

ONYX ACCEPTANCE CORP

Form 10-K/A

September 23, 2003

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K/A**

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(Mark One)

- 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

- 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 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  No

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

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

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

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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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)					
<b>Statement of Operations Data:</b>					
<b>REVENUE:</b>					
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
	<u>64,811</u>	<u>94,670</u>	<u>100,857</u>	<u>101,002</u>	<u>92,125</u>
<b>EXPENSES:</b>					
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
	<u>54,425</u>	<u>77,932</u>	<u>90,886</u>	<u>93,531</u>	<u>88,907</u>
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
	<u>6,076</u>	<u>9,792</u>	<u>5,835</u>	<u>4,410</u>	<u>1,883</u>
<b>Net income per share of Common Stock:</b>					
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
<b>Operating Data:</b>					
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%
<b>Selected Portfolio Data:</b>					
Serviced portfolio (at end of period)	\$ 1,345,961	\$ 2,133,460	\$ 2,690,607	\$ 2,864,338	\$ 2,905,968

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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)				
<b>Balance Sheet Data:</b>					
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



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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

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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)		
<b>Income:</b>			
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
<b>Expense:</b>			
Warehouse lines	14,761	10,249	4,450
Residual lines		2,575	7,085
Total interest expense	14,761	12,824	11,535
<b>Net interest income</b>	<b>\$ 4,307</b>	<b>\$ 12,981</b>	<b>\$ 26,457</b>

*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

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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	Securitization Transactions(4)					
	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
<b>Total</b>	<b>\$8,433,149</b>	<b>\$2,726,878</b>				

- (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.



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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
	<u>          </u>	<u>          </u>	<u>          </u>
Total net gain on sale of Contracts	\$45,029	\$30,765	\$13,695
	<u>          </u>	<u>          </u>	<u>          </u>

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.

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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
	<u>          </u>	<u>          </u>	<u>          </u>
Balance at end of period	\$ 1,175	\$ 1,280	\$ 1,851
	<u>          </u>	<u>          </u>	<u>          </u>

*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
	<u>          </u>	<u>          </u>	<u>          </u>
Total other interest expense	\$5,592	\$2,917	\$4,255
	<u>          </u>	<u>          </u>	<u>          </u>

- (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

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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

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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
<b>Total</b>	<b>\$ 184,300</b>	<b>\$ 177,108</b>

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

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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.

Month	Trust																	
	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	4.21%	4.87%	4.69%	5.17%														
43	4.23%	4.73%	4.72%	5.21%														
44	4.25%	4.76%	4.77%	5.23%														

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**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 or to finance normal operating expenses. 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. Cash provided by operating activities was \$39.3 million for the year ended December 31, 2002, compared to (\$41.1) million used during the same period in 2001. The change in cash generated in operating activities for the year ended December 31, 2002 versus 2001 is due to several factors, including the relative size of the securitizations executed in comparison to the total volume of Contracts originated, net yield credit triggers being hit on six of the Company's pre-2001 securitizations, which restricted cash releases in 2001 from the corresponding spread accounts, and a second residual interest securitization during the first quarter of 2002. Cash scheduled to be released from the spread accounts was retained as a means to reduce reinsurance balances prior to being released to the Company. Total cash released from spread accounts during 2002 was approximately \$63.5 million, compared to \$38.4 million in 2001.

The Company continued to focus its efforts on building and maintaining its dealer relations through its existing branch locations and did not open any branches during the year. Management is currently reviewing market conditions in both Ohio and New York. Capital expenditures of \$593 thousand during the year were due to the ongoing maintenance and upgrade of the Company's servicing infrastructure, while acquisitions during 2001 were principally due to the initial charges related to the conversion and installation of the Company's in-house loan accounting and collection system. In an effort to reduce operating costs and improve efficiencies, the Company elected to consolidate the operations of its Encino Auto Finance Center into the operations of the Foothill Ranch, Corona and Roseville Centers in October of 2002.

*CP Facility:* As of December 31, 2002, the Company was party to a \$355 million warehousing facility (the Triple-A CP Facility), with Triple-A One Funding Corporation (Triple-A), Onyx Acceptance Financial Corporation (Finco), a special purpose subsidiary of the Company, is the borrower under the Triple-A CP Facility. The Triple-A CP Facility is used to fund the purchase or origination of Contracts. Triple-A is a rated commercial paper asset-backed conduit sponsored by MBIA Insurance Corporation (MBIA). MBIA provides credit enhancement for the facility by issuing a financial guarantee insurance policy covering all principal and interest obligations owed for the borrowings under the facility. The Company pledges certain of its Contracts held for sale to borrow from Triple-A. The Triple-A CP Facility was renewed in November 2001 for a three-year term, subject to annual renewals by liquidity providers.

In January 2003, a subsidiary of the Company, Onyx Acceptance Receivables Corporation (OARC), executed a \$150 million warehouse facility with CDC Financial Products (CDC) and guaranteed by XL Capital Assurance Inc., which will provide warehouse funding for the purchase or origination of Contracts and will be used in concert with the Triple-A CP Facility the Company currently has in place. The Company pledges certain of its Contracts held for sale to borrow under the CDC CP Facility. The CDC CP

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Facility expires in January 2004 but may be renewed by agreement of the parties. In conjunction with the procurement of the new facility, the Company elected to reduce its line with Triple-A One Funding Corporation and MBIA to \$300 million.

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.

*The Residual Lines:* The Company, through Onyx Acceptance Funding Corporation ( Fundco ), currently has two residual financing facilities: a \$50.0 million line with Salomon Smith Barney Realty Corporation ( SBRC ) 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 SBRC 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 SBRC line matures one year after the date of the loan. The CSFB-Europe line was renewed in October 2002 for a one-year term.

*Residual Securitizations:* As an additional source of funds, the Company utilizes 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 Residual Lines. This transaction generated approximately \$75.0 million in proceeds.

*Subordinated Debt:* As of December 31, 2002, the Company had outstanding approximately \$27.1 million of subordinated debt, \$0.6 million of which is being amortized through February 2003 with a stated interest rate of 9.5%. \$12.0 million of subordinated debt has a stated interest rate of 12.5% and a maturity of June 2006. The remaining balance of \$14.5 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 December 31, 2002 was 8.6%. 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 December 31, 2002.

*Hedging and Interest Rate Risk Management:* The Company employs 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 the Company's securitizations. The Company is not required to maintain collateral on the outstanding hedging program until the point where the fair value declines below (\$1.0) million.

**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 \$78.2 billion 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 trusts assets and liabilities as of December 31, 2002 and 2001.

	December 31,	
	2001	2002
	(In millions)	
Total assets	\$2,910	\$2,805
Total liabilities	\$2,777	\$2,695



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The Company completed four AAA/Aaa rated publicly underwritten asset-backed securitizations in the amount of \$1.675 billion in 2002. Since 1994, the Company has securitized \$8.4 billion of its Contracts in 30 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 Triple-A CP Facility 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 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.

**Contractual Obligations**

The table below provides information about the Company's contractual obligations by category and expected maturity date, weighted average interest rate and fair value, as of December 31, 2002 (dollars in thousands).

**Contractual Obligations Due by Period**

	Weighted Average Interest		Total	2003	2004-2007	2008-2011	After 2011
	Rate	Fair Value					
Commercial Paper	1.4%	\$ 166,007	\$ 166,007	\$ 166,007			
Subordinated Debt	10.4%	27,128	27,128	7,238	\$ 19,867	\$ 23	
Residual Lines	10.0%	45,599	45,599	45,599			

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Capital Leases	9.0%	854	854	442	412		
Operating Leases		16,002	16,002	3,419	10,561	2,022	
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Obligations		\$255,590	\$255,590	\$222,705	\$30,840	\$2,045	
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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### **Forward Looking Information**

The preceding Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which can be identified by the use of forward-looking terminology such as may, will, expect, anticipate, estimate, should or continue or the negative thereof or other variations thereon or comparable terminology. Cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from those in such forward-looking statements are included in this Annual Report on Form 10-K/A, including, without limitation, in Item 1, shown under the heading "Risk Factors".

### **Item 8. Financial Statements and Supplementary Data**

The Company's financial statements, are listed under Item 15, of this Annual Report on Form 10-K/A.

## **PART III**

### **Item 14. 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 Securities and Exchange Commission'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 for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes 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 is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), 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 as of the end of the quarter covered by this report. The Company's independent auditors have advised the Company of a matter relating to the Company's internal control structure.

