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NATIONAL AUTO CREDIT INC /DE  
Form 10-Q  
June 14, 2004

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

FORM 10-Q

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

For the quarterly period ended April 30, 2004  
-----

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  No

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

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Yes [ ] No [X]

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

Class	Outstanding at June 11, 2004
----- Common Stock, \$0.05 par value	----- 9,052,614

## NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 National Auto Credit, Inc. and subsidiaries as of April 30, 2004, the related condensed consolidated statements of operations for each of the three-month periods ended April 30, 2004 and 2003; the related condensed consolidated statement of stockholders' equity and comprehensive loss for the three-month period ended April 30, 2004 and the condensed consolidated statements of cash flows for the three-month periods ended April 30, 2004 and 2003. The financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the Public Company Accounting Oversight Board ("PCAOB"). 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 standards established by the PCAOB, the consolidated balance sheet as of January 31, 2004, and the related consolidated statements of operations, stockholders' equity and comprehensive loss, and cash flows for the year then ended (not presented herein) and in our report dated April 16, 2004, 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, 2004, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Grant Thornton LLP

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Cleveland, Ohio  
June 11, 2004

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

	April 30, 2004 ----- (unaudited)	January 31, 2004 -----
ASSETS		
Cash and cash equivalents	\$ 325	\$ 376
Accounts receivable, net of allowance of \$70 and \$75, respectively (Note 1)	1,674	1,979
Income taxes refundable	2,070	2,162
Prepaid expenses	175	293
Other current assets	117	399
	-----	-----
Total current assets	4,361	5,209
Property and equipment, net of accumulated depreciation of \$716 and \$528, respectively (Note 1)	2,673	2,756
Investment in AFC (Note 3)	8,626	8,549
Goodwill (Notes 1 and 2)	4,920	4,920
Other intangible assets, net of accumulated amortization of \$426 and \$284, respectively (Notes 1 and 2)	9,056	9,198
Other assets	280	284
	-----	-----
	\$29,916	\$30,916
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Current maturities of long term obligations (Note 4)	\$ 1,324	\$ 1,339
Accounts payable	1,211	1,238
Self-insurance claims	405	408
Accrued income taxes	327	334
Deferred revenue	578	776
Other liabilities	1,470	1,547
	-----	-----
Total current liabilities	5,315	5,642
Long term obligations (Note 4)	8,960	8,969
Convertible promissory note (Note 4)	2,825	2,825
	-----	-----
	17,100	17,436
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 5)	--	--
STOCKHOLDERS' EQUITY		

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Preferred stock	--	--
Common stock - \$.05 par value, authorized 40,000,000 shares, issued 39,949,589 and 39,949,589 shares, respectively	1,997	1,997
Additional paid-in capital	174,454	174,454
Retained deficit	(140,416)	(139,746)
Deferred compensation	(107)	(113)
Treasury stock, at cost, 30,896,975 and 30,896,975 shares, respectively	(23,112)	(23,112)
Total stockholders' equity	12,816	13,480
	\$29,916	\$30,916
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended April 30,	
	2004	2003
	-----	-----
Revenues	\$3,293	\$ 330
Cost of revenues	1,947	197
Gross profit	1,346	133
Selling, general and administrative	1,930	923
Loss from operations	(584)	(790)
Interest income from investments	--	20
Income from AFC investment	78	119
Interest expense	(163)	(8)
Loss from continuing operations before income taxes	(669)	(659)
Provision for income taxes	--	--
Loss from continuing operations	(669)	(659)
Loss from discontinued operations, net of tax	(1)	(6)
Net loss	\$ (670)	\$ (665)
	=====	=====

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Basic and diluted loss per share		
Continuing operations	\$ (.07)	\$ (.08)
Discontinued operations	--	--
	-----	-----
Net loss per share	\$ (.07)	\$ (.08)
	=====	=====
Weighted average number of shares outstanding		
Basic and diluted	9,053	7,862
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
AND COMPREHENSIVE LOSS  
THREE MONTHS ENDED APRIL 30, 2004  
(IN THOUSANDS, EXCEPT PER SHARE DATA)  
(UNAUDITED)

	Preferred Stock		Common Stock		Additional Pain-In Capital	Retained Deficit	Treasury Stock
	Shares	Par Value	Shares	Par Value			
Balance at January 31, 2004	--	\$ --	39,949,589	\$1,997	\$174,454	\$ (139,746)	\$ (23,112)
Net loss						(670)	
Deferred compensation							
Comprehensive loss							
Balance at April 30, 2004	--	\$ --	39,949,589	\$1,997	\$174,454	\$ (140,416)	\$ (23,112)
	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

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	Three Months April 3
	----- 2004 -----
Cash flows from operating activities	
Net loss	\$ (670)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Loss from discontinued operations	1
Depreciation and amortization	330
Changes in operating assets and liabilities, net of acquisition:	
Accounts receivable	305
Income tax refundable	92
Accrued income tax	(7)
Accounts payable and other liabilities	(27)
Deferred revenue	(198)
Other operating assets and liabilities, net	256
	----
Net cash provided by (used in) operating activities	82
	----
Cash flows from investing activities	
Acquisition of OMI net of cash acquired	--
Proceeds from AFC distributions	--
Purchase of property and equipment	(105)
	----
Net cash provided by (used in) investing activities	(105)
	----
Cash flows from financing activities	
Proceeds from line of credit	--
Payments of long term debt	(24)
	----
Net cash provided by (used in) financing activities	(24)
	----
Increase (decrease) in cash and cash equivalents from continuing operations	(47)
Increase (decrease) in cash and cash equivalents from discontinued operations	(4)
Cash and cash equivalents at beginning of period	376
	----
Cash and cash equivalents at end of period	\$ 325
	=====
Supplemental disclosures of cash flow information	
Interest paid	\$ 167
	=====
Income taxes paid	\$ 7
	=====
Acquisition of OMI:	
Non-cash assets acquired	
Liabilities assumed	
Promissory notes issued	
Common stock issued	
Cash paid, net of cash acquired	

