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NATIONAL AUTO CREDIT INC /DE
Form 10-Q
December 17, 2001

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

FORM 10-Q

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

For the quarterly period ended October 31, 2001

OR

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

For the transition period from ----- to -----

Commission file number 1-11601

NATIONAL AUTO CREDIT, INC.

(Exact name of registrant as specified in its charter)

Delaware

34-1816760

(State or other jurisdiction of
incorporation or organization)

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

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

10022

(Address of principal executive offices)

(Zip Code)

(212) 644-1400

(Registrant's telephone number, including area code)

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

Yes (X) No ()

Indicate by check mark whether the registrant has filed all documents and

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reports required by Sections 12, 13 or 15(d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes () No ()

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

Class	Outstanding at December 10, 2001
-----	-----
Common Stock, \$0.05 par value	11,721,284

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NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have reviewed the accompanying condensed consolidated balance sheet and stockholders' equity and comprehensive income of National Auto Credit, Inc. and its subsidiaries as of October 31, 2001, the related statements of operations for each of the three-month and nine-month periods ended October 31, 2001 and 2000 and cash flows for each of the nine-month periods ended October 31, 2001 and 2000. The financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of January 31, 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein) and in our report dated April 16, 2001 (except for Note E as to which the date is May 9, 2001), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 31, 2001, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Grant Thornton LLP

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Cleveland, Ohio
December 14, 2001

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

	October 31, 2001	January 31, 2001
	-----	-----
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 6,041	\$ 12,44
Marketable securities (Note 4)	989	1,08
Investment in AFC (Note 5)	9,537	10,02
Property and equipment, net of accumulated depreciation of \$236, and \$186, respectively (Note 3)	325	78
Goodwill, net of accumulated amortization of \$191 (Note 3)	-	6,67
Assets held for sale (Note 6)	2,668	2,78
Income taxes refundable	3,664	3,66
Other assets	495	1,60
	-----	-----
	\$ 23,719	\$ 39,06
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Self-insurance claims	\$ 857	\$ 97
Accrued income taxes	973	1,02
Other liabilities	3,004	4,98
	-----	-----
Total liabilities	4,834	6,98
Commitments and contingencies (Note 7)	-	
Redeemable preferred stock (Redemption value \$936)	703	62
STOCKHOLDERS' EQUITY:		
Preferred stock	-	
Common stock, \$.05 par value; authorized 40,000,000 shares; issued 39,377,589 and 39,420,437 shares, respectively	1,969	1,97
Common stock to be issued	-	21
Additional paid-in capital	174,337	174,38
Retained deficit	(134,915)	(121,80
Accumulated other comprehensive income (loss)	(138)	(4
Treasury stock, at cost, 27,656,305 and 27,901,305 shares, respectively	(23,071)	(23,27

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Total stockholders' equity	18,182	31,45
	\$ 23,719	\$ 39,06

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended October 31,		
	2001	2000	20
Revenues			
Interest income from loans	\$ -	\$ -	
Interest income from investments	74	1,234	
Income from AFC investment	13	173	
E-commerce revenues	311	-	
Other income	-	-	
Total revenues	398	1,407	
Costs and Expenses			
Provision for credit losses	(28)	(161)	
(Gain) loss on sale of loans	-	-	
Operating	1,439	138	
General and administrative	1,482	1,410	
Litigation and non-recurring charges	-	2,875	
Gain on sale of property	-	(2,868)	
Write-down of goodwill and impaired assets (Note 3)	5,452	-	
Write-down of assets held for sale	-	-	
Write-off of option	-	-	
Restructuring charges	-	-	
Total costs and expenses	8,345	1,394	
Income (loss) from continuing operations before income taxes	(7,947)	13	
Provision for income taxes	-	-	
Income (loss) from continuing operations	(7,947)	13	
Discontinued operations, net of tax	-	383	
Net income (loss)	(7,947)	396	
Accretion of discount on redeemable preferred stock	(26)	-	
Net income (loss) applicable to common stock	\$ (7,973)	\$ 396	\$ (

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	=====	=====	=====
Basic and diluted earnings (loss) per share			
Continuing operations	\$ (.68)	\$ -	\$
Discontinued operations	-	.01	
	-----	-----	-----
Net earnings (loss) per share	\$ (.68)	\$.01	\$
	=====	=====	=====
Weight average number of shares outstanding			
Basic and diluted	11,721	34,754	
	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

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NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
NINE MONTHS ENDED OCTOBER 31, 2001
(IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	Preferred Stock		Common Stock		Common	Additional
	Shares	Par Value	Shares	Par Value	Stock to be Issued	Paid-In Capital
	-----	-----	-----	-----	-----	-----
Balance at January 31, 2001	-	\$ -	39,420,437	\$ 1,971	\$ 219	\$ 174,385
Net loss						
Stock award					(219)	
Stock cancelled under benefit plans			(42,848)	(2)		(48)
Accretion on redeemable preferred stock						
Other comprehensive income-unrealized loss on marketable securities						
	-----	-----	-----	-----	-----	-----
Comprehensive income (loss)						
	-----	-----	-----	-----	-----	-----
Balance at October 31, 2001	-	\$ -	39,377,589	\$ 1,969	\$ -	\$ 174,337
	=====	=====	=====	=====	=====	=====

