. Credit loss assumptions range from 3.8% to 4.4% 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 during 2002 ranged from 11% to 12%. As of December 31, 2002, the discount rates used for valuing RISA ranged from 8.5% to 11%, and loss assumptions ranged from 3.8% to 5.9% cumulative. Changes in loss, prepayment and discount rate assumptions applied upon the execution of the securitization could have a material effect on the original gain recorded. The Company has disclosed under Note-6 to its audited financial statements, a sensitivity analysis of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in those assumptions.

During 1999, the Emerging Issues Task Force (EITF) issued EITF 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets. EITF 99-20 establishes new income and impairment recognition standards for interests in certain securitized assets. Under the provisions of EITF 99-20, the holder of beneficial interests should recognize the excess of all estimated cash flows attributable to the beneficial interest estimated at the acquisition date over the initial investment (the accretable yield) as interest income over the life of the beneficial interest using the effective yield method. If the estimated cash flows change, then the holder of the beneficial interest should recalculate the accretable yield and adjust the periodic accretion recognized as income prospectively. If the fair value of a beneficial interest has declined below its carrying amount, an other-than-temporary decline is considered to exist if there has been a decline in estimated future cash flows and the difference between the carrying value and fair value of the beneficial interest is recorded as an impairment loss through the income statement.

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. Gain on sale is recorded as a credit enhancement asset on the statement of financial condition. The gain recorded in the statement of income is 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.

During the year ended 2002, the Company recorded an impairment loss of $15.1 million, compared to $3.3 million for the year ended December 31, 2001. The impairments principally reflect the adverse performance of six securitizations executed during 1999 and 2000, stemming from higher than expected losses and delinquency on such securitizations.

Effective April 1, 2001, the Company adopted EITF 99-20. Prior to the adoption of EITF 99-20, the balance of RISA was amortized against actual excess spread income earned on a monthly basis over the expected repayment life of the underlying Contracts. The adoption of EITF 99-20 resulted in amounts previously recognized as service fee income being recognized as interest income.

Results of Operations

Years Ended December 31, 2002, 2001 and 2000

The Company had net income of $1.9 million for the year ended December 31, 2002, compared to net income of $4.4 million and $5.8 million for the years ended December 31, 2001 and 2000, respectively. The decrease in net income for the year was principally due to a reduction in gains realized on securitizations to $13.7 million in 2002 from $30.8 million and $45.0 million in 2001 and 2000 respectively. While the Company has experienced a significant reduction in its overall delinquency rates since December 31, 2001, certain pre-2001 securitizations experienced higher losses and delinquency rates than initially projected at the inception of the transactions, as a result of the slow-down in the economy and the lower credit quality of the borrowers. The impairment charges have

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been recorded to reduce the gain on sale recorded for the year. Total impairment charges were $15.1 million and $3.3 million for the years ended December 31, 2002 and 2001 respectively. The decrease in gain recorded for the year ended December 31, 2002 was partially offset by an increase in net interest income as discussed below.

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 increased to $26.5 million for 2002, from $13.0 million during 2001, and $4.3 million during 2000. The increases were principally due to an increase in interest income generated from the Company s RISA and a decrease in interest expense on the Company s commercial paper line. The increase in net interest income was also due to an increase in yields realized under the provisions of Emerging Issues Task Force (EITF) 99-20, which requires amounts previously recognized as excess service fee income to be recognized as interest income. For the year ended December 31, 2002 total income recognized under EITF 99-20 was approximately $21.2 million, versus approximately $8.4 million for the same period in 2001. The effective yield recognized under the provisions of EITF 99-20 during 2002 was 12.0%, compared to 6.7% in 2001. The increase in yield for 2002 was principally due to lower credit losses and better overall performance on the Company s 2001 and 2002 securitizations versus its original projections made at the time of sale. There was no EITF 99-20 income recognized prior to the second quarter of 2001, as the provisions did not become effective until April 1, 2001. Partially offsetting these factors were lower effective yields on reacquired contract balances at December 31, 2002 reflecting the amortization of loan premiums. Interest expense associated with borrowings under residual lines secured by RISA totaled approximately $7.1 million for the year, compared to $2.6 million for the year ended December 31, 2001. The increase was due to interest expenses associated with the issuance of the $75.0 million residual securitization executed in March of 2002. The Company classifies this interest expense as a component of net interest income to better match RISA revenues with RISA-secured expenses. Previous to EITF 99-20, the Company classified interest expense associated with its residual lines under other interest expense, not as a component of net interest income.

