

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

NATIONAL AUTO CREDIT INC /DE
Form 10-Q
June 14, 2002

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

FORM 10-Q

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

For the quarterly period ended April 30, 2002

OR

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

For the transition period from _____ to _____

Commission file number 1-11601

NATIONAL AUTO CREDIT, INC.

(Exact name of registrant as specified in its charter)

Delaware

34-1816760

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

555 Madison Avenue, 29th Floor, New York, New York

10022

(Address of principal executive offices)

(Zip Code)

(212) 644-1400

(Registrant's telephone number, including area code)

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

Yes (X) No ()

Indicate by check mark whether the registrant has filed all documents and reports required by Sections 12, 13 or 15(d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes () No ()

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date:

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

Class	Outstanding at June 12, 2002
-----	-----
Common Stock, \$0.05 par value	8,641,754

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Report of Independent Certified Public Accountants	1
Condensed Consolidated Balance Sheets as of April 30, 2002 and January 31, 2002	2
Condensed Consolidated Statements of Operations for the Three Months Ended April 30, 2002 and 2001	3
Condensed Consolidated Statements of Stockholders' Equity and Comprehensive Income for the Three Months Ended April 30, 2002	4
Condensed Consolidated Statements of Cash Flows for the Three Months Ended April 30, 2002 and 2001	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures about Market Risk	18
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	19
Item 6. Exhibits and Reports on Form 8-K	22
Signatures	22

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
National Auto Credit, Inc. and Subsidiaries
New York, New York

We have reviewed the accompanying condensed consolidated balance sheet of

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

National Auto Credit, Inc. and its subsidiaries as of April 30, 2002, the related statements of stockholders' equity and comprehensive income for the three-month period ended April 30, 2002 and the related statements of operations and cash flows for each of the three-month periods ended April 30, 2002 and 2001. The financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of January 31, 2002, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended (not presented herein) and in our report dated April 9, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 31, 2002, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Grant Thornton LLP
Cleveland, Ohio
June 12, 2002

1

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE DATA)

	April 30, 2002	January 31, 2002
	-----	-----
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 5,030	\$ 6,1
Marketable securities (Note 2)	994	9
Investment in AFC (Note 3)	9,313	9,2
Property and equipment, net of accumulated depreciation of \$64, and \$57, respectively	70	
Income taxes refundable	3,507	3,5
Other assets	462	6

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

	----- \$ 19,376 =====	----- \$ 20,5 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Self-insurance claims	\$ 761	\$ 7
Accrued income taxes	697	6
Other liabilities	2,114	2,7
	-----	-----
Total liabilities	3,572	4,2
Commitments and contingencies (Note 4)	-	
STOCKHOLDERS' EQUITY:		
Preferred stock	-	
Common stock, \$.05 par value; authorized 40,000,000 shares; issued 39,377,589 and 39,377,589 shares, respectively	1,969	1,9
Additional paid-in capital	174,337	174,3
Retained deficit	(136,867)	(136,3
Accumulated other comprehensive income (loss)	(133)	(1
Treasury stock, at cost, 30,735,835 and 30,735,835 shares, respectively	(23,502)	(23,5
	-----	-----
Total stockholders' equity	15,804	16,3
	-----	-----
	\$ 19,376	\$ 20,5
	=====	=====

See accompanying notes to condensed consolidated financial statements.

2

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	Three Months Ended April 30,	
	----- 2002 -----	----- 200 -----
Revenues		
Interest income from investments	\$ 45	
Income from AFC investment	93	
	-----	-----
Total revenues	138	
	-----	-----
Costs and Expenses		
General and administrative	841	
	-----	-----
Total costs and expenses	841	
	-----	-----

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

Loss from continuing operations before income taxes	(703)	
Provision for income taxes	-	
	-----	-----
Loss from continuing operations	(703)	
Income (loss) from discontinued operations, net of tax	182	
	-----	-----
Net loss	(521)	
Accretion of discount on redeemable preferred stock	-	
	-----	-----
Net loss applicable to common stock	\$ (521)	\$
	=====	=====
Basic and diluted earnings (loss) per share		
Continuing operations	\$ (.08)	
Discontinued operations	.02	
	-----	-----
Net earnings (loss) per share	\$ (.06)	
	=====	=====
Weighted average number of shares outstanding		
Basic and diluted	8,642	
	=====	=====

See accompanying notes to condensed consolidated financial statements.

3

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
THREE MONTHS ENDED APRIL 30, 2002
(IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	Preferred Stock		Common Stock		Additional	Retained
	Shares	Par Value	Shares	Par Value	Paid-In Capital	Deficit
	-----	-----	-----	-----	-----	-----
Balance at January 31, 2002	-	\$ -	39,377,589	\$ 1,969	\$ 174,337	\$ (136,3
Net loss						(5
Other comprehensive income-unrealized loss on marketable securities						
	-----	-----	-----	-----	-----	-----
Comprehensive income (loss)						
Balance at April 30, 2002	-	\$ -	39,377,589	\$ 1,969	\$ 174,337	\$ (136,8
	=====	=====	=====	=====	=====	=====

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income (Loss)
	-----	-----	-----
Balance at January 31, 2002	\$ (133)	\$ 16,325	
Net loss		(521)	\$ (521)
Other comprehensive income-unrealized loss on marketable securities	-	-	-
	-----	-----	-----
Comprehensive income (loss)			\$ (521)
			=====
Balance at April 30, 2002	\$ (133)	\$ 15,804	
	=====	=====	

See accompanying notes to condensed consolidated financial statements.