	Retained Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total	
	-----	-----	-----	-----	-----

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Balance at

January 31, 2001	\$ (121,801)	\$ (23,275)	\$ (44)	\$ 31,455
Net loss	(12,989)			(12,989)
Stock award	(51)	204		(66)
Stock cancelled under benefit plans				(50)
Accretion on redeemable preferred stock	(74)			(74)
Other comprehensive income-unrealized loss on marketable securities			(94)	(94)
Comprehensive income (loss)				
Balance at October 31, 2001	\$ (134,915)	\$ (23,071)	\$ (138)	\$ 18,182

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended October 31,	
	2001	2000
Cash flows from operating activities		
Net loss	\$ (12,989)	\$ (5,466)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,205	753
Provision for credit losses	(462)	(1,183)
Loss on sale of loans	-	1,709
Gain on sale of property	-	(2,868)
Write-down of goodwill and impaired assets	5,452	-
Write-down of assets held for sale	39	874
Changes in operating assets and liabilities:		
Accrued income tax	(56)	(627)
Other liabilities	(1,979)	(208)
Self-insurance claims	(113)	(2,411)
Other operating assets and liabilities, net	283	1,067
Net cash used in operating activities	(7,620)	(8,360)

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Cash flows from investing activities		
Principal collected on loans	149	5,548
Proceeds from sale of loans	313	24,187
Change in contracts in progress	559	-
Investment in AFC	-	(872)
Proceeds from AFC distributions	551	459
Proceeds from sale of assets	78	8,606
Purchase of marketable securities	-	(25,092)
Proceeds from sale of marketable securities	-	16,625
Purchase of property and equipment	(317)	(71)
Purchase of affordable housing investments	-	(744)
Net cash provided by investing activities	1,333	28,646
Cash flows from financing activities		
Stock award	(270)	-
Payments to acquire treasury stock	204	-
Stock cancelled under benefit plans	(50)	(20)
Net cash used in financing activities	(116)	(20)
(Decrease) increase in cash and cash equivalents	(6,403)	20,266
Cash and cash equivalents at beginning of period	12,444	54,333
Cash and cash equivalents at end of period	\$ 6,041	\$ 74,599
Supplemental disclosures of cash flow information		
Interest paid	\$ -	\$ -
Income taxes paid	\$ 56	\$ 627

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1 - BASIS OF PRESENTATION

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the rules of the Securities and Exchange Commission applicable to interim financial statements, and therefore do

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not include all disclosures that might normally be required for interim financial statements prepared in accordance with generally accepted accounting principles. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with NAC's consolidated financial statements, including the notes thereto, appearing in NAC's Annual Report on Form 10-K for the year ended January 31, 2001. The results of operations for the nine months ended October 31, 2001 are not necessarily indicative of the operating results for the full year.

The preparation of financial statements and the accompanying notes thereto, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the respective reporting periods. Actual results could differ from those estimates.

Cash and cash equivalents at October 31, 2001 include restricted cash of \$75,000 pursuant to an agreement with a former president.

Certain fiscal 2001 amounts have been reclassified to conform with fiscal 2002 presentations.

NOTE 2 - ACQUISITION

Effective December 15, 2000, NAC acquired ZoomLot Corporation ("ZoomLot") in exchange for the issuance of 270,953 shares of its Series B Convertible Preferred Stock and 729,047 shares of its Series C Redeemable Preferred Stock. 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 November 3, 2000 Stock Purchase and Standstill Agreement between NAC and Reading Entertainment, Inc. ("Reading"), FA, Inc., Citadel Holding Corporation and Craig Corporation. As a result of the termination of the Stock Purchase and Standstill Agreement, on December 15, 2000, NAC converted the 270,953 shares of the Series B convertible preferred stock into 2,709,530 shares of NAC Common 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"). The following sets forth the unaudited pro forma condensed results of operations for the nine months ended October 31, 2000 which assumes the acquisition of ZoomLot was completed on February 1, 2000. The following pro forma information is presented for illustrative purposes only and does not purport to be indicative of the operating results that would have been obtained had the acquisition been completed on that date, nor of future operating results.

