ONYX ACCEPTANCE CORP
Form 10-Q
November 15, 2004

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

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 028050

ONYX ACCEPTANCE CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

YES x NO o

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

YES o NO x

As of November 12, 2004 there were 5,551,629 shares of registrant s Common Stock, par value $.01 per share outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(UNAUDITED)

	SEPTEMBER 30, 2004	DECEMBER 31, 2003
	(DOLLARS IN THOUSANDS)	
ASSETS		
Cash and cash equivalents	$ 28,367	$ 15,434
Restricted cash	1,576	500
Credit enhancement assets, at fair value	184,269	182,344
Contracts held for sale	161,573	195,347
Contracts held for investment (net of allowance)	10,900	8,812
Other assets	12,449	11,378
Total assets	$399,134	$413,815
LIABILITIES		
Accounts payable	$ 35,528	$ 21,064
Debt:		
Warehouse lines	127,701	183,008
Residual lines	27,190	30,697
Subordinated financing	52,821	51,077
Total debt	207,712	264,782
Other liabilities	59,528	48,050
Total liabilities	302,768	333,896
EQUITY		
Common stock Par value $.01 per share; authorized 15,000,000 shares; issued and outstanding 5,260,577 as of September 30, 2004 and 5,141,566 as of December 31, 2003	53	51
Paid in capital	31,237	32,880
Retained earnings	42,126	33,561
Accumulated other comprehensive income, net of tax	22,950	13,427

Total equity	96,366	79,919
Total liabilities and equity	$399,134	$413,815

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
REVENUES:				
Interest income	$ 11,421	$ 8,670	$ 32,388	$ 30,140
Interest expense-warehouse and residual lines	2,100	1,666	5,936	6,071
Interest expense-other	1,992	2,250	6,466	4,994
Net interest income	7,329	4,754	19,986	19,075
Gain on sale of contracts (net)	8,508	8,725	25,099	18,057
Service fee income	15,003	13,616	42,406	40,042
Total Revenues	30,840	27,095	87,491	77,174
EXPENSES:				
Provision for credit losses	760	967	1,515	2,221
OPERATING EXPENSES:				
Salaries and benefits	14,755	13,474	43,655	41,236
Systems and servicing	1,221	1,088	3,510	3,135
Telephone and data lines	877	781	2,223	2,366
Depreciation	372	575	1,243	1,885
General and administrative expenses	5,596	7,068	17,966	20,362
Total Operating Expenses	22,821	22,986	68,597	68,984
Total Expenses	23,581	23,953	70,112	71,205
Income before income taxes	7,259	3,142	17,379	5,969
Income Taxes	2,903	1,304	6,982	2,478
Net Income	$ 4,356	$ 1,838	$ 10,397	$ 3,491

Net Income per share	Basic	$ 0.83	$ 0.36	$ 1.98	$ 0.69
Net Income per share	Diluted	$ 0.69	$ 0.31	$ 1.66	$ 0.63
Basic Shares Outstanding		5,225,551	5,103,395	5,247,011	5,092,998
Diluted Shares Outstanding		6,310,967	6,002,979	6,262,581	5,514,459

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(IN THOUSANDS)
(UNAUDITED)

	SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME NET OF TAX	TOTAL
BALANCE, DECEMBER 31, 2003	5,142	$ 51	$ 32,880	$ 33,561	$ 13,427	$ 79,919
Issuance of Common Stock	300	3	1,101			1,104
Repurchase of Common Stock	(181)	(1)	(2,744)			(2,745)
Dividends Paid				(1,832)		(1,832)
Comprehensive income:						
Unrealized gain in credit enhancement assets, net of tax of $6.3 million					9,523	9,523
Net income				10,397		10,397
Total comprehensive income						19,920
BALANCE, SEPTEMBER 30, 2004	5,261	$ 53	$ 31,237	$ 42,126	$ 22,950	$ 96,366

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003 (Restated)
	(Dollars in Thousands)	
OPERATING ACTIVITIES:		
Net cash provided by (used in) operating activities	$ 75,399	$ (10,963)
INVESTING ACTIVITIES:		
Cash used for purchases of property and equipment	(364)	(975)
FINANCING ACTIVITIES:		
Proceeds from exercise of employee options	1,104	151
Repurchase of Common Stock	(2,745)	
Payments on capital lease obligations	(481)	(480)
Dividends paid	(1,832)	
Payments on residual lines of credit	(23,507)	(44,897)
Proceeds from drawdown on residual lines of credit	20,000	29,398
Paydown of warehouse lines related to securitizations	(1,296,918)	(1,170,121)
Proceeds from warehouse lines	1,241,609	1,189,120
Proceeds from issuance of subordinated debt	12,899	25,179
Principal payments on subordinated debt	(11,155)	(7,192)
Net cash provided by financing activities	(61,026)	21,158
Increase (decrease) in cash and cash equivalents	14,009	9,220
(Increase) Decrease in restricted cash	(1,076)	2,611
Cash and cash equivalents at beginning of period	15,434	9,488
Cash and cash equivalents at end of period	$ 28,367	$ 21,319

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 NATURE OF OPERATIONS

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

RECLASSIFICATION

Certain amounts in the 2003 periods condensed consolidated statements have been reclassified to conform to the corresponding 2004 presentation.

The table below presents the reclassifications made:

	As of September 30, 2003	As of September 30, 2003
	As reported	Reclassified
	(Dollars in thousands)	
Cash and cash equivalents	19,149	21,319
Contracts held for sale	186,630	193,819
Credit enhancement assets	177,923	185,613
Total Assets	401,519	418,569
Accounts payable	27,005	36,865
Other Liabilities	36,525	43,714
Total Liabilities	327,575	344,625

NOTE 2 BASIS OF PRESENTATION

The condensed consolidated financial statements included herein are unaudited and have been prepared by Onyx Acceptance Corporation (Onyx or the Company) in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote

disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the regulations. In the opinion of management, the financial statements reflect all adjustments (all of a normal and recurring nature) which are necessary for a fair statement of the financial position, results of operations and cash flows for the interim period. Operating results for the three and nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. The condensed consolidated financial statements should be read in conjunction with the audited financial statements and footnotes thereto for the year ended December 31, 2003 included in the Company s 2003 Annual Report on Form 10-K.

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USE OF ESTIMATES

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

NOTE 3 RESTRICTED CASH

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

NOTE 4 CONTRACTS HELD FOR SALE

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

Contracts held for sale consist of the following:

	September 30, 2004	**December 31, 2003**
	(In thousands)	
Gross Contracts held for sale	$150,686	$189,561
Less unearned interest	(973)	(844)
Net Contract balance	149,713	188,717

Loan Premium	10,931	4,853
Contracts held for sale	160,644	193,570
Dealer participation	929	1,777
Total	$161,573	$195,347

As of September 30, 2004 and December 31, 2003, 25% and 26% of Contracts held for sale were originated in California, respectively.

Contracts originated by the Company through its Gold program totaled approximately $602.7 million and $198.3 million at September 30, 2004 and December 31, 2003, respectively. These amounts are not reflected in the accompanying consolidated financial statements.