Total commercial paper interest expense for the year was $4.5 million, compared to $10.2 million and $14.8 million for the same periods in 2001 and 2000 respectively. The weighted average interest rate paid on the Company s commercial paper line for the year was approximately 1.7%, compared to 6.2% and 7.4% for 2001 and 2000, respectively. Finance revenue earned on Contracts held for sale and investment was $16.7 million, $17.4 million and $19.1 million for the years ended December 31, 2002, 2001 and 2000, respectively. The table below depicts the major components of net interest income.

	For the Years Ended December 31,		
	2000	2001	2002
	(Dollars in thousands)		
Income:			
Finance Revenue (net of participation amortization)	$19,068	$17,419	$16,656
RISA income		8,386	21,336
Total interest income	19,068	25,805	37,992
Expense:			
Warehouse lines	14,761	10,249	4,450
Residual lines		2,575	7,085
Total interest expense	14,761	12,824	11,535
Net interest income	$ 4,307	$12,981	$26,457

Servicing Fee Income. 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.

Servicing fee income was $52.0 million for the year ended December 31, 2002, compared to $57.3 million and $51.5 million for the same periods in 2001 and 2000, respectively. The reduction in service fee income was principally due to a reduction in investment income received on trust cash accounts during the current periods reported. Additionally, included in the first three months of 2001, was approximately $1.1 million

of excess service fee income recorded prior to the adoption of EITF 99-20. For the year ended December 31, 2000, excess service fee income was approximately $1.6 million.

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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. Gain on sale is recorded as a credit enhancement asset on the statement of financial condition. The gain recorded in the statement of income is 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 following table illustrates the net interest rate spread for each of the Company s securitizations through December 31, 2002:

	Securitization Transactions(4)					
Securitization	Original Balance	Remaining Balance at December 31, 2002	Weighted Average Contract Rate(1)	Weighted Average Investor Rate(1)	Gross Spread(2)	Net Spread(3)
		(Dollars in thousands)				
1994-1 Grantor Trust	$ 38,601	Paid in Full	13.75%	6.90%	6.85%	1.94%
1995-1 Grantor Trust	105,000	Paid in Full	14.94	7.00	7.94	1.86
1996-1 Grantor Trust	100,500	Paid in Full	15.07	5.40	9.67	3.83
1996-2 Grantor Trust	85,013	Paid in Full	14.84	6.40	8.44	3.61
1996-3 Grantor Trust	120,000	Paid in Full	14.54	6.45	8.09	3.14
1996-4 Grantor Trust	100,000	Paid in Full	14.80	6.20	8.60	3.28
1997-1 Grantor Trust	90,000	Paid in Full	13.86	6.55	7.31	2.78
1997-2 Grantor Trust	121,676	Paid in Full	14.85	6.35	8.50	3.11
1997-3 Grantor Trust	149,600	Paid in Full	14.77	6.35	8.42	3.30
1997-4 Grantor Trust	166,000	Paid in Full	14.69	6.30	8.39	3.27
1998-1 Grantor Trust	173,000	Paid in Full	14.91	5.95	8.96	3.40
1998-A Owner Trust	208,759	Paid in Full	14.73	5.87	8.86	3.34
1998-B Owner Trust	250,000	Paid in Full	14.73	5.78	8.95	3.18
1998-C Owner Trust	280,000	Paid in Full	14.89	5.72	9.17	3.51
1999-A Owner Trust	310,000	Paid in Full	14.33	5.73	8.60	3.44
1999-B Owner Trust	350,000	$ 35,324	14.65	5.86	8.79	3.54
1999-C Owner Trust	400,000	51,560	14.82	6.62	8.20	2.86
1999-D Owner Trust	390,000	63,933	15.01	6.90	8.11	2.87
2000-A Owner Trust	430,000	89,056	14.86	7.26	7.60	2.67
2000-B Owner Trust	450,000	111,275	15.18	7.29	7.89	2.64
2000-C Owner Trust	440,000	129,894	15.16	7.18	7.98	2.52
2000-D Owner Trust	400,000	133,807	13.95	6.76	7.19	1.87
2001-A Owner Trust	400,000	152,889	13.39	6.43	6.96	2.14
2001-B Owner Trust	400,000	177,566	12.69	5.08	7.61	2.23
2001-C Owner Trust	400,000	205,518	11.92	4.82	7.10	1.57
2001-D Owner Trust	400,000	228,854	10.90	3.80	7.10	1.73
2002-A Owner Trust	375,000	253,545	10.68	3.91	6.77	1.61
2002-B Owner Trust	400,000	301,672	10.46	4.07	6.39	1.33
2002-C Owner Trust	450,000	378,219	10.45	3.51	6.94	1.92
2002-D Owner Trust	450,000	413,766	10.02	2.69	7.33	2.11
Total	$8,433,149	$2,726,878				

