NATIONAL AUTO CREDIT INC /DE
Form 10-Q
September 22, 2003

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 July 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 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 is an accelerated filer (as defined in rule 12b-2 of the Securities and Exchange Act).

Yes [ ] No [x]

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

Class	Outstanding at September 18, 2003
Common Stock, $0.05 par value	8,030,614

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

		PAGE
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Report of Independent Certified Public Accountants	1
	Condensed Consolidated Balance Sheets as of July 31, 2003 and January 31, 2003	2
	Condensed Consolidated Statements of Operations for the Three Months and Six Months Ended July 31, 2003 and 2002	3
	Condensed Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the Six Months Ended July 31, 2003	4
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended July 31, 2003 and 2002	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	30

Item 4. Controls and Procedures 30

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 32

Item 6. Exhibits and Reports on Form 8-K 35

Signatures 35

Certifications 36

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

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

We have reviewed the accompanying condensed consolidated balance sheet of National Auto Credit, Inc. and its subsidiaries as of July 31, 2003, the related statements of operations for each of the three-month and six-month periods ended July 31, 2003 and 2002; the related statements of stockholders' equity and comprehensive income for the six-month period ended July 31, 2003 and the statements of cash flows for the six-month periods ended July 31, 2003 and 2002. 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, 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for

the year then ended (not presented herein) and in our report dated April 9, 2003, 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, 2003, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Grant Thornton LLP
Cleveland, Ohio
September 4, 2003

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

	July 31, 2003	January 31, 2003
	(unaudited)	
ASSETS		
Cash and cash equivalents	$ 2,194	$ 1,873
Marketable securities (Note 3)	632	984
Accounts receivable, net of allowance of $64 (Note 1)	1,222	-
Income taxes refundable	2,070	5,577
Prepaid expenses	358	138
Other current assets	123	500
Total current assets	6,599	9,072
Property and equipment, net of accumulated depreciation of $171, and $90, respectively (Note 1)	5,544	81
Investment in AFC (Note 4)	9,062	9,295
Goodwill (Note 2)	11,767	-
Other assets	295	264
	$ 33,267	$ 18,712
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Current maturities of long term obligations (Note 5)	$ 1,228	$ -
Accounts payable	696	117
Self-insurance claims	452	518
Accrued income taxes	647	711
Due to former The Campus Group shareholders (Note 5)	1,256	-

Other liabilities	1,921	1,256
Total current liabilities	6,200	2,602
Long term obligations (Note 5)	9,426	-
Convertible promisory note (Note 5)	2,825	-
	18,451	2,602
Commitments and contingencies (Note 6)	-	-
STOCKHOLDERS' EQUITY:		
Preferred stock	-	-
Common stock, $.05 par value; authorized 40,000,000 shares; issued 39,577,589 and 39,377,589 shares, respectively	1,979	1,969
Additional paid-in capital	174,353	174,337
Retained deficit	(137,854)	(136,455
Accumulated other comprehensive loss	(64)	(143
Treasury stock, at cost, 31,546,975 shares	(23,598)	(23,598
	14,816	16,110
Total stockholders' equity	$ 33,267	$ 18,712

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended July 31,		Six Month July
	2003	2002	2003
Revenues	$ 539	$ -	$ 869
Cost of revenues	364	-	561
Gross profit	175	-	308
Selling, general and administrative	1,435	842	2,358

Loss from operations	(1,260)	(842)	(2,050)
Interest income from investments	467	40	487
Income from AFC investment	73	9	192
Interest expense	(8)	-	(16)
Loss from continuing operations before income taxes	(728)	(793)	(1,387)
Provision for income taxes	-	-	-
Loss from continuing operations	(728)	(793)	(1,387)
Income (loss) from discontinued operations, net of tax	(6)	(36)	(12)
Net loss	$ (734)	$ (829)	$ (1,399)
Basic and diluted earnings (loss) per share			
Continuing operations	$ (.09)	$ (.10)	$ (.17)
Discontinued operations	-	-	-
Net earnings (loss) per share	$ (.09)	$ (.10)	$ (.17)
Weighted average number of shares outstanding Basic and diluted	8,031	8,642	7,948

See accompanying notes to condensed consolidated financial statements.

