

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

NATIONAL AUTO CREDIT INC /DE
Form 10-K
May 01, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934
For the fiscal year ended January 31, 2003

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

555 Madison Avenue, 29th Floor, New York New York 10022

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (212) 644-1400

Securities registered pursuant to Section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:

Title of each class

COMMON STOCK, PAR VALUE \$.05 PER SHARE

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 and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy of this Form 10-K or any amendment to this Form 10-K. ()

As of April 25, 2003, 8,030,614 shares of Common Stock of National Auto Credit, Inc. were outstanding.

Aggregate market value of the registrant's Common Stock held by non-affiliates at April 25, 2003, was approximately \$840,670 (Based on the closing price of the registrant's common stock on the OTC Bulletin Board on April 25, 2003).

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

DOCUMENTS INCORPORATED BY REFERENCE
None

TABLE OF CONTENTS

Part I		Page

Item	1. Business.....	1
	2. Properties.....	4
	3. Legal Proceedings.....	4
	4. Submission of Matters to a Vote of Security Holders.....	7
Part II		
Item	5. Market for Registrant's Common Equity and Related Stockholder Matters.....	8
	6. Selected Financial Data.....	9
	7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10
	7a. Quantitative and Qualitative Disclosures About Market Risk.....	20
	8. Financial Statements and Supplementary Data.....	21
	9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	67
Part III		
Item	10. Directors and Executive Officers of the Registrant.....	67
	11. Executive Compensation.....	69
	12. Security Ownership of Certain Beneficial Owners and Management.....	74
	13. Certain Relationships and Related Transactions.....	75
	14. Controls and Procedures	76
Part IV		
Item	15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	77

PART I

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

National Auto Credit, Inc. ("the Company" or "NAC") began operations in 1969 and was incorporated in Delaware in 1971. Through 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. However, as the consequence of NAC's

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

strategic review, as described below, completed 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 a result, since January 1, 2002 NAC has been engaged principally in the movie exhibition segment.

NAC uses a January 31 year-end for financial reporting purposes. References herein to the fiscal year ended January 31, 2003 shall be the term "Fiscal 2003" 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.

NAC's principal executive offices are located at 555 Madison Avenue, 29th Floor, New York, New York, 10022. Its telephone number is 212-644-1400.

Significant Developments in and Subsequent to Fiscal 2003

Throughout Fiscal 2003 NAC engaged principally in the movie exhibition segment while examining new business opportunities.

In April 2003, NAC consummated a Merger Agreement whereby NAC acquired all of the outstanding common stock of ORA/Metro Incorporated, also known as OMI Business Communications ("OMI"), from Dean R. Thompson, sole stockholder of OMI. OMI, headquartered in New York, New York, is a multi-media production services, corporate meeting services, web-site development and web content management company. OMI specializes in the full service design, creative development, production and post production editing of corporate communication and training videos for use at corporate events and as collateral content material for client web-sites. Additionally, OMI frequently provides event planning services including site selection, survey, event management and related services associated with remote location presentations. 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 \$28,000 (ii) assumed approximately \$900,000 in bank debt and capital lease obligations to financial institutions and (iii) issued a promissory note payable to Mr. Thompson in the amount of \$151,000, 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 approximately \$2.5 million and \$3.4 million, respectively, OMI incurred net losses of approximately \$356,000 and \$27,000 for those years, respectively. For financial reporting purposes, the effective date of the merger is April 1, 2003.

1

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, the 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.

NAC continues to examine new business opportunities, which may be pursued through the investment in or acquisition of existing corporate operating businesses or other means. At January 31, 2003 NAC had cash and marketable securities of \$2.9 million, \$5.6 million income tax refundable and approximately

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

\$500,000 accrued interest due NAC on the outstanding income tax receivable (a component of other assets at January 31, 2003), which together with any cash flow derived from its investment in AFC and the operations of 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 (for which there can be no assurance NAC will obtain such financing) as means of supplementing the resources available to pursue new opportunities.

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 the steps to discontinue both its e-commerce and auto financing segments. 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 were classified as discontinued operations as of January 31, 2002.

MOVIE EXHIBITION BUSINESS

NAC engages in the movie exhibition business through its investment in AFC. AFC is the owner of the Angelika Film Center which it holds under a long term lease having a remaining term of approximately 23 years. AFC is owned 50% by NAC and 50% by Reading International, Inc. Each of the owners of AFC are entitled to a proportionate share of the cash distributions that are paid by AFC.

The Angelika Film Center is a 17,000 square foot, six screen multiplex theater and cafe that focuses on the exhibition of art and specialty films. The exhibition of art and specialty films, while seasonal in nature, is less so than the film exhibition business in general. Art and specialty films tend to be released more evenly over the course of the year and, if successful, tend to enjoy a longer run than wide release films. Art and specialty films are obtained from a number of sources ranging from divisions of the larger film distributors specializing

2

in specialty films to individuals that have acquired domestic rights to one film. Generally film payment terms are based on an agreed upon percentage of the box office receipts.

AUTOMOBILE FINANCING BUSINESS - DISCONTINUED

NAC's automobile financing operation historically involved investing in sub-prime used automobile consumer loans, which took the form of installment

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

loans collateralized by the related vehicle. NAC purchased such automobile loans, or interests in pools of such loans (collectively "loan investments"), from member dealers through its wholly-owned subsidiary, NAC, Inc. NAC performed the underwriting and collection functions for all automobile loans it purchased in whole, and also performed such functions where NAC had purchased interests in a pool of such loans. NAC's operations enabled member dealers to provide used car purchase financing to customers who had limited access to more traditional consumer credit sources that might otherwise be unable to obtain financing.

The business of investing in sub-prime automobile loans involves investing in loans which are high risk, in that the borrowers are individuals with below average credit quality, and the collateral is subject to loss, damage, significant declines in value and difficulties of repossession. Accordingly, each individual loan had a significant risk of not performing in accordance with its contractual terms. The business relied on mitigating this risk by acquiring large numbers of loans, thus reducing the exposure to the risk of the default on any one particular loan, and on reasonably estimating the credit losses to be incurred and setting loan purchase prices accordingly. An inability to reasonably predict the future performance of loans purchased, or to set loan purchase prices that properly reflected those estimates, could significantly increase the risk of material losses from the business of investing in sub-prime used automobile loans.

In Fiscal 2001 NAC sold all of the automobile retail installment loans remaining in NAC's active loan portfolio and substantially all of its remaining charged-off automobile installment loans. After the sale of such loans NAC eliminated essentially all personnel who had previously been engaged in NAC's loan underwriting, processing and collection operations. Effective December 31, 2001, NAC discontinued its automobile financing operation.

E-COMMERCE BUSINESS - DISCONTINUED

NAC conducted its e-commerce business through ZoomLot. ZoomLot was engaged in the development of services to facilitate, through e-commerce, 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 car dealer's customers with financing, insurance, and other services. ZoomLot's service of matching the consumer automobile loans, or "contracts" submitted by dealers wishing to sell contracts which were retained by them upon the sale of a vehicle against the underwriting criteria of finance companies, and then submitting those contracts to the finance companies whose underwriting criteria the contracts meet, is commonly referred to as "contract aggregation".

ZoomLot was formed in March 2000 for the purpose of acquiring the Internet-based operations of Cygnet Dealer Finance, Inc. ("CDF"), an affiliated company and acquired these operations from CDF on July 1, 2000. Prior to that date, ZoomLot, which commenced operations in January 2000, was operated as a division of CDF. ZoomLot and CDF share common management, certain personnel, and facilities. In connection with the acquisition of the Internet-based business from CDF, ZoomLot and CDF entered into a management services contract whereby ZoomLot provided management services and was responsible for substantially all operating expenses of CDF in exchange for a monthly management fee equivalent to .625% (7.5% annually) of CDF's

loan portfolio managed by ZoomLot. For Fiscal 2003, as a result of the discontinued operations, ZoomLot did not realize CDF management fees. For Fiscal 2002 and the period from December 15, 2000 (the date of NAC's acquisition of ZoomLot) until January 31, 2001, CDF paid ZoomLot management fees of \$626,000 and \$145,000, respectively. Under this arrangement, NAC accounted for the

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

management fees as a reduction of ZoomLot's operating expenses which have been included in the loss from discontinued operations.

EMPLOYEES

As of January 31, 2003, NAC employed four people, all located at its corporate headquarters in New York. None of NAC's employees are covered by a collective bargaining agreement. NAC believes it maintains good relations with its employees.

ITEM 2. PROPERTIES

NAC's corporate headquarters are leased premises of approximately 5,500 square feet of office space in New York, New York. The aggregate annual base rental for the New York office is \$199,000. The lease expires in July 2006.

NAC leases a document storage warehouse of approximately 6,400 square feet in Solon, Ohio. The aggregate annual base rental for the warehouse is \$28,800. The lease expires in June 2004.

ZoomLot's operations were conducted from office space of approximately 11,000 square feet in Phoenix, Arizona. The aggregate annual base rental for the Phoenix office is \$276,000. The lease expires in September 2006. ZoomLot has subleased its office facility to an unrelated third party in the real estate development industry through the remaining term of the lease at an annual rate of \$253,000. NAC charged as a reduction of the gain on the disposal of ZoomLot's discontinued operations in Fiscal 2002 the annual rate differential of \$23,000 per year, plus the cost of certain operating expenses due under the terms of the master lease and sublease agreements.

ITEM 3. 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 ("ZoomLot"), (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.

4

On August 16, 2001, NAC received a derivative 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

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

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, (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 derivative 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.

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

The parties in New York 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. The hearing on the proposed settlement is scheduled for May 14, 2003. Certain shareholders, including the plaintiffs in the Delaware Consolidated Action have objected to the terms of the proposed settlement. A motion to dismiss the Delaware Consolidated Derivative Action was also filed in 2002 which was denied by the Delaware court in January 2003. As each of these litigation matters remains in their 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. See Note 13 to Notes to Consolidated Financial Statements

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 Plaintiffs, 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 TIG Insurance Company ("TIG"), to take over the defense of this action and indemnify NAC up to the policy limits. However, as a

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

result TIG filed a suit (TIG Insurance Company 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

6

an "excess insurer" of NAC in connection with the Smith and Simpson action and that under Illinois law, NAC's (and thereafter TIG's) financial responsibility is capped at an amount 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 been resolved. TIG made a motion to have the court reconsider its decision and NAC filed a response arguing that the court should take action on this matter at this time. The Court granted TIG's motion and permitted the action to proceed. NAC's answer was filed in May 2002. Thereafter, in August 2002, TIG filed a motion for summary judgment, asserting that NAC has no liability to Smith and Simpson; that if NAC is liable, such liability is capped in an amount far less than what Plaintiff is seeking in the state court action; and that it also has no liability to NAC under its excess insurance policy. NAC filed its own cross-motion for summary judgment, asserting that it has no liability to Smith and Simpson; and that if there is any liability it is capped under Illinois state law, or, if not capped, then TIG's excess insurance coverage applies. Smith and Simpson filed their own cross-motion for summary judgment, asserting that NAC is liable for Smith and Simpson's injuries and that NAC's liability is not capped under Illinois law. On February 3, 2003, the Court granted the motions of TIG and NAC for summary judgment, and denied the motion for summary judgment of Smith and Simpson. The Court concluded that NAC bears no financial responsibility to Smith and Simpson because, under the express terms of the rental agreement at issue, Bennett was not a listed additional driver on the underlying rental contract. The Court further concluded that TIG, as NAC's excess insurance carrier, has no responsibility to defend or indemnify the Bennett estate. Motions for reconsideration were filed by Smith and Simpson in February and March but were denied by the Court. On April 11, 2003, Smith and Simpson filed a Notice of Appeal of the Courts' decisions. The Company intends to vigorously oppose this appeal.

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 January 31, 2003 NAC had accrued \$518,000 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.

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

No items were submitted to a vote of Security Holders during the fourth quarter of Fiscal 2003.

7

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

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

NAC's Common Stock, \$.05 par value, has been trading on the Over-The-Counter Bulletin Board (the "OTCBB"), operated by The Nasdaq Stock Market, Inc., since March 23, 1998 under the ticker symbol "NAKD." Prior to that date, NAC's Common Stock was traded on the New York Stock Exchange under the symbol NAK.

The following table sets forth the range of the high and low quotations for Common Stock on the OTCBB during the periods indicated as reported by the National Quotation Bureau, Inc. Such market quotations reflect inter-dealer prices, without mark-up, mark-downs or commissions and may not necessarily represent actual transactions

	High -----	Low -----
Year ended January 31, 2003		
First Quarter (February 1 - April 30).....	\$.24	\$.
Second Quarter (May 1 - July 31).....	.16	.
Third Quarter (August 1 - October 31).....	.20	.
Fourth Quarter (November 1 - January 31)...	.16	.
Year ended January 31, 2002		
First Quarter (February 1 - April 30).....	\$.36	\$.
Second Quarter (May 1 - July 31).....	.28	.
Third Quarter (August 1 - October 31).....	.28	.
Fourth Quarter (November 1 - January 31)...	.19	.

STOCKHOLDERS

At April 25, 2003 there were 1,184 stockholders of record of NAC's Common Stock based upon a securities position listing furnished to NAC by American Stock Transfer & Trust Company. On that date, the closing bid quotation of the Common Stock on OTCBB was \$0.16 per share.

DIVIDEND POLICY

It has been NAC's policy to retain any earnings and preserve its cash resources to finance the growth of its business, provide resources for future acquisition(s) and reduce outstanding debt and other liabilities; accordingly, NAC has generally not issued a cash dividend. However, NAC does from time to time reassess its cash dividend policy and may issue cash dividends in the future if circumstances warrant. No cash dividends were declared for the fiscal years ended January 31, 2003 and 2002.

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

ITEM 6. SELECTED FINANCIAL DATA

The following sets forth certain selected financial data appearing in or derived from NAC's historical financial statements, adjusted for the discontinued operations of its e-commerce, automobile finance and auto rental business. The selected financial data should be read in conjunction with the consolidated financial statements appearing elsewhere herein, and with Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations (in thousands, except per share amounts):

STATEMENT OF OPERATIONS DATA

	Years Ended January 31,			
	2003	2002	2001	2000
Revenue	\$ 1,017	\$ 445	\$ 4,102	\$ 2,28
Costs and expenses	\$ 3,506	\$ 5,933	\$ 50,609	\$ 22,94
Loss from continuing operations	\$ (419)	\$ (5,488)	\$ (46,507)	\$ (20,66
Discontinued operations, net of tax(1)	310	(9,174)	(1,084)	7,37
Gain (loss) on disposal of discontinued operations, net of tax(1)	--	394	308	(2
Net loss	\$ (109)	\$ (14,268)	\$ (47,283)	\$ (13,31
Basic and diluted (loss) earnings per share				
Continuing operations	\$ (.05)	\$ (.47)	\$ (1.67)	\$ (.7
Discontinued operations	.04	(.78)	(.04)	.2
Disposal of discontinued operations	--	.03	.01	--
Total	\$ (.01)	\$ (1.22)	\$ (1.70)	\$ (.4
Weighted average number of shares outstanding				
Basic	8,380	11,692	27,761	28,16
Diluted	8,380	11,692	27,761	28,16

As of January 31,

	2003	2002	2001	2000
	BALANCE SHEET DATA			
Cash and cash equivalents	\$ 1,873	\$ 6,122	\$ 12,444	\$ 54,33
Total assets	18,712	20,534	39,066	103,96
Notes payable	--	--	--	--
Redeemable preferred stock(2)	--	--	629	--
Total stockholders' equity	16,110	16,325	31,455	83,87

(1) See Note 8 of Notes to Consolidated Financial Statements for further discussion of discontinued operations.

(2) See Notes 7 and 8 of Notes to Consolidated Financial Statements for further

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

discussion of Series C Redeemable Preferred Stock.

9

ITEM 7. 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 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. However, as the consequence of NAC's strategic review, as described below, completed 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 a result, since January 1, 2002 NAC has been engaged principally in the movie exhibition segment.

Significant Developments in and Subsequent to Fiscal 2003

Throughout Fiscal 2003 NAC engaged principally in the movie exhibition segment while examining new business opportunities.

In April 2003, NAC consummated a Merger and Plan of Reorganization Agreement whereby NAC acquired all of the outstanding common stock of ORA/Metro Incorporated, also known as OMI Business Communications ("OMI"), from Dean R. Thompson, sole stockholder of OMI. OMI, headquartered in New York, New York, is a multi-media production services, corporate meeting services, web-site development and web content management company. OMI specializes in the full service design, creative development, production and post production editing of corporate communication and training videos for use at corporate events and as collateral content material for client web-sites. Additionally, OMI frequently provides event planning services including site selection, survey, event management and related services associated with remote location presentations. 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 \$28,000 (ii) assumed approximately \$900,000 in bank debt and capital lease obligations to financial institutions and (iii) issued a promissory notes payable to Mr. Thompson in the amount of \$151,000, 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 approximately \$2.5 million and \$3.4 million, respectively, OMI incurred net losses of approximately \$356,000 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

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

will be entitled to base compensation of \$175,000 per year, the 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.

10

Throughout the year ended January 31, 2003 and as of April 30, 2003, NAC had no external source of financing, and has operated on its existing cash balances 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 January 31, 2003 NAC has cash and marketable securities of \$2.9 million, \$5.6 million income tax refund able and approximately \$500,000 accrued interest due NAC on the outstanding income tax receivable (a component of other assets at January 31, 2003), which together with any cash flow derived from its investment in AFC and the operations of OMI 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.

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 the steps to discontinue its e-commerce operations. 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.

