

MERCHANTS GROUP INC

Form PREM14A

November 30, 2006

Table of Contents

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant To Section 14(A) of
The Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e) (2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to 240.14a-11(c) or 240.14a

MERCHANTS GROUP, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i) (4) and 0-11.

1) Title of each class of securities to which transaction applies:

Common Stock, par value \$.01 per share

2) Aggregate number of securities to which transaction applies:

2,145,652 shares of the Registrant's common stock outstanding at November 28, 2006.

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined) :

The filing fee was determined by multiplying .000107 by the product of 2,145,652, the number of shares of the Registrant's common stock outstanding as of November 28, 2006, times \$33.00, the merger consideration per share in cash.

4) Proposed maximum aggregate value of transaction:

\$ 70,806,516

5) Total fee paid:

\$ 7,577

Fee paid previously with preliminary materials.

Check box if any of the fee is offset as provided by Exchange Act Rule 0-11(a) (2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the

Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed :

Table of Contents

MERCHANTS GROUP, INC.
250 Main Street
Buffalo, New York 14202

MERGER PROPOSED YOUR VOTE IS IMPORTANT

Dear Stockholder:

You are cordially invited to attend a special meeting of the stockholders of Merchants Group, Inc., which will be held at the offices of Hodgson Russ LLP, One M&T Plaza, Suite 2000, Buffalo, New York 14203, on January 11, 2007 at 9:00 a.m., local time.

At the special meeting, we will ask you to consider and adopt a merger agreement that we entered into with American European Group, Inc. and American European Financial, Inc. on October 31, 2006 and a proposal to transact other business that may properly be brought before the meeting including procedural matters, such as a motion to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies for the approval of the merger agreement.

If our stockholders adopt the merger agreement, if the other conditions to the proposed merger are satisfied, and if the proposed merger is completed, then Merchants Group will become a direct wholly-owned subsidiary of American European Group, Inc., and you will be entitled to receive \$33.00 in cash, without interest, plus (subject to the conditions described in the Summary section of the enclosed proxy statement) a per diem amount equal to a pro rated portion of Merchant Group's current dividend rate of \$1.00 per share per annum for each day since the last day of the last quarter prior to the closing of the merger for which Merchants Group has declared and paid a quarterly dividend, for each share of our common stock that you own.

After careful consideration, our board of directors has unanimously approved the merger agreement and determined that the proposed merger is advisable and fair to and in the best interests of our corporation and our stockholders. Our board of directors unanimously recommends that you vote FOR the adoption of the merger agreement.

The proxy statement attached to this letter provides a detailed description of the proposed merger, the merger agreement and related matters. We urge you to read the proxy statement and its annexes carefully.

Your vote is very important regardless of the number of shares you own. We cannot complete the proposed merger unless the merger agreement is adopted by the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote at the special meeting. As a result, a failure to submit a proxy or vote in person will have the same effect as a vote against the adoption of the merger agreement.

Whether or not you plan to attend the special meeting in person, please complete, date and sign the enclosed proxy card and return it in the envelope provided as soon as possible. No postage need be affixed if you mail the proxy card in the enclosed envelope anywhere in the United States. If you receive more than one proxy card because you own shares that are registered differently, please vote all of your shares shown on all of your proxy cards. If your shares are held in an account at a brokerage firm or bank, you must instruct them on how to vote your shares. If you submit a proxy, that will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting.

If you have any questions about the proposed merger, please call Georgeson Inc. at (866) 647-8869.

Thank you for your cooperation and your continued support.

Thomas E. Kahn
Chairman of the Board of Directors

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the proposed merger, passed upon the merits or fairness of the proposed merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

**THE PROXY STATEMENT IS DATED DECEMBER , 2006 AND IS FIRST BEING
MAILED TO STOCKHOLDERS ON OR ABOUT DECEMBER , 2006.**

Table of Contents

**MERCHANTS GROUP, INC.
250 Main Street
Buffalo, New York 14202**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held On January , 2007**

To the Stockholders of Merchants Group, Inc.:

We will hold a special meeting of the stockholders of Merchants Group, Inc., a Delaware corporation, which will be held at the offices of Hodgson Russ LLP, One M&T Plaza, Suite 2000, Buffalo, New York 14203 on January , 2007 at 9:00 a.m., local time:

1. To act on a proposal to approve and adopt the Agreement and Plan of Merger dated as of October 31, 2006, by and among American European Group, Inc. (AEG), its subsidiary American European Financial, Inc., and Merchants Group under which Merchants Group will become a direct wholly-owned subsidiary of AEG and each outstanding share of Merchants Group common stock (other than shares held by Merchants Group or by any of its subsidiaries, which will be canceled, and shares held by holders who properly elect to exercise appraisal rights under Delaware law) will be converted into the right to receive \$33.00 in cash plus (subject the conditions described in the Summary section of the enclosed proxy statement) a per diem amount equal to a pro rated portion of Merchant Group s current dividend rate of \$1.00 per share per annum for each day since the last day of the last quarter prior to the closing of the merger for which Merchants Group has declared and paid a quarterly dividend, and to approve the merger and related transactions contemplated by the merger agreement; and
2. To transact any other business that may properly come before the special meeting or any adjournment or postponement of the meeting, including to consider and vote on any procedural matters incident to the conduct of the special meeting, such as an adjournment of the meeting if necessary in order to give additional time to obtain sufficient votes in order to adopt the merger agreement.

Only holders of record of Merchants Group common stock as of the close of business on December , 2006 are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement of the special meeting. The affirmative vote of the holders of a majority of the outstanding shares of Merchants Group common stock entitled to vote is required in order to adopt the merger agreement. The affirmative vote of holders of a majority of the shares of Merchants Group common stock present and entitled to vote is required to adjourn or postpone the special meeting.

Your vote is very important regardless of the number of shares you own. A failure to submit a proxy or vote in person will have the same effect as a vote against adoption of the merger agreement.

Whether or not you plan to attend the special meeting in person, please complete, date and sign the enclosed proxy card and return it in the envelope provided as soon as possible. No postage need be affixed if the proxy card is mailed in the United States. If you receive more than one proxy card because you own shares that are registered differently, please vote all of your shares shown on all of your proxy cards. If you return a properly signed proxy card but do not indicate how you want to vote, your shares will be voted FOR adoption of the merger agreement and, within the discretion of the proxies, FOR approval of any adjournment or postponement proposal made in order to obtain the necessary votes for approval of the merger agreement. If your shares are held in an account at a brokerage firm or bank, you must instruct them on how to vote your shares. Submitting a proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting.

The Merchants Group board of directors unanimously recommends that stockholders vote FOR adoption of the merger agreement.

PLEASE DO NOT SEND ANY STOCK CERTIFICATES AT THIS TIME. IF THE MERGER IS COMPLETED, YOU WILL BE SENT INSTRUCTIONS REGARDING THE SURRENDER OF YOUR STOCK CERTIFICATES.

Table of Contents

Under the General Corporation Law of the State of Delaware, holders of Merchants Group common stock who do not vote in favor of adopting the merger agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the proposed merger is completed, but only if they submit a written demand for an appraisal prior to the vote on the adoption of the merger agreement, they do not vote or otherwise submit a proxy in favor of the merger agreement, and they comply with the procedures under the General Corporation Law of the State of Delaware explained in the accompanying proxy statement. See the section captioned Appraisal Rights.

The enclosed proxy statement provides a detailed description of the proposed merger, the merger agreement and related matters. We urge you to read the proxy statement and its annexes carefully. If you have any questions about the proposed merger, please call Georgeson Inc. at (866) 647-8869.

By Order of the Board of Directors,

Thomas E. Khan
Chairman of the Board of Directors

Date: December , 2006

Table of Contents

TABLE OF CONTENTS

<u>SUMMARY</u>	1
<u>Questions and Answers About the Special Meeting and the Proposed Merger</u>	1
<u>Parties to the Proposed Merger</u>	4
<u>The Special Meeting of Stockholders</u>	4
<u>Recommendation of the Merchants Board of Directors</u>	6
<u>Opinions of Financial Advisors to our Board of Directors</u>	6
<u>Interests of Our Directors and Executive Officers in The Proposed Merger</u>	6
<u>Appraisal Rights</u>	6
<u>Financing</u>	7
<u>The Merger Agreement</u>	7
<u>Alternative Takeover Proposals; Recommendation of the Board</u>	7
<u>Termination of the Merger Agreement</u>	8
<u>Termination Fees</u>	9
<u>Regulatory Matters</u>	9
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	10
<u>THE SPECIAL MEETING OF STOCKHOLDERS</u>	10
<u>Date, Time and Place of the Special Meeting</u>	10
<u>Proposals to be Considered at the Special Meeting</u>	11
<u>Our Board's Recommendation</u>	11
<u>Record Date; Stock Entitled to Vote</u>	11
<u>Quorum</u>	11
<u>Vote Required</u>	11
<u>Procedures for Voting</u>	12
<u>Voting of Proxies and Failure to Vote</u>	12
<u>Revocability of Proxies</u>	12
<u>Solicitation of Proxies</u>	12
<u>Other Business</u>	13
<u>THE PROPOSED MERGER</u>	13
<u>Background of the Proposed Merger</u>	13
<u>Reasons for the Proposed Merger</u>	18
<u>Recommendation of the Merchants Group Board of Directors</u>	20
<u>Opinion of Financial Advisors to Our Board of Directors</u>	20
<u>Effects of the Proposed Merger on Merchants Group</u>	27
<u>Effects on Merchants Group if the Proposed Merger Is Not Completed</u>	27
<u>Interests of Our Directors and Executive Officers in the Proposed Merger</u>	28
<u>REGULATORY MATTERS</u>	28
<u>MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES</u>	29
<u>THE MERGER AGREEMENT</u>	30
<u>Structure and Completion of the Proposed Merger</u>	30
<u>Certificate of Incorporation; By-laws; Directors and Officers of the Surviving Corporation</u>	30
<u>Merger Consideration</u>	30
<u>Stockholders Seeking Appraisal</u>	31
<u>Conditions to the Proposed Merger</u>	31
<u>Alternative Takeover Proposals; Recommendation of the Board</u>	33
<u>Right to Accept a Superior Proposal</u>	33

Table of Contents

<u>Conduct of Business Pending the Merger</u>	35
<u>Efforts to Complete the Proposed Merger</u>	37
<u>Termination of the Merger Agreement</u>	37
<u>Termination Fees</u>	38
<u>Fees and Expenses</u>	39
<u>Amendment, Extension and Waiver</u>	39
<u>Indemnification Obligations</u>	39
<u>APPRAISAL RIGHTS</u>	40
<u>MARKET PRICE AND DIVIDEND DATA</u>	42
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	43
<u>Voting Securities and Principal Holders</u>	43
<u>Security Ownership of Certain Beneficial Owners</u>	44
<u>Security Ownership of Management</u>	44
<u>FUTURE STOCKHOLDER PROPOSALS</u>	45
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	45
Annex A Agreement and Plan of Merger	
Annex B Opinion of SFRi, LLC	
Annex C Section 262 of the General Corporation Law of Delaware	

Table of Contents

**MERCHANTS GROUP, INC.
250 Main Street
Buffalo, New York 14202**

PROXY STATEMENT

SUMMARY

This summary highlights important information discussed in greater detail elsewhere in this proxy statement. This summary may not contain all of the information that is important to you. Accordingly, we urge you to read carefully this entire proxy statement, its annexes and the documents referred to or incorporated by reference in this proxy statement. We have included page references parenthetically to direct you to a more complete description of the topics in this summary. In this proxy statement, the terms we, us, our, our corporation, and Merchants Group refer to Merchants Group, Inc., the term AEG refers to American European Group, Inc., and the term Merger Sub refers to American European Financial, Inc.

