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ONYX ACCEPTANCE CORP
Form 10-K
April 02, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(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, 2000

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 Form 10-K or any amendments to

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this Form 10-K. []

The number of shares outstanding of the Company's Common Stock as of the closing of the market on March 19, 2001 was 4,989,504. The registrant does not have different classes of Common Stock. Based on the closing sale price of \$3.69 the registrant's Common Stock as quoted on the Nasdaq National Market on March 19, 2001, the aggregate market value of such stock held by non-affiliates of the registrant was approximately \$11.7 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 31, 2001, to be filed with the Commission pursuant to Regulation 14A, are incorporated by reference in Part III of this Report.

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ANNUAL REPORT ON FORM 10-K

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PART I

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FORWARD-LOOKING STATEMENTS

When used throughout this Annual Report, the words "believes", "anticipates" and "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to the many risks and uncertainties which affect the Company's business and actual results could differ materially from those projected and forecasted. These uncertainties, which include competition within the automobile finance industry, the effect of economic conditions, litigation risks and the availability of capital to finance planned growth, are described, but are not limited to those disclosed in this Annual Report. These and other factors which could cause actual results to differ materially from those in the forward-looking statements are discussed under the heading "Risk Factors." Given these uncertainties, readers are cautioned not to place undue reliance on such statements. The Company also undertakes no obligation to publicly release the result of any revisions to these forward looking statements that may be made to reflect any future events or circumstances.

ITEM 1. BUSINESS

GENERAL

Onyx Acceptance Corporation, a Delaware Corporation, ("Onyx" or 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"). The Company was founded in August 1993 by a team of executives with extensive automobile finance experience in the major aspects of near-prime auto lending, including underwriting, servicing, information systems implementation, interest rate management, securitizations and auto dealer center management. The Company focuses its efforts on acquiring near-prime Contracts collateralized by late model used and, to a lesser extent, new motor vehicles, entered into with purchasers whom the Company believes have a favorable credit profile. Since commencing the purchase, origination and servicing of Contracts in February 1994, the Company has purchased or originated in excess of \$5.5 billion in Contracts, has completed 22 securitizations and currently has an active dealer base of approximately 9,700 dealerships. The Company has expanded its operations pursuant to its managed growth strategy from a single office in Orange County, California to 19 auto finance centers (the "Auto Finance Centers") serving most regions of the United States.

MARKET AND COMPETITION

The Company operates in a highly competitive market. The automobile finance market has historically been serviced by a variety of financial entities including the captive finance affiliates of major automotive manufacturers, banks, savings associations, independent finance companies, credit unions and leasing companies. A number of these competitors have greater financial resources than the Company. Many of these competitors also have long-standing relationships with automobile dealerships and may offer dealerships or their customers other forms of financing or services not provided by the Company.

The Company competes for the purchase of Contracts which meet its underwriting criteria on the basis of emphasizing strong relationships with its dealership customer base through its local presence. The Company supports its dealership customer base with an operation that is open seven days a week, and has the ability to finalize purchases of Contracts on weekends. The Company believes that its strong personal relationships with and its level of service to the dealerships in its customer base provide a competitive advantage to the Company.

BUSINESS STRATEGY

The Company's principal objective remains to become one of the leading sources of near-prime auto lending in the United States by leveraging the experience of its senior management team in this industry. The Company seeks to maintain and increase profitability through the implementation of the following strategies:

Targeted Market and Product Focus: The Company targets the near-prime auto lending market because it believes that near-prime lending produces greater origination and operating efficiency than does sub-prime lending. The Company focuses on late model used rather than new vehicles, as management believes the risk of loss on used vehicles is lower due to lower depreciation rates, while interest rates are typically higher. In addition, the Company believes that the late model used motor vehicle finance market is growing at a faster rate than is the finance market for new motor vehicles.

Localized Dealership Service: The Company provides a high level of service to its dealership base by underwriting and purchasing Contracts and marketing to and servicing dealerships on a local level through its Auto Finance Centers. The Company strategically locates its Auto Finance Centers in geographic areas of high dealership concentration to facilitate personal service in the local markets, including consistent buying practices, operations open seven days a week, competitive rates, a dedicated dealer service staff, fast turnaround time and systems designed to expedite the processing of Contract applications. This personal service is provided by a team of experienced account managers (the "Account Managers") with an established reputation for responsiveness and integrity who call on dealerships in a consistent and professional manner. The Company believes that its local presence and service provide the opportunity to build strong and lasting relationships with dealerships.

Expansion of Dealership Customer Base: The Company establishes active relationships with a substantial percentage of franchised dealerships in the regions in which it does business through its 19 existing Auto Finance Centers. The Company intends to establish additional relationships within its existing market areas in 2001, and contemplates opening new Auto Finance Centers in 2002.

Maintenance of Underwriting Standards and Portfolio Performance: The Company has developed an underwriting process that is designed to achieve attractive yields while minimizing delinquencies and losses. Based on its belief that a standardized commercially available credit scoring system is a less effective means of assessing credit risk, especially in the near-prime sector, the Company employs experienced credit managers (the "Credit Managers") in the local Auto Finance Centers to purchase Contracts satisfying the underwriting criteria developed by the Company. The Company's Credit Managers and Account Managers are compensated as a team and their compensation relies, in part, upon the quality of underwriting of the Contracts they approve. The Company has developed a credit review process where a post funding audit is performed on most purchases and originations by reviewing Contracts against the Company's underwriting standards within 48 hours after they have been funded. This audit provides feedback to enhance the underwriting process. To further monitor the integrity of the underwriting process, management regularly tracks the yields, delinquency and loss rates of Contracts purchased by each Credit and Account Manager team.

Technology-Supported Operational Controls: The Company has developed and instituted control and review systems that enable it to monitor both the operations of the Company and the performance of the serviced portfolio. These risk management systems allow senior management to monitor Contract production,

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yields and performance on a real-time basis. The Company believes that its information systems not only enhance its internal controls but also allow it to significantly expand its serviced portfolio without a significant corresponding increase in its labor costs.

Liquidity Through Warehousing and Securitizations: The Company's strategy is to complete securitizations on a regular basis and to use warehouse credit facilities to fund Contracts prior to securitization. To fund dealer participation and finance daily operations the Company relies to a significant extent on credit facilities that are collateralized by the Company's retained interest in securitized assets ("RISA"). The Company also utilizes both securitization and hedging strategies to leverage its capital efficiently and to substantially reduce its interest rate risk.

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OPERATIONS

Dealership Marketing and Service: As of December 31, 2000, the Company had 19 Auto Finance Centers located throughout the United States and had an active dealer base of approximately 9,700 dealerships. Of these dealerships, approximately 90% are franchised and approximately 10% are independent automobile dealerships. The Company believes that franchised and select independent automobile dealerships are most likely to provide the Company with Contracts that meet the Company's underwriting standards.

The Company has significantly expanded its customer base of automobile dealerships, and has substantially increased both monthly Contract purchases and originations and the size of its serviced portfolio. The following table sets forth information about the Company's Contracts and Auto Finance Centers as of the dates indicated:

| | FOR THE YEARS ENDED DECEMBER 31, | | | |
|--|----------------------------------|-----------|-------------|-------------|
| | 1996 | 1997 | 1998 | 1999 |
| | (DOLLARS IN THOUSANDS) | | | |
| Number of auto finance centers..... | 9 | 10 | 14 | 17 |
| Number of contracts purchased..... | 26,244 | 50,214 | 86,150 | 127,628 |
| Dollar volume of contracts collateralized by new vehicles..... | \$ 68,654 | \$129,178 | \$ 186,654 | \$ 245,058 |
| Dollar volume of contracts collateralized by used vehicles..... | \$251,186 | \$476,727 | \$ 851,881 | \$1,313,946 |
| Dollar volume of contracts..... | \$319,840 | \$605,905 | \$1,038,535 | \$1,559,004 |
| Average dollar volume of contracts per auto finance center..... | \$ 35,538 | \$ 60,591 | \$ 74,181 | \$ 91,706 |
| Number of active dealerships..... | 1,471 | 2,846 | 5,401 | 7,617 |
| Serviced portfolio..... | \$400,665 | \$757,277 | \$1,345,961 | \$2,133,460 |

The Company's growth objectives over the next 12 months are to expand its financing reach in metropolitan areas within the United States and to further develop relationships with existing franchised and select used dealerships in the states where the Company is currently doing business. At present, the Company does not intend to open new Auto Finance Centers in 2001.

The Account Managers work from the Auto Finance Centers to solicit, enroll and educate new dealerships as well as to maintain relationships with the

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Company's existing dealership customer base. Each Account Manager visits the dealership finance manager at each targeted dealership in his or her territory and presents information about the Company's dealership services. The Company's services include service hours seven days a week and the ability to rapidly respond to credit applications. The Account Managers educate the dealership finance managers about the Company's underwriting philosophy, including its preference for near-prime quality Contracts collateralized by late model used motor vehicles and its practice of using experienced Credit Managers (rather than sole reliance upon computerized scoring systems) to review applications.

The Account Managers also advise the dealership finance managers regarding the Company's commitment to serve a broad scope of qualified borrowers through its three near-prime auto lending programs: the "Premier", the "Preferred", and the "Standard" Programs. The Premier Program allows the Company to market lower interest rates in order to capture customers of superior credit quality. The Preferred Program allows the Company to offer Contracts at higher interest rates to borrowers with proven credit quality. The Standard Program allows the Company to assist qualified borrowers, who may have experienced previous credit problems or have not yet established a significant credit history, at interest rates higher than the Company's other programs.

The Company enters into a non-exclusive dealership agreement containing certain representations and warranties by the dealership about the Contracts. After this relationship is established, the Account Managers continue to actively monitor the relationship to meet the Company's objectives with respect to the volume of applications satisfying the Company's underwriting standards. Due to the non-exclusive nature of the Company's relationships with dealerships, the dealerships retain discretion to determine whether to solicit financing from the Company or from another source or sources for a customer seeking to finance a vehicle

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purchase. The Account Managers regularly telephone and visit finance managers to reinforce to them the Company's objectives and to answer any questions they may have. To increase the effectiveness of these contacts, the Account Managers can obtain from the Company's management information systems real-time information listing by dealership the number of applications submitted, the Company's response and the reasons why a particular application was rejected. The Company believes that the personal relationships its Account Managers, Credit Managers and Auto Finance Center Managers establish with the finance managers at the dealerships are a significant factor in creating and maintaining productive relationships with its dealership customer base.

UNDERWRITING AND PURCHASING OF CONTRACTS

The Company's underwriting standards are applied by experienced Credit and Account Managers with a personal, hands-on analysis of the creditworthiness of each applicant, rather than sole reliance upon standardized commercially available credit scoring systems used by several of the Company's competitors. The Company believes that credit-scoring systems may approve applicants who are in fact not creditworthy, while denying credit to others whom may have acceptable credit risk for the interest rate being charged. In addition, the Company believes that it can enhance the relationship with its dealership and consumer customer base by having its Credit and Account Managers utilize a rules/exception based automated credit/audit system. The Credit and Account Managers personally review each application and communicate to the submitting dealership the results of the review, including the reasons why a particular application may have been declined. This practice encourages the dealership finance managers to submit Contracts meeting the Company's underwriting standards, thereby increasing the Company's operating efficiency. In order to

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ensure consistent application of its underwriting standards as its volume of Contract purchases increases, the Company has instituted a formal internal training program for new and existing Credit and Account Managers.

The underwriting process begins when an application is faxed by a dealership to a central toll-free number, at the Company's corporate headquarters, where it is input into the Company's front-end application processing system. Each application is evaluated by a Credit or Account Manager in the local Auto Finance Center using uniform underwriting standards developed by the Company. These underwriting standards are intended to assess the applicant's ability to timely repay all amounts due under the Contract and the adequacy of the financed vehicle as collateral. To evaluate credit applications, the Credit or Account Manager reviews, among other things, on-line information, including reports of credit reporting agencies, nationally recognized vehicle valuation services, and ownership of real estate listed on an application. The Company's wide area network permits a Credit or Account Manager in any Auto Finance Center to access an application on a real-time basis. This computer network enables senior management to efficiently review Contracts requiring senior approval, and permits the Company to seamlessly shift underwriting work among any of the Auto Finance Centers to increase operating efficiency. Finally, the Company's risk management reporting system permits daily review by senior management of operating results sorted by any number of variables, including by Credit/Account Manager, Auto Finance Center or dealership.

The Company has installed an in-house grading system to facilitate its current underwriting standards. The system analyzes the borrower's credit profile and collateral and produces a recommended advance guideline. The system also performs additional fraud checks to alert the users of potential problems with the application. The system also ties in the overall Contract grade with the user's credit limits, as each user is assigned a credit limit within each grade the Company offers. If the application falls outside the user's limits, the system will prompt the application to be approved by a higher user level. The system was installed to further enhance the enforcement of the Company's credit policies and to monitor credit exceptions on a real-time basis.

The funds advanced by the Company to purchase a Contract generally do not exceed: (i) for a new financed vehicle, the dealer's invoice plus taxes, title and license fees, any extended warranty and credit insurance; or (ii) for a used financed vehicle, the wholesale value assigned by a nationally recognized vehicle valuation service value guide, plus taxes, title and license fees, any extended warranty and credit insurance. However, the actual amount advanced for a Contract may be limited by a number of factors, including the

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length of the Contract term, the make, model and year of the financed vehicle and the creditworthiness of the obligor. These adjustments are made to insure that the financed vehicle constitutes adequate collateral to secure the Contract. Contracts purchased or originated in 2000 had an average loan to value ratio at purchase or origination of 101% which the Company believes is one of the lowest in the industry.

Once the review of an application is completed, the Credit or Account Manager communicates their decision to the dealership specifying approval, conditional approval (such as an increase in the down-payment, reduction in the term of the financing, or the addition of a co-signer to the Contract), or denial.

The dealership is required to deliver the necessary documentation for each Contract approved for purchase by the Company to the originating Auto Finance Center. The Company audits such documents for completeness and consistency with the application, providing final approval for purchase of the Contract once

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these requirements have been satisfied. The completed Contract file is then promptly forwarded to the corporate headquarters.

The Auto Finance Center purchasing the Contract funds the purchase and may pay the dealer a fee in the form of dealer participation in the finance income. The dealership can receive 100% of the dealer participation, at purchase or at month-end, and the Company is entitled to recover from the dealership over the life of the Contract the unearned portion of the dealer participation in the event of a prepayment of the purchased Contract or charge-off of the Contract. The Company also offers three other participation methods, in which the Company pays less than 100% of the dealer participation, but for which the dealership is under no obligation to refund any unearned participation amount if the Contract defaults or pre-pays after the expiration of a set period of time after the Contract purchase date.

The Company conducts a post-funding credit review of a significant portion of its Contracts. In the review, the funded application is re-examined to ensure compliance with the Company's underwriting requirements. As part of the post-funding review, a predetermined sampling of approximately one out of eight Contracts is selected in which the borrower is contacted to verify certain information on the Contract. The results are then reviewed by senior management to ensure consistent application of the Company's underwriting standards.

The Company employs a compensation system for its Credit Managers, Account Managers and Auto Finance Center Managers as teams, and is designed to reward those employees whose Contract purchases meet the Company's volume and yield objectives while preserving credit quality. Generally, these bonuses are payable monthly, and constitute a significant portion of an employee's compensation. The Company believes this incentive compensation system motivates employees to purchase only those near-prime quality Contracts that meet the Company's objectives of increasing volume at targeted yields while preserving credit quality.

The following table sets forth information about the Company's Contracts as of the dates indicated:

| | FOR THE YEARS ENDED DECEMBER 31, | | | |
|---|----------------------------------|-----------|-------------|-------------|
| | 1996 | 1997 | 1998 | 1999 |
| | (DOLLARS IN THOUSANDS) | | | |
| Contracts purchased..... | \$319,840 | \$605,905 | \$1,038,535 | \$1,559,004 |
| Average contract amount purchased..... | \$ 12.2 | \$ 12.1 | \$ 12.1 | \$ 12.2 |
| Weighted average initial term (months).... | 56.2 | 57.0 | 57.5 | 57.0 |
| Percentage of dollar amount of contracts purchased and collateralized by new motor vehicles..... | 21.47% | 21.32% | 17.97% | 15.72% |
| Percentage of dollar amount of contracts purchased and collateralized by used motor vehicles..... | 78.53% | 78.68% | 82.03% | 84.28% |

Periodically the Company performs an analysis of its serviced portfolio to evaluate the effectiveness of its underwriting guidelines. If external economic factors, credit delinquencies or credit losses change, the

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Company may adjust its underwriting guidelines to maintain the asset quality deemed acceptable by the Company's management.