Significant Developments in Fiscal 2002

In connection with NAC's decision to discontinue the operations of ZoomLot, NAC entered into formal negotiations with the former shareholders of ZoomLot to resolve certain financial obligations of NAC and of the former ZoomLot shareholders resulting from the terms of the Merger Agreement and Plan of Reorganization dated December 15, 2000 (the "Merger Agreement"). Under the Merger Agreement, 666,667 shares of Series C Preferred Stock issued in the acquisition of ZoomLot were forfeitable if ZoomLot did not reach certain

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

financial performance goals by December 31, 2003, and NAC was obligated to redeem, at the option of the holders, the 729,047 shares of the Series C Preferred Stock issued under the Merger Agreement, at a per share price equal to the greater of \$15.00 or ten times the fair market price of NAC's Common Stock, if ZoomLot did reach those financial performance goals. Additionally, Ernest G. Garcia II, Cygnet Capital Corporation or Verde Reinsurance Company Ltd., former ZoomLot shareholders, were obligated to make a payment of \$5.2 million to NAC if ZoomLot did not reach the financial performance goals by December 31, 2003. As the result of shares of NAC Common Stock issued upon the conversion of the Series B Preferred Stock issued in the acquisition of ZoomLot, and open market purchases, Mr. Garcia had become the beneficial owner of 17.7% of the then outstanding shares of Common Stock of NAC.

11

Since NAC discontinued ZoomLot's operations, it was necessary to resolve the effect of that on the obligations of NAC and the former ZoomLot stockholders under the Merger Agreement. As a result of the negotiations, on January 31, 2002, NAC entered into an Exchange and Repayment Agreement ("Exchange Agreement") dated January 31, 2002 with Mr. Garcia, Cygnet Capital Corporation, Verde Reinsurance Company Ltd., Ernie Garcia III 2000 Trust, Brian Garcia 2000 Trust, EJMS Investors Limited Partnership, Ernest C. Garcia II, Ray Fidel, Steven P. Johnson, Mark Sauder, Colin Bachinsky, Chris Rompalo, Donna Clawson, Mary Reiner, and Kathy Chacon, who collectively were the former shareholders of ZoomLot.

The Exchange Agreement sets forth the agreement among all the parties to terminate the operations of ZoomLot. The parties agreed, among other things, that the financial performance goals (specifically the "First Objective" and the "Second Objective" as those terms are defined in the Merger Agreement) had not and would not be met. Accordingly, the 666,667 shares of Series C Preferred Stock forfeitable if those goals were not met were deemed forfeited and were returned and surrendered to NAC. For financial reporting purposes, those shares of Series C Preferred Stock had been treated as contingently issuable, and accordingly their return had no effect on NAC's consolidated financial statements.

Additionally, under the Exchange Agreement, the contingent obligation of Mr. Garcia, Cygnet Capital Corporation or Verde Reinsurance Company Ltd., to make a payment of \$5.2 million to NAC if ZoomLot did not reach the financial performance goals by December 31, 2003 was resolved by (i) the transfer back to NAC of 3,079,530 shares of NAC Common Stock, which for the purposes of the Exchange Agreement were valued at \$1.25 per share, (ii) the return to NAC of 62,380 shares of NAC Series C Redeemable Preferred Stock at an aggregate agreed-upon value of \$854,875, which represented the carrying amount of such shares of Series C Preferred Stock in NAC's consolidated financial statements, and (iii) the issuance to NAC of a promissory note in the amount of \$986,048, payable, together with interest at 4% per annum, in cash or NAC Common Stock (at a mutually agreed-upon value of \$1.25 per share) on or before January 30, 2003.

For financial reporting purposes, NAC recorded the 3,079,530 shares of Common Stock returned under the Exchange Agreement at \$431,000, representing their market value of the basis of the quoted market price of NAC's Common Stock, recorded the 62,380 shares of Series C Redeemable Preferred Stock returned at their aggregate carrying amount of \$854,875, and recorded the note receivable, a component of other assets, at a net value of \$110,000 reflecting the market value at January 31, 2002 of the shares of NAC Common Stock the maker of the note has the option to tender in payment of the principal. NAC also incurred or accrued costs of \$850,000 for the winding down and closing of ZoomLot's operations, including rental and broker costs to sublease ZoomLot's

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

corporate office, employee severance costs and costs of early lease terminations. As a result, NAC recognized a net gain on the disposal of ZoomLot's operation of \$394,000. See "Discontinued Operations" and Note 8 of Notes to Consolidated Financial Statements.

On August 29, 2002, the former ZoomLot shareholders transferred to NAC 409,140 shares of NAC Common Stock as an installment payment against the promissory note. The market value of the 409,140 shares at the date of their transfer was \$16,000 less than the \$56,000 carrying amount of the note extinguished by the transfer, and, accordingly, NAC recorded the surrendered shares at their market value of \$40,000 and a note receivable collectability charge (included in general and administrative expenses) for the \$16,000 deficiency. On November 13, 2002, the former ZoomLot shareholders transferred to NAC 402,000 shares of NAC common stock with a net value of \$56,000 as the second and final payment against the promissory note.

12

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. In the first and second quarters for the year ended January 31, 2001, NAC sold its active loan portfolio and the majority of its charged-off portfolio. However, since NAC had not, until December 2001, made a definitive decision that it would not reenter the consumer lending business, either through ZoomLot or another means, the automobile financing operations had not previously been classified as a discontinued operation. As a result of the formal decision reached in connection with the decision to discontinue ZoomLot's operations, the automobile financing operations were classified as a discontinued operation as of January 31, 2002. See "Discontinued Operations" and Note 8 of Notes to Consolidated Financial Statements.

RESULTS OF CONTINUING OPERATIONS

Interest Income on Investments: Interest income is derived principally from the interest earned on NAC's investments in marketable securities, commercial paper and money market accounts. In addition, during the fourth quarter of Fiscal 2003, NAC recorded interest income due NAC of approximately \$500,000 as a result of the claim for its income tax refund for fiscal years 1988 through 1997. Interest income, exclusive of the \$500,000 in interest on the income tax refund due NAC, from investments in Fiscal 2003 was \$142,000 as compared to \$344,000 in Fiscal 2002. The decrease in interest income is substantially due to a decrease in invested funds from Fiscal 2002 to Fiscal 2003. NAC's average cash reserves and investments in marketable securities, commercial paper and money market accounts were \$4.8 million in Fiscal 2003 as compared to \$9.1 million for Fiscal 2002. Interest income for Fiscal 2001 was \$3.8 million during which time NAC's average cash reserves and investments in marketable securities, commercial paper and money market accounts were \$57.5 million. During the fourth quarter of Fiscal 2001 NAC utilized \$52.0 million of its cash liquidity to repurchase 25,943,360 shares of NAC Common Stock.

Income from Investment in AFC: NAC accounts for its investment in AFC using the equity method. For Fiscal 2003, Fiscal 2002 and the nine months from April 5, 2000 (the date of NAC's acquisition of its investment in AFC) to December 31, 2000 NAC's share of the net income of AFC was \$375,000, \$373,000 and \$434,000, respectively, which represents NAC's share of AFC net income. In addition, in

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

Fiscal 2002 and Fiscal 2001, prior to the adoption of SFAS 141 and SFAS 142, NAC recorded amortization expenses of \$272,000 and \$204,000, respectively, as a reduction of its income from investments in AFC. As a result of NAC's adoption of SFAS 141 and SFAS 142, this amortization charge was discontinued in Fiscal 2003.

13

AFC's fiscal year ends December 31. The following sets forth summarized operating results for AFC (in thousands):

	Years Ended December 31,		
	2002	2001	2000
Revenues	\$ 6,032	\$ 6,958	\$ 6,462
Film rental	1,627	2,243	2,087
Operating costs	2,831	3,127	2,509
Depreciation and amortization	699	693	692
General and administrative expenses	125	149	184
	5,282	6,212	5,472
Net income	\$ 750	\$ 746	\$ 990
NAC's proportionate share of net income	\$ 375	\$ 373	\$ 434
Amortization expense	-	272	204
Income from investment in AFC	\$ 375	\$ 101	\$ 230

As the result of the net effects of a 14.7% decrease in attendance, offset in part by a 2.3% increase in average ticket prices, revenues decreased \$926,000 for the year ended December 31, 2002 to \$6.0 million as compared to \$6.9 million for the year ended December 31, 2001. AFC's revenues can fluctuate from month-to-month and year-to-year principally as a result of film attendance, and at times the ticket prices, depending on audience interest in, and the popularity of the films AFC exhibits and other factors. AFC revenues for the year ended December 31, 2001 were \$6.9 million as compared to \$6.5 million for the year ended December 31, 2000. The increase in revenues for the year ended December 31, 2001 was due principally to the combined effect of a 1.9% increase in attendance and a 4.2% increase in average ticket prices.

For the years ended December 31, 2002, 2001 and 2000, film rental expense, as a percentage of revenues, were 27.0%, 32.2% and 32.2%, 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.

For the years ended December 31, 2002, 2001 and 2000, operating costs were \$2.8 million, \$3.1 million and \$2.5 million, respectively. The nature of AFC's operating costs tend to generally be more fixed overhead related costs and advertising expenses. Operating expenses of AFC decreased \$296,000 for the year

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

ended December 31, 2002 to \$2.8 million from \$3.1 million for the year ended December 31, 2001 principally as the result of a decrease in advertising expenditures of \$108,000 as AFC developed co-op advertising programs with third parties to offset its advertising program costs for the year. Operating costs for the year ended December 31, 2000 were \$2.5 million.

As a result of the net cash flow realized by AFC, distributions by AFC to NAC for Fiscal 2003, Fiscal 2002 and Fiscal 2001 were \$300,000, \$909,000 and \$556,000, respectively. The decrease in distributions from Fiscal 2002 to Fiscal 2003 of \$609,000 is a result principally of the AFC capital improvement program. In August 2002, AFC initiated a \$1.1 million capital improvement program to renovate the interior of the theatre and upgrade certain equipment, services and facilities. AFC financed the capital program through its current cash flow from operations and as a consequence cash distributions were reduced until the completion of the capital program which was finished in December 2002.

14

General and Administrative: General and administrative expenses include cost of executive, accounting and legal personnel, occupancy, legal, professional, insurance, and other general corporate overhead costs. General and administrative expenses decreased \$1.9 million for Fiscal 2003 to \$3.5 million from \$5.4 million for Fiscal 2002. General and administrative expenses were \$7.7 million for Fiscal 2001.

The decrease in general and administrative expense of \$1.9 million in Fiscal 2003 as compared to Fiscal 2002 was due principally to (i) a decrease of \$1.4 million relating to a reduction of professional services, inclusive of board of director fees, and (ii) a decrease of \$209,000 in personnel cost due to a reduction in head count as a result of NAC's relocation from Ohio to New York. The decrease in general and administrative expenses of \$2.3 million in Fiscal 2002 as compared to Fiscal 2001, was due to (i) a one time bonus of \$750,000 paid in Fiscal 2001 awarded to the Chairman of the Board for past services, (ii) a decrease of \$400,000 in depreciation and amortization as a result of the sale of property during Fiscal 2001, and (iii) a decrease of \$857,000 related to a reduction of professional services, inclusive of board of director fees.

Litigation and Other Charges: The components for litigation and other charges for Fiscal 2001 were \$5.8 million of legal costs and settlement expenses relating to shareholder and other corporate litigation matters, \$116,000 for crisis management consulting and \$375,000 in other litigation support costs.

Cost Related to Purchase of Shares: The Fiscal 2001 expense of \$35.6 million results from the repurchases of 25,943,360 shares of its Common Stock in two transactions during the fourth quarter of Fiscal 2001 from Mr. Frankino and his affiliates and Reading Entertainment. See Note 7 of Notes to Consolidated Financial Statements.

Write-down of Assets Held for Sale: NAC had certain investments in affordable housing projects which previously NAC had been holding for realization through the receipt of distributions from the operations of the projects and the use of the tax credits generated by the investments. In the fourth quarter of Fiscal 2000, NAC committed to a plan to sell the investments and recorded, in that quarter, a write-down of \$4.7 million to reduce the carrying amount of the investments to their fair value less estimated costs to sell. During Fiscal 2001, NAC reduced its original estimate of the fair value of the investments to \$2.7 million, primarily due to the expiration of certain tax credits and the increase of the effective yield used in determining the fair value. As a result, NAC recorded an additional write-down of \$3.2 million.

On January 14, 2002, NAC sold its limited partnership interests in eight

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

projects to Idacorp Financial Services, Inc. ("Idacorp Financial") for \$2.5 million. NAC incurred closing costs, transfer fees and a provision for the previously deducted investment tax credits in lieu of posting a bond, of \$510,000 and as a result incurred a loss (reflected in continuing operations) of \$549,000. NAC retained its limited partnership interests in three projects, which at January 31, 2003 and 2002 are included in other assets at their estimated fair market value of \$200,000.

During the fourth quarter of Fiscal 2000, NAC also committed to plans to sell certain real estate investments. During Fiscal 2001, NAC sold the investments for aggregate cash proceeds of approximately \$1.0 million and recorded a loss on sale of \$215,000.

Income Taxes: For Fiscal 2003, 2002 and 2001, NAC recorded income tax benefits of \$2.2 million, \$331,000 and \$1.2 million, respectively, that represent either (i) adjustments that increased the previously estimated amount of net operating losses eligible to be carried back against prior year's taxable income or (ii) adjustments to revise (reduce) previous estimates of certain income taxes. For Fiscal 2002 and 2001, these tax

15

benefits arose and are a component of discontinued operations. For Fiscal 2003, \$145,000 of these tax benefits is a component of discontinued operations.

As of January 31, 2003 NAC has net operating loss carryforwards of \$83.4 million that may be used to reduce future taxable income, subject to limitations. NAC also has unused low income housing credits totaling \$4.5 million. At January 31, 2003, NAC has claims for refunds in the amount of \$5.6 million.

As a result of NAC's November 3, 2000 repurchases of shares of its Common Stock, NAC underwent a "change in ownership" as defined for the purposes of Sections 382 and 383 of the Internal Revenue Code. As a result of the "change in ownership", the use of net operating loss carryforwards totaling \$56.3 million incurred prior to November 3, 2000 will be subject to significant annual limitation. Additionally, the use of low income housing tax credit carryforwards of \$3.2 million generated prior to November 3, 2000 will be subject to the Section 382 limitation. The use of the net operating loss and low income housing credit carryforwards incurred after November 3, 2000, which total \$27.1 million and \$1.3 million, respectively, as of January 31, 2003, are not subject to the Section 382 limitation.

As of January 31, 2003 NAC has \$908,000 of minimum tax credits which may be applied against any future regular income taxes which exceed alternative minimum taxes. These credits may be carried forward indefinitely and are also subject to the Section 383 limitation.

DISCONTINUED OPERATIONS

E-commerce Operations: In Fiscal 2003 NAC's e-commerce operations realized income of \$2,000 as a result of the winding down of operations. In Fiscal 2002 NAC's e-commerce operations incurred an operating loss of \$9.4 million, reflecting revenues of \$867,000 and expenses of \$10.2 million. Included in the expenses of \$10.2 million were non-cash charges of \$7.4 million for the amortization and write-off of the goodwill arising in the December 2000 acquisition of ZoomLot. The remaining expenses of \$2.8 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

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

services.

In Fiscal 2001 NAC's e-commerce operations incurred an operating loss of \$628,000 principally as the result of operating expenses of \$708,000 which represent goodwill amortization of \$191,000 and expenses of \$517,000 incurred in ZoomLot's attempts to develop its e-commerce business. These Fiscal 2001 amounts reflect the activity of ZoomLot for the 46 days during Fiscal 2001 that it was owned by NAC.

Automobile Financing: In Fiscal 2003 NAC's automobile financing operations realize income of \$33,000 comprised of \$28,000 from the collection of previously charged-off loans and \$145,000 income tax benefit, offset by \$140,000 in legal and general expenses as a result of the winding down of operations. In Fiscal 2002 NAC's automobile financing operations generated operating income of \$658,000, comprised of \$155,000 from the collection of previously charged off loans, the gain of \$34,000 from the sale of its remaining charged off loans, and a \$468,000 reduction in the provision for credit losses.

In Fiscal 2001 NAC's automobile financing operations incurred an operating loss, after income tax benefit, of \$1.8 million. During Fiscal 2001, NAC, acting through NAC, Inc., a wholly-owned subsidiary, sold substantially all of the then outstanding automobile retail installment loans remaining in NAC's active portfolio for \$24.2 million to four unaffiliated financial institutions. In each case, the selling price was determined based upon arm's length negotiations between the parties and was paid in cash at closing. The sale of the loans

16

resulted in an aggregate loss of approximately \$1.4 million, which NAC reported in Fiscal 2001. Additionally, as the result of the sale of the loans, NAC's interest income from the loans generated prior to the sale of the loans and other revenues in Fiscal 2001 were \$527,000. Furthermore, NAC recorded in Fiscal 2001 a reversal into income of previously recorded credit losses and allowances of \$2.3 million for Fiscal 2001.

Auto Rental: 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 the year ended January 31, 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 also had a dealership operation that sold cars that were retired from the rental fleet, primarily to member dealers of NAC's automobile financing business. That operation was discontinued in the year ended January 31, 1997 as a result of NAC's disposal of its automobile rental operations. The results of both the auto rental and dealership operations are included in the results of discontinued operations (together as "auto rental" operations). For the years ended January 31, 2003, 2002 and 2001, the results of the discontinued auto rental operations principally represent the effects of the settlement of, and changes in NAC's reserves for, claims against NAC related to the self-insured claims (see Note 13 of Notes to Consolidated Financial Statements).

LIQUIDITY AND CAPITAL RESOURCES

During Fiscal 2003, NAC used \$4.3 million cash flows from continuing operations. This is due to the effect of (i) NAC's net loss from continuing operations of \$419,000, (ii) an increase in the income tax refundable of \$2.1 million and (iii) the \$1.9 million net change in operating assets and liabilities. NAC also used \$294,000 of cash in the various discontinued

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

operations. NAC generated \$363,000 in cash flows from investing activities principally as the result of distributions from AFC of \$300,000.