Questions and Answers About the Special Meeting and the Proposed Merger

Q. Why am I receiving this proxy statement and proxy card?

A. You are being asked to consider and vote upon approval and adoption of a merger agreement that we entered into with AEG and its subsidiary Merger Sub on October 31, 2006, pursuant to which, if the merger contemplated by the agreement is completed, Merchants Group will become a direct wholly-owned subsidiary of AEG and each outstanding share of Merchants Group common stock (other than shares held by Merchants Group or any of its subsidiaries that will be canceled and shares held by holders who properly elect to exercise appraisal rights under Delaware law) will be converted into the right to receive \$33.00 in cash, without interest, plus an additional amount per share equal to a pro rated portion of our current regular dividends that have not been paid through the time of the closing of the merger. The additional amount will be computed by multiplying a fraction, which will be equal to the number of days before the closing of the merger since the end of the last quarter in which we have declared and paid a regular quarterly dividend divided by 365, times our current annual dividend rate of \$1.00 per share. The additional amount will only be payable if our subsidiary, Merchants Insurance of New Hampshire, Inc., which we refer to as Merchants New Hampshire, either has paid a dividend to Merchants Group prior to the closing that is equal to the aggregate additional amounts to be paid on our shares, or if Merchants New Hampshire has not paid a dividend to Merchants group equal to the aggregate of the additional amounts, then if no regulatory authority has notified us prior to the closing that Merchants New Hampshire will be prohibited from paying a dividend to the surviving company that is equal to the aggregate of the additional amounts to be paid on our shares. In this proxy statement we will refer to this additional amount as the Dividend Adjustment. *The merger agreement is attached as Annex A to this proxy statement. We urge you to read it carefully.* See the section captioned *The Merger Agreement* on page 30.

Q. Who is soliciting my proxy?

A. This proxy is being solicited by the Merchants Group board of directors.

Q. If the proposed merger is completed, what will I be entitled to receive for my shares of Merchants Group common stock?

A. Unless you submit a written demand for an appraisal prior to the vote on the adoption of the merger agreement, do not vote or otherwise submit a proxy in favor of the merger agreement and otherwise comply with the

procedures under the General Corporation Law of the State of Delaware described in this proxy statement, you will be entitled to receive \$33.00 in cash, without interest, plus any required Dividend Adjustment, for each share of our common stock that you own. After the merger closes, the exchange agent for AEG will arrange for a letter of transmittal containing detailed instructions to be sent to each stockholder. The letter of transmittal and instructions will tell you how to surrender your common stock certificates in exchange for the merger consideration. The merger consideration will be paid to a stockholder once that stockholder submits a properly completed letter of transmittal accompanied by that stockholder's stock certificates and any other required documentation. See the section captioned "The Merger Agreement - Merger Consideration" on page 30.

Table of Contents

Q. What effects will the proposed merger have on Merchants Group?

- A. As a result of the proposed merger, Merchants Group will cease to be a publicly traded corporation and will instead become a direct wholly-owned subsidiary of AEG. Following completion of the proposed merger, the registration of our common stock and our reporting obligations under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, will be terminated upon application to the Securities and Exchange Commission, which we refer to as the SEC. In addition, upon completion of the proposed merger, our common stock will no longer be listed on any exchange or quotation system where our common stock may at such time be listed or quoted, including the American Stock Exchange. See the section captioned *Effects of the Proposed Merger on Merchants Group* on page 27.

Q. When do you expect the proposed merger to be completed?

- A. We expect that the proposed merger will be completed by the end of the first quarter of 2007, after all conditions to the proposed merger have been satisfied or waived. In addition to adoption of the merger agreement by the Merchants Group stockholders and the other conditions described under the caption *The Merger Agreement Conditions to the Proposed Merger* on page 31, the proposed merger is conditioned upon receipt of applicable regulatory approvals including approval of the New Hampshire Insurance Department and expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. We cannot specify when, or assure you that, all conditions to the proposed merger will be satisfied or waived. We intend to complete the proposed merger as promptly as practicable.

Q. Will the merger be a taxable transaction to me?

- A. Yes. The receipt of cash for shares of our common stock pursuant to the proposed merger will be a taxable transaction for U.S. federal income tax purposes and may also be taxable under applicable state, local, foreign, and other tax laws. In general, you will recognize gain or loss for U.S. federal income tax purposes equal to the difference between the amount of cash you receive and the adjusted tax basis of your shares of our common stock. For a more detailed explanation of the U.S. federal income tax consequences of the proposed merger, see the section captioned *Material U.S. Federal Income Tax Consequences* on page 29 of this proxy statement. You should consult your tax advisor regarding the specific tax consequences of the proposed merger to you.

Q. What if I oppose the proposed merger?

- A. If you are a stockholder who objects to the proposed merger, you may vote against adoption of the merger agreement. In addition, if you submit a written demand for an appraisal prior to the vote on the adoption of the merger agreement, do not vote or otherwise submit a proxy in favor of adopting the merger agreement, and otherwise comply with the procedures under the General Corporation Law of the State of Delaware described in this proxy statement, you may elect to pursue your statutory appraisal rights to receive the judicially determined fair value of your shares, which could be more than, the same, or less than the amount a stockholder would be entitled to receive under the terms of the merger agreement.

See the section captioned *Appraisal Rights* on page 40.

Q. What happens if the proposed merger is abandoned?

- A. If the proposed merger is abandoned, Merchants Group will remain a publicly traded company listed on the American Stock Exchange. See the section captioned *The Proposed Merger Effects on Merchants Group if the Proposed Merger is not Completed* on page . Under specified circumstances, Merchants Group may be required

to pay AEG a termination fee, as described under the caption The Merger Agreement Termination Fees on page 38.

Q. What should I do now?

- A.** We urge you to read carefully this entire proxy statement, its annexes and the other documents referred to or incorporated by reference in this proxy statement, consider how the proposed merger would affect you as a stockholder and then vote. After you read this proxy statement, whether or not you plan to attend the special meeting in person, please complete, date and sign the enclosed proxy card and return it in the envelope

Table of Contents

provided as soon as possible. See the section captioned The Special Meeting of Stockholders Procedures for Voting on page 12.

Q. If my shares are held in street name by my broker, will my broker vote my shares for me?

A. Your broker will only be permitted to vote your shares if you instruct your broker how to vote. You should follow the procedures provided by your broker regarding the voting of your shares. See the section captioned The Special Meeting of Stockholders Procedures for Voting on page 12.

Q. When should I send in my proxy card?

A. You should send in your proxy card as soon as possible so that your shares will be voted at the special meeting.

Q. May I change my vote after I have mailed my signed proxy card?

A. Yes. You may change your vote at any time before your proxy card is voted at the special meeting. See the section captioned The Special Meeting of Stockholders Revocability of Proxies on page 12.

Q. What does it mean if I get more than one proxy card?

A. If you have shares of our common stock that are registered differently, you will receive more than one proxy card. Please follow the directions for voting on each of the proxy cards you receive to ensure that all of your shares are voted. See the section captioned The Special Meeting of Stockholders Procedures for Voting on page 12.

Q. May I vote in person?

A. Yes. You may attend the special meeting of stockholders and vote your shares of common stock in person. If you hold shares in street name, you must provide a proxy executed by your bank or broker in order to vote your shares in person. Submitting a proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting. See the section captioned The Special Meeting of Stockholders Procedures for Voting and Revocability of Proxies on page 12.

Q. What happens if I do not send in my proxy, if I do not instruct my broker to vote my shares, or if I abstain from voting?

A. If you fail to send in your proxy, or do not instruct your broker or other nominee to vote your shares or abstain from voting, it will have the same effect as a vote against the adoption of the merger agreement. Failure to vote will have no effect on the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of adoption of the merger agreement if there are insufficient votes at the time of the meeting to adopt the merger agreement. See the section captioned The Special Meeting of Stockholders Voting of Proxies and Failure to Vote on page 12.

Q. What happens if I return a properly signed proxy card but do not indicate how I want to vote?

A. If you return a properly signed proxy card but do not indicate how you want to vote, your proxy will be counted as a vote FOR adoption of the merger agreement and FOR approval of any adjournment or postponement proposal. See the section captioned The Special Meeting of Stockholders Voting of Proxies and Failure to Vote on page 12.

Q. Should I send in my stock certificates now?

- A.** No. You should not return any stock certificates you hold with the enclosed proxy card. Following completion of the proposed merger, the exchange agent designated by AEG will arrange for a letter of transmittal containing detailed instructions to be sent to each stockholder. The letter of transmittal and instructions will tell you how to surrender your common stock certificates in exchange for the merger consideration, and you should not forward your stock certificates to Merchants Group or AEG without a letter of transmittal.

Table of Contents

Q. What should I do if I have questions or would like additional copies of documents or have company specific questions?

- A.** If you have more questions about the special meeting, the proposed merger or this proxy statement, would like additional copies of this proxy statement or the proxy card or have questions about or require assistance in completing and submitting proxy cards, please contact our proxy soliciting agent, Georgeson Inc. at (866) 647-8869.

If you have questions about Merchants Group, please refer to the periodic reports and other information that Merchants Group files with and furnishes to the SEC. You may read and copy this information at the SEC's public reference facilities. Please call the SEC at 1-800-SEC-0330 for information about these facilities. This information is also available on the website maintained by the SEC at <http://www.sec.gov>. See the section captioned "Where You Can Find More Information" on page 45.

Parties to the Proposed Merger

Merchants Group, Inc.

250 Main Street
Buffalo, NY 14202

Merchants Group, Inc. is a Delaware holding company that offers property and casualty insurance generally to preferred risk individuals in small to medium sized business in the northeastern United States through its wholly owned subsidiary, Merchants Insurance Company of New Hampshire, Inc., whom we refer to as Merchants New Hampshire. Merchants Group and Merchants New Hampshire operate and manage their business in conjunction with Merchants Mutual Insurance Company, whom we refer to as Mutual, under a services agreement. Merchants Group and Merchants New Hampshire do not have any operating assets or employees. Under the services agreement, Mutual provides Merchants Group and Merchants New Hampshire with the facilities, management and personnel required to operate their day-to-day businesses. Merchants Group common stock is traded on the American Stock Exchange under the symbol "MGP".

American European Group, Inc.

444 Madison Avenue
New York, New York 10022-2585

American European Group, Inc., a Delaware corporation, is a private holding company for property and casualty insurance operating subsidiaries.

American European Financial, Inc.

c/o American European Group, Inc.
444 Madison Avenue
New York, 10022-2585

American European Financial, Inc., a Delaware corporation, is a direct, wholly-owned subsidiary of AEG, newly formed for the purpose of consummating the proposed merger and the related financing transactions. In this proxy statement, the term "Merger Sub" refers to American European Financial, Inc.

The Special Meeting of Stockholders (page 10)

Date, Time, and Place. The special meeting will be held on January , 2007, at 9:00 a.m., local time, at the offices of Hodgson Russ LLP, One M&T Plaza, Suite 2000, Buffalo, New York 14203.

Proposals to be Considered. At the special meeting, you will be asked to consider a proposal to adopt the merger agreement. You will also be asked to consider a proposal to approve any other matter that may properly be brought before the special meeting, including any procedural matters incident to the conduct of the meeting, such as adjourning the special meeting in order to provide time to solicit additional proxies in favor of adoption of the merger agreement if there are insufficient votes to adopt the merger agreement at the time of the meeting.

Table of Contents

Record Date; Shares Entitled to Vote; Quorum. Only holders of record of our common stock as of the close of business on December 1, 2006, the record date for the special meeting, are entitled to vote at the special meeting. Each outstanding share of our common stock on the record date entitles the holder to notice of and to one vote on each matter submitted to stockholders for approval at the special meeting. As of the record date, there were 2,145,652 shares of our common stock outstanding and entitled to be voted on the proposals to be considered at the special meeting. The presence, in person or by proxy, of holders of a majority of the outstanding Merchants Group common stock entitled to vote at the special meeting constitutes a quorum for the transaction of business at the special meeting.

Vote Required. Under Delaware law, and pursuant to the merger agreement, we cannot complete the proposed merger unless the merger agreement is adopted by the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote at the special meeting. Under Delaware law, the affirmative vote of a majority of the shares present and entitled to vote is required to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of adoption of the merger agreement if there are insufficient votes at the time of the meeting to adopt the merger agreement.

Our directors and executive officers as a group beneficially own 258,310 shares, or 12.0% of our common stock. See the section captioned *The Proposed Merger - Interests of Our Directors and Executive Officers in the Proposed Merger* on page 28. Neither Merchants Group nor AEG has entered into any agreements with these directors or officers with respect to the voting of their shares in connection with the merger; however, we expect these directors and officers to vote their shares in favor of the proposed merger.

Procedures for Voting. Holders of record of our common stock may vote their shares by attending the special meeting and voting their shares of our common stock in person, or by completing the enclosed proxy card, dating and signing it and mailing it in the enclosed postage-prepaid envelope.

Stockholders who hold their shares of our common stock in *street name*, meaning in the name of a bank, broker or other person who is the record holder, must either direct the record holder of their shares of our common stock how to vote their shares or obtain a proxy from the record holder to vote their shares at the special meeting.