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NOTE 5 CONTRACTS HELD FOR INVESTMENT

Contracts held for investment are net of a $3.1 million allowance for probable losses at September 30, 2004 and a $2.5 million allowance at December 31, 2003. Amounts held for investment include Contracts that do not qualify for securitizations as a result of delinquency status, minimum balance or minimum remaining term. Contracts held for investment are carried at amortized cost reduced by a valuation allowance for credit losses inherent in the portfolio as of the balance sheet date.

Contracts held for investment consist of the following:

	September 30, 2004	December 31, 2003
	(In thousands)	
Gross Contracts held for investment	$13,990	$11,312
Less unearned interest	(16)	(14)
Contracts held for investment	13,974	11,298
Allowance for credit losses	(3,074)	(2,486)
Total	$10,900	$ 8,812

Changes in the allowance for credit losses were as follows:

	September 30, 2004	December 31, 2003
	(In thousands)	
Balance at beginning of period	$ 2,486	$ 1,851
Provision for credit losses	1,515	3,216
Charged-off loans	(6,388)	(7,424)
Recoveries-general	5,461	4,843
Balance at end of period	$ 3,074	$ 2,486

NOTE 6 CREDIT ENHANCEMENT ASSETS

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

RISA, capitalized upon securitization of Contracts, represents the present value of the estimated future cash flows to be received by the Company from the excess spread created in securitization transactions. Excess spread is calculated by taking the difference between the weighted average coupon rate of the Contracts sold and the weighted average security rate paid to the investors less contractually specified servicing and guarantor fees and projected credit losses, after giving effect to estimated prepayments.

Prepayment and credit loss assumptions are utilized to project future cash flows and are based on historical experience. All assumptions are evaluated each quarter and adjusted, if appropriate, to reflect the actual performance of the underlying Contracts. Subsequent changes in loss, prepayment and discount rate assumptions applied upon the execution of the securitization could have a material effect on gains on future securitizations.

Key economic assumptions used in determining the fair value of RISA at the time of securitization are as follows:

	For the Period Ended September 30, 2004	**For the Period Ended December 31, 2003**
Prepayment rate (ABS Speed)	1.75	1.75
Cumulative credit losses	3.25% to 3.5%	3.5% to 4.4%
Average Contract life	1.71% to 1.74%	1.67% to 1.76%
Discount rate	11.0% to 11.8%	10.8% to 11.0%

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Key economic assumptions used in determining the fair value of the RISA at September 30, 2004, and December 31, 2003 are as follows:

	September 30, 2004	December 31, 2003
Prepayment rate (ABS Speed)	1.61 to 2.07	1.65 to 2.14
Cumulative credit losses	2.4% to 3.8%	2.8% to 6.6%
Discount rate	9.2% to 11.8%	8.5% to 11.0%

The outstanding owner trusts incurred net credit losses of $8.6 million and $13.6 million related to the securitized Contracts above during the quarters ended September 30, 2004 and 2003, respectively.

During the quarter and nine-month period ended September 30, 2003, the Company recorded impairment losses of $0.45 million and $8.7 million, respectively. There was no impairment during the nine month period of 2004. Impairment charges are netted against gain on sale as reported in the statement of income.

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

The following table presents the estimated future cash flows to be received from securitizations. Estimated future cash flows are calculated by taking the difference between the weighted average coupon rate of the Contracts sold and the weighted average security rate paid to the investors, less the contractually specified servicing fee of 1.0% per annum, financial guaranty insurance premiums and other costs and fees, after giving effect to estimated prepayments and assuming no losses. To arrive at the RISA, this amount is reduced by the off balance sheet allowance established for probable future losses and by discounting to present value.

	September 30, 2004	December 31, 2003
	(In thousands)	
Cash held in spread accounts	$ 101,215	$ 100,821
Estimated undiscounted RISA cash flows	205,395	211,544
Off balance sheet allowance for losses	(94,034)	(101,894)
Discount to present value	(28,307)	(28,127)
Credit Enhancement Assets	$ 184,269	$ 182,344
Outstanding balance of Contracts sold through securitizations	$2,688,922	$2,643,431

NOTE 7 NET INCOME PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Dollars in Thousands, Except Per Share Data)			
Net Income	$4,356	$1,838	$10,397	$3,491
Weighted average shares outstanding	5,226	5,103	5,247	5,093
Net effect of dilutive stock options/warrants	1,085	900	1,016	421
Diluted weighted average shares outstanding	6,311	6,003	6,263	5,514
Net income per share:				
Basic EPS	$ 0.83	$ 0.36	$ 1.98	$ 0.69
Diluted EPS	$ 0.69	$ 0.31	$ 1.66	$ 0.63

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As of September 30, 2003, 49,182 of combined options and warrants were not included in the calculation of full dilution, as they were anti-dilutive. As of September 30, 2004, there were no options that were anti-dilutive. Additionally, the Company has no warrants outstanding as of September 30, 2004.

NOTE 8 STOCK OPTIONS

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

	September 30,	
	2004	**2003**
Risk free interest rate	3.0%	2.9%
Expected stock price volatility	82.0%	79.7%
Expected life of options	six years	four years
Expected dividends	none	none

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

	For the Quarters Ended, September 30,		For the Nine Months Ended, September 30,	
	2004	**2003**	**2004**	**2003**
	(Dollars in Thousands, Except Per Share Data)			
Net income, as reported (in thousands)	$4,356	$1,838	$10,397	$3,491
Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects (in thousands)	$ 117	$ 110	$ 427	$ 332
Pro forma net income (in thousands)	$4,239	$1,728	$ 9,970	$3,159
Earnings per share:				
Basic as reported	$ 0.83	$ 0.36	$ 1.98	$ 0.69
Basic pro forma	$ 0.81	$ 0.34	$ 1.90	$ 0.62
Diluted as reported	$ 0.69	$ 0.31	$ 1.66	$ 0.63
Diluted pro forma	$ 0.67	$ 0.29	$ 1.59	$ 0.57

NOTE 9 STOCK REPURCHASES

In April, the Company announced that its Board of Directors authorized a stock repurchase program to purchase up to $5.0 million of its common stock. As of September 30, 2004, the Company repurchased 180,768 shares or $2.7 million in open market transactions; no purchases were made after August 4, 2004.

NOTE 10 CONTINGENCIES

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

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

OVERVIEW

Onyx is a specialized consumer finance company engaged in the purchase, origination, securitization and servicing of Contracts originated by franchised and select independent automobile dealerships in the United States. The Company focuses its efforts on acquiring Contracts that are collateralized by late model used and, to a lesser extent, new automobiles, that are entered into with purchasers whom the Company believes have a favorable credit profile. Since commencing the purchase of Contracts in February 1994, the Company has acquired more than $12.3 billion in Contracts and currently has relationships with over 13,000 dealerships. The Company has expanded its operations from a single office in California to 19 Auto Finance Centers and one centralized buying center, together serving most of the United States.