During Fiscal 2002, NAC used \$7.5 million cash flows from continuing operations. This is due to the effect of (i) NAC's net loss from continuing operations of \$5.5 million less net non-cash charges of \$1.1 million and (ii) the \$3.1 million net change in operating assets and liabilities. NAC also used \$2.1 million of cash in the various discontinued operations. NAC generated \$3.3 million in cash flows from investing activities principally as the result of the proceeds of \$2.1 million from its sale of assets and distributions from AFC of \$909,000.

During Fiscal 2001, NAC used \$49.8 million of cash flows from continuing operations. This was due to NAC's net loss from continuing operations of \$46.5 million, which includes the \$35.6 million (the portion charged to expense) of the \$52.0 million paid to repurchase shares of NAC Common Stock, plus the net non-cash charges of \$2.0 million. This amount was further offset by a \$5.4 million net change in operating assets and liabilities. NAC also used \$5.9 million of cash from the various discontinued operations. NAC generated \$35.5 million in cash flows from investing activities principally as the result of collections and the proceeds from its loan portfolio of \$24.2 million and the proceeds from the sale of property of \$8.6 million. NAC used \$21.6 million in financing activities as the result of the payments to repurchase shares of \$16.4 million and the payment on notes payable of \$5.2 million assumed by NAC as part of the ZoomLot acquisition.

NAC believes that the available cash and cash equivalents and marketable securities of \$2.9 million and the investment income there from, the collection of the income tax refund of \$5.6 million and the collection of approximately \$500,000 of accrued interest due NAC on the outstanding income tax receivable (a component of other assets at January 31, 2003) as well as the cash distributions from its investment in AFC will be sufficient to pay operating expenses, existing liabilities, and fund its activities through January 31, 2004 as NAC explores new strategic business alternatives. As discussed in Note 13 of Notes to Consolidated Financial Statements,

17

NAC is presently a defendant or nominal defendant in various derivative shareholder complaints. Although NAC intends to vigorously defend each of the claims 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.

OTHER

New Accounting Pronouncements

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

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

capitalized costs is 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 provision 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 is 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.

In July, 2002 the FASB issued SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred, rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard included lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring. SFAS 146 replaces Issue 94-3 and is required to be applied prospectively to exit or disposal activities initiated after December 2002. NAC is currently evaluating the impacts, if any, of SFAS 146.

18

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation--Transition and Disclosure. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on the reported results. The provisions of SFAS 148 are effective for financial statements for fiscal years ending after December 15, 2002. NAC is currently evaluating the impacts, if any, of SFAS 146.

Inflation

Inflation has not had a material affect on NAC's business.

FORWARD-LOOKING STATEMENTS

Various statements made in this Item 7 and elsewhere in this Annual Report on Form 10-K 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 7a. 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 January 31, 2003, NAC has no interest bearing debt, and accordingly no market risk associated with increases in interest costs resulting from changes in market rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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 audited the accompanying consolidated balance sheets of National Auto Credit, Inc. and Subsidiaries as of January 31, 2003 and 2002 and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the three years in the

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

period ended January 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 14(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and other Intangible Assets" on February 1, 2002.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Auto Credit, Inc. and Subsidiaries as of January 31, 2003 and 2002 and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

/s/Grant Thornton LLP
Cleveland, Ohio
April 9, 2003

21

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

	January 31,	
	2003	2002
ASSETS		
Cash and cash equivalents	\$ 1,873	\$ 6,122
Marketable securities (Notes 1 and 2)	984	994
Investment in AFC (Note 3)	9,295	9,220
Property and equipment, net of accumulated depreciation of \$90 and \$57, respectively (Note 1)	81	71
Income taxes refundable (Note 6)	5,577	3,507
Other assets	902	620
	-----	-----
TOTAL ASSETS	\$ 18,712	\$ 20,534
	=====	=====

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

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Self-insurance claims (Note 13)	\$ 518	\$ 769
Accrued income taxes (Note 6)	711	697
Other liabilities (Note 5)	1,373	2,743
	-----	-----
	2,602	4,209

COMMITMENTS AND CONTINGENCIES (Note 13)

-- --

STOCKHOLDERS' EQUITY (Notes 7 and 8)

Preferred stock	--	--
Common stock - \$.05 par value, authorized 40,000,000 shares, issued 39,377,589 shares	1,969	1,969
Common stock to be issued	--	--
Additional paid-in capital	174,337	174,337
Retained deficit	(136,455)	(136,346)
Accumulated other comprehensive loss	(143)	(133)
Treasury stock, at cost, 31,546,975 and 30,735,835 shares, respectively	(23,598)	(23,502)
	-----	-----
	16,110	16,325
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 18,712	\$ 20,534
	=====	=====

See accompanying notes to consolidated financial statements.

22

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

	Years Ended January 31,		
	2003	2002	2001
	-----	-----	-----
REVENUE			
Interest income on investments	\$ 642	\$ 344	\$ 3,872
Income from investment in AFC	375	101	230
	-----	-----	-----
Total	1,017	445	4,102
COSTS AND EXPENSES			
General and administrative	3,506	5,384	7,696
Litigation and other charges (Note 13)	--	--	6,290
Write-off of option (Note 8)	--	--	500
Loss (gain) on sale of property (Note 10)	--	549	(2,868)
Cost related to purchase of shares (Note 7)	--	--	35,593
Write-down of assets held for sale (Note 10)	--	--	3,398
	-----	-----	-----
Total	3,506	5,933	50,609
	-----	-----	-----

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

LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2,489)	(5,488)	(46,507)
Benefit for income taxes (Note 6)	(2,070)	--	--
LOSS FROM CONTINUING OPERATIONS	(419)	(5,488)	(46,507)
DISCONTINUED OPERATIONS, NET OF TAX (Note 8)	310	(9,174)	(1,084)
GAIN (LOSS) ON DISPOSAL OF DISCONTINUED OPERATIONS (Note 8)	--	394	308
NET LOSS	(109)	(14,268)	(47,283)
Accretion of discount on redeemable preferred stock (Note 7)	--	226	12
NET LOSS APPLICABLE TO COMMON STOCK	\$ (109)	\$ (14,494)	\$ (47,295)
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE			
Continuing operations	\$ (.05)	\$ (.47)	\$ (1.67)
Discontinued operations	.04	(.78)	(.04)
Disposal of discontinued operations	--	.03	.01
Net loss per share	\$ (.01)	\$ (1.22)	\$ (1.70)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING			
Basic and diluted	8,380	11,692	27,761

See accompanying notes to consolidated financial statements.

23

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Preferred Stock		Common Stock	
	Shares	Par Value	Shares	Par Value
BALANCE, JANUARY 31, 2000	--	\$ --	29,963,301	\$ --
Net loss				
Stocks issued for				
investment in AFC (Note 3)	100	--	6,762,247	
Acquisition of ZoomLot (Note 8)	270,953	135		
Repurchase of Series A preferred stock (Note 8)	(100)	--		

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

Conversion of Series B preferred stock (Note 7)	(270,953)	(135)	2,709,530
Repurchase of common shares (Note 7)			
Stock award (Note 11)			
Stock cancelled under benefit plans			(14,641)
Accretion on redeemable preferred stock			
Other comprehensive income (loss) unrealized loss on marketable securities			

BALANCE, JANUARY 31, 2001	--	--	39,420,437
---------------------------	----	----	------------

Net loss			
Stock award			
Accretion on redeemable preferred stock			
Return of common stock in settlement of ZoomLot agreements (Note 8)			
Stock cancelled under benefit plans			(42,848)
Other comprehensive income (loss) unrealized loss on marketable securities			

BALANCE, JANUARY 31, 2002	--	--	39,377,589
---------------------------	----	----	------------

Net loss			
Surrender of common shares as payment on note receivable (Note 7)			
Other comprehensive income (loss) unrealized loss on marketable securities			

BALANCE, JANUARY 31, 2003	--	\$ --	39,377,589	\$
---------------------------	----	-------	------------	----

	Additional Paid-In Capital	Retained Deficit	Treasury Stock	Other Comprehen Income (1
BALANCE, JANUARY 31, 2000	\$ 166,139	\$ (69,104)	\$ (14,654)	\$
Net loss		(47,283)		
Stocks issued for investment in AFC (Note 3)	6,954	(5,402)	7,816	
Acquisition of ZoomLot (Note 8)	1,312			
Repurchase of Series A preferred stock (Note 8)				
Conversion of Series B preferred stock (Note 7)	--			
Repurchase of common shares (Note 7)			(16,437)	
Stock award (Note 11)				
Stock cancelled under benefit plans	(20)			
Accretion on redeemable preferred stock		(12)		
Other comprehensive income (loss) unrealized loss on marketable securities				
BALANCE, JANUARY 31, 2001	174,385	(121,801)	(23,275)	
Net loss		(14,268)		
Stock award		(51)	204	

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

Accretion on redeemable preferred stock		(226)		
Return of common stock in settlement of ZoomLot agreements (Note 8)			(431)	
Stock cancelled under benefit plans	(48)			
Other comprehensive income (loss) unrealized loss on marketable securities				
BALANCE, JANUARY 31, 2002	174,337	(136,346)	(23,502)	
Net loss		(109)		
Surrender of common shares as payment on note receivable (Note 7)			(96)	
Other comprehensive income (loss) unrealized loss on marketable securities				
BALANCE, JANUARY 31, 2003	\$ 174,337	\$ (136,455)	\$ (23,598)	\$

See accompanying notes to consolidated financial statements.

24

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

	Years E	
	2003	
CASH FLOWS FROM CONTINUING OPERATING ACTIVITIES		
Net loss	\$	(109) \$
Adjustments to reconcile net loss to net cash (used in) provided by continuing operating activities:		
Loss (gain) from discontinued operations		(310)
Gain on disposal of discontinued operations		-
Depreciation and amortization		33
Gain on sale of property		-
Write-off of option		-
Loss on write-down of assets held for sale		-
Stock compensation		-
Changes in operating assets and liabilities:		
Accrued income tax/refundable		(2,070)
Other liabilities		(1,017)
Other operating assets and liabilities, net		(845)
Net cash used in continuing operating activities		(4,318)
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal collected on gross finance receivable		-
Proceeds from sale of loans		-
Change in contracts in progress		106

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

Proceeds from sale of property	-	
Proceeds from sale of assets held for sale	-	
Investments and acquisitions	-	
Proceeds from AFC distributions	300	
Purchase of marketable securities	-	
Proceeds from sale of marketable securities	-	
Purchase of other property and equipment	(43)	
Purchase of affordable housing investments	-	
	-----	-----
Net cash provided by investing activities	363	
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on operating debt and notes payable	-	
Payments to acquire treasury stock	-	
	-----	-----
Net cash used in financing activities	-	
	-----	-----
Decrease in cash and cash equivalents from continuing operations	(3,955)	
Decrease in cash and cash equivalents from discontinued operations	(294)	
Cash and cash equivalents at beginning of year	6,122	
	-----	-----
Cash and cash equivalents at end of year	\$ 1,873	\$
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$ 3	\$
	=====	=====
Income taxes paid	\$ -	\$
	=====	=====

See accompanying notes to consolidated financial statements.

25

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION: National Auto Credit, Inc. ("the Company" or "NAC") began operations in 1969 and was incorporated in Delaware in 1971. Through December 31, 2001, 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 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

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

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 the steps to discontinue both its e-commerce and auto financing segments. 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 were classified as discontinued operations as of January 31, 2002 (see Note 8). 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 (see Note 15).

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the amounts of NAC and its wholly-owned subsidiaries and its investment in AFC, a 50% owned limited liability company, which is accounted for under the equity method. All material intercompany accounts and transactions have been eliminated in consolidation.

ESTIMATES: 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.

26

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH EQUIVALENTS: All highly liquid investments, such as commercial paper and debt instruments with initial maturities of three months or less are considered to be cash equivalents. Cash equivalents are stated at cost, which approximates the market value.

GOODWILL: NAC adopted Statement of Financial Accounting Standards No. ("SFAS") 141, "Business Combinations", and SFAS 142, "Goodwill and Other Intangible Assets", effective February 1, 2002. Prior to the adoption of SFAS 142 NAC 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. 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.

The goodwill arising from NAC's acquisition of ZoomLot was being amortized

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

on a straight-line basis over a three year period until the remaining amount was written off as the result of NAC's decision in December, 2001 to discontinue the operations of ZoomLot. The amortization and write-off of that goodwill is included in the results of discontinued operations (see Note 8).

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. Certain of these long-lived assets are being disposed of and have been written-down to their estimated fair value (see Notes 8 and 10).

MARKETABLE SECURITIES: Marketable securities consist of U.S. Government Agency mortgage-backed obligations, mortgage-backed securities and mutual funds. NAC accounts for its marketable securities under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", which requires that marketable debt and equity securities be adjusted to market value at the end of each accounting period, except in the case of debt securities which a holder has the positive intent and ability to hold to maturity, in which case the debt securities are carried at amortized cost. For marketable debt and equity securities carried at market value, unrealized market value gains and losses are included directly in net income if the securities are actively traded for short-term profit, or otherwise are charged or credited to a separate component of stockholders' equity ("accumulated other comprehensive income (loss)").

NAC determines the proper classification of its marketable debt and equity securities at the time of purchase and reevaluates such designations as of each balance sheet date. At January 31, 2003 and 2002, all marketable securities were designated as available for sale. Accordingly, these securities are stated at market value, with unrealized gains and losses reported in a separate component of stockholders' equity ("accumulated other comprehensive income (loss)"). Realized gains and losses on sale of securities, as determined on a specific identification basis, are included in net income.

27

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT: Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to five years for furniture and equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the related improvements.

INCOME TAXES: Deferred income taxes are provided for all temporary differences between the book and tax basis of assets and liabilities. Deferred

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

income taxes are adjusted to reflect new tax rates when they are enacted into law. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is anticipated that some or all of a net deferred tax asset may not be realized.

ACCOUNTING FOR STOCK-BASED COMPENSATION: NAC accounts for stock options and awards in accordance with SFAS 123, "Accounting for Stock-Based Compensation", which allows companies to continue to recognize compensation expense for grants to employees pursuant to Accounting Principles Board Opinion No. 25, ("APB 25"), "Accounting for Stock Issued to Employees" but requires companies to disclose the effect on net income (loss) and earnings (loss) per share had NAC adopted the provisions of SFAS 123 requiring the recognition of compensation expense based on the fair value of the options or awards (see Note 11).

EARNINGS PER SHARE: Basic earnings per share is computed by dividing net income (loss), after reduction for the accretion of the discount on NAC's Series C Redeemable Preferred Stock (see Note 7), by the weighted-average number of Common Shares outstanding for the year. Dilutive earnings per share for all years presented is the same as basic earnings per share because the inclusion of common stock equivalents would have an antidilutive effect on loss per share for Fiscal 2003, 2002 and 2001.

NEW ACCOUNTING PRONOUNCEMENTS: 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 is 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.

28

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 provision 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 is classified as assets held for sale that may not have qualified as segments under

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

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.

In July, 2002 the FASB issued SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred, rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard included lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS 146 replaces Issue 94-3 and is required to be applied prospectively to exit or disposal activities initiated after December 2002. NAC is currently evaluating the impacts, if any, of SFAS 146.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation--Transition and Disclosure. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on the reported results. The provisions of SFAS 148 are effective for financial statements for fiscal years ending after December 15, 2002. NAC is currently evaluating the impacts, if any, of SFAS 146.

RECLASSIFICATIONS: Certain prior year amounts have been reclassified to conform to the current year presentation.

29

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 2 - MARKETABLE SECURITIES

The marketable securities as of January 31, 2003 and 2002 are summarized as follows (in thousands):

	Cost	Gross Unrealized	
		Gains	Losses
	-----	-----	-----
Equity securities - mutual funds at January 31, 2003	\$ 1,127	\$ -	\$ (143)
Equity securities - mutual funds at January 31, 2002	\$ 1,127	\$ -	\$ (133)

All marketable securities held by NAC are classified as available for sale.

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

NOTE 3 - INVESTMENT IN AFC

On April 5, 2000, NAC, through its wholly-owned subsidiary National Cinemas, Inc., purchased a 50% membership interest in 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. The 50% membership interest was purchased from Reading International, Inc. ("Reading"), formerly known as Reading Entertainment, Inc., for 8,999,900 shares of NAC's Common Stock, which included 2,237,653 shares issued from treasury stock, and 100 shares of Series A Convertible Preferred Stock. NAC repurchased the 100 shares of Series A Convertible Preferred Stock from Reading on November 3, 2000 (see Note 7).

AFC is currently owned 50% by NAC and 50% by 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 also purchased from Reading two separate and independent options to acquire additional cinema assets owned by Reading in the United States. During the second quarter of fiscal year 2001, the options lapsed without being exercised by NAC and the \$500,000 paid to acquire them was charged to expense.

NAC's initial investment was \$11.1 million, comprised of (i) the 9,000,000 shares of Common Stock issued, valued at \$1.08 per share on the basis of the average price quoted by the OTCBB for the period immediately following April 5, 2000, (ii) transaction costs, and (iii) the \$500,000 paid for one of the options. The investment exceeds NAC's share of the net assets of AFC by approximately \$5.6 million, which is being treated in a manner similar to goodwill (see Note 1).

30

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 3 - INVESTMENT IN AFC (CONTINUED)

NAC uses the equity method to account for its investment in AFC. 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 Fiscal 2003, 2002 and 2001, NAC's share of the net income of AFC was \$375,000, \$373,000 and \$434,000, respectively, representing its share of AFC's income. Additionally, in Fiscal 2002 and 2001, prior to the adoption of SFAS 141 and SFAS 142, NAC recorded amortization expense of \$272,000 and \$204,000, respectively, as a reduction of its income from its investment in AFC. As a result of NAC's adoption of SFAS 141 and SFAS 143, this amortization charge was discontinued in Fiscal 2003.

