

ONYX ACCEPTANCE CORP

Form 10-Q

November 14, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 28050

ONYX ACCEPTANCE CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

33-0577635
(I.R.S. EMPLOYER
IDENTIFICATION 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 NO

As of November 14, 2001, there were 5,078,046 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

ASSETS

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	(UNAUDITED)	(AUDITED)
	(DOLLARS IN THOUSANDS)	
Cash and cash equivalents	\$ 5,975	\$ 3,130
Credit enhancement assets	182,839	146,013
Contracts held for sale (Net of allowance)	204,090	170,755
Other assets	10,541	11,482
	<u> </u>	<u> </u>
Total assets	\$403,445	\$ 331,380
	<u> </u>	<u> </u>

LIABILITIES

Accounts payable	\$ 30,562	\$ 22,706
Debt	282,436	233,152
Other liabilities	27,669	19,929
	<u> </u>	<u> </u>
Total liabilities	340,667	275,787

EQUITY

Common stock		
Par value \$.01 per share; authorized 15,000,000 shares; issued and outstanding 5,078,046 as of September 30, 2001 and 4,989,504 as of December 31, 2000	51	50
Paid in capital	32,647	32,601
Retained earnings	25,601	21,550
Accumulated other comprehensive income, net of tax	4,479	1,392
	<u> </u>	<u> </u>
Total equity	62,778	55,593
	<u> </u>	<u> </u>
Total liabilities and equity	\$403,445	\$ 331,380
	<u> </u>	<u> </u>

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (UNAUDITED)			
REVENUES:				
Interest income	\$ 9,401	\$ 3,098	\$ 25,007	\$ 16,433
Interest expense	1,943	2,814	9,027	11,100
Net interest income	7,458	284	15,980	5,333
Gain on sale of contracts	6,591	12,066	26,167	38,811
Service fee income	12,368	13,853	38,177	32,811
Total Revenues	26,417	26,203	80,324	76,955
EXPENSES:				
Provision for credit losses	502	(73)	966	645
Interest expense other	1,718	1,473	4,781	3,985
OPERATING EXPENSES:				
Salaries and benefits	13,228	11,299	39,895	35,370
Systems and servicing	476	1,261	3,573	4,324
Telephone and data lines	1,201	1,501	3,680	4,656
Depreciation	1,094	1,170	3,568	3,191
General and administrative expenses	5,957	6,648	16,989	16,326
Total Operating Expenses	21,956	21,879	67,705	63,867
Total Expenses	24,176	23,279	73,452	68,497
Income before Income Taxes	2,241	2,924	6,872	8,458
Income Taxes	899	1,213	2,821	3,510
Net Income	\$ 1,342	\$ 1,711	\$ 4,051	\$ 4,948
Net Income per share Basic	\$ 0.27	\$ 0.32	\$ 0.81	\$ 0.85
Net Income per share Diluted	\$ 0.25	\$ 0.32	\$ 0.78	\$ 0.82
Basic Shares Outstanding	5,047,292	5,266,005	5,008,767	5,839,528
Diluted Shares Outstanding	5,354,351	5,423,108	5,214,455	5,999,130

See the accompanying notes to the condensed consolidated financial statements.

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

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

	SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED COMPREHENSIVE GAIN (LOSS), NET OF TAX	TOTAL
BALANCE, DECEMBER 31, 2000	4,990	\$ 50	\$ 32,601	\$ 21,550	\$ 1,392	\$55,593
Stock issued from warrants/options exercised	88	1	46			47
Comprehensive income:						
Unrealized gains in securitized assets, net of tax of \$2.9 million					4,126	4,126
Adoption of FAS 133, net of tax of \$596 thousand					(840)	(840)
Loss on derivatives reclassified to earnings net of tax of \$596 thousand					840	840
Unrealized loss on hedging activities, net of tax of \$696 thousand					(1,039)	(1,039)
Net income				4,051		4,051
Total comprehensive income				4,051	3,087	7,138
BALANCE, SEPTEMBER 30, 2001	5,078	\$ 51	\$ 32,647	\$ 25,601	\$ 4,479	\$62,778

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	(DOLLARS IN THOUSANDS) (UNAUDITED)	
OPERATING ACTIVITIES:		
Net cash (used in) provided by operating activities	\$ (44,552)	\$ 82,928
INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,140)	(3,404)
FINANCING ACTIVITIES:		
Proceeds from exercise of warrants and employee options	47	6
Repurchase of common stock		(4,380)
Proceeds (payments) on capital lease obligations	206	(233)
Payments on residual lines of credit	(13,884)	(46,630)
Proceeds from drawdown on residual lines of credit	32,600	29,000
Paydown of warehouse lines related to Securitizations	(925,310)	(1,046,489)
Proceeds from warehouse lines	958,305	977,708
Proceeds from issuance of subordinated debt		11,518
Principal payments on subordinated debt	(2,427)	(1,725)
Payments on other loans		(199)
	<u>49,537</u>	<u>(81,424)</u>
Net cash provided by (used in) financing activities		
Increase (decrease) in cash and cash equivalents	2,845	(1,900)
Cash and cash equivalents at beginning of period	3,130	5,190
	<u>\$ 5,975</u>	<u>\$ 3,290</u>
Cash and cash equivalents at end of period		

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 BASIS OF PRESENTATION

The condensed consolidated financial statements included herein are unaudited and have been prepared by Onyx Acceptance Corporation (Onyx or the Company) in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the regulations. In the opinion of management, the financial statements reflect all adjustments (of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations and cash flows for the interim period. Operating results for the three and nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. The condensed consolidated financial statements should be read in conjunction with the audited financial statements and footnotes thereto for the year ended December 31, 2000 included in the Company s 2000 Annual Report on Form 10-K.

USE OF ESTIMATES

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

RECLASSIFICATION

Certain amounts in the prior quarter and year to date condensed consolidated financial statements have been reclassified to conform to the corresponding 2001 presentation.

NOTE 2 CONTRACTS HELD FOR SALE

Contracts held for sale consisted of the following:

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	_____	_____
	(IN THOUSANDS)	
Gross contracts held for sale	\$209,504	\$ 177,086
Less unearned interest	(1,979)	(3,302)
	_____	_____
Contracts held for sale	207,525	173,784
Allowance for credit losses	(1,341)	(1,175)
Dealer participation	(2,094)	(1,854)
	_____	_____
Total	\$204,090	\$ 170,755
	_____	_____

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ONYX ACCEPTANCE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

NOTE 3 CREDIT ENHANCEMENT ASSETS

Credit enhancement assets consisted of the following:

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
Trust receivable	\$ 7,693	\$ 7,510
RISA	175,146	138,503
Total	\$ 182,839	\$ 146,013

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

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

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

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

The following table presents the balances and activity for RISA:

NINE MONTHS ENDED SEPTEMBER 30, 2001	YEAR ENDED DECEMBER 31, 2000
_____	_____

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	(IN THOUSANDS)	
Beginning Balance	\$ 138,503	\$ 137,171
Additions	62,352	109,173
Amortization	(32,702)	(61,229)
Sale of RISA		(49,924)
Change in unrealized gain on securities available for sale	6,993	3,312
	<u> </u>	<u> </u>
Ending Balance	\$ 175,146	\$ 138,503
	<u> </u>	<u> </u>