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
SIX MONTHS ENDED JULY 31, 2003
(IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	Preferred Stock		Common Stock		Additional		
	Shares	Par Value	Shares	Par Value	Paid-In Capital	Retained Deficit	T
Balance at January 31, 2003	-	$ -	39,377,589	$ 1,969	$ 174,337	$(136,455)	$(
Net loss						(1,399)	
Acquisition of OMI			200,000	10	16		
Other comprehensive							

income-unrealized loss on marketable securities							
Comprehensive income (loss)							
Balance at July 31, 2003	-	$ -	39,577,589	$ 1,979	$ 174,353	$(137,854)	$(

	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income (Loss)
Balance at January 31, 2003	$ (143)	$ 16,110	
Net loss		(1,399)	$ (1,399)
Acquisition of OMI		26	
Other comprehensive income-unrealized loss on marketable securities	79	79	79
Comprehensive income (loss)			$ (1,320)
Balance at July 31, 2003	$ (64)	$ 14,816	

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended July 31,	
	2003	2002

Cash flows from operating activities		
Net loss	$ (1,399)	$ (1,3
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss (income) from discontinued operations	12	(1
Depreciation and amortization	82	
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	191	
Income tax refundable	3,507	
Accrued income tax	(64)	
Accounts payable and other liabilities	500	(7
Other operating assets and liabilities, net	159	(
Net cash provided by (used in) operating activities	2,988	(2,2
Cash flows from investing activities		
Acquisition of OMI net of cash acquired	(97)	
Acquisition of The Campus Group net of cash acquired	(3,111)	
Change in contracts in progress	-	(1
Proceeds from AFC distributions	425	
Proceeds from the sale of marketible securities	400	
Purchase of property and equipment	(62)	
Net cash used in investing activities	(2,445)	(1
Cash flows from financing activities		
Payments of long term debt	(144)	
Net cash used in financing activities	(144)	
Increase (decrease) in cash and cash equivalents from continuing operations	399	(2,3
Increase (decrease) in cash and cash equivalents from discontinued operations	(78)	
Cash and cash equivalents at beginning of period	1,873	6,1
Cash and cash equivalents at end of period	$ 2,194	$ 3,7
Supplemental disclosures of cash flow information		
Common stock issued pursuant to OMI acquisition	$ 26	$
Promissory notes issued pursuant to The Campus Group acquisition	$ 9,840	$
Convertible note issued pursuant to The Campus Group acquisition	$ 2,825	$
Interest paid	$ 7	$
Income taxes paid	$ 64	$

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

NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

General

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the rules of the Securities and Exchange Commission applicable to interim financial statements, and therefore do not include all disclosures that might normally be required for interim financial statements prepared in accordance with generally accepted accounting principles. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with NAC's consolidated financial statements, including the notes thereto, appearing in NAC's Annual Report on Form 10-K for the year ended January 31, 2003. The results of operations for the three months and six months ended July 31, 2003 are not necessarily indicative of the operating results for the full year.

The preparation of financial statements and the accompanying notes thereto, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the respective reporting periods. Actual results could differ from those estimates. NAC uses a January 31 year-end for financial reporting purposes. References herein to the fiscal year ended January 31, 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.

Acquisitions

In July 2003, NAC consummated a Stock Purchase Agreement whereby NAC acquired all outstanding capital stock of The Campus Group, four affiliated companies providing satellite videoconferencing, multi-media production services and corporate meeting services, from Mr. Steven Campus and certain family trusts for an aggregate purchase price of $15.5 million. The Campus Group, headquartered in Tuckahoe, New York, specializes in the full service design, creative development, production, post production editing and transmission, via broadcast satellite videoconferencing, webcasting and traditional on-site presentations, of corporate communication, education and training video and other services for use at corporate events. For financial reporting purposes, the effective date of the merger is July 31, 2003 (see Note 2).

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, now known as OMI Business Communications, Inc. ("OMI"), from Mr. 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. For financial reporting purposes, the effective date of the merger is April 1, 2003 (see Note 2).

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

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

Discontinued Operations

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

As a consequence of NAC's strategic review and determination, effective December 31, 2001, NAC suspended its ZoomLot operations and initiated steps to discontinue e-commerce operations. Additionally, as a consequence of NAC's decision to discontinue its ZoomLot e-commerce operations, NAC also formally exited the sub-prime used automobile consumer finance business effective December 31, 2001. As a result of these decisions, both the e-commerce and automobile finance segments have been classified as discontinued operations as of January 31, 2002. For the three months and six months ended July 31, 2003, NAC incurred a loss from discontinued operations of $6,000 and $12,000 respectively. For the three months ended July 31, 2002, NAC incurred a loss from discontinued operations of $36,000. For the six months ended July 31, 2002, NAC realized income from discontinued operations of $146,000 comprised principally of proceeds derived from a favorable insurance settlement during the period.