SERVICING AND COLLECTION PROCEDURES

The Company services all Contracts in its serviced portfolio, but utilizes an external service provider for its loan accounting and collection system processing. The charges associated with this provider are directly correlated to the number of Contracts serviced by the Company. To reduce the costs of its growing portfolio, the Company has acquired a loan accounting and collection system, and is presently customizing it to the Company's specifications to bring the processes in-house in 2001. The contract with the existing external service provider will then be terminated. The Company currently outsources its customer billing functions. Through a service provider, the Company mails to each obligor a monthly billing statement 20 days prior to the due date. The Company believes this method has proven to be more effective in controlling delinquency, and therefore losses, than payment coupon books which are delivered to the obligor at the time the Contract is purchased. The Company charges a late fee, where allowed by law, on any payment received after the expiration of the statutory or contractual grace period. Most payments from obligors are deposited directly into a lockbox account while the remainder of payments are received directly by the Company and promptly deposited by the Company into the lockbox account.

Under the terms of its credit facilities and securitization trusts, the Company acts as servicer with respect to all Contracts purchased or originated in its serviced portfolio. The Company receives servicing fees for servicing securitized Contracts equal to one percent per annum of the outstanding principal balance of such Contracts. The Company services the securitized Contracts by collecting payments due from obligors and remitting such payments to the trustee in accordance with the terms of the servicing agreements. The Company maintains computerized records with respect to each Contract to record receipts and disbursements and to prepare related servicing reports.

COLLECTION PROCEDURES

Collection activities with respect to delinquent Contracts are performed by the Company at its Foothill Ranch, California and Hazelwood, Missouri collection centers. Collection activities include prompt investigation and evaluation of the causes of any delinquency. An obligor is considered delinquent when he or she has failed to make a scheduled payment under the Contract within 30 days of the related due date (each a "Due Date").

To automate its collection procedures, the Company uses features of the computer system of its third party service bureau to provide tracking and notification of delinquencies. The collection system provides relevant obligor information (for example, current addresses, phone numbers and loan information) and records of all Contracts. The system also records an obligor's promise to pay and affords supervisors the ability to review collection personnel activity and to modify collection priorities with respect to Contracts. These processes will also be brought in-house in 2001. The Company utilizes a predictive dialing to make phone calls to obligors whose payments are past due by more than eight days but less than 20 days. The predictive dialer is a computer-controlled telephone dialing system which dials phone numbers of obligors from a file of records extracted from the Contract database. By eliminating time wasted on attempting to reach obligors, this system permits a collector to work on average 3 times the number of accounts. Once a live voice responds to the automated dialer's call, the system automatically transfers the call to a collector and the relevant account information to the collector's computer screen. The system also tracks and notifies collections management of phone numbers that the system has been unable to reach within a specified number of days, thereby promptly identifying for management all obligors who cannot be reached by telephone.

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Once an obligor is 20 days or more delinquent, these accounts are assigned to specific collectors at the Foothill Ranch or Hazelwood collection centers who have primary responsibility for such delinquent accounts until they are resolved. To expedite collections from late paying obligors, the Company uses several Western Union payment services which allow an obligor to remit, any payments which are in turn deposited to the Company's lockbox account.

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Generally, after a scheduled payment under a Contract continues to be past due for between 45 and 60 days, the Company will initiate repossession of the financed vehicle. However, if a Contract is deemed uncollectable, if the financed vehicle is deemed by collection personnel to be in danger of being damaged, destroyed or made unavailable for repossession, or if the obligor voluntarily surrenders the financed vehicle, Onyx may repossess it without regard to the length of payment delinquency. Repossessions are conducted by third parties that are engaged in the business of repossessing vehicles for secured parties. Under California law and the laws of most other states, after repossession, the obligor generally has an additional period of time to redeem the financed vehicle before the financed vehicle may be resold by the Company in an effort to recover the balance due under the Contract.

If the proceeds from the sale of a repossessed vehicle fall short of the balance due on the Contract, the Company will experience a loss. 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.

Upon repossession and sale of the financed vehicle, any deficiency remaining is pursued against the obligor to the extent deemed practical by the Company and to the extent permitted by law. The loss recognition and collection policies and practices of the Company may change over time in accordance with the Company's business judgement.

MODIFICATIONS AND EXTENSIONS

The Company offers certain credit-related extensions to obligors. These extensions are offered only when the Company believes that the obligor's financial difficulty has been resolved or will no longer impair the obligor's ability to make future payments.

INSURANCE

Each Contract requires the obligor to obtain comprehensive and collision insurance with respect to the related financed vehicle with the Company named as a loss payee. In the event that the obligor fails to maintain the required insurance, however, the Company has purchased limited comprehensive and collision insurance from Great American Insurance Companies. A portion of the policy provides the Company with protection on each uninsured or underinsured financed vehicle against total loss, damage or theft. In conjunction with the blanket coverage, the Company also has the ability to place month-to-month insurance certificates through Great American Insurance Companies on uninsured accounts. To further reduce its exposure to uninsured motorists, the Company operates an insurance tracking function at its corporate headquarters. This department systematically records cancellations, expirations and renewals and

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initiates contacts with both obligors and insurers to maximize compliance with Company policy.

FINANCING AND SALE OF CONTRACTS

The Company finances the acquisition and origination of Contracts primarily through its warehouse credit facilities as discussed below:

CP Facilities: As of December 31, 2000, the Company was party to two primary Contract warehousing programs (the "CP Facilities"), one a \$355.0 million facility with Triple-A One Funding Corporation ("Triple-A"), and the other a \$150.0 million facility with Park Avenue Receivables Corporation ("Parco"). Two of the Company's special purpose subsidiaries, Onyx Acceptance Financial Corporation ("Finco") for the Triple-A Facility and Onyx Acceptance Receivables Corporation ("Recco") for the Parco Facility, are the borrowers under the CP Facilities. The CP Facilities are used to fund the purchase or origination of Contracts. Triple-A and Parco are both rated commercial paper asset-backed conduits sponsored by MBIA Insurance Corporation ("MBIA") and The Chase Manhattan Bank ("Chase"), respectively. MBIA provides

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credit enhancement for both facilities by issuing financial guarantee insurance policies covering all principal and interest obligations owed for the borrowings under the facilities. The Company pledges its Contracts held for sale to borrow from Triple-A and from Parco. The Parco Facility was renewed in August 2000, and expires in August 2001, but may be further renewed at the option of the lender. The Triple-A Facility was renewed in September 2000. The Capacity of this line was reduced by \$20.0 million to \$355.0 million. The reduction was the result of a merger of one of the liquidity banks, and is not considered significant to ongoing operations, as the Company has excess borrowing capacity. This facility will expire in September 2001 but may be renewed at the option of the lender.

The Merrill Line: A subsidiary of the Company, Onyx Acceptance Funding Corporation ("Fundco"), had a \$100 million line of credit (the "Merrill Line"), with Merrill Lynch Mortgage Capital, Inc. ("MLMCI"), which provided warehouse funding for the purchase or origination of Contracts and was used in concert with the CP Facilities the Company currently has in place. This line expired in February 2001.

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 Fundco, has three residual financing facilities: a \$20.0 million facility with Merrill Lynch International ("MLI") executed in May 2000, which replaced a prior residual financing facility with MLMCI, and a \$50.0 million line with Salomon Smith Barney Realty Corporation ("SBRC"). The Company also executed a residual financing facility in October 2000 in the amount of \$35.0 million with Credit Suisse First Boston (Europe) Limited, as buyer ("CSFB-Europe"), and Credit Suisse First Boston Corporation, as agent ("CSFB"). The line will be used as an additional liquidity source to fund ongoing operations. (The SBRC facility together with the facility with MLI, and the newest facility with CSFB-Europe described above are 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. The facility provided by MLI has a one year term expiring in May 2001. This line may be renewed at the option of the lender. Each loan under the SBRC line or the CSFB-Europe line matures one

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year after the date of the loan; the Company expects each loan to be renewed at term.

Subordinated Debt: As of December 31, 2000, the Company had outstanding approximately \$19.5 million of subordinated debt. A portion of this amount is being amortized through February 2003. During the second quarter of 2000, the Company issued \$12.0 million in subordinated debt with a stated interest rate of 12.5% and a maturity of June 2006.

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, 2000.

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, until the point where the fair value declines below (\$1.0) million.

Securitization: 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 four AAA/Aaa rated publicly underwritten asset-backed securitizations in the amount of \$1.72 billion in 2000. During the first quarter of 2000, the Company securitized the residual cash flows from 15 of its then currently 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.

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The net proceeds of these 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 December 31, 2000, the Company had securitized approximately \$5.2 billion of Contracts in 22 separate transactions. In each of its securitizations, the Company sold its Contracts to a newly formed grantor or owner trust which issued pass-through certificates or notes in an amount equal to the aggregate principal balance of the 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 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

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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.

GOVERNMENT REGULATION

The Company's operations are subject to regulation, supervision, and licensing under various federal, state and local statutes, ordinances and regulations. The Company is required to comply with the laws of those states in which it conducts operations. Management believes that it is in compliance with these laws and regulations.

Consumer Protection Laws: Numerous federal and state consumer protection laws and related regulations impose substantial requirements upon lenders and servicers involved in consumer finance. These laws include the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Federal Trade Commission Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Magnuson-Moss Warranty Act, the Federal Reserve Board's Regulations B and Z, states' adaptations of the Uniform Consumer Credit Code and of the Uniform Commercial Code (the "UCC") and state motor vehicle retail installment sales acts and other similar laws. These laws, among other things, require the Company to provide certain disclosures to applicants, prohibit misleading advertising and protect against discriminatory financing or unfair credit practices. The Truth in Lending Act and Regulation Z promulgated thereunder require disclosure of, among other things, the payment schedule, the finance charge, the amount financed, the total of payments and the annual percentage rate charged on each retail installment contract. The Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants (including retail installment contract obligors) on the basis of specific enumerated criteria. Creditors are also required to make certain disclosures regarding consumer rights and advise consumers whose credit applications are not approved. The rules of the Federal Trade Commission (the "FTC") limit the types of property a creditor may accept as collateral to secure a consumer obligation, and its holder in due course rules provide for the preservation of the consumer's claims and defenses when a consumer obligation is assigned to a subject holder. With respect to used vehicles specifically, the FTC's rule on Sale of Used Vehicles requires that all sellers of used vehicles prepare, complete and display a Buyer's guide which explains any applicable warranty coverage for such vehicles. Also, some state laws impose finance charge ceilings and other restrictions on consumer transactions and require contract disclosures in addition to those required under federal law. These requirements impose specific statutory liabilities upon creditors who fail to comply with their provisions. In some cases these provisions could affect the Company's ability to enforce Contracts it purchases or originates.

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EMPLOYEES

The Company employs personnel experienced in all areas of loan origination, documentation, collection and administration. The Company employs and trains specialists in loan processing and servicing with minimal crossover of duties. At December 31, 2000, the Company had 896 full-time employees, none of whom were covered by collective bargaining agreements. The Company believes it has good relationships with its employees.

RISK FACTORS

You should carefully consider the following risks in your evaluation of us and our common stock. The risks and uncertainties described below are not the

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only ones facing our Company. Additional risks and uncertainties, including, but not limited to, credit, economic, competitive, governmental and financial factors affecting our operations, markets, financial products, and services and other factors discussed in our filings with the Securities and Exchange Commission may also adversely impact and impair our business. If any of these risks actually occur, our business, results of operations, cash flows or financial condition would likely suffer. In such case, the trading price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock.

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

Whether the CP Facilities continue to be available to us depends on, among other things, whether we maintain a target net yield for the Contracts financed under the CP Facilities and comply with certain financial covenants contained in the sale and servicing agreements between us, as seller, and our wholly-owned

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special purpose finance subsidiaries, Finco or Recco, as applicable, as purchaser. These financial covenants include:

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

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- a maximum ratio of credit enhancement assets to tangible net worth;
- earnings before interest, depreciation and taxes coverage ratio; and
- minimum cash on hand.

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

WE 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 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 experienced higher delinquency and loss ratios than expected, then the amount of money we could 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.

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 December 31, 2000, each of our securitizations has utilized credit enhancement in the form of a financial guarantee insurance

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policy in order to achieve "AAA/Aaa" ratings. This form of

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credit enhancement reduces the cost of the securitizations relative to alternative forms of credit enhancements 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 financial guarantee insurance policies to reduce our borrowing cost under the CP Facilities. 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 Facilities permit us to select maturities of up to 270 days for commercial paper, if we selected a shorter maturity or had a delay in completing a securitization, we would face this risk.

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

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acquisition volume and timing of our securitizations. If such estimates are materially 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. The interest rates are based on 30 day LIBOR and reset each month. In periods of increasing interest rates our cash flows, results of operations and financial condition could be 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 gains on sale of Contracts and our results of operations and cash flows.

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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 Facilities, we are not able to borrow against defaulted Contracts.

Our servicing income can also be adversely affected by prepayment 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 requiring us to pay down amounts outstanding under the facilities or provide additional collateral to cure the 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:

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

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

OUR QUARTERLY EARNINGS MAY FLUCTUATE.

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

- the timing and size of our securitizations;
- 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;

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- the effectiveness of our hedging strategies; and
- the investor rate for 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. Competition for such personnel is intense. 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

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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 markets, 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.

WE ARE SUBJECT TO SYSTEM RISKS

The Company is currently in the process of converting from an external service provider for its loan accounting and collections system to an in-house system. If this process is not completed in a successful manner, or if issues with the in-house system arise in the future, we may be unable to fund Contracts and service the outstanding portfolio. The failure of this process could materially and adversely affect our results of operations, financial condition and cash flows.

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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:

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- 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. Companies in the motor vehicle finance industry have been named as defendants in an increasing number of class action lawsuits brought by purchasers of motor vehicles claiming violation of various federal and state consumer credit and similar laws and regulations. We are defendants in three such consumer class action lawsuits, one of which was served on us in 2000. One such proceeding served in 1999, in which we are a defendant, has been brought as a putative class action and is pending in the State of California. A class was certified in 2000; in the matter, the plaintiffs raise issues regarding the payment of dealer participation to dealers. Another such proceeding, served in 2000, in which we are a defendant, was brought as a putative class action and is pending in the state of New Jersey. This case recently settled for a nominal amount and will be dismissed once the settlement documentation is finalized.

In another such consumer class action, filed and served in 1999, pending in Orange County Superior Court in the state of California, and entitled Jason Bollinger v. Onyx Acceptance Corporation (Action number 807831), the plaintiffs alleged that the we sent defective post-repossession notices to certain California borrowers following the repossession or voluntary surrender of their vehicles. Without admitting liability, we entered into a settlement agreement with respect to this matter, and this agreement was approved by the court in October 2000. Under the terms of the settlement, we refunded certain amounts collected on deficiencies related to class members' accounts (in some instances, with interest) and paid a certain portion of the plaintiff's counsel fees and other amounts. Pursuant to the settlement, the monies from refund checks not cashed by the class members cannot be returned to the Company. In accordance with the settlement, these amounts shall be paid as follows: one-half to the plaintiff's counsel up to a negotiated cap, as an additional attorney's fee award, and the remainder to a non-profit youth soccer organization in Orange County, California where the Company's headquarters is located. One of the children of Mr. Hall, the Company's President and Chief Executive Officer, participates in this organization. Mr. Hall has also volunteered in certain capacities in this organization.

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 the 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 believe that our

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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. As required by the Financial Accounting Standards Board's Special Report, "A Guide to Implementation of Statement 125 on Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, Second Edition," dated

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December 1998 and related statements made by the staff of the Securities and Exchange Commission, we retroactively changed the method of measuring and accounting for credit enhancement assets to the cash-out method and restated our financial statements for 1996, 1997 and the first three fiscal quarters of 1998. In February 2001, an amended complaint was dismissed with prejudice by the court; the plaintiff has filed a notice of appeal.

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

ITEM 2. PROPERTIES

The Company did not own any real property at December 31, 2000. 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 3. 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. 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. The Company is currently a defendant in three consumer class action lawsuits. One such proceeding, served in 1999, in which the Company is a defendant, has been brought as a class action and is pending in the State of California. A class was certified in 2000; in the matter, the plaintiffs raise issues regarding the payment of dealer participation to dealers. Another such proceeding, served in 2000, in which the Company is a defendant, was brought as a putative class action and is pending in the state of New Jersey. This case recently settled for a nominal amount and will be dismissed once the settlement documentation is finalized.