The Company generates revenues primarily through the purchase, origination, warehousing, subsequent securitization and ongoing servicing of Contracts. The Company earns net interest income on Contracts held during the warehousing period. Net interest income is the difference between the income earned on interest earning assets and the interest paid on interest bearing liabilities. Upon the securitization and sale of Contracts, the Company recognizes a gain on sale of Contracts, receives excess cash flows generated by owner trusts, and earns fees from servicing the securitized Contracts.

CRITICAL ACCOUNTING POLICIES

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

RETAINED INTEREST IN SECURITIZED ASSETS (RISA)

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

RISA is classified in a manner similar to available for sale assets and as such is marked to market each quarter. Market value changes are calculated by discounting the estimated cash flows using a current market discount rate.

Each quarter Management reviews its estimates of the cash flows and adjusts any that are inconsistent with its current estimates. If the effect of the new estimates reduces the present value of the cash flows and if the fair market value has declined below the carrying amount of the transaction, Management will record an impairment loss on the transaction. If the new estimated present value has declined but the carrying amount remains below the fair value, any change in the market value of the RISA is reported as a separate component of shareholders equity on the consolidated statements of financial condition as accumulated other comprehensive income (loss), net of applicable taxes.

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HEDGING ACTIVITIES

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

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

The Company uses forward interest rate swaps to hedge the variability in the forecasted future net cash flows it will receive from the RISA attributable to the risk of changing interest rates. The Company s interest rate swap agreements involve arrangements to pay a fixed interest rate and receive a floating interest rate, at specified intervals, calculated on agreed-upon amortizing notional amounts. The debt and amounts that the Company hedges are determined based on prevailing market conditions and the current shape of the yield curve. Interest rate swap agreements are executed as an integral part of specific securitization transactions. Interest rate swap agreements are unwound upon securitization, whereby the gain or loss on the hedge is recorded to income and the associated component of the gain or loss previously recorded in other comprehensive income is reversed. As of September 30, 2004, the Company had no forward interest rate swaps outstanding.

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

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

RESULTS OF OPERATIONS

The Company had net income of $4.4 million for the three-month period ended September 30, 2004, compared to net income of $1.8 million for the same period in 2003. For the nine-month period ended September 30, 2004, net income was $10.4 million, versus $3.5 million for the same period in 2003. The increase in net income for the three-month period was principally due to an increase in service fee income. The increase in net income for the nine-month period was principally due to higher gains from securitization sales. Additionally, collection related operating expenses decreased due to the improved performance of the serviced portfolio.

Net Interest Income. Net interest income consists primarily of (1) the difference between the finance revenue earned on Contracts held on balance sheet during the warehousing period and the interest costs associated with the

Company s borrowings to purchase such Contracts; (2) the difference between income accreted on RISA and the interest costs associated with residual line borrowings secured by RISA and (3) interest and amortized fees charged in connection with the Company s subordinated debt financings, capital lease obligations, the costs associated with hedging activities under the guidelines of FAS 133, and amortization of loan premiums.

Net interest income was $7.3 million for the quarter ended September 30, 2004, compared to $4.8 million for the same period in 2003. For the nine-month period ended September 30, 2004, net interest income was $20.0 million, versus $19.1 million for the same period in 2003. The increase in net interest income for the three and nine-month

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periods ended September 30, 2004 was principally due to an increase in interest income generated from the Company s retained interest in securitized assets. Partially offsetting this increase for the nine-month period ending September 30, 2004, was an increase in interest expense incurred on the Company s renewable unsecured subordinated notes. Interest expense in connection with the Company s renewable unsecured subordinated notes increased by $1.5 million for the nine-month period ended September 30, 2004. As of September 30, 2004, the balance of the renewable unsecured subordinated notes was $40.8 million, compared to $33.4 million as of September 30, 2003. The reduction in other interest expense for the third quarter of 2004 versus 2003 was principally due to a reduction in interest expense under the guidelines of FAS 133.

The table below depicts the major components of net interest income.

	For the Three Months Ended, September 30,		For the Nine Months Ended, September 30,	
	2004	2003	2004	2003
	(Dollars in Thousands)			
Income:				
Finance Revenue (net of participation amortization)	$ 2,902	$3,806	$10,618	$13,147
RISA income	8,519	4,864	21,770	16,993
Total interest income	11,421	8,670	32,388	30,140
Expense:				
Warehouse lines	1,485	990	4,094	3,265
Residual lines	615	676	1,842	2,806
Other interest expense	1,992	2,250	6,466	4,994
Total interest expense	4,092	3,916	12,402	11,065
Net interest income	$ 7,329	$4,754	$19,986	$19,075

The Company has increased the fair value on certain of its outstanding securitization transactions through other comprehensive income on the statement of financial condition. The increase is principally due to the improved loss performance of certain securitization transactions, and may result in higher earnings on the RISA assets in future quarters.

Contractual servicing fee income is earned at a rate of 1.0% per annum on the outstanding principal balance of the serviced Portfolio. The Company also earns servicing fees on Contracts originated through its Onyx Gold program. Servicing fee income is related to the size of the serviced portfolio and also includes investment interest, late fees, extension fees, document fees and other fees charged to customer accounts. Service fee income was $15.0 million and $42.4 million for the quarter and nine-month periods ended September 30, 2004, compared to $13.6 million and

$40.0 million for the same periods in 2003, respectively. The increase reflects the additional revenue generated from the Onyx Gold program. During the three and nine-month period ended September 30, 2004, the Gold program generated $0.8 million and $2.6 million in service fees, respectively, versus $0.1 million for the nine months ended September 30, 2003. As of September 30, 2004, and 2003, the Company s Gold portfolio was $602.7 million and $68.9 million, 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. The present value of the estimated future excess cash flows is recorded as a credit enhancement asset on the statement of financial condition. The gain recorded in the statement of income is equal to the credit enhancement asset recorded as adjusted for prepaid dealer participation, issuance costs, the gain or loss on the termination of the cash flow hedge and impairment charges. The gain on the sale of Contracts is affected by the amount of Contracts securitized and the net interest rate spread on those Contracts.

The Company completed one securitization in the amount of $450 million during the quarter, resulting in a gain on sale of Contracts of $8.5 million or 1.9% of the dollar amount of Contracts securitized, compared to a securitization of $400 million during the third quarter of 2003, which resulted in a gross gain on sale of Contracts totaling $9.2 million or 2.3% of the dollar amount of the Contracts securitized. The decrease in gain recorded for 2004 was principally due to the decrease in the weighted average net spread realized. The net interest rate spread is the difference between the weighted average Contract rate of the securitized assets and the weighted average investor rate inclusive of all costs related to the transaction. Interest rate spread is affected by product mix, general

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market conditions and overall market interest rates. The risks inherent in interest rate fluctuations are partially reduced through hedging activities.

The table below depicts the major components of net spread.