Stockholders who have questions or requests for assistance in completing and submitting proxy cards should contact Georgeson Inc., our proxy solicitor, at (866) 647-8869. See the section captioned *The Special Meeting of Stockholders - Procedures for Voting* on page 12.

Voting of Proxies. All shares of our common stock represented by properly executed proxies received in time for the special meeting will be voted at the special meeting in the manner specified by the holder. If a stockholder returns a properly signed proxy card but does not indicate how the stockholder wants to vote, the stockholder's proxy will be counted as a vote *FOR* adoption of the merger agreement and *FOR* approval of the adjournment or postponement proposal. Brokers or other nominees who hold shares of our common stock in *street name* for customers who are the beneficial owners of the shares may not give a proxy to vote those customers' shares in the absence of specific instructions from the customers. These non-voted shares of our common stock will not be counted as votes cast or shares voting and will have the same effect as votes *AGAINST* adoption of the merger agreement. See the section captioned *The Special Meeting of Stockholders - Voting of Proxies and Failure to Vote* on page 12.

Revocability of Proxies. Holders of our common stock may change their vote at any time before their proxy card is voted at the special meeting. A stockholder can do this in one of three ways. First, the stockholder can send a written, dated notice to the Secretary of Merchants Group at 250 Main Street, Buffalo, NY 14202, who must receive it before the proxy has been voted at the special meeting, stating that the stockholder would like to revoke the proxy. Second, before the proxy has been voted at the special meeting, a stockholder can complete, date and submit a new proxy card.

Third, a stockholder can attend the meeting and vote in person. Attendance, by itself, will not revoke a proxy. It will only be revoked if the stockholder actually votes at the special meeting. If a stockholder has instructed a broker to vote the stockholder shares, the stockholder must follow directions received from the broker to change those instructions. See the section captioned "The Special Meeting of Stockholders - Revocability of Proxies" on page 12.

Table of Contents

Failure to Vote. If you fail to vote by proxy or in person, it will have the same effect as a vote against the adoption of the merger agreement.

Recommendation of the Merchants Group Board of Directors

On October 31, 2006, after careful consideration at a meeting of the board described below under the caption "The Proposed Merger - Background of the Proposed Merger", our board of directors by a unanimous vote:

determined that the merger agreement was advisable and that the proposed merger and the other transactions contemplated by the merger agreement were fair to and in the best interests of Merchants Group and its stockholders;

approved and adopted the merger agreement; and

recommended that Merchants Group's stockholders vote FOR the adoption of the merger agreement.

For a discussion of the principal factors considered by our board of directors in reaching its conclusions, See the section captioned "The Proposed Merger - Reasons for the Proposed Merger and Recommendation of the Board of Directors".

Opinions of Financial Advisors to Our Board of Directors (page 20)

In connection with the proposed merger, SFRi, LLC our financial advisor, which we refer to as SFRi, delivered its opinion to our board of directors, as of the date of the merger agreement and subject to the various assumptions, qualifications and limitations contained in its opinion, that the consideration to be received in the proposed merger by the holders of our common stock was fair, from a financial point of view, to them. The full text of the written opinion of SFRi dated October 31, 2006, which sets forth, among other things, the assumptions made, the procedures followed, matters considered and limitations on the scope of review undertaken, is attached to this proxy statement as Annex B. We urge you to read the opinion carefully in its entirety.

Interests of Our Directors and Executive Officers in the Proposed Merger (page 28)

In considering the recommendation of the Merchants Group board of directors that you vote FOR adoption of the merger agreement, you should be aware that the members of the Merchants Group board of directors have personal interests in the proposed merger that are or may be different from, or in addition to, the interests of other Merchants Group stockholders. These interests include:

Robert M. Zak, who acts as our chief executive officer, and who is the President and Chief Executive Officer of Merchants New Hampshire, is the President and Chief Executive Officer of the Mutual. From 1994 until June 7, 2006, Mr. Zak served as a director of Merchants Group. Merchants Group and Merchants New Hampshire do not have any operating assets or employees. Under the terms of a services agreement, Mutual provides Merchants Group and Merchants New Hampshire with the facilities, management and personnel required to operate their day-to-day businesses. Mutual is the beneficial owner of 255,000 shares, or 11.9% of our common stock.

The merger agreement provides continued indemnification to current or former directors or officers of Merchants Group and its subsidiaries in respect of liabilities for acts or omissions occurring at or prior to the completion of the proposed merger. In addition, the merger agreement requires that the surviving company maintain continued directors and officers insurance coverage, for six years following completion of the

proposed merger, that is at least as protective to the persons covered as our existing policies in this respect.

Appraisal Rights (page 40)

Under the General Corporation Law of the State of Delaware, holders of Merchants Group common stock who do not vote in favor of adopting the merger agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the proposed merger is completed, but only if they submit a written demand for an appraisal prior to the vote on the adoption of the merger agreement, do not vote or otherwise submit a proxy in respect of the merger agreement and comply with the procedures under the General

Table of Contents

Corporation Law of the State of Delaware described in this proxy statement. After the proposed merger, these shares will not represent any interest in the surviving corporation other than the right to receive this cash payment.

Merely voting against the merger agreement will not preserve your right to appraisal under Delaware law. Also, because a signed proxy that is submitted and that is not marked **AGAINST** or **ABSTAIN** will be voted **FOR** the proposal to adopt the merger agreement and approve the merger, the submission of a signed proxy not marked **AGAINST** or **ABSTAIN** will result in the waiver of appraisal rights. If you hold shares in the name of a broker, bank or other nominee, and if you wish to assert your appraisal rights, you must instruct your broker, bank or other nominee to take the steps necessary to enable you to demand appraisal for your shares.

If you validly demand appraisal of your shares in accordance with Delaware law and do not withdraw your demand or otherwise forfeit your appraisal rights, you will not receive the merger consideration. Instead, after completion of the proposed merger, a court will determine the fair value of your shares exclusive of any value arising from the completion or the expectation of the proposed merger. This appraisal amount could be more than, the same as or less than the amount you would be entitled to receive under the terms of the merger agreement.

Appraisal rights will not apply if the proposed merger is not completed for any reason.

Financing

AEG and its subsidiaries will fund the proposed merger through available cash. AEG has represented that it has commitments for sufficient resources to make the cash payments required under the merger agreement, and will continue to have such resources available until the closing of the merger.

The Merger Agreement

Conditions to the Proposed Merger (page 31) The obligations of AEG and Merger Sub to complete the proposed merger are conditioned upon the satisfaction or waiver of the following conditions, among others:

As required by Delaware law, the merger agreement must be adopted by the affirmative vote of holders of a majority of the outstanding shares of our common stock entitled to vote at the special meeting.

Consents expressly required for a change in control from Merchants Group's and Merchants New Hampshire's regulators, including the consent of the New Hampshire Insurance Department must be received and in effect.

There shall not have occurred any material adverse effect, as defined in the merger agreement and described below under the caption **The Merger Agreement - Conditions to the Proposed Merger**.

The waiting period (and any extension thereof) applicable to the proposed merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, shall have been terminated or expired.

No law, injunction or order preventing the completion of the proposed merger may be in effect.

There does not exist any misrepresentation or breach of any of the representations and warranties of Merchants Group in the merger agreement, which, individually or in the aggregate, constitutes, or could reasonably be expected to constitute a material adverse effect, disregarding exceptions to the definition of **material adverse effect** concerning negative changes to the rating of Merchants Group or the surviving company or the imposition of restrictions on the ability of Merchants Group or Merchants New Hampshire to pay dividends.

Merchants Group must have complied in all material respects with its obligations under the merger agreement.

Alternative Takeover Proposals; Recommendation of the Merchants Group Board of Directors (page 20)

The merger agreement restricts our ability to, among other things, solicit or enter into discussions or negotiations with a third party regarding alternative merger, business combination or acquisition transactions involving Merchants Group and the ability of our board of directors to change or withdraw its recommendation of the merger agreement. Notwithstanding these restrictions our board of directors may respond to a proposal for an

Table of Contents

alternative acquisition that our board of directors determines in good faith, after consulting with outside counsel, (i) does not result from a violation of our non-solicitation obligations under the merger agreement and (ii) could reasonably be expected to result in a superior proposal (as described under the caption "The Merger Agreement - Right to Accept a Superior Proposal" on page 33) by furnishing information with respect to Merchants Group or by participating in discussions or negotiations with the party or parties making the competing proposal, so long as we comply with certain requirements of the merger agreement to provide notice to AEG. In addition, prior to the time Merchants Group stockholders adopt the merger agreement, our board of directors may cause us to terminate the merger agreement in order for us to enter into an acquisition agreement with respect to a superior proposal, so long as we comply with the terms of the merger agreement. Our board of directors may also withdraw its recommendation of the merger agreement if it concludes that the failure to do so would result in a breach of its fiduciary obligations to Merchants Group's stockholders. In the event that Merchants Group terminates the merger agreement to enter into an acquisition agreement with respect to a superior proposal, Merchants Group is required to pay to AEG a termination fee of \$2,478,228 plus the actual costs and expenses of AEG prior to the termination.

Termination of the Merger Agreement (page 37)

The merger agreement may be terminated at any time prior to the completion of the proposed merger:

by mutual written consent of AEG and Merchants Group;

by either AEG or Merchants Group:

if our stockholders have voted on the merger agreement and the merger and the votes shall not have been sufficient to approve the merger agreement and the merger under our articles of incorporation, bylaws and applicable law;

if an unappealable law, order or injunction issued by a governmental entity prohibits the proposed merger (unless a party has not fulfilled its obligations under the merger agreement to oppose any such order or injunction);

if the proposed merger is not completed on or before March 31, 2007 (which will be extended to June 30, 2007 if the sole unfulfilled condition is the receipt of a required regulatory approval that the parties have received reasonable indications will be received by that date), unless a breach by the party seeking to terminate the merger agreement is the principal cause of the failure to complete the proposed merger;

by Merchants Group:

in connection with entering into a definitive agreement to effect a superior proposal as described above under "Alternative Takeover Proposals; Recommendation of the Board;" subject to our compliance with provisions of the merger agreement concerning responding to superior proposals;

if AEG or Merger Sub breaches any of their respective representations, warranties, covenants or other agreements in the merger agreement, in a manner which constitutes the failure of a condition to our obligation to complete the proposed merger and the breach has not been cured within 30 days after the giving of written notice to AEG; except where (A) such breach cannot reasonably be cured within the 30 day period but can be reasonably cured prior to March 31, 2007, and AEG or Merger Sub is diligently proceeding to cure such breach or (B) Merchants Group's breach of the merger agreement was the principal cause of the failure;

If the parties receive reasonable indications from any governmental authority that the governmental authority has denied or will not grant any necessary regulatory approval on or prior to June 30, 2007;

by AEG:

if Merchants Group breaches any of its representations, warranties or covenants in a manner that constitutes the breach of a condition to AEG's and Merger Sub's obligations to complete the proposed merger and such breach has not been cured within 30 days after the giving of written notice to Merchants Group; except where (A) such breach is incapable of being cured within the 30 day period but can be reasonably cured prior to March 31, 2007 and Merchants Group is diligently proceeding to cure the breach or (B) unless AEG's breach of the merger agreement was the principal cause of the failure; or

Table of Contents

if we enter into an agreement pursuant to a superior proposal or our board of directors withdraws or adversely modifies its recommendation of the merger agreement, or proposes publicly to do so; or

if we violate covenants in the merger agreement restricting our ability to solicit or enter into discussions or negotiations with a third party regarding alternative merger, business combination or acquisition transactions.