To value its Residual Interests in Securitized Assets (RISA), the Company has developed cash flow models using Lotus 123 spreadsheets. The cash flow estimates provided by these models support the Company's income recognition and impairment calculations. The spreadsheets require updating or other factors underlying the cash flow estimates. A separate model exists for each RISA and each model must be manually updated each reporting period for the various factors impacting cash flow estimates. The models are complex and require manual intervention, both of which are factors that increase the propensity for human error. During the second quarter of 2003, the Company identified instances where errors were made in the estimated cash flows and therefore the RISA valuation computations for the third and fourth quarters of 2002. In addition, the Company revised the method for amortizing loan premium amortization on Contracts acquired in connection with clean up calls exercised on the Company's securitization pools. The manner in which the Company had previously been amortizing loan premium understated the amount of amortization during the year ended December 31, 2002.

The absence of adequate information systems and policies/procedures to perform the analysis, valuation and record keeping associated with estimating cash flows and calculating loan premium amortization may result in misstatement of the financial statements and is considered a significant deficiency in the Company's internal control structure.

In response to the weaknesses noted above, management now prepares a detailed analysis of loan premium amortization and factors underlying any significant changes in estimated cash flows for each trust during the current quarter versus the previous quarter's estimate to further double-check the evaluation process.

Subject to and limited by the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Apart from the analysis of cash flows and loan premium amortization described above, there has been no change in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



**PART IV**

**Item 15. Exhibits and Reports on Form 8-K**

(a)(1) Financial Statements:

The Company's financial statements appear in a separate section of this Annual Report on Form 10-K beginning on the pages referenced below:

	<b>Page</b>
Report of Independent Auditors	47
Restated Consolidated Statements of Financial Condition as of December 31, 2002 and 2001	48
Restated Consolidated Statements of Income for the years ended December 31, 2002, 2001 and 2000	49
Restated Consolidated Statements of Stockholders' Equity for the years ended December 31, 2002, 2001 and 2000	50
Restated Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000	51
Notes to Consolidated Financial Statements	52

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(a)(2) Exhibits

The following Exhibits are attached hereto and incorporated herein by reference.

**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Certificate of Incorporation of the Company.(1)
3.2	Bylaws of the Company.(1)
4.1	Rights Agreement dated as of July 8, 1997, between the Company and American Stock Transfer and Trust Company, as Rights Agent (which includes the form of Certificate of Designation for the Series A Participating Preferred Stock and the form of Rights Certificate of the Company).(2)
10.1	Form of Indemnification Agreement of the Company.(1)
10.2	Second Amended and Restated 1994 Stock Option Plan.(1)
10.3	Form of Notice of Grant of Stock Option under Second Amended and Restated 1994 Stock Option Plan.(1)
10.4	Form of Stock Option Agreement under Second Amended and Restated 1994 Option Plan.(1)
10.5	Form of Stock Purchase Agreement under Second Amended and Restated 1994 Stock Option Plan.(1)
10.6	1994 Special Performance Option Grant Plan.(1)
10.7	Form of Notice of Grant of Stock Option under 1994 Special Performance Option Grant Plan.(1)
10.8	Form of Stock Option Agreement under 1994 Special Performance Option Grant Plan.(1)
10.9	Form of Stock Purchase Agreement under 1994 Special Performance Option Grant Plan.(1)
10.10	Third Amendment to Amended and Restated Investors Rights Agreement between and among Onyx Acceptance Corporation and the Investors identified therein dated as of November 27, 1995.(1)
10.11	Senior Subordinated Note and Warrant Purchase Agreement between and among Onyx Acceptance Corporation, Capital Resource Lenders II, L.P. and Dominion Fund III, L.P., dated as of November 17, 1994.(1)
10.12	Warrant to purchase Common Stock in favor of Capital Resource Lenders II, L.P. from Onyx Acceptance Corporation dated as of November 17, 1994.(1)
10.13	Warrant to purchase Common Stock in favor of Dominion Fund III, L.P. from Onyx Acceptance Corporation dated as of November 17, 1994.(1)
10.14	Amended and Restated Co-Sale and First Refusal Agreement between and among Onyx Acceptance Corporation and the Shareholders identified therein dated as of November 17, 1994.(1)
10.15	Amended and Restated Investors Rights Agreement between and among Onyx Acceptance Corporation, the Investors and the Management Holders identified therein dated as of November 17, 1994.(1)
10.16	Amended and Restated Voting Agreement between and among Onyx Acceptance Corporation and the Shareholders identified therein dated as of November 17, 1994.(1)
10.20	Sublease and Administrative Services Agreement between Onyx Acceptance Corporation and Onyx Acceptance Financial Corporation dated as of September 8, 1994.(1)

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- 10.21 Tax Allocation Agreement between Onyx Acceptance Corporation and Onyx Acceptance Financial Corporation dated as of September 1, 1994.(1)
- 10.22 Corporate Separateness Agreement between Onyx Acceptance Corporation and Onyx Acceptance Financial Corporation dated September 8, 1994.(1)
- 10.24 First Amendment to Amended and Restated Investors Rights Agreement between and among Onyx Acceptance Corporation and certain Investors identified therein dated as of December 15, 1994.(1)
- 10.25 Master Lease Agreement between Onyx Acceptance Corporation and Comdisco, Inc. dated January 7, 1994.(1)
- 10.29 Second Amendment to Amended and Restated Investors Rights Agreement between and among Onyx Acceptance Corporation and the Investors identified therein dated as of November 3, 1995.(1)
- 10.32 Option Agreement between Onyx Acceptance Corporation and John W. Hall dated as of December 20, 1994.(1)
- 10.33 Promissory Note in favor of Onyx Acceptance Corporation from John Hall dated as of December 20, 1994.(1)
- 10.34 Option Agreement between Onyx Acceptance Corporation and Brian MacInnis dated as of December 20, 1994.(1)

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10.35	Promissory Note in favor of Onyx Acceptance Corporation from Brian MacInnis dated as of December 20, 1994.(1)
10.36	Stock Purchase Agreement between and among Brian MacInnis and certain Investors identified therein dated as of June 7, 1995.(1)
10.37	Stock Purchase Agreement between and among John W. Hall and certain Investors identified therein dated as of June 7, 1995.(1)
10.41	Onyx Acceptance Corporation 401(k) Plan dated January 1, 1994.(1)
10.46	Subordination and Intercreditor Agreement by and among State Street Bank and Trust Company, The First National Bank of Boston, Capital Resource Lenders II, L.P., Dominion Fund III and Onyx Acceptance Corporation dated as of January 31, 1996.(1)
10.48	Form of Dealer Agreement Non-Recourse (U) between Dealership and Onyx Acceptance Corporation.(1)
10.49	Form of Dealer Agreement Non-Recourse (N) between Dealership and Onyx Acceptance Corporation.(1)
10.50	1996 Stock Option/Stock Issuance Plan.(1)
10.73	First Amendment to Loan Agreement and Confirmation of Pledge and Security Agreement dated June 29, 1999.(7)
10.74	Amended and Restated Sale and Servicing Agreement between Onyx Acceptance Corporation and Onyx Acceptance Financial Corporation dated as of September 4, 1998.(3)
10.75	Amended and Restated Triple-A One Funding Corporation Credit Agreement between and among Onyx Acceptance Financial Corporation, Triple-A One Funding Corporation, CapMAC Financial Services, Inc. and Capital Markets Assurance Corporation dated as of September 4, 1998.(3)
10.76	Amended and Restated Triple-A One Funding Corporation Security Agreement between and among Onyx Acceptance Financial Corporation, Triple-A One Funding Corporation and Capital Markets Assurance Corporation dated as of September 4, 1998.(3)
10.77	Amended and Restated Subordinated Security Agreement between Onyx Acceptance Corporation and Onyx Acceptance Financial Corporation dated as of September 4, 1998.(3)
10.78	Amended and Restated Insurance and Indemnity Agreement between and among Onyx Acceptance Corporation, Capital Markets Assurance Corporation, Onyx Acceptance Financial Corporation and Triple-A One Funding Corporation dated as of September 4, 1998.(3)
10.79	Master Loan Agreement between Onyx Acceptance Financial Corporation and Salomon Brothers Realty Corp. dated September 3, 1998.(3)
10.83	Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation, and Chase Manhattan Bank in connection with the Onyx Acceptance Owners Trust 1998-B.(4)
10.84	Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and Chase Manhattan Bank in connection with the Onyx Acceptance Owners Trust 1998-C.(4)