	2004-A	2004-B	2004-C	2003-A	2003-B	2003-C
Weighted average A.P.R	8.97%	8.90%	9.63%	9.79%	9.14%	8.75%
Projected net annualized loss rate	(2.05)	(2.02)	(1.86)	(2.21)	(2.20)	(2.07)
Service fee, dealer participation & other	(1.96)	(2.02)	(1.97)	(2.19)	(2.01)	(1.99)
Cost of funds, including investor rate	(2.93)	(3.08)	(3.66)	(3.24)	(2.78)	(2.48)
Net interest rate spread	2.03%	1.78%	2.14%	2.15%	2.15%	2.21%

There was no impairment of RISA for the nine-month period ending September 30, 2004. The Company recorded $0.5 million and $8.7 million pre-tax impairment charges on its RISA assets during the three and nine-month periods ending September 30, 2003, respectively.

Provision for Credit Losses. The provision for credit losses represents net credit losses incurred on Contracts held for Investment and the future provision based on the net change in Contracts held for Investment during the period. The provision for credit losses decreased to $760 thousand for the quarter ended September 30, 2004, compared to $967 thousand for the same period in 2003. For the nine-month period ended September 30, 2004, the provision for credit losses was $1.5 million, versus $2.2 million for the same period in 2003.

The table below depicts the components of the provision for the relative periods

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003
			(In Thousands)	
Net change in Contracts held for Investment	$2,479	$1,194	$2,676	$1,841
Net Charge-offs-(Contracts held for Investment)	$ 215	$ 704	$ 927	$1,817
Future Provision	545	263	588	404
Total provision	$ 760	$ 967	$1,515	$2,221

Operating Expenses. For the three and nine-month periods ended September 30, 2004, total operating expenses were $22.8 million and $68.6 million, versus $23.0 million and $69.0 million for the same periods in 2003. Total operating expenses as a percent of the managed portfolio decreased to 2.6%, versus 3.2% for the quarter ended September 30, 2003. For the nine-month period ended September 30, 2004, operating expenses as a percent of the managed portfolio were 2.8%, versus 3.2% for the same period in 2003. (The managed portfolio includes contracts held for sale and investment, contracts sold on a whole loan basis with retained servicing and outstanding securitized contracts).

The Company has been able to keep operating expenses in check through ongoing implementation of technology and automation to further enhance operating efficiencies. However, higher health care and general insurance premiums have contributed to increases in salary and benefit expenses during the quarter and nine-month period ending September 2004. Increases in salary and benefit expenses were offset with reductions in collection related expenses stemming from the continued improvement of the performance of the serviced portfolio. Collection related expenses decreased by approximately $1.0 million for the quarter versus the same period in 2003 and by approximately $1.8 million for the nine-month period ending September 2004 versus the same period in 2003. Additionally, as a direct result of the improved portfolio performance, physical damage insurance related charges for uninsured motorists decreased by approximately $0.8 million for the quarter and nine-month periods ending September 2004 versus the same periods in 2003. Other operating expenses include professional fees, marketing, supplies, facility related charges, insurance fees, collection fees and credit bureau fees. The decrease in other operating expense is principally due to reductions in collection related charges as a result of the improved performance of the serviced portfolio.

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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 40.0% for the nine months ended September 30, 2004 and 41.5% for the same period in 2003.

FINANCIAL CONDITION

CONTRACTS HELD FOR SALE

Contracts held for sale are presented at the lower of cost or market value and totaled $161.6 million at September 30, 2004, compared to $195.3 million at December 31, 2003. The number and principal balance of Contracts held for sale is largely dependent upon the timing and size of the Company s securitizations.

CONTRACTS HELD FOR INVESTMENT

Contracts held for investment are net of a $3.1 million allowance for probable losses as of September 30, 2004 and a $2.5 million allowance as of December 31, 2003. Amounts held for investment include Contracts that do not qualify for Contract securitizations as a result of delinquency status, minimum balance or remaining term. The Company maintains an allowance for credit losses to cover anticipated losses on the Contracts held for investment on the statement of financial condition. The allowance for credit losses is increased by charging the provision for credit losses and decreased by actual losses on the Contracts held for investment. The level of the allowance is based principally on the outstanding balance of Contracts held for investment and historical loss trends.

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	For the Quarters Ended				
	Sept. 30, 2004	**June 30, 2004**	**Mar. 31, 2004**	**Dec. 31, 2003**	**Sept. 30, 2003**
	(Dollars in Thousands)				
Contracts purchased during period	$ 422,307	$ 425,745	$ 422,055	$ 392,107	$ 386,945
Contracts purchased during period-Gold program	$ 31,834	$ 261,915	$ 257,753	$ 143,285	$ 70,904
Average combined monthly volume during period	151,381	229,220	226,603	178,464	152,617
Contracts securitized during period	450,000	450,000	450,000	400,000	400,000
Servicing portfolio at period end	2,852,609	2,849,279	2,847,039	2,843,446	2,849,201
Managed portfolio at period end	3,455,352	3,480,864	3,271,617	3,041,726	2,918,122

ASSET QUALITY

The Company monitors and attempts to minimize delinquencies and losses through timely collections and the use of a predictive dialing system. At September 30, 2004, 30+ day delinquencies represented 0.87% of the amount of Contracts in its serviced portfolio compared to 1.37% at December 31, 2003. Net charge-offs as a percentage of the average serviced portfolio were 1.23% for the quarter ended September 30, 2004, compared to 1.98% for the quarter ended September 30, 2003. For the nine-month periods ended September 30, 2004 and 2003, net charge-off as a percentage of the average serviced portfolio were 1.44% and 2.19%, respectively. In an effort to improve borrower credit statistics, the Company modified its incentive compensation system during the fourth quarter of 2000 to shift purchases of Contracts to a higher percentage of higher credit quality product. The result has been increased credit scores and an improvement in overall borrower statistics.

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DELINQUENCY EXPERIENCE OF SERVICED PORTFOLIO

	Sept. 30, 2004 Amount	December 31, 2003 Amount
	(Dollars in Thousands)	
Serviced portfolio	$2,852,609	$2,843,446
Delinquencies(1)(2)		
30 - 59 days	$ 16,315	$ 28,084
60 - 89 days	4,735	5,889
90+ days	3,812	4,955
Total	$ 24,862	$ 38,928
Total delinquencies as a percent of Serviced portfolio	0.87%	1.37%

(1) Delinquencies include principal amounts only, net of repossessed inventory and accounts in bankruptcy. Delinquent thirty-plus day repossessed inventory as a percent of the serviced portfolio was 0.42% and 0.58% at September 30, 2004 and December 31, 2003, respectively. Delinquent thirty-plus day Contracts in bankruptcy as a percent of the serviced portfolio were 0.75% and 0.90% at September 30, 2004 and December 31, 2003, respectively.

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

LOAN LOSS EXPERIENCE OF SERVICING PORTFOLIO

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Dollars in Thousands)			
Average servicing portfolio(1)	$2,852,197	$2,873,953	$2,847,384	$2,889,316
Number of gross charge-offs	2,420	3,205	8,647	10,215
Gross charge-offs	$ 12,312	$ 17,625	$ 42,299	$ 57,611
Net charge-offs(2)	$ 8,797	$ 14,255	$ 30,844	$ 47,433
Annualized net charge-offs as a percent of average Servicing portfolio	1.23%	1.98%	1.44%	2.19%

(1) Average is based on daily balances.