Summarized financial statement information for AFC as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000 is as follows (in thousands):

December 31,

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

	2002 -----	2001 -----
CONDENSED BALANCE SHEET:		
Current assets	\$ 1,185	\$ 1,606
Property and equipment, net	1,524	549
Goodwill	8,069	8,659
Other assets	89	89
	-----	-----
	\$ 10,867	\$ 10,903
	=====	=====
Current liabilities	\$ 756	\$ 1,111
Non-current liabilities	1,440	1,271
Members' equity	8,671	8,521
	-----	-----
	\$ 10,867	\$ 10,903
	=====	=====

For the Year Ended Dec

	2002 -----	2001 -----
CONDENSED STATEMENT OF EARNINGS:		
Revenues	\$ 6,032	\$ 6,958
Film rental	1,627	2,243
Operating costs	2,831	3,127
Depreciation and amortization	699	693
General and administrative expenses	125	149
	-----	-----
	5,282	6,212
	-----	-----
Net income	\$ 750	\$ 746
	=====	=====
NAC's proportionate share of net income	\$ 375	\$ 373
Amortization expense	-	272
	-----	-----
Income from investment in AFC	\$ 375	\$ 101
	=====	=====

31

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 4 - FINANCIAL INSTRUMENTS

NAC has various financial instruments including cash and cash equivalents, marketable securities, investments in affordable housing limited partnerships, and miscellaneous other assets. Many of these instruments are short-term in nature and the fair value of these financial instruments has been estimated based on available market information and appropriate valuation methodologies. NAC has determined that their carrying values approximate estimated fair values.

NOTE 5 - OTHER LIABILITIES

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

The components of other liabilities are as follows (in thousands):

	January 31,	
	2003	2002
Accounts payable	\$ 117	\$ 397
Accrued litigation expenses	368	737
Accrued expenses	841	1,557
Accrued state and local taxes	47	52
Total	\$ 1,373	\$ 2,743

NOTE 6 - INCOME TAXES

The components of the provision (benefit) for income taxes, in the consolidated statement of operations are as follows (in thousands):

	Years Ended January 31,		
	2003	2002	2001
Current			
Federal	\$ (2,215)	\$ (331)	\$ (1,200)
State	-	-	-
	(2,215)	(331)	(1,200)
Deferred			
Federal	-	-	-
State	-	-	-
	-	-	-
Total	(2,215)	(331)	(1,200)
Allocated to discontinued operations	145	331	1,200
Continuing operations	\$ (2,070)	\$ -	\$ -

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 6 - INCOME TAXES (CONTINUED)

For Fiscal 2003, 2002 and 2001, NAC recorded income tax benefits of \$2.2 million, \$331,000 and \$1.2 million, respectively, that represent either (i) adjustments that increased the previously estimated amount of net operating losses eligible to be carried back against prior years taxable income or (ii) adjustments to revise (reduce) previous estimates of certain income taxes. For Fiscal 2002 and 2001 these tax benefits arose and are a component of discontinued operations. For Fiscal 2003, \$145,000 of the tax benefit is a

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

component of discontinued operations.

As of January 31, 2003 NAC has net operating loss carryforwards of \$83.4 million that may be used to reduce future taxable income, subject to limitations. Such net operating loss carryforwards will expire: \$23.0 million in Fiscal 2019, \$21.2 million in Fiscal 2020, \$24.1 million in Fiscal 2021, \$10.6 million in Fiscal 2022 and \$4.5 million in Fiscal 2023. At January 31, 2003, NAC has claims for refunds in the amount of \$5.6 million.

As a result of NAC's November 3, 2000 repurchases of shares of its Common Stock (see Note 7), NAC underwent a "change in ownership" as defined for the purposes of Sections 382 and 383 of the Internal Revenue Code. As a result of the "change in ownership" described above, the use of net operating loss carryforwards totaling \$56.3 million incurred prior to November 3, 2000 will be subject to significant annual limitation. The use of the net operating loss carryforwards incurred after November 3, 2000, which total \$27.1 million as of January 31, 2003, are not subject to the Section 382 limitation.

As of January 31, 2003, NAC also has unused low income housing credits totaling \$4.5 million which expire: \$644,000 in Fiscal 2013, \$833,000 in Fiscal 2019, \$966,000 in Fiscal 2020, \$981,000 in Fiscal 2021, \$908,000 in Fiscal 2022 and \$180,000 in Fiscal 2023. Of such low income housing credits, \$3.2 million were generated prior to November 3, 2000 and are therefore subject to the Section 383 limitation described above.

As of January 31, 2003, NAC has \$908,000 of minimum tax credits, which may be applied against any future regular income taxes which exceed alternative minimum taxes. These credits may be carried forward indefinitely and are also subject to the Section 383 limitation.

33

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 6 - INCOME TAXES (CONTINUED)

The components of the net deferred tax asset (liability) are as follows (in thousands):

	January 31,	
	2003	2002
Deferred tax assets:		
Depreciation	\$ 2	\$ 146
Self-insurance claims	181	269
State income taxes	138	138
Accrued liabilities	385	863
Tax credits carryforwards	5,420	9,535
Net operating loss carryforward	29,211	26,567
Other	4	2
	35,341	37,520
Deferred tax liabilities:		
Limited partnership investments	(1,491)	(457)

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

Total deferred tax liabilities	(1,491)	(457)
Net deferred tax asset before valuation allowance	33,850	37,063
Less: valuation allowance	(33,850)	(37,063)
Net deferred tax asset	\$ -	\$ -

A valuation allowance for all of NAC's net deferred tax assets has been provided as NAC is unable to determine, at this time, that the generation of future taxable income against which the net operating loss and tax credit carryforwards could be used can be predicted to be more likely than not. The net change in the valuation allowance for the years ended January 31, 2003, 2002 and 2001 was \$3.2 million, \$4.1 million and \$5.5 million, respectively.

Reconciliations of the federal statutory tax rate to the effective tax rate for continuing operations are as follows:

	Years Ended January 31,		
	2003	2002	2001
Statutory rate	(35.0)%	(35.0)%	
Permanent differences	0.4	1.9	
State income taxes (net of federal tax benefit)	-	(0.8)	
Deferred tax valuation allowance	(129.1)	56.7	
Tax credits	165.3	(17.8)	
Benefit due to AMT net operating loss carryback claims	(83.2)	-	
Adjustment to NOL carryforward	6.4	-	
Other	(8.0)	(5.0)	
Effective Tax Rate	(83.2)%	(1.0)%	

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 7 - STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK

Redeemable Preferred Stock

The following sets forth the changes in Series C Redeemable Preferred Stock for the year ended January 31, 2002 (dollars in thousands):

Shares	Dollars
--------	---------

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

Balance, January 31, 2001	729,047	\$ 629
Accretion of discount to redemption price		226
Shares redeemed pursuant to terms of Exchange Agreement (Note 8)	(62,380)	(855)
Shares forfeited pursuant to terms of Exchange Agreement (Note 8)	(666,667)	-
	-----	-----
Balance, January 31, 2002	-	\$ -
	=====	=====

Preferred Stock

NAC is authorized to issue up to 2,000,000 shares of Preferred Stock, in one or more series, having such preferences and terms as the Board of Directors may determine. At January 31, 2003 and 2002, there were no outstanding shares of Preferred Stock and NAC had 2,000,000 shares of Preferred Stock authorized and available for issuance.

The Series A Convertible Preferred Stock was convertible into shares of NAC's Common Stock on a one for one basis, subject to traditional antidilution adjustments. The Series A Convertible Preferred Stock was entitled to vote on a share for share basis with NAC's Common Stock as a single class, except that as a separate class the Series A Convertible Preferred Stock was required to approve any amendments to NAC's charter, any amendments to NAC's bylaws made by the stockholders, or, to the extent permitted by law, the removal of any director from NAC's Board of Directors. The Series A Convertible Preferred Stock had a liquidation value of \$1.50 per share and was entitled to a dividend preference equal to any dividends declared on NAC's Common Stock, determined on a per share basis. On November 3, 2000, NAC repurchased and retired the 100 shares of Series A Convertible Preferred Stock back from Reading as part of the settlement described below.

The Series B Convertible Preferred Stock had a par value of \$.50 per share. The holders of the Series B Convertible Preferred Stock could at any time convert the Series B shares into shares of NAC's Common Stock at the ratio (subject to adjustment for stock splits and other anti-dilutive events) of ten shares of Common Stock for each share of Series B Convertible Preferred Stock. The holders of the outstanding Series B Convertible Preferred Stock had certain voting rights.

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 7 - STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK (CONTINUED)

The terms of the Series B Convertible Preferred Stock provided that it would automatically convert into shares of NAC's Common Stock, at the ratio of ten shares of NAC's Common Stock for each share of Series B Convertible Preferred Stock, upon the termination of the Stock Purchase and Standstill Agreement, executed November 3, 2000 between NAC and the Reading Stockholders (see Note 8 - Common Stock Repurchases below). That agreement was terminated in connection with NAC's December 15, 2000 repurchase of additional shares of Common Stock from the Reading Stockholders described below. As a result, on

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

December 15, 2000 NAC converted the 270,953 shares of the Series B Convertible Preferred Stock into 2,709,530 shares of its Common Stock.

Common Stock Repurchases

As described in Note 8, in January 2002 under the Exchange Agreement, the contingent obligation of the chief executive officer and sole stockholder of Cygnet Capital, Cygnet Capital, or another company owned by the stockholder to make a payment of \$5.2 million to NAC if ZoomLot did not reach the financial performance objectives by December 31, 2003 was in part resolved by the transfer back to NAC of 3,079,530 shares of NAC Common Stock, which for the purposes of the Exchange Agreement were valued at \$1.25 per share and the issuance to NAC a promissory note in the amount of \$986,000 payable with interest at 4% per annum, in cash or NAC Common Stock (at a mutually agreed upon value of \$1.25 per share) on or before January 31, 2003. For financial reporting purposes, NAC recorded the 3,079,530 shares of Common Stock returned under the Exchange Agreement at \$431,000, representing their market value of the basis of the quoted market price of NAC's Common Stock. In addition, NAC recorded the note receivable, a component of other assets, at a net value of \$110,000 reflecting the market value at January 31, 2002 of the 788,838 shares of NAC Common Stock the maker of the note had the option to tender in payment of the principal.

On August 29, 2002, the former ZoomLot shareholders transferred to NAC 409,140 shares of NAC Common Stock as an installment payment against the promissory note. The market value of the 409,140 shares at the date of their transfer was \$16,000 less than the \$56,000 carrying amount of the note extinguished by the transfer, and, accordingly, NAC recorded the surrendered shares at their market value of \$40,000 and a note receivable collectability charge (included in general and administrative expenses) for the \$16,000 deficiency.

On November 13, 2002, the former ZoomLot shareholders transferred to NAC 402,000 shares of NAC common stock with a net value of \$56,000 as the second and final payment against the promissory note.

36

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 7 - STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK (CONTINUED)

During Fiscal 2001, NAC repurchased 25,943,360 shares of its Common Stock. The Fiscal 2001 repurchases of Common Stock included the repurchase of shares from Mr. Sam Frankino and certain parties related to him, and repurchases from Reading and certain parties related to it as described below.

On November 3, 2000, NAC entered into a Settlement Agreement and Release (including Agreement for Sale of Shares) (the "Settlement Agreement") with Mr. Sam Frankino, individually, as trustee and president of the Samuel J. Frankino and Connie M. Frankino Charitable Foundation, as trustee of the Corrine L. Doderer Trust for the Arts and Sciences, and as managing partner of the Frankino and Frankino Investment Company, a Nevada general partnership (Mr. Frankino and all such entities referred to herein collectively as "Frankino Parties"). The Settlement Agreement, among other things, settled all of the litigation between

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

NAC and Mr. Frankino and resulted in the repurchase by NAC of all NAC securities held by Mr. Frankino, the other Frankino Parties and certain other of his related parties. In conjunction with the settlement of the above-referenced litigation, the parties to the litigations, as well as William Dodero, Lorraine Dodero, William Maund and Robert Upton, exchanged general releases and releases against future claims.

Under the terms of the Settlement Agreement, NAC (i) repurchased an aggregate of 15,743,012 shares of Common Stock of NAC owned by the Frankino Parties for a total purchase price of \$35.3 million, or \$2.245 per share of Common Stock, (ii) and repurchased an aggregate of 120,348 shares of Common Stock of NAC owned by certain of NAC's directors, including shares of Common Stock held by William Maund, shares of Common Stock held by Lorraine Dodero, shares of Common Stock held by William Dodero and Lorraine Dodero, as joint tenants with rights of survivorship, and shares of Common Stock held by Lorraine Dodero, as a trustee of a grantor trust for the benefit of her daughter, Corrine Dodero, for a total purchase price of \$180,000 (such repurchase of the 120,348 shares was completed on January 4, 2001), or \$1.50 per share of common stock, and (iii) reimbursed certain legal fees previously incurred by Mr. Frankino in the amount of \$2,011,600.

As a result of the repurchases of shares of Common Stock under the Settlement Agreement, NAC charged to operations in the fourth quarter of Fiscal 2001, \$25.1 million, representing the excess of the amount paid under the Settlement Agreement over the market value of the shares repurchased.

On November 3, 2000, simultaneously with the execution and closing of the Settlement Agreement with Mr. Frankino and the Frankino Parties, NAC executed and closed a Stock Purchase and Standstill Agreement (the "Reading Agreement") with Reading Entertainment, Inc., FA, Inc., Citadel Holding Corporation, and Craig Corporation (collectively the "Reading Stockholders"). Prior to the execution of the Reading Agreement, the Reading Stockholders collectively owned an aggregate of 10,055,000 shares of NAC Common Stock and 100 shares of Series A Convertible Preferred Stock, par value \$.05 per share.

Under the terms of the Reading Agreement, NAC repurchased from FA, Inc. 5,277,879 shares of Common Stock of NAC and all 100 shares of Series A convertible preferred stock for an aggregate purchase price of \$8.5 million, or \$1.60 per share.

37

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 7 - STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK (CONTINUED)

On December 15, 2000, NAC entered into a second agreement with Reading Stockholders for the repurchase of 4,777,121 shares of NAC's Common Stock for an aggregate price of \$8.0 million, and on December 21, 2000, NAC purchased 25,000 shares of Common Stock from an associate of Reading for \$41,000. As a part of the second agreement the provisions of the November 3, 2000 Reading Agreement between the Reading Stockholders and NAC that had continuing effect were terminated.

As a result of the repurchases of shares of Common Stock from the Reading Stockholders and an associate, NAC expensed in the fourth quarter of Fiscal 2001 \$10.5 million, representing the excess of the amount paid for the shares repurchased from the Reading Stockholders over their market value.

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

During Fiscal 2000, NAC repurchased 2,849,630 shares of its Common Stock. The Fiscal 2000 repurchase of 2,849,630 shares of Common Stock was pursuant to an option agreement (the "Option Agreement"), which NAC entered into with a then-unaffiliated stockholder on May 10, 1999. NAC acquired the option by paying the stockholder \$1.0 million, which was paid on May 12, 1999, all of which was to be credited toward the aggregate exercise price of \$1.50 per share payable by NAC upon any exercise of its option. On June 24, 1999, NAC exercised its right under the Option Agreement to extend the period of the option ("the First Extension") for 45 days, until August 8, 1999, by paying the stockholder an additional \$500,000, of which \$250,000 was to be credited towards the aggregate exercise price payable upon any exercise of the option. On August 8, 1999, NAC and the unaffiliated stockholder agreed to an additional extension ("the Second Extension") of the option, for 120 days, for which NAC paid the stockholder an additional \$1.0 million, of which \$750,000 was to be credited towards the aggregate exercise price payable upon any exercise of the option.

NAC accounted for the initial option purchase, and the extension payments, by initially determining the fair value of the option or option extension to be de minimis. In determining the fair value of the option or extension, NAC considered the period over which the option or extension was exercisable, the option exercise price, the market price of NAC's Common Stock and the portion of the payments creditable to the payment due upon any exercise of the option. The excess of the option or extension payments over the market value of the underlying Common Stock was charged to expense. An aggregate of \$2,224,000 was charged to expense in Fiscal 2000, which represented the total of the \$1.0 million payment made to obtain the initial option and \$1.2 million of the payments made to obtain the First Extension and Second Extension.

On November 22, 1999, the Board of Directors of NAC approved the exercise of its option. On December 2, 1999, NAC exercised such option and paid the unaffiliated stockholder an additional \$2.3 million for the 2,849,630 shares subject to the option, which amount equals the product of 2,849,630 and the \$1.50 per share exercise price, less the \$2.0 million in aggregate credits to which NAC became entitled under the Option Agreement, the First Extension and the Second Extension. NAC recorded the 2,849,630 repurchased shares at a price of \$.895 per share, or an aggregate of approximately \$2.6 million, representing the market price of the Common Stock at the date the Second Extension was agreed to.

38

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 7 - STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK (CONTINUED)

Stockholders' Rights Plan

On September 26, 2001, NAC's Board of Directors declared a dividend of one preferred share purchase right ("Right") for each outstanding share of Common Stock to stockholders of record at the close of business on October 8, 2001 (the "Record Date"). Under certain circumstances, a Right may be exercised to purchase from NAC a unit consisting of one one-hundredth of a share (a "Unit") of Series D Junior Participating Preferred Stock, par value \$.05 per share (the "Series D Preferred Stock") at a Purchase Price of \$5.00 per Unit, subject to adjustment.

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

The Rights become exercisable upon the earlier of (i) ten business days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired beneficial ownership of 15% or more of the outstanding shares of Common Stock (the "Stock Acquisition Date"), other than as a result of repurchases of stock by NAC or certain inadvertent actions by institutional or certain other stockholders, or (ii) 10 business days (or such later date as the Board shall determine) following the commencement of a tender offer or exchange offer that would result in a person or group becoming an Acquiring Person. Once exercisable, and in some circumstances if certain additional conditions are met, the rights plan allows NAC stockholders (other than the acquirer) to purchase NAC Common Stock or Common Stock, at a substantial discount, in the surviving acquirer in the event of a merger.