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

General

The accompanying unaudited condensed consolidated financial statements include the accounts of National Auto Credit, Inc. and Subsidiaries ("NAC"). NAC consummated a series of acquisitions during the year ended January 31, 2004 transforming its business operations into a multi-dimensional corporate communications and entertainment company (see Note 2). NAC specializes in the full service design, creative development, production, post production editing and transmission, via broadcast satellite videoconferencing, webcasting and traditional on-site presentations of corporate communication, education and training video and other services for use at corporate events. Additionally, NAC, through its investment in the Angelika Film Center LLC ("AFC"), operates in the movie exhibition industry (see Note 3). NAC acquired its investment in AFC in April 2000.

Prior to Fiscal 2003, NAC's operations were conducted principally through three operating segments, (i) the e-commerce segment, which was 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 was comprised of the activities of Angelika Film Center LLC ("AFC") and (iii) the automobile financing segment. However, in the fourth quarter of Fiscal 2002, NAC suspended its ZoomLot operations and initiated the steps to discontinue both its e-commerce and auto financing segments as of January 31, 2002.

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, 2004. The results of operations for the



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three months ended April 30, 2004 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 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. NAC uses a January 31 year-end for financial reporting purposes. References herein to the fiscal year ended January 31, 2005 shall be the term "Fiscal 2005" and references to other "Fiscal" years shall mean the year, which ended on January 31 of the year indicated. The term the "Company" or "NAC" as used herein refers to National Auto Credit, Inc. together with its subsidiaries unless the context otherwise requires.

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

#### NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Discontinued Operations

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. For the three months ended April 30, 2004 and 2003, NAC incurred a loss from discontinued operations of \$1,000 and \$6,000, respectively.

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.

##### Revenues

NAC recognizes revenue from video production, video editing, meeting services and broadcast satellite or webcast services when the video is complete and delivered or all technical services have been rendered. Deposits and other prepayments are recorded as deferred revenue until revenue is recognized. NAC does not have licensing or other arrangements that result in additional revenues following the delivery of the video or a broadcast. Costs accumulated in the production of the video, meeting services or broadcasts are deferred until the sale and delivery are complete. Deferred production costs of \$113,000 are included as a component of other current assets at April 30, 2004.

NAC recognizes revenue from designing and developing websites when the customer accepts the completed project. Deposits and other prepayments are recorded as deferred revenue until revenue is recognized. These contracts are limited to the design and development of websites. Clients have the option to engage NAC to maintain and upgrade their websites. These contracts are separate from the website development and design agreements, and the related revenue is recognized over the term of the contracts, which is generally up to one year.

NAC recognizes revenue from developing and maintaining websites pursuant to the requirements of Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position No. 98-9,

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"Software Revenue Recognition with Respect to Certain Arrangements." Under SOP 97-2, revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists and delivery has occurred, provided the fee is fixed or determinable, collectibility is probable and the arrangement does not require significant customization of the software. If at the outset of the customer arrangement, NAC determines that the arrangement fee is not fixed or determinable or that collectibility is not probable, NAC defers the revenue and recognizes the revenue when the arrangement fee becomes due and payable or, when collectibility is uncertain, as cash is collected.

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

#### NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Cost of Revenues

Cost of revenues consists of direct expenses specifically associated with client service revenues. The cost of revenues includes direct salaries and benefits, purchased products or services for clients, web hosting, support services, shipping and delivery costs.

##### Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is NAC's best estimate of the amount of probable credit losses in NAC's existing accounts receivable. NAC determines the allowance based on analysis of historical bad debts, client concentrations, client credit-worthiness and current economic trends. NAC reviews its allowance for doubtful accounts quarterly. Past-due balances over 90 days and specified other balances are reviewed individually for collectibility. All other balances are reviewed on an aggregate basis. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. NAC does not have any off-balance sheet credit exposure related to its customers.

##### Property and Equipment

Property and equipment are stated at cost. Depreciation, including depreciation on assets held under capital leases, is computed on the straight-line method over the estimated useful lives of the assets which range from eighteen months to ten years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related improvements.

##### Goodwill and Other Intangible Assets

NAC adopted Statement of Financial Accounting Standards No. ("SFAS") 141, "Business Combinations", and SFAS 142, "Goodwill and Other Intangible Assets", effective February 1, 2002. Under SFAS 142 intangible assets with indefinite lives, including goodwill, are no longer subject to amortization and are subject to testing for impairment annually and whenever there is an impairment indicator.

In its acquisition of The Campus Group, NAC acquired certain intangible assets including client relationships and lists and a non-competition agreement

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with an initial fair value of \$9.5 million. The useful lives of these intangibles are estimated to be 17 years and 9 years, respectively. The intangible assets with definite useful lives are amortized using the straight-line method over the estimated useful life of the intangible. From the three months ended April 30, 2004, NAC charged to operations \$142,000 for the amortization of these intangible assets.

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

#### NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Impairment of Long-Lived Assets

Effective February 1, 2002, NAC adopted SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. In accordance with this statement, NAC reviews the carrying value of its long-lived assets (other than goodwill) whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. If indicators of impairment exist, NAC would determine whether the estimated undiscounted sum of the future cash flows of such assets is less than its carrying amount. If less, an impairment loss would be recognized based on the excess of the carrying amount of such assets over their respective fair values. NAC would determine the fair value by using quoted market prices, if available, for such assets; or if quoted market prices are not available, NAC would discount the expected estimated future cash flows.