(1) As of issue date.

(2) Difference between weighted average Contract rate and weighted average investor rate as of the issue date.

(3) Difference between weighted average Contract rate and weighted average investor rate, net of unearned dealer participation payments, underwriting costs, other issuance costs, servicing fees, estimated credit losses, ongoing financial guarantee insurance policy premiums, and the hedging gain or loss.

(4) The Company assumes an average prepayment speed of 1.67% to 2.16% per month of the original number of Contracts in the original pool balance (ABS) and discount rates ranging from 8.5% to 11%, and utilizes a lifetime loss rate ranging from 3.8% to 5.9% of the original balance, for all remaining securitizations.

The Company completed four securitizations totaling $1.675 billion during the year ended December 31, 2002, resulting in gains on sale of Contracts of $28.0 million or 1.7% of the dollar amount of Contracts securitized, excluding the residual securitization executed during the second quarter of 2002, compared to four securitizations totaling $1.6 billion during the year ended December 31, 2001, resulting in gains on sale of Contracts totaling $34.1 million or 2.1%, and four securitizations totaling $1.72 billion during the year ended December 31, 2000, resulting in gains on sale of Contracts of $46.0 million or 2.7%. During 2002, the Company recorded a $15.1 million pre-tax impairment charge on its RISA assets versus $3.3 million in 2001. While the Company has experienced a significant reduction in its overall delinquency rates since December 31, 2001, certain pre-2001 securitizations experienced higher losses and delinquency rates than initially projected at the inception of the transactions, related to the slow-down in the economy and the lower credit quality of the borrowers. The impairment charges have been recorded to reduce the gain on sale recorded during the period. The table below depicts the components of the net gain as reported in the consolidated statements of income.

	For the Years Ended December 31,		
	2000	2001	2002
	(Dollars in thousands)		
Gain on Sale	$45,967	$34,105	$ 27,990
Impairment		(3,340)	(15,178)
Residual securitization sale	(938)		883
Total net gain on sale of Contracts	$45,029	$30,765	$ 13,695

The reduction in the gain as a percentage of the Contracts securitized for 2002 was attributable to a decrease in net interest rate spreads. Over the past two years, management has targeted higher credit-worthy borrowers resulting in a reduction in the weighted average net interest spread for securitizations executed. The weighted average net interest rate spread for all securitizations executed in 2002 was 1.76%, compared to 1.91% in 2001 and 2.41% in 2000. The reduction in net interest rate spread for 2002 and 2001 was principally due to a reduction in the weighted average annual percentage rate in the Contracts securitized. 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 products. The result has been increased credit scores and an improvement in overall borrower statistics. This improvement continued throughout 2002. The allowance for loan loss on the serviced portfolio has declined as a percentage of loans outstanding as newer transactions have lower loss reserves based on the improved quality of the underlying Contracts. Delinquency has declined due in part to the Contracts originated in 2001 and 2002. The majority of the charge-offs relate to older transactions that have been impacted by the slow-down in the economy and, to a lesser extent, the softening of the used car market, which resulted in lower recovery rates on repossessions.

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 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.

During the first quarter of 2000, the Company securitized the residual cash flows from 15 of its then outstanding securitizations and recorded a loss of approximately $938,000, which approximated the costs in connection with the transaction. The proceeds of this transaction were used to pay down two of the Company s residual financing facilities and pay off another residual financing facility. The Company refinanced this residual securitization during the second and fourth quarters of 2002.