4

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Three Months Ended April 30,	
	2002	2001
	-----	-----
Cash flows from operating activities		
Net loss	\$ (521)	\$ (2,354)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss (income) from discontinued operations	(182)	1,144
Depreciation and amortization	7	147
Stock compensation	--	(116)
Changes in operating assets and liabilities:		
Accrued income tax	--	5
Other liabilities	(439)	(923)
Other operating assets and liabilities, net	65	243
	-----	-----
Net cash used in operating activities	(1,070)	(1,854)
	-----	-----
Cash flows from investing activities		
Principal collected on loans	--	80

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

Proceeds from sale of loans	--	313
Change in contracts in progress	(77)	456
Proceeds from sale of assets held for sale	--	30
Purchase of property and equipment	(6)	(66)
	-----	-----
Net cash provided by (used in) investing activities	(83)	813
	-----	-----
Decrease in cash and cash equivalents from continuing operations	(1,153)	(1,041)
(Decrease) increase in cash and cash equivalents from discontinued operations	61	(1,028)
Cash and cash equivalents at beginning of period	6,122	12,444
	-----	-----
Cash and cash equivalents at end of period	\$ 5,030	\$ 10,375
	=====	=====
Supplemental disclosures of cash flow information		
Interest paid	\$ --	\$ --
	=====	=====
Income taxes paid (refund)	\$ --	\$ (5)
	=====	=====

See accompanying notes to condensed consolidated financial statements.

5

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

General

The accompanying unaudited condensed consolidated financial statements include the accounts of National Auto Credit, Inc. and Subsidiaries ("NAC"). The financial statements are unaudited, but in the opinion of management, reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of NAC's consolidated financial position, results of operations, stockholders' equity and comprehensive income, and cash flows for the periods presented.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the rules of the Securities and Exchange Commission applicable to interim financial statements, and therefore do not include all disclosures that might normally be required for interim financial statements prepared in accordance with generally accepted accounting principles. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with NAC's consolidated financial statements, including the notes thereto, appearing in NAC's Annual Report on Form 10-K for the year ended January 31, 2002. The results of operations for the three months ended April 30, 2002 are not necessarily indicative of the operating results for the full year.

The preparation of financial statements and the accompanying notes thereto, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect reported amounts of assets and

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the respective reporting periods. Actual results could differ from those estimates.

Discontinued Operations

In the fourth quarter of Fiscal 2002, NAC completed a strategic review of its investment in ZoomLot, acquired December 15, 2000 and the development of its e-commerce services. NAC's strategic review included evaluating the evolving market conditions of the used car dealer and financing industries, the start-up nature of the ZoomLot operations, the current market demand for and penetration of ZoomLot's e-commerce solution to electronically link eligible used car dealers and their qualified customers with available used car lenders and financing terms, current operating losses and forecasts of future operating results and strategic opportunities available to ZoomLot. As a result of this review, management of NAC determined that it was unable to predict, with the requisite degree of certainty, when or whether ZoomLot would achieve positive cash flows.

As a consequence of NAC's strategic review and determination, effective December 31, 2001, NAC suspended its ZoomLot operations and initiated steps to discontinue e-commerce operations. Additionally, as a consequence of NAC's decision to discontinue its ZoomLot e-commerce operations, NAC also formally exited the sub-prime used automobile consumer finance business effective December 31, 2001. As a result of these decisions, both the e-commerce and automobile finance segments have been classified as discontinued operations as of January 31, 2002. Subsequent to December 31, 2001, NAC is engaged principally in the movie exhibition segment.

NAC is evaluating various additional strategic business alternatives, including, but not limited to, the purchase of one or more existing businesses or the entry into one or more businesses.

Certain fiscal 2002 amounts have been reclassified to conform with fiscal 2003 presentations.

6

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION (CONTINUED)

New Accounting Pronouncements

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued SFAS 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS 142. Major provisions of these Statements and their effective dates for NAC are as follows:

- o All business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interest method of

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

accounting is prohibited except for transactions initiated before July 1, 2001;

- o Intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability;
- o Goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective February 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization;
- o Effective February 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator; and
- o All acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting.

NAC adopted SFAS 141 and 142 effective February 1, 2002. NAC previously recorded a monthly charge (as a reduction of its earnings from its investment in AFC) of \$23,000 for the amortization, in a manner similar to goodwill, of the excess of NAC's investment in AFC over its share of the net assets of AFC. As a result of NAC's adoption of SFAS 141 and SFAS 142, for the three months ended April 30, 2002, NAC discontinued this monthly charge to earnings.

In June 2001, the FASB issued SFAS 143, Accounting for Asset Retirement Obligations. SFAS 143 requires entities to record to the fair value of the liability for an asset retirement obligation in the period in which it is incurred. The amount initially recorded as the asset retirement obligation is based upon the estimated present value of the retirement costs to be incurred, and is capitalized as a part of the asset. The obligation is subsequently accreted for the passage of time by charges to interest expense, and the capitalized costs are amortized as part of depreciation expense related to the asset. The asset retirement obligation is also continually re-estimated, with changes in its present value caused by changes in the estimated retirement cost recorded as adjustments to the carrying amount and subsequent depreciation of the asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002 and was adopted by NAC effective February 1, 2002. At the time of adoption, there was no material impact to NAC's financial statements.

In August 2001, the FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 supercedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, with the exception of impairment and disposal issues related to goodwill and other intangible assets that are not amortized. SFAS 144 also supersedes the accounting and reporting provisions of Accounting Principles Board Opinion No. (APB) 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS 144 retains many of the fundamental recognition and measurement provisions of SFAS 121, and also retains the requirement in APB 30 to separately identify

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

NOTE 1 - BASIS OF PRESENTATION (CONTINUED)

and report discontinued operations. However, SFAS 144 extends the APB 30 reporting requirements for discontinued operations to components of an entity that have either been disposed of or classified as assets held for sale that may not have qualified as segments under APB 30, as a result of which operating results that previously were not classified as discontinued operations may be treated as such upon the adoption of SFAS 144. SFAS 144 is effective for fiscal years beginning after December 15, 2001, and was adopted by NAC effective February 1, 2002. At the time of adoption, there was no material impact to NAC's financial statements.