The Rights will expire on September 26, 2011 and may be redeemed by NAC for \$0.01 per Right at any time prior to the close of business on the later of (i) the tenth business day following the acquisition by a person or group of beneficial ownership of 15% or more of NAC's Common Stock or (ii) the tenth business day (or such later date as the Board shall determine) following the commencement of a tender offer or exchange offer that would result in a person or group becoming an Acquiring Person.

NOTE 8 - 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. In the first and second quarters of the year ended January 31, 2001, NAC sold its active loan portfolio and the majority of its charged-off portfolio. However, since NAC had not, until December 2001, made a definitive decision that it would not reenter the consumer lending business, either through ZoomLot or another means, the automobile financing operations had not previously been classified as a discontinued operation. As a result of these decisions, both the e-commerce and automobile financing segments were classified as discontinued operations.

39

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 8 - DISCONTINUED OPERATIONS (CONTINUED)

NAC had acquired ZoomLot on December 15, 2000 under a Merger Agreement and Plan of Reorganization (the "Merger Agreement"). Under the terms of the Merger Agreement, NAC issued to the former ZoomLot stockholders 270,953 shares of its Series B Convertible Preferred Stock and 729,047 shares of its Series C Redeemable Preferred Stock, each at \$.50 par value. Pursuant to the terms of the Series B Convertible Preferred Stock, on December 15, 2000 NAC obtained the right to call for the conversion of the shares of Series B Convertible Preferred Stock, and NAC converted the 270,953 shares of the Series B Convertible Preferred stock into 2,709,530 shares of NAC Common Stock.

The holders of the Series C Redeemable Preferred Stock had certain rights

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

to require the redemption of the shares. At any time after the earlier of September 30, 2003 or the occurrence of a "redemption event" (but no event earlier than January 1, 2003) the holder of each share of Series C Redeemable Preferred Stock would have been entitled to redeem each Series C share for a cash payment by NAC equal to the greater of (i) \$15.00 (as adjusted for any stock splits, stock dividends, recapitalizations or similar events), plus all declared but unpaid dividends on such shares or (ii) ten times the fair market price (determined based on the average daily closing price of NAC's Common Stock for the twenty days preceding the redemption date) of a share of Common Stock as of the date of notice for redemption was received by NAC. However, under the terms of the Merger Agreement 666,667 shares of the Series C Redeemable Preferred Stock were subject to forfeiture unless certain financial performance "objectives" were met or certain "valuation events" occurred, and any shares of Series C Redeemable Preferred Stock that were subject to forfeiture could not be redeemed until such forfeiture provisions no longer applied. A "redemption event" would have been deemed to have occurred if (i) ZoomLot has met an "objective", as described below, which eliminated the forfeiture of Series C shares, or (ii) there had occurred a "valuation event" which eliminated the forfeiture of the Series C shares. Specifically, one-half of the 666,667 Series C Preferred Redeemable Shares would have been forfeited, if, by December 31, 2003, ZoomLot, including any of its subsidiaries, had failed to achieve zero or positive earnings, before interest expense, interest income, depreciation, amortization and extraordinary items but after applicable income taxes, for a period of six consecutive months, and the remaining one-half of those shares would have been forfeited if, by December 31, 2003, ZoomLot, including any of its subsidiaries, had not achieved at least \$4.5 million in earnings before interest expense, interest income, depreciation, amortization and extraordinary items but after applicable income taxes, for a period of twelve consecutive months. If, however, certain "valuation events" had occurred prior to December 31, 2003, those financial performance objectives would be deemed to have been achieved. These valuation events generally consisted of (i) transaction that would have involved an investment in ZoomLot or one of its subsidiaries of at least \$10.0 million, where the pre-investment in ZoomLot or any subsidiary of ZoomLot was at least \$30.0 million, (ii) a change of control of NAC or (iii) the termination of the key executives of ZoomLot without cause.

As part of the Merger Agreement, NAC made a capital contribution to ZoomLot of \$5.2 million, which ZoomLot used to repay advances that had been made to it by Cygnet Capital Corporation ("Cygnet Capital"). The chief executive office and sole stockholder of Cygnet Capital was also a stockholder of ZoomLot, and by virtue of the Merger Agreement and subsequent conversion of Series B Convertible Preferred Stock became the beneficial holder of 1,707,004 shares of NAC Common Stock and 459,229 shares of Series C Redeemable Preferred Stock. This stockholder had also previously acquired beneficial ownership of shares of NAC Common Stock in market purchases, and beneficially owned an aggregate of 2,077,004 shares NAC Common Stock, which represent 17.7% of the then outstanding shares of NAC's Common Stock. Under the Merger Agreement the stockholder, Cygnet Capital, or another company owned by the stockholder, were required to

40

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 8 - DISCONTINUED OPERATIONS (CONTINUED)

repay the \$5.2 million to NAC unless ZoomLot met the financial performance objectives, or an event occurs, that eliminated the forfeiture of the Series C

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

Redeemable Preferred Stock.

The acquisition of ZoomLot was accounted for using the purchase method of accounting in accordance with Accounting Principles Board Opinion No. 16, "Business Combinations" ("APB 16"). Under APB 16, the tangible assets, identifiable intangible assets and liabilities of the acquired company are recorded at their fair value, and the excess of the purchase price over the fair value of the net (of liabilities) tangible and identifiable intangible assets is recorded as goodwill. Additionally, under the purchase method of accounting the operating results of the acquired company are included in the consolidated results of operations from the date of the acquisition.

In connection with its decision to discontinue the operations of ZoomLot, NAC entered into formal negotiations with the former stockholders of ZoomLot to resolve the financial obligations of NAC and of the former ZoomLot stockholders resulting from the terms of the Merger Agreement. Since NAC discontinued ZoomLot's operations, it was necessary to resolve the effect of that on the obligations, as described above, of NAC and the former ZoomLot stockholders under the Merger Agreement. As a result of the negotiations, on January 31, 2002, NAC, entered into an Exchange and Repayment Agreement ("Exchange Agreement") dated January 31, 2002 with the former ZoomLot stockholders.

The Exchange Agreement sets forth the agreement among all the parties to terminate the operations of ZoomLot. The parties agreed, among other things, that the financial performance objectives set forth in the Merger Agreement had not and would not be met. Accordingly, the 666,667 shares of Series C Preferred Stock forfeitable if those financial performance were not met were deemed forfeited and were returned and surrendered to NAC. For financial reporting purposes, in recording the acquisition of ZoomLot those shares of Series C Preferred Stock had been treated as contingently issuable, and accordingly their return had no effect on NAC's consolidated financial statements.

Additionally, under the Exchange Agreement, the contingent obligation of the chief executive officer and sole stockholder of Cygnet Capital, Cygnet Capital, or another company owned by the stockholder to make a payment of \$5.2 million to NAC if ZoomLot did not reach the financial performance objectives by December 31, 2003 was resolved by (i) the transfer back to NAC of 3,079,530 shares of NAC Common Stock, which for the purposes of the Exchange Agreement were valued at \$1.25 per share, (ii) the return to NAC of 62,380 shares of NAC Series C Preferred Stock at an aggregate agreed-upon value of \$854,875, which represented the carrying amount of such shares of Series C preferred Stock in NAC's consolidated financial statements, and (iii) the issuance to NAC of a promissory note in the amount of \$986,048, payable, together with interest at 4% per annum, in cash or NAC Common Stock (at a mutually agreed-upon value of \$1.25 per share) on or before January 30, 2003.

41

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 8 - DISCONTINUED OPERATIONS (CONTINUED)

For financial reporting purposes, in Fiscal 2002 NAC recorded the 3,079,530 shares of Common Stock returned under the Exchange Agreement at \$431,000, representing their market value of the basis of the quoted market price of NAC's Common Stock, recorded the 62,380 shares of Series C Preferred Stock returned at their aggregate carrying amount of \$854,875, and recorded the note receivable, a component of other assets, at a net value of \$110,000 reflecting the market

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

value at January 31, 2002 of the shares of NAC Common Stock the maker of the note has the option to tender in payment of the principal. NAC also incurred or accrued costs of \$850,000 for the winding down and closing of ZoomLot's operations, including rental and broker costs to sublease ZoomLot's corporate office, employee severance costs and costs of early lease terminations. As a result, NAC recognized a net gain on the disposal of ZoomLot's operation of \$394,000 in Fiscal 2002.

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 the year ended January 31, 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 also had a dealership operation that sold cars that were retired from the rental fleet, primarily to member dealers of NAC's automobile financing business. That operation was discontinued in the year ended January 31, 1997 as the result of NAC's disposal of its automobile rental operations. The results of both the auto rental and dealership operations are included in the results of discontinued operations (together as "auto rental" operations). For the years ended January 31, 2003, 2002 and 2001, the results of the discontinued auto rental operations principally represent the effects of the settlement of, and changes in NAC's reserves for, claims against NAC related to the self-insured claims (see Note 14).

42

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 8 - DISCONTINUED OPERATIONS (CONTINUED)

Summarized results of discontinued operations are as follows (in thousands):

	Discontinued Operat		
	E-Commerce	Auto Financing	R
FISCAL 2003			
Revenue	\$ -	\$ 28	\$
General and administrative (expenses) income	2	(140)	
	2	(140)	
Income (loss) before income taxes	2	(112)	
Provision (benefit) for income taxes	-	(145)	
	2	33	\$
Income (loss) from discontinued operations	\$ 2	\$ 33	\$

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

FISCAL 2002			
Revenue	\$	867	\$ 34 \$
Operating expense		(10,236)	-
General and administrative (expenses) income		-	293
		-----	-----
		(10,236)	293
		-----	-----
Income (loss) before income taxes		(9,369)	327
Provision (benefit) for income taxes		-	(331)
		-----	-----
Income (loss) from discontinued operations		(9,369)	658
Gain on disposal of operations, net of tax		394	-
		-----	-----
Income (loss) from discontinued operations	\$	(8,975)	\$ 658 \$
		=====	=====
FISCAL 2001			
Revenue	\$	80	\$ 527 \$
Operating (expense) income		(708)	(1,754)
General and administrative (expenses) income		-	(1,777)
		-----	-----
		(708)	(3,531)
		-----	-----
Income (loss) before income taxes		(628)	(3,004)
Provision (benefit) for income taxes		-	(1,200)
		-----	-----
Income (loss) from discontinued operations		(628)	(1,804)
Gain on disposal of operations, net of tax		-	-
		-----	-----
Income (loss) from discontinued operations	\$	(628)	\$ (1,804) \$
		=====	=====

43

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 9 - INSTALLMENT LOANS, NET

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. In the first and second quarters for the year ended January 31, 2001, NAC sold its active loan portfolio and the majority of its charged-off portfolio.

During Fiscal 2001, NAC sold its active loan portfolio and the majority of its charged-off portfolio for aggregate cash proceeds of \$24.2 million. NAC also received \$6.1 million in actual cash collections on the loans during Fiscal 2001. The sales of the loans resulted in an aggregate loss of \$1.4 million. The loss includes a charge of \$666,000 for the write-off of deferred loan origination assets and liabilities and the accrual for the potential repurchase of certain loans for breach of any representation or warranty made by NAC. NAC

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

completed the sale of substantially all of its remaining charged-off loans during Fiscal 2002 for \$313,000. In addition, during Fiscal 2002, NAC collected \$155,000 on previously charged-off loans.

As discussed in Note 1, as a consequence of NAC's decision to discontinue its ZoomLot e-commerce operations, NAC also formally exited the sub-prime used automobile consumer financing business effective December 31, 2001. As a result, income, expenses, and gains and losses resulting from NAC's investment in or sale of installment loans is now included in the results of discontinued operations (see Note 8).

The following table sets forth the components of and changes in the gross finance receivable, unearned income, credit loss discount and allowance for credit losses of NAC's net installment loans as of and for the years ended January 31, 2001, 2002 and 2003 (in thousands):

	Gross Finance Receivable	Unearned Income	Credit Loss Discount	All for L
	-----	-----	-----	-----
Balance, January 31, 2000	\$ 50,847	\$ (2,646)	\$ (16,259)	\$
Purchases	-	-	-	
Cash collected	(6,134)	-	-	
Charge-offs	(1,203)	-	1,538	
Provision for credit losses	-	-	-	
Interest income	-	404	-	
Reclassification	-	(417)	417	
Sale of loans(1)	(43,510)	2,659	14,304	
	-----	-----	-----	-----
Balance, January 31, 2001	-	-	-	
Cash collected	(155)	-	-	
Provision for credit losses	468	-	-	
Sale of loans	(313)	-	-	
	-----	-----	-----	-----
Balance, January 31, 2002	-	-	-	
Cash collected	(28)	-	-	
Provision for credit losses	28	-	-	
	-----	-----	-----	-----
Balance, January 31, 2003	\$ -	\$ -	\$ -	\$
	=====	=====	=====	=====

(1) Includes cash proceeds of \$24.2 million.

NOTE 10 - SALE OF ASSETS

Real Property

NAC, through its wholly-owned subsidiary, ARAC, Inc., owned certain real property which consisted of two four-story, 55,000 square foot office buildings and approximately ten and one-half acres of land located in Solon, Ohio (the "Solon Real Property"). On August 23, 2000, an Agreement of Purchase and Sale was entered into between PVF Capital Corp. ("PVF") and ARAC, Inc. for the sale of the Solon Real Property to PVF at a gross sales price of \$8.7 million cash at closing (less brokers' fees, pro-rated real estate taxes, adjustments attributable to tenant leases, and cost and fees of closing), and the sale was closed on September 1, 2000. The transaction resulted in a gain of \$2.9 million.

Investments in Affordable Housing Projects

NAC invested in affordable housing projects through its interests in various limited liability partnerships. Historically, NAC's investment in affordable housing projects had been held for realization through the receipt of distributions from the operations of the projects and the use of the tax credits generated by the investments. In the fourth quarter of Fiscal 2000, NAC committed to a plan to sell the investments. During the Fiscal 2001, NAC reduced its estimate of the fair value of the investments to \$2.7 million, primarily due to the expiration of certain tax credits and the increase of the effective yield used in determining the fair value. As a result, NAC recorded a write-down of \$3.2 million in Fiscal 2001.

On January 14, 2002, NAC sold its limited partnership interests in eight projects to Idacorp Financial Services, Inc. ("Idacorp Financial") for \$2.5 million. NAC incurred closing costs, transfer fees and provision for the recapture of previously deducted investment tax credits in lieu of posting a bond of \$510,000 and as a result incurred a loss (reflected in continuing operations) of \$549,000. NAC retained its limited partnership interests in three projects, which at January 31, 2003 and 2002 are included in other assets at their estimated fair market value of \$200,000.

Real Estate Investments

During the fourth quarter of Fiscal 2000, NAC also committed to plans to sell certain real estate investments. During Fiscal 2002 and 2001, NAC sold the investments for aggregate cash proceeds of \$81,000 and \$1.0 million, respectively, and charged to continuing operations a loss on sale of \$29,000 and \$215,000, respectively.

NOTE 11 - BENEFITS PLANS

NAC's 1993 Equity Incentive Plan provides for the granting of incentive and non-qualified stock options, stock appreciation rights, and common stock and restricted common stock awards to key employees. The total number of shares available for options or awards granted under this Plan is 2,200,000 shares. There were 42,848 and 14,641 shares of restricted Common Stock cancelled under this Plan during Fiscal 2002 and Fiscal 2001, respectively. There were 128,352 shares available for future stock awards or option grants at January 31, 2003.

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

NOTE 11 - BENEFITS PLANS (CONTINUED)

A summary of all options granted, exercised, and cancelled by all plans were as follows:

	Number of Options	Weighted Average Exercise Price Per Share
	-----	-----
Balance January 31, 2000	906,960	1.46
Granted	1,200,000	0.66
Exercised	-	-
Cancelled	(222,560)	2.25

Balance January 31, 2001	1,884,400	0.86
Granted	-	-
Exercised	-	-
Cancelled	(9,400)	4.53

Balance January 31, 2002	1,875,000	0.84
Granted	-	-
Exercised	-	-
Cancelled	-	-

Balance January 31, 2003	1,875,000	0.84
	=====	

The weighted-average fair value of options granted during Fiscal 2001 was \$0.51 per share. No options were granted in Fiscal 2003 or Fiscal 2002.

The outstanding options expire at dates through the year 2010. A summary of stock options outstanding and exercisable as of January 31, 2003 is as follows:

Range of Per Share Exercise Prices	Options Outstanding			Number Exercisable
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Per Share Exercise Price	
-----	-----	-----	-----	-----
\$0.66 to \$0.92	1,275,000	7.76	\$0.68	1,275,000
\$1.03 to \$1.15	450,000	6.42	1.04	450,000
\$1.66	150,000	5.27	1.66	150,000
	-----			-----
Total	1,875,000			1,875,000
	=====			=====

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

NOTE 11 - BENEFITS PLANS (CONTINUED)

If NAC had recorded compensation expense using the fair value method of SFAS 123, the Company's net after tax loss and loss per share would have been as follows (in thousands, except per share amounts):

	Years Ended January	
	2003	2002
Net loss applicable to common stock, as reported	\$ (109)	\$ (14,4
Pro forma net loss	(261)	(14,6
Loss per share, as reported	(.01)	(1.
Pro forma loss per share	(.03)	(1.

The fair value of each award or option grant included in the above calculations is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for the year ended January 31, 2001. No stock options were granted in Fiscal 2003 or Fiscal 2002.

	Year Ended January 31, 2001
Risk-free interest rate	5.24%
Expected life	7.00 years
Expected volatility	93.06%
Dividend yield	0%

The effects of applying SFAS 123 for the pro forma disclosures are not representative of the effects expected on reported net earnings (loss) per share in future years, since the valuations are based on highly subjective assumptions about the future, including stock price volatility and exercise patterns.