During the first quarter of 2002, the Company completed its second residual securitization from the residual cash flows of nine outstanding securitizations. The Company did not record a gain on the transaction, as it was structured as a financing transaction rather than a sale. The transaction was rated by Moody s Investors Service, Inc. as Ba2, with proceeds of approximately $75.0 million. A spread account equal to one year s interest was structured into the transaction. The proceeds of the residual securitization were used to pay down the Company s Residual Lines with affiliates of its securitization underwriters. The Company plans to continue to integrate residual securitizations in its business plan as a source of liquidity.

Provision for Credit Losses. The provision for credit losses represents net credit losses incurred on Contracts held for investment. The provision for credit losses decreased to $(8.0) thousand for the year ended December 31, 2002 compared to $1.1 million and $0.99 million for 2001 and 2000 respectively. The provision for credit losses for the year ended December 31, 2002 reflects a sales tax refund of approximately $2.0 million. 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.

Changes in the allowance for credit losses were as follows:

	December 31,		
	2000	2001	2002
		(In thousands)	
Balance at beginning of period	$ 1,454	$ 1,175	$ 1,280
Provision for credit losses	990	1,079	(8)
Charged-off loans	(1,671)	(2,121)	(3,946)
Recoveries-tax refund			2,043
Recoveries-general	402	1,147	2,482
Balance at end of period	$ 1,175	$ 1,280	$ 1,851

Other Interest Expense. Other interest expense was $4.3 million for the year ended December 31, 2002, compared to $2.9 million and $5.6 million for the same periods in 2001 and 2000, respectively. Other interest expense includes interest and amortized fees on the Company s subordinated debt, capital lease obligations and the costs associated with hedging activities under the guidelines of FAS 133. Prior to the second quarter of 2001, the Company also included interest from its residual lines of credit as a component of other interest expense. For the year ended December 31, 2001 and 2000, interest under the residual lines classified as other interest expense was $0.9 million and $3.3 million, respectively. For the last three quarters of 2001 and all of 2002, the Company has classified interest expense from its residual lines of credit under net interest income as a means to match income generated under the provisions of EITF 99-20. The increase in interest expense for the year ended December 31, 2002 were due to interest recorded in connection with FAS 133 and interest charges in connection with the Company s renewable notes program launched during the first quarter of 2002. The weighted average interest rate on the balance of the renewable notes outstanding as of December 31, 2002 was 8.6%. The renewable notes have varying maturities ranging from three months to 10 years. Charges related to the guidelines of FAS 133 were $0.7 million compared to ($0.4) million for the same period in 2001. The increases were principally due to increases in the ineffective portion of the unrealized loss on cash flow hedges due to more rapid interest rate declines throughout 2002 versus 2001 and the change in value of the forward premium between the swap execution date and the financial reporting date.

The table below depicts the components of the other interest expense as reported in the consolidated statements of income.

	For the Years Ended December 31,		
	2000	2001	2002
		(Dollars in thousands)	
Subordinated debt	$2,207	$2,403	$2,072
Renewable notes			1,356
Residual lines(1)	3,325	897	
FAS 133 interest		(426)	707
Capital lease interest	60	43	120
Total other interest expense	$5,592	$2,917	$4,255

(1) Beginning April 1, 2001, the Company has classified interest expense from its residual lines of credit under net interest income as a means to match income generated under the provisions of EITF 99-20.

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. The conversion of its loan accounting and collection systems to an in-house system and other initiatives have effectively reduced its operating expenses as a percent of the serviced portfolio as a result of these efforts. Total operating expenses as a percent of the average serviced portfolio decreased to 2.94% for the year ended December 31, 2002, compared to 3.18% and 3.43% for the years ended December 31, 2001 and 2000 respectively. Total operating expenses for the year ended December 31, 2002 decreased to $84.7 million, compared to $89.5 million for the same period in 2001 and $84.3 million for 2000. Significant

decreases in operating expense categories for the year were realized in systems and servicing expense, telephone and utilities expense and legal and professional expense. The combined reduction of the three expense categories was approximately $3.7 million when compared to the same period in 2001.

Salaries and Benefits Expense. The Company incurred salary and benefit expenses of $53.6 million during the year ended December 31, 2002, compared to $52.8 million during the year ended December 31, 2001, and $46.3 million for the year ended December 31, 2000. In order to support the growth of the Company s serviced portfolio from 2000 to 2001, the number of employees increased from 896 at December 31, 2000, to 990 at December 31, 2001. At December 31, 2002 the number of full-time employees

decreased to 968. During this period, the serviced portfolio increased by 1.5% to $2.9 billion. The increase in salary related expenses for the twelve-month period is principally due to normal merit increases and higher health care costs in connection with the Company s benefit plans.

