ONYX ACCEPTANCE CORP
Form 10-Q
May 15, 2002

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

FORM 10-Q

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

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

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

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

YES [X] NO [ ]

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(UNAUDITED)

	MARCH 31, 2002	DECEMBER 31, 2001
	(DOLLARS IN THOUSANDS)	
ASSETS		
Cash and cash equivalents	$ 6,818	$ 1,135
Credit enhancement assets, at fair value	189,552	184,300
Contracts held for sale	201,913	189,265
Contracts held for investment (net of allowance)	3,082	2,259
Other assets	10,380	9,326
Total assets	$411,745	$386,285
LIABILITIES		
Accounts payable	$ 31,062	$ 27,024
Debt	290,063	274,595
Other liabilities	28,152	24,965
Total liabilities	349,277	326,584
EQUITY		
Common stock		
Par value $.01 per share; authorized 15,000,000 shares; issued and outstanding 5,086,793 as of March 31, 2002 and 5,078,046 as of December 31, 2001	51	51
Paid in capital	32,651	32,647
Retained earnings	26,369	25,960
Accumulated other comprehensive income, net of tax	3,397	1,043
Total equity	62,468	59,701
Total liabilities and equity	$411,745	$386,285

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	(Dollars in Thousands except per share data)	
REVENUES:		
Interest income	$ 8,255	$ 5,637
Interest expense	2,597	4,186
Net interest income	5,658	1,451
Gain on sale of contracts	4,295	9,319
Service fee income	13,473	14,248
Total Revenues	23,426	25,018
EXPENSES:		
Provision for credit losses	479	334
Interest expense other	1,036	1,540
OPERATING EXPENSES:		
Salaries and benefits	13,401	12,507
Systems and servicing	578	1,550
Telephone and data lines	882	1,150
Depreciation	1,000	1,254
General and administrative expenses	5,351	5,170
Total Operating Expenses	21,212	21,631
Total Expenses	22,727	23,505
Income before Income Taxes	699	1,513
Income Taxes	290	628
Net Income	$ 409	$ 885
Net Income per share Basic	$ 0.08	$ 0.18
Net Income per share Diluted	$ 0.08	$ 0.17
Basic Shares Outstanding	5,081,156	4,989,504
Diluted Shares Outstanding	5,191,935	5,132,111

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(IN THOUSANDS)
(UNAUDITED)

	SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED COMPREHENSIVE GAIN, NET OF TAX	TOTAL
BALANCE, DECEMBER 31, 2001	5,078	$ 51	$ 32,647	$ 25,960	$ 1,043	$ 59,701
Stock issued for options exercised	9		4			4
Comprehensive income:						
Unrealized gains in securitized assets, net of tax of $1.5 million					2,132	2,132
Unrealized gain on hedging activities, net of tax of $157 thousand					222	222
Net income				409		409
Total comprehensive income				409	2,354	2,763
BALANCE, MARCH 31, 2002	5,087	$ 51	$ 32,651	$ 26,369	$ 3,397	$ 62,468

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	(Dollars in Thousands)	
OPERATING ACTIVITIES:		
Net cash used in operating activities	$ (10,078)	$ (14,001)
INVESTING ACTIVITIES:		
Cash used for purchases of property and equipment	(516)	(1,032)
FINANCING ACTIVITIES:		
Proceeds from exercise of employee options	4	
Payments on capital lease obligations	(94)	(91)
Proceeds from lease refinance	900	
Payments on residual lines of credit	(68,355)	(6,817)
Proceeds from drawdown on residual lines of credit	75,476	8,750
Paydown of warehouse lines related to securitizations	(363,223)	(331,000)
Proceeds from warehouse lines	371,726	347,794
Proceeds from issuance of subordinated debt	712	
Principal payments on subordinated debt	(869)	(792)
Net cash provided by financing activities	16,277	17,844
Increase in cash and cash equivalents	5,683	2,811
Cash and cash equivalents at beginning of period	1,135	3,130
Cash and cash equivalents at end of period	$ 6,818	$ 5,941

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 NATURE OF OPERATIONS

Onyx is a specialized consumer finance company engaged in the purchase, origination, securitization and servicing of Contracts originated by franchised and select independent automobile dealerships in the United States. The Company focuses its efforts on acquiring Contracts that are collateralized by late model used and, to a lesser extent, new automobiles, that are entered into with purchasers whom the Company believes have a favorable credit profile. Since commencing the purchase of Contracts in February 1994, the Company has acquired more than $7.5 billion in Contracts and currently has relationships with 10,256 dealerships. The Company has expanded its operations from a single office in California to 19 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 owner and grantor trusts, and earns fees from servicing the securitized Contracts.