##### Reclassifications

Certain Fiscal 2004 amounts have been reclassified to conform with Fiscal 2005 presentations.

##### New Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation ("FIN") No. 46, Consolidation of Variable Interest Entities. FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or in which equity investors do not bear the residual economic risks. The interpretation was immediately applicable to variable interest entities ("VIEs") created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. It applies in the fiscal year or interim period beginning after December 15, 2003, to VIEs in which an enterprise holds a variable interest that was acquired before February 1, 2003. FIN No. 46 was adopted by NAC effective February 1, 2004. At the time of adoption, there was no material impact to NAC's financial statements.

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

#### Note 2 - Acquisitions

The Campus Group

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In July 2003, NAC consummated a Stock Purchase Agreement whereby NAC acquired all outstanding capital stock of four affiliated companies, Campus Group Companies, Inc., Audience Response Systems, Inc, Interactive Conferencing Network, Inc. and Multi-Video Services, Inc., collectively known as The Campus Group from Mr. Steve Campus and certain family trusts. In exchange for the acquisition of all of the outstanding capital stock of The Campus Group, NAC (i) paid \$2.8 million at closing from NAC's available cash balances, (ii) issued to Mr. Campus and certain family trusts promissory notes of \$9.9 million, and (iii) issued to a family trust a convertible promissory note of \$2.8 million. The Campus Group revenues for the years ended December 31, 2002 and 2001 were \$10.7 million and \$12.7 million, respectively. The Campus Group realized net income of \$1.2 million and \$2.3 million for those years, respectively. For financial reporting purposes, the effective date of the transaction is July 31, 2003.

As part of The Campus Group acquisition, Mr. Campus entered into an employment agreement for which he has agreed to serve as President of each of the four acquired companies with an initial term of three years. The term of the employment agreement will be automatically extended until such time as the promissory notes and convertible promissory note are retired. Mr. Campus, subject to certain limitations, will have control over day-to-day operations of The Campus Group. Under the terms of the employment agreement, Mr. Campus will be entitled to base compensation of \$100,000 per year and a performance bonus based upon the operating results of the acquired companies.

The components and allocation of the purchase price were as follows (in thousands):

	Amount
	-----
Components of purchase price:	
Cash paid at closing	\$ 2,825
Promissory notes issued at closing	9,840
Convertible note issued at closing	2,825
Transaction costs	861
	-----
Total purchase price	\$ 16,351
	=====
Allocation of purchase price:	
Current assets	\$ 1,758
Property and equipment	2,216
Other intangible assets	9,482
Goodwill arising in the acquisition	4,379
	-----
	17,835
Accounts payable and accrued expenses	(228)
Due to shareholder	(1,256)
	-----
Net assets acquired	\$ 16,351
	=====

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### NOTE 2 - ACQUISITIONS (CONTINUED)

#### OMI

In April 2003, NAC consummated a Merger Agreement and Plan of Reorganization whereby NAC acquired all of the outstanding common stock of ORA/Metro, Inc., now known as OMI Business Communications, Inc. ("OMI"), from Mr. Dean R. Thompson, sole stockholder of OMI. In exchange for the acquisition of all of the outstanding common stock of OMI, NAC (i) issued 200,000 shares of NAC Common Stock, valued at \$26,000 (ii) assumed \$814,000 in bank debt and capital lease obligations to financial institutions and (iii) issued a promissory note payable to Mr. Thompson in the amount of \$153,000, payable in monthly installments of principal and interest over a 36 month period. In addition to the initial payments, NAC agreed to a contingent payment to Mr. Thompson of \$150,000 based upon OMI's financial performance during the three-year period ending January 31, 2006. OMI's revenues for the years ended December 31, 2002 and 2001 were \$2.5 million and \$3.5 million, respectively. OMI incurred net losses of \$343,000 and \$27,000 for those years, respectively. For financial reporting purposes, the effective date of the merger is April 1, 2003.

As part of the OMI acquisition, OMI entered into a five year employment agreement with Mr. Thompson under which Mr. Thompson will serve as President of OMI and, subject to certain limitations, will have control over the day-to-day operations of OMI. Under the terms of the employment agreement, Mr. Thompson will be entitled to base compensation of \$175,000 per year, a grant of stock options for up to 200,000 shares of NAC Common Stock and a performance bonus based upon the operating results of the acquired companies.

The components and allocation of the purchase price were as follows (in thousands):

	Amount
	-----
Components of purchase price:	
Common stock	\$ 26
Promissory note	153
Transaction costs	110
	-----
Total purchase price	\$ 289
	=====
Allocation of purchase price:	
Current assets	\$ 376
Property and equipment	632
Other assets	61
Goodwill arising in the acquisition	541
	-----
	1,610
Accounts payable and accrued expenses	(516)
Debt	(805)
	-----
Net assets acquired	\$ 289
	=====

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NOTE 2 - ACQUISITIONS (CONTINUED)

The following sets forth the pro forma condensed results of operations of NAC, The Campus Group and OMI for the three months ended April 30, 2003 as if the acquisition were consummated on February 1, 2003. Prior to its acquisition, The Campus Group and OMI used a December 31 year end, and accordingly the pro forma results have been prepared by combining the historical results for NAC for the three month periods ended April 30, with the historical results of The Campus Group and OMI for the three month periods ended March 31. These pro forma results have been prepared for illustrative purposes only and do not purport to be indicative of what would have occurred had the acquisition been in effect for the periods indicated or the results which may occur in the future. Pro forma revenues, net loss and loss per share are as follows:

	Three Months Ended April 30, 2003
	-----
Revenues	\$ 3,190 =====
Net loss from continuing operations	\$ (593) =====
Loss per share from continuing operations	\$ (0.07) =====

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, 2004 and 2003, NAC recorded income of \$78,000 and \$119,000, respectively, representing its share of AFC's net income.