Termination Fees (page 39)

; Termination Fee Payable by Merchants Group. Under the merger agreement, Merchants Group must pay to AEG a termination fee of \$2,478,228 plus costs and expenses incurred by AEG if:

the merger agreement is terminated by Merchants Group or AEG following the failure of the merger agreement to be approved by our stockholders in a vote on such matter and (A) at the time of such termination, there was outstanding a plan or proposal, which we refer to as an acquisition proposal, for an alternative merger or other business combination or other sale of over 20% of the stock, assets or business of Merchants Group (other than with AEG or any of its affiliates), which we refer to as an alternative transaction, (B) within 18 months after such termination, Merchants Group or any of its subsidiaries enters into an agreement providing for, or completes, an alternative transaction and (C) the aggregate purchase price for Merchants Group (or its assets) pursuant to such alternative transaction equals or exceeds the merger consideration payable under the merger agreement;

the merger agreement is terminated by AEG due to a breach of the merger agreement by Merchants Group which constitutes a failure of a condition to close the merger, which failure is not cured within 30 days and (A) at the time of the termination, there was outstanding an acquisition proposal, (B) Merchants Group or any of its subsidiaries enters into an agreement providing for, or completes, an alternative transaction within 18 months after the termination of the merger agreement, and (C) the aggregate purchase price for Merchants Group (or its assets) pursuant to the alternative transaction equals or exceeds the merger consideration payable under the merger agreement;

Merchants Group or AEG terminates the merger agreement following the failure of the merger agreement to receive the necessary number of votes for approval from our stockholders, if prior to the vote our board of directors withdraws or adversely modifies its recommendation of the merger agreement, or proposes publicly to do so;

Merchants Group terminates the merger agreement because our board of directors exercises its rights to cause Merchants Group to enter into an acquisition agreement with respect to a superior proposal as described above under Alternative Takeover Proposals; Recommendation of the Board ;

AEG terminates the merger agreement because our board of directors exercises its rights to cause Merchants Group to enter into an acquisition agreement with respect to a superior proposal or our board of directors withdraws or adversely modifies its recommendation of the merger agreement, or proposes publicly to do so; or

AEG terminates the merger agreement because Merchants Group violates restrictions in the merger agreement concerning solicitation of or entry into discussions or negotiations with a third party regarding alternative merger, business combination or acquisition transactions involving Merchants Group and the ability of our board of directors to change or withdraw its recommendation of the merger agreement;

One purpose of this termination fee is to compensate AEG, in the event that the proposed merger is abandoned by Merchants Group to pursue a competing proposal, for the financial and other resources which AEG has expended in connection with entering into the merger agreement and seeking to complete the proposed merger. One effect of the termination fee provision is to make it more expensive for any other potential acquiror of Merchants Group to acquire control of Merchants Group.

For additional information regarding the termination fee provisions and the circumstances under which these fees are payable, see the section captioned *The Merger Agreement Termination Fees* on page 39.

Regulatory Matters (page 28)

As described above under *Conditions to the Proposed Merger*, the obligations of AEG and Merger Sub to effect the proposed merger are subject to the satisfaction or waiver of,

Table of Contents

among other conditions, the terminationP align="left"> **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 adverse 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 automobile receivable 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 Soldiers and Sailors Civil Relief Act of 1940, which 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.

Table of Contents

We Will Be Adversely Affected If We Lose Servicing Rights

The loss of our servicing rights could materially and adversely affect our results of operations, financial condition and cash flows and our ability to make payments on the notes. Our results of operations, financial condition and cash flows, and our ability to make interest payments on, or repay, the notes, would be materially and adversely affected if any of the following were to occur:

the loss of our servicing rights under the sale and servicing agreements for our warehouse facilities with Triple-A One and CDC;

the loss of our servicing rights under the applicable pooling and servicing or sale and servicing agreement relating to motor vehicle contracts which we have sold in our securitizations; or

the occurrence of certain trigger events under the insurance agreements between us and MBIA or between us and XL in each of our securitizations that would block the release of future servicing cash flows from the spread accounts in those securitizations.

We are entitled to receive servicing income only while we act as servicer under the applicable sale and servicing agreement or pooling and servicing agreement for motor vehicle contracts which we have securitized and sold. Under our warehouse facility with Triple-A One, MBIA can terminate, and under our warehouse facility with CDC, XL can terminate, our right to act as servicer upon the occurrence of certain events, including:

our failure generally to observe and perform covenants and agreements applicable to us;

certain bankruptcy events involving us; or

the occurrence of certain events of default under the documents governing the facilities.

We Depend on Key Personnel

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

Our Industry is Highly Competitive

Competition in the field of financing retail motor vehicle sales is intense. The automobile finance market is highly fragmented and historically has been serviced by a variety of financial entities including the captive finance affiliates of major automotive manufacturers, banks, savings associations, independent finance companies, credit unions and leasing companies. Many 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 to us for purchase those motor vehicle contracts that meet our underwriting criteria. We may not be able to continue to compete successfully in the markets we serve.

We May Be Harmed by General Adverse Economic Conditions and, in Particular, Adverse Economic Conditions in California

Our business is dependent upon the sale of motor vehicles. Our ability to continue to acquire motor vehicle contracts in the markets in which we operate and to expand into additional markets is dependent upon the overall

Table of Contents

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 states where our motor vehicle contracts are geographically concentrated, could have a material adverse impact upon us, our results of operations and our ability to implement our business strategy. Similarly, adverse economic conditions or other factors particularly affecting the states in which our motor vehicle contracts are geographically concentrated might adversely affect the performance of those contracts, including the level of delinquencies, which could materially and adversely affect our results of operation, financial condition and cash flows and our ability to perform our obligations under the notes. In particular, economic conditions or other factors particularly affecting the state of California might adversely affect the performance of the motor vehicle contracts in our serviced portfolio. As of September 30, 2003, approximately 24% of our contracts in our serviced portfolio (based on the number of contracts outstanding) were originated in California. In addition, these contracts represent 25% of the outstanding balance of our serviced portfolio. The contracts in our serviced portfolio originated in any single state other than California did not exceed 8% based on the number of contracts outstanding or on the outstanding balance of our serviced portfolio.

The automobile industry generally is sensitive to adverse economic conditions both nationwide and in California. 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 loans. The United States is currently experiencing a period of reduced economic activity and higher rates of unemployment. These economic conditions could continue or may reoccur in the future and if they continue or reoccur, they may result in severe reductions in our revenues or the cash flows available to us to permit us to remain current on our credit facilities. In addition, these adverse economic conditions could materially and adversely affect our ability to make interest payments on, or repay, the notes.

We Are Subject to System Risks

Problems with our in-house loan accounting and collection systems could materially and adversely affect our collections and cash flows and our ability to make payments on the notes. In 2001, we converted from an external service provider for our loan accounting and collection systems relating to the motor vehicle contracts in our servicing portfolio to an in-house system. If issues with our in-house system arise in the future, we may be unable to maintain the same level of operations with respect to the funding of motor vehicle contracts and the servicing of our outstanding portfolio. Any significant failures or defects with our in-house system could adversely affect our results of operations, financial conditions and cash flows and our ability to perform our obligations under the notes.

We Are Subject to Many Regulations

Failure to materially comply with all laws and regulations applicable to us could materially and adversely affect our ability to operate our business and our ability to make payments on the notes. Our business is subject to numerous federal and state consumer protection laws and regulations, which, among other things:

- require us to obtain and maintain certain licenses and qualifications;

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

- limit or prescribe certain other terms of our motor vehicle contracts;

- require specific disclosures;

- define our rights to repossess and sell collateral; and

- maintain safeguards designed to protect the security and confidentiality of customer information.

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:

Table of Contents

applicable laws and regulations;

changes in existing laws or regulations;

changes in the interpretation of existing laws or regulations; or

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

We are Subject to Litigation Risks

Unfavorable outcomes in any of our current or future litigation proceedings could materially and adversely affect our results of operations, financial conditions and cash flows and our ability to make payments on the notes. As a consumer finance company, we are 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. We, 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. We are also subject to other litigation common to the motor vehicle 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.

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, which, in turn, could affect our ability to make interest payments on, or repay, the notes.

Table of Contents**FORWARD-LOOKING STATEMENTS**

This prospectus contains certain statements of a forward-looking nature relating to future events or our future performance. These forward-looking statements are based on our current expectations, assumptions, estimates and projections about us and our industry. When used in this prospectus, the words *expects*, *believes*, *anticipates*, *estimates*, *intends* and similar expressions are intended to identify forward-looking statements. These statements include, but are not limited to, statements of our plans, strategies and prospects under the captions *Prospectus Summary*, *Risk Factors*, *Use of Proceeds*, and other statements contained elsewhere in this prospectus.

These forward-looking statements are only predictions and are subject to risks and uncertainties that could cause actual events or results to differ materially from those projected. The cautionary statements made in this prospectus should be read as being applicable to all related forward-looking statements wherever they appear in this prospectus. We assume no obligation to update these forward-looking statements publicly for any reason. Actual results could differ materially from those anticipated in these forward-looking statements.

RATIOS OF EARNINGS TO FIXED CHARGES

	As of December 31,					As of September 30,
	1998	1999	2000	2001	2002	2003
Ratio of earnings to fixed charges ¹	1.68x	1.86x	1.46x	1.44x	1.19x	1.49x

¹ For purposes of computing our ratios of earnings to fixed charges, we calculated earnings by adding fixed charges to income before income taxes. Fixed charges consist of gross interest expenses and one-third of our rent expense, which is the amount we believe is representative of the interest factor component of our rent expense.

USE OF PROCEEDS

If all of the notes are sold with maturities of two years or more, we would expect to receive approximately \$50.0 million of net proceeds from this offering after deducting the selling agent commissions and estimated offering expenses payable by us. Although we have no specific plan to allocate the proceeds, the general purpose of the offering is to raise capital to expand our business and for other general corporate purposes, which may include payment of general and administrative expenses.

Table of Contents**CAPITALIZATION**

The following table sets forth our capitalization, as of September 30, 2003, and as adjusted to give effect to the sale of \$51,932,173.23 principal amount of the notes. For a description of the application of the net proceeds, assuming all of the notes are sold with maturities of two years or more, see Use of Proceeds and Risk Factors Risk Factors Relating to the Notes Our Management has Broad Discretion Over the Use of Proceeds.

	As of September 30, 2003	
	Actual	As Adjusted
	(In Thousands)	
LIABILITIES		
Debt:		
Warehouse Borrowings	185,005	185,005
Excess Servicing Credit and Residual Lines	33,604	33,604
Subordinated Debt	12,000	12,000
Subtotal of Debt	230,609	230,609
Other Liabilities Capital Lease Obligations	1,259	1,259
Accrued Interest Payable	1,441	1,441
Other Liabilities	60,830	60,830
Subtotal of Other Liabilities	63,530	63,530
Subtotal of Indebtedness Senior to Notes	294,139	294,139
Renewable Unsecured Subordinated Notes	33,436	85,368
Total Liabilities	327,575	379,507
STOCKHOLDERS EQUITY		
Series A Participating Preferred stock, \$.01 par value, 200,000 shares authorized; no shares issued and outstanding		
Preferred stock (undesignated), \$.01 par value, 2,800,000 shares authorized; no shares issued and outstanding		
Common stock, \$.01 par value, 15,000,000 shares authorized; 5,118,206 shares issued and outstanding	51	51
Additional paid-in capital	32,803	32,803
Retained earnings	31,334	31,334
Accumulated other comprehensive loss	9,756	9,756
Total Stockholders Equity:	73,944	73,944
Total Capitalization:	401,519	453,451

Table of Contents

DESCRIPTION OF THE NOTES

General. The notes we are offering in this prospectus will represent subordinated, unsecured debt obligations of Onyx Acceptance Corporation. We will issue the notes under an indenture dated February 11, 2002, between us and U.S. Bank National Association, as trustee, as supplemented pursuant to an indenture supplement to be dated on or about January 29, 2004. The terms and conditions of the notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939. The following is a summary of some, but not all, provisions of the notes, the indenture and the Trust Indenture Act. For a complete understanding of the notes, you should review the definitive terms and conditions contained in the actual notes, the indenture and the Trust Indenture Act, which include definitions of certain terms used below. Copies of the form of the notes and the indenture have been filed with the SEC and are available from us at no charge upon request.

The notes will be subordinated in right of payment to the prior payment in full of all our secured, unsecured, senior and subordinate debt, as described in this prospectus, whether outstanding on the date of the indenture or incurred following the date of the indenture. Subject to limited restrictions contained in the indenture discussed below, there is no limit under the indenture on the amount of additional debt we may incur. See **Subordination** below.

The notes are not secured by any collateral or lien and we are not required to establish or maintain a sinking fund to provide for payments on the notes. See **No Security; No Sinking Fund** below. In addition, the notes are not insured by the Federal Deposit Insurance Corporation, the Securities Investor Protection Corporation or any other agency or company.

You may determine the amount (subject to a minimum principal amount of \$1,000) and term (ranging from 3 months to 10 years) of the notes you would like to purchase when you subscribe; however, depending upon our capital requirements, we may not always offer notes of each maturity. See **Denomination** and **Term** below.