System and Servicing Expense. System and servicing expense decreased to $3.1 million for the year ended December 31, 2002, compared to $4.3 million and $5.5 million for the years ended December 31, 2001 and 2000 respectively. From inception through the first half of 2001, the Company used the services of an external service provider for its collection and loan accounting processes. The charges associated with this provider were directly correlated to the number of Contracts serviced by the Company. As of July 1, 2001, the Company successfully converted to an in-house system and shortly thereafter terminated its agreement with the external provider. As of December 31, 2002, the Company serviced approximately 292,000 accounts, compared to approximately 289,000 accounts at year-end 2001 and 269,000 accounts at year-end 2000. In addition to the system cost savings of the in-house loan servicing and collection system, the Company also experienced reductions in systems and servicing expense as a direct result of renegotiated contracts with several of the Company s other service providers.

Telephone and Data Line Expenses. Telephone and data line expenses decreased to $3.4 million for the year ended December 31, 2002, from $5.0 million and $6.0 million for the years ended December 31, 2001 and 2000, respectively. Although these charges generally increase with the growth of the serviced portfolio, the significant decrease between 2002 and the two prior years was principally due to renegotiated contracts for long distance rates with certain carriers and, to a lesser extent, a re-evaluation of the Company s existing uses of local carriers and an increase in the credit quality of the serviced portfolio when compared to 2000 and 1999. Assuming no additional reduction in long distance rates, the Company expects these charges to increase relative to the growth of the serviced portfolio.

Depreciation Expense. Depreciation expense decreased to $3.4 million in 2002 from $4.6 million and $4.4 million for the years ended December 31, 2001, and 2000, respectively. Most system upgrades and leasehold improvements associated with the Company s corporate office relocation to Foothill Ranch during 1999 have been fully depreciated. The Company uses a three-year straight-line life for most capital purchases. The Company will continue to invest in technology and infrastructure to support the serviced portfolio and increase operating efficiencies. During 2001, the Company completed the installation of its new loan accounting and collection system at a cost of approximately $2.5 million.

Other Operating Expenses. Other operating expenses decreased to $21.1 million, compared to $22.8 million for the year ended December 31, 2001, and $22.2 million for the year ended December 31, 2000. The Company has made a significant effort to control operating expenses and has effectively reduced its operating expenses as a percent of the serviced portfolio. Total operating expenses as a percent of the average serviced portfolio decreased to 2.94% for 2002, compared to 3.18% and 3.43% for 2001 and 2000 respectively. Other operating expenses include professional fees, marketing, supplies, facility related charges, collection expenses, insurance fees and credit bureau fees. Significant reductions were realized in professional related fees during the year, which decreased by $1.0 million compared to the same period in 2001. The decrease is principally due to the general improvement of the serviced portfolio.

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 2002, 41.0% for 2001 and 41.5% for 2000.

Financial Condition

Contracts Held for Sale

Contracts held for sale are presented at the lower of cost or market value and totaled $170.4 million at December 31, 2002, compared to $189.3 million at December 31, 2001. The number and principal balance of Contracts held for sale is largely dependent upon the timing and size of the Company s securitizations, and to a lesser degree, upon the timing and size of clean up calls exercised on securitization pools.

Contracts Held for Investment

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

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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.

Credit Enhancement Assets

Credit enhancement assets consisted of the following:

	As of December 31,	
	2001	**2002**
	(Dollars in thousands)	
Trust receivables	$ 3,980	$ 3,506
RISA	180,320	173,602
Total	$184,300	$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.