NOTE 2 - MARKETABLE SECURITIES

Marketable securities at April 30, 2002 are summarized as follows (in thousands):

	Cost	Gross Unrealized	
		Gains	Losses
Equity securities - mutual funds	\$ 1,127	\$ -	\$ (133)

All marketable securities were classified as available for sale.

NOTE 3 - INVESTMENT IN AFC

On April 5, 2000, NAC, through its wholly-owned subsidiary National Cinemas, Inc., acquired a 50% membership interest in Angelika Film Center, LLC ("AFC"). AFC is the owner and operator of the Angelika Film Center, which is a multiplex cinema and cafe complex in the Soho District of Manhattan in New York City.

AFC is currently owned 50% by NAC and 50% by Reading International, Inc. ("Reading"). The articles and bylaws of AFC provide that for all matters subject to a vote of the members, a majority is required, except that in the event of a tie vote, the Chairman of Reading shall cast the deciding vote.

NAC uses the equity method to account for its investment in AFC. NAC's initial investment exceeded its share of AFC's net assets and that portion of the investment balance is accounted for in a manner similar to goodwill. AFC uses a December 31 year-end for financial reporting purposes. NAC reports on a January 31 year-end, and for its fiscal quarters ending April 30, July 31, October 31 and January 31 records its pro-rata share of AFC's earnings on the basis of AFC's fiscal quarters ending March 31, June 30, September 30, and December 31, respectively. For the three months ended April 30, 2002 and 2001, NAC recorded income of \$93,000 and \$154,000, respectively, representing its share of AFC's net income (loss). Additionally, for the three months ended April 30, 2001, prior to the adoption of SFAS 141 and SFAS 142, NAC recorded amortization expense of \$68,000 as a reduction of its income from its investment in AFC. As a result of NAC's adoption of SFAS 141 and 142, this amortization charge was discontinued in Fiscal 2003.

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 3 - INVESTMENT IN AFC (CONTINUED)

Summarized income statement data for AFC for the three months ended March 31, 2002, and 2001, respectively, is as follows (in thousands):

	Three Months Ended March 31,	
	2002	2001
Revenues	\$ 1,627	\$ 2,035
Film rental	478	742
Operating costs	718	742
Depreciation and amortization	173	173
General and administrative expenses	71	70
	1,440	1,727
Net income	\$ 187	\$ 308
	=====	=====
NAC's proportionate share of net income	\$ 93	\$ 154
Amortization expense	--	(68)
	-----	-----
Income from investment in AFC	\$ 93	\$ 86
	=====	=====

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Shareholder Complaints

On July 31, 2001, NAC received a derivative complaint (the "Academy Complaint") filed by Academy Capital Management, Inc. ("Academy"), a shareholder of NAC, with the Court of Chancery of Delaware, on or about July 31, 2001, against James J. McNamara, John A. Gleason, William S. Marshall, Henry Y.L. Toh, Donald Jasensky, Peter T. Zackaroff, Mallory Factor, and Thomas F. Carney, Jr. (the "Director Defendants") and names NAC as a nominal defendant. The Academy Complaint principally seeks: (i) a declaration that the Director Defendants breached their fiduciary duties to NAC, (ii) a judgment voiding an employment agreement with James J. McNamara and rescinding a stock exchange agreement in which NAC acquired ZoomLot Corporation, (iii) a judgment voiding the grant of stock options and the award of director fees allegedly related thereto, (iv) an order directing the Director Defendants to account for alleged damages sustained and profits obtained by the Director Defendants as a result of the alleged various acts complained of, (v) the imposition of a constructive trust over monies or other benefits received by the Director Defendants and (vi) an award of costs and expenses.

On August 16, 2001, NAC received a complaint (the "Markovich Complaint") filed by Levy Markovich ("Markovich"), a shareholder of NAC, with the Court of Chancery of Delaware on or about August 16, 2001, against James J. McNamara, John A. Gleason, William S. Marshall, Henry Y. L. Toh, Donald Jasensky, Peter T. Zackaroff, Mallory Factor, and Thomas F. Carney, Jr. and NAC as a nominal defendant. The Markovich Complaint principally seeks: (i) a declaration that the

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

Director Defendants have breached their fiduciary duties to NAC, (ii) a judgment voiding an employment agreement with James J. McNamara and rescinding a stock exchange agreement in which NAC acquired ZoomLot Corporation, (iii) a judgment voiding the grant of options and the award of directors fees allegedly related thereto, (iv) an order directing the Director Defendants to account for alleged damages sustained and alleged profits obtained by the Director Defendants as a result of the alleged various acts complained of, (v) the imposition of a constructive trust over monies or other benefits received by the directors, and (vi) an award of costs and expenses.

9

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

On August 31, 2001, NAC received a complaint (the "Harbor Complaint") filed by Harbor Finance Partners ("Harbor"), a shareholder of NAC, with the Court of Chancery of Delaware on or about August 31, 2001, against Thomas F. Carney, Jr., Mallory Factor, John A. Gleason, Donald Jasensky, William S. Marshall, James J. McNamara, Henry Y. L. Toh, Peter T. Zackaroff, Ernest C. Garcia, and ZoomLot Corporation as Defendants and NAC as a nominal defendant. The Harbor Complaint principally seeks: (i) a judgment requiring the Director Defendants to promptly schedule an annual meeting of shareholders within thirty (30) days of the date of the Harbor Complaint; (ii) a judgment declaring that the Director Defendants breached their fiduciary duties to NAC and wasted its assets; (iii) an injunction preventing payment of monies and benefits to James J. McNamara under his employment agreement with NAC and requiring Mr. McNamara to repay the amounts already paid to him thereunder; (iv) a judgment rescinding the agreement by NAC to purchase ZoomLot and refunding the amounts it paid; (v) a judgment rescinding the award of monies and options to the directors on December 15, 2000 and requiring the directors to repay the amounts they received allegedly related thereto; (vi) a judgment requiring the defendants to indemnify NAC for alleged losses attributable to their alleged actions; and (vii) a judgment awarding interest, attorney's fees, and other costs, in an amount to be determined.