From December 31, 2001 to April 1, 2003, NAC was engaged principally in the movie exhibition segment. Since April 1, 2003, NAC has also been engaged in corporate communications and video production activities through its newly acquired subsidiary, OMI. Effective July 31, 2003, NAC expanded its corporate communications and video production activities through the acquisition of The Campus Group.

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

Revenues

NAC recognizes revenue from video production, video editing, meeting services and broadcast satellite or webcast services when the video is complete and delivered or all technical services have been rendered. NAC does not have

licensing or other arrangements that result in additional revenues following the delivery of the video or a broadcast. Costs accumulated in the production of the video, meeting services or broadcasts are deferred until the sale and delivery are complete. Deferred production costs are included in deferred production costs, a component of other current assets at July 31, 2003.

NAC recognizes revenue from designing and developing websites when the customer accepts the completed project. Deposits and other prepayments are recorded as deferred revenue, a component of other liabilities at July 31, 2003. These contracts are limited to the design and development of websites. Clients have the option to engage NAC to maintain and upgrade their websites. These contracts are separate from the website development and design agreements, and the related revenue is recognized over the term of the contracts, which is generally up to one year.

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

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

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

Cost of Revenues

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

Accounts Receivable

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

Property and Equipment

Property and equipment are stated at cost. Depreciation, including depreciation on assets held under capital leases, is computed on the straight-line over the estimated useful lives of the assets. The estimated useful lives are three years for computer equipment and third party purchased software and five years for furniture and fixtures. Leasehold improvements are amortized over the term of the lease.

Reclassifications

Certain Fiscal 2003 amounts have been reclassified to conform with Fiscal 2004 presentations.

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

New Accounting Pronouncements

In July, 2002 the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 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 No. 146 replaces Issue 94-3 and is required to be applied prospectively to exit or disposal activities initiated after December 2002. SFAS 146 was adopted by NAC effective February 1, 2003. At the time of adoption, there was no material impact to NAC's financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation--Transition and Disclosure. SFAS No. 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 No. 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 No. 148.

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

February 1, 2003. The adoption of FIN No. 46 is not expected to have a material impact on the consolidated financial statements of NAC.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer measures certain financial instruments with characteristics of both liabilities and equity and classifies them in its balance sheet. It requires that an issuer classify a financial instrument that is within its scope, such as an issue of preferred or common shares that are subject to redemption at specified times or at the option of the holder, as a liability when that financial instrument embodies an obligation of the issuer. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. NAC is currently evaluating the impact, if any, SFAS No. 150 will have on its consolidated financial statements.

NOTE 2 - ACQUISITIONS

The Campus Group

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

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

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

Components of purchase price:	
Cash paid at closing	$ 2,825
Promissory notes issued at closing	9,840
Convertible note issued at closing	2,825
Transaction costs	861

Total purchase price	$ 16,351
Allocation of purchase price:	
Current assets	$ 1,758
Property and equipment	4,851
Goodwill arising in the acqusition	11,226
	17,835
Accounts payable and accrued expenses	(228)
Due to shareholder	(1,256)
Net assets acquired	$ 16,351

NAC is in the process of engaging an independent valuation firm to assist in its evaluation of the acquired assets in order to finalize its purchase accounting allocation.

NOTE 2 - ACQUISITIONS (CONTINUED)

OMI

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

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

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

Components of purchase price:	
Common stock	$ 26
Promissory note	153

Transaction costs	110
Total purchase price	$ 289

Allocation of purchase price:

Current assets	$ 376
Property and equipment	632
Other assets	61
Goodwill arising in the acqusition	541
	1,610
Accounts payable and accrued expenses	(516)
Debt	(805)
Net assets acquired	$ 289

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

NOTE 2 - ACQUISITIONS (CONTINUED)