NOTE 2 BASIS OF PRESENTATION

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

USE OF ESTIMATES

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

NOTE 3 CONTRACTS HELD FOR SALE

Contracts held for sale consisted of the following:

	March 31, 2002	December 31, 2001
	(In Thousands)	
Gross contracts held for sale	$206,890	$193,879
Less unearned interest	(2,332)	(2,164)

Contracts held for sale	204,558	191,715
Dealer participation	(2,645)	(2,450)
Total	$ 201,913	$ 189,265

NOTE 4 CONTRACTS HELD FOR INVESTMENT

Contracts held for investment are net of a $1.3 million allowance for future losses for both March 31, 2002 and 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.

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NOTE 5   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:

	March 31, 2002	December 31, 2001
	(In Thousands)	
Trust receivable	$ 3,980	$ 3,980
RISA	185,572	180,320
Total	$ 189,552	$ 184,300

Trust receivables represents 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 cash flows upon securitization and are based on historical experience. In calculating the gain on sale, the Company uses a 1.75% prepayment rate for all outstanding securitizations with an average Contract life range of 1.6 to 1.7 years. Credit loss assumptions range from 3.5% to 4.7% cumulative depending upon the credit statistics of the underlying portfolio to be securitized. Credit losses are estimated using cumulative loss frequency and severity estimates by management. All assumptions are evaluated each quarter and adjusted, if appropriate, to reflect the actual performance of the underlying Contracts. The fair value of the RISA at quarter-end is calculated by discounting the excess spread at a rate management believes to be representative of market at the time of securitization. Historically, this rate has equaled 3.5% over the investor rate. During the first quarter of 2002, management revisited the assumptions used in deriving an appropriate discount rate. Management has developed a systematic methodology that is a function of both market benchmark rates and the seasoning of a securitization s cash flow. As of March 31, 2002, the discount rate used for valuing RISA ranged from 8.8% to 11.5%, and loss assumptions ranged from 3.7% to 5.1% cumulative.

Emerging Issues Task Force (EITF) 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets has established new income and impairment recognition standards for interests in certain securitized assets. The Company adopted EITF 99-20 effective April 1, 2001. Under the provisions of EITF 99-20, the holder of beneficial interests should recognize the excess of all estimated cash flows attributable to the beneficial interest estimated at the 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 the present value of 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 the first quarter of 2002, the Company recorded a pre-tax write-down of the Company s RISA asset by $1.35 million stemming from higher than expected losses and delinquency on a securitization executed prior to 2001. This write-down was recorded against the gain on sale. 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 reduces projected cash flows for probable credit losses by establishing an off balance sheet allowance for estimated credit losses over the life of the underlying Contracts. 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.

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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% and financial guaranty insurance 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.

	March 31, 2002	December 31, 2001
	(In thousands)	
Estimated net undiscounted RISA earnings	$ 314,226	$ 324,162
Off balance sheet allowance for losses	(95,293)	(110,347)
Discount to present value	(33,361)	(33,495)
Retained interest in securitized assets	$ 185,572	$ 180,320
Outstanding balance of contracts sold through securitizations	$2,624,325	$2,635,042

NOTE 6 NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share (EPS):

	THREE MONTHS ENDED MARCH 31, 2002	2001
	(In Thousands, Except Per Share data)	
Net Income	$ 409	$ 885
Weighted average shares outstanding	5,081	4,990
Net effect of dilutive stock options/warrants	111	142
Diluted weighted average shares outstanding	5,192	5,132
Net income per share:		
Basic EPS	$ 0.08	$ 0.18
Diluted EPS	$ 0.08	$ 0.17

At March 31, 2002, there were 1.76 million options and 184 thousand warrants outstanding.

NOTE 7 NEW PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements on Financial Accounting Standards (SFAS) Nos. 141 (Business Combinations) and 142 (Goodwill and Other Intangible Assets). SFAS No. 141, among other things, eliminates the use of the pooling of interests method of accounting for business combinations. Under the provisions of SFAS No. 142, goodwill will no longer be amortized, but will be subject to a periodic test for impairment based upon fair values. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. SFAS No. 142 was effective for the Company on January 1, 2002. The adoption of these statements had no effect on the

Company s financial statements.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets, and supersedes FAS-121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. The statement also supersedes those portions of APB-30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, relating to the disposal of a business segment. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of FAS-144 did not have a material effect on the Company s consolidated financial statements.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. The Statement updates, clarifies and simplifies existing accounting pronouncements with regard to extinguishments of debt made to satisfy sinking-fund requirements, accounting for intangible assets of motor carriers and accounting for leases. Adoption of SFAS No. 145 will not have a material effect on the Company s financial statements.