In another such consumer class action, filed and served in 1999, pending in Orange County Superior Court in the state of California, and entitled Jason Bollinger v. Onyx Acceptance Corporation (Action number 807831), the plaintiffs alleged that the Company sent defective post-repossession notices to certain California borrowers following the repossession or voluntary surrender of their vehicles. The Company, without admitting liability, entered into a settlement agreement with respect to this matter, and this agreement was approved by the court in October 2000. Under the terms of the settlement, the Company refunded certain amounts collected on deficiencies related to class members' accounts (in some instances, with interest) and paid a certain portion of the plaintiff's counsel fees and other amounts. Pursuant to the settlement, the monies from refund checks not cashed by the class members cannot be returned to the Company. In accordance with the settlement, these amounts shall be paid as follows: one-half to the plaintiff's counsel up to a negotiated cap, as an additional attorney's fee award, and the remainder to a non-profit youth soccer organization in Orange County, California where the Company's headquarters is located. One of the children of Mr. Hall, the Company's President and Chief Executive Officer, participates in this organization. Mr. Hall has also volunteered in certain capacities in this organization.

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 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 believes 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. As required by the Financial Accounting Standards Board's Special Report, "A Guide to Implementation of Statement 125 on Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, Second Edition," dated December 1998 and related statements made by the staff of the Securities and Exchange Commission, the Company retroactively changed the method of measuring and accounting for credit enhancement assets to the cash-out method and restated the Company's financial statements for 1996, 1997 and the first three fiscal quarters of 1998. In February 2001, an amended complaint was dismissed with prejudice by the court; the plaintiff has filed a notice of appeal.

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 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 fourth quarter of the fiscal year covered by this Annual Report on Form 10-K to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS:
PRICE RANGE OF COMMON STOCK

The Company's Common Stock is traded on the NASDAQ under the symbol "ONYX". The following table provides quarterly high and low closing prices for the Company's Common Stock for the years ended December 31, 2000 and December 31, 1999.

| | HIGH | LOW |
|---------------------|--------|--------|
| | ----- | ----- |
| 1999 | | |
| First quarter..... | \$6.63 | \$5.19 |
| Second quarter..... | \$8.63 | \$5.75 |

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| | | |
|---------------------|--------|--------|
| Third quarter..... | \$9.44 | \$6.69 |
| Fourth quarter..... | \$7.50 | \$6.00 |
| 2000 | | |
| First quarter..... | \$7.00 | \$5.00 |
| Second quarter..... | \$5.38 | \$3.38 |
| Third quarter..... | \$4.89 | \$3.50 |
| Fourth quarter..... | \$4.38 | \$2.63 |

At March 23, 2001, there were approximately 1,421 beneficial holders of the Company's Common Stock.

DIVIDEND POLICY

The Company has never declared or paid dividends on its Common Stock. The Company currently intends to retain any future earnings for its business and does not anticipate declaring or paying any dividends on the Common Stock in the foreseeable future. In addition, the Company's ability to declare or pay dividends is restricted by the terms of certain of its credit facilities.

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ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

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

| | FOR THE YEARS ENDED DECEMBER 31, | | | |
|---------------------------------------|--|----------|-----------|-----------|
| | 1996 | 1997 | 1998 | 1999 |
| | (DOLLARS IN THOUSANDS, EXCEPT FOR PER SHARE AMOU | | | |
| STATEMENT OF OPERATIONS DATA: | | | | |
| REVENUE: | | | | |
| Net interest income..... | \$ 4,690 | \$ 6,594 | \$ 11,731 | \$ 11,873 |
| Servicing fee income..... | 3,236 | 9,189 | 16,663 | 28,877 |
| Gain on sale of contracts..... | 15,251 | 19,586 | 36,417 | 53,920 |
| Total revenues..... | 23,177 | 35,369 | 64,811 | 94,670 |
| EXPENSES: | | | | |
| Provision for credit losses..... | 266 | 785 | 1,580 | 1,246 |
| Interest expense -- other..... | 550 | 1,557 | 4,419 | 5,727 |
| Operating expenses..... | 15,394 | 30,741 | 48,426 | 70,959 |
| Total expenses..... | 16,210 | 33,083 | 54,425 | 77,932 |
| Income before income taxes..... | 6,967 | 2,286 | 10,386 | 16,738 |
| Income taxes..... | 851 | 984 | 4,310 | 6,946 |
| Net income..... | \$ 6,116 | \$ 1,302 | \$ 6,076 | \$ 9,792 |
| Net income per share of Common Stock: | | | | |

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| | | | | | |
|--|-----------|-----------|-------------|-------------|----|
| Basic..... | \$ 1.19 | \$ 0.22 | \$ 0.99 | \$ 1.59 | \$ |
| Diluted..... | \$ 1.09 | \$ 0.21 | \$ 0.95 | \$ 1.50 | \$ |
| Basic shares outstanding (in thousands)..... | 5,159 | 6,000 | 6,112 | 6,174 | |
| Diluted shares outstanding (in thousands)..... | 5,585 | 6,294 | 6,425 | 6,514 | |
| OPERATING DATA: | | | | | |
| Contracts purchased during the period... | \$319,840 | \$605,905 | \$1,038,535 | \$1,559,004 | \$ |
| Number of contracts purchased during the period..... | 26,244 | 50,214 | 86,150 | 127,628 | |
| Contracts securitized during the period..... | \$405,514 | \$527,276 | \$ 911,760 | \$1,450,000 | \$ |
| Number of active dealerships (at end of period)..... | 1,471 | 2,846 | 5,401 | 7,617 | |
| Operating expenses as percentage of average serviced portfolio during the period(1)..... | 4.9% | 5.5% | 4.7% | 4.1% | |
| SELECTED PORTFOLIO DATA: | | | | | |
| Serviced portfolio (at end of period)... | \$400,665 | \$757,277 | \$1,345,961 | \$2,133,460 | \$ |
| Average serviced portfolio during the period(1)..... | \$311,340 | \$563,343 | \$1,023,237 | \$1,728,875 | \$ |
| Number of contracts in serviced portfolio (at end of period)..... | 38,275 | 73,502 | 131,862 | 209,745 | |
| Weighted average annual percentage rate (at end of period) (2)..... | 14.72% | 14.66% | 14.72% | 14.77% | |
| Delinquencies as a percentage of the dollar amount of serviced portfolio (at end of period) (3)..... | 2.03% | 2.13% | 2.54% | 2.81% | |
| Net charge-offs as a percentage of the average serviced portfolio during the period(1)..... | 1.63% | 2.03% | 1.72% | 1.85% | |

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AS OF DECEMBER 31,

1996 1997 1998 1999

(DOLLARS IN THOUSANDS)

| | | | | | |
|--|--------|---------|----------|----------|----|
| BALANCE SHEET DATA: | | | | | |
| Cash and cash equivalents..... | \$ 603 | \$ 991 | \$ 1,929 | \$ 5,190 | \$ |
| Contracts held for sale(4)..... | 12,238 | 63,380 | 151,952 | 229,475 | |
| Credit enhancement assets..... | 37,144 | 71,736 | 112,953 | 142,884 | |
| Total assets..... | 54,083 | 141,836 | 275,422 | 393,835 | |
| Warehouse borrowings..... | 10,108 | 60,506 | 150,044 | 232,288 | |
| Excess servicing and residual lines..... | 2,500 | 30,000 | 49,556 | 55,880 | |
| Subordinated debt..... | 0 | 0 | 10,000 | 10,000 | |
| Stockholders' equity..... | 36,358 | 37,717 | 43,824 | 53,108 | |

(1) Averages are based on daily balances.

(2) The weighted averages are based on the serviced portfolio outstanding at the

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end of the period.

- (3) Excludes repossessed inventory and accounts in bankruptcy.
- (4) Contracts held for sale excludes dealer participation and allowance for credit losses. See Note 4 to the Consolidated Financial Statements.

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ITEM 7. 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 \$5.5 billion in Contracts and currently has an active dealer base of over 9,700 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.

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, | | |
|--|----------------------------------|-------------|-------------|
| | 1998 | 1999 | 2000 |
| | (DOLLARS IN THOUSANDS) | | |
| Contracts purchased during year..... | \$1,038,535 | \$1,559,004 | \$1,671,703 |
| Average monthly purchases during the year..... | 86,544 | 129,917 | 139,308 |
| Gain on sale of contracts..... | 36,417 | 53,920 | 45,029 |
| Total revenue(1)..... | 64,811 | 94,670 | 100,857 |
| Contracts securitized during the year..... | 911,760 | 1,450,000 | 1,720,000 |
| Serviced portfolio at year end..... | 1,345,961 | 2,133,460 | 2,690,607 |

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

CONTRACTS PURCHASED AND SERVICED PORTFOLIO

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Since its inception, the Company has experienced continuing growth in its purchased volume of Contracts. Acquisition volume for the year ended December 31, 2000, was \$1.7 billion compared to \$1.6 billion for the year ended December 31, 1999, representing an increase of 6.25%. This growth in acquisition volume is attributable primarily to the opening of two new Auto Finance Centers in the first half of 2000.

Contract purchases during the second half of the year slowed as management discontinued its branch expansion efforts after the second quarter. Management believes that the current market environment has become irrational due to increases in the offering of contract terms over 60 months on used cars and the increasing dollar amount of loan proceeds offered in excess of the value of the related financed vehicle. These factors, as well as the anticipated slowing of the economic environment, were considered by management and the decision was made to reduce the rate of growth in the Company. Management has focused 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 not only the speed of the decision but also the ability of our credit officers to make a decision that is acceptable. Management has also enhanced the post funding review process of the underwriting decision so that the process is more automated. Management will return to its expansion plans when it determines that the market environment has improved.

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The Company's increase in Contract acquisition volume has resulted in the growth in the Company's serviced portfolio. The serviced portfolio at December 31, 2000, was \$2.7 billion compared to \$2.1 billion at December 31, 1999, an increase of 28.5%.

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

The Company had net income of \$5.8 million for the year ended December 31, 2000, compared to net income of \$9.8 million and \$6.1 million for the years ended December 31, 1999 and 1998, respectively. The decrease in net income from 1999 to 2000 is attributable to the interest rate spread compression experienced on Contracts securitized during the year coupled with an increase in the loan loss reserve rate. Off balance sheet reserves increased to 4.6% of the sold portion of the portfolio at December 31, 2000 compared to 4.4% at December 31, 1999. The weighted average gross spread for securitizations executed during the current year was 7.68% compared to 8.40% in 1999. The increase in net income from 1998 to 1999 is attributable to a 59% increase in the dollar volume of Contracts securitized, resulting in a 48% increase in gains on sales, higher servicing fee income due to an increase in the serviced portfolio and improvements in the cost structure of the Company.

Net Interest Income. Net interest income consists primarily of the difference between the finance revenue earned on Contracts held on the balance sheet during the warehousing period and the interest costs associated with the Company's borrowings to purchase such Contracts.

Net interest income declined by 30.2% to \$8.3 million for 2000, from \$11.9 million during 1999, and \$11.7 million during 1998. The reduction in 2000 was principally due to the increase in the cost of warehouse borrowings during the year and a reduction in the average amount of Contracts held for sale. The weighted average cost of warehouse borrowings increased to 7.42% for 2000, compared to 6.32% and 6.72% for 1999 and 1998 respectively. Due to the prefunding structure of the securitizations executed during the current year,

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the average amount of Contracts held for sale during 2000 decreased to \$159.2 million, compared to \$163.4 million and \$148.7 million in 1999 and 1998 respectively. A prefunded securitization reduces the time period that Contracts are held for sale. A prefunded structure allows the Company to mitigate its interest rate risk in a rising rate environment by locking in the rate for future fixed rate Contract acquisitions. Additionally, it permits the Company to time its securitizations earlier in the quarter when transaction volumes are lower, thus enabling the Company to take advantage of market conditions.

Servicing Fee Income. Contractual servicing is earned at a rate of 1.0% per annum on the outstanding principal balance of Contracts securitized. Excess servicing income is dependent upon the average excess spread on the Contracts sold and the performance of those Contracts. 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 increased to \$47.5 million for the year ended December 31, 2000, from \$28.9 million for the year ended December 31, 1999, and from \$16.7 million for the year ended December 31, 1998. The increase was primarily attributable to an increase in the size of the average sold portion of the serviced portfolio. For the year ended December 31, 2000, the size of the average sold portion of the serviced portfolio increased to \$2.3 billion from \$1.6 billion from \$875.0 million for the same period in 1999 and 1998, 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, and is amortized against servicing income over the life of the Contracts. The gain recorded in the statement of income is adjusted for prepaid dealer participation, issuance costs and the effect of hedging activities. The gains on sales of Contracts is affected by the amount of Contracts securitized and the net interest rate spread on those Contracts.

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The following table illustrates the net interest rate spread for each of the Company's securitizations:

| SECURITIZATION | SECURITIZATION TRANSACTIONS (4) | | | | |
|---------------------------|---------------------------------|---|---|---|---------------------|
| | ORIGINAL BALANCE | REMAINING BALANCE AT DECEMBER 31, 2000 | WEIGHTED AVERAGE CONTRACT RATE (1) | WEIGHTED AVERAGE INVESTOR RATE (1) | GROSS SPREAD (2) |
| | (DOLLARS IN THOUSANDS) | | | | |
| 1994-1 Grantor Trust..... | \$ 38,601 | Paid in Full | 13.75% | 6.90% | 6.85% |
| 1995-1 Grantor Trust..... | 105,000 | Paid in Full | 14.94 | 7.00 | 7.94 |
| 1996-1 Grantor Trust..... | 100,500 | Paid in Full | 15.07 | 5.40 | 9.67 |
| 1996-2 Grantor Trust..... | 85,013 | Paid in Full | 14.84 | 6.40 | 8.44 |
| 1996-3 Grantor Trust..... | 120,000 | Paid in Full | 14.54 | 6.45 | 8.09 |
| 1996-4 Grantor Trust..... | 100,000 | Paid in Full | 14.80 | 6.20 | 8.60 |
| 1997-1 Grantor Trust..... | 90,000 | Paid in Full | 13.86 | 6.55 | 7.31 |
| 1997-2 Grantor Trust..... | 121,676 | \$ 12,578 | 14.85 | 6.35 | 8.50 |
| 1997-3 Grantor Trust..... | 149,600 | 20,990 | 14.77 | 6.35 | 8.42 |
| 1997-4 Grantor Trust..... | 166,000 | 28,974 | 14.69 | 6.30 | 8.39 |

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| | | | | | |
|---------------------------|-------------|--------------|-------|------|------|
| 1998-1 Grantor Trust..... | 173,000 | 36,131 | 14.91 | 5.95 | 8.96 |
| 1998-A Owner Trust..... | 208,759 | 52,023 | 14.73 | 5.87 | 8.86 |
| 1998-B Owner Trust..... | 250,000 | 77,662 | 14.73 | 5.78 | 8.95 |
| 1998-C Owner Trust..... | 280,000 | 101,015 | 14.89 | 5.72 | 9.17 |
| 1999-A Owner Trust..... | 310,000 | 124,786 | 14.33 | 5.73 | 8.60 |
| 1999-B Owner Trust..... | 350,000 | 168,046 | 14.65 | 5.86 | 8.79 |
| 1999-C Owner Trust..... | 400,000 | 225,096 | 14.82 | 6.62 | 8.20 |
| 1999-D Owner Trust..... | 390,000 | 242,737 | 15.01 | 6.90 | 8.11 |
| 2000-A Owner Trust..... | 430,000 | 306,436 | 14.86 | 7.26 | 7.60 |
| 2000-B Owner Trust..... | 450,000 | 354,162 | 15.18 | 7.29 | 7.89 |
| 2000-C Owner Trust..... | 440,000 | 383,311 | 15.16 | 7.18 | 7.98 |
| 2000-D Owner Trust..... | 400,000 | 379,460 | 13.95 | 6.76 | 7.19 |
| | ----- | ----- | | | |
| Total..... | \$5,158,149 | \$ 2,513,407 | | | |
| | ===== | ===== | | | |

-
- (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 1.75% per month of the original number of Contracts in the original pool balance ("ABS"), a discount rate ranging from 3.5% to 4.5% above the weighted average investor rate, and utilizes a lifetime loss rate ranging from 3.5% to 4.3% of the original balance, for all remaining securitizations.

The Company completed four securitizations totaling \$1.72 billion during the year ended December 31, 2000, resulting in gains on sale of Contracts of \$45.0 million, compared to four securitizations totaling \$1.45 billion, resulting in gains on sale of Contracts totaling \$53.9 million, and four securitizations totaling \$911.8 million and a whole loan sale of \$15 million during the year ended December 31, 1998, resulting in gains on sale of Contracts of \$36.4 million. These reductions in gains are in line with management's objective to become less reliant on the initial gain-on-sale accounting for its reported financial results.