The following sets forth the pro forma condensed results of operations of NAC, The Campus Group and OMI for the six months ended July 31, 2003 and 2002 as if the acquisition were consummated on February 1, 2003 and 2002, respectively. Prior to its acquisition, The Campus Group and OMI used a December 31 year end, and accordingly the pro forma results have been prepared by combining the historical results for NAC for the six month periods ended July 31, with the historical results of The Campus Group and OMI for the six month periods ended June 30. These pro forma results have been prepared for illustrative purposes only and do not purport to be indicative of what would have occurred had the acquisition been in effect for the periods indicated or the results which may occur in the future. Pro forma revenues, net loss and loss per share are as follows:

	Six Months Ended July 31, 2003	Six Months Ended July 31, 2002
Revenues	$ 5,965	$ 7,932
Net loss from continuing operations	$ (1,206)	$ (226)
Loss per share from continuing operations	$ (0.15)	$ (0.03)

NOTE 3 - MARKETABLE SECURITIES

Marketable securities at July 31, 2003 are summarized as follows (in

thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities - mutual funds	$696	$ -	$ (64)	$ 632

All marketable securities were classified as available for sale.

NOTE 4 - INVESTMENT IN AFC

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

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

NOTE 4 - INVESTMENT IN AFC (CONTINUED)

NAC uses the equity method to account for its investment in AFC. NAC's initial investment exceeded its share of AFC's net assets and that portion of the investment balance is accounted for in a manner similar to goodwill. AFC uses a December 31 year-end for financial reporting purposes. NAC reports on a January 31 year-end, and for its fiscal quarters ending April 30, July 31, October 31 and January 31 records its pro-rata share of AFC's earnings on the basis of AFC's fiscal quarters ending March 31, June 30, September 30, and December 31, respectively. For the three months ended July 31, 2003 and 2002, NAC recorded income of $73,000 and $9,000, respectively, representing its share of AFC's net income. For the six months ended July 31, 2003 and 2002, NAC recorded income of $192,000 and $102,000, respectively, representing its share of AFC's net income.

Summarized income statement data for AFC for the three months and six months ended June 30, 2003, and 2002, respectively, is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002

Revenues	$ 1,588	$ 1,182	$ 3,191	$ 2,809
Film rental	418	257	810	735
Operating costs	775	690	1,511	1,436
Depreciation and amortization	218	176	423	349
General and administrative expenses	31	42	62	85
	1,442	1,165	2,806	2,605
Net income	$ 146	$ 17	$ 385	$ 204
NAC's proportionate share of net income	$ 73	$ 9	$ 192	$ 102

NOTE 5 - CURRENT AND LONG TERM OBLIGATIONS

As a consequence of NAC's acquisition of The Campus Group effective July 31, 2003, NAC issued to Mr. Campus and certain family trusts promissory notes of $9.9 million and issued to a family trust a convertible promissory note of $2.8 million. Of the $9.9 million in promissory notes issued by NAC, $6.5 million of the promissory notes ("Base Notes") bear interest at 5% per annum and are repayable in quarterly installments according to a formula based upon the future cash flows realized from The Campus Group over a period not to exceed seven years. The remaining $3.4 million in promissory notes ("Trailing Notes") issued by NAC bear interest at 5% per annum and are repayable in quarterly installments, commencing upon the retirement of the Base Notes, according to a formula based upon the future cash flows realized from The Campus Group over a period not to exceed three years subsequent to the retirement of the Base Notes. The $2.8 million convertible promissory note (i) bears interest at 5% per annum, payable quarterly in cash or accumulating as principal at the election of NAC, (ii) requires principal payments commence upon the retirement of the $9.9 million of promissory notes and is then repayable in quarterly installments according to a formula based upon the future cash flows realized from The Campus Group over a period not to exceed three years and (iii) is convertible at the option of the holder into shares of NAC common stock at a base conversion price of $1.50 per share. The holder may not convert the convertible promissory note into NAC common stock prior to repayment of the promissory notes. The promissory notes are secured by the capital stock of the companies comprising The Campus Group.

NOTE 5 - CURRENT AND LONG TERM OBLIGATIONS (CONTINUED)

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

During 2001, OMI obtained a $300,000 bank term loan (the "Term Loan") to finance certain capital expenditures. The Term Loan is payable in monthly

installments of $6,000, comprised of principal and interest, over a five year term, expiring in July 2006. The Term Loan bears interest at the rate of 8.25% per annum. In addition, during 2001 OMI obtained a $100,000 revolving credit facility (the "Credit Facility") with a bank which must be renewed annually. The Credit Facility bears interest at 2.5% per annum above the bank's prime rate. The Term Loan and the Credit Facility are collateralized by substantially all of OMI's assets and the personal guarantee of Mr. Thompson. Pursuant to the terms of the Merger Agreement, NAC is seeking to obtain releases of Mr. Thompson's personal guarantees from each financial institution.