During 1999, the Emerging Issues Task Force (EITF) issued EITF 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets. EITF 99-20 established new income and impairment recognition standards for interests in certain securitized assets. Under the provisions of EITF 99-20, the holder of beneficial interests must recognize the excess of all estimated cash flows attributable to the beneficial interest estimated at the acquisition date over the initial investment (the accretable yield) as interest income over the life of the beneficial interest using the effective yield method. If the estimated cash flows change, then the holder of the beneficial interest should recalculate the accretable yield and adjust the periodic accretion recognized as income prospectively. If the fair value of a beneficial interest has declined below its carrying amount, an other-than-temporary decline is considered to exist if there has been a decline in estimated future cash flows and the difference between the carrying value and fair value of the beneficial interest is recorded as an impairment loss through the income statement. During 2002, the Company recorded total impairment of $15.1 million, versus $3.3 million in 2001. The impairments principally reflect the adverse performance of six securitizations executed during 1999 and 2000, stemming from higher than expected losses and delinquency on such securitizations and were recorded to set the carrying value of the Company s existing RISA assets to their corresponding fair values in accordance with EITF 99-20.

In initially valuing the RISA, the Company establishes an off balance sheet allowance for probable future credit losses. The allowance is based upon historical experience and management s estimate of other factors that may affect portfolio performance. 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. 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 products. The result has been increased credit scores and an improvement in overall borrower statistics. This improvement continued throughout 2002. The allowance for loan loss on the serviced portfolio has declined as a percentage of loans outstanding as newer transactions have lower loss reserves based on the improved quality of the underlying Contracts. The off balance sheet allowance decreased to 4.0% at December 31, 2002 compared to 4.2% at December 31, 2001 and 4.6% at December 31, 2000. The weighted average gross spread for securitizations executed during 2002 was 6.87% compared to 7.19% in 2001 and 7.68% in 2000.

Estimated future undiscounted RISA earnings are calculated over the contractual term of the securitization by taking the difference between the weighted average annual percentage 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

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allowance established for probable future losses and by discounting the estimate of future RISA cash flows to present value at the current estimated market discount rates.

Asset Quality

The Company monitors and attempts to minimize delinquencies and losses through timely collections and the use of a predictive dialing system. At December 31, 2002, delinquencies represented 2.58% of the amount of Contracts in its serviced portfolio compared to 4.01% at December 31, 2001, and 4.14% at December 31, 2000. Net charge-offs as a percentage of the average serviced portfolio were 2.77% for the year ended December 31, 2002, compared to 2.78% and 2.30% for the years ended December 31, 2001, and 2000, respectively. 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. This improvement continued throughout 2002. The allowance for loan loss has declined as a percentage of Contracts outstanding as newer transactions have lower loss reserves based on the improved quality of the underlying Contracts. Delinquency has declined due in part to the Contracts originated in 2001 and 2002. The majority of the charge-offs relate to older transactions that have been impacted by the slow-down in the economy and, to a lesser extent, the softening of the used car market, which resulted in lower recovery rates on repossessions. In addition, zero percent finance incentives on new vehicles offered by automobile manufacturers, during the fourth quarter of 2001, and into 2002, contributed to reduced portfolio growth for the period.

Delinquency Experience of the Serviced Portfolio

	For the Years Ended December 31,		
	2000	**2001**	**2002**
		(Dollars in thousands)	
Serviced portfolio	$2,690,607	$2,864,338	$2,905,968
Delinquencies(1)(2)			
30 - 59 days	71,681	78,056	51,645
60 - 89 days	23,085	20,859	14,127
90+ days	16,748	15,887	9,118
Total delinquencies as a percent of serviced portfolio	4.14%	4.01%	2.58%

(1) Delinquencies include principal amounts only, net of repossessed inventory and accounts in bankruptcy. Delinquent repossessed inventory as a percent of the serviced portfolio were 0.61%, 0.77% and 0.83% at December 31, 2002, 2001 and 2000 respectively. Delinquent contracts in bankruptcy as a percent of the serviced portfolio were 1.05%, 1.09% and 0.52% at December 31, 2002, 2001 and 2000 respectively.

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

Loan Loss Experience of the Serviced Portfolio

	For the Years Ended December 31,		
	2000	**2001**	**2002**
		(Dollars in thousands)	
Number of contracts	269,372	289,426	291,898
Period end serviced portfolio	$2,690,607	$2,864,338	$2,905,968
Average serviced portfolio(1)	$2,456,796	$2,818,572	$2,883,497
Number of gross charge-offs	10,091	12,985	13,182
Gross charge-offs	$ 66,850	$ 90,772	$ 97,074
Net charge-offs(2)	$ 56,449	$ 78,411	$ 79,803
Net charge-offs as a percent of average serviced portfolio	2.30%	2.78%	2.77%

(1) Average is based on daily balances.