NOTE 8 CONTINGENCIES

The Company is party to various legal proceedings similar to actions brought against other companies in the motor vehicle finance and other industries, which may or may not be covered under insurance policies it holds. The Company vigorously defends such proceedings; however, there is no assurance as to the results. Based upon information presently available, the Company believes that

the final outcome of all such proceedings should not have a material adverse effect upon the Company s results of operations, cash flows or financial condition.

NOTE 9 SUBSEQUENT EVENTS

During the second quarter of 2002, the Company securitized $400 million in Contracts, and refinanced the Company s residual securitization from the first quarter of 2000 in the amount of $21.0 million.

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

OVERVIEW

Onyx is a specialized consumer finance company engaged in the purchase, origination, securitization and servicing of Contracts originated by franchised and select independent automobile dealerships in the United States. The Company focuses its efforts on acquiring Contracts that are collateralized by late model used and, to a lesser extent, new automobiles, that are entered into with purchasers whom the Company believes have a favorable credit profile. Since commencing the purchase of Contracts in February 1994, the Company has acquired more than $7.5 billion in Contracts and currently has relationships with 10,256 dealerships. The Company has expanded its operations from a single office in California to 19 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 owner and grantor trusts, and earns fees from servicing the securitized Contracts.

RESULTS OF OPERATIONS

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 $5.7 million for the first quarter 2002, from $1.5 million for the same period in 2001. The increase for 2002 was principally due to $2.8 million of net interest income related to RISA and residual borrowings. In accordance with Emerging Issues Task Force 99-20 (EITF 99-20), which became effective beginning in the second quarter 2001, the Company is required to recognize income of RISA on a level yield accrual method over the remaining estimated life of the corresponding asset and record RISA-related income as interest income instead of as excess service fee income. Total excess service fee income recognized as interest income for the quarter was approximately $4.3 million. Interest expense associated with borrowings under residual lines secured by RISA totaled approximately $1.5 million. The Company has elected to reclassify this interest expense as a component of net interest income to better match RISA revenues with RISA-secured expenses. Without the effects of EITF 99-20 and RISA expense reclassifications, net interest income for first quarter 2002 would have been approximately $2.8 million. This increase is principally due to the reduction in the Company s cost of warehouse borrowings during the period. The weighted average cost of warehouse borrowings decreased to 1.85% for the quarter ended March 31, 2002, compared to 5.75% for the same period in 2001. The average balance of Contracts held on balance sheet, which provides collateral for warehouse borrowings, was $141.5 million and 205.8 million for the first quarter of 2002 and 2001 respectively.

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 and the gain or loss on the termination of the cash flow hedge. The gain on the sale of Contracts is affected by the amount of Contracts securitized and the net interest rate spread on those Contracts.

The Company completed one securitization qualifying for sale treatment totaling $375.0 million during the quarter ended March 31, 2002, resulting in a gain of $5.6 million or 1.5% of the dollar amount of Contracts securitized, compared to a securitization of $400.0 million in the first quarter of 2001, resulting in a gain of $9.3 million or 2.3% of the dollar amount securitized. Included in the 2002 first quarter gain is a

pre-tax write-down of $1.35 million of the Company s RISA asset stemming from higher than expected losses and delinquency on a securitization executed prior to 2001.

The reduction in the gain as a percentage of the Contracts securitized for the first quarter of 2002 was attributable to a decrease in net interest rate spreads. 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 securitization 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.

The Company has had a reduction in the weighted average net interest spread for securitizations executed during the first quarters of 2002 and 2001. The weighted average net interest rate spread for the securitization executed during the first quarter of 2002 was 1.61%, compared to 2.14% for the same period in 2001. The reduction in net interest rate spread for 2002 was principally due to a reduction in the weighted average annual percentage rate in the Contracts securitized, which decreased to 10.68% versus 13.39% for the same period in 2001. The allowance for loan loss 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 newer Contracts originated. 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.