NOTE 3 - INVESTMENT IN AFC (CONTINUED)

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Summarized income statement data for AFC for the three months ended March 31, 2004, and 2003, respectively, is as follows (in thousands):

	Three Months Ended March 31,	
	2004	2003
Revenues	\$ 1,305	\$ 1,603
Film rental	260	392
Operating costs	633	736
Depreciation and amortization	214	205
General and administrative expenses	42	31
	1,149	1,364
Net income	\$ 156	\$ 239
NAC's proportionate share of net income	\$ 78	\$ 119

#### NOTE 4 - CURRENT AND LONG TERM OBLIGATIONS

As a consequence of NAC's acquisition of The Campus Group effective July 31, 2003, NAC issued to Mr. Campus and certain family trusts promissory notes of \$9.9 million and issued to a family trust a convertible promissory note of \$2.8 million. Of the \$9.9 million in promissory notes issued by NAC, \$6.6 million of the promissory notes ("Base Notes") bear interest at 5% per annum and are repayable in quarterly installments according to a formula based upon the future cash flows realized from The Campus Group over a period not to exceed seven years. The remaining \$3.3 million in promissory notes ("Trailing Notes") issued by NAC bear interest at 5% per annum and are repayable in quarterly installments, commencing upon the retirement of the Base Notes, according to a formula based upon the future cash flows realized from The Campus Group over a period not to exceed three years subsequent to the retirement of the Base Notes. The \$2.8 million convertible promissory note (i) bears interest at 5% per annum, payable quarterly in cash or accumulating as principal at the election of NAC, (ii) requires principal payments commence upon the retirement of the Base Notes and Trailing Notes and is then repayable in quarterly installments according to a formula based upon the future cash flows realized from The Campus Group over a period not to exceed three years and (iii) is convertible at the option of the holder into shares of NAC common stock at a base conversion price of \$1.50 per share. The holder may not convert the convertible promissory note into NAC common stock prior to repayment of the Base Notes and Trailing Notes. The promissory notes are secured by the capital stock of the companies comprising The Campus Group. At April 30, 2004, NAC has outstanding obligations under the terms of the Base Notes, Trailing Notes and the Convertible Notes of \$6.3 million, \$3.3 million and \$2.8 million, respectively.

#### NOTE 4 - CURRENT AND LONG TERM OBLIGATIONS (CONTINUED)

As a consequence of NAC's acquisition of OMI effective April 1, 2003, NAC assumed \$814,000 in bank debt and capital lease obligations to financial institutions and issued a promissory note payable to Mr. Thompson in the amount

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of \$153,000.

During 2001, OMI obtained a \$300,000 bank term loan (the "Term Loan") to finance certain capital expenditures. The Term Loan is payable in monthly installments of \$6,000, comprised of principal and interest, over a five year term, expiring in July 2006. The Term Loan bears interest at the rate of 8.25% per annum. The Term Loan is collateralized by substantially all of OMI's assets and the personal guarantee of Mr. Thompson. In April 2004, as a consequence of a change in control provision with the Term Loan, the bank has requested repayment of the Term Loan. NAC has classified the Term Loan as a component of current maturities at April 30, 2004. The outstanding balance of the Term Loan at June 11, 2004 is \$142,000.

On April 25, 2002, OMI obtained a \$402,000 loan guaranteed by the U.S. Small Business Administration (the "SBA Loan") to finance losses incurred as a result of the September 11, 2001 terrorist attacks in New York City. The SBA Loan is repayable in monthly installments of \$3,309 beginning in May 2004, with the last payment due in April 2017. The loan bears no interest through May 2004 and at the rate of 4% per annum thereafter. The SBA Loan is collateralized by substantially all of OMI's assets and the personal guarantee of Mr. Thompson. Pursuant to the terms of the Merger Agreement, NAC is seeking to obtain releases of Mr. Thompson's personal guarantees from each financial institution.

The promissory note payable to Mr. Thompson is payable in monthly installments of principal and interest over a 36 month period expiring April 2006. The promissory note bears interest at 5% per annum.

OMI leases computer equipment under several different capital leases with finance institutions with various payments terms, expiration dates and imputed annual rates of interest.

The components of long term obligations at April 30, 2004 are as follows (in thousands):

	April 30, 2004
Capital leases	\$ 55
Term loan	148
SBA loan	402
Promissory note	83
Base promissory notes	6,321
Trailing promissory notes	3,275
Convertible note payable	2,825
	13,109
Less current maturities	(1,324)
	\$ 11,785
	\$ 11,785

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

NOTE 4 - CURRENT AND LONG TERM OBLIGATIONS (CURRENT)

NAC's current maturities and long term obligations at April 30, 2004



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are as follows (in thousands):

	April 30, 2004
	-----
2005	\$ 1,329
2006	1,180
2007	1,199
2008	1,260
2009	1,325
Thereafter	6,821
	-----
	13,114
less interest due under capital leases obligations	(5)
	-----
	\$ 13,109
	=====

The cost and accumulated depreciation for equipment under capital leases were \$335,000 and \$121,000, respectively at April 30, 2004.

NOTE 5 - 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.

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

NOTE 5 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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,

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(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 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 derivative 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. On or about May 29, 2002 the complaint was amended to include class action allegations (the "Zadra Amended Complaint"). The Zadra Amended Complaint contains allegations similar to those in the Delaware actions concerning the Board's approval of the employment agreement with James McNamara, option grants and past and future compensation to the Director Defendants, and the ZoomLot transaction. The Amended Complaint seeks (i) a declaration that as a result of approving these transactions the Director Defendants breached their fiduciary duties to NAC, (ii) a judgment enjoining defendants from proceeding with or exercising the option agreements, (iii) rescission of the option grants to defendants, if exercised, (iv) an order directing the Director Defendants to account for alleged profits and losses obtained by the Director Defendants as a result of the alleged various acts complained of, (v) awarding compensatory damages to NAC and the class, together with prejudgment interest, and (vi) an award of costs and expenses.