The reduction in the gain as a percentage of the Contracts securitized was attributable to a combined decrease in net interest rate spreads and an increase in credit loss assumptions during the year ended December 31, 2000. Annual loss assumptions for the second, third and fourth quarter securitizations of 2000 were increased from 2.30% to 2.55% to counter increased losses in the serviced portfolio. The average net interest rate spread on the 2000 securitizations was 2.41% compared to 3.15% in 1999 and 3.36% in 1998.

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.

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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.

Provision for Credit Losses. The Company maintains an allowance for credit losses to cover anticipated losses on the Contracts held 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 on the statement of financial condition or by the sale of Contracts held on the statement of financial condition. The level of the allowance is based principally on the outstanding balance of Contracts held on the statement of financial condition, and historical loss trends. When the Company sells Contracts in a securitization transaction, it reduces its allowance for credit losses and factors potential losses into its calculations of gain on sale. The Company believes that the allowance for credit losses is currently adequate to absorb potential losses in the owned portfolio.

The provision for credit losses was \$989.5 thousand during 2000 compared to \$1.2 million during 1999 and \$1.6 million during 1998. The reduction in provision for credit losses in 2000 relative to 1999 was due primarily to a reduction in the year over year net change in Contracts held for sale. At year-end 2000, Contracts held for sale decreased by \$55.7 million over year-end 1999, while at year-end 1999, Contracts held for sale increased \$77.5 million over year-end 1998.

Salaries and Benefits Expense. The Company incurred salary and benefit expenses of \$46.3 million during the year ended December 31, 2000, compared to \$40.0 million during the year ended December 31, 1999, and \$26.8 million for the year ended December 31, 1998. In order to support the growth of its operations and the serviced portfolio, the number of employees increased from 526 at December 31, 1998, to 715 at December 31, 1999 and to 896 at December 31, 2000.

System and Servicing Expense. System and servicing expense increased to \$5.5 million, compared to \$4.3 million and \$2.1 million for the years end December 31, 2000, 1999 and 1998 respectively. Currently, the Company uses an external service provider for its loan accounting system. The charges associated with this provider are directly correlated to the number of Contracts serviced by the Company. The Company has acquired a loan accounting and collection system, and intends to bring these processes in-house in 2001. As of December 31, 2000, the Company serviced approximately 269,000 accounts, compared to approximately 210,000 accounts at year end 1999 and 132,000 accounts at year end 1998. The increases in systems and servicing expense also reflect higher consulting fees in connection with the customization of the Company's new loan accounting and collection system.

Telephone and Data Line Expenses. Telephone and data line expenses remained relatively stable at approximately \$6.0 million from \$6.1 million and \$4.2 million for the years ended December 31, 2000, 1999 and 1998, respectively. Although these charges generally increase with the growth of the serviced portfolio, the stability between 1999 and 2000 was primarily due to renegotiated contracts for long distance rates with certain 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.

Depreciation Expense. Depreciation expense increased to \$4.4 million from \$3.5 million and \$2.1 million for the years ended December 31, 2000, 1999, and 1998, respectively. These increases are in line with the Company's continued investment in technology and infrastructure to support the growth of the

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serviced portfolio.

Other Operating Expenses. Other operating expenses increased to \$22.2 million for the year ended December 31, 2000, from \$17.1 million for the year ended December 31, 1999, and from \$13.3 million for the year ended December 31, 1998. The majority of the increases were due to the growth of the average serviced

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portfolio from \$1.0 billion to \$1.7 billion and \$2.5 billion for the years ended December 31, 1998, 1999 and 2000, respectively. Additionally, the Company opened new Auto Finance Centers during the years ended December 31, 2000, 1999 and 1998.

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 1998 through 2000.

FINANCIAL CONDITION

CONTRACTS HELD FOR SALE

Contracts held for sale totaled \$173.8 million at December 31, 2000, compared to \$229.5 million at December 31, 1999. The number and principal balance of Contracts held for sale is largely dependent upon the timing and size of the Company's securitizations.

CREDIT ENHANCEMENT ASSETS

Credit enhancement assets consisted of the following:

| | AS OF DECEMBER 31, | |
|-----------------------|------------------------|-----------|
| | 1999 | 2000 |
| | ----- | ----- |
| | (DOLLARS IN THOUSANDS) | |
| Trust receivable..... | \$ 5,713 | \$ 7,510 |
| RISA..... | 137,171 | 138,503 |
| | ----- | ----- |
| Total..... | \$142,884 | \$146,013 |
| | ===== | ===== |

Trust receivable represents servicer advances and initial deposits in spread accounts.

RISA consists of the estimated present value of future servicing cash flows from related securitizations. Future servicing cash flows are computed by taking into account certain assumptions principally regarding prepayments, losses and servicing costs. These discounted cash flows are then discounted at a market-based rate until they are released from the spread account and received by the Company. The balance is then amortized against actual servicing fee income on a monthly basis. The following table provides historical data regarding the RISA. Included in RISA is restricted cash of \$57.8 million and \$35.8 million for the years ended December 31, 2000 and 1999, respectively. (See "Risk Factors")

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RETAINED INTEREST IN SECURITIZED ASSETS

| | FOR THE YEARS ENDED DECEMBER 31, | |
|--|-------------------------------------|-----------|
| | 1999 | 2000 |
| | (DOLLARS IN THOUSANDS) | |
| Beginning balance..... | \$109,241 | \$137,171 |
| Additions..... | 101,586 | 109,173 |
| Amortization..... | (72,704) | (61,229) |
| Sale of RISA..... | | (49,924) |
| Change in unrealized loss on securities available for sale..... | (952) | 3,312 |
| Ending balance..... | \$137,171 | \$138,503 |

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, 2000, delinquencies represented 4.14% of the amount of Contracts in its serviced portfolio compared to 2.81% at December 31, 1999, and 2.54% at December 31, 1998. Net charge-offs as a percentage of the average serviced portfolio were 2.30% for the year

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ended December 31, 2000, compared to 1.85% and 1.72% for the years ended December 31, 1999, and 1998, respectively. The levels of delinquencies at December 31, 2000, increased over December 31, 1999, primarily due to the transfer of certain east-coast accounts to the Hazelwood, Missouri, collection center before the staff was fully trained and capable of handling the additional work load. The increase in loan losses from 1999 to 2000 is attributable to the rise in delinquencies.

In each of the last three years, management has increased its off balance sheet reserves as a percentage of the serviced portfolio sold. Reserves have increased from 4.31% at December 31, 1998, to 4.42% at December 31, 1999, to 4.62% at December 31, 2000. Off balance sheet reserves are those reserves established upon the sale of Contracts to the grantor and owner trusts in connection with securitized Contracts.

DELINQUENCY EXPERIENCE OF THE SERVICED PORTFOLIO

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|--|----------------------------------|-------------|-------------|
| | 1998 | 1999 | 2000 |
| | (DOLLARS IN THOUSANDS) | | |
| Serviced portfolio..... | \$1,345,961 | \$2,133,460 | \$2,690,607 |
| Delinquencies(1) (2) 30 - 59 days..... | 25,357 | 36,886 | 71,681 |
| 60 - 89 days..... | 6,017 | 14,965 | 23,085 |

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| | | | |
|---|-------|-------|--------|
| 90+ days..... | 2,751 | 8,113 | 16,748 |
| Total delinquencies as a percent of serviced portfolio..... | 2.54% | 2.81% | 4.14% |

-
- (1) Delinquencies include principal amounts only, net of repossessed inventory and accounts in bankruptcy.
- (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, | | |
|--|----------------------------------|-------------|-------------|
| | 1998 | 1999 | 2000 |
| | ----- | | |
| | (DOLLARS IN THOUSANDS) | | |
| Number of contracts..... | 131,862 | 209,745 | 269,372 |
| Period end serviced portfolio..... | \$1,345,961 | \$2,133,460 | \$2,690,607 |
| Average serviced portfolio(1)..... | \$1,023,237 | \$1,728,875 | \$2,456,796 |
| Number of gross charge-offs..... | 3,761 | 6,398 | 10,091 |
| Gross charge-offs..... | \$ 20,640 | \$ 37,024 | \$ 66,850 |
| Net charge-offs(2)..... | \$ 17,618 | \$ 31,963 | \$ 56,449 |
| Net charge-offs as a percent of average serviced portfolio..... | 1.72% | 1.85% | 2.30% |
| On and off balance sheet reserves as a percent of period end serviced portfolio..... | 3.87% | 4.00% | 4.36% |

-
- (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 performance of each of the securitized pools outstanding for the period from the date of securitization through December 31, 2000.

| MONTH | TRUST: | | | | | | | | | | | | |
|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 96-1 | 96-2 | 96-3 | 96-4 | 97-1 | 97-2 | 97-3 | 97-4 | 98-1 | 98-A | 98-B | 98-C | 99-A |
| ----- | ---- | ---- | ---- | ---- | ---- | ---- | ---- | ---- | ---- | ---- | ---- | ---- | ---- |
| 1 | 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% |
| 2 | 0.03% | 0.07% | 0.02% | 0.02% | 0.00% | 0.00% | 0.00% | 0.00% | 0.01% | 0.01% | 0.00% | 0.02% | 0.00% |
| 3 | 0.05% | 0.20% | 0.07% | 0.05% | 0.03% | 0.02% | 0.02% | 0.01% | 0.02% | 0.03% | 0.02% | 0.02% | 0.02% |
| 4 | 0.11% | 0.33% | 0.16% | 0.14% | 0.06% | 0.07% | 0.09% | 0.04% | 0.08% | 0.07% | 0.08% | 0.04% | 0.05% |
| 5 | 0.23% | 0.46% | 0.43% | 0.24% | 0.13% | 0.22% | 0.13% | 0.11% | 0.14% | 0.14% | 0.19% | 0.15% | 0.11% |
| 6 | 0.40% | 0.78% | 0.54% | 0.38% | 0.26% | 0.32% | 0.24% | 0.20% | 0.24% | 0.23% | 0.33% | 0.27% | 0.21% |
| 7 | 0.69% | 0.98% | 0.74% | 0.53% | 0.37% | 0.59% | 0.36% | 0.28% | 0.40% | 0.37% | 0.45% | 0.46% | 0.35% |
| 8 | 0.82% | 1.15% | 0.97% | 0.81% | 0.52% | 0.80% | 0.47% | 0.43% | 0.53% | 0.42% | 0.61% | 0.57% | 0.49% |
| 9 | 0.93% | 1.39% | 1.13% | 0.98% | 0.60% | 0.91% | 0.62% | 0.55% | 0.68% | 0.51% | 0.82% | 0.74% | 0.63% |

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| | | | | | | | | | | | | | |
|----|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 10 | 1.15% | 1.52% | 1.32% | 1.18% | 0.76% | 1.07% | 0.73% | 0.72% | 0.85% | 0.70% | 0.95% | 0.94% | 0.81% |
| 11 | 1.25% | 1.69% | 1.47% | 1.43% | 0.92% | 1.26% | 0.81% | 0.87% | 1.04% | 0.85% | 1.10% | 1.12% | 1.04% |
| 12 | 1.47% | 1.94% | 1.60% | 1.63% | 1.02% | 1.42% | 0.94% | 0.95% | 1.20% | 1.01% | 1.20% | 1.30% | 1.29% |
| 13 | 1.65% | 2.08% | 1.77% | 1.73% | 1.13% | 1.58% | 1.10% | 1.08% | 1.33% | 1.17% | 1.36% | 1.54% | 1.49% |
| 14 | 1.79% | 2.34% | 1.94% | 1.87% | 1.23% | 1.68% | 1.23% | 1.19% | 1.46% | 1.37% | 1.48% | 1.73% | 1.72% |
| 15 | 2.02% | 2.52% | 2.09% | 2.07% | 1.40% | 1.80% | 1.38% | 1.36% | 1.61% | 1.48% | 1.64% | 1.90% | 1.90% |
| 16 | 2.25% | 2.76% | 2.27% | 2.23% | 1.56% | 1.97% | 1.58% | 1.42% | 1.71% | 1.59% | 1.89% | 2.10% | 2.10% |
| 17 | 2.43% | 2.89% | 2.42% | 2.33% | 1.68% | 2.10% | 1.68% | 1.52% | 1.88% | 1.76% | 2.05% | 2.28% | 2.26% |
| 18 | 2.59% | 3.10% | 2.57% | 2.49% | 1.75% | 2.23% | 1.77% | 1.64% | 2.01% | 1.96% | 2.22% | 2.51% | 2.46% |
| 19 | 2.77% | 3.14% | 2.70% | 2.62% | 1.85% | 2.35% | 1.91% | 1.75% | 2.17% | 2.07% | 2.37% | 2.71% | 2.59% |
| 20 | 2.93% | 3.30% | 2.83% | 2.73% | 1.92% | 2.48% | 2.04% | 1.85% | 2.25% | 2.25% | 2.50% | 2.83% | 2.71% |
| 21 | 3.06% | 3.47% | 2.94% | 2.84% | 1.98% | 2.59% | 2.11% | 1.97% | 2.41% | 2.37% | 2.67% | 2.95% | 2.83% |
| 22 | 3.15% | 3.60% | 3.00% | 2.93% | 2.09% | 2.72% | 2.20% | 2.08% | 2.52% | 2.48% | 2.79% | 3.08% | 2.88% |
| 23 | 3.21% | 3.70% | 3.08% | 3.02% | 2.17% | 2.81% | 2.31% | 2.12% | 2.63% | 2.65% | 2.92% | 3.25% | 3.03% |
| 24 | 3.28% | 3.81% | 3.17% | 3.10% | 2.22% | 2.85% | 2.41% | 2.23% | 2.75% | 2.76% | 3.06% | 3.39% | |
| 25 | 3.40% | 3.93% | 3.28% | 3.22% | 2.31% | 2.93% | 2.51% | 2.36% | 2.86% | 2.81% | 3.14% | 3.45% | |
| 26 | 3.43% | 4.06% | 3.38% | 3.29% | 2.38% | 2.96% | 2.59% | 2.41% | 2.98% | 2.95% | 3.23% | 3.57% | |
| 27 | 3.55% | 4.13% | 3.43% | 3.39% | 2.44% | 3.09% | 2.71% | 2.52% | 3.06% | 2.99% | 3.28% | | |
| 28 | 3.60% | 4.22% | 3.54% | 3.46% | 2.50% | 3.17% | 2.79% | 2.55% | 3.15% | 3.03% | 3.35% | | |
| 29 | 3.73% | 4.23% | 3.59% | 3.58% | 2.55% | 3.22% | 2.92% | 2.62% | 3.19% | 3.12% | | | |
| 30 | 3.75% | 4.29% | 3.69% | 3.61% | 2.63% | 3.26% | 2.94% | 2.71% | 3.26% | 3.13% | | | |
| 31 | 3.79% | 4.31% | 3.77% | 3.64% | 2.67% | 3.33% | 3.01% | 2.77% | 3.33% | 3.18% | | | |
| 32 | 3.85% | 4.33% | 3.75% | 3.72% | 2.73% | 3.39% | 3.04% | 2.81% | 3.40% | | | | |
| 33 | 3.88% | 4.37% | 3.77% | 3.74% | 2.77% | 3.48% | 3.08% | 2.85% | 3.42% | | | | |
| 34 | 3.90% | 4.39% | 3.79% | 3.77% | 2.84% | 3.51% | 3.11% | 2.88% | 3.46% | | | | |
| 35 | 3.94% | 4.39% | 3.81% | 3.79% | 2.86% | 3.54% | 3.20% | 2.93% | | | | | |
| 36 | 3.94% | 4.42% | 3.83% | 3.81% | 2.85% | 3.55% | 3.21% | 2.91% | | | | | |
| 37 | 3.94% | 4.42% | 3.84% | 3.83% | 2.89% | 3.56% | 3.23% | 2.94% | | | | | |
| 38 | 3.97% | 4.43% | 3.88% | 3.85% | 2.91% | 3.56% | 3.24% | | | | | | |
| 39 | 3.99% | 4.45% | 3.92% | 3.89% | 2.96% | 3.58% | 3.25% | | | | | | |
| 40 | 3.96% | 4.46% | 3.92% | 3.89% | 2.99% | 3.58% | 3.27% | | | | | | |
| 41 | 3.96% | 4.45% | 3.92% | 3.89% | 3.01% | 3.58% | | | | | | | |
| 42 | 3.95% | 4.45% | 3.91% | 3.89% | 3.00% | 3.59% | | | | | | | |
| 43 | 3.96% | 4.45% | 3.91% | 3.89% | 2.99% | 3.60% | | | | | | | |
| 44 | 3.94% | 4.48% | 3.91% | 3.87% | 3.00% | | | | | | | | |
| 45 | 3.97% | 4.49% | 3.90% | 3.87% | 3.01% | | | | | | | | |
| 46 | 3.95% | 4.52% | 3.89% | 3.88% | | | | | | | | | |
| 47 | 3.92% | 4.51% | 3.90% | 3.86% | | | | | | | | | |
| 48 | 3.90% | 4.49% | 3.90% | 3.86% | | | | | | | | | |
| 49 | 3.89% | 4.50% | 3.89% | | | | | | | | | | |
| 50 | 3.86% | 4.46% | 3.89% | | | | | | | | | | |
| 51 | 3.86% | 4.44% | 3.88% | | | | | | | | | | |
| 52 | 3.84% | 4.43% | | | | | | | | | | | |
| 53 | 3.84% | | | | | | | | | | | | |
| 54 | 3.83% | | | | | | | | | | | | |
| 55 | 3.83% | | | | | | | | | | | | |
| 56 | 3.83% | | | | | | | | | | | | |

TRUST:

| MONTH | 00-C | 00-D |
|-------|-------|-------|
| 1 | 0.00% | 0.00% |
| 2 | 0.00% | 0.00% |
| 3 | 0.01% | |
| 4 | 0.03% | |
| 5 | 0.06% | |
| 6 | 0.11% | |
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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

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securitizations; and (vi) borrowings under its credit facilities. Management believes that the resources available to the Company provide the needed capital to fund the anticipated expansion of the Company, Contract purchases, and investments in origination and servicing capabilities.