NAC has a 401(k) Savings and Profit-Sharing Plan ("401k") covering substantially all employees who have completed one year of service with NAC. This savings plan allows eligible employees to contribute up to 15 percent of their compensation on a pre-tax basis. NAC matches 50% of the first 4% of the employees' contribution. NAC contributions are vested incrementally over 6 years. The charge to operations for NAC's contribution was \$11,000, \$8,000 and \$26,000 for years ended January 31, 2003, 2002 and 2001, respectively.

NAC does not provide post-retirement or post-employment benefits to its employees.

In December 2000, NAC entered into an employment agreement with Mr. James McNamara for his employment as NAC's Chief Executive Officer. Under the contract, Mr. McNamara was entitled to receive a stock award of 350,000 shares of NAC's Common Stock upon the signing of the contract, and Mr. McNamara surrendered options for the purchase of 175,000 shares of NAC's Common Stock, which had previously been awarded to him. NAC charged to expense, and recorded as a component of stockholders' equity ("Common stock to be issued"), the fair value of the 350,000 shares of Common Stock at \$219,000, which became issuable upon the signing of the contract. The 350,000 shares of Common Stock were issued

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

in March 2001.

47

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 12 - RELATED PARTY TRANSACTIONS

NAC contracted for investor relations and other financial advisory services from Mallory Factor Inc. during Fiscal 2002 and Fiscal 2001. For Fiscal 2002 and 2001, NAC paid Mallory Factor Inc. \$125,000 and \$251,000, respectively. Effective April 2001, NAC consummated an agreement to sub-lease its New York corporate headquarters from Mallory Factor Inc. Pursuant to the terms of the Sublease Agreement, NAC subleases its 5,500 square foot New York office commencing April 1, 2001 and NAC issues all payments directly to the landlord in accordance with the terms of the Master Lease. The sublease agreement provides for an annual base rent of \$199,000 and the term expires July 31, 2006. Mallory Factor, who was a member of NAC's Board of Directors from December 2000 until January 2002, is a principal at Mallory Factor Inc.

During Fiscal 2001, NAC paid \$43,000 to Automotive Personnel, LLC, for placement services rendered in Fiscal 1998. In addition, NAC paid \$69,000 in Fiscal 2002 for outplacement services provided to the employees of NAC terminated as a part of its restructuring plan. The President of Automotive Personnel, LLC, was a member of NAC's Board of Directors until December 2001.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Shareholder Litigation and Regulatory Investigations

NAC and certain of its former officers and directors were named as defendants in eleven purported class action lawsuits which were filed in the United States District Court for the Northern District of Ohio subsequent to the January 1998 resignation of NAC's former independent auditors, Deloitte & Touche, LLP ("Deloitte & Touche"). The actions, which were consolidated, alleged fraud and other violations of the federal securities laws and seeks money damages as the result of various alleged frauds and violations of the Securities Exchange Act of 1934, including misrepresentations about the adequacy of NAC's allowance for credit losses and its loan underwriting practices. In April 2000, NAC and the class action plaintiffs' representatives reached an agreement in principle to settle the class action securities litigation. Under the terms agreed upon, NAC agreed to pay to the plaintiffs' class \$6.5 million in consideration for, among other things, the release of all defendants from liability. The settlement was not an admission of liability by any party. At January 31, 2000 NAC accrued the \$6.5 million settlement amount together with an estimate of the legal fees that will be incurred in completing the settlement. The settlement was approved and completed in Fiscal 2001. The Securities and Exchange Commission, the United States Attorney for the Northern District of Ohio, and the Federal Bureau of Investigation, investigated the issues raised as the result of the resignation of Deloitte & Touche. The investigations have concluded without any further action required by NAC.

The components of litigation and other charges for Fiscal 2001 were \$5.8 million for legal and settlement cost relating to litigation matters, \$116,000 for a crisis management consulting and \$375,000 in other litigation expenses.

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 13 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 ("ZoomLot"), (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 derivative 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, (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 derivative 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

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

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.

49

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 13 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 New York 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. The hearing on the proposed settlement is scheduled for May 14, 2003. Certain shareholders, including the Plaintiffs in the Delaware Consolidated Action, have objected to the terms of the proposed settlement. A motion to dismiss the Delaware Consolidated Derivative Action was also filed in 2002 which was denied by the Delaware court in January 2003. As each of these litigation matters remains in their early stage, no prediction is made with respect to their respective ultimate outcomes.

50

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

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 13 - 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 Plaintiffs, 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 TIG Insurance Company ("TIG"), to take over the defense of this action and indemnify NAC up to the policy limits. However, as a result TIG filed a suit (TIG Insurance Company 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 TIG's) financial responsibility is capped at an amount 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 been resolved. TIG made a motion to have the court reconsider its decision and NAC filed a response arguing that the court should take action on

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

this matter at this time. The Court granted TIG's motion and permitted the action to proceed. NAC's answer was filed in May 2002. Thereafter, in August 2002, TIG filed a motion for summary judgment, asserting that NAC has no liability to Smith and Simpson; that if NAC is liable, such liability is capped in an

51

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 13 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

amount far less than what Plaintiff is seeking in the state court action; and that it also has no liability to NAC under its excess insurance policy. NAC filed its own cross-motion for summary judgment, asserting that it has no liability to Smith and Simpson; and that if there is any liability it is capped under Illinois state law, or, if not capped, then TIG's excess insurance coverage applies. Smith and Simpson filed their own cross-motion for summary judgment, asserting that NAC is liable for Smith and Simpson's injuries and that NAC's liability is not capped under Illinois law. On February 3, 2003, the Court granted the motions of TIG and NAC for summary judgment, and denied the motion for summary judgment of Smith and Simpson. The Court concluded that NAC bears no financial responsibility to Smith and Simpson because, under the express terms of the rental agreement at issue, Bennett was not a listed additional driver on the underlying rental contract. The Court further concluded that TIG, as NAC's excess insurance carrier, has no responsibility to defend or indemnify the Bennett estate. Motions for reconsideration were filed by Smith and Simpson in February and March but were denied by the Court. On April 11, 2003, Smith and Simpson filed a Notice of Appeal of the Courts' decisions. The Company intends to vigorously oppose this appeal.

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 January 31, 2003 NAC had accrued \$518,000 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.

Employment Agreement

In December 2000, NAC entered into an employment agreement with Mr. James McNamara for his employment as NAC's Chief Executive Officer. Under the contract, Mr. McNamara is entitled to receive a \$1.0 million cash bonus immediately upon NAC's Common Stock being listed on the NASDAQ Stock Market, the American Stock Exchange or the New York Stock Exchange; provided, however, that such listing shall have occurred prior to December 31, 2003.

52

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

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 13 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Lease Commitments

NAC leases office and warehouse facilities in New York, NY and Solon, OH, respectively, under leases expiring at various dates. NAC's ZoomLot subsidiary, has subleased its office in Phoenix, AZ to an unaffiliated third party for the remainder of its term which expires in September 2006 at a rate of \$253,000 per annum. In addition to the lease base rents, NAC is generally required to pay increases over base period amounts for taxes and other operating expense. At January 31, 2003, future minimum payments under noncancellable operating leases, net of the effects of the sublease, are as follows:

Fiscal Year -----	Amount -----
2004	\$ 242
2005	211
2006	199
2007	99

	\$ 751
	=====

53

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 14 - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables present unaudited quarterly financial information for Fiscal 2003, 2002 and 2001 (in thousands, except per share amounts):

	Quarter		
	First -----	Second -----	Third -----
FISCAL 2003 -----			
Total revenue(1)	\$ 138 =====	\$ 49 =====	\$ 15 =====
Income (loss) from continuing operations(1)	\$ (703)	\$ (793)	\$ (78)
Discontinued operations, net of tax(1)	182	(36)	(17)
	-----	-----	-----
Net income (loss)	\$ (521) =====	\$ (829) =====	\$ (95) =====

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

Basic and diluted income (loss) earnings per share(2)			
Continuing operations	\$ (.08)	\$ (.10)	\$ (.0
Discontinued operations	.02	--	(.0
	-----	-----	-----
Net income (loss) per share	\$ (.06)	\$ (.10)	\$ (.1
	=====	=====	=====
FISCAL 2002			

Total revenue(1)	\$ 226	\$ 48	\$ 8
	=====	=====	=====
Income (loss) from continuing operations(1)	\$ (1,210)	\$ (1,365)	\$ (1,16
Discontinued operations, net of tax(1)	(1,144)	(1,323)	(6,78
	-----	-----	-----
Net income (loss)	\$ (2,354)	\$ (2,688)	\$ (7,94
	=====	=====	=====
Basic and diluted income (loss) earnings per share(2)			
Continuing operations	\$ (.10)	\$ (.12)	\$ (.1
Discontinued operations	(.10)	(.11)	(.5
	-----	-----	-----
Net income (loss) per share	\$ (.20)	\$ (.23)	\$ (.6
	=====	=====	=====
FISCAL 2001			

Total revenue(1)	\$ 980	\$ 1,293	\$ 1,33
	=====	=====	=====
Income (loss) from continuing operations(1)	\$ (2,380)	\$ (1,505)	\$ (1
Discontinued operations, net of tax(1)	(3,343)	1,366	40
	-----	-----	-----
Net income (loss)	\$ (5,723)	\$ (139)	\$ 39
	=====	=====	=====
Basic and diluted income (loss) earnings per share(2)			
Continuing operations	\$ (.08)	\$ (.04)	\$
Discontinued operations	(.12)	.04	.0
	-----	-----	-----
Net income (loss) per share	\$ (.20)	\$-	\$.0
	=====	=====	=====

(1) Total Revenue, loss from continuing operations and loss from discontinued operations has been reclassified from prior quarters to conform to the current presentation.

(2) The sum of the quarters do not equal year to date. A large fluctuation in the fourth quarter fiscal year 2001 is the result of NAC's repurchase of 25,943,360 common shares. See Note 7.

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

YEARS ENDED JANUARY 31, 2003, 2002 AND 2001

NOTE 15 - SUBSEQUENT EVENT

In April 2003, NAC consummated a Merger and Plan of Reorganization Agreement whereby NAC acquired all of the outstanding common stock of ORA/Metro Incorporated, also known as OMI Business Communications ("OMI"), from Dean R. Thompson, sole stockholder of OMI. OMI, headquartered in New York, New York, is a multi-media production services, corporate meeting services, web-site development and web content management company. OMI specializes in the full service design, creative development, production and post production editing of corporate communication and training videos for use at corporate events and as collateral content material for client web-sites. Additionally, OMI frequently provides event planning services including site selection, survey, event management and related services associated with remote location presentations. 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 \$28,000 (ii) assumed approximately \$900,000 in bank debt and capital lease obligations to financial institutions and (iii) issued a promissory notes payable to Mr. Thompson in the amount of \$151,000, 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 approximately \$2.5 million and \$3.4 million, respectively. OMI incurred net losses of approximately \$356,000 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, the 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.

55

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

ANGELIKA FILM CENTERS, LLC

December 26, 2002 and December 27, 2001

56

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
ANGELIKA FILM CENTERS, LLC

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

We have audited the accompanying balance sheets of Angelika Film Centers, LLC (a Delaware limited liability company) as of December 26, 2002 and December 27, 2001, and the related statements of income, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Angelika Film Centers, LLC as of December 26, 2002 and December 27, 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Cleveland, Ohio
March 27, 2003

57

ANGELIKA FILM CENTERS, LLC
(A Limited Liability Company)

BALANCE SHEETS
(dollar amounts in thousands)

December 26, 2002 and December 27, 2001

	DECEMBER 26, 2002	DECEMBER 27, 2001
	-----	-----
ASSETS		
Current Assets		
Cash	\$ 1,099	\$ 1,099
Trade and other receivables	4	4
Due from affiliates (Note E)	64	64
Concession inventories (Note A)	10	10
Prepaid expenses and other current assets	8	8
	-----	-----
Total current assets	1,185	1,185

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

Property, Equipment and Leasehold Improvements, net (Note B)	1,524	
Intangible With Definitive Life (Note A)	8,069	8
Deposits	89	
	-----	-----
TOTAL ASSETS	\$ 10,867	\$ 10
	=====	=====
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 549	\$ 1
Due to affiliates (Note E)	\$ 151	
Deferred income and other obligations	56	
	-----	-----
Total current liabilities	756	1
Deferred Rental Obligations (Note C)	1,440	1
	-----	-----
Total liabilities	2,196	2
Commitments and Contingencies (Note D)	--	
Members' Equity (Note A)	8,671	8
	-----	-----
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 10,867	\$ 10
	=====	=====

The accompanying notes are an integral part of these financial statements.

58

ANGELIKA FILM CENTERS, LLC
(A Limited Liability Company)

STATEMENTS OF INCOME
(dollar amounts in thousands)

For the years ended December 26, 2002 and December 27, 2001

	DECEMBER 26, 2002	DECEMBER 27, 2001
	-----	-----
Revenue		
Theatre income	\$ 5,028	\$ 5,75
Theatre concessions	576	65
Cafe concession sales	369	41
Rental and other income	59	13
	-----	-----
Total operating income	6,032	6,95
Operating costs and expenses		
Film Rental	1,627	2,24
Operating costs	2,831	3,12
General and administrative expenses	116	9

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

Depreciation and amortization	699	69
	-----	-----
Total operating costs and expenses	5,273	6,16
	-----	-----
Income from operations	759	79
	-----	-----
Other income		
Interest income	3	--
	-----	-----
Total other income	3	--
	-----	-----
Income before state and local tax expense	762	79
State and local income tax expense (Note A)	12	5
	-----	-----
NET INCOME	\$ 750	\$ 74
	=====	=====

The accompanying notes are an integral part of these financial statements.

59

ANGELIKA FILM CENTERS, LLC
(A Limited Liability Company)

STATEMENTS OF MEMBERS' EQUITY
(dollar amounts in thousands)

For the years ended December 26, 2002 and December 27, 2001

	NATIONAL CINEMAS, INC.	FA INC.	CITADEL CINEMAS, INC.
	-----	-----	-----
BALANCE AT DECEMBER 28, 2000	\$ 4,796	\$ 3,192	\$ 1,605
Distribution to members	(909)	(606)	(303)
Net income	373	248	125
	-----	-----	-----
BALANCE AT DECEMBER 27, 2001	4,260	2,834	1,427
Transfer of interest in AFC (Note A)	-	(2,834)	(1,427)
Distribution to members	(300)	-	-
Net income	375	-	-
	-----	-----	-----

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

BALANCE AT DECEMBER 26, 2002	\$ 4,335	\$ -	\$ -
	=====	=====	=====

The accompanying notes are an integral part of these financial statements.
60

ANGELIKA FILM CENTERS, LLC
(A Limited Liability Company)

STATEMENTS OF CASH FLOWS
(dollar amounts in thousands)

For the years ended December 26, 2002 and December 27, 2001

	DECEMBER 26, 2002	DECEMBER 2001
	-----	-----
Cash Flows from Operating Activities:		
Net income	\$ 750	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	699	
Deferred rent expense	169	
Changes in assets and liabilities associated with operating activities:		
Trade and other receivables	3	
State and local income taxes receivable	--	
Due to (from) affiliates	435	
Concessions inventories	(1)	
Prepaid expenses and other current assets	153	
Accounts payable and accrued liabilities	(527)	
Deferred income and other obligations	21	
	-----	-----
Net cash provided by operating activities	1,702	2,
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, equipment and leasehold improvements	(1,084)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distribution to members	(600)	(1,
	-----	-----
NET INCREASE IN CASH	18	
Cash at beginning of year	1,081	
	-----	-----
Cash at end of period	\$ 1,099	\$ 1,
	=====	=====
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for income taxes	\$ 12	\$
	=====	=====

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

The accompanying notes are an integral part of these financial statements.

61

ANGELIKA FILM CENTERS, LLC
(A Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS

December 26, 2002 and December 27, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Angelika Film Centers LLC (AFC) is a Delaware limited liability company, whose membership interest at December 26, 2002 is held 50% by Reading International, Inc. (RDI) and 50% by National Cinemas, Inc. (NCI), a wholly-owned subsidiary of National Auto Credit, Inc.

RDI is the result of the merger on December 31, 2001 of F.A. Inc. (FA), Reading Entertainment, Inc. (RDGE), parent company of FA, and Craig Corporation (CRG) and Citadel Cinemas, Inc. (CCI) and other wholly-owned subsidiaries of Citadel Holding Corporation (Citadel). Citadel then changed its name to RDI. As a result, following the merger, RDI held a 50% combined interest in AFC.

Fiscal Year

AFC's fiscal year ends on the Thursday closest to December 31. The twelve months ending December 26, 2002 and December 27, 2001 contained 52 weeks. Unless stated otherwise, references herein are to the AFC's fiscal years.

Cash and Cash Equivalents

AFC considers all highly liquid investments and money market accounts with the original maturities of three months or less to be cash equivalents.

Concession Inventories

Inventories are comprised of concession goods and are stated at lower of cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 7 to 12 years for leasehold improvements, furniture, fixtures and equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the related improvements.

62

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

ANGELIKA FILM CENTERS, LLC
(A Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 26, 2002 and December 27, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

AFC is a limited liability company; therefore, no federal income taxes have been provided for its operations. Any liability or benefit from the AFC's income or losses is the responsibility of the individual members. AFC provides for state and city income tax liabilities in accordance with the Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109).

Intangible With Definitive Life

AFC originally recorded \$11,810,000 as intangible in conjunction with an asset acquisition during fiscal year 1996. AFC licenses the use of the name "Angelika" under a licensing agreement. The Company had an independent appraisal, which was used to determine the fair value of assets acquired. The Company is amortizing the intangible on a straight-line basis over a twenty-year period. Accumulated amortization of the intangible is \$3,741,000 and \$3,151,000 at December 26, 2002 and December 27, 2001, respectively.

Advertising Expense

Advertising costs are expensed as incurred. Advertising expenses were approximately \$249,000 and \$357,000 for the years ended December 26, 2002 and December 27, 2001, respectively.