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10.85	Amendment Number One dated December 22, 1998 to Amended and Restated Onyx Warehouse Facility and Assignment and Assumption Agreement.(5)
10.86	Amendment No. 2 to the Amended and Restated Onyx Warehouse Facility effective as of March 30, 1999 by and among Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation, Triple-A One Funding Corporation, Capital Markets Assurance Corporation, CapMAC Financial Services, Inc. and MBIA Insurance Corporation.(6)
10.92	Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and Chase Manhattan Bank in connection with the Onyx Acceptance Owners Trust 1999-A.(9)
10.93	Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and Chase Manhattan Bank in connection with the Onyx Acceptance Owners Trust 1999-B.(10)
10.94	Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and Chase Manhattan Bank in connection with the Onyx Acceptance Owners Trust 1999-C.(11)
10.95	Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and Chase Manhattan Bank in connection with the Onyx Acceptance Owners Trust 1999-D.(12)
10.96	Consent and Amendment Agreement between and among Onyx Acceptance Corporation and State Street Bank and Trust Company, BankBoston and the Travelers Insurance Company.(8)
10.97	Sale and Assignment Agreement dated March 29, 2000 among Onyx Acceptance Residual Funding Owner Trust 2000-A as Issuer, Onyx Acceptance Financial Corporation as Seller, and The Chase Manhattan Bank as Indenture Trustee and as Trust Agent.(13)
10.98	Indenture dated March 29, 2000 between Onyx Acceptance Residual Funding Owner Trust 2000-A as Issuer, and The Chase Manhattan Bank, as Indenture Trustee.(13)
10.99	Trust Agreement dated March 29, 2000 among Onyx Acceptance Financial Corporation, as Depositor, Bankers Trust as Owner Trustee and The Chase Manhattan Bank as Trust Agent.(13)
10.101	Indenture dated as of April 17, 2000 between Onyx Acceptance Corporation, as Issuer and Bankers Trust Company, as Trustee.(14)
10.102	Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and The Chase Manhattan Bank in connection with the Onyx Acceptance Owner Trust 2000-A.(15)
10.103	Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and The Chase Manhattan Bank in connection with the Onyx Acceptance Owner Trust 2000-B.(16)
10.104	Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and The Chase Manhattan Bank in connection with the Onyx Acceptance Owner Trust 2000-C.(17)
10.105	Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and The Chase Manhattan Bank in connection with the Onyx Acceptance Owner Trust 2000-D.(18)
10.106	Master Repurchase Agreement dated October 13, 2000 by and between Credit Suisse First Boston (Europe) Limited, as buyer, Credit Suisse First Boston Corporation, as Agent and Onyx Acceptance Funding Corporation, as Seller.(19)
10.107	Onyx Acceptance Corporation Non-Qualified Deferred Compensation Plan.(20)
10.108	The Onyx Acceptance Corporation Non-Qualified Deferred Compensation Plan Trust Agreement.(20)
10.109	Daybreak-The Big Picture Master License Agreement.(21)
10.110	SuperSolutions Corporation Daybreak-The Big Picture Service Level Agreement.(21)
10.111	Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and The Chase Manhattan Bank in connection with the Onyx Acceptance Owner Trust 2001-A.(22)

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- 10.112 Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and The Chase Manhattan Bank in connection with the Onyx Acceptance Owner Trust 2001-B.(23)
- 10.113 Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and The Chase Manhattan Bank in connection with the Onyx Acceptance Owner Trust 2001-C.(24)
- 10.114 Form of Sale and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and Citibank N.A. in connection with the Onyx Acceptance Owner Trust 2001-D.(25)

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- 10.115 Second Amended and Restated Triple-A One Credit Agreement, dated November 30, 2001 among Onyx Acceptance Financial Corporation, Triple-A One Funding Corporation, CapMac Financial Services, Inc., and Capital Markets Assurance Corporation.(26)
- 10.116 Second Amended and Restated Subordinated Security Agreement dated as of November 30, 2001 between Onyx Acceptance Financial Corporation and Onyx Acceptance Corporation.(26)
- 10.117 Second Amended and Restated Triple-A One Security Agreement dated as of November 30, 2001 among Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation, Triple-A One Funding Corporation and Capital Markets Assurance Corporation.(26)
- 10.118 Second Amended and Restated Sale and Servicing Agreement dated as of November 30, 2001 between Onyx Acceptance Financial Corporation and Onyx Acceptance Corporation.(26)
- 10.119 Second Amended and Restated Definitions List dated as of November 30, 2001 among Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation, MBIA Insurance Corporation, Capital Markets Assurance Corporation and CapMac Financial Services, Inc.(26)
- 10.120 Sale and Assignment Agreement, dated March 15, 2002, among Onyx Acceptance Residual Funding Owner Trust 2002-A, as Issuer, Onyx Acceptance Financial Corporation, as Seller, and JPMorgan Chase Bank, as Indenture Trustee and as Trust Agent.(27)
- 10.121 Indenture, dated March 15, 2002, between Onyx Acceptance Residual Funding Owner Trust 2002-A, as Issuer, and JPMorgan Chase Bank, as Indenture Trustee.(27)
- 10.122 Trust Agreement, dated March 15, 2002, among Onyx Acceptance Financial Corporation, as Depositor, Bankers Trust, as Owner Trustee, and JPMorgan Chase Bank, as Trust Agent.(27)
- 10.123 Amended and Restated Indenture, dated April 12, 2002, between Onyx Acceptance Residual Funding Owner Trust 2000-A1, as Issuer, and JPMorgan Chase Bank, as Indenture Trustee.(27)
- 10.124 Amended and Restated Trust Agreement, dated April 12, 2002, among Onyx Acceptance Financial Corporation, as Depositor, Bankers Trust Company (Delaware,) as Owner Trustee, and JPMorgan Chase Bank, as Trust Agent.(27)
- 10.125 Distribution and Management Agreement, dated as of February 15, 2002, by and between Onyx Acceptance Corporation and Sumner Harrington Ltd., a Minnesota corporation, as agent.(28)
- 10.126 Form of Sale and Servicing Agreement between Onyx Acceptance Owner Trust 2002-A, Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation and JPMorgan Chase Bank, in connection with the Onyx Acceptance Owner Trust 2002-A.(29)
- 10.127 Form of Sale and Servicing Agreement between Onyx Acceptance Owner Trust 2002-B, Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation and Citibank, N.A., in connection with the Onyx Acceptance Owner Trust 2002-B(30)
- 10.128 Form of Sale and Servicing Agreement between Onyx Acceptance Owner Trust 2002-C, Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation and JPMorgan Chase Bank, in connection with the Onyx Acceptance Owner Trust 2002-C(31)
- 10.129 Form of Sale and Servicing Agreement between Onyx Acceptance Owner Trust 2002-D, Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation and Citibank, N.A., in connection with the Onyx Acceptance Owner Trust 2002-D(32)
- 10.130 Amendment No. 1 to the Amended and Restated Indenture between Onyx Acceptance Residual Funding Owner Trust 2000-A1, as Issuer, and JPMorgan Chase Bank, as Indenture Trustee, dated and effective as of April 15, 2002.(33)
- 10.131 Amendment No. 2 to Amended and Restated Indenture between Onyx Acceptance Residual Funding Owner Trust 2000-A1, as Issuer, and JPMorgan Chase Bank, as Indenture Trustee, dated and effective as of November 27, 2002.(33)
- 21.1 Subsidiaries of the Registrant.(33)
- 23.1 Consent of Independent Accountants.\*

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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.\*



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- \* Filed herewith
- (1) Incorporated by reference from the Company's Registration Statement on Form S-1 (Registration No. 333-00680).
- (2) Incorporated by reference from the Company's Current Report on Form 8-K dated July 8, 1997. (File No. 000-28050).
- (3) Incorporated by reference from the Company's Form 10-Q for quarterly period ended September 30, 1998. (File No. 000-28050).
- (4) Incorporated by reference from Onyx Acceptance Financial Corporation's Registration Statement on Form S-3 (Registration No. 333-51239).
- (5) Incorporated by reference from the Company's Form 10-K for the year ended December 31, 1998. (File No. 000-28050).
- (6) Incorporated by reference from the Company's Form 10-Q for quarterly period ended March 31, 1999. (File No. 000-28050).
- (7) Incorporated by reference from the Company's Form 10-Q for the quarterly period ended June 30, 1999. (File No. 000-28050).
- (8) Incorporated by reference from the Company's Form 10-Q for the quarterly period ended September 30, 1999. (File No. 000-28050).
- (9) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated March 11, 1999. (File No. 333-28893).
- (10) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated May 28, 1999. (File No. 333-28893).
- (11) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated September 14, 1999. (File No. 333-28893).
- (12) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated November 12, 1999. (File No. 333-28893).
- (13) Incorporated by reference from the Company's Form 10-Q quarterly period ended June 30, 2000. (File No. 000-28050).
- (14) Incorporated by reference from the Company's Current Report on Form 8-K dated April 17, 2000 (File No. 333-92573).
- (15) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated February 28, 2000. (File No. 333-92245).
- (16) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated April 28, 2000. (File No. 333-92245).
- (17) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated July 27, 2000. (File No. 333-92245).
- (18) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated November 16, 2000. (File No. 333-92245).
- (19) Incorporated by reference from the Company's Form 10-K for the year ended December 31, 2000. (File No. 000-28050).
- (20) Incorporated by reference from the Company's Form 10-Q for the quarterly period ended March 31, 2001. (File No. 000-28050).
- (21) Incorporated by reference from the Company's Form 10-Q for the quarterly period ended June 30, 2001. (File No. 000-28050).
- (22) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K filed March 14, 2001. (File No. 333-51636).
- (23) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K filed May 31, 2001. (File No. 333-51636).
- (24)

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Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K filed August 14, 2001. (File No. 333-51636).