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

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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 December 31, 2002, stated as a percentage of the original principal balance.

	Trust																	
Month	**98-B**	**98-C**	**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**
1	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%
2	0.00%	0.02%	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%
3	0.02%	0.02%	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%
4	0.08%	0.04%	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%	
5	0.19%	0.15%	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%	
6	0.33%	0.27%	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%	
7	0.45%	0.46%	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%		
8	0.61%	0.57%	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%		
9	0.82%	0.74%	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%		
10	0.95%	0.94%	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%			
11	1.10%	1.12%	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%			
12	1.20%	1.30%	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%			
13	1.36%	1.54%	1.49%	1.79%	1.62%	1.41%	1.82%	1.57%	1.42%	1.25%	1.14%	1.04%	0.78%	0.69%				
14	1.48%	1.73%	1.72%	1.90%	1.77%	1.52%	2.03%	1.84%	1.65%	1.41%	1.31%	1.19%	0.89%	0.77%				
15	1.64%	1.90%	1.90%	2.08%	2.00%	1.70%	2.25%	2.08%	1.93%	1.62%	1.47%	1.33%	1.00%	0.85%				
16	1.89%	2.10%	2.10%	2.23%	2.08%	2.00%	2.48%	2.26%	2.16%	1.86%	1.64%	1.43%	1.11%					
17	2.05%	2.28%	2.26%	2.42%	2.29%	2.17%	2.64%	2.42%	2.42%	2.04%	1.78%	1.55%	1.23%					
18	2.22%	2.51%	2.46%	2.63%	2.48%	2.40%	2.80%	2.69%	2.65%	2.20%	1.96%	1.67%	1.34%					
19	2.37%	2.71%	2.59%	2.71%	2.61%	2.61%	2.98%	2.96%	2.97%	2.41%	2.10%	1.80%						
20	2.50%	2.83%	2.71%	2.89%	2.73%	2.87%	3.25%	3.20%	3.25%	2.60%	2.25%	1.94%						
21	2.67%	2.95%	2.83%	3.08%	2.92%	3.05%	3.52%	3.44%	3.48%	2.75%	2.36%							
22	2.79%	3.08%	2.88%	3.21%	3.07%	3.20%	3.69%	3.69%	3.70%	2.92%	2.49%							
23	2.92%	3.25%	3.03%	3.31%	3.22%	3.33%	3.91%	3.94%	3.95%	3.03%	2.61%							
24	3.06%	3.39%	3.21%	3.43%	3.32%	3.53%	4.12%	4.18%	4.18%	3.16%								
25	3.14%	3.45%	3.28%	3.55%	3.43%	3.70%	4.32%	4.39%	4.37%	3.32%								
26	3.23%	3.57%	3.34%	3.67%	3.65%	3.88%	4.52%	4.57%	4.54%	3.45%								
27	3.28%	3.72%	3.47%	3.77%	3.79%	4.03%	4.71%	4.74%	4.74%									
28	3.35%	3.81%	3.61%	3.88%	3.90%	4.22%	4.87%	4.91%	4.88%									
29	3.45%	3.91%	3.67%	4.01%	4.03%	4.42%	5.04%	5.07%	5.03%									
30	3.50%	4.05%	3.78%	4.14%	4.19%	4.58%	5.23%	5.22%	5.18%									
31	3.57%	4.13%	3.85%	4.25%	4.28%	4.71%	5.35%	5.36%										
32	3.67%	4.21%	3.96%	4.37%	4.43%	4.84%	5.48%	5.53%										
33	3.73%	4.27%	4.07%	4.49%	4.60%	4.98%	5.61%	5.67%										
34	3.81%	4.33%	4.18%	4.55%	4.71%	5.11%	5.74%											
35	3.86%	4.42%	4.25%	4.66%	4.83%	5.21%	5.85%											
36	3.91%	4.46%	4.32%	4.79%	4.95%	5.32%												
37	4.00%	4.55%	4.37%	4.86%	5.00%	5.46%												
38	4.04%	4.63%	4.44%	4.94%	5.07%	5.55%												
39	4.08%	4.73%	4.51%	5.00%	5.15%	5.63%												
40	4.13%	4.76%	4.56%	5.05%	5.22%													
41	4.18%	4.80%	4.66%	5.12%	5.30%													
42																		