Fair Value Financial Instruments

The Company has various financial instruments including cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities. These instruments are short-term in nature and the Company has determined that their carrying values approximate estimated fair values.

Impairment of Long-Lived Assets

Effective January 1, 2002, AFC adopted SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. In accordance with this statement, AFC 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, AFC 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. AFC would determine the fair value by using quoted market prices, if available, for such assets; or if quoted market prices are not available, AFC would discount the expected estimated future cash flows. No impairment was

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

recorded during the 12 months ended December 26, 2002 and December 27, 2001.

63

ANGELIKA FILM CENTERS, LLC
(A Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 26, 2002 and December 27, 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Estimates

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.

New Accounting Pronouncements

In December 2002, SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, and amendment of FASB Statement No. 123, was issued. SFAS 148 prescribes amendments to the disclosure and transition provisions of SFAS 123, "Accounting for Stock-Based Compensation", and is effective for fiscal years ending after December 15, 2002. As of December 26, 2002, AFC has no option plans; therefore, the adoption of SFAS 148 had no impact on its financial position or result of operations.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46) to provide guidance on when an investor should consolidate another entity from which they receive benefits or are exposed to risks when those other entities are not controlled based on traditional voting interests or they are thinly capitalized. The provisions of FIN 46 are effective beginning July 1, 2003. Although management is still reviewing the provisions of FIN 46, its preliminary assessment is that this interpretation will not have a material impact on its financial position or results of operations.

NOTE B - PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

At December 26, 2002 and December 27, 2001, a summary of property, equipment and leasehold improvements is as follows (in thousands):

	DECEMBER 26, 2002	DECEMBER 2001
	-----	-----
Leasehold improvements	\$ 532	\$
Furniture, fixtures and equipment	537	
Construction in progress	1,077	

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

	-----	-----
	2,146	1
Less accumulated depreciation	622	
	-----	-----
Property, equipment and leasehold improvements, net	\$ 1,524	\$
	=====	=====

64

ANGELIKA FILM CENTERS, LLC
(A Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 26, 2002 and December 27, 2001

NOTE C - LEASE COMMITMENTS

AFC leases a theater under a non-cancelable operating lease which matures in August 2026. Rental expense was \$855,000; including noncash rent of \$169,000 and \$219,000, for the years ended December 26, 2002 and December 27, 2001, respectively. At December 26, 2002, future minimum rental commitments for the next five years were as follows (in thousands):

2003	\$ 657
2004	657
2005	657
2006	692
2007	741
Thereafter	17,545

Total minimum lease payments	\$20,949
	=====

AFC has scheduled rent increases under the theater lease. The accompanying statement of operations reflects rent expense on a straight-line basis over the term of the theater lease. Deferred rental obligations of \$1,440,000 and \$1,271,000 are reflected in the accompanying balance sheets as of December 26, 2002 and December 27, 2001, respectively.

NOTE D - COMMITMENTS AND CONTINGENCIES

AFC has been involved in various lawsuits. The ultimate outcome of these lawsuits is not always determinable; however, in the opinion of management, based in part upon advice of counsel, the amount of losses that might be sustained, if any, would not materially affect the financial position of AFC.

NOTE E - RELATED PARTY TRANSACTIONS

Citadel operates and manages the Angelika Film Centers pursuant to a management agreement (the Agreement). Citadel operates the theater in

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

accordance with the terms of the Agreement entered into with the AFC in August 1996. This Agreement was assigned to Citadel from an affiliate effective June 1, 2000.

Citadel is to be paid an annual management fee of \$125,000 and a bonus fee contingent on the attainment of certain income levels (as defined in the Agreement). Management and bonus fee expense amounted to the base fee of \$125,000 for the years ended December 26, 2002 and December 27, 2001.

65

ANGELIKA FILM CENTERS, LLC
(A Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 26, 2002 and December 27, 2001

NOTE E - RELATED PARTY TRANSACTIONS - Continued

AFC's leasehold interest for the Angelika Theater is guaranteed by both the Reading Company and Reading Entertainment, Inc. through the day prior to the 15th anniversary of the lease commencement.

At December 26, 2002, AFC had an aggregate payable balance of \$87,000 to Citadel. This amount is comprised of monies collected by those affiliated entities for gift certificates and credit card purchases offset by amounts paid by Citadel on behalf of AFC. At December 27, 2001, AFC had an aggregate receivable balance of \$348,000 due from Citadel. This amount is comprised of monies collected by those affiliated entities for gift certificates and credit card purchases that are then remitted to AFC.

66

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in accountants due to disagreements on accounting and financial disclosure during the 24 months prior to January 31, 2003.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers and directors of NAC, as of April 15, 2003 are as follows:

Name	Age	Position
James J. McNamara	54	Chairman of the Board and Chief

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

Executive Officer

Robert V. Cuddihy, Jr	43	Chief Financial Officer, Secretary and Treasurer
John A. Gleason	54	Director
Henry Y. L. Toh	45	Director
William S. Marshall	85	Director

JAMES J. McNAMARA has been Chairman of the Board and Chief Executive Officer since November 3, 2000. Mr. McNamara has been a Director of NAC since February 20, 1998 and previously served as its Chairman from April 1998 to November 1999. Mr. McNamara has also been President of Film Management Corporation (a film company) since 1995, and he has been President and Chief Executive Officer of Celebrity Entertainment, Inc. (an entertainment company) since 1992. Mr. McNamara was Chairman of the Board and Chief Executive Officer of Princeton Media Group, Inc. (a magazine publisher) from 1994 to 1998. A subsidiary of Princeton Media Group, Inc. and Celebrity Entertainment, Inc. each effected an assignment of their respective assets for the benefit of creditors in 1998.

ROBERT V. CUDDIHY, JR. has been NAC's Chief Financial Officer and Treasurer since September 2001. Mr. Cuddihy has been NAC's Secretary since January 2003. Mr. Cuddihy was an independent financial consultant to NAC from May 2001 to August 2001. From July 1987 to March 2001, Mr. Cuddihy was the Chief Financial Officer of HMG Worldwide Corporation, a company engaged in in-store marketing and retail store fixturing design and manufacture, and also served as a Director from February 1998 to May 2001. HMG Worldwide Corporation effected an assignment of their assets for the benefit of creditors in 2002. From July 1981 to July 1987, Mr. Cuddihy was with KMPG Peat Marwick, Certified Public Accountants, where he last served as a senior audit manager.

JOHN A. GLEASON has been a Director of NAC since April 5, 2000. Mr. Gleason previously served as Director of NAC from February 20, 1998 to September 28, 1999. From 1995 to 1998, Mr. Gleason served on NAC's Dealer Advisory Board, serving as Chairman of such panel from 1996 to 1998. Mr. Gleason has been the President and principal of Automax, Inc., an independent car dealership since 1987. Mr. Gleason has been the President of New Franklin, Inc., an automobile finance consulting firm, since 1992 and has been a partner in Coslar Properties LLC, a real estate firm, since 1995.

67

HENRY Y. L. TOH has been a Director of NAC since December 22, 1998. Mr. Toh is also a Director of three other public companies, I-Link Incorporated (an Internet telephone company) since 1992, Teletouch Communications, Inc. (a paging and telecom services provider) since December 2001 and Bigmar, Inc. (an international pharmaceutical firm) since April 2002. Mr. Toh has been the principal officer of Four M. International, Inc. (a private investment entity) since 1992.

WILLIAM S. MARSHALL has been a Director of NAC since April 5, 2000. Mr. Marshall twice previously served as director of NAC from 1983 to 1993 and from March 9, 1998 to September 29, 1999. Mr. Marshall has been an attorney engaged in private practice since April 1985. For more than four years prior thereto, Mr. Marshall was a partner/stockholder of the Miami, Florida office of the law firm Baskin & Steingut, P.A.

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

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires all NAC officers and directors, and persons who own more than ten percent of a registered class of NAC equity securities, to file reports of ownership and changes in ownership of equity securities of NAC with the SEC and any applicable stock exchange. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish NAC with copies of all Section 16(a) forms that they file. Based solely upon a review of Forms 3, 4, and 5 furnished to NAC pursuant to the Exchange Act during Fiscal 2003 and Fiscal 2002, NAC believes that none of its officers, directors and greater than 10% beneficial owners failed to file such Forms on a timely basis during the most recent fiscal year.

68

ITEM 11. EXECUTIVE COMPENSATION

The following table shows all compensation paid by NAC for the fiscal years ended January 31, 2003, 2002 and 2001 to (i) any persons who served as Chief Executive Officer or President of NAC during Fiscal 2003 and (ii) the individuals, other than persons who served as the Chief Executive Officer, who served as an executive officer of NAC at January 31, 2003 and whose income exceeded \$100,000.

Name and Principal Position	Fiscal Year	Annual Compensation			Long Term
		Salary	Bonus	Other Annual Compensation	Number of Underlying
James J. McNamara, Chairman and CEO (1, 2)	2003	\$ 500,000	\$ 250,000	\$ -	
	2002	\$ 500,000	\$ 250,000	\$ -	
	2001	\$ 134,856	\$ 750,000	\$ 10,250	
Robert V. Cuddihy, Jr. Chief Financial Officer Secretary & Treasurer (4)	2003	\$ 265,000	\$ 15,000	\$ -	
	2002	\$ 16,666	\$ 16,666	\$ 77,500	
	2001	\$ -	\$ -	\$ -	
Robert Dixon Chief Financial Officer (5)	2003	\$ -	\$ -	\$ -	
	2002	\$ -	\$ -	\$ 198,479	
	2001	\$ -	\$ -	\$ -	
Sean P. Maroney Director of Financial Reporting (6)	2003	\$ -	\$ -	\$ -	
	2002	\$ 79,312	\$ -	\$ 89,365	
	2001	\$ 101,617	\$ 4,998	\$ 6,900	
Raymond Varcho Secretary (7)	2003	\$ -	\$ -	\$ -	
	2002	\$ 141,916	\$ -	\$ 141,653	
	2001	\$ 196,154	\$ 4,998	\$ 15,115	

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

(*) Employees who were Directors did not receive any additional compensation for serving on the Board of Directors.

(1) The amounts included in "Bonus" for 2003 is \$125,000 bonus accrued but not yet paid as of January 21, 2003.

(2) The amounts included in "Other Annual Compensation" are the imputed value for the use of Company automobiles and related tax reimbursement.

(3) "All Other Compensation" includes aggregate stock awards pursuant to employment agreements, executive life and disability insurance, vision, 401(k) match, executive plan medical premiums and auto allowances paid.

(4) Mr. Cuddihy became an employee of NAC in September 2001. For Mr. Cuddihy, the amount in "All Other Compensation" includes amounts paid to Mr. Cuddihy for services he performed for NAC as an independent consultant from May 2001 to September 2001.

(5) Mr. Dixon, a consultant to NAC, provided financial services to NAC from February 2001 to November 2001. Additionally, Mr. Dixon served in the capacity of NAC's principal financial officer until September 2001.

(6) Mr. Maroney was NAC's Director of Financial Reporting until April 2001. For Mr. Maroney, the amount in "All Other Compensation" includes amounts paid to Mr. Maroney pursuant to a severance arrangement with NAC.

69

(7) Mr. Varcho was NAC's internal corporate counsel and corporate Secretary until April 2001. For Mr. Varcho, the amount in "All Other Compensation" includes amounts paid to Mr. Varcho pursuant to a severance arrangement with NAC.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

NAC's Board of Directors did not grant options during Fiscal 2003 to any Executive Officers of NAC.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES

There were no exercises of options or stock appreciation rights by officers or directors during Fiscal 2003.

EMPLOYMENT AGREEMENTS

Employment Agreement with James J. McNamara

On December 15, 2000, NAC's Board of Directors approved an Employment Agreement, effective as of November 3, 2000, with James J. McNamara. Under the terms of that agreement, Mr. McNamara shall be employed as Chief Executive Officer for an initial term of three years, until December 31, 2003, with a base salary of \$500,000 per year. In the event that NAC should achieve in any year certain performance milestones with respect to the market price of its Common Stock, as set forth in Exhibit A of the Employment Agreement, Mr. McNamara will also receive a target cash bonus of \$300,000, which may also be increased by the Board if the Board believes it appropriate to reward the Chief Executive Officer's performance for that year. Those performance milestones are as follows. Mr. McNamara will receive 25% of the target cash bonus if the market price of the Common Stock is 110% of such market price at the end of the prior

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

employment year. Mr. McNamara will receive 50% of the target cash bonus if the market price of the Common Stock is 120% of such market price at the end of the prior employment year; Mr. McNamara will receive 100% of the target cash bonus if the market price of the Common Stock is 130% of such market price at the end of the prior employment year. The market price of the Common Stock as of the commencement of Mr. McNamara's Employment Agreement was \$0.65.

Following the initial three-year term, the Employment Agreement will automatically renew for consecutive year-long terms unless 90 days prior notice is given by either party. NAC may terminate the Employment Agreement at any time for cause, and Mr. McNamara may terminate at any time in his discretion.

In the event of a change of control resulting in his separation from NAC, Mr. McNamara would also receive a \$250,000 target bonus for any years remaining under the Employment Agreement. Mr. McNamara has also received a lump-sum payment of \$750,000 as a signing bonus and compensation for past services rendered to NAC and he will be entitled to an additional bonus in the amount of \$1,000,000 in the event that NAC's Common Stock is listed on the NASDAQ National Stock Market, Inc., the American Stock Exchange or the New York Stock Exchange. As a signing bonus, Mr. McNamara was granted the right to 350,000 shares of Common Stock. Mr. McNamara was previously granted options to purchase 175,000 shares of restricted Common Stock, which he surrendered to NAC, prior to the issuance of the shares constituting his signing bonus.

70

The employment agreement also grants Mr. McNamara the right to options to purchase an additional 750,000 shares of NAC Common Stock with an exercise price equal to the average of the closing bid prices of the Common Stock on the OTCBB for the five trading days preceding December 16, 2000 or \$.664, which also may be exercised by means of cashless exercise. Such options shall have a term of 10 years from the date of grant; and shall be fully vested and be exercisable as follows: (a) options with respect to 250,000 shares shall vest and be exercisable immediately; (b) options with respect to 250,000 shares shall vest and be exercisable on and after December 15, 2001; and (c) options with respect to 250,000 shares shall vest and be exercisable on and after December 15, 2002; provided, however, that upon a change of control, as defined in the Employment Agreement, all options that have not yet vested and become exercisable shall be deemed to have vested and have become exercisable as of the time immediately preceding such change of control. Further, the options shall be issued under a qualified omnibus long-term incentive plan that will provide for incentive stock options pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). From time to time, the Board may, in its discretion, increase Mr. McNamara's base salary and grant additional options to Mr. McNamara, on such terms as the Board determines.

The Agreement also provides for certain payments in the event of a termination without cause by NAC or a termination for good reason by Mr. McNamara as follows: NAC will pay to Mr. McNamara one dollar (\$1) less than the amount that would constitute an "excess parachute payment" under Code Section 280G of the Internal Revenue Code. NAC shall pay to Mr. McNamara such amount in lump sum cash payment as soon as practicable following the effective date of such termination. NAC shall also continue to provide Mr. McNamara with all employee benefits and perquisites, which he was participating in or receiving at the effective date of termination (or if greater, at the end of the prior year) for two years following termination.

If it is determined by reason of any payment, or the occurrence of an option vesting, pursuant to the terms of the Employment Agreement (or upon any other plan, agreement or program) upon a Change in Control, as defined in the Employment Agreement (collectively "the Payment"), the Executive would be

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

subject to the excise tax imposed by Code Section 4999 (the "Parachute Tax"), then Mr. McNamara shall be entitled to receive an additional payment or payments (a "Gross-Up Payment") in an amount such that, after payment by Mr. McNamara of all taxes (including any Parachute Tax) imposed upon the Gross-Up Payment, Mr. McNamara will retain an amount of the Gross-Up Payment equal to the Parachute Tax imposed upon the Payment.

Employment Agreement with Robert V. Cuddihy, Jr.

Effective December 31, 2001, NAC consummated an employment agreement with Robert V. Cuddihy, Jr. Under the terms of the agreement, Mr. Cuddihy shall be employed as Chief Financial Officer and Treasurer for an initial term of three years, until December 31, 2004, with a base salary of \$240,000 per year and a minimum annual bonus of \$25,000 per year. Mr. Cuddihy is also entitled to NAC employee benefits of health insurance, 401-K plan and related programs. Following the initial three year term, the agreement will automatically renew for consecutive year-long terms unless 90 days prior written notice is given by either party. In the event that the agreement is terminated by NAC without cause, Mr. Cuddihy shall receive one year compensation in the form of severance compensation.

71

1993 EQUITY INCENTIVE PLAN

NAC's 1993 Equity Incentive Plan (the "Plan") provides for the grant of Incentive Options, Non-Qualified Options, Stock Appreciation Rights, Restricted Stock Appreciation Rights, Restricted Stock and Common Stock (all of which are sometimes collectively referred to as "Awards") to the Executive Officers referred to in the cash compensation table as well as to other employees of NAC and its subsidiaries and any former employee of NAC eligible to receive an assumed or replacement award or award settlement. Awards may be granted singly, in combination or in tandem. In addition, Awards may be made in combination, or in tandem with, in replacement of, or as the payment for grants or rights under any other compensation plan of the NAC, including the Option Plan or the plan of any acquired entity.

The total number of shares available for options or awards granted under this Plan is 2,200,000 shares. There were 42,848 and 14,641 shares of restricted stock cancelled under this Plan during the years ended January 31, 2002 and 2001, respectively. There were 128,352 shares available for future stock awards or option grants at January 31, 2003. The shares to be issued under the Plan may be authorized and unissued shares, treasury shares or a combination thereof. The Compensation Committee (the "Committee") administers the Plan. The Committee is comprised of three non-employee Directors, all of whom must be "disinterested persons" as defined under the Plan.