SERVICE 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 $13.5 million for the quarter ended March 31, 2002, compared to $14.2 million for the quarter ended March 31, 2001, or $13.4 million, excluding excess service fee income as reported prior to the adoption of EITF 99-20. Service fee income increased as a result of the growth of the average serviced portfolio, which increased to $2.86 billion versus $2.76 billion in 2001.

PROVISION FOR CREDIT LOSSES

The Provision for credit losses represents actual net credit losses incurred on Contracts held on balance sheet. The provision for credit losses increased to $0.5 million for the period ended March 31, 2002 compared to $0.3 million for the same period in 2001.

OTHER INTEREST EXPENSE

Other interest expense was $1.0 million for the period ending March 31, 2002, compared to $1.5 million for the same period in 2001. Other interest expense includes interest on the Company's subordinated debt, capital lease obligations and hedging activities under the guidelines of FAS-133. For the first quarter of 2001, the Company also included interest from its residual lines of credit. For 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.

OPERATING EXPENSES

The Company has made a significant effort to control operating expenses through renegotiation of existing service contracts beginning in 2000, and has 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 2.97% for the quarter ended March 31, 2002, compared to 3.14% for the quarter ended March 31, 2001.

The Company incurred salary and benefit expenses of $13.4 million for the period ended March 31, 2002, compared to $12.5 million for the same period in 2001. The increase is primarily due to staff additions in the Company s collection and customer service departments. The increase is also related to normal merit increases and higher health care costs in connection with the Company s benefit plans.

System and servicing expense decreased during the quarter ended March 31, 2002. During 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. 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 decreased for the quarters ended March 31, 2002. Although these charges generally increase with the growth of the serviced portfolio, the significant decrease was principally due to renegotiated contracts with the Company s data and voice

carriers. Assuming no additional reduction in long distance rates, the Company expects these charges to increase relative to the continued growth of the serviced portfolio.

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Depreciation expense decreased for the period ended March 31, 2002. Most of the system upgrades in connection with the Company s relocation to Foothill Ranch during 1999 have been fully depreciated. Management expects that depreciation expense will continue to run approximately $1.0 million per quarter for the remainder of the year. Other operating expenses remained relatively stable at $5.4 million.

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 the quarters ended March 31, 2002 and 2001 was 41.5%.

FINANCIAL CONDITION

CONTRACTS HELD FOR SALE

Contracts held for sale totaled $201.9 million at March 31, 2002, compared to $191.5 million at December 31, 2001. The balance in the held for sale portfolio is largely dependent upon the timing of the origination and securitization of Contracts. The Company completed a securitization transaction of $375.0 million during the first quarter of 2002. The Company plans to continue to securitize Contracts on a regular basis.

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	FOR THE QUARTERS ENDED				
	MAR. 31, 2001	**JUNE 30, 2001**	**SEPT. 30, 2001**	**DEC. 31, 2001**	**MAR. 31, 2002**
	(DOLLARS IN THOUSANDS)				
Contracts purchased during period	$ 430,524	$ 379,595	$ 430,940	$ 365,270	$ 378,180
Average monthly volume during period	143,508	126,531	143,646	121,757	126,060
Gain on sale of Contracts	9,319	10,257	6,591	7,938	5,645
RISA write-down				3,340	1,350
Contracts securitized during period	400,000	400,000	400,000	400,000	375,000
Servicing portfolio at period end	2,784,411	2,807,181	2,876,986	2,864,338	2,848,022

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CONTRACTS HELD FOR INVESTMENT

Contracts held for investment are net of a $1.3 million allowance for future losses for both March 31, 2002 and December 31, 2001. Amounts held for investment include Contracts that do not qualify for Contract securitizations due to delinquency status or minimum balance requirements.

ASSET QUALITY

The Company monitors and attempts to minimize delinquencies and losses through timely collections and the use of predictive dialing and other systems. Annualized net charge-offs as a percentage of the average serviced portfolio were 3.35% for the quarter ended March 31, 2002, compared to 2.68% for the same period in 2001. The increase in charge-offs is principally due to older Contracts that have been impacted by both the slow-down in the economy during 2000 and 2001. At March 31, 2002, thirty plus day delinquencies represented 2.34% of the amount of Contracts in its serviced portfolio compared to 4.01% at December 31, 2001. The reduction in delinquency is principally due to the Company s efforts to improve borrower credit statistics, and to a lesser extent, to seasonal fluctuations. Off balance sheet reserves at March 31, 2002 were 3.6%, compared to 4.2% at December 31, 2001. Off balance sheet reserves are those reserves established and maintained on Contracts sold to the grantor and owner trusts in connection with securitizations. The allowance for loan loss 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 EXPERIENCE OF SERVICED PORTFOLIO