NAC has vigorously defended against each of the respective claims made in the Academy Complaint, Markovich Complaint, Harbor Complaint and the Zadra Amended 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 under the title "In re National Auto Credit, Inc. Shareholders Litigation," Civil Action No. 19028 NC (Delaware Chancery Court) ("Delaware Consolidated Derivative Action") and the Academy Complaint was deemed the operative complaint.

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### NOTE 5 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

The parties in the New York action thereafter engaged in settlement negotiations and the parties entered into a stipulation of settlement in December 2002, proposing to settle all class and derivative claims. In January 2003, the New York Supreme Court entered an order which, among other things, conditionally certified a class of shareholders for settlement purposes, approved the form of notice of the proposed settlement, and scheduled a hearing to approve the settlement. Notice of the proposed settlement was given to the shareholders of the Company and members of the class as per the Court's order in January and February 2003. Hearings on the proposed settlement were held on May 13, 2003 and October 15, 2003. Subsequent to the October 15, 2003 hearing, the New York Supreme Court approved the terms of the proposed settlement and issued the Court's written Order and Judgment in December 2003. Certain Plaintiffs in the Delaware Consolidated Action have objected to the terms of the settlement and have filed an appeal with the New York Appellate Court. The Appellate Court scheduled a preliminary conference in July 2004 to review the appeal.

In the Delaware Consolidated Action, a motion to dismiss that Action was also filed in 2002 and was denied by the Delaware court in January 2003. In January 2004, NAC re-filed a motion to dismiss the Delaware Consolidated Action based upon the New York Supreme Court's written Order and Judgment issued in December 2003. The Delaware Court has previously stayed further proceedings in the Consolidated Action pending issuance of the New York court's order. In April 2004, oral arguments were presented to the Delaware Court regarding NAC motion to dismiss. As of June 11, 2004, no decision has been made by the Delaware Court.

No predictions can be made with respect to the outcome of these matters and, accordingly, no provision for any loss or settlement that may occur has been recorded in the consolidated financial statement.

#### 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.

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

#### NOTE 5 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

NAC was 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 Plaintiffs, passengers in the vehicle.

In November 2003, the plaintiffs reached an agreement to settle with all parties against whom they had claims. In May 2004, the definitive agreements were executed and confirmed by the Circuit Court of Cook County dismissing the Plaintiffs action against NAC with prejudice without any further liability or cost to NAC.

Because of the uncertainties related to 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, 2004, NAC had accrued \$405,000 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.

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#### 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. NAC consummated a series of acquisitions during the year ended January 31, 2004 transforming its business operations into a multi-dimensional corporate communications and entertainment company. NAC specializes in the full service design, creative development, production, post production editing and transmission, via broadcast satellite videoconferencing, webcasting and traditional on-site presentations of corporate communication, education and training video and other services for use at corporate events. Additionally, NAC, through its investment in the Angelika Film Center LLC ("AFC"), operates in the movie exhibition industry. NAC acquired its investment in AFC in April 2000.

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### CRITICAL ACCOUNTING POLICIES

NAC's consolidated financial statements are prepared in accordance with generally accepted accounting principles, which require NAC to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses of NAC. Certain accounting policies are deemed "critical", as they require management's highest degree of judgment, estimates and assumptions. These accounting estimates and disclosures have been discussed with the Audit Committee of NAC's Board of Directors. A discussion of NAC's critical accounting policies, the judgments and uncertainties affecting their application, and the likelihood that materially different amounts would be reported under different conditions or using different assumptions are as follows:

#### Revenues

NAC recognizes revenue from video production, video editing, meeting services and broadcast satellite or webcast services when the video is complete and delivered or all technical services have been rendered. Deposits and other prepayments are recorded as deferred revenue until revenue is recognized. NAC does not have licensing or other arrangements that result in additional revenues following the delivery of the video or a broadcast. Costs accumulated in the production of the video, meeting services or broadcasts are deferred until the sale and delivery are complete. Deferred production costs of \$113,000 are included as a component of other current assets at April 30, 2004.

NAC recognizes revenue from designing and developing websites when the customer accepts the completed project. Deposits and other prepayments are recorded as deferred revenue until revenue is recognized. These contracts are limited to the design and development of websites. Clients have the option to engage NAC to maintain and upgrade their websites. These contracts are separate from the website development and design agreements, and the related revenue is recognized over the term of the contracts, which is generally up to one year.

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

NAC recognizes revenue from developing and maintaining websites pursuant to the requirements of Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP 97-2"), as amended by Statement of Position No. 98-9, "Software Revenue Recognition with Respect to Certain Arrangements." Under SOP 97-2, revenue attributable to an element in a customer arrangement is recognized when persuasive evidence of an arrangement exists and delivery has occurred, provided the fee is fixed or determinable, collectibility is probable and the arrangement does not require significant customization of the software. If at the outset of the customer arrangement, NAC determines that the arrangement fee is not fixed or determinable or that collectibility is not probable, NAC defers the revenue and recognizes the revenue when the arrangement fee becomes due and payable or, when collectibility is uncertain, as cash is collected.

#### Cost of Revenues

Cost of revenues consists of direct expenses specifically associated with client service revenues. The cost of revenues includes direct salaries and benefits, purchased products or services for clients, web hosting, support

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services, shipping and delivery costs.