Any compensation income realized by a participant with respect to any Award granted under the Plan shall be subject to withholding by NAC of income, employment or other taxes required by federal, state, local or foreign law. The Committee may in its discretion satisfy the withholding requirement by causing the entity or subsidiary employing the participant to withhold the appropriate amount of any and all of such taxes from any other compensation otherwise payable to such participant.

REMUNERATION OF DIRECTORS

For services in Fiscal 2003, all non-employee directors received: (1) compensation at the annual rate of \$55,000 plus an additional \$5,000 per annum for serving on one or more committees of the Board; and (2) reimbursement for

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

all reasonable fees and expenses incurred in connection with the performance of services on behalf of the Company. Fees and expenses shall be reimbursed upon submission to the Company of appropriate documentation for such fees and expenses in accordance with then-current Company policy.

Due to the substantial issues faced by NAC during Fiscal 2002 and Fiscal 2003, including (i) the sale and disposition of NAC's automobile loan portfolio, (ii) the issues raised by various auto rental, auto finance and shareholder litigation and settlements, (iii) the purchase of the 50% interest in the Angelika Film Centers, LLC interest along with the subsequent agreements made in December 2000 with Reading and its subsidiaries, (iv) the purchase of ZoomLot and the subsequent consummation of the Exchange Agreement with the former ZoomLot shareholders, (v) managing NAC's acquisition due diligence and related investment analysis activities, and (vi) the acquisition of OMI, various members of the Board of Directors were required to devote substantial time to the affairs of NAC.

72

Amounts paid to Directors in Fiscal 2003 aggregated \$220,000 for services rendered during the period as follows:

Director -----	Amount -----	Director Status(1) -----
James J. McNamara(2)	\$ --	Director
John A. Gleason	60,000	Director
Henry Y.L Toh	60,000	Director
William S. Marshall	60,000	Director
Thomas F. Carney, Jr.	40,000	Resigned as a Director September 2002

(1) During Fiscal 2003, the number of Directors constituting NAC's Board of Directors decreased due to, among other things (i) the relocation of NAC's principal office to New York from Ohio, (ii) the discontinuance of ZoomLot's e-commerce operations and NAC automobile finance operations and (iii) the hiring of certain full time employees in New York to manage NAC's day-to-day operations.

(2) Directors who are also employees of NAC do not receive any additional compensation for serving on the Board of Directors.

PERFORMANCE GRAPH

The following graph compares the yearly change in NAC's cumulative total shareholder return on its Common Stock (based on the market price of NAC's Common Stock) with the cumulative total return of the S&P 600 Small Cap Index, the Russell 2000 Index, Reading International, Inc. (a theatre and real estate concern) and AMC Entertainment, Inc. (a theatre concern).

	2/1/98	1/31/99	1/31/00	1/31/01	1/31/02	1/31/03

National Auto Credit, Inc.	100	117	140	37	19	19
S&P 600 Small Cap Index	100	99	108	129	132	107
Russell 2000 Index	100	99	115	118	112	87
AMC Entertainment, Inc.	100	63	35	20	40	30
Reading International, Inc.	100	95	69	53	47	100

For purposes of the above table, NAC is compared to both AMC Entertainment,

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

Inc. and Reading International Inc. as each company is engaged principally in the operations of various film theatres. NAC's current operations are comprised principally of its investment in the Angelika Film Center LLC.

73

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of April 25, 2003 with respect to: (1) all persons known by NAC to be the beneficial owners of five percent or more of Common Stock; (2) each executive officer and director; and (3) all executive officers and directors of NAC as a group.

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned	Approximate Percentage of Class(2)
-----	-----	-----
James McNamara(3) 555 Madison Ave 29th Floor New York, New York 10022	2,885,075	33.6%
William S. Banowsky, Jr.(4) 600 Congress Avenue, Suite 1400 Austin, TX 77701	431,350	5.5%
William S. Marshall(5) 555 Madison Ave 29th Floor New York, New York 10022	255,000	3.2%
John A. Gleason(5) 555 Madison Ave 29th Floor New York, New York 10022	245,000	3.0%
Henry Y. L. Toh(5) 555 Madison Ave 29th Floor New York, New York 10022	245,000	3.0%
Robert V. Cuddihy, Jr. 555 Madison Ave 29th Floor New York, New York 10022	--	--
All executive officers and Directors as a group (5 persons)(6)	3,630,075	39.0%

(1) Pursuant to rules promulgated under the Exchange Act of 1934, an individual is considered to beneficially own shares of Common Stock if he or she directly or indirectly has or shares (i) voting power, which includes the power to vote or direct the voting of shares; or (2) investment power, which includes the power to dispose or direct the disposition of the shares. Unless otherwise noted, NAC believes that all of such shares are owned of record by each individual named as beneficial owner and that such individual has sole voting and dispositive power with respect to the shares of Common Stock owned by each of them. Such person's percentage ownership is determined by assuming that the options or convertible securities that are held by such person, and which are exercisable within 60 days from the date hereof, have been exercised or converted, as the case may be.

(2) Based on 8,030,614 shares outstanding as of April 25, 2003.

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

- (3) Includes 2,135,075 shares of stock and vested options to purchase 750,000 shares of Common Stock.

74

- (4) The information recited is based upon information set forth in the Form 13-D filed on January 6, 2003 by Mr. Banowsky.
- (5) Includes 245,000 shares issuable upon exercise of options.
- (6) Includes 2,145,075 shares outstanding and 1,485,000 shares issuable upon exercise of options.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth, as of January 31, 2003, with respect to compensation plans (including individual compensation arrangements) under which equity securities of NAC are authorized for issuance.

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (A)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (B)	NUMBER OF SE REMAINING AVA FUTURE ISSUA EQUITY COMP PLANS (EXC SECURITIES RE COLUMN (C)
Equity compensation plans approved by security holders	1,875,000	\$0.84	128
Equity compensation plans not approved by security holders	-	-	
Total	1,875,000	\$0.84	

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

75

ITEM 14. CONTROLS AND PROCEDURES

- (a) Evaluation of Disclosure Controls and Procedures

Within the 90 days prior to the filing date of the Annual Report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Securities Exchange Act Rule

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

13a-14(c) and 15d-14(c). Based upon that evaluation, the Chief Executive and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the date of their evaluation in timely alerting them to material information relating to the Company required to be included in this Annual Report.

(b) Changes in Internal Controls

There were no significant change in our internal controls or in other factors that could significantly affect such internal controls subsequent to the date of the evaluation described in paragraph (a) above. As a result, no corrective actions were required or undertaken.

76

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K DOCUMENTS FILED AS PART OF THIS REPORT:

(a) (1) The following statements are included in Part II, Item 8:

Financial Statements of the Company

Report of Independent Certified Public Accountants

Financial Statements:

Consolidated Balance Sheets - as of
January 31, 2003 and 2002

Consolidated Statements of Operations -
Years Ended January 31, 2003, 2002 and 2001

Consolidated Statements of Stockholders' Equity and Comprehensive
Income (Loss) - Years Ended January 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows - Years Ended
January 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements - Years Ended
January 31, 2003, 2002 and 2001

Financial Statements of AFC

Report of Independent Certified Public Accountants

Financial Statements:

Balance Sheets as of December 26, 2002 and December 27, 2001

Statements of Operations for the years ended
December 26, 2002 and December 27, 2001

Statements of Members' Equity for the years ended
December 26, 2002 and December 27, 2001

Statements of Cash Flows for the years ended
December 26, 2002 and December 27, 2001

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

Notes to Financial Statements for the years ended
December 26, 2002 and December 27, 2001

77

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (CONT.)

- (a) (2) The following financial statement schedule for the years ended January 31, 2003, 2002 and 2001 is submitted herewith:

Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted because the required information either is not applicable or is shown in the consolidated financial statements or notes.

- (a) (3) Exhibits

Description

- 2.1 Agreement of Merger (incorporated by reference to Exhibit 2 to the Company's Form 8 B dated December 27, 1995, SEC File No. 1-11601).
- 2.2 Settlement Agreement and Release (Including Agreement for Sale of Shares) by and among National Auto Credit, Inc., Mr. Frankino, individually and as trustee and president of the Samuel J. Frankino and Connie M. Frankino Charitable Foundation, trustee of the Corrine L. Dodero Trust for the Arts and Sciences and managing partner of the Frankino and Frankino Investment Company, dated November 3, 2000 (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K dated November 17, 2000, SEC File No. 1-11601).
- 2.3 Stock Purchase and Standstill Agreement by and among National Auto Credit, Inc., Reading Entertainment, Inc., FA, Inc., Citadel Holding Corporation, and Craig Corporation, dated November 3, 2000 (incorporated by reference to Exhibit 2.2 on the Current Report on Form 8-K filed November 17, 2000, SEC File No. 1-11601).
- 2.4 Merger Agreement and Plan of Reorganization by and among ZLT Acquisition Corp., a Delaware and a wholly-owned subsidiary of NAC; ZoomLot Corporation, a Delaware corporation, including all of its subsidiaries; and Ernest C. Garcia II, Verde Reinsurance Company, Ltd., a Nevis Island corporation, Ernie Garcia III 2000 Trust, Brian Garcia 2000 Trust, Ray Fidel, Steven Johnson, Mark Sauder, EJMS Investors Limited Partnership, an Arizona limited partnership, Colin Bachinsky, Chris Rompalo, Donna Clawson, Mary Reiner, and Kathy Chacon dated December 15, 2000 (incorporated by reference to Exhibit 2 of the Current Report on Form 8-K filed January 2, 2001, SEC File No. 1-11601).
- 2.5 Stock Purchase and Standstill Agreement by and among Reading Entertainment, Inc., FA, Inc., Citadel Holding Corporation, Craig Corporation, and National Auto Credit, dated as of December 15, 2000, (incorporated by reference to Exhibit 99.1 of the Current Report on Form 8-K filed January 2,

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

2001, SEC File No. 1-11601).

- 3.1 Restated Certificate of Incorporation of National Auto Credit, Inc. (incorporated by reference to Exhibit 3 (1) to the Company's Form 8B filed December 27, 1995, SEC File No. 1-11601).

78

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (CONT.)

- 3.2 Certificate of Designation, Number, Powers, Preferences and Relative, Participating, Optional and Other Special Rights and the Qualifications, Limitations, Restrictions, and Other Distinguishing Characteristics of the Series A Convertible Preferred Stock of National Auto Credit, Inc., dated as of April 5, 2000 (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed on April 20, 2000, File No. 1-11601).
- 3.3 Amended and Restated Bylaws of National Auto Credit, Inc. dated April 5, 2000 (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2000, SEC File No. 1-11601).
- 3.4 Certificate of Designations of Series B and C Preferred Stock of National Auto Credit, Inc. dated as of December 15, 2000 (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed January 2, 2001, SEC File No. 1-11601).
- 3.5 Certificate of Designation for the Series D Junior Participating Preferred Stock (incorporated by reference to the Company's Current Report on Form 8-K, dated October 9, 2001, SEC File No. 1-11601).
- 4.1 Specimen Stock Certificate - National Auto Credit, Inc. (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1996, SEC File No. 1-11601).
- 4.2 Specimen Series C redeemable preferred stock Certificate - National Auto Credit, Inc. (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2001, SEC File No. 1-11601).
- 4.3 Rights Agreement, dated as of September 26, 2001, between the Company and American Stock Transfer & Trust Company, which included the form of Certificate of Designation for the Series D Junior Participating Preferred Stock as Exhibit "A", the form of Rights Certificate as Exhibit "B" and the Summary of Rights to Purchase Preferred Stock as Exhibit "C" (incorporated herein by reference to the Company's Current Report on Form 8-K, dated October 9, 2001, SEC File No. 1-11601).
- 10.1 National Auto Credit, Inc. 1983 Stock Option Plan (incorporated by reference to the Company's Post Effective Amendment No. 2 to Form S-8 as filed on October 1, 1987, File No. 2-93984).

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

- 10.2 Form of Directors' Indemnification Agreement dated July 2, 1986 (incorporated by reference to Exhibit 10(f) of the Company's Annual Report of Form 10-K for fiscal year ended January 31, 1988, File No. 0-12201).
- 10.3 National Auto Credit, Inc. 1993 Equity Incentive Plan (incorporated by reference to the Company's Form S-8 Registration Statement as filed on December 28, 1993, File No. 33-51727).

79

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (CONT.)

- 10.4 National Auto Credit, Inc. 401(k) Savings and Retirement Plan and Trust (incorporated by reference to the Company's Form S-8 Registration Statement as filed on December 28, 1993, File No. 33-51727).
- 10.5 Purchase Agreement among National Auto Credit, Inc., National Cinemas, Inc., FA, Inc. and Reading Entertainment, Inc., dated as of April 5, 2000 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on April 20, 2000, File No. 1-11601).
- 10.6 Registration Rights Agreement, dated as of April 5, 2000 (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed on April 20, 2000, File No. 1-11601).
- 10.7 Registration Rights Agreement, dated as of December 15, 2000 (incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed January 2, 2001, SEC File No. 1-11601).
- 10.8 Lockup, Standstill and Voting Agreement, dated as of December 15, 2000, (incorporated by reference to Exhibit 4.3 of the Current Report on Form 8-K filed January 2, 2001, SEC File No. 1-11601).
- 10.9 Employment Agreement between NAC and James J. McNamara dated as of December 15, 2000 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed January 2, 2001, SEC File No. 1-11601).
- 10.10 Separation Agreement between NAC and David L. Huber dated as of December 15, 2000 filed and incorporated herein by reference of the Annual Report on Form 10-K/A filed May 31, 2001 (SEC File No. 1-11601).
- 10.11 Agreement for Purchase and Sale of Limited Liability Partnership Interests (exhibits to Form 8-K filed January 28, 2002, SEC File No. 1-11601).
- 10.12 Exchange and Repayment Agreement dated January 31, 2002 by and among National Auto Credit, Inc., Cygnet Capital Corporation, Verde Reinsurance Company Ltd, Ernie Garcia III 2000 Trust, Brian Garcia 2000 Trust, EJMS Investors Limited Partnership, Ernest C. Garcia II, Ray Fidel, Steven P. Johnson, Mark Sauder, Colin Bachinsky, Chris Rompalo, Donna

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

Clawson, Mary Reiner, and Kathy Chacon (exhibit to Form 8-K filed February 4, 2002, SEC File No. 1-11601).

- 10.13 Separation Agreement from NAC for Raymond A. Varcho dated as of April 25, 2001 (exhibit 10.2 to the Company's Quarterly Report on Form 10-Q file June 15, 2001, SEC File No. 1-11601).
- 10.14 Employment Agreement between Robert V. Cuddihy, Jr. and the Company dated December 31, 2001 and incorporated by reference to the Annual Report on Form 10-K filed May 13, 2002.
- 10.15 Merger Agreement and Plan of Reorganization between the Company, ORA/Metro Incorporated and Mr. Dean R. Thompson dated as of April 1, 2003 and incorporated by reference herewith.

80

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (CONT.)

- 10.16 Employment Agreement and Non-Competition and Non-Solicitation Agreement between OMI Communications, Inc. and Mr. Dean R. Thompson dated as of April 1, 2003 and incorporated by reference herewith.
- 10.17 Non-Negotiable Promissory Note between the Company and Mr. Dean R. Thompson dated as of April 1, 2003 and incorporated by reference herewith.
- 10.18 Registration Rights Agreement between the Company and Mr. Dean R. Thompson dated as of April 1, 2003 and incorporated by reference herewith.
- 21 Subsidiaries of National Auto Credit, Inc. at January 31, 2003.
- 23 Consent of Independent Certified Public Accountants.

EXHIBIT NUMBER	TITLE OF EXHIBIT	PAGE NUMBER
99.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)	146
99.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)	147

(B) REPORTS ON FORM 8-K

On April 17, 2003, a Form 8-K was filed to announce the acquisition of ORA/Metro Incorporated

81

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, National Auto Credit, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

National Auto Credit, Inc.
Registrant

Date April 25, 2003

By: /s/ James J. McNamara

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities as indicated on April 25, 2003.

Principal Executive Officer

Principal Financial and
Accounting Officer

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 and
Treasurer

Directors:

/s/ William S. Marshall

William S. Marshall

/s/ John A. Gleason

John A. Gleason

/s/ James J. McNamara

James J. McNamara

/s/ Henry Y. L. Toh

Henry Y. L. Toh

82

OFFICER'S CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)

I, James McNamara., certify that:

1. I have reviewed this Annual Report on Form 10-K of National Auto Credit, Inc.;
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make

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

the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15-d-14) for the registrant and we have:

(a) designated such disclosure controls and procedures to ensure that material information related to the registrant, including its consolidating subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report ("Evaluation Date"); and

(c) presented in the Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors and material weakness in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this Annual Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 25, 2003

By: /s/ James J. McNamara

James J. McNamara
Chief Executive Officer

83

OFFICER'S CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)

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

I, Robert V. Cuddihy, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K of National Auto Credit, Inc.;

2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15-d-14) for the registrant and we have:

(a) designated such disclosure controls and procedures to ensure that material information related to the registrant, including its consolidating subsidiaries, is made known to us by others within those entities, particularly during the period in which this Annual Report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Annual Report ("Evaluation Date"); and

(c) presented in the Annual Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors and material weakness in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this Annual Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 25, 2003

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

Robert V. Cuddihy, Jr.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
(In Thousands)

Column A	Column B	Column C		Col
Description	Balance at beginning of period	Additions Charged to:		Dedu
		Expenses	Other	
Year ended January 31, 2003				
Self-insurance claims	\$ 769	\$ -	\$ -	
Year ended January 31, 2002				
Self-insurance claims	\$ 970	\$ 463	\$ -	
Year ended January 31, 2001				
Self-insurance claims	\$ 4,089	\$ (1,656)	\$ -	

(a) Included \$51,000 cash disbursements related to self-insurance claims and a \$200,000 reduction in the estimated liability based upon current estimates of outstanding claims.

(b) Cash disbursements related to self-insured claims.