	March 31, 2002		December 31, 2001	
	Amount	No.	Amount	No.
	(Dollars in Thousands)			
Serviced portfolio	$2,848,022	289,709	$2,864,338	289,426
Delinquencies(1)(2)				
30 59 days	$ 42,947	5,178	$ 78,056	8,918
60 89 days	11,404	1,448	20,859	2,456
90+ days	12,183	1,814	15,887	2,023
Total	$ 66,534	8,440	$ 114,802	13,397
Total delinquencies as a percent of Serviced portfolio	2.34%	2.91%	4.01%	4.63%

(1) Delinquencies include principal amounts only, net of repossessed inventory and accounts in bankruptcy. Delinquent thirty-plus day repossessed inventory as a percent of the serviced portfolio was 0.71% and 0.77% at March 31, 2002 and December 31, 2001, respectively. Delinquent thirty-plus day Contracts in bankruptcy as a percent of the serviced portfolio were 1.06% and 1.09% at March 31, 2002 and December 31, 2001, respectively.

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

LOAN LOSS EXPERIENCE OF SERVICING PORTFOLIO

	FOR THE THREE MONTHS ENDED MARCH 31,

	2002	2001
	(DOLLARS IN THOUSANDS)	
Average servicing portfolio(1)	$2,857,281	$2,758,385
Number of gross charge-offs	3,303	3,108
Gross charge-offs	$ 28,258	$ 20,907
Net charge-offs(2)	$ 23,922	$ 18,488
Annualized net charge-offs as a percent of average Serviced portfolio	3.35%	2.68%

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(1) Average is based on daily balances.
(2) Net charge-offs are gross charge-offs minus recoveries on Contracts previously charged off.

The following table illustrates the monthly cumulative loss performance of each of the securitized pools outstanding for the period from the date of securitization through March 31, 2002:

MONTH	98-B	98-C	99-A	99-B	99-C	99-D	00-A	00-B	00-C	00-D	01-A	01-B	01-C	01-D	02-A
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%
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%
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%
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%	
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%	
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%	
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%		
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%		
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%		
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%			
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%			
12	1.20%	1.30%	1.29%	1.56%	1.47%	1.20%	1.59%	1.38%	1.29%	1.03%	0.95%				
13	1.36%	1.54%	1.49%	1.79%	1.62%	1.41%	1.82%	1.57%	1.42%	1.25%	1.14%				
14	1.48%	1.73%	1.72%	1.90%	1.77%	1.52%	2.03%	1.84%	1.65%	1.41%	1.31%				
15	1.64%	1.90%	1.90%	2.08%	2.00%	1.70%	2.25%	2.08%	1.93%	1.62%					
16	1.89%	2.10%	2.10%	2.23%	2.08%	2.00%	2.48%	2.26%	2.16%	1.86%					
17	2.05%	2.28%	2.26%	2.42%	2.29%	2.17%	2.64%	2.42%	2.42%	2.04%					
18	2.22%	2.51%	2.46%	2.63%	2.48%	2.40%	2.80%	2.69%	2.65%						
19	2.37%	2.71%	2.59%	2.71%	2.61%	2.61%	2.98%	2.96%	2.97%						
20	2.50%	2.83%	2.71%	2.89%	2.73%	2.87%	3.25%	3.20%	3.25%						
21	2.67%	2.95%	2.83%	3.08%	2.92%	3.05%	3.52%	3.44%	3.48%						
22	2.79%	3.08%	2.88%	3.21%	3.07%	3.20%	3.69%	3.69%							
23	2.92%	3.25%	3.03%	3.31%	3.22%	3.33%	3.91%	3.94%							
24	3.06%	3.39%	3.21%	3.43%	3.32%	3.53%	4.12%	4.18%							
25	3.14%	3.45%	3.28%	3.55%	3.43%	3.70%	4.32%								
26	3.23%	3.57%	3.34%	3.67%	3.65%	3.88%	4.52%								
27	3.28%	3.72%	3.47%	3.77%	3.79%	4.03%									
28	3.35%	3.81%	3.61%	3.88%	3.90%	4.22%									
29	3.45%	3.91%	3.67%	4.01%	4.03%	4.42%									
30	3.50%	4.05%	3.78%	4.14%	4.19%	4.58%									
31	3.57%	4.13%	3.85%	4.25%	4.28%										
32	3.67%	4.21%	3.96%	4.37%	4.43%										
33	3.73%	4.27%	4.07%	4.49%											
34	3.81%	4.33%	4.18%	4.55%											
35	3.86%	4.42%	4.25%	4.66%											
36	3.91%	4.46%	4.32%												
37	4.00%	4.55%	4.37%												
38	4.04%	4.63%	4.44%												
39	4.08%	4.73%													
40	4.13%	4.76%													
41	4.18%	4.80%													
42	4.21%														
43	4.23%														