With the help of our servicing agent, we will determine the rate at which we will pay you interest on the notes at the time of subscription and the rate will be fixed for the term of your note. Currently available rates will be set forth in supplements to this prospectus. The interest rate will vary based on the term to maturity of the note you purchase and the total principal amount of all notes owned by you and your immediate family. We may change the interest rates at which we are offering new or renewed notes based on market conditions, the demand for notes and other factors. See **Interest Rate** below.

Upon acceptance of your subscription to purchase notes, our servicing agent will create an account in a book-entry registration and transfer system for you and credit the principal amount of your subscription to your account. Our servicing agent will send you a book-entry receipt or confirmation that will indicate our acceptance of your subscription. You will have three business days to rescind your subscription following your receipt of a written confirmation from us that evidences the valid issuances of the notes. If your subscription is rejected by us or our servicing agent, or you rescind your subscription during the three-day revocation period, all funds deposited will be promptly returned to you without any interest. See **Book-Entry Registration and Transfer** and **Rescission Right** below. Investors whose subscriptions for notes have been accepted and anyone who subsequently acquires notes in a qualified transfer are referred to as **holders** or **registered holders** in this prospectus and in the indenture.

We may modify or supplement the terms of the notes described in this prospectus from time to time in a supplement to the indenture and a supplement to this prospectus. Except as set forth under **Amendment, Supplement And Waiver** below, any modification or amendment will not affect notes outstanding at the time of such modification or amendment.

Denomination. You may purchase notes in the minimum principal amount of \$1,000 or any amount in excess of \$1,000. You will determine the original principal amount of each note you purchase when you subscribe. You may not cumulate purchases of multiple notes with principal amounts less than \$1,000 to satisfy the minimum denomination requirement.

Table of Contents

Term. We may offer notes with terms ranging from three months to ten years as follows:

three months	three years
six months	four years
one year	five years
two years	ten years

You will select the term of each note you purchase when you subscribe. You may purchase multiple notes with different terms by filling in investment amounts for more than one term on your subscription agreement. However, we may not always sell notes with all of the above terms.

Interest Rate. The rate of interest we will offer to pay you on notes at any particular time will vary based upon market conditions, and will be determined by the length of the term of the notes, the total principal amount of all notes owned by you and your immediate family and our capital requirements. The interest rate on a particular note will be determined at the time of subscription or renewal, and then remain fixed for the original or renewal term of the note. We will establish and may change the interest rates payable for notes of various terms and at various investment levels in a supplement to this prospectus. Our servicing agent will assist us in establishing these interest rates, including advising us on current market conditions.

The notes will earn incrementally higher interest rates when, at the time they are purchased or renewed, the aggregate principal amount of the note portfolios of the holder and the holder's immediate family is at least \$25,000, \$50,000, \$75,000 or \$100,000. The interest rates payable at each level of investment will be set forth in a supplement to this prospectus. Immediate family members include parents, children, siblings, grandparents, and grandchildren. Members of sibling families are also considered immediate family members if both siblings are note holders. An investor must identify his or her immediate family members in the subscription documents to include their portfolios in determining the interest rate for such investor's notes.

Interest rates we offer on the notes may vary based on numerous factors in addition to length of the term and aggregate principal amount. These factors may include, but are not limited to:

the desire to attract new investors;

whether the notes exceed certain principal amounts;

whether the notes are purchased for IRA and/or Keogh accounts;

whether the notes are being renewed by existing holders; and

whether the notes are beneficially owned by persons residing in particular geographic localities.

Computation of Interest. We will compute interest on notes on the basis of an actual calendar year. Interest will compound daily and accrue from the date of purchase. The date of purchase will be the date we receive funds if the funds are received prior to 12:01 p.m. central time on a business day, or the next business day if the funds are received on a non-business day or at or after 12:01 p.m. central time on a business day. Our business days are Monday through Friday, except for legal holidays in the State of Minnesota.

Interest Payment Dates. Holders of notes may elect at the time a subscription agreement is completed to have interest paid either monthly, quarterly, semiannually, annually or at maturity. If you choose to have interest paid monthly, you may elect the day of the month on which interest will be paid, subject to our approval. For all other payment periods, interest will be paid on the same day of the month as the purchase date of your note. You

Table of Contents

will not earn interest on any rescinded note. See **Rescission Right** below for additional information on your right to rescind your investment.

The election of the period or day of interest payment for each note may be changed one time only by the holder during the term of the note, subject to our approval. Requests to change the election must be made in writing to our servicing agent and will be effective on the first business day following the 45th day after the election change request is received. No specific change in election form is required and there is no charge to change the election once during the term of a note. Any interest not paid on an interest payment date will be paid at maturity.

Place and Method of Payment. We will pay principal and interest on the notes through our paying agent by electronic funds transfer to a depository account you specify in your subscription documents. If the foregoing payment method is not available, principal and interest on the notes will be payable at our principal executive office or at such other place as we may designate for payment purposes.

Servicing Agent. We have engaged Sumner Harrington Ltd., the investment banking firm that is helping us sell the notes, to act as our servicing agent for the notes. Sumner Harrington Ltd.'s responsibilities as servicing agent will involve the performance of certain administrative and customer service functions for the notes that we are responsible for performing as the issuer of the notes. For example, as our servicing agent, Sumner Harrington Ltd. will serve as our registrar and transfer agent and will manage all aspects of the customer service function for the notes, including handling all phone inquiries, mailing investment kits, meeting with investors, processing subscription agreements, issuing quarterly investor statements and redeeming and repurchasing notes. In addition, as servicing agent, Sumner Harrington Ltd. will provide us with monthly reports and analysis regarding the status of the notes, the marketing efforts and the amount of notes that remain available for purchase and also will have the ability to exercise certain limited discretion with respect to waiving early repurchase penalties, changing interest payment dates and rejecting subscription agreements. Other duties of Sumner Harrington Ltd. as our servicing agent under the distribution and management agreement are described throughout this section and under **Plan of Distribution**.

As compensation for its services as servicing agent, we will pay Sumner Harrington Ltd. an annual portfolio management fee equal to 0.25% of the weighted average principal balance of the notes so long as Sumner Harrington Ltd. is engaged as our servicing agent. The ongoing fee will be paid monthly. The distribution and management agreement may be terminated by either party by prior notice. Sumner Harrington Ltd.'s duties and compensation as selling agent under the same agreement are described under **Plan of Distribution**.

You may contact our servicing agent with any questions about the notes at the following address and telephone number:

Sumner Harrington Ltd.
Attn.: Onyx Notes Department
11100 Wayzata Boulevard, Suite 170
Minneapolis, MN 55305
Telephone: (800) 234-5777

Book-Entry Registration and Transfer. The notes are issued in book entry form, which means that no physical note is created. Evidence of your ownership is provided by written confirmation. Except under limited circumstances described below, holders will not receive or be entitled to receive any physical delivery of a certificated security or negotiable instrument that evidences their notes. The issuance and transfer of notes will be accomplished exclusively through the crediting and debiting of the appropriate accounts in our book-entry registration and transfer system. Our book-entry system will be maintained by our servicing agent.

The holders of the accounts established upon the purchase or transfer of notes will be deemed to be the owners of the notes under the indenture. The holder of the notes must rely upon the procedures established by the trustee to exercise any rights of a holder of notes under the indenture. On a monthly basis, our servicing agent will provide the trustee with information regarding the establishment of new accounts and the transfer of existing accounts.

Table of Contents

Our servicing agent will regularly provide the trustee with information regarding the total amount of any principal and/or interest due to holders with regard to the notes on any interest payment date or upon redemption.

On each interest payment date, the servicing agent will credit interest due on each account and direct our paying agent to make such payments to the holders. The servicing agent will determine the interest payments to be made to the book-entry accounts and maintain, supervise and review any records relating to book-entry beneficial interests in the notes.

Book-entry notations in the accounts evidencing ownership of the notes are exchangeable for actual notes in principal denominations of \$1,000 and any amount in excess of \$1,000 and fully registered in those names as we direct only if:

we, at our option, advise the trustee in writing of our election to terminate the book-entry system, or

after the occurrence of an event of default under the indenture, holders of more than 50% of the aggregate outstanding principal amount of the notes advise the trustee in writing that the continuation of a book-entry system is no longer in the best interests of the holders of notes and the trustee notifies all registered holders of the occurrence of any such event and the availability of certificated securities that evidence the notes. Subject to the exceptions described above, the book-entry interests in these securities will not be exchangeable for fully registered certificated notes.

Rescission Right. The holder has the right to rescind his or her investment, without penalty, upon written request to our servicing agent within the first three business days following the receipt by the holder of a written confirmation from us that evidences the valid issuance of the note, at the time of original purchase (but not upon transfer or automatic renewal of a note). No interest will be earned for the time the rescinded note is outstanding. We will promptly return any funds sent with a subscription that is subsequently properly rescinded. The limitations on the amount of notes that can be redeemed early in a single calendar quarter described under Redemption or Repurchase Prior to Stated Maturity below does not affect your rescission right.

Right to Reject Subscriptions. Our servicing agent may reject any subscription for notes in its sole discretion. If a subscription for notes is rejected, we will promptly return any funds sent with that subscription, without interest.

Renewal or Redemption On Maturity. Approximately 15, but not less than 10, days prior to maturity of your note, our servicing agent will send you a notice at your registered address indicating that your note is about to mature and whether we will allow automatic renewal of your note. If we allow you to renew your note, our servicing agent will also send to you a current prospectus supplement and a current prospectus if the prospectus has changed since the delivery of this prospectus in connection with your original subscription or any prior renewal. The prospectus supplement will set forth the interest rates then in effect. The notice will recommend that you review the prospectus, along with the prospectus supplement, prior to exercising one of the below options. If we do not send you a new prospectus, a new prospectus will be sent to you upon request. You will have until 15 days after the maturity date to exercise one of the following options:

You can do nothing, in which case your note will automatically renew for a new term equal to the original term at the interest rate in effect at the time of renewal. If your note pays interest only at maturity, all accrued interest will be added to the principal amount of your note upon renewal. For notes with other payment options, interest will be paid on the renewed note on the same schedule as the original note.

You can require repayment of your note, in which case the principal amount will be repaid in full along with any accrued and unpaid interest. If you choose this option, your note will not earn interest on or after the maturity date.

Table of Contents

You can require repayment of your note and use all or part of the proceeds to purchase a new note with a different term. To exercise this option, you will need to complete a subscription agreement for the new note and mail it along with your request to our servicing agent. The issue date of the new note will be the maturity date of the old note. Any proceeds from the old note that are not applied to the new note will be sent to you.

If your note pays interest only at maturity, you can receive the accrued interest that you have earned during the note term just ended while allowing the principal amount of your note to roll over and renew for the same term at the interest rate then in effect. To exercise this option, call, fax or send a written request to our servicing agent.

The foregoing options will be available to holders until termination or redemption under the indenture and the notes by either the holder or us. Interest will accrue from the first day of each renewed term. Each renewed note will retain all its original provisions, including provisions relating to payment, except that the interest rate payable during any renewal term will be the interest rate that is being offered to other holders of notes with the same term at the time of renewal, as set forth in the prospectus supplement delivered with the maturity notice. If similar notes are not then being offered, the interest rate upon renewal will be the rate specified by us on or before the maturity date, or the rate of the existing note if no such rate is specified.

If we notify the holder of our intention to repay a note at maturity, we will pay the holder the principal amount and any accrued and unpaid interest on the stated maturity date. Similarly, if, within 15 days after its stated maturity date, a holder requests repayment with respect to a note, we will pay the holder the principal amount of the note plus accrued and unpaid interest up to, but not including, the note's stated maturity date. In the event that a holder's regularly scheduled interest payment date falls after the maturity date of the note but before the date on which the holder requests repayment, the holder may receive an interest payment that includes interest for periods after the maturity date of the note. If this occurs, the excess interest will be deducted from our final payment of the principal amount of the note to the holder. We will pay the holder upon the later of the maturity date or five business days after the date on which we receive such notice from the holder. Requests for repayment should be made to our servicing agent in writing.

Redemption or Repurchase Prior To Stated Maturity. The notes may be redeemed prior to stated maturity only as set forth in the indenture and described below. The holder has no right to require us to prepay or repurchase any note prior to its maturity date as originally stated or as it may be extended, except as indicated in the indenture and described below.

Redemption By Us. We have the right to redeem any note at any time prior to its stated maturity upon 30 days written notice to the holder of the note. The holder of the note being redeemed will be paid a redemption price equal to the outstanding principal amount thereof plus accrued and unpaid interest up to but not including the date of redemption without any penalty or premium. We may use any criteria we choose to determine which notes we will redeem if we choose to do so. We are not required to redeem notes on a pro rata basis.