On October 12, 2001, NAC received a complaint (the "Zadra Complaint") filed by Robert Zadra, a shareholder of NAC, with the Supreme Court of the State of New York on or about October 12, 2001 against James J. McNamara, John A. Gleason, William S. Marshall, Henry Y. L. Toh, Donald Jasensky, Peter T. Zackaroff, Mallory Factor, Thomas F. Carney, Jr., and NAC as Defendants. The Zadra Complaint seeks (i) a declaration that the Director Defendants have breached their fiduciary duties to NAC, (ii) a judgment voiding the grant of options and the award of directors fees, (iii) a judgment voiding an employment agreement with James J. McNamara, (iv) an order directing the Director Defendants to account for alleged damages sustained and alleged profits obtained by the Director Defendants as a result of the alleged various acts complained of, and (v) an award of costs and expenses.

NAC intends to vigorously defend each of the respective claims made in the Academy Complaint, Markovich Complaint, Harbor Complaint and Zadra Complaint, as it believes that the claims have no merit. By order of the Delaware Chancery Court on November 12, 2001, the Academy, Markovich and Harbor Complaints were consolidated and the Academy Complaint was deemed the operative complaint. A motion to dismiss the Academy Complaint has been filed but has not yet been decided. NAC also intends to vigorously defend the Zadra Complaint. A motion to dismiss the Zadra Complaint also has been filed. As each of these litigation matters are in a very early stage, no prediction is made with respect to their

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

respective ultimate outcomes.

10

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Self-Insurance Reserves for Property Damage and Personal Injury Claims.

NAC, under the names Agency Rent-A-Car, Inc. ("ARAC"), Altra Auto Rental and Automate Auto Rental, previously engaged in the rental of automobiles on a short-term basis, principally to the insurance replacement market. In Fiscal 1996, NAC disposed of its rental fleet business through the sale of certain assets and through certain leases to a national car rental company. All liabilities related to the discontinued rental business, principally self-insurance claims, were retained by NAC.

NAC maintained and continues to maintain self-insurance for claims relating to bodily injury or property damage from accidents involving the vehicles rented to customers by its discontinued automobile rental operations. NAC was, when required by either governing state law or the terms of its rental agreement, self-insured for the first \$1.0 million per occurrence, and for losses in excess of \$5.0 million per occurrence, for bodily injury and property damage resulting from accidents involving its rental vehicles. NAC was also self-insured, up to certain retained limits, for bodily injury and property damage resulting from accidents involving NAC vehicles operated by employees within the scope of their employment. In connection therewith, NAC established certain reserves in its financial statements for the estimated cost of satisfying those claims.

NAC is named as defendant in a self-insurance action Darrell Smith and Aaron Simpson ("Plaintiffs") v. John J. Bennett, ARAC, Country Mutual Insurance Company and Atlanta Casualty Insurance Company in Cook County (State) Court of Illinois. This matter arises out of an incident in which an ARAC car renters' son, while driving the rental vehicle, was involved in a fatal accident and with serious injuries to passengers in the vehicle. Initially, the Plaintiffs appeared to be recovering well from the injuries sustained. However, subsequently plaintiff Simpson underwent an accident-related surgery on his back for removal of a shunt, during which nerves in the spine were severed causing paraplegia. The Plaintiffs are suing for damages resulting from their injuries and the subsequent paraplegia suffered by plaintiff Simpson. The doctor and hospital that performed the surgery were also named as defendants by Plaintiffs and have been impleaded by NAC under a theory of medical malpractice. Damages alleged in the complaint are not specified, although in discovery Plaintiffs have indicated they are seeking millions of dollars in compensatory and other damages. The matter is scheduled for trial during 2003. NAC maintains a number of defenses relating to this matter. NAC has almost exhausted its self-insured retention of \$500,000 on this case and NAC attempted to get its excess carrier, the Transamerica Insurance Company ("TIC"), to take over the defense of this action and indemnify NAC up to the policy limits. However, as a result TIC has filed a suit (TIC Co. v. Darrell Smith, Aaron Simpson and NAC in the United States Court for the Northern District of Illinois) for a declaratory judgment seeking a ruling that it has no liability as an "excess insurer" of NAC in connection with the Smith and Simpson action and that under Illinois law, NAC's (and thereafter TIC's) financial responsibility is capped at an amount for less than what the Plaintiffs are seeking in the state court action. The federal court initially dismissed this complaint prior to NAC answering on the grounds

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

that the matter to be decided was premature as the original action had not be resolved. TIC made a motion to have the court reconsider its decision and NAC has filed a response arguing that the court should take action on this matter at this time. The Court granted TIC's motion and has permitted the action to proceed. NAC's answer was filed in May 2002.

Because of the uncertainties related to these two matters, as well as several smaller legal proceedings involving NAC's former rental operations and self-insurance claims, it is difficult to project with precision the ultimate effect the adjudication or settlement of these matters will have on NAC. At April 30, 2002 NAC had accrued \$761,000 to cover all outstanding self-insurance liabilities. As additional information regarding NAC's potential liabilities becomes available, NAC will revise the estimates as appropriate.

11

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 4 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other Litigation

In the normal course of its business, NAC is named as defendant in legal proceedings. It is the policy of NAC to vigorously defend litigation and/or enter into settlements of claims where management deems appropriate.

NOTE 5 - DISCONTINUED OPERATIONS

As discussed in Note 1, as a consequence of NAC's strategic review and determination, effective December 31, 2001, NAC suspended its ZoomLot operations and initiated the steps to discontinue e-commerce operations. Additionally, as a consequence of NAC's decision to discontinue its ZoomLot e-commerce operations NAC also formally exited the sub-prime used automobile consumer finance business effective December 31, 2001. As a result of these decisions, both the e-commerce and automobile financing segments have been classified as discontinued operations.