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Pro forma revenues, net loss and loss per share for the nine months ended October 31, 2000 are as follows (in thousands, except for the per share amount):

Total revenue	\$ 4,358
Net loss	\$(11,788)
Loss per share	\$ (.36)

NOTE 3 - WRITE-DOWN OF GOODWILL AND IMPAIRED ASSETS

During the three months ended October 31, 2001, NAC conducted a strategic review of its investment in ZoomLot, acquired December 15, 2000. NAC's 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, the 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. Accordingly, NAC determined that for the purposes of the impairment test required under Statement of Financial Accounting Standards 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, no value could be ascribed to the goodwill relating to ZoomLot (which NAC had been amortizing on a straight-line basis over three years, resulting in a quarterly charge of \$572,000), and NAC recorded a non-cash charge of \$5.0 million to write-off the remaining unamortized goodwill. NAC also determined, as a result of this review, that the recoverability of the remaining unamortized balance of \$495,000 of costs capitalized for the acquisition of e-commerce software by ZoomLot was not sufficiently assured, and recorded a non-cash charge to write-off such costs. NAC is continuing to examine its future plans for ZoomLot.

NOTE 4 - MARKETABLE SECURITIES

Marketable securities at October 31, 2001 are summarized as follows (in thousands):

	Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Equity securities - mutual funds	\$1,127	\$ -	\$(138)	\$989

All marketable securities were classified as available for sale.

NOTE 5 - INVESTMENT IN AFC

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Effective April 5, 2000, NAC acquired a 50% membership interest in Angelika Film Center, LLC ("AFC"). AFC is the owner and operator of the Angelika Film Center, which is a multiplex cinema and cafe complex in the Soho District of Manhattan in New York City.

AFC is currently owned 50% by NAC, 33.34% by Reading and 16.66% by Citadel Cinemas, Inc. (a wholly owned subsidiary of Citadel Holding Corporation). The articles and bylaws of AFC provide that for all matters subject to a vote of the members, a majority is required, except that in the event of a tie vote, the Chairman of Reading shall cast the deciding vote.

NAC uses the equity method to account for its investment in AFC. NAC's initial investment exceeded its share of AFC's net assets and that portion of the investment balance is accounted for in a manner similar to goodwill and amortized over a 20 year period on a straight line basis. AFC uses a December 31 year-end for financial reporting purposes. NAC reports on a January 31 year-end, and for its fiscal quarters ending April 30, July 31, October 31 and January 31 records its pro-rata share of AFC's earnings on the basis of AFC's fiscal quarters ending March 31, June 30, September 30, and December 31, respectively. For the three months and nine months ended October 31, 2001, NAC recorded income of \$13,000 and \$61,000, representing its share of AFC's net income (loss) for the three months and nine months ended September 30, 2001, net of goodwill amortization of approximately \$68,000 and \$204,000, respectively.

Summarized income statement data for AFC for the three months and nine months ended September 30, 2001, respectively, and the three months and nine months ended September 30, 2000, respectively, is as follows (in thousands):

	Three Months Ended September 30,		Nine Months
	2001	2000	2001
Revenues	\$ 1,657	\$ 1,668	\$ 5,044
Film rental	551	543	1,664
Operating costs	707	636	2,138
Depreciation and amortization	149	173	484
General and administrative expenses	85	45	206
	1,492	1,397	4,492
Net income	\$ 165	\$ 271	\$ 552

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

NOTE 6 - ASSETS HELD FOR SALE

Assets held for sale are as follows (in thousands):

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	October 31, 2001	January 31, 2001
	-----	-----
Affordable housing investments	\$2,668	\$2,670
Other assets	-	115
	-----	-----
Total	\$2,668	\$2,785
	=====	=====

NAC has certain investments in affordable housing projects which it previously 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 and recorded a cumulative write-down for fiscal years 2000 and 2001 of \$7.8 million to reduce the carrying amount of the investments to their fair value less estimated costs to sell. NAC expects to complete the sale of the investments in the fourth quarter of fiscal 2002 and future operating results could be affected by revisions of the estimates of the fair value less estimated costs to sell the investments, which changes could be material due to the uncertainties inherent in the estimation process. As a limited partner in these affordable housing projects, NAC is required to make future contributions on January 31, 2002 of \$432,000, plus interest at an average rate of 8.9% per annum.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

In the ordinary 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.

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

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

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

NOTE 7 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

a result of the alleged various acts complained of, (v) the imposition of a constructive trust over monies or other benefits received by the directors, and (vi) an award of costs and expenses.

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

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

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

NOTE 8 - RESTRUCTURING

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During January 2001, NAC committed to a plan of restructuring its operations and relocating its corporate offices from Solon, Ohio to New York City, New York. As part of the plan, and in accordance with EITF Issue No. 94-3, "Liabilities Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity", in the fourth quarter of fiscal 2001, NAC recorded a restructuring charge of \$1.8 million comprised of a write-down for property and equipment of \$922,000 and the accrual of expenses aggregating \$855,000.