Repurchase Election Upon Death Or Total Permanent Disability. Notes may be repurchased prior to maturity, in whole and not in part, at the election of a holder who is a natural person (including notes held in an individual retirement account), by giving us written notice within 45 days following the holder's total permanent disability, as established to our satisfaction, or at the election of the holder's estate, by giving written notice within 45 days following his or her death. Subject to the limitations described below, we will repurchase the notes within 10 days after receipt of notice or satisfactory establishment of the holder's death or disability. The repurchase price, in the event of such a death or disability, will be the principal amount of the notes, plus interest accrued and not previously paid up to but not including the date of repurchase. If spouses are joint registered holders of a note, the election to repurchase will apply when either registered holder dies or suffers a total permanent disability. If the note is held jointly by two or more persons who are not legally married, none of these persons will have the right to request that we repurchase the notes unless all joint holders have either died or suffered a total permanent disability. If the

Table of Contents

note is held by a person who is not a natural person such as a trust, partnership, corporation or other similar entity, the right to request repurchase upon death or disability does not apply.

Repurchase At Request of Holder. In addition to the right to elect repurchase upon death or disability, a holder may elect repurchase of notes prior to maturity, in whole and not in part, at any time by giving us written notice. Subject to the \$1 million limitation described below, we will repurchase the holder's note(s) specified in the notice within 10 days of receipt of the notice. The repurchase price, in the event of such election, will be the principal amount of the note, plus interest accrued and not previously paid (up to but not including the date of repurchase), minus a repurchase penalty. The early repurchase penalty for a note with a three month maturity is the interest accrued on such note up to the date of repurchase, not to exceed three months of simple interest at the existing rate. The early repurchase penalty for a note with a maturity of six months or longer is the interest accrued on such note up to the date of repurchase, not to exceed six months of simple interest at the existing rate. The penalty for early repurchase may be waived or reduced at the limited discretion of our servicing agent.

Limitations on Requirements to Repurchase. Our obligation to repurchase notes prior to maturity will be subject to a limit of \$1 million aggregate principal amount for all holders per calendar quarter. This limit includes any notes we repurchase upon death or total permanent disability of the holder and any notes that we repurchase pursuant to the holder's right to elect repurchase. For purposes of the \$1 million limit, repurchase requests will be honored in the order in which they are received and any repurchase request not honored in a calendar quarter will be honored in the next calendar quarter, to the extent possible, since repurchases in the next calendar quarter are also subject to the \$1 million limitation.

Modifications to Repurchase Policy. We may modify the policies on repurchase in the future. However, no modification will affect the right of repurchase applicable to any note outstanding at the time of any such modification.

Transfers. The notes are not negotiable debt instruments and, subject to certain exceptions, will be issued only in book-entry form. The book-entry receipt issued upon our acceptance of a subscription is not a certificated security or negotiable instrument, and no rights of record ownership can be transferred without our prior written consent. Ownership of notes may be transferred on our register only as follows:

The holder must deliver written notice requesting a transfer to our servicing agent signed by the holder(s) or such holder's duly authorized representative on a form to be supplied by our servicing agent.

Our servicing agent must provide its written consent to the proposed transfer, which consent may not be unreasonably withheld.

Our servicing agent may require a legal opinion from counsel satisfactory to the servicing agent that the proposed transfer will not violate any applicable securities laws and a signature guarantee in connection with such transfer.

Upon transfer of a note, our servicing agent will provide the new holder of the note with a book-entry receipt which will evidence the transfer of the account on our records. We or our servicing agent may charge a reasonable service charge in connection with the transfer of any note.

Quarterly Statements. Our servicing agent will provide holders of the notes with quarterly statements, which will indicate, among other things, the account balance at the end of the quarter, interest credited, redemptions or repurchases made, if any, and the interest rate paid during the quarter. These statements will be mailed not later than the tenth business day following the end of each calendar quarter. Our servicing agent will provide additional information as holders of notes may reasonably request from time to time. Our servicing agent may charge such holders a fee to cover the charges incurred in providing such information.

Table of Contents

Subordination. The indebtedness evidenced by the notes, and any interest thereon, are subordinated in right of payment to all of our senior debt. Senior debt means all of our secured, unsecured, senior or subordinate indebtedness, including indebtedness owed by our special purpose entities, whether outstanding on the date of this prospectus or incurred after the date of this prospectus, whether such indebtedness is or is not specifically designated as being senior debt in its defining instruments, other than

the existing notes and future offerings of additional renewable unsecured subordinated notes which will rank equally with the notes; and

existing and future debt that is held by our affiliates, subsidiaries or control persons (other than debt held by our subsidiaries that are special purpose entities).

The indenture does not prevent holders of senior debt from disposing of, or exercising any other rights with respect to, any or all of the collateral securing the senior debt. As of September 30, 2003, we had approximately \$294.1 million of outstanding debt senior to the notes, including debt owed to our subsidiaries that are special purpose entities.

Except for certain limited restrictions, the terms of the notes or the indenture do not impose any limitation on the amount of senior debt or other indebtedness we may incur, although our existing senior debt agreements may restrict us from incurring new senior debt. See Risk Factors Risk Factors Relating to the Notes You Lack Priority in Payment on the Notes.

The notes are not guaranteed by any of our subsidiaries, affiliates or control persons. Accordingly, in the event of a liquidation or dissolution of one of our subsidiaries, creditors of that subsidiary will be paid in full, or provision for such payment be made, from the assets of that subsidiary prior to distributing any remaining assets to us as a shareholder of that subsidiary. Therefore, in the event of liquidation or dissolution of a subsidiary, no assets of that subsidiary may be used to make payment to the holders of the notes until the creditors of that subsidiary are paid in full from the assets of that subsidiary.

Existing and future debt that is primarily held by our affiliates, subsidiaries or control persons, other than debt held by our subsidiaries that are special purpose entities, will be subordinated to the notes. However, as long as we make required payments on the notes and there exists no default under the notes or the indenture, we may also make required payments and pre-payments on, and complete payment of, our debt held by our affiliates, subsidiaries and control persons. As of September 30, 2003, we had no debt outstanding that was owed to our affiliates, subsidiaries or control persons, other than debt held by our special purpose entities. Therefore, none of our current debt is subordinate to the notes. To the extent we incur debt held by our affiliates, subsidiaries or control persons, other than debt held by our special purpose entities, we have no current intention to prepay any such debt obligations in advance of the maturity of those obligations.

The subordination of debt held by our affiliates, subsidiaries and control persons to the notes does not apply to debt held by our special purpose entities, which debt is senior to the notes. As of September 30, 2003, our special purpose entities had an aggregate of \$224.3 million in outstanding principal amount of indebtedness, repayment of which is senior to the notes.

In the event of any liquidation, dissolution or any other winding up of us, or of any receivership, insolvency, bankruptcy, readjustment, reorganization or similar proceeding under the U.S. Bankruptcy Code or any other applicable federal or state law relating to bankruptcy or insolvency, or during the continuation of any event of default on the senior debt, no payment may be made on the notes until all senior debt has been paid in full or provision for such payment has been made to the satisfaction of the senior debt holders. If any of the above events occurs, holders of senior debt may also submit claims on behalf of holders of the notes and retain the proceeds for their own benefit until they have been fully paid, and any excess will be turned over to the holders of the notes. If any distribution is nonetheless made to holders of the notes, the money or property distributed to them must be paid over to the holders of the senior debt to the extent necessary to pay senior debt in full.

Table of Contents

In the event and during the continuation of any default in the payment of principal of or interest on any senior debt, we will not make any payment, direct or indirect, on the notes and any other indebtedness being subordinated to the payment of the notes unless and until

the default has been cured or waived or has ceased to exist; or

the end of the period commencing on the date the trustee receives written notice of default from a holder of the senior debt and ending on the earlier of

179 days after the trustee's receipt of the notice of default;

the trustee's receipt of a valid waiver of default from the holder of senior debt; or

the trustee's receipt of a written notice from the holder of senior debt terminating the payment blockage period.

No Security; No Sinking Fund. The notes are unsecured, which means that none of our tangible or intangible assets or property, nor any of the assets or property of any of our affiliates or subsidiaries, has been set aside or reserved to make payment to the holders of the notes in the event that we default on our obligations to the holders. In addition, we do not contribute funds to any separate account, commonly known as a sinking fund, to repay principal or interest due on the notes upon maturity or default. See Risk Factors Risk Factors Relating to the Notes The Notes will have No Sinking Fund, Security, Insurance or Guarantee.

Restrictive Covenants. The indenture contains certain limited restricted covenants that require us to maintain certain financial standards and restrict us from certain actions as set forth below.

The indenture provides that, so long as the notes are outstanding:

we will maintain a positive net worth, which includes stockholder's equity and any of our debt that is subordinate to the notes;

we will not declare or pay any dividends or other payments of cash or other property to our stockholders (other than a dividend paid in shares of our capital stock on a pro rata basis to all our stockholders) unless no default and no event of default with respect to the notes exists or would exist immediately following the declaration or payment of the dividend or other payment; and

we will not guarantee, endorse or otherwise become liable for any obligations of any of our control persons, or other parties controlled by or under common control with any of our control persons, provided however, that we and our subsidiaries may make investments in and guarantee the obligations of our special purpose entities.

See Risk Factors Risk Factors Relating to the Notes You Will Have Only Limited Protection Under the Indenture.

Consolidation, Merger or Sale. The indenture generally permits a consolidation or merger between us and another entity. It also permits the sale or transfer by us of all or substantially all of our property and assets. These transactions are permitted if:

the resulting or acquiring entity, if other than us, is a United States corporation, limited liability company or limited partnership and assumes all of our responsibilities and liabilities under the indenture, including the payment of all amounts due on the notes and performance of the covenants in the indenture; and

immediately after the transaction, and giving effect to the transaction, no event of default under the indenture exists.

Table of Contents

If we consolidate or merge with or into any other entity or sell or lease all or substantially all of our assets, according to the terms and conditions of the indenture, the resulting or acquiring entity will be substituted for us in the indenture with the same effect as if it had been an original party to the indenture. As a result, the successor entity may exercise our rights and powers under the indenture, in our name and we will be released from all our liabilities and obligations under the indenture and under the notes.

Events Of Default. The indenture provides that each of the following constitutes an event of default:

failure to pay interest on a note within 15 days after the due date for such payment (whether or not prohibited by the subordination provisions of the indenture);

failure to pay principal on a note within 10 days after the due date for such payment (whether or not prohibited by the subordination provisions of the indenture);

our failure to observe or perform any material covenant, condition or agreement or our breach of any material representation or warranty, but only after we have been given notice of such failure or breach and such failure or breach is not cured within 30 days after our receipt of notice;

defaults in certain of our other financial obligations that are not cured within 30 days; and

certain events of bankruptcy or insolvency with respect to us.

If any event of default occurs and is continuing (other than an event of default involving certain events of bankruptcy or insolvency with respect to us), the trustee or the holders of at least a majority in principal amount of the then outstanding notes may declare the unpaid principal of and any accrued interest on the notes to be due and payable immediately. However, so long as any senior debt is outstanding, a declaration of this kind will not become effective until the earlier of

the day which is five business days after the receipt by us and the holders of senior debt of such written notice of acceleration; or

the date of acceleration of any senior debt.

In the case of an event of default arising from certain events of bankruptcy or insolvency, with respect to us, all outstanding notes will become due and payable without further action or notice.

Holders of the notes may not enforce the indenture or the notes except as provided in the indenture. Subject to certain limitations, holders of a majority in principal amount of the then outstanding notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the notes notice of any continuing default or event of default (except a default or event of default relating to the payment of principal or interest) if the trustee in good faith determines that withholding notice would have no material adverse effect on the holders.

The holders of a majority in aggregate principal amount of the notes then outstanding by notice to the trustee may, on behalf of the holders of all of the notes, waive any existing default or event of default and its consequences under the indenture, except

a continuing default or event of default in the payment of interest on, or the principal of, a note held by a non-consenting holder; or

a waiver that would conflict with any judgment or decree.

We are required to deliver to the trustee within 120 days of the end of our fiscal year a certificate regarding compliance with the indenture, and we are required, upon becoming aware of any default or event of default, to

Table of Contents

deliver to the trustee a certificate specifying such default or event of default and what action we are taking or propose to take with respect to the default or event of default.