### Accounts Receivable

NAC extends credit to clients in the normal course of business. NAC continuously monitors collections and payments from clients and maintain an allowance for doubtful accounts based upon historical experience and any specific client collection issues that have been identified. Since accounts receivable are concentrated in a relatively few number of clients, a significant change in the liquidity or financial position of any of these clients could have a material adverse impact on the collectability of the accounts receivable and future operating results.

### Valuation of Long-lived Assets and Goodwill

NAC reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable and it annually assesses whether goodwill has been impaired by comparing the carrying amount of the goodwill to its fair value. When it is determined that the carrying amount of long-lived assets or goodwill is impaired, impairment is measured by comparing an asset's estimated fair value to its carrying value. The determination of fair value is based on quoted market prices in active markets, if available, or independent appraisals; sales price negotiations; or projected future cash flows discounted at a rate determined by management to be commensurate with our business risk. The estimation of fair value utilizing discounted forecasted cash flows includes significant judgments regarding assumptions of revenue, operating and marketing costs; selling and administrative expenses; interest rates; property and equipment additions and retirements; and industry competition, general economic and business conditions, among other factors.

Management has determined that there was no impairment to our long-lived assets and goodwill on the basis of a review of a discounted cash flow analysis, which for goodwill is performed at the level of the subsidiaries to which the goodwill relates. If there is a material change in the assumptions used in the determination of fair value or a material change in the conditions or circumstances influencing fair value, NAC could be required to recognize a material impairment charge.

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

### Self-Insurance Claims

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

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satisfying those claims.

### Income Taxes

NAC recognizes deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Loss carrybacks, reversal of deferred tax liabilities, tax planning and estimates of future taxable income are considered in assessing the need for a valuation allowance. At the time it is determined that NAC is unable to realize deferred tax assets in excess of the recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should management determine that NAC would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made.

### FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS FROM OPERATIONS FOR THE THREE MONTHS ENDED APRIL 30, 2004

AS COMPARED TO THE THREE MONTHS ENDED APRIL 30, 2003

Revenues: Revenues for the three months ended April 30, 2004 were \$3.3 million and are comprised principally of revenues derived from the Acquired Companies operations, (i) OMI revenues of \$261,000 and (ii) The Campus Group revenues of \$3.0 million. Pro forma revenues for the three months ended April 30, 2003, computed by combining the revenues of NAC with the revenues of the Acquired Companies prior to their acquisition, were \$3.2 million as compared to revenues of \$3.3 million for the three months ended April 30, 2004.

For the three months ended April 30, 2003, pro forma revenues for The Campus Group were \$2.7 million as compared to revenues of \$3.0 million for the three months ended April 30, 2004. The increase in revenues of \$338,000 for the three months ended April 30, 2004 as compared to pro forma revenues for the three months ended April 30, 2003 was principally due to the net effect of (i) an increase in revenues of \$775,000 resulting from timing of certain assignments with larger clients, which created a increase in both the scope and the frequency of video production and broadcast services during the period, offset by (ii) a decrease of \$437,000 in revenues due to a decrease in the number of support and data collection service assignments for smaller corporate and other meetings scheduled during the three months ended April 30, 2004.

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

For the three months ended April 30, 2003, pro forma revenues for OMI were \$509,000 as compared to revenues of \$261,000 for the three months ended April 30, 2004. The decrease in revenues of \$248,000 for the three months ended April 30, 2004 as compared to pro forma revenues for the three months ended April 30, 2003 was principally due to a reduction in the number, scope and value of assignments completed from period to period.

Cost of Revenues: Cost of revenues for three months April 30, 2004 were \$1.9 million and are comprised principally of cost of revenues derived from the Acquired Companies operations, (i) The Campus Group cost of revenues of \$1.7 million and (ii) OMI cost of revenues of \$174,000. The average gross margin for

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the three months ended April 30, 2004 was 41.3% and 33.8% for The Campus Group and OMI, respectively. The average gross margins for the Acquired Companies are comparable to the average gross margins of the Acquired Companies at similar revenue levels prior to NAC's acquisition.

Selling, General and Administrative ("SG&A"): For the three months ended April 30, 2004, SG&A expenses includes SG&A expenses of OMI's operations ("OMI SG&A"), The Campus Group's operations ("Campus SG&A") and NAC's personnel, occupancy, legal, professional, insurance and other general corporate overhead costs ("NAC SG&A"). As a consequence of the acquisition of OMI effective April 1, 2003, SG&A expenses for the three months ended April 30, 2003 includes OMI SG&A for one month and NAC SG&A for three months.

For the three months ended April 30, 2004, SG&A expense was \$1.9 million comprised of (i) Campus SG&A of \$760,000, (ii) OMI SG&A of \$304,000, and (iii) NAC SG&A of \$866,000. SG&A for the Acquired Companies have remained comparable to their historical levels prior to NAC's acquisition. NAC SG&A for the three months ended April 30, 2004 was \$866,000 as compared to \$788,000 for the three months ended April 30, 2003. The increase of \$78,000 of NAC SG&A for the three months April 30, 2004 as compared to the three months ended April 30, 2003 was due principally to increased personnel and corporate insurance costs as a consequence of the acquisitions.

Income from AFC Investment: NAC accounts for its investment in AFC using the equity method. For the three months ended April 30, 2004 and 2003, NAC recorded income of \$78,000 and \$119,000, respectively, representing NAC's share of AFC's net income for the three months ended March 31, 2004 and 2003, respectively.