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

NOTE 8 - RESTRUCTURING (CONTINUED)

The following sets forth the activity in the accrued restructuring costs for the nine months ended October 31, 2001 (in thousands):

	Nine Months Ended October 31, 2001			
	Accrued at February 1, 2001	Costs Incurred	Changes in Estimates	
Employee termination costs	\$ 575	\$ (531)	\$ 42	
Lease terminations	130	(107)	(23)	
Outplacement fees and other	150	(191)	41	
Total	\$ 855	\$ (829)	\$ 60	

NOTE 9 - SEGMENT INFORMATION

During fiscal year 2000 NAC operated in a single operating segment; investing in sub-prime used automobile loans (the "automobile financing" segment). In fiscal year 2001, as result of its investment in AFC and its acquisition of ZoomLot, the Company began to classify its operations into three operating segments:

- o the e-commerce segment, which is comprised of ZoomLot's 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. ZoomLot currently provides these services on a limited basis, using a combination of Internet and manual processes, and is continuing its efforts to develop a wholly electronic transaction;

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- o the movie exhibition segment, which is comprised of the activities of AFC; and,
- o the automobile financing segment.

NAC did not acquire its investment in ZoomLot until the fourth quarter of fiscal 2001, and therefore for the nine months ended October 31, 2000 operated in the automobile financing and movie exhibition segments.

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

NOTE 9 - SEGMENT INFORMATION (CONTINUED)

Operating segment information for the nine months ended October 31, 2001 and 2000 is as follows (in thousands):

	E-commerce -----	Automobile Financing -----	Movie Exhibition -----	Gen Corp -----
Nine Months Ended October 31, 2001				
Revenues	\$ 769	\$ -	\$ 61	\$
Unusual items:				
Write-down of goodwill and impaired assets	\$ (5,452)	\$ -	\$ -	\$
Restructuring charges	\$ -	\$ -	\$ -	\$
Income (loss) from continuing operations before income taxes	\$ (9,514)	\$ 382	\$ 61	\$ (3
Nine Months Ended October 31, 2000				
Revenues	\$ -	\$ 527	\$ 233	\$ 3
Unusual items:				
Gain on sale of loans	\$ -	\$ 1,709	\$ -	\$
Litigation and non- recurring charges	\$ -	\$ -	\$ -	\$ (6
Write-down of assets held for sale	\$ -	\$ -	\$ -	\$
Write-off of option	\$ -	\$ -	\$ (500)	\$
Income (loss) from continuing operations before income taxes	\$ -	\$ (1,371)	\$ (267)	\$ (4

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 10 - RECENT ACCOUNTING PRONOUNCEMENTS

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

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

Prior to the write-off of ZoomLot goodwill (see Note 3), NAC was recognizing goodwill amortization of \$572,000 per quarter. As a result of the write-off, NAC will, beginning November 1, 2001, no longer recognize this charge. NAC also recognizes a quarterly charge (as a reduction of its earnings from its investment in AFC) of \$68,000 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. This charge will be discontinued upon NAC's adoption of SFAS 142 on February 1, 2002.

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 will be adopted by NAC effective February 1, 2002. NAC is currently

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evaluating the potential impact, if any, of the adoption of SFAS 143 will have on its results of operations, cash flows or financial position.

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

NOTE 10 - RECENT ACCOUNTING PRONOUNCEMENTS (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 ABP 30 to separately identify and report discontinued operations. However, SFAS extends that requirement the ABP 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 will be adopted by NAC effective February 1, 2002. NAC is currently evaluating the potential impact, if any, of the adoption of SFAS 143 will have on its results of operations, cash flows or financial position.

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

GENERAL

National Auto Credit, Inc. (NAC) began operations in 1969 and was incorporated in Delaware in 1971. NAC's principal business activity is conducted through ZoomLot Corporation ("ZoomLot"), a wholly-owned subsidiary, which is engaged in the development of e-commerce 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. ZoomLot currently provides these services on a limited basis, using a combination of Internet and manual processes, and is continuing its efforts to develop wholly electronic transaction. NAC acquired ZoomLot on December 15, 2000. NAC also owns a 50% membership interest in Angelika Film Center, LLC ("AFC"). Additionally, NAC is

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considering 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.

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 of fiscal 2001, NAC sold its active loan portfolio and the majority of its charged-off portfolio. NAC has not yet made a definitive decision whether it will re-enter some aspect of the consumer lending business; therefore as of October 31, 2001, these operations have not been classified as a discontinued operation.

As of October 31, 2001 NAC's operations are classified as three operating segments:

- o the e-commerce segment, which is comprised of ZoomLot's 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. ZoomLot currently provides these services on a limited basis, using a combination of Internet and manual processes, and is continuing its efforts to develop a wholly electronic transaction;
- o the movie exhibition segment, which is comprised of the activities of AFC; and,
- o the automobile financing segment.

NAC reports and evaluates the performance of its operating segments on the basis of revenues and income (loss) before income taxes. In measuring revenues and income (loss) before income taxes, NAC's operating segments use the same accounting principles described in Note 1 of "Notes to Condensed Consolidated Financial Statements". However, the revenues and income (loss) before income taxes reported by each of NAC's operating segments is not necessarily indicative of what the results of operations would have been for such operating segment had it operated as a stand-alone entity.