Cash provided by operating activities was \$73.6 million for the year ended December 31, 2000, compared to \$80.3 million used for the year ended December 31, 1998 and \$113.6 million used in 1999. The increase in cash provided by operating activities during the current year was primarily due to the securitization of the residual cash flows from 15 of the Company's then outstanding securitizations in March 2000, the proceeds of which were used to pay down two of the Company's residual financing facilities and pay off a third residual financing facility. Cash used in investing activities was \$4.6 million for the twelve months ended December 31, 2000, compared to \$5.4 million for the twelve months ended December 31, 1999, and \$3.8 million for the twelve months ended December 31, 1998. Higher than normal capital acquisitions during 1999 related to a general reduction in the use of the Company's capital lease lines and the relocation of the Company's corporate headquarters contributed to the increase during 1999 compared to 2000 and 1998. Cash used in financing activities was \$71.1 million for the twelve months ended December 31, 2000, compared to \$89.0 million provided by financing activities in 1999 and \$118.4 million in 1998. The reduction in the Company's outstanding residual financing facilities in connection with the securitization of its residual cash flows and the repurchase a portion of the Company's outstanding common stock led to the overall increase in cash used in financing activities.

CP Facilities: As of December 31, 2000, the Company was party to two primary Contract warehousing programs (the "CP Facilities"), one a \$355 million facility with Triple-A One Funding Corporation ("Triple-A"), and the other a \$150 million facility with Park Avenue Receivables Corporation ("Parco"). Two of the Company's special purpose subsidiaries, Onyx Acceptance Financial Corporation ("Finco") for the Triple-A Facility and Onyx Acceptance Receivables Corporation ("Recco") for the Parco Facility, are the borrowers under the CP Facilities. The CP Facilities are used to fund the purchase or origination of Contracts. Triple-A and Parco are both rated commercial paper asset-backed conduits sponsored by MBIA Insurance Corporation ("MBIA") and The Chase Manhattan Bank ("Chase"), respectively. MBIA provides credit enhancement for both facilities by issuing financial guarantee insurance policies covering all principal and interest obligations owed for the borrowings under the facilities. The Company pledges its Contracts held for sale to borrow from Triple-A and from Parco. The Parco Facility was renewed in August 2000, and expires in August 2001, but may be renewed at the option of the lender. The Triple-A Facility was renewed in September 2000. The Capacity of this line was reduced by \$20.0 million to \$355.0 million. The reduction was the result of a merger of one of the liquidity banks, and is not considered significant to ongoing operations, as the Company has excess borrowing capacity. This facility will expire in September 2001 but may be renewed at the option of the lender.

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 Fundco, has three residual financing facilities: a \$20.0 million facility with Merrill Lynch International ("MLI") executed in May 2000, which replaced a prior residual financing facility with Merrill Lynch Mortgage Capital, Inc. ("MLMCI"), and a \$50.0 million line with Salomon Smith Barney Realty Corporation ("SBRC"). The Company also executed a residual financing facility in October 2000 in the amount of \$35.0 million with Credit Suisse First Boston (Europe) Limited, as buyer ("CSFB-Europe"), and Credit Suisse First Boston Corporation, as agent ("CSFB"). The line will be used as an additional liquidity source to fund ongoing operations. (The SBRC facility

together with the facility

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with MLI, and the newest facility with CSFB-Europe described above 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. The facility provided by MLI has a one year term expiring in May 2001, but may be renewed at the option of the lender. Each loan under the SBRC line or the CSFB-Europe line matures one year after the date of the loan; the Company expects each loan to be renewed at term.

Subordinated Debt: As of December 31, 2000, the Company had outstanding approximately \$19.5 million of subordinated debt. A portion of this amount is being amortized through February 2003. During the second quarter of 2000, the Company issued \$12.0 million in subordinated debt with a stated interest rate of 12.5% and a maturity of June 2006.

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, 2000.

Stock Repurchase: 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, based on its view that the market value of the Company was not adequately reflected in the share price as traded on the Nasdaq National Market. As of December 31, 2000, 1,200,254 shares had been repurchased under the program for an aggregate amount of \$5.3 million.

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, until the point where the fair value declines below (\$1.0) million.

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 four AAA/Aaa rated publicly underwritten asset-backed securitizations in the amount of \$1.72 billion in 2000.

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 net proceeds of these 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. Since 1994, the Company has securitized \$5.2 billion of its Contracts in 22 separate transactions. In each of its securitizations, the Company has sold its Contracts to a newly formed grantor or owner trust which issued pass-through certificates or notes in an amount equal to the aggregate principal

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balance of the 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 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

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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.

In the first quarter of 2001, the Company securitized Contracts in the amount of \$400.0 million.

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.

NEW ACCOUNTING PRONOUNCEMENTS

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In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended by SFAS 137 and 138. SFAS 133 establishes accounting and reporting standards for derivative contracts, and for hedging activities. The new standard requires that all derivatives be recognized as either assets or liabilities in the consolidated statements of financial condition and that those instruments be measured at fair value. If certain conditions are met, a derivative may be specifically designated as a hedging instrument. The accounting for changes in the fair value of a derivative (that is, unrealized gains and losses) depends on the intended use of the derivative and the resulting designation. The statement is effective in the first quarter of year 2001. The Company is presently assessing the effect of SFAS 133 on the consolidated financial statements of the Company. Management expects the adoption of these new accounting standards will result in a one-time cumulative after-tax reduction in accumulated other comprehensive income of approximately \$840,000 as of January 1, 2001. The adoption will also impact assets and liabilities recorded on the balance sheet.

In July 2000, the Emerging Issues Task Force reached consensus on Issue No. 99-20 "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." The Task Force reached a consensus that the holder should recognize the excess of all cash flows attributable to the beneficial interest estimated at the acquisition/transaction date (the "transaction 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 holder of the beneficial interest is the transferor, the initial investment would

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be the allocated carrying amount after application of the relative fair value allocation method required by Statement 140. The amount of accretable yield should not be displayed in the balance sheet. The Task Force further reached a consensus that the holder of a beneficial interest should continue to update the estimate of cash flows over the life of the beneficial interest. The consensus in this issue should be applied to the accounting for interest income and impairment of beneficial interests in securitization transactions meeting the scope criteria of this issue effective for all fiscal quarter beginning after March 15 2001. The Company is presently assessing the effect of Issue No. 99-20 on the consolidated financial statements of the Company.

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities -- A Replacement of FAS 125." This Statement replaces FAS 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of FAS 125's provisions without reconsideration. This Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. This Statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The Company has adopted FAS 140 for disclosure purposes and is presently assessing the effect of FAS 140 on the consolidated financial statements of the Company.

FORWARD LOOKING INFORMATION

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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. The matters set forth in this Annual Report on Form 10-K constitute 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.

ITEM 7A. 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 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 sale 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.

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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 Trust are indexed to 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.

The Company remitted cash payments, net of expenses, of approximately \$1.2 million in 2000, received cash payments net of expenses of \$1.8 million in 1999 and made cash payments, net of expenses, of \$3.9 million in 1998 to settle forward interest rate swap agreements. These amounts were included in the gain

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on sale of Contracts in securitization transactions. Cash payments are recovered over time through a higher gross interest rate spread on the related securitization transaction, while cash receipts are offset through a lower gross interest rate spread on the related securitization transaction. As of December 31, 2000, the Company had \$225.0 million of forward interest rate swap agreements outstanding.

The table below provides information about the Company's derivative financial instruments by expected maturity date as of December 31, 2000 (dollars in thousands). Notional amounts, which are used to calculate the contractual payments to be exchanged under the agreements, represent average amounts that will be outstanding for each of the years included in the table. Notional amounts do not represent amounts exchanged by parties and, thus, are not a measure of the Company's exposure to loss through its use of the agreements.

| YEARS ENDED DECEMBER 31, ----- | 2001 ----- | 2002 ----- | 2003 ----- | 2004 ----- | 2005 ----- | FAI ----- |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|--------------|
| Interest Rate Swaps: | | | | | | |
| Average Notional Amounts | | | | | | |
| (\$'000's)..... | \$184,766 | \$147,656 | \$91,406 | \$35,156 | \$391 | (\$ |
| Average interest rate paid.... | 5.99% | 5.99% | 5.99% | 5.99% | 5.99% | |
| Average interest rate | | | | | | |
| received..... | Variable | Variable | Variable | Variable | Variable | |

There can be no assurance that the Company's strategies will be effective in minimizing interest rate risk or that increases in interest rates will not have an adverse effect on the Company's profitability.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's financial statements, as listed under Item 14, appear in a separate section of this Annual Report on Form 10-K beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the directors and officers of the Company is incorporated herein by reference to the descriptions set forth under the captions "Election of Directors", "Management" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement to be filed with the Securities and Exchange Commission for the Annual Meeting of Stockholders currently expected to be held May 31, 2001 (the "2001 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated herein by reference to the descriptions to be set forth under the caption "Executive Compensation" in the 2001 Proxy Statement.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management of the Company is incorporated herein by reference to the information to be set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the 2001 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions with the Company is incorporated herein by reference to the information to be set forth under the caption "Certain Transactions and Related Transactions" in the 2001 Proxy Statement.

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PART IV

ITEM 14. 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:

| | PAGE |
|--|------|
| | ---- |
| Report of Independent Accountants..... | F-2 |
| Consolidated Statements of Financial Condition as of December 31, 2000 and 1999..... | F-3 |
| Consolidated Statements of Income for the years ended December 31, 2000, 1999 and 1998..... | F-4 |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998..... | F-5 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998..... | F-6 |
| Notes to Consolidated Financial Statements..... | F-7 |

(a) (2) EXHIBITS

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

INDEX TO EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|--|
| ----- | ----- |
| 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 |

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- 10.1 and the form of Rights Certificate of the Company.(3)
- 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)

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| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|---|
| 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) |
| 10.17 | Triple-A One Funding Corporation Note in favor of Onyx Acceptance Financial Corporation from Triple-A One Funding Corporation dated as of September 12, 1994.(1) |
| 10.18 | Seller Note in favor of Onyx Acceptance Corporation from Onyx Acceptance Financial Corporation dated September 12, 1994.(1) |
| 10.19 | Subordinated Note in favor of Onyx Acceptance Corporation from Onyx Acceptance Financial Corporation dated September 12, 1994.(1) |
| 10.20 | Sublease and Administrative Services Agreement between Onyx |

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- Acceptance Corporation and Onyx Acceptance Financial Corporation dated as of September 8, 1994.(1)
- 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)
- 10.23 Amendment Number One to Security Agreement, Subordinated Security Agreement, Sale and Servicing Agreement and Definitions List between and among Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation, Triple-A One Funding Corporation and Capital Markets Assurance Corporation dated March 1, 1995.(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)
- 10.26 Warrant to purchase Series A Preferred Stock in favor of Comdisco, Inc. from Onyx Acceptance Corporation dated as of January 7, 1994.(1)
- 10.27 Warrant to purchase Common Stock in favor of Lighthouse Capital Partners from Onyx Acceptance Corporation dated November 3, 1995.(1)
- 10.28 Master Lease Agreement between Lighthouse Capital Partners and Onyx Acceptance Corporation dated November 3, 1995.(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)
- 10.30 Agreement for On-Line Services between On-Line Computer Systems, Inc. and Onyx Acceptance Corporation dated as of November 19, 1993.(1)
- 10.31 Agreement for On-Line Service between On-Line Computer Systems, Inc. and Onyx Acceptance Financial Corporation dated as of September 7, 1994.(1)

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| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|---|
| 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) |
| 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, |

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- 1995.(1)
- 10.38 Sublease Agreement between Onyx Acceptance Corporation and AT&T Resource Management Corporation dated as of August 31, 1993.(1)
- 10.39 Office Space Lease (Master Lease) between and among The Irvine Company and American Telephone and Telegraph Company dated as of April 29, 1987.(1)
- 10.40 First Amendment to Sublease between and among AT&T Resource Management Corporation and Onyx Acceptance Corporation dated as of September 1, 1993.(1)
- 10.41 Onyx Acceptance Corporation 401(k) Plan dated January 1, 1994.(1)
- 10.42 Pooling and Servicing Agreement between Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation and Bankers Trust Company dated as of January 1, 1996.(1)
- 10.43 Underwriting Agreement between Onyx Acceptance Financial Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated dated January 31, 1996.(1)
- 10.44 Indemnification Agreement by and among Capital Markets Assurance Corporation, Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated dated January 31, 1996.(1)
- 10.45 Indemnification Agreement by and between Onyx Acceptance Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated dated as of January 31, 1996.(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)
- 10.47 1996-1 Spread Account Trust Agreement between Onyx Acceptance Financial Corporation and Bankers Trust (Delaware) dated as of February 6, 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)
- 10.51 1996-2 Pooling and Servicing Agreement between Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation and Bankers Trust Company of New York dated May 17, 1996.(1)
- 10.52 1996-2 Spread Account Trust Agreement between Onyx Acceptance Financial Corporation and Bankers Trust (Delaware) dated as of May 17, 1996.(1)
- 10.53 Underwriting Agreement between Onyx Acceptance Financial Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated, dated May 10, 1996.(1)

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EXHIBIT
NUMBER

DESCRIPTION

- 10.54 1996-3 Pooling and Servicing Agreement between Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation and Bankers Trust Company of New York dated

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- September 17, 1996.(1)
- 10.55 1996-3 Spread Account Trust Agreement between Onyx Acceptance Financial Corporation and Bankers Trust (Delaware) as of September 17, 1996.(1)
- 10.56 Underwriting Agreement between Onyx Acceptance Financial Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated, dated as of September 13, 1996.(1)
- 10.57 Form of Pooling and Servicing Agreement between Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation and Bankers Trust Company in connection with 1997-1 Grantor Trust.(2)
- 10.58 Form of Underwriting Agreement between Onyx Acceptance Financial Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated in connection with 1997-1 Grantor Trust.(2)
- 10.59 Form of Pooling and Servicing Agreement between Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation, and Bankers Trust Company in connection with 1997-2 Grantor Trust.(4)
- 10.60 Form of Underwriting Agreement between Onyx Acceptance Financial Corporation, Merrill Lynch, Pierce, Fenner & Smith Incorporated in connection with 1997-2 Grantor Trust.(4)
- 10.61 Form of Pooling and Servicing Agreement between Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation and Bankers Trust Company in connection with 1997-3 Grantor Trust.(5)
- 10.62 Form of Underwriting Agreement between Onyx Acceptance Financial Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated in connection with 1997-3 Grantor Trust.(5)
- 10.63 1997-4 Spread Account Trust Agreement between Onyx Acceptance Financial Corporation and Bankers Trust (Delaware) dated as of December 12, 1997.(6)
- 10.64 Form of Pooling and Servicing Agreement between Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation and Bankers Trust Company in connection with 1997-4 Onyx Acceptance Grantor Trust.(6)
- 10.65 Form of Underwriting Agreement between Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation and Merrill Lynch & Co. in connection with 1997-4 Onyx Acceptance Grantor Trust.(6)
- 10.66 Term Loan Agreement by and between Bay View Capital Corporation and Onyx Acceptance Corporation dated February 24, 1998.(7)
- 10.67 Master Repurchase Agreement Annex by and between Merrill Lynch Mortgage Capital Inc. and Onyx Acceptance Financial Corporation dated February 4, 1998.(7)
- 10.68 Master Assignment Agreement by and between Merrill Lynch Mortgage Capital Inc. and Onyx Acceptance Financial Corporation dated February 4, 1998.(7)
- 10.69 Second Amendment to Master Assignment Agreement between Onyx Acceptance funding Corporation and Merrill Lynch Mortgage Capital Inc. dated July 7, 1999.(15)
- 10.70 Amended and Restated Residual Interest in Securitized Assets Revolving Credit Agreement dated June 12, 1998 by and among Onyx Acceptance Corporation, State Street Bank and Trust Company, BankBoston and The Travelers Insurance Company.(8)
- 10.71 Second Amendment to Loan Agreement and Pledge and Security Agreement by and among Onyx Acceptance Corporation, State Street Bank and Trust Company, BankBoston and The Travelers Insurance Company dated August 9, 1999.(15)