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

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

	Three Months Ended March 31,	
	2004	2003
Revenues	\$ 1,305	\$ 1,603
Film rental	260	392
Operating costs	633	736
Depreciation and amortization	214	205
General and administrative expenses	42	31
	1,149	1,364
Net income	\$ 156	\$ 239
NAC's proportionate share of net income	\$ 78	\$ 119



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AFC's revenues decreased \$298,000 for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003, principally as a result of (i) a 20.1% decrease in attendance, (ii) a decrease of \$27,000 in other, concession and cafe revenues and (iii) stable ticket prices period-to-period. 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 4.6% to 19.9% from 24.5% for the three months ended March 31, 2004 and 2003, 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, increased 2.6% to 48.5% for the three months ended March 31, 2004 as compared to 45.9% for the three months ended March 31, 2003 due principally to an increase in revenues. The nature of AFC's operating costs tend to generally be more fixed overhead-related costs and advertising expenses.

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 periods ended April 30, 2004 and April 30, 2003. 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.

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

#### LIQUIDITY AND CAPITAL RESOURCES

Throughout the three months ended April 30, 2004 and as of June 11, 2004, NAC had no external source of financing, and has operated on its existing cash balances, cash flows from The Campus Group and OMI and distributions from its investment in AFC. 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, 2004 NAC had cash of \$325,000 and \$2.1 million income tax refund receivable which together with any cash flow derived from its investment in AFC and the operations of The Campus Group and OMI will be used to pursue such opportunities. Additionally, NAC will continue to pursue reductions in its operating expenses and new debt or equity financing (there can be no assurance NAC will obtain such financing) as means of supplementing the resources available to pursue new opportunities.

As a consequence of NAC's acquisition of The Campus Group effective July 31, 2003, NAC issued to Mr. Campus and certain family trusts promissory notes of \$9.9 million and issued to a family trust a convertible promissory note of \$2.8 million. Of the \$9.9 million in promissory notes issued by NAC, \$6.6 million of the promissory notes ("Base Notes") bear interest at 5% per annum and are repayable in quarterly installments according to a formula based upon the future cash flows realized from The Campus Group over a period not to exceed seven years. The remaining \$3.3 million in promissory notes ("Trailing Notes") issued by NAC bear interest at 5% per annum and are repayable in quarterly installments, commencing upon the retirement of the Base Notes, according to a formula based upon the future cash flows realized from The Campus Group over a

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period not to exceed three years subsequent to the retirement of the Base Notes. The \$2.8 million convertible promissory note (i) bears interest at 5% per annum, payable quarterly in cash or accumulating as principal at the election of NAC, (ii) requires principal payments commence upon the retirement of the \$9.9 million of Base Notes and the Trailing Notes and is then repayable in quarterly installments according to a formula based upon the future cash flows realized from The Campus Group over a period not to exceed three years and (iii) is convertible at the option of the holder into shares of NAC common stock at a base conversion price of \$1.50 per share. The holder may not convert the convertible promissory note into NAC common stock prior to repayment of the Base Notes and the Trailing Notes. The promissory notes are secured by the capital stock of the companies comprising The Campus Group.

As a consequence of NAC's acquisition of OMI effective April 1, 2003, NAC assumed \$814,000 in bank debt and capital lease obligations to financial institutions and issued a promissory note payable to Mr. Thompson in the amount of \$153,000.

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

During 2001, OMI obtained a \$300,000 bank term loan (the "Term Loan") to finance certain capital expenditures. The Term Loan is payable in monthly installments of \$6,000, comprised of principal and interest, over a five year term, expiring in July 2006. The Term Loan bears interest at the rate of 8.25% per annum. The Term Loan is collateralized by substantially all of OMI's assets and the personal guarantee of Mr. Thompson. In April 2004, as a consequence of a change in control provision with the Term Loan, the bank has requested repayment of the Term Loan. NAC has classified the Term Loan as a component of current maturities at April 30, 2004. The outstanding balance of the Term Loan at June 11, 2004 is \$142,000.

On April 25, 2002, OMI obtained a \$402,000 loan guaranteed by the U.S. Small Business Administration (the "SBA Loan") to finance losses incurred as a result of the September 11, 2001 terrorist attacks in New York City. At April 30, 2004, the SBA Loan of \$402,000 is repayable in monthly installments of \$3,309 beginning in May 2004, with the last payment due in April 2017. The SBA Loan bears no interest through May 2004 and at the rate of 4% per annum thereafter.

At April 30, 2004, the \$83,000 promissory note payable to Mr. Thompson is payable in monthly installments of principal and interest over a 36 month period expiring April 2006. The promissory note bears interest at 5% per annum.

OMI leases computer equipment under several different capital leases with finance institutions with various payments terms, expiration dates and imputed annual rates of interest. At April 30, 2004, amounts outstanding under the capital leases were \$55,000.

For the three months ended April 30, 2004, NAC's cash and cash equivalents decreased \$51,000 due to the net effects of (i) cash flows generated from operations of \$82,000, (ii) capital expenditures of \$105,000 and (iii) the repayment of debt of \$24,000.

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NAC believes that the available cash and cash equivalents totaling \$325,000 at April 30, 2004, the collection of the federal income tax refund of \$2.1 million and any cash distributions from its investment in AFC and cash flow from the Acquired Companies' operations will be sufficient to pay operating expenses, existing liabilities, fund existing debt repayments and fund its activities through the next twelve months as NAC explores new strategic business alternatives. As discussed in Note 5 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, no prediction can be made with respect to their ultimate outcomes. Accordingly, no provision for any loss or settlement that may occur has been recorded in the consolidated financial statements. 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.

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

#### NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued FASB Interpretation ("FIN") No. 46, Consolidation of Variable Interest Entities. FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or in which equity investors do not bear the residual economic risks. The interpretation was immediately applicable to variable interest entities ("VIEs") created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. It applies in the fiscal year or interim period beginning after December 15, 2003, to VIEs in which an enterprise holds a variable interest that was acquired before February 1, 2003. FIN No. 46 was adopted by NAC effective February 1, 2004. 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.