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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 the further expansion of the Company, Contract purchases, and investments in origination and servicing capabilities.

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 commercial paper obligations. 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 from operating activities. Cash used in operating activities was $10.1 million for the quarter ended March 31, 2002, compared to $14.0 million for the same period in 2001. The reduction in cash used in operating activities for 2002 is principally due to the reduction in Contract purchases for the quarter and the relative size of the Company s securitization for the same period. During the first quarter of 2002, the Company securitized $375.0 million in Contracts and generated approximately $378.2 million in Contract volume. During the first quarter of 2001, the Company securitized $400.0 million in Contracts with Contract volume of $430.5 million.

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 location during the quarter. Management is currently reviewing market conditions in both Ohio and New York. Capital acquisitions of $516.0 thousand during the first quarter of 2002 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. During the quarter, the Company successfully 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 Investor 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 (described below) with affiliates of its securitization underwriters.

CP Facility: As of March 31, 2002, the Company was party to a $355 million warehousing facility (the 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 CP Facility. The 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 its Contracts held for sale to borrow from Triple-A. The CP Facility was renewed in November 2001 for a three-year term, subject to annual renewals by liquidity providers.

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 Company expects each loan to be renewed at term. The CSFB-Europe line was renewed in October 2001 for a one-year term.

As an additional source of funds, the Company utilizes residual securitizations to pay down its residual interest financing credit 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 recently completed its second residual interest securitization for the purpose of providing additional borrowing capacity under its Residual Lines. This transaction was finalized in March of 2002 and generated approximately $75.0 million in proceeds.

Subordinated Debt: As of March 31, 2002, the Company had outstanding approximately $16.1 million of subordinated debt. $3.4 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 $0.7 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 outstanding as of March 31, 2002 was 8.35%. The notes have varying maturities ranging from three months through March of 2007.

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 March 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 and which historically has involved the execution of forward interest rate swaps or use of a pre-funding structure for the Company s securitizations. The Company is not required to maintain collateral on the outstanding hedging program.

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 arrangement is Contract securitizations. Regular 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. The Company completed a AAA/Aaa rated publicly underwritten asset-backed securitization in the amount of $375 million in the first quarter of 2002.

During the second quarter of 2002, the Company executed a securitization totaling $400 million and refinanced the Company s residual securitization from the first quarter of 2000 in the amount of $21.0 million. The Company plans to continue to integrate residual securitizations in its business plan as a regular source of liquidity.

The net proceeds of securitizations are used to pay down outstanding indebtedness incurred under the Company s credit facilities to purchase Contracts, thereby creating availability for the purchase of additional Contracts. Through March 31, 2002, the Company has securitized $7.1 billion of its Contracts in 27 separate transactions. In each of its securitizations, the Company has sold its Contracts to a newly formed grantor or owner trust, which issues certificates and/or notes in an amount equal to the aggregate principal balance of the 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 issued by MBIA or a predecessor of MBIA (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 Facility 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 Fluctuations).

The Company has the ability to move rates upward in response to rising borrowing costs because the Company currently does not originate Contracts 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 projected next 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 hedges, their correlation to the total consideration to be received in the forecasted securitization 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

On January 25, 2000, a putative class action complaint was filed against the Company and certain of the Company s officers and directors alleging violations of Section 10(b) and 20(a) of the Securities and Exchange Act of 1934 arising from the Company s prior use of the cash-in method of measuring and accounting for credit enhancement assets in the financial statements. The matter is entitled D. Colin v. Onyx Acceptance Corporation, et al. in the U.S. District Court for the Central District of California (Case number SACV 00-0087 (GLT)(EEx)). The Company has asserted that its previous use of the cash-in method of measuring and accounting for credit enhancement assets was consistent with then current generally accepted accounting principles and accounting practices of other finance companies. In February 2001, an amended complaint was dismissed with prejudice by the District Court; the Ninth Circuit Court of Appeals recently affirmed this dismissal.