(25) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K filed October 31, 2001. (File No. 333-51636).

(26) Incorporated by reference from the Company's Form 10-K for the year ended December 31, 2001. (File No. 000-28050).

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- (27) Incorporated by reference from the Company's Form 10-Q quarterly period ended March 31, 2002. (File No. 000-28050).
- (28) Previously filed with the Commission as an exhibit to the Registrant's Form 8-K on March 1, 2002.
- (29) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K filed February 7, 2002. (File No. 333-51636).
- (30) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K filed May 15, 2002 (File No. 333-28893).
- (31) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K filed August 1, 2002 (File No. 333-28893).
- (32) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K filed November 6, 2002 (File No. 333-28893).
- (33) Incorporated by reference from the Company's Form 10-K for the year ended December 31, 2002. (File No. 000-28050).
- (b) Exhibits on Form 8-K

None.



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**ONYX ACCEPTANCE CORPORATION**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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Restated Consolidated Statements of Income for the years ended December 31, 2002, 2001 and 2000	29
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**REPORT OF INDEPENDENT AUDITORS**

Board of Directors and Stockholders  
Onyx Acceptance Corporation

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Onyx Acceptance Corporation and its subsidiaries (the Company) as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 4 and Note 7 to the consolidated financial statements, the Company was required to adopt the provisions of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and Emerging Issues Task Force 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets.

As discussed in Note 2, the consolidated financial statements for the year ended December 31, 2002 have been restated.

PRICEWATERHOUSECOOPERS LLP

Orange County, California  
February 13, 2003 except for Note 2 as to which the date is September 19, 2003

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**ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

	December 31,	
	2002	2001
	(Restated)*	
	(In thousands)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 72	\$ 1,135
Restricted cash	3,430	0
Contracts held for sale	170,353	189,265
Contracts held for investment (net of allowance)	6,555	2,259
Credit enhancement assets, at fair value	177,108	184,300
Furniture and equipment (net of accumulated depreciation)	3,069	5,008
Other assets	6,570	4,318
Total Assets	\$ 367,157	\$ 386,285
<b>LIABILITIES</b>		
Accounts payable	\$ 33,871	\$ 27,024
Warehouse borrowings	166,007	190,008
Residual lines	45,599	68,355
Subordinated debt	27,128	16,232
Capital lease obligations	854	399
Accrued interest payable	612	449
Other liabilities	28,173	24,117
Total Liabilities	302,244	326,584
Commitments and Contingencies		
<b>STOCKHOLDERS EQUITY</b>		
Common stock		
Par value \$0.01 per share; authorized 15,000,000 shares; issued and outstanding 5,086,793 as of December 31, 2002 and issued and outstanding 5,078,046 shares as of December 31, 2001	51	51
Additional paid in capital	32,652	32,647
Retained earnings	27,843	25,960
Accumulated other comprehensive income, net of tax	4,367	1,043
Total Equity	64,913	59,701
Total Liabilities and Stockholders Equity	\$ 367,157	\$ 386,285

\* Refer to Note 2

See accompanying notes to consolidated financial statements.

**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

	For the Year Ended December 31,		
	2002	2001	2000
	(Restated)*		
	(In thousands, except per share data)		
<b>Revenues:</b>			
Interest income	\$ 37,992	\$ 25,805	\$ 19,068
Interest expense	11,535	12,824	14,761
<b>Net Interest Income</b>	26,457	12,981	4,307
Gain on sale of contracts	13,695	30,765	45,029
Servicing fee income	51,973	57,256	51,521
<b>Total Revenues</b>	92,125	101,002	100,857
<b>Expenses:</b>			
Provision for credit losses	(8)	1,079	990
Interest expense other	4,255	2,917	5,592
<b>Operating Expenses:</b>			
Salaries and benefits	53,565	52,848	46,323
Systems and servicing	3,146	4,258	5,452
Telephone and data lines	3,382	5,014	5,950
Depreciation	3,431	4,644	4,379
General and administrative expenses	21,136	22,771	22,200
<b>Total Operating Expenses</b>	84,660	89,535	84,304
<b>Total Expenses</b>	88,907	93,531	90,886
<b>Income Before Income Taxes</b>	3,218	7,471	9,971
Income taxes	1,335	3,061	4,136
<b>Net Income</b>	\$ 1,883	\$ 4,410	\$ 5,835
<b>Net Income per share of Common Stock</b>			
Basic	\$ 0.37	\$ 0.88	\$ 1.03
Diluted	\$ 0.36	\$ 0.84	\$ 1.00
Basic shares outstanding	5,085,384	5,026,087	5,657,310
Diluted shares outstanding	5,179,098	5,232,390	5,811,168

\* Refer to Note 2

See accompanying notes to consolidated financial statements.



**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

	Common Stock		Additional Paid in Capital	Retained Earnings (Deficit)	Accumulated Comprehensive Income (Loss), Net of Tax	Total Stockholders' Equity
	Shares	Amount				
(In thousands)						
<b>Balance, December 31, 1999</b>	6,178	\$ 62	\$37,892	\$15,715	\$ (561)	\$53,108
Issuance of Common Stock	12		6			6
Repurchase and retirement of Common Stock	(1,200)	(12)	(5,297)			(5,309)
Comprehensive income:						
Unrealized gains in credit enhancement assets, net of tax of \$1.4 million					1,953	1,953
Net Income				5,835		5,835
<b>Total Comprehensive Income</b>				5,835	1,953	7,788
<b>Balance, December 31, 2000</b>	4,990	50	32,601	21,550	1,392	55,593
Issuance of Common Stock	88	1	46			47
Comprehensive income:						
Unrealized loss in credit enhancement assets, net of tax of \$242 thousand					(349)	(349)
Adoption of FAS 133, net of tax of \$596 thousand					(840)	(840)
Loss on derivatives reclassified to earnings net of tax of \$596 thousand					840	840
Net Income				4,410		4,410
<b>Total Comprehensive Income</b>				4,410	(349)	4,061
<b>Balance, December 31, 2001</b>	5,078	51	32,647	25,960	1,043	59,701
Issuance of Common Stock	9		5			5
Comprehensive income:						
Unrealized gain in credit enhancement assets, net of tax of \$2.8 million					4,031	4,031
Loss on derivatives reclassified to earnings net of tax of \$502 thousand					(707)	(707)
Net Income				1,883		1,883
<b>Total Comprehensive Income</b>				1,883	3,324	5,207
<b>Balance, December 31, 2002 (Restated)*</b>	5,087	\$ 51	\$32,652	\$27,843	\$ 4,367	\$64,913

\* Refer to Note 2

See accompanying notes to consolidated financial statements.