	Discontinued Operations		
	E-Commerce	Financing	Auto Rental
THE THREE MONTHS ENDED APRIL 30, 2002			
Revenue	\$ --	\$ 7	\$ --
Operating expense	--	--	--
General and administrative (expenses) income	--	(11)	1
	--	(11)	1
Income (loss) before income taxes	--	(4)	1
Provision (benefit) for income taxes	--	--	--
Income (loss) from discontinued operations	--	(4)	1

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

Gain (loss) on disposal of operations, net of tax	--	--	--
	-----	-----	-----
Income (loss) from discontinued operations	\$ --	\$ (4)	\$ 1
	=====	=====	=====
THE THREE MONTHS ENDED APRIL 30, 2001			
Revenue	\$ 226	\$ --	\$ --
Operating (expense) income	(1,669)	(94)	--
General and administrative (expenses) income	--	393	--
	-----	-----	-----
	(1,669)	299	--
	-----	-----	-----
Income (loss) before income taxes	(1,443)	299	--
Provision (benefit) for income taxes	--	--	--
	-----	-----	-----
Income (loss) from discontinued operations	(1,443)	299	--
Gain (loss) on disposal of operations, net of tax	--	--	--
	-----	-----	-----
Income (loss) from discontinued operations	\$ (1,443)	\$ 299	\$ --
	=====	=====	=====

12

ITEM 2.
NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

National Auto Credit, Inc. (the "Company" or "NAC") began operations in 1969 and was incorporated in Delaware in 1971. Through and including December 31, 2001, NAC's operations were conducted principally through three operating segments, (i) the e-commerce segment, which is comprised of ZoomLot Corporation's ("ZoomLot") development of e-commerce services to facilitate the process by which used car dealerships, lenders and insurance companies communicate and complete the transactions between them that are needed to provide used car dealers' customers with financing, insurance and other services, (ii) the movie exhibition segment, which is comprised of the activities of Angelika Film Center LLC ("AFC") and (iii) the automobile financing segment.

In the fourth quarter of Fiscal 2002, NAC completed a strategic review of its investment in ZoomLot, acquired December 15, 2000, and the development of its e-commerce services. NAC's strategic review included evaluating the evolving market conditions of the used car dealer and financing industries, the start-up nature of the ZoomLot operations, the current market demand for and penetration of ZoomLot's e-commerce solution to electronically link eligible used car dealers and their qualified customers with available used car lenders and financing terms, current operating losses and forecasts of future operating results and strategic opportunities available to ZoomLot. As a result of this review, management of NAC determined that it was unable to predict, with the requisite degree of certainty, when or whether ZoomLot would achieve positive cash flows.

As a consequence of NAC's strategic review and determination, effective

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

December 31, 2001, NAC suspended its ZoomLot operations and initiated the steps to discontinue its e-commerce. As a further consequence of NAC's decision to discontinue its ZoomLot e-commerce operations, NAC also formally exited the sub-prime used automobile consumer finance business effective December 31, 2001. From October 1995 through March 2000, NAC's principal business activity was to invest in sub-prime used automobile consumer loans, which took the form of installment loans collateralized by the related vehicle. NAC purchased such loans, or interests in pools of such loans, from member dealerships, and performed the underwriting and collection functions for such loans. As a result of these decisions both the e-commerce and the automobile financing operations were classified as a discontinued operations as of January 31, 2002.

Throughout the first quarter of fiscal 2003 and as of June 12, 2002, NAC had no external source of financing, and has operated on its existing cash balances. NAC continues to pursue its plan of examining new business opportunities, which may be pursued through the investment in, or acquisition of existing operating businesses or other means. At April 30, 2002 NAC has cash and marketable securities of \$6.0 million, which together with any cash flow derived from its investment in AFC, will be used to pursue such opportunities. Additionally, NAC will continue to pursue reduction in operating expenses and explore new debt or equity financing (for which there can be no assurance NAC will obtain such financing) as means of supplementing the resources available to pursue new opportunities.

13

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

RESULTS FROM OPERATIONS FOR THE THREE MONTHS ENDED APRIL 30, 2002 AS COMPARED TO THE THREE MONTHS ENDED APRIL 30, 2001

Interest Income from Investments: Interest income from investments is principally the interest earned on NAC's investments in marketable securities, commercial paper and money market accounts. Interest income from these investments was \$45,000 for the three months ended April 30, 2002 as compared to \$140,000 for the three months ended April 30, 2001. The decrease was primarily due to the decrease in the weighted average investment balances for the three months ended April 30, 2002.

Income from AFC Investment: NAC accounts for its investment in AFC using the equity method. For the three months ended April 30, 2002 and 2001, NAC recorded income of \$93,000 and \$154,000, respectively, representing NAC's share of AFC's net income for the three months ended March 31, 2002 and 2001, respectively. Additionally, for the three months ended April 30, 2001, prior to the adoption of SFAS 141 and SFAS 142, NAC recorded amortization expense of \$68,000 as a reduction of its income from its investment in AFC. As a result of NAC's adoption of SFAS 141 and 142, this amortization charge was discontinued in Fiscal 2003.