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

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.

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

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

ITEM 5. OTHER INFORMATION

FORWARD LOOKING STATEMENTS

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

RISK FACTORS

We Need Substantial Liquidity.

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

- acquire Contracts;
- pay dealer participation;
- pay securitization costs and fund related accounts;
- settle hedge transactions;
- satisfy working capital requirements and pay operating expenses; and
- pay interest expense.

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

We have operated on a negative cash flow basis and expect to do so in the future as long as the volume of Contract purchases continues to grow. We have historically funded these negative operating cash flows principally through borrowings from financial

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institutions, sales of equity securities and sales of subordinated notes. We cannot assure you, however, that (1) we will have access to the capital markets in the future for equity, debt issuances or securitizations, or (2) financing through borrowings or other means will be available on acceptable terms to satisfy our cash requirements. If we are unable to access the capital markets or obtain acceptable financing, our results of operations, financial condition and cash flows would be materially and adversely affected. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

We Depend on Warehouse Financing.

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

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

- a minimum ratio of net worth plus subordinated debt to total assets;
- a maximum ratio of credit enhancement assets to tangible net worth; and
- earnings before interest, depreciation and taxes coverage ratio.

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

We Depend on Residual Financing.

When we sell our Contracts in securitizations, we receive cash and a residual interest in the securitized assets (RISA). The RISA represents the future cash flows to be generated by the Contracts in excess of the interest paid on the securities issued in the securitization and other costs of servicing the Contracts and completing the securitization. (See Management s Discussion and Analysis of Financial Condition and Results of Operations Securitizations). We typically use the RISA from each securitization as collateral to borrow cash under our Residual Lines to finance our operations. The amount of cash advanced by our lenders under our Residual Lines depends on a collateral formula that is determined in large part by how well our securitized Contracts perform. If our portfolio of securitized Contracts experience higher delinquency and loss ratios than expected, then the amount of money we can borrow under the Residual Lines would be reduced. The reduction in availability under these Residual Lines could materially and adversely affect our operations, financial condition and cash flows. Additionally, we are subject, under the documentation governing the Residual Lines, to certain financial covenants. During the first quarter of 2002, the Company recorded a $1.35 million write-down of the Company s RISA asset stemming from higher than expected losses and delinquency on a securitization executed prior to 2001. This write-down reduced the amount of cash available to the Company through its Residual Lines. The Company attributes a portion of the higher losses and delinquency experienced to the general economic slow-down the nation experienced and the events of September 11th.

We Depend on Residual Securitizations.

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

We Depend on Securitizations to Generate Revenue.

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

- conditions in the securities markets generally;
- conditions in the asset-backed securities market specifically;
- the credit quality of our portfolio of Contracts; and
- our ability to obtain credit enhancement.

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

We Depend on Credit Enhancement.

From inception through March 31, 2002, each of our securitizations has utilized credit enhancement in the form of a financial guarantee insurance policy in order to achieve AAA/Aaa ratings. This form of credit enhancement reduces the cost of the securitizations relative to alternative forms of credit enhancement currently available to us. We cannot assure you that:

- we will be able to continue to obtain credit enhancement in any form from our current provider;
- we will be able to obtain credit enhancement from any other provider of credit enhancement on acceptable terms; or
- future securitizations will be similarly rated.

We also rely on a financial guarantee insurance policy to reduce our borrowing cost under the CP Facility. If our current provider s credit rating is downgraded or if it withdraws our credit enhancement, we could be subject to higher interest costs for our future securitizations and financing costs during the warehousing period. Such events could have a material adverse effect on our results of operations, financial condition and cash flows.

We Are Subject to Interest Rate Fluctuations.

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

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

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

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

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

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

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

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

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

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

We Will Be Adversely Affected If We Lose Servicing Rights.

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

loss of the servicing rights under our sale and servicing agreement for the CP Facility;

loss of the servicing rights under the applicable pooling and servicing or sale and servicing agreement of a grantor trust or owner trust, respectively; or

a trigger event that would block release of future excess cash flows generated from the grantor trusts or owner trusts respective spread accounts.

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

Our Quarterly Earnings May Fluctuate.

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

- the timing and size of our securitizations;
- variations in the volume of our Contract acquisitions;
- the interest rate spread between our cost of funds and the average interest rate of purchased Contracts;
- the effectiveness of our hedging strategies;
- the investor rate for securitizations; and
- the marketability and execution of our residual interest securitizations.