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

The following table illustrates the cumulative net credit loss performance of each of the securitized pools outstanding for the period from the date of securitization through September 30, 2004, stated as a percentage of the original principal balance.

00-A	00-B	00-C	00-D	01-A	01-B	01-C	01-D	02-A	02-B	02-C	02-D	03-A	03-B	03-C	03-D	04-A	04-B
.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00
.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00
.02%	0.02%	0.01%	0.00%	0.00%	0.01%	0.00%	0.00%	0.01%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%	0.01%	0.02%	0.01
.04%	0.04%	0.03%	0.02%	0.02%	0.03%	0.02%	0.02%	0.01%	0.01%	0.01%	0.01%	0.01%	0.02%	0.01%	0.02%	0.05%	0.02
.11%	0.10%	0.06%	0.07%	0.07%	0.10%	0.05%	0.04%	0.02%	0.04%	0.06%	0.03%	0.02%	0.04%	0.03%	0.05%	0.09%	0.05
.18%	0.17%	0.11%	0.15%	0.12%	0.18%	0.11%	0.08%	0.07%	0.10%	0.11%	0.07%	0.07%	0.06%	0.08%	0.08%	0.13%	
.37%	0.30%	0.26%	0.26%	0.20%	0.30%	0.18%	0.14%	0.12%	0.17%	0.17%	0.15%	0.11%	0.12%	0.11%	0.15%	0.22%	
.63%	0.44%	0.41%	0.39%	0.31%	0.39%	0.29%	0.22%	0.19%	0.23%	0.26%	0.30%	0.17%	0.21%	0.18%	0.21%	0.32%	
.87%	0.67%	0.65%	0.50%	0.47%	0.50%	0.38%	0.32%	0.26%	0.33%	0.34%	0.37%	0.24%	0.27%	0.23%	0.27%		
.05%	0.90%	0.85%	0.65%	0.60%	0.65%	0.48%	0.44%	0.34%	0.41%	0.42%	0.44%	0.31%	0.35%	0.31%	0.35%		
.27%	1.11%	1.08%	0.85%	0.77%	0.77%	0.59%	0.51%	0.39%	0.49%	0.51%	0.51%	0.39%	0.42%	0.35%	0.43%		
.59%	1.38%	1.29%	1.03%	0.95%	0.89%	0.70%	0.59%	0.48%	0.58%	0.60%	0.59%	0.44%	0.49%	0.42%	0.50%		
.82%	1.57%	1.42%	1.25%	1.14%	1.04%	0.78%	0.69%	0.56%	0.68%	0.70%	0.67%	0.50%	0.54%	0.46%			

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A	00-B	00-C	00-D	01-A	01-B	01-C	01-D	02-A	02-B	02-C	02-D	03-A	03-B	03-C	03-D	04-A
%	1.84%	1.65%	1.41%	1.31%	1.19%	0.89%	0.77%	0.64%	0.75%	0.79%	0.75%	0.59%	0.60%	0.52%		
%	2.08%	1.93%	1.62%	1.47%	1.33%	1.00%	0.85%	0.74%	0.84%	0.89%	0.79%	0.67%	0.63%	0.61%		
%	2.26%	2.16%	1.86%	1.64%	1.43%	1.11%	0.94%	0.83%	0.93%	0.98%	0.88%	0.74%	0.70%			
%	2.42%	2.42%	2.04%	1.78%	1.55%	1.23%	1.03%	0.91%	1.02%	1.07%	0.99%	0.81%	0.80%			
%	2.69%	2.65%	2.20%	1.96%	1.67%	1.34%	1.10%	1.00%	1.10%	1.16%	1.07%	0.89%				
%	2.96%	2.97%	2.41%	2.10%	1.80%	1.45%	1.19%	1.12%	1.16%	1.29%	1.15%	0.97%				
%	3.20%	3.25%	2.60%	2.25%	1.94%	1.58%	1.30%	1.20%	1.26%	1.38%	1.22%	1.07%				
%	3.44%	3.48%	2.75%	2.36%	2.09%	1.71%	1.39%	1.27%	1.34%	1.48%	1.30%	1.15%				
%	3.69%	3.70%	2.92%	2.49%	2.23%	1.84%	1.51%	1.39%	1.44%	1.60%	1.36%					
%	3.94%	3.95%	3.03%	2.61%	2.35%	1.92%	1.59%	1.49%	1.52%	1.69%	1.43%					
%	4.18%	4.18%	3.16%	2.75%	2.47%	2.02%	1.67%	1.60%	1.60%	1.76%	1.49%					
%	4.39%	4.37%	3.32%	2.86%	2.57%	2.13%	1.73%	1.69%	1.66%	1.82%						
%	4.57%	4.54%	3.45%	3.01%	2.67%	2.25%	1.80%	1.76%	1.73%	1.89%						
%	4.74%	4.74%	3.59%	3.12%	2.77%	2.33%	1.89%	1.82%	1.77%	1.96%						
%	4.91%	4.88%	3.71%	3.27%	2.87%	2.43%	1.96%	1.93%	1.80%							
%	5.07%	5.03%	3.86%	3.41%	2.96%	2.52%	2.01%	1.99%	1.85%							
%	5.22%	5.18%	4.00%	3.52%	3.04%	2.62%	2.06%	2.02%	1.92%							
%	5.36%	5.33%	4.09%	3.60%	3.11%	2.72%	2.09%	2.06%								
%	5.53%	5.43%	4.20%	3.69%	3.19%	2.81%	2.14%	2.11%								
%	5.67%	5.57%	4.28%	3.78%	3.28%	2.89%	2.19%	2.15%								
%	5.80%	5.67%	4.39%	3.87%	3.35%	2.92%	2.21%									
%	5.91%	5.77%	4.47%	3.93%	3.41%	2.97%	2.26%									
%	6.04%	5.90%	4.55%	4.03%	3.48%	3.00%	2.30%									
%	6.15%	5.99%	4.64%	4.10%	3.51%	3.05%										
%	6.24%	6.09%	4.73%	4.16%	3.56%	3.10%										
%	6.35%	6.17%	4.81%	4.20%	3.59%	3.13%										
%	6.43%	6.24%	4.85%	4.24%	3.62%											
%	6.53%	6.31%	4.91%	4.28%	3.65%											
%	6.60%	6.39%	4.95%	4.30%												
%	6.67%	6.47%	4.98%	4.33%												
%	6.76%	6.53%	5.02%													
%	6.82%	6.60%	5.05%													
	6.86%															

CREDIT ENHANCEMENT ASSETS

Retained interest in securitized assets (RISA) capitalized upon securitization of Contracts represents the present value of the estimated future earnings to be received by the Company from the excess spread created in securitization transactions. Excess spread is calculated by taking the difference between the weighted average coupon rate of the Contracts sold and the weighted average security rate paid to the investors less contractually specified servicing and guarantor fees and projected credit losses, after giving effect to estimated prepayments.