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### FORWARD-LOOKING STATEMENTS

Some of the information in this report contains forward looking statements within the meaning of the federal securities laws that relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause us or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. You should not rely on forward-looking statements in this report. Forward-looking statements typically are identified by use of terms such as "anticipate", "believe", "plan", "expect", "intend", "may", "will", "should", "estimate", "predict", "potential", "continue" and similar words although some forward-looking statements are expressed differently. This report also contains forward-looking statements attributed to third parties relating to their estimates regarding the growth of our markets. All forward-looking statements address matters that involve risk and uncertainties, and there are many important risks, uncertainties and other factors that could cause our actual results, as well as those of the markets we serve, levels of activity, performance, achievements and prospects to differ materially from the forward-looking statements contained in this report. You should also consider carefully the statements under "Risk Factors" and other sections of this report which address additional facts that could cause our actual results to differ from those set forth in the forward-looking statements. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future developments or otherwise.

### 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.

As of April 30, 2004, the interest rates under NAC's long term and convertible debt are fixed. As a result NAC has limited market risk associated with market interest rates.

### ITEM 4. CONTROLS AND PROCEDURES

In accordance with Item 307 of Regulation S-K promulgated under the Securities Act 1933, as amended, and within 90 days of the date of this Quarterly Report on Form 10-Q (the "Evaluation Date"), the Chief Executive Officer and the Chief Financial Officer of NAC (the "Certifying Officers") have conducted evaluations of NAC's disclosure controls and procedures. As defined under Sections 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal

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executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Certifying Officers have reviewed NAC's disclosure controls and procedures and have concluded that (subject to the qualifications and disclosures set forth herein below) those

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disclosure controls and procedures are effective as of the date of this Quarterly Report on Form 10-Q. In compliance with Section 302 of the Sarbanes-Oxley Act of 2002, (18 U.S.C. 1350), each of the Certifying Officers executed an Officer's Certification included in this Quarterly Report on Form 10-Q.

As of this Quarterly Report on Form 10-Q, there have not been any significant changes in NAC's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including corrective actions with regard to significant deficiencies and material weaknesses.

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### 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

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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 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.

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On October 12, 2001, NAC received a derivative 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. On or about May 29, 2002 the complaint was amended to include class action allegations (the "Zadra Amended Complaint"). The Zadra Amended Complaint contains allegations similar to those in the Delaware actions concerning the Board's approval of the employment agreement with James McNamara, option grants and past and future compensation to the Director Defendants, and the ZoomLot transaction. The Amended Complaint seeks (i) a declaration that as a result of approving these transactions the Director Defendants breached their fiduciary duties to NAC, (ii) a judgment enjoining defendants from proceeding with or exercising the option agreements, (iii) rescission of the option grants to defendants, if exercised, (iv) an order directing the Director Defendants to account for alleged profits and losses obtained by the Director Defendants as a result of the alleged various acts complained of, (v) awarding compensatory damages to NAC and the class, together with prejudgment interest, and (vi) an award of costs and expenses.

NAC has vigorously defended against each of the respective claims made in the Academy Complaint, Markovich Complaint, Harbor Complaint and the Zadra Amended 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 under the title "In re National Auto Credit, Inc. Shareholders Litigation," Civil Action No. 19028 NC (Delaware Chancery Court) ("Delaware Consolidated Derivative Action") and the Academy Complaint was deemed the operative complaint.

The parties in the New York action thereafter engaged in settlement negotiations and the parties entered into a stipulation of settlement in

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December 2002, proposing to settle all class and derivative claims. In January 2003, the New York Supreme Court entered an order which, among other things, conditionally certified a class of shareholders for settlement purposes, approved the form of notice of the proposed settlement, and scheduled a hearing to approve the settlement. Notice of the proposed settlement was given to the shareholders of the Company and members of the class as per the Court's order in January and February 2003. Hearings on the proposed settlement were held on May 13, 2003 and October 15, 2003. Subsequent to the October 15, 2003 hearing, the New York Supreme Court approved the terms of the proposed settlement and issued the Court's written Order and Judgment in December 2003. Certain Plaintiffs in the Delaware Consolidated Action have objected to the terms of the settlement and have filed an appeal with the New York Appellate Court. The Appellate Court scheduled a preliminary conference in July 2004 to review the appeal.

In the Delaware Consolidated Action, a motion to dismiss that Action was also filed in 2002 and was denied by the Delaware court in January 2003. In January 2004, NAC re-filed a motion to dismiss the Delaware Consolidated Action based upon the New York Supreme Court's written Order and Judgment issued in December 2003. The Delaware Court has previously stayed further proceedings in the Consolidated Action pending issuance of the New York court's order. In April 2004, oral arguments were presented to the Delaware Court regarding NAC motion to dismiss. As of June 11, 2004, no decision has been made by the Delaware Court.

No predictions can be made with respect to the outcome of these matters and, accordingly, no provision for any loss or settlement that may occur has been recorded in the consolidated financial statement.

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### 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 was 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 Plaintiffs, passengers in the vehicle.

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In November 2003, the plaintiffs reached an agreement to settle with all parties against whom they had claims. In May 2004, the definitive agreements were executed and confirmed by the Circuit Court of Cook County dismissing the Plaintiffs action against NAC with prejudice without any further liability or cost to NAC.

Because of the uncertainties related to 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, 2004, NAC had accrued \$405,000 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.

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### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### A) EXHIBITS

EXHIBIT NUMBER	TITLE OF EXHIBIT
31.1	Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)
31.2	Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)
32.2	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)
32.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

#### B) REPORTS ON FORM 8-K

None

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934,



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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 11, 2004  
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By: /s/ James J. McNamara  
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James J. McNamara  
Chairman of the Board and  
Chief Executive Officer

By: /s/ Robert V. Cuddihy, Jr.  
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Robert V. Cuddihy, Jr.  
Chief Financial Officer