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

ZoomLot's potential for future profitability must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in the early stages of development, particularly companies in new and rapidly evolving markets such as the market for Web-based business-to-business e-commerce. To achieve profitability, ZoomLot must, among other things, continue to expand the number of dealers it serves, be chosen by those dealers to place a high percentage of the total contracts they sell, continue to expand the participation of finance companies in its program, and

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maintain a high degree of dealer and finance company satisfaction. Achieving these objectives will depend significantly on the successful completion of the development of its FundHere(TM) Aggregator, the subsequent successful introduction of this technology to dealers and finance companies, success in providing dealers with easy to use program integrating dealer management systems or through ZoomLot's web site and success in responding to other competitive developments. As ZoomLot operations commenced in 2000 and has continued its product and customer development efforts, ZoomLot's historical results are not indicative of future results of operations, and ZoomLot may be expected to continue to operate at a loss in the near term.

During the three months ended October 31, 2001, NAC conducted a strategic review of its investment in ZoomLot, acquired December 15, 2000. NAC's 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, the 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. Accordingly, NAC determined that for the purposes of the impairment test required under Statement of Financial Accounting Standards 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, no value could be ascribed to the goodwill relating to ZoomLot (which NAC had been amortizing on a straight-line basis over three years, resulting in a quarterly charge of \$572,000), and NAC recorded a non-cash charge of \$5.0 million to write-off the remaining unamortized goodwill. NAC also determined, as a result of this review, that the recoverability of the remaining unamortized balance of \$495,000 of costs capitalized for the acquisition of e-commerce software by ZoomLot was not sufficiently assured, and recorded a non-cash charge to write-off such costs. NAC is continuing to examine its future plans for ZoomLot.

RECENT DEVELOPMENTS

Throughout the third quarter of fiscal 2002 and as of November 30, 2001, NAC had no external source of financing, and has operated on the cash balances created by the sale of loans and the proceeds from the sale of real property in fiscal 2001 as NAC implemented its January 2001 Restructuring Plan which included (i) relocation of its corporate offices to New York City, New York, completed July 2001, (ii) closing of its Solon, OH offices and operations, completed July 2001, (iii) reducing general operating expenses as a consequence of the relocation and restructuring activities and (iv) identifying new strategic business opportunities. NAC plans to continue to pursue reduction in its operating expenses and new debt or equity financing for use in funding its strategic business alternatives. Such alternatives include but are not limited to the purchase of one or more existing operating businesses or the entry into one or more businesses. Additionally, as discussed above, in the third quarter of fiscal 2002, NAC conducted a strategic review of ZoomLot, and continues to examine its future plans for those operations. The

uncertainty concerning when and if ZoomLot will achieve profitable operations or positive cash flow, and NAC's pending civil litigation matters may limit its ability to obtain external financing. In the interim, NAC will use the current cash flows derived from its investment in AFC and the investment of its cash, together with the cash and cash equivalents itself to pay operating expenses and cover the costs of existing liabilities. NAC has available cash and cash equivalents and marketable securities totaling \$7.0 million at October 31, 2001, and it believes that such cash and cash equivalents and the investment income therefrom will be sufficient to pay operating expenses and existing liabilities through the next twelve months.

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

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

On August 31, 2001, NAC received a complaint (the "Harbor Complaint") filed by Harbor Finance Partners ("Harbor"), a shareholder of NAC, with the Court of Chancery of Delaware on or about August 31, 2001, against Thomas F. Carney, Jr., Mallory Factor, John A. Gleason, Donald Jasensky, William S. Marshall, James J. McNamara, Henry Y. L. Toh, Peter T. Zackaroff, Ernest C. Garcia, and ZoomLot Corp. 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

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

allegedly related thereto; (vi) a judgment requiring the defendants to indemnify NAC for alleged losses attributable to their alleged actions; and (vii) a judgment awarding interest, attorney's fees, and other costs, in an amount to be determined.

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

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

RESULTS FROM OPERATIONS FOR THE THREE MONTHS ENDED OCTOBER 31, 2001
AS COMPARED TO THE THREE MONTHS ENDED OCTOBER 31, 2000

Interest Income from Loans: NAC's loan investments resulted from purchases of installment loans at discounts from the face or contractual amount. Those discounts reflected both (i) an element of interest income that NAC sought to earn on its investment in the loans, and (ii) NAC's assessment, at the time of purchase, that a portion of the loans it purchased were impaired in that the loans would not be repaid in accordance with their contractual terms.

NAC sold its loan investments during the first quarter of fiscal 2001, and as a result, NAC had no interest income from loans for the three months ended October 31, 2001 or October 31, 2000.

Interest Income from Investments: Interest income from investments is principally the interest earned on NAC's investments in marketable securities, commercial paper and money market accounts. Interest income from these investments was \$74,000 for the three months ended October 31, 2001 as compared to \$1.2 million for the three months ended October 31, 2000. The decrease was primarily due to the decrease in the weighted average investment balances for the three months ended October 31, 2001, as NAC used its cash equivalents and

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investments to fund repurchases of NAC Common Stock, totaling approximately \$52 million, during the fourth quarter of fiscal 2001. The recent declines in interest rates may adversely affect NAC's future interest income from its investments.