**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Year Ended December 31,		
	2002	2001	2000
	(Restated)*	(In thousands)	
<b>Operating Activities</b>			
Net Income	\$ 1,883	\$ 4,410	\$ 5,835
Adjustments to reconcile net income to net cash used in operating activities:			
Amortization of retained interest in securitized assets	0	14,552	61,229
Increase in retained interest in securitized assets	(70,536)	(91,059)	(109,173)
Cash released from securitization spread accounts	63,494	38,402	
Sale of retained interest in securitized assets	13,761		49,924
Write-off of participation on securitized loans	28,934	31,526	40,288
Provision for credit losses	(8)	1,079	990
Depreciation	3,431	4,644	4,379
Decrease (increase) in trust receivable	474	(182)	(1,797)
Decrease (increase) in other assets	(2,252)	85	4,724
Increase in accounts payable	6,847	4,319	1,639
(Decrease) increase in accrued interest payable	163	(291)	(727)
Increase (decrease) in other liabilities	7,380	4,829	(1,644)
Proceeds from the securitization of contracts held for sale	1,675,000	1,600,000	1,720,000
Purchase of contracts held for sale	(1,614,041)	(1,606,330)	(1,671,704)
Repurchase of trust contracts	(109,624)	(56,007)	(26,093)
Principal payments received on contracts held for sale	60,812	39,892	32,220
Payments of participation to dealers (net of chargeback collections and amortized expense)	(26,457)	(30,929)	(36,465)
Cash (used in) provided by operating activities	39,261	(41,060)	73,625
<b>Investing Activities</b>			
Purchase of furniture and equipment	(593)	(2,158)	(4,605)
Cash used in investing activities	(593)	(2,158)	(4,605)
<b>Financing Activities</b>			
Payments on capital leases	(443)	(267)	(308)
Proceeds from warehouse line	1,608,761	1,209,809	1,301,710
Payments on warehouse line	(1,632,763)	(1,192,310)	(1,361,489)
Proceeds from drawdown on residual lines	91,580	46,200	34,000
Payments to paydown residual lines	(114,337)	(18,983)	(48,741)
Proceeds from subordinated debt	15,022		12,000
Principal payments on subordinated debt	(4,125)	(3,273)	(2,496)
Proceeds from exercise of options/warrants	4	47	6
Repurchase and retirement of common stock			(5,309)
Payments on other loans			(453)
Cash provided by (used in) financing activities	(36,301)	41,223	(71,080)
(Decrease) increase in cash and cash equivalents	2,367	(1,995)	(2,060)
(Increase) in restricted cash	(3,430)		

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Cash and cash equivalents at beginning of period	1,135	3,130	5,190
	<u>          </u>	<u>          </u>	<u>          </u>
Cash and cash equivalents at end of period	\$ 72	\$ 1,135	\$ 3,130
	<u>          </u>	<u>          </u>	<u>          </u>

**Supplemental disclosure of cash flow information:**

Noncash activities:			
Additions to capital leases	\$ 900	\$ 415	\$ 210
Cash paid:			
Interest	\$ 15,627	\$ 16,032	\$ 21,080
Income taxes	\$ 4,851	\$ (2,316)	\$ 1,858

\* Refer to Note 2

See accompanying notes to consolidated financial statements.

**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 1 Nature of Operations**

Onyx Acceptance Corporation, a Delaware Corporation, ( Onyx ), and its wholly owned special purpose finance 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.

**Note 2 Restatement**

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.

	Twelve Months Ended December 31,	
	2002	2002
	As reported	Restated
	(Dollars in thousands)	
Interest income	\$ 38,562	\$ 37,992
Net interest income	27,027	26,457
Gain on sale, net of impairment	13,904	13,695
Total Revenues	92,904	92,125
Income before Income Taxes	3,997	3,218
Income Taxes	1,658	1,335
Net Income	\$ 2,339	\$ 1,883
Net Income per share Basic	\$ 0.46	\$ 0.37
Net Income per share Diluted	\$ 0.45	\$ 0.36

	As of December 31, 2002	As of December 31, 2002
	As reported	Restated
	(Dollars in thousands)	
Contracts held for sale	171,132	170,353
Total assets	367,936	367,157

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Other liabilities	28,496	28,173
	<u>          </u>	<u>          </u>
Total liabilities	302,567	302,244
Retained earnings	28,299	27,843
Total equity	65,369	64,913
	<u>          </u>	<u>          </u>
Total liabilities and equity	\$ 367,936	\$ 367,157
	<u>          </u>	<u>          </u>

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**ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 3 Summary of Significant Accounting Policies**

*Principles of Consolidation:* The accompanying consolidated financial statements include the accounts of Onyx, OAF, OFC, OARC, ABNI and CUAC. All significant intercompany accounts and transactions have been eliminated upon consolidation.

*Cash and Cash Equivalents:* The Company considers all significant investments with maturity at acquisition of three months or less to be cash equivalents.

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

*Contracts Held for Sale:* 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 is reclassified from credit enhancements assets and accounted for as loan premium on the reacquired loans. Loan premiums are amortized in a manner that results in a constant effective yield over the remaining life of the loans. 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 loans at the date such loans 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 loans.

The Company defers certain Contract origination fees and participation paid to dealers. At the time of sale or securitization, these balances are written off and are included as part of the computation of the gain on sale of Contracts.

*Contracts Held for Investment:* Contracts held for investment include Contracts that do not qualify for Contract securitizations as a result of delinquency status or minimum balance.

*Allowance for Credit Losses:* 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 current policy of the Company is to recognize losses on repossessed vehicles in the month in which the vehicle is sold or in which the scheduled payment becomes 120 days delinquent, whichever occurs first. Losses may occur in connection with delinquent Contracts for which the vehicle was not repossessed, either because of a discharge of the obligor's indebtedness in a bankruptcy proceeding or due to the Company's inability to locate the financed vehicle or the obligor. In these cases, losses are recognized at the time a Contract is deemed uncollectable or during the month a scheduled payment under the Contract becomes 150 days past due, whichever occurs first.

*Sales of Contracts:* The Company purchases Contracts which will be sold to investors with servicing rights retained by the Company. The Company sells a majority of its Contracts at or near par value. For Contracts securitized, the Company retains a participation in the future cash flows released by trusts, while for cash sales no participation is retained in the future cash flows. As of December 31, 2002 the Company was servicing all the Contracts sold to the trusts. As of December 31, 2002 and 2001, 27% of the sold portfolio was originated in California.

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**ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Furniture and Equipment:* Furniture and equipment are stated at cost less accumulated depreciation, and are depreciated for financial reporting purposes on a straight-line basis over a three year estimated life. Capitalized leased assets are amortized over the lease term. Leasehold improvements are amortized over a period not exceeding the term of the lease.

*Interest and Fee Income:* Interest and fee income on Contracts held for sale and investment is determined on a monthly basis using methods which approximate the effective yield method.

*Income Taxes:* The Company utilizes Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax payable for the period and the change during the year in deferred tax assets and liabilities. The Company files consolidated federal and state tax returns.

*Net Income Per Share:* Net income per share is presented in dual format as basic and diluted earnings per share. Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings per share is based on the weighted average number of common shares outstanding, adjusted to include the impact of potential dilutive common stock options and warrants outstanding.

*Derivative Financial Instruments:* The Company maintains an overall risk management strategy that incorporates the use of interest rate and derivative financial instruments to mitigate its exposure to significant unplanned fluctuations in earnings caused by volatility in interest rates. Derivative instruments that are used as part of the Company's interest rate management strategy include forward interest rate swaps. These instruments are designated as cash flow hedges. Onyx does not use any of these instruments for trading or speculative purposes.

The Company uses forward interest rate swaps to hedge the variability in the forecasted future net cash flows it will receive from the retained interest in securitized assets ( 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.

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.

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 rating and International Swap Dealers Association master netting agreements in place with all derivative counterparties.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges or specific firm commitments or forecasted transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not, or has ceased to be, highly effective as a hedge, the Company discontinues hedge accounting prospectively, as discussed below.





**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company will discontinue hedge accounting prospectively when (1) it determines that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item such as firm commitments or forecasted transactions; (2) it is no longer probable that the forecasted transaction will occur; (3) the derivative expires or is sold, terminated, or exercised; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

At December 31, 2002, the Company had entered into four year amortizing forward swap agreements with a notional face amount outstanding of \$150.0 million with the cash flows to be received from the RISA being hedged. At December 31, 2002, these agreements had a fair value of (\$1.2) million. At December 31, 2001, the Company had forward swap agreements outstanding totaling \$175 million with a fair value of \$0.4 million.

Gain on Sale of Contracts for the year ended December 31, 2002, included a loss of \$4.7 million related to hedging activities. Included in Gain on Sale of Contracts for the year ended December 31, 2001 and December 31, 2000 were hedging losses of \$6.6 million and \$1.2 million, respectively.