The following sets forth summarized operating results for AFC (in thousands):

Three Months Ended March 31,	
2002	2001
-----	-----

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

Revenues	\$ 1,627	\$ 2,035
Film rental	478	742
Operating costs	718	742
Depreciation and amortization	173	173
General and administrative expenses	71	70
	-----	-----
	1,440	1,727
	-----	-----
Net income	\$ 187	\$ 308
	=====	=====
NAC's proportionate share of net income	\$ 93	\$ 154
Amortization expense	--	(68)
	-----	-----
Income from investment in AFC	\$ 93	\$ 86
	=====	=====

14

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

AFC's revenues decreased \$408,000 for the three months ended March 31, 2002 as compared to the three months ended March 31, 2001, principally as a result of the net effects of a 27.6% decrease in attendance and, partially offset by, an 11.8% increase in average ticket prices. The attendance, and at times the ticket prices, at AFC will vary depending on audience interest in, and the popularity of the films it exhibits and other factors. Film rental, as a percentage of revenue, decreased 7.1% to 29.4% from 36.5% for the three months ended March 31, 2002 and 2001, respectively. Film rental expense generally is a factor of a fixed percentage rental rate per film multiplied by the number of tickets sold. AFC experiences fluctuations in film rental expense, as a percentage of revenue, depending upon the rental rate per film and the popularity of the film. Operating costs, as a percent of revenue, were 44.1% for the three months ended March 31, 2002 as compared to 36.5% for the three months ended March 31, 2001 due principally to a decrease in revenues. The nature of AFC's operating costs tend to generally be more fixed overhead related costs and advertising expenses.

General and Administrative: General and administrative expenses include costs of executive, accounting and legal personnel, occupancy, legal, professional, insurance and other general corporate overhead costs. General and administrative expenses decreased \$595,000 to \$841,000 for the three months ended April 30, 2002 from \$1.4 million for the three months ended April 30, 2001. The decrease in general and administrative costs for the three months ended April 30, 2002 was primarily due to a decrease in personnel costs and professional services, which declined as a result in the contraction of NAC's operations.

Income Taxes: Due to net operating losses and the availability of net operating loss carryforwards, NAC's effective income tax rate was zero for the three month period ended April 30, 2002 and April 30, 2001. NAC has provided a full valuation allowance against its net operating loss carryforward and other net deferred tax asset items due to the uncertainty of their future realization.

DISCONTINUED OPERATIONS

E-commerce Operations: For the three months ended April 30, 2001, NAC's

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

e-commerce operations incurred an operating loss of \$1.4 million, reflecting revenues of \$226,000 and expenses of \$1.7 million. Included in the expenses of \$1.7 million were non-cash charges of \$572,000 for the amortization of the goodwill arising in the December 2000 acquisition of ZoomLot. The remaining expenses of \$1.1 million represent the expenses incurred in ZoomLot's attempts to develop its e-commerce method of facilitating the process by which used car dealerships, lenders and insurance companies communicate and complete the transactions between them that are needed to provide the used auto dealers' customers with financing, insurance and other services.

Automobile Financing and Auto Rental: For the three months ended April 30, 2002, NAC's automobile financing and rental operations generated operating income of \$182,000, comprised of net proceeds from an insurance settlement of \$186,000 and \$4,000 in net general and administrative expenses. For the three months ended April 30, 2001, NAC's automobile financing and rental operations generated operating income of \$299,000, comprised of net proceeds of \$313,000 from the sale of previously charged-off loans less other net general and administrative expenses of \$14,000.

15

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended April 30, 2002 and 2001, NAC used \$1.1 million and \$1.9 million, respectively, for operating activities as NAC's payments for operating and general and administrative expenses exceeded income from investments and NAC's proportionate share of income from AFC. NAC funded the negative operating cash flows and negative cash flows from discontinued operations from its existing cash balances.

NAC believes that the available cash and cash equivalents and marketable securities totaling \$6.0 million at April 30, 2002, and the investment income therefrom, the collection of the income tax refund of \$3.5 million and any cash distributions from its investment in AFC will be sufficient to pay operating expenses, existing liabilities, and fund its activities through the next twelve months as NAC explores new strategic business alternatives. As discussed in Note 4 of Notes to Condensed Consolidated Financial Statements, NAC is presently a defendant or nominal defendant in various derivative shareholder complaints and various litigation matters relating to NAC's discontinued auto finance and auto rental businesses. Although NAC intends to vigorously defend each of the claims, each of these litigations are in a very early stage, and no prediction can be made with respect to their ultimate outcomes. An adverse outcome could have a material adverse effect on NAC's liquidity, financial condition or results of operations. Additionally, as previously discussed, NAC's lack of external financing sources may limit its ability to pursue strategic business alternatives being considered by NAC's Board of Directors. Such limitations may have an adverse impact on NAC's financial position, results of operations and liquidity.

NEW ACCOUNTING PRONOUNCEMENTS

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued SFAS 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

intangible assets acquired between July 1, 2001 and the effective date of SFAS 142. Major provisions of these Statements and their effective dates for NAC are as follows:

- o All business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001;
- o Intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability;
- o Goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective February 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization;
- o Effective February 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator; and
- o All acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting.

16

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - CONTINUED

NAC adopted SFAS 141 and 142 effective February 1, 2002. NAC previously recorded a monthly charge (as a reduction of its earnings from its investment in AFC) of \$23,000 for the amortization, in a manner similar to goodwill, of the excess of NAC's investment in AFC over its share of the net assets of AFC. As a result of NAC's adoption of SFAS 141 and SFAS 142, for the three months ended April 30, 2002, NAC discontinued this monthly charge to earnings.

In June 2001, the FASB issued SFAS 143, Accounting for Asset Retirement Obligations. SFAS 143 requires entities to record to the fair value of the liability for an asset retirement obligation in the period in which it is incurred. The amount initially recorded as the asset retirement obligation is based upon the estimated present value of the retirement costs to be incurred, and is capitalized as a part of the asset. The obligation is subsequently accreted for the passage of time by charges to interest expense, and the capitalized costs are amortized as part of depreciation expense related to the asset. The asset retirement obligation is also continually re-estimated, with changes in its present value caused by changes in the estimated retirement cost recorded as adjustments to the carrying amount and subsequent depreciation of the asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002 and was adopted by NAC effective February 1, 2002. At the time of adoption, there was no material impact to NAC's financial statements.