Income from AFC Investment: NAC accounts for its investment in AFC using the equity method. The \$13,000 reported as income from the investment in AFC represents NAC's share of AFC's net income for the three months ended September 30, 2001 less the amortization of the goodwill recorded by NAC on its investment.

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

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

	Three Months Ended September 30,	
	2001	2000
Revenues	\$ 1,657	\$ 1,668
Film rental	551	543
Operating costs	707	636
Depreciation and amortization	149	173
General and administrative expenses	85	45
	1,492	1,397
Net income	\$ 165	\$ 271

Primarily as a result of the net effects of a 2.2% decrease in attendance and, partially offset by, a 5.9% increase in average ticket prices, AFC's revenues decreased \$11,000 for the three months ended September 30, 2001 as compared to the three months ended September 30, 2000. The attendance, and at times the ticket prices, at AFC will vary depending on audience interest in, and the popularity of the films it exhibits and other factors. Film rental and operating expenses, as a percentage of revenue, increased 5.2% to 75.9% from 70.7%, for the three months ended September 30, 2001 and 2000, respectively. Operating costs as a percent of revenue was 42.7% for the three months ended September 30, 2001 as compared to 38.1% for the three months ended September 30, 2000 due to a general increase in operating costs which were not offset by a corresponding increase in revenues.

E-Commerce Revenue: E-Commerce revenues derived through NAC's ZoomLot's operations were \$311,000 for the three months ended October 31, 2001. No revenues for ZoomLot are included in the results of operations for the three months ended October 31, 2000 as ZoomLot was not acquired until the fourth quarter of fiscal 2001.

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ZoomLot's services facilitate 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 contracts submitted by dealers who wish to sell contracts which were obtained by them upon the sale of a vehicle against the underwriting criteria of finance companies and then submitting those contracts that meet the underwriting criteria to the appropriate finance companies is commonly referred to as "contract aggregation". However, ZoomLot does not warehouse or pool purchased contracts for resale, but rather either merely facilitates a finance company's purchase of a contract from dealer or purchases contracts from dealers for immediate pre-arranged resale. As a result, NAC does not assume credit risk with respect to the contracts.

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

Provision for Credit Losses: As a result of the sale of NAC's investment in loans during fiscal 2001, NAC continues to record reversals into income of previously recorded credit losses due to the cash receipts collected on loans previously charged-off. For the three months ended October 31, 2001, NAC recorded a reversal into income of previously recorded credit losses of \$28,000. NAC has completed the sale of substantially all of its remaining charged-off portfolio and expects that in the future collections from charged-off loans will continue to decline.

Prior to the sale of its loans, NAC's methodology for determining the allowance for credit losses was to assess the recoverability of its loans investments on the basis of the present value of the expected future cash flows. NAC recorded a reversal into income of previously recorded credit losses of \$161,000 for the three months ended October 31, 2000.

Operating Expenses: Operating expenses include personnel costs, amortization of goodwill, rent, advertising and internet technology related expenses. Operating expenses increased to \$1.4 million for the three months ended October 31, 2001 as compared to \$138,000 for the three months ended October 31, 2000.

Operating expenses for the three months ended October 31, 2001 are costs relating principally to ZoomLot. Personnel costs and amortization of goodwill comprise 60.7% of operating expenses, net of the effect of \$143,000 paid to ZoomLot by Cygnet Dealer Finance ("CDF"). ZoomLot was originally a division of CDF, and ZoomLot and CDF continue to share common personnel and facilities. ZoomLot receives a monthly fee from CDF for performing management services and to reimburse ZoomLot for the costs incurred to administer the CDF operations.

Operating expenses of \$138,000 for the three months ended October 31, 2000 included expenses related to the automobile finance segment that sold its loan portfolio during the first quarter of fiscal 2001.

General and Administrative: General and administrative expenses include costs of executive, accounting and legal personnel, occupancy, legal, professional, insurance and other general corporate overhead costs. General and

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administrative expenses increased \$72,000 to \$1.5 million for the three months ended October 31, 2001 from \$1.4 million for the three months ended October 31, 2000.

General and administrative expenses are more fixed in nature than operating expenses and are not expected to vary as directly with revenues. The increase in general and administrative costs for the three months ended October 31, 2001 was primarily due to an increase in personnel costs and professional services.

Write-down of Goodwill and Impaired Assets: During the three months ended October 31, 2001, NAC conducted a strategic review of its investment in ZoomLot, acquired December 15, 2000. NAC's 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, the 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. Accordingly, NAC determined that for the purposes of the impairment test required under Statement of Financial Accounting Standards 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, no value could be ascribed to the goodwill relating to ZoomLot.

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

(which NAC had been amortizing on a straight-line basis over three years, resulting in a quarterly charge of \$572,000), and NAC recorded a non-cash charge of \$5.0 million to write-off the remaining unamortized goodwill. NAC also determined, as a result of this review, that the recoverability of the remaining unamortized balance of \$495,000 of costs capitalized for the acquisition of e-commerce software by ZoomLot was not sufficiently assured, and recorded a non-cash charge to write-off such costs. NAC is continuing to examine its future plans for ZoomLot.