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| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|---|
| 10.72 | Amended and Restated Pledge and Security Agreement dated June 12, 1998 by and among Onyx Acceptance Corporation, State Street Bank and Trust Company, BankBoston and The Travelers Insurance Company.(8) |
| 10.73 | First Amendment to Loan Agreement and Confirmation of Pledge and Security Agreement dated June 29, 1999.(14) |
| 10.74 | Amended and Restated Sale and Servicing Agreement between Onyx Acceptance Corporation and Onyx Acceptance Financial Corporation dated as of September 4, 1998.(9) |
| 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.(9) |
| 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.(9) |
| 10.77 | Amended and Restated Subordinated Security Agreement between Onyx Acceptance Corporation and Onyx Acceptance Financial Corporation dated as of September 4, 1998.(9) |
| 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.(9) |
| 10.79 | Master Loan Agreement between Onyx Acceptance Financial Corporation and Salomon Brothers Realty Corp. dated September 3, 1998.(9) |
| 10.80 | Form of Pooling and Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation, and Bankers Trust Company in connection with the 1998-1 Onyx Acceptance Grantor Trust.(10) |
| 10.81 | Form of Underwriting Agreement between Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation and Merrill Lynch & Co. in connection with the 1998-1 Onyx Acceptance Grantor Trust.(10) |
| 10.82 | 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-A.(11) |
| 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.(11) |
| 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.(11) |
| 10.85 | Amendment Number One dated December 22, 1998 to Amended and Restated Onyx Warehouse Facility and Assignment and |

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- Assumption Agreement.(12)
- 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.(13)
- 10.87 Sale and Servicing Agreement between Onyx Acceptance Corporation as Seller and Servicer and Onyx Acceptance Receivables Corporation, as Purchaser, dated August 9, 1999.(15)
- 10.88 Security Agreement between Onyx Acceptance Receivables Corporation and The Chase Manhattan Bank as Funding Agent, dated August 9, 1999.(15)

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| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|--|
| 10.89 | Subordinated Security Agreement between Onyx Acceptance Receivables Corporation, and Onyx Acceptance Corporation, dated August 9, 1999.(15) |
| 10.90 | Asset Purchase Agreement between Park Avenue Receivables Corporation and The Chase Manhattan Bank and Onyx Acceptance Receivables Corporation, dated August 9, 1999.(15) |
| 10.91 | Funding Agreement between Onyx Acceptance Receivables Corporation and Park Avenue Receivables Corporation and The Chase Manhattan Bank, dated August 9, 1999.(15) |
| 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.(16) |
| 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.(17) |
| 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.(18) |
| 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.(19) |
| 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.(15) |
| 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.(20) |
| 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.(20) |
| 10.99 | Trust Agreement dated March 29, 2000 among Onyx Acceptance |

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- Financial Corporation, as Depositor, Bankers Trust as Owner Trustee and The Chase Manhattan Bank as Trust Agent.(20)
- 10.100 Master Repurchase Agreement dated May 16, 2000, by and among Merrill Lynch International, Onyx Acceptance Funding Corporation, and Merrill Lynch, Pierce, Fenner & Smith Incorporated acting as Agent.(20)
- 10.101 Indenture dated as of April 17, 2000 between Onyx Acceptance Corporation, as Issuer and Bankers Trust Company, as Trustee.(21)
- 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.(22)
- 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.(23)
- 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.(24)

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| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|---|
| 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.(25) |
| 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* |
| 21.1 | Subsidiaries of the Registrant.* |
| 23.1 | Consent of Independent Accountants.* |

* 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 Onyx Acceptance Financial Corporation's Registration Statement on Form S-1 (Registration No. 333-22301).
- (3) Incorporated by reference from the Company's Current Report on Form 8-K dated July 8, 1997. (File No. 000-28050).
- (4) Incorporated by reference from Onyx Acceptance Financial Corporation's Registration Statement on Form S-1 (Registration No. 333-28893).
- (5) Incorporated by reference from Onyx Acceptance Financial Corporation's Registration Statement on Form S-1 (Registration No. 333-33471).

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- (6) Incorporated by reference from Onyx Acceptance Financial Corporation's Registration Statement on Form S-1 (Registration No. 333-40089).
- (7) Incorporated by reference from the Company's Form 10-Q for quarterly period ended March 31, 1998. (File No. 000-28050).
- (8) Incorporated by reference from the Company's Form 10-Q for quarterly period ended June 30, 1998. (File No. 000-28050).
- (9) Incorporated by reference from the Company's Form 10-Q for quarterly period ended September 30, 1998. (File No. 000-28050).
- (10) Incorporated by reference from Onyx Acceptance Financial Corporation's Registration Statement on Form S-3 (Registration No. 333-46359).
- (11) Incorporated by reference from Onyx Acceptance Financial Corporation's Registration Statement on Form S-3 (Registration No. 333-51239).
- (12) Incorporated by reference from the Company's Form 10-K for the year ended December 31, 1998. (File No. 000-28050).
- (13) Incorporated by reference from the Company's Form 10-Q for quarterly period ended March 31, 1999. (File No. 000-28050).
- (14) Incorporated by reference from the Company's Form 10-Q quarterly period ended June 30, 1999. (File No. 000-28050).
- (15) Incorporated by reference from the Company's Form 10-Q quarterly period ended September 30, 1999. (File No. 000-28050).
- (16) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated March 11, 1999. (File No. 333-28893).
- (17) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated May 28, 1999. (File No. 333-28893).
- (18) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated September 14, 1999. (File No. 333-28893).

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- (19) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated November 12, 1999. (File No. 333-28893).
- (20) Incorporated by reference from the Company's Form 10-Q quarterly period ended June 30, 2000. (File No. 000-28050).
- (21) Incorporated by reference from the Company's Current Report on Form 8-K dated April 17, 2000 (File No. 333-92573).
- (22) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated February 28, 2000. (File No. 333-92245).
- (23) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated April 28, 2000. (File No. 333-92245).
- (24) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated July 27, 2000. (File No. 333-92245).
- (25) Incorporated by reference from Onyx Acceptance Financial Corporation's Current Report on Form 8-K dated November 16, 2000. (File No. 333-92245).

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(b) EXHIBITS ON FORM 8-K

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K 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 Chief Executive
Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons on behalf of the Registrant in the capacities and on the date indicated.

| SIGNATURE ----- | TITLE ----- | DATE ----- |
|---|--|---------------|
| /s/ THOMAS C. STICKEL ----- Thomas C. Stickel | Chairman of the Board of Directors | March 30, |
| /s/ JOHN W. HALL ----- John W. Hall | President, Chief Executive Officer and Director (Principal Executive Officer) | March 30, |
| /s/ G. BRADFORD JONES ----- G. Bradford Jones | Director | March 30, |
| /s/ C. THOMAS MEYERS ----- C. Thomas Meyers | Director | March 30, |
| /s/ DON P. DUFFY ----- Don P. Duffy | Executive Vice President, Chief Financial Officer and Director, (Principal Financial and Accounting Officer) | March 30, |

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ONYX ACCEPTANCE CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, 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.

PRICEWATERHOUSECOOPERS LLP

Orange County, California
February 1, 2001

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
ASSETS

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| | DECEMBER 31, | |
|--|----------------|-----------|
| | 2000 | 1999 |
| | (IN THOUSANDS) | |
| Cash and cash equivalents..... | \$ 3,130 | \$ 5,190 |
| Contracts held for sale (net of allowance)..... | 170,755 | 229,992 |
| Credit enhancement assets, at fair value..... | 146,013 | 142,884 |
| Furniture and equipment (net of accumulated depreciation)... | 7,079 | 6,642 |
| Other assets..... | 4,403 | 9,127 |
| | ----- | ----- |
| Total Assets..... | \$331,380 | \$393,835 |
| | ===== | ===== |
| LIABILITIES | | |
| Accounts payable..... | \$ 22,706 | \$ 21,067 |
| Warehouse borrowings..... | 172,509 | 232,288 |
| Excess servicing credit and residual lines..... | 41,138 | 55,880 |
| Subordinated debt..... | 19,505 | 10,000 |
| Capital lease obligations..... | 250 | 348 |
| Accrued interest payable..... | 740 | 1,467 |
| Other liabilities..... | 18,939 | 19,677 |
| | ----- | ----- |
| Total Liabilities..... | 275,787 | 340,727 |
| Commitments and Contingencies | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock | | |
| Par value \$0.01 per share; authorized 15,000,000 shares; issued and outstanding 4,989,504 as of December 31, 2000 and issued and outstanding 6,177,804 shares as of December 31, 1999..... | 50 | 62 |
| Additional paid in capital..... | 32,601 | 37,892 |
| Retained earnings..... | 21,550 | 15,715 |
| Accumulated other comprehensive income (loss), net of tax... | 1,392 | (561) |
| | ----- | ----- |
| Total Equity..... | 55,593 | 53,108 |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity..... | \$331,380 | \$393,835 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

| | FOR THE YEAR ENDED DECEMBER 31, | | |
|---|---------------------------------------|-----------|-----------|
| | 2000 | 1999 | 1998 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | |
| REVENUES: | | | |
| Interest income..... | \$ 23,046 | \$ 24,433 | \$ 21,948 |
| Interest expense -- warehouse line..... | 14,761 | 12,560 | 10,217 |
| | ----- | ----- | ----- |

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| | | | |
|--|-----------|-----------|-----------|
| NET INTEREST INCOME..... | 8,285 | 11,873 | 11,731 |
| Gain on sale of contracts..... | 45,029 | 53,920 | 36,417 |
| Servicing fee income..... | 47,543 | 28,877 | 16,663 |
| | ----- | ----- | ----- |
| TOTAL REVENUES..... | 100,857 | 94,670 | 64,811 |
| EXPENSES: | | | |
| Provision for credit losses..... | 990 | 1,246 | 1,580 |
| Interest expense -- other..... | 5,592 | 5,727 | 4,419 |
| Operating Expenses: | | | |
| Salaries and benefits..... | 46,323 | 40,035 | 26,754 |
| Systems and servicing..... | 5,452 | 4,259 | 2,089 |
| Telephone and data lines..... | 5,950 | 6,089 | 4,196 |
| Depreciation..... | 4,379 | 3,482 | 2,106 |
| General and administrative expenses..... | 22,200 | 17,094 | 13,281 |
| | ----- | ----- | ----- |
| TOTAL OPERATING EXPENSES..... | 84,304 | 70,959 | 48,426 |
| | ----- | ----- | ----- |
| TOTAL EXPENSES..... | 90,886 | 77,932 | 54,425 |
| | ----- | ----- | ----- |
| INCOME BEFORE INCOME TAXES..... | 9,971 | 16,738 | 10,386 |
| Income taxes..... | 4,136 | 6,946 | 4,310 |
| | ----- | ----- | ----- |
| NET INCOME..... | \$ 5,835 | \$ 9,792 | \$ 6,076 |
| | ===== | ===== | ===== |
| NET INCOME PER SHARE OF COMMON STOCK | | | |
| Basic..... | \$ 1.03 | \$ 1.59 | \$ 0.99 |
| Diluted..... | \$ 1.00 | \$ 1.50 | \$ 0.95 |
| | ===== | ===== | ===== |
| Basic shares outstanding..... | 5,657,310 | 6,173,922 | 6,112,370 |
| | ===== | ===== | ===== |
| Diluted shares outstanding..... | 5,811,168 | 6,514,477 | 6,424,959 |
| | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | COMMON STOCK | | ADDITIONAL | RETAINED | ACCUMULATE |
|---|--------------|--------|------------|----------------|---------------|
| | ----- | ----- | PAID IN | EARNINGS | COMPREHENSIVE |
| | SHARES | AMOUNT | CAPITAL | (DEFICIT) | INCOME (LOSS) |
| | ----- | ----- | ----- | ----- | NET OF TAX |
| | | | | (IN THOUSANDS) | |
| BALANCE AT DECEMBER 31, 1997..... | 6,018 | \$ 60 | \$37,810 | \$ (153) | |
| Issuance of Common Stock..... | 153 | 2 | 29 | | |
| Net Income..... | | | | 6,076 | |
| | ----- | ----- | ----- | ----- | ----- |
| BALANCE AT DECEMBER 31, 1998..... | 6,171 | 62 | 37,839 | 5,923 | |
| Issuance of Common Stock..... | 7 | | 53 | | |
| Comprehensive income: | | | | | |
| Unrealized losses in credit enhancement assets, net of tax of \$391.5 thousand..... | | | | | \$ (561) |
| Net Income..... | | | | 9,792 | |

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| | | | | | |
|--|---------|-------|----------|----------|----------|
| Total Comprehensive Income..... | | | | 9,792 | \$ (561) |
| BALANCE, DECEMBER 31, 1999..... | 6,178 | 62 | 37,892 | 15,715 | (561) |
| Issuance of Common Stock..... | 12 | | 6 | | |
| Repurchase and retirement of Common Stock..... | (1,200) | (12) | (5,297) | | |
| Comprehensive income: | | | | | |
| Unrealized gains in credit enhancement assets, net of tax of \$1.4 million... | | | | | \$1,953 |
| Net Income..... | | | | 5,835 | |
| Total Comprehensive Income..... | | | | 5,835 | \$1,953 |
| BALANCE, DECEMBER 31, 2000..... | 4,990 | \$ 50 | \$32,601 | \$21,550 | \$1,392 |

See accompanying notes to consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | FOR THE YEAR ENDED DECEMBER 31 | | |
|--|--------------------------------|-------------|-------------|
| | 2000 | 1999 | 1998 |
| | (IN THOUSANDS) | | |
| OPERATING ACTIVITIES | | | |
| Net Income..... | \$ 5,835 | \$ 9,792 | \$ 9,792 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Amortization of retained interest in securitized assets..... | 61,229 | 72,704 | 72,704 |
| Increase in retained interest in securitized assets... | (109,173) | (101,587) | (101,587) |
| Sale of retained interest in securitized assets..... | 49,924 | | |
| Write-off of unamortized participation on securitized loans..... | 40,288 | 41,694 | 41,694 |
| Provision for credit losses..... | 990 | 1,246 | 1,246 |
| Depreciation..... | 4,379 | 3,482 | 3,482 |
| Decrease (increase) in trust receivable..... | (1,797) | (2,000) | (2,000) |
| (Increase) decrease in other assets..... | 4,724 | (6,083) | (6,083) |
| Increase in accounts payable..... | 1,639 | 10,107 | 10,107 |
| Increase (decrease) in accrued interest payable..... | (727) | 677 | 677 |
| Increase (decrease) in other liabilities..... | (1,644) | 9,838 | 9,838 |
| Proceeds from the securitization of contracts held for sale..... | 1,720,000 | 1,450,000 | 1,450,000 |
| Purchase of contracts held for sale..... | (1,671,704) | (1,559,004) | (1,559,004) |
| Repurchase of trust contracts..... | (26,093) | (6,367) | (6,367) |
| Principal payments received on contracts held for sale..... | 32,220 | 41,202 | 41,202 |
| Payments of participation to dealers (net of chargeback collections and amortized expense)..... | (36,465) | (46,002) | (46,002) |
| Cash provided by (used in) operating activities..... | 73,625 | (80,301) | (80,301) |

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| | | | |
|---|-------------|-------------|----|
| INVESTING ACTIVITIES | | | |
| Purchase of furniture and equipment..... | (4,605) | (5,389) | |
| Cash used in investing activities..... | (4,605) | (5,389) | |
| FINANCING ACTIVITIES | | | |
| Payments on capital leases..... | (308) | (349) | |
| Proceeds from warehouse line..... | 1,301,710 | 1,371,843 | 9 |
| Payments on warehouse line..... | (1,361,489) | (1,289,599) | (8 |
| Proceeds from drawdown on excess service borrowings..... | 34,000 | 39,257 | |
| Payments to paydown excess service credit borrowings..... | (48,741) | (32,934) | (|
| Proceeds from subordinated debt..... | 12,000 | | |
| Principal payments on subordinated debt..... | (2,496) | | |
| Proceeds from exercise of options/warrants..... | 6 | 53 | |
| Repurchase and retirement of common stock..... | (5,309) | | |
| Proceeds from other loans..... | -- | 1,013 | |
| Payments on other loans..... | (453) | (333) | |
| Cash provided by (used in) financing activities..... | (71,080) | 88,951 | 1 |
| Increase (decrease) in cash and cash equivalents..... | (2,060) | 3,261 | |
| Cash and cash equivalents at beginning of period..... | 5,190 | 1,929 | |
| Cash and cash equivalents at end of period..... | \$ 3,130 | \$ 5,190 | \$ |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | | |
| Noncash activities: | | | |
| Additions to capital leases..... | \$ 210 | \$ -- | \$ |
| Cash paid: | | | |
| Interest..... | \$ 21,080 | \$ 17,610 | \$ |
| Income taxes..... | \$ 1,858 | \$ 1,198 | \$ |

See accompanying notes to consolidated financial statements.