Amendment, Supplement and Waiver. Except as provided in this prospectus or the indenture, the terms of the indenture or the notes then outstanding may be amended or supplemented with the consent of the holders of at least a majority in principal amount of the notes then outstanding, and any existing default or compliance with any provision of the indenture or the notes may be waived with the consent of the holders of a majority in principal amount of the then outstanding notes.

Notwithstanding the foregoing, an amendment or waiver will not be effective with respect to the notes held by a holder who has not consented if it has any of the following consequences:

reduces the aggregate principal amount of notes whose holders must consent to an amendment, supplement or waiver;

reduces the principal of or changes the fixed maturity of any note or alters the repurchase or redemption provisions or the price at which we shall offer to repurchase or redeem the note;

reduces the rate of or changes the time for payment of interest, including default interest, on any note;

waives a default or event of default in the payment of principal or interest on the notes, except a rescission of acceleration of the notes by the holders of at least a majority in aggregate principal amount of the then outstanding notes and a waiver of the payment default that resulted from such acceleration;

makes any note payable in money other than that stated in the notes;

makes any change in the provisions of the indenture relating to waivers of past defaults or the rights of holders of notes to receive payments of principal of or interest on the notes;

makes any change to the subordination provisions of the indenture that has a material adverse effect on holders of notes;

modifies or eliminates the right of the estate of a holder or a holder to cause us to repurchase a note upon the death or disability of a holder; or

makes any change in the foregoing amendment and waiver provisions.

Notwithstanding the foregoing, without the consent of any holder of the notes, we and the trustee may amend or supplement the indenture or the notes:

to cure any ambiguity, defect or inconsistency;

to provide for assumption of our obligations to holders of the notes in the case of a merger, consolidation or sale of all or substantially all of our assets;

to provide for additional certificates or certificated securities;

to make any change that does not adversely affect the legal rights under the indenture of any such holder, including but not limited to an increase in the aggregate dollar amount of notes which may be outstanding under the indenture;

to modify our policy regarding repurchases elected by a holder of notes prior to maturity and our policy regarding repurchase of the notes prior to maturity upon the death or total permanent

Table of Contents

disability of any holder of the notes, but such modifications shall not materially adversely affect any then outstanding notes; or

to comply with requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act.

The Trustee. U.S. Bank National Association has agreed to be the trustee under the indenture. The indenture contains certain limitations on the rights of the trustee, should it become one of our creditors, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any claim as security or otherwise. The trustee will be permitted to engage in other transactions with us.

Subject to certain exceptions, the holders of a majority in principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee. The indenture provides that in case an event of default specified in the indenture shall occur and not be cured, the trustee will be required, in the exercise of its power, to use the degree of care of a reasonable person in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of notes, unless the holder shall have offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

Resignation or Removal of the Trustee. The trustee may resign at any time, or may be removed by the holders of a majority of the aggregate principal amount of the outstanding notes. In addition, upon the occurrence of contingencies relating generally to the insolvency of the trustee or the trustee's ineligibility to serve as trustee under the Trust Indenture Act of 1939, as amended, we may remove the trustee. However, no resignation or removal of the trustee may become effective until a successor trustee has accepted the appointment as provided in the indenture.

Reports to Trustee. Our servicing agent will provide the trustee with quarterly reports containing any information reasonably requested by the trustee. These quarterly reports will include information on each note outstanding during the preceding quarter, including outstanding principal balance, interest credited and paid, transfers made, any redemption or repurchase and interest rate paid.

No Personal Liability of Our or Our Servicing Agent's Directors, Officers, Employees and Stockholders. No director, officer, employee, incorporator or stockholder of ours or our servicing agent, will have any liability for any of our obligations under the notes, the indenture or for any claim based on, in respect to, or by reason of, these obligations or their creation. Each holder of the notes waives and releases these persons from any liability. The waiver and release are part of the consideration for issuance of the notes. We have been advised that the waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the SEC that such a waiver is against public policy.

Service Charges. We and our servicing agent may assess service charges for changing the registration of any note to reflect a change in name of the holder, multiple changes in interest payment dates or transfers (whether by operation of law or otherwise) of a note by the holder to another person.

Additional Securities. We may offer additional classes of securities with terms and conditions different from the notes currently being offered in this prospectus. We will amend or supplement this prospectus if and when we decide to offer to the public any additional class of security under this prospectus. If we sell the entire principal amount of notes offered in this prospectus, we may register and sell additional notes by amending this prospectus, but we are under no obligation to do so.

Variations By State. We may offer different securities and vary the terms and conditions of the offer (including, but not limited to, different interest rates and service charges for all notes) depending upon the state where the purchaser resides.

Interest Withholding. We will withhold 28% (which rate is scheduled to increase to 31% for payments made after December 31, 2010) of any interest paid to any investor who has not provided us with a social security number, employer identification number, or other satisfactory equivalent in the subscription agreement (or another

Table of Contents

document) or where the Internal Revenue Service has notified us that backup withholding is otherwise required. See **Material Federal Income Tax Consequences Reporting and Backup Withholding**.

Liquidity. There is not currently a trading market for the notes, and we do not expect that a trading market for the notes will develop.

Satisfaction and Discharge of Indenture. The indenture shall cease to be of further effect upon the payment in full of all of the outstanding notes and the delivery of an officer's certificate to the trustee stating that we do not intend to issue additional notes under the indenture or, with certain limitations, upon deposit with the trustee of funds sufficient for the payment in full of all of the outstanding notes.

Reports. We currently publish annual reports containing financial statements and quarterly reports containing financial information for the first three quarters of each fiscal year. We will send copies of these reports to any holder of notes who requests them in writing at no charge.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES

The following discussion is our counsel's opinion of the material federal income tax consequences relating to the ownership and disposition of the notes. The discussion is based upon the current provisions of the Internal Revenue Code of 1986, as amended, regulations issued under the Internal Revenue Code and judicial or ruling authority, all of which are subject to change that may be applied retroactively. The discussion assumes that the notes are held as capital assets and does not discuss the federal income tax consequences applicable to all categories of investors, some of which may be subject to special rules such as banks, tax-exempt organizations, insurance companies, dealers in securities or currencies, persons that will hold notes as a position in a hedging, straddle or conversion transactions, or persons that have a functional currency other than the U.S. dollar. If a partnership holds notes, the tax treatment of a partner will generally depend on the status of the partner and on the activities of the partnership. In addition, it does not deal with holders other than original purchasers. You should consult your own tax advisor to determine the specific federal, state, local and any other tax consequences applicable to you relating to your ownership and disposition of the notes.

Interest Income on the Notes

Subject to the discussion below applicable to non-U.S. holders, interest paid on the notes will generally be taxable to you as ordinary income as the income is paid if you are a cash method taxpayer or as the income accrues if you are an accrual method taxpayer.

However, a note with a term of one year or less, which we refer to in this discussion as a short-term note, will be treated as having been issued with original issue discount or OID for tax purposes equal to the total payments on the note over its issue price. If you are a cash method holder of a short-term note you are not required to include this OID as income currently unless you elect to do so. Cash method holders who make that election and accrual method holders of short-term notes are generally required to recognize the OID in income currently as it accrues on a straight-line basis unless the holder elects to accrue the OID under a constant yield method. Under a constant yield method, you generally would be required to include in income increasingly greater amounts of OID in successive accrual periods.

Cash method holders of short-term notes who do not include OID in income currently will generally be taxed on stated interest at the time it is received and will treat any gain realized on the disposition of a short-term note as ordinary income to the extent of the accrued OID generally reduced by any prior payments of interest. In addition, these cash method holders will be required to defer deductions for certain interest paid on indebtedness related to purchasing or carrying the short-term notes until the OID is included in the holder's income.

There are also some situations in which a cash basis holder of a note having a term of more than one year may have taxable interest income with respect to a note before any cash payment is received with respect to the note. If you report income on the cash method and you hold a note with a term longer than one year that pays interest only at maturity, you generally will be required to include OID accrued during the original term (without regard to

Table of Contents

renewals) as ordinary gross income as the OID accrues. OID accrues under a constant yield method, as described above.

Treatment of Dispositions of Notes

Upon the sale, exchange, retirement or other taxable disposition of a note, you will recognize gain or loss in an amount equal to the difference between the amount realized on the disposition and your adjusted tax basis in the note. Your adjusted tax basis of a note generally will equal your original cost for the note, increased by any accrued but unpaid interest (including OID) you previously included in income with respect to the note and reduced by any principal payments you previously received with respect to the note. Any gain or loss will be capital gain or loss, except for gain representing accrued interest not previously included in your income. This capital gain or loss will be short-term or long-term capital gain or loss, depending on whether the note had been held for more than one year or for one year or less.

Non-U.S. Holders

Generally, if you are a nonresident alien individual or a non-U.S. corporation and do not hold the note in connection with a United States trade or business, interest paid and OID accrued on the notes will be treated as portfolio interest and therefore will be exempt from a 30% United States withholding tax. In that case, you will be entitled to receive interest payments on the notes free of United States federal income tax provided that you periodically provide us with a statement on applicable IRS forms certifying under penalty of perjury that you are not a United States person and provide your name and address. In addition, in that case you will not be subject to United States federal income tax on gain from the disposition of a note unless you are an individual who is present in the United States for 183 days or more during the taxable year in which the disposition takes place and certain other requirements are met. Interest paid and OID accrued paid to a non-U.S. person are not subject to withholding if they are effectively connected with a United States trade or business conducted by that person and we are provided a properly executed IRS Form W-8ECI. They will, however, generally be subject to the regular United States income tax.

Reporting and Backup Withholding

We will report annually to the Internal Revenue Service and to holders of record that are not excepted from the reporting requirements any information that may be required with respect to interest or OID on the notes.

Under certain circumstances, as a holder of a note, you may be subject to backup withholding at a 28% rate. After December 31, 2010, the backup withholding rate is scheduled to increase to 31%. Backup withholding may apply to you if you are a United States person and, among other circumstances, you fail to furnish on IRS Form W-9 or a substitute Form W-9 your Social Security number or other taxpayer identification number to us. Backup withholding may apply, under certain circumstances, if you are a non-U.S. person and fail to provide us with the statement necessary to establish an exemption from federal income and withholding tax on interest on the note. Backup withholding, however, does not apply to payments on a note made to certain exempt recipients, such as corporations and tax-exempt organizations, and to certain non-U.S. persons. Backup withholding is not an additional tax and may be refunded or credited against your United States federal income tax liability, provided that you furnish certain required information.

This federal tax discussion is included for general information only and may not be applicable depending upon your particular situation. You should consult your own tax advisor with respect to the specific tax consequences to you of the ownership and disposition of the notes, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in federal or other tax laws.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a distribution and management agreement between us and Sumner Harrington Ltd., Sumner Harrington Ltd. has agreed to serve as our selling agent and to use its

Table of Contents

best efforts to sell the notes on the terms set forth in this prospectus. The selling agent is not obligated to sell any minimum amount of notes or to purchase any of the notes.

The selling agent proposes to offer the notes to the public on our behalf on the terms set forth in this prospectus and the prospectus supplements that we file from time to time. The selling agent plans to market the notes directly to the public through newspaper, radio, internet, direct mail and other advertising. In addition, our selling agent will manage certain administrative and customer service functions relating to the notes, including handling all inquiries from potential investors, mailing investment kits, meeting with investors, processing subscription agreements and responding to all written and telephonic questions relating to the notes. Upon prior written notice to the selling agent, we may elect to use a different selling agent or perform these duties ourselves. The selling agent's servicing responsibilities are described under Description of the Notes Servicing Agent.

We have agreed to reimburse the selling agent for its out-of-pocket expenses incurred in connection with the offer and sale of the notes, including document fulfillment expenses, legal and accounting fees, regulatory fees and due diligence expenses. Under the terms of the distribution and management agreement, we also will pay our selling agent a commission equal to 3.00% of the principal amount of all notes sold. For notes with maturities exceeding one year, the entire 3.00% commission will be paid to the selling agent at the time of issuance and no additional commission will be paid upon renewal. For notes with maturities of one year or less, the gross 3.00% commission will be paid in equal installments upon the original issuance and each renewal, if any, over the first two years. Accordingly, the selling agent will not receive the entire 3.00% gross commission on notes with terms of one year or less unless the notes are successively renewed for two years. The selling agent may engage or allow selected brokers or dealers to sell notes for a commission, at no additional cost to us. Finally, as our servicing agent, Sumner Harrington Ltd. will be paid an additional and ongoing portfolio management fee that is based on the principal balance of the notes outstanding. See Description of the Notes Servicing Agent.