Prepayment and credit loss assumptions are utilized to project future earnings and are based on historical experience. Credit losses are estimated using cumulative loss frequency and severity estimates by management. All assumptions are evaluated each quarter and adjusted, if appropriate, to reflect the actual performance of the underlying Contracts. Future earnings are discounted at a rate management believes to be representative of market at the time of securitization.

LIQUIDITY AND CAPITAL RESOURCES

The Company requires substantial cash and capital resources to operate its business. Its primary uses of cash include: (i) acquisition of Contracts; (ii) payments of dealer participation; (iii) securitization costs; (iv) settlements of hedging transactions; (v) operating expenses; and (vi) interest expense. The capital resources available to the

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Company include: (i) interest income during the warehousing period; (ii) servicing fees; (iii) releases from spread accounts; (iv) settlements of hedging transactions; (v) sales of Contracts in securitizations; and (vi) borrowings under its credit facilities. Management believes that the resources available to the Company will provide the needed capital to fund Contract purchases, investments in origination and servicing capabilities, and ongoing operations.

The Company s primary source of funds from continuing operations is securitization proceeds. The Company uses the cash generated from securitizations to pay down outstanding warehouse facilities. These facilities are then used to fund the purchase of Contracts. Although the Company has historically operated on a negative cash flow basis, excluding the effects of securitization transactions, from operating activities, the Company generated positive cash flow beginning in the fourth quarter of 2003. The Company finances dealer participation payments and daily operations principally through credit facilities collateralized by its retained interest in securitized assets, proceeds from subordinated debt offerings, and cash from operating activities. Cash provided by operating activities was $75.4 million for the nine months ended September 30, 2004, compared to $11.0 million used during the same period in 2003. During the nine-month period ending September 2003, the Company executed three securitizations in the amount of $1.2 billion, compared to three securitizations during the nine-month period ending September 2004 in the amount of $1.4 billion. The change in cash provided by operating activities is also largely dependent upon the amount of cash released from spread accounts, the timing of securitization transactions (including whether they include pre-funding agreements) and the size of securitizations executed relative to the volume of Contracts originated during the warehouse period.

We have entered into an agreement and plan of merger with Capital One Auto Finance, Inc**.** and its subsidiary, Foothill Services Corporation, under which the Company will be acquired by Capital One Auto Finance for $28.00 per outstanding share of Onyx common stock. The acquisition is expected to close in the first quarter of 2005. Based upon discussions with Capital One Auto Finance and given the pending acquisition it is likely that we will not execute on our original plans to complete a securitization transaction in the fourth quarter of 2004. If a securitization transaction is not completed in the fourth quarter, we will likely experience a fourth quarter GAAP loss and lower than expected annual net income for the full year 2004 due to the lost gain on sale income. Additionally, we may need to request waivers of certain covenants in our warehouse and residual facilities with respect to equity to asset ratios, and we may need to obtain bridge financing if our warehouse facilities reach their maximum capacity. However, we anticipate that following the expected closing of the merger, the decreased liquidity we will experience in the fourth quarter of 2004 should be alleviated by future securitization transactions or funding access through Capital One Auto Finance. If the pending merger transaction with Capital One Auto Finance fails to close, the decreased liquidity and net earnings should still be alleviated by future securitization transactions.

The Company continues to focus its efforts on building and maintaining its dealer relations through its existing branch locations. Capital expenditures of $364 thousand and $975 thousand during the nine-month periods ended September 30, 2004 and 2003, respectively, were due to the ongoing maintenance and upgrade of the Company s servicing infrastructure.

CP Facilities: As of September 30, 2004, the Company was party to two warehouse facilities. The Company has a warehouse facility of $300 million (the Triple-A CP Facility), with Triple-A One Funding Corporation (Triple-A). Onyx Acceptance Financial Corporation (OAFC), a special purpose subsidiary of the Company, is the borrower under the Triple-A CP Facility. The Triple-A CP Facility is used to fund the purchase or origination of Contracts. Triple-A is a rated commercial paper asset-backed conduit sponsored by MBIA Insurance Corporation (MBIA). MBIA provides credit enhancement for the facility by issuing a financial guarantee insurance policy covering all principal and interest obligations owed for the borrowings under the facility. The Company pledges certain of its Contracts held for sale to borrow from Triple-A. The Triple-A CP Facility was renewed in November 2001 for a three-year term, subject to annual renewals by liquidity providers. The Company is presently negotiating the extension of this facility.

A subsidiary of the Company, Onyx Acceptance Receivables Corporation (OARC), has a $300 million warehouse facility with CDC Financial Products Inc. (CDC) and Wachovia Bank, N.A., which provides warehouse funding for the purchase or origination of Contracts and is used in concert with the Triple-A CP Facility. XL Capital Assurance Inc. provides credit enhancement for the facility by issuing a financial guarantee insurance policy covering all principal and interest obligations owed for borrowings under the facility. The Company pledges certain of its Contracts held for sale to borrow under the OARC CP Facility. The facility expires in January 2005.

The Triple-A CP Facility and the OARC CP Facility are sometimes referred to herein as the CP Facilities.

The Residual Lines: As of September 30, 2004, the Company, through a special purpose subsidiary of the Company, Onyx Acceptance Funding Corporation (OFC), had three residual financing facilities:

A $35 million line with Merrill Lynch International, as buyer (MLI), and Merrill Lynch, Pierce, Fenner & Smith Inc., as agent (Merrill). The MLI facility was renewed for another year in April 2004. Each loan under the MLI line has a nine-month revolver period followed by a twelve-month amortization period.

A $20.0 million facility with Credit Suisse First Boston (Europe) Limited, as buyer (CSFB-Europe), and Credit Suisse First Boston Corporation, as agent (CSFB). In April 2004, this facility was renewed for another year.

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A $30.0 million facility with Galleon Capital, LLC (Galleon) executed in January of 2004. The Galleon facility provides for a twelve-month revolving period followed by an accelerated amortization period.

The facilities described above are sometimes referred to herein as the Residual Lines .

Subordinated Debt: As of September 30, 2004, the Company had outstanding approximately $52.8 million of subordinated debt, $12.0 million of which has a stated interest rate of 12.5% and a maturity of June 2006. The remaining balance of $40.8 million was raised through the Company s renewable unsecured subordinated note program launched during the first quarter of 2002. The weighted average interest rate on the balance of the renewable notes outstanding as of September 30, 2004 was approximately 7.8%. The renewable notes have varying maturities ranging from three months to ten years.

As part of the planned merger with Capital One Auto Finance, as outlined in the merger agreement, as a condition to the closing of the merger, all outstanding unsecured subordinated notes with a maturity of June 2006 will be redeemed as of the March 15, 2005 payment date.

The facilities and lines above contain affirmative, negative and financial covenants typical of such credit facilities. The Company was in compliance with these covenants as of September 30, 2004.