RESULTS FROM OPERATIONS FOR THE NINE MONTHS ENDED OCTOBER 31, 2001 AS COMPARED TO THE NINE MONTHS ENDED OCTOBER 31, 2000

Interest Income from Loans: NAC's loan investments resulted from purchases of installment loans at discounts from the face or contractual amount. Those discounts reflected both (i) an element of interest income that NAC sought to earn on its investment in the loans, and (ii) NAC's assessment at the time of purchase that a portion of the loans it purchased were impaired in that the loans would not be repaid in accordance with their contractual terms.

NAC sold its loan investments during the first quarter of fiscal 2001 and, as a result, NAC had no interest income from loans for the nine months ended October 31, 2001. Interest income from loans was \$404,000 for the nine months ended October 31, 2000.

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Interest Income from Investments: Interest income from investments is principally the interest earned on NAC's investments in marketable securities, commercial paper and money market accounts. Interest income from these investments was \$300,000 for the nine months ended October 31, 2001 as compared to \$3.5 million for the nine months ended October 31, 2000. The decrease was primarily due to the decrease in the weighted average investment balances for the nine months ended October 31, 2001, as NAC used its cash equivalents and investments to fund the repurchases of NAC Common Stock, totaling approximately \$52 million, during the fourth quarter of fiscal 2001.

Income from AFC Investment: NAC accounts for its investment in AFC using the equity method. The \$61,000 reported as the income from the investment in AFC represents NAC's share of AFC's net income for the nine months ended September 30, 2001 less the amortization of the goodwill recorded by NAC on its investment.

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

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

	Nine Months Ended September 30,	
	2001	2000
Revenues	\$ 5,044	\$ 4,405
Film rental	1,664	1,345
Operating costs	2,138	1,834
Depreciation and amortization	484	519
General and administrative expenses	206	120
	4,492	3,818
Net income	\$ 552	\$ 587

As the result of the combined effect of a 13.1% increase in attendance and a 1.2% increase in average ticket prices, AFC's revenues increased \$639,000 for the nine months ended September 30, 2001 as compared to the nine months ended September 30, 2000. The attendance, and at times the ticket prices, at AFC will vary depending on audience interest in, and the popularity of the films it exhibits and other factors. Film rental and operating expenses for the period ended September 30, 2001 as compared to September 30, 2000, as a percentage of revenue increased 3.2% to 75.4% from 72.2%, respectively. Operating costs, as a percent of revenue, remained fairly constant at approximately 42.4% for the nine months ended September 30, 2001 as compared to 41.6% for the nine months ended September 30, 2000.

E-Commerce Revenue: E-Commerce revenues derived through NAC's ZoomLot's operations were \$769,000 for the nine months ended October 31, 2001. No revenues for ZoomLot are included in the results of operations for the nine months ended

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October 31, 2000 as ZoomLot was not acquired until the fourth quarter of fiscal 2001.

Provision for Credit Losses: As a result of the sale of NAC's investment in loans during fiscal 2001, NAC continues to record reversals into income of previously recorded credit losses due to the cash receipts collected on loans previously charged-off. For the nine months ended October 31, 2001, NAC recorded a reversal into income of previously recorded credit losses of \$462,000. NAC has completed the sale of substantially all of its remaining charged-off portfolio and expects that in the future collections from charged-off loans will decline significantly.

Prior to the sale of its loans, NAC's methodology for determining the allowance for credit losses was to assess the recoverability of its loans investments on the basis of the present value of the expected future cash flows. NAC recorded a reversal into income of previously recorded credit losses of \$1.2 million for the nine months ended October 31, 2000.

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

Operating Expenses: Operating expenses include personnel costs, amortization of goodwill, rent, advertising and internet technology related expenses. Operating expenses increased to \$4.7 million for the nine months ended October 31, 2001 as compared to \$1.6 million for the nine months ended October 31, 2000.

Operating expenses for the nine months ended October 31, 2001 are costs relating principally to ZoomLot. Personnel costs and amortization of goodwill comprise 57.8% of operating expenses net of the effect of \$552,000 paid to ZoomLot by Cygnet Dealer Finance ("CDF"). ZoomLot was originally a division of CDF, and ZoomLot and CDF continue to share common personnel and facilities. ZoomLot receives a monthly fee from CDF for performing management services and to reimburse ZoomLot for the costs incurred to administer the CDF operations.

Operating expenses of \$1.6 million for the nine months ended October 31, 2000 included expenses related to the automobile finance segment that sold its loan portfolio during the first quarter of fiscal 2001.

General and Administrative: General and administrative expenses include costs of executive, accounting and legal personnel, occupancy, legal, professional, insurance and other general corporate overhead costs. General and administrative expenses increased \$427,000 to \$4.3 million for the nine months ended October 31, 2001 from \$3.9 million for the nine months ended October 31, 2000.