*Pervasiveness of Estimates:* The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Stock-based Compensation:* 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, however, the Company has elected to continue to report Stock-Based Compensation under the guidelines of APB-25, and has included the additional disclosure requirements under FAS-148. The following table presents the pro forma disclosures required for SFAS 123 and SFAS 148 for the years ended December 31:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net income as reported (in thousands)	\$ 1,883	\$ 4,410	\$ 5,835
Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects (in thousands)	\$ 446	\$ 529	\$ 892
Pro forma net income (in thousands)	<u>\$ 1,437</u>	<u>\$ 3,881</u>	<u>\$ 4,943</u>
Earnings per share:			
Basic as reported	\$ 0.37	\$ 0.88	\$ 1.03
Basic pro forma	\$ 0.28	\$ 0.77	\$ 0.87
Diluted as reported	\$ 0.36	\$ 0.84	\$ 1.00
Diluted pro forma	\$ 0.28	\$ 0.75	\$ 0.85

*Comprehensive Income:* Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income ( SFAS 130 ), establishes standards for reporting comprehensive income and its components in a full set of financial statements. The standard requires that all items that are required to be recognized under accounting standards as components of comprehensive income, including an amount representing total comprehensive income, be reported in a financial statement that is displayed with the same prominence as other financial statements. Pursuant to SFAS 130, the Company has reported comprehensive income in the accompanying Consolidated Statements of Stockholders' Equity.

*Reclassification:* Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the 2002 presentation.

**Note 4 Recent Accounting Pronouncements**

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Effective January 1, 2001 Onyx adopted the provisions of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ( SFAS No. 133 ), as amended. SFAS No. 133 requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. The accounting for the gain or loss due to changes in fair value of the derivative instrument depends on whether the derivative qualifies as a hedge. If the derivative instrument does not qualify as a hedge, the gains or losses are reported in earnings when they occur. If the derivative instrument qualifies as a hedge, the accounting varies based upon the type of risk being hedged.

Adopting the provisions of SFAS No. 133 on January 1, 2001 resulted in a one-time cumulative after-tax reduction in Accumulated Other Comprehensive Income as of January 1, 2001, of \$840,000, representing the fair value of the derivatives net of tax.

All components of each derivative s gain or loss were included in the assessment of hedge effectiveness. The Company has reclassified to earnings \$840,000 of its loss from adoption, which was recorded in Accumulated Other Comprehensive Income when the forecasted transaction occurred during the first quarter of 2001.

**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In December of 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. This Statement amends FAS 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of FAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. At present the Company has elected to continue to report Stock-Based Compensation under the guidelines of APB 25, and has included the additional disclosure requirements under FAS 148. This Statement is effective for financial statements issued for fiscal years ending after December 15, 2002, and did not have a material effect on the Company's consolidated financial statements.

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 asset backed securitizations like those the Company employs are excluded from the consolidation requirements. As they are only off balance sheet transactions the Company is involved with, FIN 46 will not have a material effect on the Company's consolidated financial statements.

**Note 5 Contracts Held for Sale**

Contracts held for sale consist of the following:

	December 31,	
	2002	2001
	(In thousands)	
Gross Contracts held for sale	\$ 175,766	\$ 193,881
Less unearned interest	(1,265)	(2,165)
Contracts held for sale	174,501	191,716
Dealer participation	(4,148)	(2,451)
Total	<u>\$ 170,353</u>	<u>\$ 189,265</u>

As of December 31, 2002 and 2001, 30% and 28% of Contracts held for sale were originated in California, respectively. Gross Contracts held for sale includes \$4.0 million of loan premium as of December 31, 2002.

**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At December 31, 2002, contractual maturities of Contracts held for sale were as follows:

	(In thousands)(1)
2003	\$ 26,914
2004	23,103
2005	4,979
2006	10,272
2007 and thereafter	109,233
	<u>\$ 174,501</u>

(1) Actual maturities may vary depending on prepayment speed, charge-offs and deferments.

Contracts serviced by the Company for the benefit of others totaled approximately \$2.7 billion at December 31, 2002 and December 31, 2001. These amounts are not reflected in the accompanying consolidated financial statements.

**Note 6 Contracts Held for Investment**

Contracts held for investment are net of a \$1.9 million allowance for probable losses at December 31, 2002 and a \$1.3 million allowance at 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.

Contracts held for investment consist of the following:

	December 31,	
	2002	2001
	(In thousands)	
Gross Contracts held for investment	\$ 8,430	\$ 3,581
Less unearned interest	(24)	(42)
Contracts held for investment	<u>8,406</u>	<u>3,539</u>
Allowance	<u>(1,851)</u>	<u>(1,280)</u>
Total	<u>\$ 6,555</u>	<u>\$ 2,259</u>

Changes in the allowance for credit losses were as follows:

	December 31,		
	2002	2001	2000
	(In thousands)		
Balance at beginning of period	\$ 1,280	\$ 1,175	\$ 1,454
Provision for credit losses	(8)	1,079	990

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Charged-off loans	(3,946)	(2,121)	(1,671)
Recoveries-tax refund	2,043		
Recoveries-general	2,482	1,147	402
	<u>          </u>	<u>          </u>	<u>          </u>
Balance at end of period	\$ 1,851	\$ 1,280	\$ 1,175
	<u>          </u>	<u>          </u>	<u>          </u>

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At December 31, 2002, contractual maturities of Contracts held for investment were as follows:

	(In thousands)(1)
2003	\$4,608
2004	3,278
2005	309
2006	201
2007 and thereafter	10
	<u>\$8,406</u>

(1) Actual maturities may vary depending on prepayment speed, charge-offs and deferments.

**Note 7 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,	
	2002	2001
	(In thousands)	
Trust receivables	\$ 3,506	\$ 3,980
RISA	173,602	180,320
	<u>\$177,108</u>	<u>\$184,300</u>

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 at the time of securitization 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 the year ranged from 11% to 12%. As of December 31, 2002, the discount rates used for valuing RISA on our financial securitizations ranged from 8.5% to 11.0%, net loss assumptions ranged from 3.8% to 5.9% cumulative and the prepayment rate assumptions ranged from 1.65% to 1.85%.

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

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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.



**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

In initially valuing the RISA, the Company establishes an off balance sheet allowance for probable credit losses. The allowance is based upon historical experience 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 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 potential future losses and by discounting to present value.

	<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(In thousands)</b>	
Estimated net undiscounted RISA earnings	\$ 321,685	\$ 324,162
Off balance sheet allowance for losses	(109,490)	(110,347)
Discount to present value	(38,593)	(33,495)
Retained interest in securitized assets	\$ 173,602	\$ 180,320
Outstanding balance of contracts sold through securitizations	\$2,726,878	\$2,635,042

At December 31, 2002, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in those assumptions are as follows:

	<b>December 31, 2002</b>
	<b>(Dollars in millions)</b>
Expected credit loss assumption (annual rate)	2.20% to 3.80%
Impact of fair value of 10% adverse change	\$ 10.2
Impact of fair value of 20% adverse change	\$ 20.2
Expected prepayment rate assumption (annual rate)	1.67% to 2.16%
Impact of fair value of 10% adverse change	\$ 8.2
Impact of fair value of 20% adverse change	\$ 14.6
Expected discount rate on RISA (annual rate)	8.5% to 11.0%
Impact of fair value of 10% adverse change	\$ 2.6
Impact of fair value of 20% adverse change	\$ 5.2

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent and 20 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of the variation in a particular assumption for the fair value of the retained interest is

calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

**Table of Contents****Note 8 Furniture and Equipment**

Furniture and equipment consisted of the following:

	December 31,	
	2002	2001
(In thousands)		
<b>Owned:</b>		
Office furniture	\$ 4,390	\$ 4,365
Computer equipment	15,910	14,953
Leasehold improvements	1,869	1,814
Total	22,169	21,132
<b>Capitalized leases:</b>		
Computer equipment	854	399
Total	854	399
Total furniture and equipment	23,023	21,531
Less: accumulated depreciation and amortization	(19,954)	(16,523)
Furniture and equipment, net	\$ 3,069	\$ 5,008

**Note 9 Warehouse Borrowing**

As of December 31, 2002, the Company was party to a \$355 million warehousing facility (the Triple-A CP Facility), with Triple-A One Funding Corporation (Triple-A). Onyx Acceptance Financial Corporation (Finco), a special purpose subsidiary of the Company, is the borrower under the Triple-A CP Facility. The Triple-A CP Facility is used to fund the purchase or origination of Contracts. Triple-A is a rated commercial paper asset-backed conduit sponsored by MBIA Insurance Corporation (MBIA). MBIA provides credit enhancement for the facility by issuing a financial guarantee insurance policy covering all principal and interest obligations owed for the borrowings under the facility. The Company pledges certain of its Contracts held for sale to borrow from Triple-A. The Triple-A CP Facility was renewed in November 2001 for a three-year term, subject to annual renewals by liquidity providers.