In August 2001, the FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 supercedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, with the exception of impairment and disposal issues related to goodwill and other intangible assets that are not amortized. SFAS 144 also supersedes the

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

accounting and reporting provisions of Accounting Principles Board Opinion No. (APB) 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS 144 retains many of the fundamental recognition and measurement provisions of SFAS 121, and also retains the requirement in APB 30 to separately identify and report discontinued operations. However, SFAS extends the APB 30 reporting requirements for discontinued operations to components of an entity that have either been disposed of or classified as assets held for sale that may not have qualified as segments under APB 30, as a result of which operating results that previously were not classified as discontinued operations may be treated as such upon the adoption of SFAS 144. SFAS 144 is effective for fiscal years beginning after December 15, 2001, and was adopted by NAC effective February 1, 2002. At the time of adoption, there was no material impact to NAC's financial statements.

OTHER

NAC's exposure to the risks of inflation is generally limited to the potential impact of inflation on its operating and general and administrative expenses. To date, inflation has not had a material adverse impact on NAC.

NAC does not utilize futures, options or other derivative financial instruments.

17

FORWARD-LOOKING STATEMENTS

Various statements made in this Item 2 and elsewhere in this Quarterly Report on Form 10-Q concerning the manner in which NAC intends to conduct its future operations, and potential trends that may impact its future results of operations, are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. NAC may be unable to realize its plan and objectives due to various important factors, including, but not limited to, the failure of the Board of Directors to promptly determine what strategic business plan NAC should pursue, the failure of NAC to implement any such plan due to its inability to identify suitable acquisition candidates or its inability to obtain the financing necessary to complete any desired acquisitions, or any adverse outcome of the pending shareholder actions or other litigation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Like virtually all commercial enterprises, NAC can be exposed to the risk ("market risk") that the cash flows to be received or paid relating to certain financial instruments could change as a result of changes in interest rate, exchange rates, commodity prices, equity prices and other market changes.

NAC does not engage in trading activities and does not utilize interest rate swaps or other derivative financial instruments or buy or sell foreign currency, commodity or stock indexed futures or options. Accordingly, NAC is not exposed to market risk from these sources.

NAC's automobile loan portfolio was comprised of fixed rate financing agreements with high credit risk consumers. The rates on these financing agreements cannot be increased for changes in market conditions, and accordingly these loans were not subject to market risk.

As of April 30, 2002, NAC has no interest-bearing debt, and accordingly no market risk associated with increases in interest costs resulting from changes

in market rates.

18

PART II.
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Shareholder Complaints

On July 31, 2001, NAC received a derivative complaint (the "Academy Complaint") filed by Academy Capital Management, Inc. ("Academy"), a shareholder of NAC, with the Court of Chancery of Delaware, on or about July 31, 2001, against James J. McNamara, John A. Gleason, William S. Marshall, Henry Y.L. Toh, Donald Jasensky, Peter T. Zackaroff, Mallory Factor, and Thomas F. Carney, Jr. (the "Director Defendants") and names NAC as a nominal defendant. The Academy Complaint principally seeks: (i) a declaration that the Director Defendants breached their fiduciary duties to NAC, (ii) a judgment voiding an employment agreement with James J. McNamara and rescinding a stock exchange agreement in which NAC acquired ZoomLot Corporation, (iii) a judgment voiding the grant of stock options and the award of director fees allegedly related thereto, (iv) an order directing the Director Defendants to account for alleged damages sustained and profits obtained by the Director Defendants as a result of the alleged various acts complained of, (v) the imposition of a constructive trust over monies or other benefits received by the Director Defendants and (vi) an award of costs and expenses.

On August 16, 2001, NAC received a complaint (the "Markovich Complaint") filed by Levy Markovich ("Markovich"), a shareholder of NAC, with the Court of Chancery of Delaware on or about August 16, 2001, against James J. McNamara, John A. Gleason, William S. Marshall, Henry Y. L. Toh, Donald Jasensky, Peter T. Zackaroff, Mallory Factor, and Thomas F. Carney, Jr. and NAC as a nominal defendant. The Markovich Complaint principally seeks: (i) a declaration that the Director Defendants have breached their fiduciary duties to NAC, (ii) a judgment voiding an employment agreement with James J. McNamara and rescinding a stock exchange agreement in which NAC acquired ZoomLot Corporation, (iii) a judgment voiding the grant of options and the award of directors fees allegedly related thereto, (iv) an order directing the Director Defendants to account for alleged damages sustained and alleged profits obtained by the Director Defendants as a result of the alleged various acts complained of, (v) the imposition of a constructive trust over monies or other benefits received by the directors, and (vi) an award of costs and expenses.

On August 31, 2001, NAC received a complaint (the "Harbor Complaint") filed by Harbor Finance Partners ("Harbor"), a shareholder of NAC, with the Court of Chancery of Delaware on or about August 31, 2001, against Thomas F. Carney, Jr., Mallory Factor, John A. Gleason, Donald Jasensky, William S. Marshall, James J. McNamara, Henry Y. L. Toh, Peter T. Zackaroff, Ernest C. Garcia, and ZoomLot Corporation as Defendants and NAC as a nominal defendant. The Harbor Complaint principally seeks: (i) a judgment requiring the Director Defendants to promptly schedule an annual meeting of shareholders within thirty (30) days of the date of the Harbor Complaint; (ii) a judgment declaring that the Director Defendants breached their fiduciary duties to NAC and wasted its assets; (iii) an injunction preventing payment of monies and benefits to James J. McNamara under his employment agreement with NAC and requiring Mr. McNamara to repay the amounts already paid to him thereunder; (iv) a judgment rescinding the agreement

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

by NAC to purchase ZoomLot and refunding the amounts it paid; (v) a judgment rescinding the award of monies and options to the directors on December 15, 2000 and requiring the directors to repay the amounts they received allegedly related thereto; (vi) a judgment requiring the defendants to indemnify NAC for alleged losses attributable to their alleged actions; and (vii) a judgment awarding interest, attorney's fees, and other costs, in an amount to be determined.