General and administrative expenses are more fixed in nature than operating expenses and are not expected to vary as directly with revenues. The increase in general and administrative costs for the nine months ended October 31, 2001 was primarily due to an increase in personnel costs and professional services.

Litigation and Other Charges: Following the resignation of Deloitte & Touche LLP, NAC instituted investigations of its previous financial reporting

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and underwent changes in management. In fiscal year 1998, NAC accrued initial estimates of certain resulting costs, and additional costs in excess of those initial estimates were expensed as incurred or as such estimates were revised. For the nine months ended October 31, 2000, NAC charged to operations \$6.3 million for costs of the litigation with Mr. Frankino that commenced in April 2000 and ultimately settled in November 2000.

Income Taxes: Due to net operating losses and the availability of net operating loss carryforwards, NAC's effective income tax rate was zero for the nine month period ended October 31, 2001 and October 31, 2000. NAC has provided a full valuation allowance against its net operating loss carryforward and other net deferred tax asset items due to the uncertainty of their future realization.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended October 31, 2001, NAC used \$7.6 million for operating activities as NAC's payments for operating and general and administrative expenses continued to exceed revenues from operations. NAC generated \$1.3 million in cash flows from investing activities principally as the result of the net effect of (i) \$551,000 of AFC distributions received, (ii) \$462,000 of cash flows from the sales of loans, (iii) \$306,000 generated from the reduction in ZoomLot's contracts in progress, which represent the contracts ZoomLot is temporarily holding under its Private Label program, offset by (iv) \$317,000 of capital expenditures. The cash flows generated by these sources were used to partially offset the negative operating cash flows and retain a cash balance of \$6.0 million at October 31, 2001.

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

For the nine months ended October 31, 2000, NAC used \$8.4 million from operating activities as NAC's payments for operating and general and administrative and litigation and other expenses continued to exceed interest income from the declining portfolio balance. NAC generated \$28.6 million in cash flows from investing activities principally as the result of the net effect of (i) \$24.2 million of cash flows from the sales of loans, (ii) net proceeds of \$8.6 million derived from the sale of assets, offset by (iii) net (of sales) of \$8.5 million of the proceeds invested in marketable securities. The cash flows generated by these sources were used to finance the negative operating cash flows and retain a cash balance of \$74.6 million at October 31, 2000.

NAC believes that the cash and cash equivalents and marketable securities totaling \$7.0 million at October 31, 2001, and the investment income therefrom, will be sufficient to pay operating expenses, existing liabilities, including costs associated with pending civil litigation, and to fund its activities through the next twelve months. NAC estimates the capital requirements to fund ZoomLot operations and investments in software and computer equipment may total approximately \$3.5 million over the next twelve months. As previously discussed, NAC's lack of external financing sources may limit its ability to pursue strategic business alternatives being considered by NAC's Board of Directors. Such limitations may have an adverse impact on NAC's financial position, results of operations and liquidity.

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RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

- o All acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting.

Prior to the write-off of ZoomLot goodwill (see Note 3), NAC was recognizing goodwill amortization of \$572,000 per quarter. As a result of the write-off, NAC will, beginning November 1, 2001, no longer recognize this charge. NAC also recognizes a quarterly charge (as a reduction of its earnings from its investment in AFC) of \$68,000 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. This charge will be discontinued upon NAC's adoption of SFAS 142 on February 1, 2002.

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,

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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 will be adopted by NAC effective February 1, 2002. NAC is currently evaluating the potential impact, if any, of the adoption of SFAS 143 will have on its results of operations, cash flows or financial position.

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 ABP 30 to separately identify and report discontinued operations. However, SFAS extends that requirement the ABP 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 will be adopted by NAC effective February 1, 2002. NAC is currently evaluating the potential impact, if any, of the adoption of SFAS 143 will have on its results of operations, cash flows or financial position.

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

OTHER

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

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

FORWARD-LOOKING STATEMENTS

Various statements made in this Item 2 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, a delay in identifying and implementing and

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agreeing to one or more strategic business alternatives, 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. In addition, ZoomLot's operations are subject to certain risk factors. Also see Item 1 - "Business" - E-Commerce Business - Summary of Certain Risk Factors Related to ZoomLot's Business in the NAC's Annual Report on Form 10-K, as amended, for the year ended January 31, 2001.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

As of October 31, 2001, NAC has no interest bearing debt, and accordingly no market risk associated with increases in interest costs resulting from changes in market rates.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary 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.

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

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order directing the Director Defendants to account for alleged damages sustained and profits obtained by the Director Defendants as a result of the alleged various acts complained of, (v) the imposition of a constructive trust over monies or other benefits received by the Director Defendants and (vi) an award of costs and expenses.

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

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

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

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

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits - None

b) Reports on Form 8-K - None

SIGNATURES

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

NATIONAL AUTO CREDIT, INC.

Date: December 14, 2001

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