In January 2003, a subsidiary of the Company, Onyx Acceptance Receivables Corporation (OARC), executed a \$150 million warehouse facility with CDC Financial Products (CDC) and guaranteed by XL Capital Assurance Inc., which will provide warehouse funding for the purchase or origination of Contracts and will be used in concert with the Triple-A CP Facility the Company currently has in place. The Company pledges certain of its Contracts held for sale to borrow under the CDC CP Facility. The CDC CP Facility expires in January 2004 but may be renewed by agreement of the parties. In conjunction with the procurement of the new facility, the Company elected to reduce its line with Triple-A One Funding Corporation and MBIA to \$300 million.

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.

**Note 10 Residual Lines**

The Company, through Fundco, currently has two residual financing facilities: a \$50.0 million line with Salomon Smith Barney Realty Corporation (SBRC) 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 SBRC 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 SBRC line matures one year after the date of the loan. The CSFB-Europe line was renewed in October 2002 for a one-year term.

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Interest paid under each line is generally tied to the 30 day Libor Rate. The average interest rates for the year ending 2002 were 4.29% for the SBRC facility and 4.82% for the CSFB facility. For the year ending December 31, 2001, the average interest rates were 6.49% and 6.59% under the CSFB facility and the SBRC facility, respectively. The decrease in average interest rates paid on the facilities from 2001 to 2002 was consistent with the decrease in the average 30 day Libor Rate over the same time periods.

**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As an additional source of funds, the Company utilizes 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 Residual Lines. This transaction generated approximately \$75.0 million in proceeds.

**Note 11 Subordinated Debt**

As of December 31, 2002, the Company had outstanding approximately \$27.1 million of subordinated debt, \$0.6 million of which is being amortized through February 2003 with a stated interest rate of 9.5%. \$12.0 million of subordinated debt has a stated interest rate of 12.5% and a maturity of June 2006. The remaining balance of \$14.5 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 December 31, 2002 was approximately 8.6%. The renewable notes have varying maturities ranging from three months to ten years.

The facilities and lines as discussed in Notes 8, 10 and 11 above contain affirmative, negative and financial covenants typical of such credit facilities. The Company was in compliance with these covenants as of December 31, 2002.

**Note 12 Commitments and Contingencies**

*Leases:* The Company leases furniture, fixtures and equipment under capital leases with terms in excess of one year. The Company leases its office space under operating leases with options to renew. Certain operating lease agreements provide for escalations based on contractual provisions.

Future minimum lease payments required under capital leases and non-cancelable operating leases are as follows as of December 31, 2002:

	<b>Capital Leases</b>	<b>Operating Leases</b>
	<b>(In thousands)</b>	
2003	\$ 517	\$ 3,419
2004	383	3,399
2005	57	3,040
2006	0	2,181
2007 and thereafter	0	3,963
	<hr/>	<hr/>
Total	957	\$16,002
	<hr/>	<hr/>
Less amounts representing interest	(103)	
	<hr/>	
Present value of net minimum lease payments	\$ 854	
	<hr/>	

Rental expenses for premises and equipment amounted to approximately \$4.3 million, \$4.2 million and \$4.0 million for the years ended December 31, 2002, 2001, and 2000 respectively.

**Note 13 Legal Proceedings**

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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 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 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 activities. However, there can be no assurance that the Company will be able to successfully defend against all such claims or

**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

In the opinion of management, the resolution of the proceedings described in this section will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

**Note 14 Stock Options**

As of December 31, 2002, the Company has reserved 1,953,867 shares for future issuance to certain employees under its stock option plans. The options may be exercised at prices ranging from \$0.51 per share to \$11.50 per share at any time, in whole or part, within ten years after the date of grant. Reserved, unoptioned shares totaled 41,305 at December 31, 2002, 65,743 at December 31, 2001, and 101,645 at December 31, 2000.

A summary of the status of the Company's stock option plan as of December 31, 2002, 2001 and 2000, and changes during the years ending on those dates is presented below:

Options	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,785,835	\$ 4.86	1,611,359	\$ 5.22	1,290,136	\$ 5.66
Granted	244,250	\$ 3.76	347,581	\$ 3.73	478,450	\$ 4.06
Exercised	(8,747)	\$ 0.51	(11,111)	\$ 4.27	(11,954)	\$ 0.51
Forfeited	(67,471)	\$ 6.23	(161,994)	\$ 6.81	(145,273)	\$ 5.66
Outstanding at end of year	1,953,867	\$ 4.70	1,785,835	\$ 4.86	1,611,359	\$ 5.22
Options exercisable at year end	1,373,540		1,127,364		960,169	

The following table summarizes information about stock options outstanding at December 31, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/02	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price	Number Exercisable at 12/31/02	Weighted-Average Exercise Price
\$0.51	84,890	1.2	\$ .51	84,890	\$ .51
\$3.38 - 3.76	631,599	8.9	3.66	185,120	3.59
\$4.25 - 5.81	1,150,754	6.1	5.24	1,020,095	5.35
\$6.75 - 7.25	19,066	4.9	6.96	16,607	6.95
\$7.88 - 9.13	26,100	6.4	8.12	25,370	8.09
\$10.29 - 11.50	41,458	4.5	10.88	41,458	10.88

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\$0.51	11.50	1,953,867	6.7	\$ 4.70	1,373,540	\$ 5.05
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Substantially all of the options granted by the Company vest over a four year period, 25% after one year and the remaining 75% ratably over the following 36 month period. All of the options are granted at the closing price on the effective date of the grant.

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:



**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	December 31,		
	2002	2001	2000
Risk free interest rate	3.8%	4.6%	6.2%
Expected stock price volatility	87.6%	75.0%	85.0%
Expected life of options	four years	four years	four years
Expected dividends	none	none	none

The following table presents the pro forma disclosures required for SFAS 123 and SFAS 148 for the years ended December 31:

	2002	2001	2000
Net income, as reported (in thousands)	\$ 1,883	\$ 4,410	\$ 5,835
Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects (in thousands)	\$ 446	\$ 529	\$ 892
Pro forma net income (in thousands)	\$ 1,437	\$ 3,881	\$ 4,943
Earnings per share:			
Basic as reported	\$ 0.37	\$ 0.88	\$ 1.03
Basic pro forma	\$ 0.28	\$ 0.77	\$ 0.87
Diluted as reported	\$ 0.36	\$ 0.84	\$ 1.00
Diluted pro forma	\$ 0.28	\$ 0.75	\$ 0.85

**Note 15 Employee 401K Deferred Savings Plan**

The Company has established a salary deferral savings program pursuant to IRS Code Section 401(k) (the 401(k) Plan ) for qualified employees. Under this plan, employees may contribute a percentage of their pre-tax earnings to the 401(k) Plan. Effective July 1, 1998, the Company amended the 401(k) Plan to permit matching Company contributions. Employee contributions up to the lesser of \$10,000 or 6% of pre-tax earnings made after one year of service may be matched by a Company contribution equal to 50% of the employee's contribution upon Board approval. Matching contributions are made in the Company's common stock and begin vesting 20% per year following the completion of one year of service. Company expense related to the 401(k) Plan totaled approximately \$439,000 in 2002 and approximately \$409,000 in 2001.

**Note 16 Shareholders Equity**

*Preferred Stock:* The Company has 3 million shares of preferred stock authorized of which 200,000 shares have been designated Series A participating Preferred Stock. No shares of preferred stock were outstanding as of December 31, 2002 and December 31, 2001.

In July 1997, the Company's Board of Directors adopted a Stockholder Rights Plan ( Plan ) in which preferred stock purchase rights were distributed as a dividend at the rate of one preferred share purchase right (a Right ) for each outstanding share of common stock held by stockholders of record on July 21, 1997. The Rights are designed to guard against partial tender offers and other abusive tactics that might be used in an attempt to gain control of the Company or to deprive stockholders of their interest in the long-term value of the Company. The Rights will be exercisable only if a person or group acquires 15% or more of the Company's common stock (subject to certain exceptions stated in the Plan) or announces a tender offer, the consummation of which would result in ownership by a person or group of 15% or more of the Company's common stock. The Rights will expire on July 20, 2007.

*Dividends:* The Company's ability to pay or declare dividends is restricted by the terms of certain of its credit facilities.

**Note 17 Share Repurchases**

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On May 31, 2000, the Company's Board of Directors authorized a stock repurchase program to purchase up to \$7,500,000 of the Company's Common Stock. As of December 31, 2002, 1,200,254 shares had been repurchased under the program for an aggregate amount of \$5.3 million.