19

On October 12, 2001, NAC received a complaint (the "Zadra Complaint") filed by Robert Zadra, a shareholder of NAC, with the Supreme Court of the State of New York on or about October 12, 2001 against James J. McNamara, John A. Gleason, William S. Marshall, Henry Y. L. Toh, Donald Jasensky, Peter T. Zackaroff, Mallory Factor, Thomas F. Carney, Jr., and NAC as Defendants. The Zadra Complaint seeks (i) a declaration that the Director Defendants have breached their fiduciary duties to NAC, (ii) a judgment voiding the grant of options and the award of directors fees, (iii) a judgment voiding an employment agreement with James J. McNamara, (iv) an order directing the Director Defendants to account for alleged damages sustained and alleged profits obtained by the Director Defendants as a result of the alleged various acts complained of, and (v) an award of costs and expenses.

NAC intends to vigorously defend each of the respective claims made in the Academy Complaint, Markovich Complaint, Harbor Complaint and Zadra Complaint, as it believes that the claims have no merit. By order of the Delaware Chancery Court on November 12, 2001, the Academy, Markovich and Harbor Complaints were consolidated and the Academy Complaint was deemed the operative complaint. A motion to dismiss the Academy Complaint has been filed but has not yet been decided. NAC also intends to vigorously defend the Zadra Complaint. A motion to dismiss the Zadra Complaint also has been filed. As each of these litigation matters are in a very early stage, no prediction is made with respect to their respective ultimate outcomes.

Self-Insurance Reserves for Property Damage and Personal Injury Claims.

NAC, under the names Agency Rent-A-Car, Inc. ("ARAC"), Altra Auto Rental and Automate Auto Rental, previously engaged in the rental of automobiles on a short-term basis, principally to the insurance replacement market. In Fiscal 1996, NAC disposed of its rental fleet business through the sale of certain assets and through certain leases to a national car rental company. All liabilities related to the discontinued rental business, principally self-insurance claims, were retained by NAC.

NAC maintained and continues to maintain self-insurance for claims relating to bodily injury or property damage from accidents involving the vehicles rented to customers by its discontinued automobile rental operations. NAC was, when required by either governing state law or the terms of its rental agreement, self-insured for the first \$1.0 million per occurrence, and for losses in excess of \$5.0 million per occurrence, for bodily injury and property damage resulting from accidents involving its rental vehicles. NAC was also self-insured, up to certain retained limits, for bodily injury and property damage resulting from accidents involving NAC vehicles operated by employees within the scope of their employment. In connection therewith, NAC established certain reserves in its financial statements for the estimated cost of satisfying those claims.

NAC is named as defendant in a self-insurance action Darrell Smith and Aaron Simpson ("Plaintiffs") v. John J. Bennett, ARAC, Country Mutual Insurance Company and Atlanta Casualty Insurance Company in Cook County (State) Court of Illinois. This matter arises out of an incident in which an ARAC car renters' son, while driving the rental vehicle, was involved in a fatal accident and with

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

serious injuries to passengers in the vehicle. Initially, the Plaintiffs appeared to be recovering well from the injuries sustained. However, subsequently plaintiff Simpson underwent an accident-related surgery on his back for removal of a shunt, during which nerves in the spine were severed causing paraplegia. The Plaintiffs are suing for damages resulting from their injuries and the subsequent paraplegia suffered by plaintiff Simpson. The doctor and hospital that performed the surgery were also named as defendants by Plaintiffs and have been impleaded by NAC under a theory of medical malpractice. Damages alleged in the complaint are not specified, although in discovery Plaintiffs have indicated they are seeking millions of dollars in compensatory and other damages. The matter is scheduled for trial during 2003. NAC maintains a number of defenses relating to this matter. NAC has almost exhausted its self-insured retention of \$500,000 on this case and NAC attempted to get its excess carrier, the Transamerica Insurance Company ("TIC"), to take over the defense of this action and

20

indemnify NAC up to the policy limits. However, as a result TIC has filed a suit (TIC Co. v. Darrell Smith, Aaron Simpson and NAC in the United States Court for the Northern District of Illinois) for a declaratory judgment seeking a ruling that it has no liability as an "excess insurer" of NAC in connection with the Smith and Simpson action and that under Illinois law, NAC's (and thereafter TIC's) financial responsibility is capped at an amount for less than what the Plaintiffs are seeking in the state court action. The federal court initially dismissed this complaint prior to NAC answering on the grounds that the matter to be decided was premature as the original action had not be resolved. TIC made a motion to have the court reconsider its decision and NAC has filed a response arguing that the court should take action on this matter at this time. The Court granted TIC's motion and has permitted the action to proceed. NAC's answer was filed in May 2002.

Because of the uncertainties related to these two matters, as well as several smaller legal proceedings involving NAC's former rental operations and self-insurance claims, it is difficult to project with precision the ultimate effect the adjudication or settlement of these matters will have on NAC. At April 30, 2002 NAC had accrued \$761,000 to cover all outstanding self-insurance liabilities. As additional information regarding NAC's potential liabilities becomes available, NAC will revise the estimates as appropriate.

Other Litigation

In the normal course of its business, NAC is named as defendant in legal proceedings. It is the policy of NAC to vigorously defend litigation and/or enter into settlements of claims where management deems appropriate.

21

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- a) Exhibits - None
- b) Reports on Form 8-K - None

Edgar Filing: NATIONAL AUTO CREDIT INC /DE - Form 10-Q

SIGNATURES

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

NATIONAL AUTO CREDIT, INC.

Date: June 12, 2002

By: /s/ James J. McNamara

James J. McNamara
Chairman of the Board and Chief
Executive Officer

By: /s/ Robert V. Cuddihy, Jr.

Robert V. Cuddihy, Jr.
Chief Financial Officer