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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 ("OARC"), (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 loan applications.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Onyx, O AFC, OFC and OARC. All significant

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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.

Contracts Held for Sale: Contracts held for sale are stated at the lower of aggregate amortized cost or net realizable value, net of allowance for credit losses.

The Company defers certain Contract origination fees and participation paid to dealers. The net amount is amortized as an adjustment to the related Contract's yield, on the same basis as that used to record income on the Contracts, over the contractual life of the related Contracts. At the time of sale or securitization, any remaining amounts are included as part of the computation of the gain on sale of Contracts.

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.

Allowance for Credit Losses: The allowance for credit losses is maintained at a level believed adequate by management to absorb probable losses in the Contracts held for sale. The provision rate is established by management using the following criteria: past loss experience, current economic conditions, volume, growth and other relevant factors, and is re-evaluated on a quarterly basis. The allowance is increased by provisions for Contract losses charged against income. All recoveries on finance receivables previously charged off are credited to the allowance, while charge-offs of finance receivables are deducted from the allowance.

Sales of Contracts: The Company purchases Contracts to be sold to investors with servicing rights retained by the Company. The Company sells a majority of its Contracts and does not purchase any residual interest in securitized or sold Contracts. Contracts are sold at or near par value. For Contracts securitized, the Company retains a participation in the future cash flows released by trusts, while on cash sales no participation is retained in the future cash flows. As of December 31, 2000 the Company was servicing all the Contracts sold to the trusts. As of December 31, 2000 and 1999, 30% and 39% respectively, 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 is determined on a monthly basis using either the simple interest (level yield) method or the sum-of-the-months digits method, which approximates the effective

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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 employs hedging strategies to manage its gross interest rate risk. The hedging strategies include the use of forward swap agreements to manage the interest rate on securitization of the Contracts held for sale.

The forward swap agreements are entered into by the Company in numbers and amounts which correspond to the anticipated principal amount of future securitization transactions. The market value of these forward agreements responds inversely to the market value change of the underlying Contracts. Because of this inverse relationship, the Company can effectively lock in its gross interest rate spread at the time the hedge transaction is entered into. Unrealized gains and losses relative to these agreements are deferred and recognized in full at the time of securitization as an adjustment to the gain on sale of contracts. The Company is not required to maintain any collateral with respect to its hedging strategies, until the point where the fair value declines below (\$1.0) million. The Company only uses highly rated counterparties. Credit exposure is limited to those transactions with a positive fair value.

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"), 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, however, the Company has elected to continue to measure compensation costs as prescribed by APB Opinion No. 25 "Accounting for Stock Issued to Employees." See footnote 12 for Pro Forma disclosures of net income and net income per share, as if SFAS 123 had been adopted.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 2000 presentation.

NOTE 3 -- RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended by SFAS 137 and 138. SFAS 133 establishes accounting and reporting standards for derivative contracts, and for hedging activities. The new standard requires that all derivatives be recognized as either assets or liabilities in the consolidated statements of financial condition and that those instruments be measured at fair value. If certain conditions are met, a derivative may be specifically designated as a hedging instrument. The accounting for changes in the fair value of a derivative (that is, unrealized gains and losses) depends on the intended use of the derivative and the resulting designation. The statement is effective in the first quarter of year 2001. The Company is presently assessing the effect of SFAS 133 on the consolidated financial statements of the Company. Management expects the adoption of these new accounting standards will result in a one-time cumulative after-tax reduction in accumulated other comprehensive income of approximately \$840,000 as of January 1, 2001. The adoption will also impact assets and liabilities recorded on the balance sheet.

In July 2000, the Emerging Issues Task Force reached consensus on Issue No. 99-20 "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." The Task Force reached a consensus that the holder should recognize the excess of all cash flows attributable to the beneficial interest estimated at the acquisition/transaction date (the "transaction 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 holder of the beneficial interest is the transferor, the initial investment would be the allocated carrying amount after application of the relative fair value allocation method required by Statement 140. The amount of accretable yield should not be displayed in the balance sheet. The Task Force further reached a consensus that the holder of a beneficial interest should continue to update the estimate of cash flows over the life of the beneficial interest. The consensus in this issue should be applied to the accounting for interest income and impairment of beneficial interests in securitization transactions meeting the scope criteria of this issue effective for all fiscal quarter beginning after March 15, 2001. The Company is presently assessing the effect of Issue No. 99-20 on the consolidated financial statements of the Company.

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities -- A Replacement of FAS 125." This Statement replaces FAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and

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requires certain disclosures, but it carries over most of FAS 125's provisions without reconsideration. This Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This Statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. This Statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Company has adopted FAS 140 for disclosure purposes and is presently assessing the effect of FAS 140 on the consolidated financial statements of the Company.

NOTE 4 -- CONTRACTS HELD FOR SALE

Contracts held for sale consist of the following:

| | DECEMBER 31, | |
|------------------------------------|----------------|-----------|
| | 2000 | 1999 |
| | (IN THOUSANDS) | |
| Gross Contracts held for sale..... | \$177,086 | \$235,694 |
| Less unearned interest..... | (3,302) | (6,218) |
| | ----- | ----- |
| Contracts held for sale..... | 173,784 | 229,476 |
| Allowance for credit losses..... | (1,175) | (1,454) |
| | ----- | ----- |
| Dealer participation..... | 172,609 | 228,022 |
| | (1,854) | 1,970 |
| | ----- | ----- |
| Total..... | \$170,755 | \$229,992 |
| | ===== | ===== |

As of December 31, 2000 and 1999, 29% and 25% of Contracts held for sale were originated in California, respectively.

At December 31, 2000, contractual maturities of Contracts held for sale were as follows: (In thousands) (1)

| | |
|--------------------------|-----------|
| 2001..... | \$ 10,416 |
| 2002..... | 8,709 |
| 2003..... | 7,948 |
| 2004..... | 16,937 |
| 2005 and thereafter..... | 129,774 |
| | ----- |
| | \$173,784 |
| | ===== |

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

Changes in the allowance for credit losses were as follows:

| | DECEMBER 31, | | |
|-------------------------------------|--------------|----------|----------|
| | 2000 | 1999 | 1998 |
| (IN THOUSANDS) | | | |
| Balance at beginning of period..... | \$ 1,454 | \$ 1,052 | \$ 317 |
| Provision for credit losses..... | 990 | 1,246 | 1,580 |
| Charged-off loans..... | (1,671) | (1,161) | (1,100) |
| Recoveries..... | 402 | 317 | 255 |
| Balance at end of period..... | \$ 1,175 | \$ 1,454 | \$ 1,052 |

The fair value of Contracts held for sale was \$179.6 million and \$243.9 million at December 31, 2000 and 1999, respectively.

At December 31, 2000, the Company had entered into four year amortizing forward swap agreements with a notional face amount outstanding of \$225.0 million with maturities matching the average life of the Contracts being hedged. At December 31, 2000, these agreements had a fair value of (\$1.4) million. At December 31, 1999, the Company had forward swap agreements outstanding totaling \$150 million with a fair value of \$618,000.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Gain on Sale of Contracts for the year ended December 31, 2000, included a loss of \$1.2 million related to hedging activities. Included in Gain on Sale of Contracts for the year ended December 31, 1999 was a gain of \$1.8 million due to hedging activities, while the Gain on Sale for the year ended December 31, 1998 included losses arising from hedging activities of \$3.9 million.

Contracts serviced by the Company for the benefit of others totaled approximately \$2.7 billion at December 31, 2000 and \$1.9 billion at December 31, 1999. These amounts are not reflected in the accompanying consolidated financial statements.

NOTE 5 -- CREDIT ENHANCEMENT ASSETS

SFAS 125 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,

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| | 2000 | 1999 |
|-----------------------|----------------|-----------|
| | ----- | ----- |
| | (IN THOUSANDS) | |
| Trust receivable..... | \$ 7,510 | \$ 5,713 |
| RISA..... | 138,503 | 137,171 |
| | ----- | ----- |
| Total..... | \$146,013 | \$142,884 |
| | ===== | ===== |

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 coupon rate of the Contracts sold and the weighted average rate paid to the investors less contractually specified servicing and financial insurance 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 contracts. Management evaluates the impairment of credit enhancement assets in accordance with EITF 93-18.

Future earnings are discounted at a rate management believes to be representative of market at the time of securitization. The balance of RISA is amortized against actual excess spread income earned on a monthly basis over the expected repayment life of the underlying contracts. RISA is classified in a manner similar to available for sale securities and as such is marked to market each quarter. Market value changes are calculated by discounting the remaining projected excess spread using a current market discount rate. Any changes in the market value of the RISA are reported as a separate component of shareholders' equity as an unrealized gain or loss, net of deferred taxes. As of December 31, 1999 the market value of RISA was \$1.0 million lower than cost. As of December 31, 2000 the market value of RISA was approximately \$2.4 million higher than cost. The Company retains the rights to service all contracts it securitizes.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table presents the balances and activity for RISA:

| | DECEMBER 31, | |
|--|----------------|-----------|
| | ----- | ----- |
| | 2000 | 1999 |
| | ----- | ----- |
| | (IN THOUSANDS) | |
| Beginning Balance..... | \$137,171 | \$109,241 |
| Additions..... | 109,173 | 101,586 |
| Amortization..... | (61,229) | (72,704) |
| Sale of RISA..... | (49,924) | |
| Change in unrealized loss on securities available for sale..... | 3,312 | (952) |

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| | | |
|---------------------|-----------|-----------|
| Ending Balance..... | \$138,503 | \$137,171 |
| | ===== | ===== |

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 retained interest 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 certificate rate paid to the investors, less the contractually specified servicing fee of 1.0% and financial 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.

| | DECEMBER 31, | |
|---|----------------|-------------|
| | 2000 | 1999 |
| | (IN THOUSANDS) | |
| Estimated net undiscounted RISA earnings..... | \$ 286,125 | \$ 246,234 |
| Off balance sheet allowance for losses..... | (116,086) | (83,891) |
| Discount to present value..... | (31,536) | (25,172) |
| | ----- | ----- |
| Retained interest in securitized assets..... | \$ 138,503 | \$ 137,171 |
| | ===== | ===== |
| Outstanding balance of contracts sold through securitizations..... | \$2,513,407 | \$1,897,242 |

At December 31, 2000, 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:

| | DECEMBER 31, 2000 |
|--|-------------------------------------|
| | (DOLLARS IN MILLIONS) |
| Expected credit loss assumption (annual rate)..... | 2.30% to 2.55% |
| Impact of fair value of 10% adverse change..... | \$8.0 |
| Impact of fair value of 20% adverse change..... | \$16.1 |
| Expected prepayment rate assumption (annual rate)..... | 1.75% |
| Impact of fair value of 10% adverse change..... | \$8.4 |
| Impact of fair value of 20% adverse change..... | \$16.0 |
| Expected discount rate on RISA (annual rate)..... | 3.50% over the pass through rate |
| Impact of fair value of 10% adverse change..... | \$2.0 |
| Impact of fair value of 20% adverse change..... | \$3.9 |

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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

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 the 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.

NOTE 6 -- FURNITURE AND EQUIPMENT

Furniture and equipment consisted of the following:

| | DECEMBER 31, | |
|--|----------------|----------|
| | 2000 | 1999 |
| | (IN THOUSANDS) | |
| OWNED: | | |
| Office furniture..... | \$ 4,100 | \$ 3,096 |
| Computer equipment..... | 12,918 | 10,485 |
| Leasehold improvements..... | 1,690 | 1,454 |
| | ----- | ----- |
| Total..... | 18,708 | 15,035 |
| | ----- | ----- |
| CAPITALIZED LEASES: | | |
| Computer equipment..... | 250 | 450 |
| | ----- | ----- |
| Total..... | 250 | 450 |
| | ----- | ----- |
| Total furniture and equipment..... | 18,958 | 15,485 |
| Less: accumulated depreciation and amortization..... | (11,879) | (8,843) |
| | ----- | ----- |
| Furniture and equipment, net..... | \$ 7,079 | \$ 6,642 |
| | ===== | ===== |

NOTE 7 -- WAREHOUSE BORROWING

The Company has two commercial paper facilities (the "CP Facilities") with financial institutions, one with Triple-A One Funding Corporation ("Triple-A") and the other with a conduit sponsored by The Chase Manhattan Bank ("Chase"). The Chase facility was entered into in August 1999 and provides \$150 million of additional borrowing capacity. There were no borrowings outstanding under the Chase facility as of December 31, 2000. The Triple-A facility, which provides borrowing availability of \$355 million, had borrowings outstanding at December 31, 2000 of \$172,508,955 and at December 31, 1999 of \$232,287,908. Under terms of the agreements the Company is able to borrow 98% of the principal amount of Contracts purchased. Borrowings under these facilities become due as the principal payments are received or the related automobile Contracts are sold.

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The amount of commercial paper outstanding under these facilities at any time is collateralized by the Contracts held for sale. The MBIA facility matures in September 2001 while the Chase facility matures in August 2001. These lines may be renewed at the option of the lenders. The Company is in compliance with certain ratios and other borrowing covenants under each arrangement. The fair value of commercial paper was \$172.5 million and \$232.3 million at December 31, 2000 and 1999 respectively. The commercial paper facilities had an average interest rate of 7.42% for the year ended December 31, 2000, and 6.18% for the year ended December 31, 1999.

Additionally, the Company had a repurchase facility with Merrill Lynch Mortgage Capital, Inc. ("MLMCI" or the "Merrill Line") providing \$100 million of borrowing capacity for the purchase or origination of Contracts. Outstanding debt is collateralized by Contracts held for sale. As of December 31, 2000 and December 31, 1999, there was no debt outstanding under this line. This line expired in February 2001.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 -- RESIDUAL LINES

The Company, through Fundco, has three residual financing facilities: a \$20.0 million facility with Merrill Lynch International ("MLI") executed in May 2000, which replaced a prior residual financing facility with MLMCI, a \$50.0 million line with Salomon Smith Barney Realty Corporation ("SBRC") and a \$35.0 million line, executed in October 2000, 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 facility with MLI, and the newest facility with CSFB-Europe described above are referred to herein as the "Residual Lines"). These 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. The facility provided by MLI has a one year term expiring in May 2001. This line may be renewed at the option of the lender. Each loan under the SBRC and CSFB lines matures one year after the date of the loan; the Company expects each loan to be renewed at term. The total borrowings outstanding under all three lines at December 31, 2000 were \$41.1 million. At December 31, 1999, outstandings under the MLI and SBRC lines totaled \$30.9 million. In addition, the Company had outstandings of \$25.0 million at December 31, 1999 under another excess servicing facility which was fully paid off in March 2000.

Interest paid under each line is tied to the 30 day Libor Rate. The average interest rates for the year ending 2000 were 8.98% for the MLI facility, 9.06% for the SBRC facility and 9.32% for the CSFB facility. For the year ending December 31, 1999, the average interest rates were 7.86% and 7.94% under the MLI facility and the SBRC facility respectively. The increase in average interest rates paid on the facilities from 1999 to 2000 was consistent with the increase in the average 30 day Libor Rate over the same time periods.

NOTE 9 -- SUBORDINATED DEBT

As of December 31, 2000, the Company had outstanding approximately \$19.5 million of subordinated debt. In February 2000, the Company exercised its option to extend the term of one of the original offerings by three years during which the loan will fully amortize through February 2003. The remaining principal balance outstanding as of December 31, 2000 was \$7.5 million and bears a fixed interest rate of 9.5%. During the second quarter of 2000, the Company issued

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\$12.0 million in subordinated debt with a stated interest rate of 12.5% and a maturity of June 2006.