SECURITIZATIONS

Off balance sheet arrangements are used in the ordinary course of business. Generally, these transactions are structured as off balance sheet sales of Contracts. One of the most common forms of off balance sheet arrangements is Contract securitizations. Regular Contract securitizations are an integral part of the Company s business plan because they allow the Company to increase its liquidity, provide for redeployment of its capital and reduce risks associated with interest rate fluctuations. The Company has developed a securitization program that involves selling interests in pools of its Contracts to investors through the public issuance of AAA/Aaa rated asset-backed securities. Automobile securitizations are used by many financial institutions and are part of a multi-billion dollar annual market for asset-backed securities. As part of this process, management considers the relative risks and returns prior to initiating each securitization. These risks include, but are not limited to, interest rate fluctuations during the warehouse period, increased prepayments speeds and losses, loss of credit enhancement for the underlying securitization, loss of servicing rights and adverse economic conditions. These factors are explained in further detail in the section Risk Factors . The table below provides information about the outstanding trusts assets and liabilities as of September 30, 2004 and December 31, 2003.

	Sept. 30, 2004	December 31, 2003
	(In millions)	
Total assets	$2,793	$2,750
Total liabilities	$2,702	$2,642

The Company completed one AAA/Aaa rated publicly underwritten asset-backed securitization in the amount of $450 million during the third quarter of 2004. Since 1994, the Company has securitized approximately $11.5 billion of its Contracts in 37 separate transactions. In each of its securitizations, the Company has sold its Contracts to a newly formed grantor or owner trust, which issued certificates or notes in an amount equal to the aggregate principal balance of the Contracts. The net proceeds of these securitizations were used to pay down outstanding indebtedness incurred under the Company s warehouse financing facilities to purchase Contracts, thereby creating availability for the purchase of additional Contracts.

To improve the level of profitability from the sale of securitized Contracts, the Company arranges for credit enhancement to achieve an improved credit rating on the asset-backed securities issued. This credit enhancement has taken the form of a financial guaranty insurance policy or bond (the Financial Guarantee Insurance Policy) insuring the payment of principal and interest due on the asset-backed securities. The policies or bonds have been issued by MBIA Insurance Corporation (or a predecessor) and XL Capital Assurance Inc.

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

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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.

As described under Liquidity and Capital Resources above, we do not anticipate completing a securitization transaction in the 4th quarter of 2004, and, as a result, our revenues will be significantly lower than previously expected.

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 Contract originations pending securitization.

FORWARD LOOKING STATEMENTS

The preceding Management s Discussion and Analysis of the Company s Financial Condition and Results of Operations contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which provides a safe harbor for these types of statements. This Quarterly Report on Form 10-Q contains forward-looking statements which reflect the current views of the Company with respect to future events and financial performance, including the Company s expectation that it will continue to generate positive cash flow. These forward looking statements are subject to certain risks and uncertainties, including those identified below which could cause actual results to differ materially from historical results or those anticipated. Forward-looking terminology can be identified by the use of terms such as may, will, expect, anticipate, estimate, should or continue or the neg or other variations thereon or comparable terminology. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. Except as required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The following factors, among others, could cause actual results to differ materially from historical results or those anticipated: (1) the level of demand for auto contracts, which is affected by such external factors as the level of interest rates, the strength of the various segments of the economy, debt burden held by consumers and demographics of the lending markets of the Company; (2) continued dealer relationships;

(3) fluctuations between consumer interest rates and the cost of funds; (4) federal and state regulation of auto finance operations; (5) competition within the consumer lending industry; (6) the availability and cost of securitization transactions; (7) the failure to close the pending acquisition of the Company by Capital One Auto Finance, Inc.; and (8) the availability and cost of warehouse and residual financing.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The Company uses several strategies to minimize interest rate risk, including the utilization of derivative financial instruments, the regular securitization of Contracts and the use of pre-funding in securitization transactions. Pre-funding securitizations is the practice of issuing more asset-backed securities than the amount of Contracts initially sold to the securitization 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, investor interest rates are locked in with respect to the Contracts subsequently delivered to the securitization 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 portion of the securities proceeds related to the pre-fund amount.

Derivative financial instruments are utilized to manage the gross interest rate spread on the Company s securitization transactions. The Company sells fixed rate Contracts to the trusts that, in turn, sell fixed rate securities to investors. The fixed rates on securities issued by the trusts are indexed to swap rates on U.S. Treasury Notes with similar average maturities or various London Interbank Offered Rates (LIBOR). The Company periodically executes the sale of forward swap agreements to lock in the indexed rate for specific anticipated securitization transactions. The Company utilizes these derivative financial instruments to modify its net interest sensitivity to

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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 $2.1 million during the third quarter of 2004 and received cash payments, net of expenses, of approximately $0.8 million during the third quarter of 2003 to settle forward interest rate swap agreements. These amounts were included in the gain on sale of Contracts in the related 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 September 30, 2004, the Company had no forward interest rate swap agreements outstanding.

ITEM 4. CONTROLS AND PROCEDURES

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

As required by SEC rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective at the reasonable assurance level.

There has been no change in the Company s internal control over financial reporting during the Company s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

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ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table presents the total number of shares repurchased during the third quarter of fiscal 2004, the average price paid per share, the number of shares that were purchased as part of a publicly announced repurchase plan, and the approximate dollar value of shares that were available for repurchase as of September 30, 2004, pursuant to the $5.0 million share repurchase program:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
July 1 through July 31	14,400	$ 15.84	14,400	$2.3 Million
August 1 through August 31				$2.3 Million
Sept. 1 through Sept. 30				$2.3 Million
Total	14,400	$ 15.84	14,400	

(1) The Company s Board of Directors approved a share repurchase program authorizing the repurchase of up to $5.0 million of the Company s Common Stock in February 2004.

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

A special meeting of stockholders will be scheduled for stockholders to consider and vote on a proposal to approve and adopt the Agreement and Plan of Merger, dated as of September 21, 2004, by and among Capital One Auto Finance, Inc. (Capital One Auto Finance), Foothill Services Corporation, a wholly owned subsidiary of Capital One Auto Finance, and the Company, providing for the acquisition of the Company by Capital One Auto Finance and the other transactions contemplated by the merger agreement.

ITEM 5. OTHER INFORMATION

PLANNED MERGER WITH CAPITAL ONE AUTO FINANCE

On September 21, 2004, the Company entered into an agreement and plan of merger with Capital One Auto Finance, Inc., a subsidiary of Capital One Financial Corporation under which the Company will be acquired by Capital One Auto Finance for $28.00 per outstanding share of Onyx common stock. The acquisition is expected to close in the first quarter of 2005.

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BUSINESS RISKS

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

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We have historically operated on a negative cash flow basis. We generated positive cash flow beginning in the fourth quarter of 2003, and will likely continue to remain cash flow positive on a quarterly basis, provided the volume of Contract purchases remains steady on an annual basis. We have historically funded negative operating cash flows principally through borrowings from financial institutions, sales of equity securities and sales of subordinated debt. We cannot assure you, however, that (1) we will remain cash flow positive, (2) we will have access to capital markets in the future for equity, debt issuances or securitizations, or (3) 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 warehouse facilities with financial institutions to finance the purchase or origination of Contracts pending securitization. Our business strategy requires that such financing continue to be available during the warehousing period.

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

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

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

an earnings before interest, depreciation and taxes coverage ratio.