Under the Distribution and Management Agreement, we have also agreed to pay the selling agent an annual portfolio management fee equal to 0.25% of the weighted average principal balance of the notes outstanding for its services as servicing agent. See Description of the Notes Servicing Agent. The amount of this fee will depend upon a number of variables, including the pace at which notes are sold, the terms of the notes sold and whether the notes are redeemed or repurchased.

The distribution and management agreement may be terminated by either us or Sumner Harrington Ltd. upon giving prior notice.

The selling agent and we have engaged Sumner Harrington Agency, Inc., an advertising and marketing subsidiary of Sumner Harrington Ltd., to directly provide or manage the advertising and marketing functions related to the sale of the notes. These services include media planning, media buying, creative and copy development, direct mail services, literature fulfillment, commercial printing, list management, list brokering, and other similar activities. Sumner Harrington Agency, Inc. is compensated directly by us or its sub-service providers for these advertising and marketing services. This compensation is consistent with accepted normal advertising and marketing industry standards for similar services.

The selling agent and its affiliate will only be compensated to the extent that notes are sold in the offering. The table below summarizes the maximum possible amount of compensation that we will pay the selling agent and its affiliate for services rendered in offering and selling the notes, serving as the servicing agent, and providing and managing the advertising and marketing functions related to the sale of the notes. In no event will the compensation received by the selling agent and its affiliate exceed 8% of the aggregate principal amount of the notes.

Form of Compensation	% of Offering	Amount(1)
Total commissions	3.00%	\$1,577,965(2)
Selling agent's legal counsel fees	0.09%	45,000
Document fulfillment expenses	0.14%	75,000
Regulatory fees	0.004%	2,000
Annual portfolio management fee	1.25%	649,152
Advertising and marketing fee	3.7 %	1,750,000

- (1) All amounts assume the sale of 100% of aggregate principal amount of notes offered and represent the maximum possible amount payable to the selling agent or its affiliate over the entire term of the offering. If less than 100% of the aggregate principal amount of the notes are sold in the offering, the amounts actually paid to the agent or its affiliate for commissions and annual portfolio management fees will be less. In no event will the compensation paid to the selling agent or its affiliate for commissions and annual portfolio management fees exceed the percentage amounts shown, as applied to the notes actually sold.

(2) Assumes that each note with a term of one year or less is successively renewed for a total of two years.

The distribution and management agreement provides for reciprocal indemnification between us and the selling agent, including the selling agent's and our officers, directors and controlling persons, against civil liabilities

Table of Contents

in connection with this offering, including certain liabilities under the Securities Act of 1933, as amended. Insofar as indemnification for liabilities arising under the Securities Act may be permitted pursuant to such indemnification provisions, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Prior to the offering, there has been no public market for the notes. We do not intend to list the notes on any securities exchange or include them for quotation on Nasdaq. The selling agent is not obligated to make a market in the notes and does not intend to do so. We do not anticipate that a secondary market for the notes will develop.

The foregoing is a summary of the material provisions relating to selling and distribution of the notes in the distribution and management agreement. The provisions of the distribution and management agreement relating to our retention of Sumner Harrington Ltd. to act as our servicing agent in performing our ongoing administrative responsibilities for the notes are described under Description of the Notes. As our servicing agent, Sumner Harrington Ltd. will be paid an additional and ongoing portfolio management fee that is based on the principal balance of the notes outstanding. The amendment to the distribution and management agreement will be filed as an exhibit to an amendment to the registration statement of which this prospectus is a part.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our SEC filings are also available to the public at the SEC's web site at <http://www.sec.gov>.

We have also filed a registration statement on Form S-3 under the Securities Act with the SEC with respect to the notes offered by this prospectus. This prospectus has been filed as part of that registration statement. This prospectus does not contain all of the information set forth in the registration statement because parts of the registration statement are omitted in accordance with the rules and regulations of the SEC. The registration statement is available for inspection and copying as set forth above.

The SEC allows us to incorporate by reference into this prospectus the information contained in the documents we file with them, which means we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information that we file with the SEC will update and supersede this information. We are incorporating by reference the following documents:

our Annual Report on Form 10-K for the year ended December 31, 2002, as amended by Form 10-K/A;

our Quarterly Report on Form 10-Q, as amended by Form 10-Q/A, for the quarter ended March 31, 2003, our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2003 and September 30, 2003 and our amended Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2002;

our Current Reports on Form 8-K and Form 8-K/A filed April 30, 2003, May 16, 2003, August 18, 2003, August 20, 2003, September 9, 2003, November 12, 2003, December 17, 2003 and January 14, 2004.

We are also incorporating by reference any future filings we make with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities and Exchange Act of 1934 subsequent to the date of this prospectus and prior to the termination of the offering of the renewable unsecured subordinated notes. Our SEC file number is 0-28050.

You may request a copy of these filings, at no cost, by writing to Onyx Acceptance Corporation, 27051 Towne Centre Drive, Suite 100, Foothill Ranch, California 92610, Attention: Corporate Secretary. Telephone requests may be directed to the office of the Corporate Secretary of Onyx at (949) 465-3900.

Table of Contents

LEGAL MATTERS

Certain legal matters in connection with the notes will be passed upon for us by Andrews Kurth LLP, Dallas, Texas.

EXPERTS

The financial statements incorporated in this prospectus by reference to the annual report on Form 10-K/A for the year ended December 31, 2002, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

-35-

Table of Contents

GLOSSARY

asset-backed securities Securities that are backed by financial assets, such as automobile contracts and loans.

auto finance centers Regional offices we establish to purchase contracts and to market to and support relationships with motor vehicle dealerships.

buy rate An interest rate we quote to a dealer at which we will purchase a contract.

credit enhancement Credit enhancement refers to a mechanism that is intended to protect the holders of the asset backed securities against losses due to defaults by the obligors under the contracts.

dealer participation The amount we pay to the dealership to purchase a contract above the principal amount financed. The dealer participation is based upon the finance charge that would be paid on the contract if it earned interest at a rate equal to the positive difference between the contract rate and our buy rate. Depending on the option selected by the dealership, we may pay all or a portion of the dealer participation at the time we acquire the contract.

future servicing cash flows The difference between the cash collected from contracts in a securitization trust in any period, and the sum of (i) principal and interest paid in respect of such period on the asset backed securities issued to investors in the securitized pool of such contracts, (ii) a servicing fee at the rate of one percent per annum on the outstanding balance of such securitized pool of contracts and (iii) other expenses of the trust.

motor vehicle contract A retail installment sales contract or installment loan agreement secured by a new or used automobile, light-duty truck or van.

pre-funding structure A way of structuring securitizations involving a pre-funding account into which a portion of the proceeds received by the trust upon issuance of the asset-backed securities are deposited and used to purchase contracts during a set period after the initial closing of the securitization.

securitization or securitized The process through which contracts and other receivables are accumulated or pooled and sold to a trust which issues securities representing interests in the trust to investors.

servicing portfolio All of the contracts that we own and that we have sold in securitizations and continue to service.

special purpose entities Our subsidiaries that were formed for the specific purpose of securitizing our auto contract receivables and facilitating our warehouse, residual and other financing facilities.

spread account An account required by the credit enhancer of a securitization trust in order to protect the credit enhancer against credit losses. Generally, excess interest received by the securitization trust from the pool of contracts is credited to the account and retained until the account balance reaches a set maximum balance. If the maximum balance set forth under the terms of a particular securitization is attained, the future servicing cash flows and any surplus in the spread account are returned to us or our lenders, as the case may be. The maximum balance in a particular securitization may increase or decrease over time, and also may never be attained in any particular securitization. Any remaining spread account balance is released to us or our lenders, as the case may be, upon termination of the securitization.

warehousing A method in which contracts are financed by financial institutions on a short-term basis. In a warehousing arrangement, contracts are accumulated or pooled on a daily or less frequent basis and assigned or pledged as collateral for short-term borrowings until they are sold in a securitization.

Table of Contents

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

Set forth below are expenses (other than the selling agent's commissions and expenses) expected to be incurred in connection with the issuance and distribution of the securities registered hereby. With the exception of the Securities and Exchange Commission registration fee and the NASD filing fee, the amounts set forth below are estimates and actual expenses may vary considerably from these estimates depending upon how long the notes are offered and other factors:

Securities and Exchange Commission registration fee	\$ 4,045
NASD filing fee	3,500
Accounting fees and expenses	55,000
Blue Sky fees and expenses	1,000
Legal fees and expenses	80,000
Printing expenses	25,000
Trustee's fees and expenses	15,000
Selling agent's expenses and counsel fees	122,000
Miscellaneous	68,000
TOTAL	373,545

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Subsection (a) of section 145 of the General Corporation Law of the State of Delaware empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Subsection (b) of Section 145 empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been made to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 145 further provides that to the extent a director or officer of a corporation has been successful on the merits or otherwise in the defense of any action, suit or proceeding referred to in subsections (a) and (b) of Section 145 in the defense of any claim, issue or matter therein, such director or officer shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith; that indemnification provided for by Section 145 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; that indemnification provided for by Section 145 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of such person's heirs, executors and administrators; and empowers the corporation to

Table of Contents

purchase and maintain insurance on behalf of a director or officer of the corporation against any liability asserted against such director or officer and incurred by such person in any such capacity, or arising out of his or her status as such whether or not the corporation would have the power to indemnify such person against such liabilities under Section 145.

Section 102(b)(7) of the General Corporation Law of the State of Delaware provides that a certificate of incorporation may contain a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

Our Certificate of Incorporation limits the liability of our directors to the fullest extent permitted by law. Specifically, our directors will not be personally liable to the corporation or its stockholders for monetary damages for breach of their fiduciary duty as directors, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporations Law, or (iv) for any transaction from which the director derived any improper personal benefit.

Article 8 of our Bylaws provides that we shall indemnify, to the fullest extent permitted by law, any director, officer, employee or agent of the corporation against expenses (including attorneys' fees), judgments, fines, amounts paid in settlement and/or other matters referred to in or covered by Section 145 of the Delaware General Corporation Law, by reason of the fact that such person is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise.

Under Section 7.02 of the Distribution and Management Agreement previously filed as Exhibit 1.1 to our Registration Statement on Form S-3, File No. 333-71238, the selling agent has agreed to indemnify, under certain conditions, Onyx, its officers and directors, and persons who control Onyx within the meaning of the Securities Act of 1933, as amended, against certain liabilities.

Table of Contents

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
**1.1	Form of Amendment to Distribution and Management Agreement
3.1	Certificate of Incorporation of the Company(1)
3.2	Bylaws of the Company(1)
4.1(a)	Form of Indenture(2)
**4.1(b)	Form of Indenture Supplement
4.2	Form of Notes(2)
4.3	Form of Note Confirmation(2)
4.4	Form of Subscription Agreement(2)
**5.1	Opinion of Andrews Kurth LLP with respect to legality of Notes
**8.1	Opinion of Andrews Kurth LLP with respect to tax matters
*12.1	Computation of ratio of earnings to fixed charges
21.1	Subsidiaries of the Registrant(2)
**23.1	Consent of Andrews Kurth LLP (included in Exhibits 5.1 and 8.1)
**23.5	Consent of PricewaterhouseCoopers LLP
*24.1	Power of Attorney
25.1	Statement of Eligibility of Trustee(2)

* Previously filed.

** Filed herewith.

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

(2) Incorporated by reference from the Company's Form Registration Statement on Form S-3 (Registration No. 333-71238).

ITEM 17. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Securities Act") may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses

Table of Contents

incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, an increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Securities and Exchange Commission by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in this registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

Table of Contents

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(c) or section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and where interim financial information required to be presented by Article 3 of Regulation S-X are not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Amendment No. 2 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Foothill Ranch, State of California, on January 27, 2004.

Onyx Acceptance Corporation

By: /s/ Don P. Duffy

 Don P. Duffy
 Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the dates indicated below.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
* _____ Thomas C. Stickel	Chairman of the Board	January 27, 2004
* _____ John W. Hall	President, Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	January 27, 2004
* _____ G. Bradford Jones	Director	January 27, 2004
* _____ C. Thomas Meyers	Director	January 27, 2004
/s/ Don P. Duffy _____ Don P. Duffy	Executive Vice President, Chief Financial Officer and Director <i>(Principal Financial and Accounting Officer)</i>	January 27, 2004

*By: /s/ Don P. Duffy

 Don P. Duffy
 Attorney-In-Fact

Table of Contents

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