**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 18 Income Taxes**

The following table presents the current and deferred provision for federal and state income taxes for the years ended December 31, 2002, 2001 and 2000:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
(In thousands)			
Current:			
Federal	\$ 65	\$ 256	\$ (2,020)
State	569	288	(177)
Total	<u>634</u>	<u>544</u>	<u>(2,197)</u>
Deferred:			
Federal	900	2,105	5,151
State	(199)	412	1,182
Total	<u>701</u>	<u>2,517</u>	<u>6,333</u>
Combined Total	<u>\$ 1,335</u>	<u>\$ 3,061</u>	<u>\$ 4,136</u>

The provision for income taxes differs from the amount that would result from applying the federal statutory rate as follows for the years ended December 31, 2002, 2001 and 2000:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Statutory regular federal income tax rate (benefit)	34%	34%	34%
State taxes (net of federal benefit)	6	6	6
Other	1	1	1
	<u>41%</u>	<u>41%</u>	<u>41%</u>

The components of the deferred income tax asset or (liability) as of December 31, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
(In thousands)		
Property and equipment	\$ 1,691	\$ 2,087
Unrealized gain (loss) in credit enhancement assets	(2,375)	(725)
Accrued liabilities	788	730
Capitalized costs	(1,050)	(1,073)
Allowance for credit losses	746	524
Gain on sale of Contracts	(31,532)	(33,736)
Net operating losses	9,686	12,855

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Credit carryover	223	223
State taxes	1,245	1,213
	<u>          </u>	<u>          </u>
	\$(20,578)	\$(17,902)
	<u>          </u>	<u>          </u>

As of December 31, 2002, the Company had net operating loss carryforwards for federal and state purposes of approximately \$24.2 million and \$22.9 million, respectively. These carryforwards will begin to expire in 2020 and 2012 for federal and state taxes respectively.

Pursuant to sections 382 and 383 of the Internal Revenue Code, the utilization of net operating loss and tax credit carryforwards may be subject to substantial limitations if ownership changes occur.

**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 19 Warrants**

At December 31, 2002, the Company had the following warrants outstanding to purchase shares of common stock:

	<u>Exercise Price</u>	<u>Balance Outstanding at December 31, 2000</u>	<u>Net Reductions to Outstanding Warrants</u>	<u>Balance Outstanding at December 31, 2001</u>	<u>Net Reductions to Outstanding Warrants</u>	<u>Balance Outstanding at December 31, 2002</u>
Warrants	\$ 0.03	1,636	1,636	0	0	0
Warrants	\$ 0.51	84,311	84,311	0	0	0
Warrants	\$ 11.50	16,332	16,332	0	0	0
Warrants	\$ 17.15	3,791	0	3,791	0	3,791
Warrants	\$ 8.88	180,529	0	180,529	0	180,529
Total		<u>286,599</u>	<u>102,279</u>	<u>184,320</u>	<u>0</u>	<u>184,320</u>

At December 31, 2002, all the Company's warrants outstanding to purchase shares of common stock were exercisable. No warrants were exercised during 2002.

**Note 20 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.

	<u>Year Ended December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
	<u>(In thousands, except net income per share)</u>		
Net income	\$ 1,883	\$ 4,410	\$ 5,835
Weighted average shares outstanding	5,085	5,026	5,657
Net effect of dilutive stock options/warrants	94	206	154
Fully diluted weighted average shares outstanding	<u>5,179</u>	<u>5,232</u>	<u>5,811</u>
Net income per share	\$ 0.37	\$ 0.88	\$ 1.03
Net income per share assuming full dilution	<u>\$ 0.36</u>	<u>\$ 0.84</u>	<u>\$ 1.00</u>

As of December 31, 2002, 2001 and 2000, 1.4 million, 2.4 million and 1.5 million of combined options and warrants, respectively, were not included in the calculation of full dilution, as they were anti-dilutive.

**Note 21 Fair Value of Financial Instruments**

The estimated fair value of financial instruments have been determined by the Company, using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

*Cash and Cash Equivalents:* The carrying amount approximates fair value because of the short maturity of those investments.

*Restricted Cash:* The carrying amount approximates fair value because of the short maturity of those investments.

*Warehouse Borrowings, Residual and Excess Service Lines:* The fair value of the Company's debt is estimated based upon the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities and characteristics.

**Table of Contents****ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Contracts Held for Sale:* The fair value of Contracts held for sale is based on the estimated proceeds expected on securitization of the Contracts held for sale.

*Contracts Held for Investment:* The fair value of Contracts held for investment is based on the estimated proceeds expected on securitization of the Contracts held for investment.

*Credit Enhancement Assets:* The carrying amount is accounted for at an estimated fair value which is calculated by discounting the excess spread using a current market discount rate.

*Hedging.* The fair value of the Company's outstanding forward agreements are estimated based on current rates offered to the Company for forward agreements with similar terms and conditions.

The estimated fair values of the Company's financial instruments are as follows at December 31:

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In millions)				
Cash and cash equivalents	\$ 0.1	\$ 0.1	\$ 1.1	\$ 1.1
Restricted cash	\$ 3.4	\$ 3.4	\$	\$
Contracts held for sale	\$ 170.4	\$ 184.6	\$ 189.3	\$ 199.5
Contracts held for investment	\$ 8.4	\$ 8.9	\$ 3.5	\$ 3.8
Credit enhancement assets	\$ 177.1	\$ 177.1	\$ 184.3	\$ 184.3
Warehouse borrowings	\$(166.0)	\$(166.0)	\$(190.0)	\$(190.0)
Excess service and residual lines	\$ (45.6)	\$ (45.6)	\$ (68.4)	\$ (68.4)
Hedging Forward agreements	\$ (1.5)	\$ (1.2)	\$ (0.4)	\$ 0.4

**Note 22 Related Party Transactions**

The Company has a note receivable from a certain officer and shareholder in the amount of \$175,000. Principal and accrued interest under the terms of the note are due on December 20, 2004.

**Note 23 Quarterly Results of Operations (Unaudited)**

	Three Months Ended			
	March 31	June 30	September 30	December 31
			(Restated)	(Restated)
(In thousands, except per share data)				
<b>2002</b>				
Interest income	\$8,308	\$ 9,753	\$10,145	\$9,786
Interest expense	2,597	3,561	2,845	2,532
Net interest income	5,711	6,192	7,300	7,254
Provision for credit losses	479	(1,758)	818	453
Income before income taxes	699	621	574	1,324
Income taxes	290	257	238	550
Net income	409	364	336	774

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Net income per common share (Basic)	\$ 0.08	\$ 0.07	\$ 0.07	\$ 0.15
Net income per common share (Diluted)	\$ 0.08	\$ 0.07	\$ 0.07	\$ 0.14
<b>2001</b>				
Interest income	\$4,426	\$ 7,571	\$ 7,779	\$6,029
Interest expense	4,186	3,742	2,849	2,047
Net interest income	240	3,829	4,930	3,982
Provision for credit losses	334	130	502	114
Income before income taxes	1,513	3,118	2,241	599
Income taxes	628	1,294	899	240
Net income	885	1,824	1,342	359
Net income per common share (Basic)	\$ 0.18	\$ 0.37	\$ 0.27	\$ 0.07
Net income per common share (Diluted)	\$ 0.17	\$ 0.35	\$ 0.25	\$ 0.07



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**ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company has elected to reclassify other miscellaneous income from interest income into service fee income for the prior quarters. The Company revised the amount of loan premiums amortization on Contracts acquired in connection with clean up calls exercised on the Company's securitization pools. The method previously used by the Company understated the amount of premium amortization in the quarter ended September 30, 2002 and December 31, 2002 by \$153 thousand and \$417 thousand, respectively. The Company is also reducing the amount of premium recorded on certain loans reacquired during the fourth quarter of 2002 by \$209 thousand. In addition, the Company is recording in the third quarter of 2002 an impairment related to certain trusts which was originally recorded in the fourth quarter due to an erroneous calculation. This adjustment has no impact on the reported amounts for the year ended December 31, 2002.

**Note 24 Subsequent Events (Unaudited)**

In the first quarter of 2003, the Company securitized Contracts in the amount of \$400.0 million. Additionally, during January, 2003, the Company executed a new \$150.0 million warehouse facility sponsored by CDC Financial Products Inc. and guaranteed by XL Capital Assurance Inc. In conjunction with the procurement of the new warehouse facility, the Company elected to reduce its line with Triple-A One Funding Corporation and MBIA to \$300 million from \$355 million, effective February 1, 2003.

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**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>	<b>Sequentially Numbered Page</b>
3.1	Certificate of Incorporation of the Company(1)	
3.2	Bylaws of the Company(1)	
10.1 through 10.131 Omitted		
21.1	Omitted	
23.1	Consent of Independent Accountants*	
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.*	

\* Filed herewith.

(1) Incorporated by reference from the Company's Registration Statement on Form S-1 (Registration No. 333-00680).