We cannot assure you that our CP Facilities will be available to us or that they will be available on favorable terms. We currently do not anticipate completing a securitization transaction in the 4th quarter of 2004, and, as a result, we may need to request waivers of certain covenants in our CP Facilities and we may need to negotiate increases to the capacity of one or both of our CP Facilities. If we are unable to arrange new warehousing credit facilities, extend our existing credit facilities when they expire or increase the capacity under one or both of our CP Facilities, 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 can use the RISA from each securitization as collateral to borrow cash under our Residual Lines to finance our operations. The amount of cash advanced by our lenders under our Residual Lines depends on a collateral formula that is determined in large part by how well our securitized Contracts perform. If our portfolio of securitized Contracts experience higher delinquency and loss ratios than expected, then the amount of money we can borrow under the Residual Lines would be reduced. The reduction in availability under these Residual Lines could materially and adversely affect our operations, financial condition and cash flows. Additionally, we are subject, under the documentation governing the Residual Lines, to certain financial covenants.

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;

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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. Currently, we do not anticipate completing a securitization transaction in the 4th quarter of 2004, and, as a result, our revenues will decline and we may incur a loss for such quarter. 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.

We Depend on Credit Enhancement.

From inception through September 30, 2004, each of our securitizations has utilized credit enhancement in the form of a financial guarantee insurance policy or bond in order to achieve AAA/Aaa ratings. This form of credit enhancement reduces the cost of the securitizations relative to alternative forms of credit enhancement currently available to us. We cannot assure you that:

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

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

future securitizations will be similarly rated.

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

We Are Subject to Interest Rate Fluctuations.

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

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

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

Third, the interest rate demanded by investors in securitizations is a function of prevailing market rates for comparable transactions and the general interest rate environment. Because the Contracts purchased or originated by

us have fixed rates, we bear the risk of spreads narrowing because of interest-rate increases during the period from the date the Contracts are purchased until the pricing of our securitization of such Contracts. We employ a hedging strategy that is intended to minimize this risk and which historically has involved the execution of forward interest rate swaps or use of a pre-funding structure for our securitizations. However, we cannot assure you that this strategy

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will consistently or completely offset adverse interest-rate movements during the warehousing period or that we will not sustain losses on hedging transactions. Our hedging strategy requires estimates by management of monthly Contract acquisition volume and timing of our securitizations. If such estimates are significantly inaccurate, then our gains on sales of Contracts, results of operations and cash flows could be materially and adversely affected.

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

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

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

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

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

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

Effects of Terrorist Attacks and Military Response.

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

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

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We Will Be Adversely Affected If We Lose Servicing Rights.

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

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

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

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

Our Quarterly Earnings May Fluctuate.

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

the timing and size of our securitizations;

the performance of our serviced portfolio;

variations in the volume of our Contract acquisitions;

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

the effectiveness of our hedging strategies;

the investor rate for securitizations; and

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

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

We Depend on Key Personnel.

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

Our Industry is Highly Competitive.

Competition in the field of financing retail motor vehicle sales is intense. The automobile finance market is highly fragmented and historically has been serviced by a variety of financial entities including the captive finance affiliates of major automotive manufacturers and distributors, as well as banks, savings associations, independent finance companies, credit unions and leasing companies. Several of these competitors have greater financial resources than we

do. Many of these competitors also have long-standing relationships with automobile dealerships and offer dealerships or their customers other forms of financing or services not provided by us. Our ability to compete successfully depends largely upon our relationships with dealerships and the willingness of dealerships to offer those Contracts that meet our underwriting criteria to us for purchase. We cannot assure you that we will be able to continue to compete successfully in the markets we serve.

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We May Be Harmed by Adverse Economic Conditions.

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

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 maintains an in-house loan accounting and collections system to service its Contract portfolio. If issues with the in-house system arise in the future, we may be unable to acquire Contracts and service the outstanding portfolio. The failure of this system could materially and adversely affect our results of operations, financial condition and cash flows.

We Are Subject to Many Regulations.

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

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

require us to obtain and maintain certain licenses and qualifications;

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

limit or prescribe certain other terms of our Contracts;

require us to protect the privacy of consumer information;

require specific disclosures; and

define our rights to repossess and sell collateral.

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

applicable laws and regulations;

changes in existing laws or regulations;

changes in the interpretation of existing laws or regulations; or

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

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We Are Subject to Litigation Risks.

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

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

We Are Subject to Risks if the Merger with Capital One Auto Finance, Inc. Does Not Close.

Not all of the conditions to the closing of the merger, including the receipt of the approval of our stockholders holding a majority of the outstanding shares entitled to vote at the special meeting of our stockholders and the receipt of necessary governmental approvals, may be fulfilled. If the merger agreement is terminated under certain circumstances set forth in the merger agreement, the requirement to pay a termination fee of $9,000,000 in cash to Capital One Auto Finance could adversely affect our business, financial condition and results of operations.

ITEM 2. PROPERTIES

The Company did not own any real property at September 30, 2004. 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 service center; the average size of an Auto Finance Center is generally four to five thousand square feet. The Hazelwood service center is in approximately 20,000 square feet. One Auto Finance Center and the centralized buying center are located in the corporate headquarters building.

ITEM 6. EXHIBITS AND REPORTS OF FORM 8-K

(a) Exhibits

EXHIBIT NUMBER	EXHIBIT TITLE
2.1	Agreement and Plan of Merger by and among Capital One Auto Finance, Inc., Foothill Services Corporation and Onyx Acceptance Corporation, dated as of September 21, 2004. (3)
10.156	Sale and Servicing Agreement between Onyx Acceptance Owner Trust 2004-C, Onyx Acceptance Financial Corporation, Onyx Acceptance Corporation and JPMorgan Chase Bank in connection with the Onyx Acceptance Owner Trust 2004-C. (1)
10.157	Backup Servicing Agreement between Onyx Acceptance Corporation, Onyx Acceptance Financial Corporation, JPMorgan Chase Bank, XL Capital Assurance Inc., Onyx Acceptance Owner Trust 2004-C and Systems & Services Technologies, Inc. dated as of August 26, 2004. (2)
21.1	Subsidiaries of the Registrant.*
31	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.*

32	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith

(1) Incorporated by reference from Onyx Acceptance Financial Corporation s Current Report on Form 8-K filed August 31, 2004 (File No. 333-28893)

(2) Incorporated by reference from Onyx Acceptance Financial Corporation s Current Report on Form 8-K filed August 31, 2004 (File No. 333-28893)

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(3) Incorporated by reference from Onyx Acceptance Corporation s Form 8-K filed September 23, 2004 (File No. 000-28050)

(b) REPORTS ON FORM 8-K

None.

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SIGNATURE

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

ONYX ACCEPTANCE CORPORATION

Date: November 12, 2004

By: /s/ JOHN W. HALL

John W. Hall
President, CEO and Principal Executive Officer

Date: November 12, 2004

By: /s/ DON P. DUFFY

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

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EXHIBIT INDEX

21.1	Subsidiaries of the Registrant.
31	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.