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

We Depend on Key Personnel.

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

Our Industry is Highly Competitive.

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

We May Be Harmed by Adverse Economic Conditions.

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

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

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We Are Subject to System Risks.

As of July 1, 2001, the Company converted from an external service provider for its loan accounting and collections system to an in-house system. If issues with the in-house system arise in the future, we may be unable to acquire Contracts and service the outstanding portfolio. The failure of this system could materially and adversely affect our results of operations, financial condition and cash flows.

We Are Subject to Many Regulations.

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

- require us to obtain and maintain certain licenses and qualifications;
- limit the interest rates, fees and other charges we are allowed to charge;
- limit or prescribe certain other terms of our Contracts;
- require specific disclosures; and
- define our rights to repossess and sell collateral.

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

- applicable laws and regulations;
- changes in existing laws or regulations;
- changes in the interpretation of existing laws or regulations; or
- any additional laws or regulations that may be enacted in the future.

We Are Subject to Litigation Risks.

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

For example, on January 25, 2000, a putative class action complaint was filed against us and certain of our officers and directors alleging violations of Section 10(b) and 20(a) of the Securities and Exchange Act of 1934 arising from our prior use of the cash-in method of measuring and accounting for credit enhancement assets in the financial statements. The matter is entitled D. Colin v. Onyx Acceptance Corporation, et al. in the U.S. District Court for the Central District of California (Case number SACV 00-0087 (GLT)(EEx)). We have asserted that our previous use of the cash-in method of measuring and accounting for credit enhancement assets was consistent with then current generally accepted accounting principles and accounting practices of other finance companies. In February 2001, an amended complaint was dismissed with prejudice by the District Court; the Ninth Circuit Court of Appeals recently affirmed this dismissal.

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

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Item 2. ***Properties***

The Company did not own any real property at March 31, 2002. The Company s leases approximately 82,000 square feet of office space for its headquarters located in Foothill Ranch, California. The Company also leases office space for its Auto Finance Centers and its Hazelwood, Missouri collection center; the average size of an Auto Finance Center is generally four to five thousand square feet. The Hazelwood collection center is in approximately 20,000 square feet. One Auto Finance Center is located in the corporate headquarters building.

ITEM 6. EXHIBITS AND REPORTS OF FORM 8-K

(a) Exhibits

EXHIBIT NUMBER	EXHIBIT TITLE
4.2	Indenture, dated as of February 11, 2002, by and between Onyx Acceptance Corporation, as Obligor, and U.S. Bank National Association, a national banking association, as trustee.*
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.

10.121 Indenture, dated February 20, 2002, between Onyx Acceptance Residual Funding Owner Trust 2002-A, as Issuer, and JPMorgan Chase Bank, as Indenture Trustee. 10.122 Trust Agreement, dated March 15, 2002, among Onyx Acceptance Financial Corporation, as Depositor, Bankers Trust (Delaware), as Owner Trustee, and JPMorgan Chase Bank, as Trust Agent, with respect to Onyx

Acceptance
Residual
Funding
Owner Trust
2002-A. 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. 10.124
Amended and
Restated Trust
Agreement,
dated
April 12,
2002, among
Onyx
Acceptance
Financial
Corporation,
as Depositor,
Bankers Trust
(Delaware),
as Owner
Trustee, and
JPMorgan
Chase Bank,
as Trust
Agent, with
respect to
Onyx
Acceptance
Residual
Funding
Owner Trust
2000-A1. 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.*
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.**
21.1	Subsidiaries of the Registrant.

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* Previously filed with the Commission as an exhibit to the Registrant s Form 8-K on March 1, 2002.

** Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K filed February 7, 2002. (File No. 333-51636).

(b) REPORTS ON FORM 8-K

None.

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SIGNATURE

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

ONYX ACCEPTANCE CORPORATION

By: /s/ JOHN W. HALL

John W. Hall
President and Principal Executive Officer

Date: May 15, 2002

By: /s/ DON P. DUFFY

Don P. Duffy
Executive Vice President and
Principal Financial Officer

Date: May 15, 2002

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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. 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. 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.

10.124 Amended and Restated Trust Agreement, dated April 12, 2002, among Onyx Acceptance Financial Corporation, as Depositor, Bankers Trust, as Owner Trustee, and JPMorgan Chase Bank, as Trust Agent.

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.*

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.** 21.1 Subsidiaries of the Registrant.

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