NOTE 10 -- 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.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Future minimum lease payments required under capital leases and noncancelable operating leases are as follows as of December 31, 2000:

| | CAPITAL LEASES | OPERATING LEASES |
|--|-------------------|---------------------|
| | ----- | ----- |
| | (IN THOUSANDS) | |
| 2001..... | \$191 | \$ 3,288 |
| 2002..... | 103 | 3,096 |
| 2003..... | 15 | 2,997 |
| 2004..... | 0 | 2,963 |
| 2005 and thereafter..... | 0 | 8,380 |
| | ---- | ----- |
| Total..... | 309 | \$20,724 |
| | | ===== |
| Less amounts representing interest..... | (59) | |
| | ---- | |
| Present value of net minimum lease payments..... | \$250 | |
| | ===== | |

Rental expenses for premises and equipment amounted to approximately \$4.0 million, \$3.1 million and \$1.7 million for the years ended December 31, 2000, 1999, and 1998 respectively.

NOTE 11 -- 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. 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. The Company is currently a defendant in three consumer class action lawsuits. One such proceeding, served in 1999, in which the Company is a defendant, has been brought as a class action and is pending in the State of California. A class was certified in 2000; in the matter, the plaintiffs raise issues regarding the payment of dealer participation to dealers. Another such proceeding, served in 2000, in which the Company is a defendant, was brought as a putative class action and is pending in the state of New Jersey. This case was recently settled for a nominal amount and

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will be dismissed once the settlement documentation is finalized.

In another such consumer class action, filed and served in 1999, pending in Orange County Superior Court in the state of California, and entitled Jason Bollinger v. Onyx Acceptance Corporation (Action number 807831), the plaintiffs alleged that the Company sent defective post-repossession notices to certain California borrowers following the repossession or voluntary surrender of their vehicles. The Company, without admitting liability, has entered into a settlement agreement with respect to this matter, and this agreement was approved by the court in October of 2000. Under the terms of the settlement, the Company refunded certain amounts collected on deficiencies related to class members' accounts (in some instances, with interest) and paid a certain portion of the plaintiff's counsel fees and other amounts. Pursuant to the settlement, the monies from refund checks not cashed by the class members cannot be returned to the Company. In accordance with the settlement, these amounts shall be paid as follows: one-half to the plaintiff's counsel up to a negotiated cap, as an additional attorney's fee award, and the remainder to a non-profit youth soccer organization in Orange County, California where the Company's headquarters is located. One of the children of Mr. Hall, the Company's President and Chief Executive Officer, participates in this organization. Mr. Hall has also volunteered in certain capacities in this organization.

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 use of the cash-in method of measuring and accounting for

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 believes 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. As required by the Financial Accounting Standards Board's Special Report, "A Guide to Implementation of Statement 125 on Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, Second Edition," dated December 1998 and related statements made by the staff of the Securities and Exchange Commission, the Company retroactively changed the method of measuring and accounting for credit enhancement assets to the cash-out method and restated the Company's financial statements for 1996, 1997 and the first three fiscal quarters of 1998. In February 2001, an amended complaint was dismissed with prejudice by the court; the plaintiff has filed a notice of appeal.

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 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 12 -- STOCK OPTIONS

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As of December 31, 2000, the Company has reserved 1,713,004 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 101,645 at December 31, 2000, 249,488 at December 31, 1999, and 240,566 at December 31, 1998.

A summary of the status of the Company's stock option plan as of December 31, 2000, 1999 and 1998, and changes during the years ending on those dates is presented below:

| | 2000 | | 1999 | | 1998 | |
|---|-----------|--|-----------|--|-----------|--|
| OPTIONS | SHARES | WEIGHTED AVERAGE EXERCISE PRICE | SHARES | WEIGHTED AVERAGE EXERCISE PRICE | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
| Outstanding at beginning of year.... | 1,290,136 | \$5.66 | 1,120,697 | \$5.59 | 802,200 | \$7.51 |
| Granted..... | 478,450 | 4.06 | 256,325 | 6.11 | 1,296,878 | 6.32 |
| Exercised..... | (11,954) | 0.51 | (6,770) | 7.83 | (38,118) | 0.80 |
| Forfeited..... | (145,273) | 5.66 | (80,116) | 6.01 | (940,263) | 8.39 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Outstanding at end of year..... | 1,611,359 | \$5.66 | 1,290,136 | \$5.66 | 1,120,697 | \$5.59 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Options exercisable at year end..... | 960,169 | | 774,506 | | 502,624 | |
| | ===== | | ===== | | ===== | |
| Weighted-average fair value of options granted during the year..... | \$ 4.06 | | \$ 6.11 | | \$ 6.32 | |
| | ===== | | ===== | | ===== | |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 2000:

| RANGE OF EXERCISE PRICES | OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | |
|--------------------------|--------------------------------------|---|------------------------------------|---|------------------------------------|
| | NUMBER OUTSTANDING AT 12/31/00 | WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED-AVERAGE EXERCISE PRICE | NUMBER EXERCISABLE AT 12/31/00 | WEIGHTED-AVERAGE EXERCISE PRICE |
| \$ 0.51 | 101,230 | 3.21 years | \$.51 | 101,230 | \$.51 |
| \$ 3.38 - 4.25 | 470,700 | 9.42 | 4.07 | 12,249 | 4.25 |

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| | | | | | |
|-----------------|-----------|-------|---------|---------|---------|
| \$ 5.50 - 6.75 | 906,216 | 7.20 | 5.74 | 725,468 | 5.74 |
| \$ 6.86 - 7.88 | 52,530 | 7.33 | 7.44 | 45,210 | 7.50 |
| \$ 8.00 - 9.13 | 9,225 | 8.01 | 8.78 | 4,554 | 8.72 |
| \$10.29 - 11.50 | 71,458 | 6.36 | 10.94 | 71,458 | 10.94 |
| | ----- | ----- | ----- | ----- | ----- |
| \$ 0.51 - 11.50 | 1,611,359 | 7.57 | \$ 5.22 | 960,169 | \$ 5.66 |
| | ===== | ===== | ===== | ===== | ===== |

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 date of the grant.

SFAS 123 provides for 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. However, SFAS 123 allows companies to continue to measure compensation costs prescribed by APB Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25"). Companies electing to continue accounting for stock based compensation plans under APB 25 must make pro forma disclosures of net income and net income per share, as if SFAS 123 had been adopted. 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:

| | DECEMBER 31, | | |
|--------------------------------------|--------------|------------|------------|
| | 2000 | 1999 | 1998 |
| | ----- | ----- | ----- |
| Risk free interest rate..... | 6.2% | 5.6% | 5.1% |
| Expected stock price volatility..... | 85.0% | 76.0% | 63.9% |
| 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 for the years ended December 31:

| | 2000 | 1999 | 1998 |
|---|---------|---------|---------|
| | ----- | ----- | ----- |
| Pro forma net income (in thousands)..... | \$4,943 | \$7,831 | \$5,322 |
| Pro forma net income per share-basic..... | \$ 0.87 | \$ 1.27 | \$ 0.87 |
| Pro forma net income per share-diluted..... | \$ 0.85 | \$ 1.23 | \$ 0.83 |

NOTE 13 -- 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

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

stock and begin vesting 20% per year following the completion of three years of service. Company expense related to the 401(k) Plan totaled approximately \$333,000 in 2000 and approximately \$177,000 in 1999.

NOTE 14 -- 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, 2000 and December 31, 1999.

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 does not intend to declare dividends in the foreseeable future. The Company's ability to pay or declare dividends is restricted by the terms of certain of its credit facilities.

NOTE 15 -- SHARE REPURCHASES

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, 2000, 1,200,254 shares had been repurchased under the program for an aggregate amount of \$5.3 million.

NOTE 16 -- INCOME TAXES

The following table presents the current and deferred provision for federal and state income taxes for the years ended December 31, 2000, 1999 and 1998:

| | 2000 | 1999 | 1998 |
|--------------|----------------|---------|--------|
| | ----- | ----- | ----- |
| | (IN THOUSANDS) | | |
| Current: | | | |
| Federal..... | \$(2,020) | \$2,318 | \$ 698 |
| State..... | (177) | 1,228 | 18 |
| | ----- | ----- | ----- |
| Total..... | (2,197) | 3,546 | 716 |
| | ----- | ----- | ----- |
| Deferred: | | | |
| Federal..... | 5,151 | 3,267 | 3,071 |
| State..... | 1,182 | 133 | 523 |

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| | | | |
|---------------------|----------|---------|----------|
| Total..... | 6,333 | 3,400 | 3,594, |
| Combined Total..... | \$ 4,136 | \$6,946 | \$ 4,310 |

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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, 2000, 1999 and 1998:

| | 2000 | 1999 | 1998 |
|--|------|------|------|
| | ---- | ---- | ---- |
| Statutory regular federal income tax rate (benefit)..... | 34% | 34% | 34% |
| State taxes (net of federal benefit)..... | 6 | 6 | 7 |
| Other..... | 1 | 1 | 0 |
| | 41% | 41% | 41% |
| | == | == | == |

The components of the deferred income tax asset or (liability) as of December 31, 2000 and 1999 are as follows:

| | 2000 | 1999 |
|--|----------------|------------|
| | ----- | ----- |
| | (IN THOUSANDS) | |
| Property and equipment..... | \$ 1,617 | \$ 1,275 |
| Unrealized gain (loss) in credit enhancement assets..... | 991 | (392) |
| Accrued liabilities..... | 769 | 1,939 |
| Capitalized costs..... | (1,034) | (905) |
| Allowance for credit losses..... | 494 | 610 |
| Gain on sale of Contracts..... | (20,000) | (11,726) |
| Net operating losses..... | 2,477 | -- |
| Credit carryover..... | 18 | 18 |
| State taxes..... | 999 | 853 |
| | ----- | ----- |
| | \$ (13,669) | \$ (8,326) |
| | ===== | ===== |

As of December 31, 2000, the Company had net operating loss carryforwards for federal and state purposes of approximately \$5.7 and \$6.5 million, respectively. These carryforwards will begin to expire in 2020 and 2010 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.

NOTE 17 -- WARRANTS

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At December 31, 2000, the Company had the following warrants outstanding to purchase shares of common stock:

| | EXERCISE PRICE | BALANCE OUTSTANDING AT DECEMBER 31, 1998 | NET REDUCTIONS TO OUTSTANDING WARRANTS | BALANCE OUTSTANDING AT DECEMBER 31, 1999 | NET REDUCTIONS TO OUTSTANDING WARRANTS |
|---------------|-------------------|--|--|--|--|
| | ----- | ----- | ----- | ----- | ----- |
| Warrants..... | \$ 0.03 | 1,636 | 0 | 1,636 | 0 |
| Warrants..... | \$ 0.51 | 84,311 | 0 | 84,311 | 0 |
| Warrants..... | \$11.50 | 16,332 | 0 | 16,332 | 0 |
| Warrants..... | \$17.15 | 3,791 | 0 | 3,791 | 0 |
| Warrants..... | \$ 8.88 | 180,529 | 0 | 180,529 | 0 |
| | ----- | ----- | -- | ----- | -- |
| Total..... | | 286,599 | 0 | 286,599 | 0 |
| | ===== | ===== | == | ===== | == |

At December 31, 2000, all the Company's warrants outstanding to purchase shares of common stock were exercisable.

No warrants were exercised during 2000.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 18 -- 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.

| | YEAR ENDED DECEMBER 31, | | |
|--|--|---------|---------|
| | 2000 | 1999 | 1998 |
| | ----- | ----- | ----- |
| | (IN THOUSANDS, EXCEPT NET INCOME PER SHARE) | | |
| Net income..... | \$5,835 | \$9,792 | \$6,076 |
| Weighted average shares outstanding..... | 5,657 | 6,174 | 6,112 |
| Net effect of dilutive stock options/warrants..... | 154 | 340 | 313 |
| | ----- | ----- | ----- |
| Fully diluted weighted average shares outstanding..... | 5,811 | 6,514 | 6,425 |
| | ===== | ===== | ===== |
| Net income per share..... | \$ 1.03 | \$ 1.59 | \$ 0.99 |
| | ===== | ===== | ===== |
| Net income per share assuming full dilution..... | \$ 1.00 | \$ 1.50 | \$ 0.95 |
| | ===== | ===== | ===== |

As of December 31, 2000, 1999 and 1998, 1.5 million, 310.3 thousand and

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473.3 thousand of combined options and warrants, respectively, were not included in the calculation of full dilution, as they were antidilutive.

NOTE 19 -- 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 judgement 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.

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.

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.

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.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

| | 2000 | | 1999 | |
|--|--------------------|---------------|--------------------|---------------|
| | CARRYING AMOUNT | FAIR VALUE | CARRYING AMOUNT | FAIR VALUE |
| | (IN MILLIONS) | | | |
| Cash and cash equivalents..... | \$ 3.1 | \$ 3.1 | \$ 5.2 | \$ 5.2 |
| Contracts held for sale..... | \$ 173.8 | \$ 179.6 | \$ 229.5 | \$ 243.9 |
| Credit enhancement assets..... | \$ 146.0 | \$ 146.0 | \$ 142.9 | \$ 142.9 |
| Warehouse borrowings..... | \$ (172.5) | \$ (172.5) | \$ (232.3) | \$ (232.3) |
| Excess service and residual lines..... | \$ (41.1) | \$ (41.1) | \$ (55.9) | \$ (55.9) |
| Hedging Forward agreements..... | \$ 0 | \$ (1.4) | \$ (0.3) | \$ (0.3) |

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NOTE 20 -- RELATED PARTY TRANSACTIONS

The Company has a note receivable from a certain shareholder in the amount of \$175,000. The note bears interest at 6.66% per annum. Principal and accrued interest are due on December 20, 2001.

NOTE 21 -- QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

| | THREE MONTHS ENDED | | | |
|--|---------------------------------------|---------|--------------|----------|
| | MARCH 31 | JUNE 30 | SEPTEMBER 30 | DECEMBER |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | |
| 2000 | | | | |
| Interest income..... | \$8,898 | \$4,438 | \$3,098 | \$6,612 |
| Interest expense..... | 4,940 | 3,347 | 2,814 | 3,660 |
| Net interest income..... | 3,958 | 1,091 | 284 | 2,952 |
| Provision for credit losses..... | 434 | 285 | (73) | 344 |
| Income before income taxes..... | 2,859 | 2,674 | 2,924 | 1,513 |
| Income taxes..... | 1,186 | 1,110 | 1,213 | 626 |
| Net income..... | 1,673 | 1,564 | 1,711 | 887 |
| Net income per common share (Basic)..... | \$ 0.27 | \$ 0.26 | \$ 0.32 | \$ 0.17 |
| Net income per common share (Diluted)..... | \$ 0.26 | \$ 0.25 | \$ 0.32 | \$ 0.17 |
| 1999 | | | | |
| Interest income..... | \$5,766 | \$6,723 | \$7,153 | \$4,791 |
| Interest expense..... | 2,930 | 2,923 | 3,993 | 2,714 |
| Net interest income..... | 2,836 | 3,800 | 3,160 | 2,077 |
| Provision for credit losses..... | 500 | 249 | 204 | 293 |
| Income before income taxes..... | 3,714 | 4,100 | 4,428 | 4,496 |
| Income taxes..... | 1,541 | 1,700 | 1,838 | 1,865 |
| Net income..... | 2,173 | 2,399 | 2,590 | 2,630 |
| Net income per common share (Basic)..... | \$ 0.35 | \$ 0.39 | \$ 0.42 | \$ 0.43 |
| Net income per common share (Diluted)..... | \$ 0.34 | \$ 0.37 | \$ 0.39 | \$ 0.41 |

NOTE 22 -- SUBSEQUENT EVENTS (UNAUDITED)

In the first quarter of 2001, the Company securitized contracts totaling \$400.0 million.

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INDEX TO EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION | SEQUENTIALLY NUMBERED PAGE |
|---------------------|--|----------------------------------|
| 3.1 | Certificate of Incorporation of the Company(1)..... | |
| 3.2 | Bylaws of the Company(1)..... | |
| 10.1 through 11.105 | Omitted..... | |
| 10.106 | Master Repurchase Agreement dated October 13, 2000 by and between Credit Suisse First Boston (Europe) Limited, as | |

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| | |
|------|---|
| | buyer, Credit Suisse First Boston Corporation, as Agent and Onyx Acceptance Funding Corporation, as Seller*..... |
| 21.1 | Subsidiaries of the Registrant*..... |
| 23.1 | Consent of Independent Accountants*..... |

* Filed herewith.

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