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

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

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

The components of long term obligations at July 31, 2003 are as follows (in thousands):

	July 31, 2003
Capital leases	$ 98
Term loan	188
SBA loan	402
Promissory note	126
Base promissory notes	6,565
Trailing promissory notes	3,275
	10,654
Less current maturities	(1,228)
Long term obligations	9,426
Convertible note payable	2,825
	$ 12,251

NOTE 5 - CURRENT AND LONG TERM OBLIGATIONS (CURRENT)

NAC's current maturities and long term obligations at July 31, 2003 are as follows (in thousands):

	July 31, 2003
2004	$ 1,237
2005	1,313
2006	1,301
2007	1,272
2008	1,335
Thereafter	7,034
	13,492
less interest due under capital leases obligations	(13)
	$ 13,479

The cost and accumulated depreciation for equipment under capital leases were $335,000 and $37,000, respectively at July 31, 2003.

The liability for due to the former Campus Group shareholders represents the net amount outstanding for various loans and advances made to The Campus Group prior to their acquisition by NAC. The loans do not bear interest. Pursuant to the terms of Stock Purchase Agreement, repayments to reduce the loans and advances are to be made periodically when cash requirements of The Campus Group permit and shall be repaid in full prior to January 31, 2004.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Shareholder Complaints

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

NOTE 6 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

On August 16, 2001, NAC received a complaint (the "Markovich Complaint") filed by Levy Markovich ("Markovich"), a shareholder of NAC, with the Court of Chancery of Delaware on or about August 16, 2001, against James J. McNamara, John A. Gleason, William S. Marshall, Henry Y. L. Toh, Donald

Jasensky, Peter T. Zackaroff, Mallory Factor, and Thomas F. Carney, Jr. and NAC as a nominal defendant. The Markovich Complaint principally seeks: (i) a declaration that the Director Defendants have breached their fiduciary duties to NAC, (ii) a judgment voiding an employment agreement with James J. McNamara and rescinding a stock exchange agreement in which NAC acquired ZoomLot Corporation, (iii) a judgment voiding the grant of options and the award of directors fees allegedly related thereto, (iv) an order directing the Director Defendants to account for alleged damages sustained and alleged profits obtained by the Director Defendants as a result of the alleged various acts complained of, (v) the imposition of a constructive trust over monies or other benefits received by the directors, and (vi) an award of costs and expenses.

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

On October 12, 2001, NAC received a derivative complaint filed by Robert Zadra, a shareholder of NAC, with the Supreme Court of the State of New York on or about October 12, 2001 against James J. McNamara, John A. Gleason, William S. Marshall, Henry Y. L. Toh, Donald Jasensky, Peter T. Zackaroff, Mallory Factor, Thomas F. Carney, Jr., and NAC as Defendants. On or about May 29, 2002 the complaint was amended to include class action allegations (the "Zadra Amended Complaint"). The Zadra Amended Complaint contains allegations similar to those in the Delaware actions concerning the Board's approval of the employment agreement with James McNamara, option grants and past and future compensation to the Director Defendants, and the ZoomLot transaction. The Amended Complaint seeks (i) a declaration that as a result of approving these transactions the Director Defendants breached their fiduciary duties to NAC, (ii) a judgment enjoining defendants from proceeding with or exercising the option agreements, (iii) rescission of the option grants to defendants, if exercised, (iv) an order directing the Director Defendants to account for alleged profits and losses obtained by the Director Defendants as a result of the alleged various acts complained of, (v) awarding compensatory damages to NAC and the class, together with prejudgment interest, and (vi) an award of costs and expenses.

NAC has vigorously defended against each of the respective claims made in the Academy Complaint, Markovich Complaint, Harbor Complaint and the Zadra Amended Complaint, as it believes that the claims have no merit. By order of the Delaware Chancery Court on November 12, 2001, the Academy, Markovich and Harbor Complaints were consolidated under the title "In re National Auto Credit, Inc. Shareholders Litigation," Civil Action No. 19028 NC (Delaware Chancery Court) ("Delaware Consolidated Derivative Action") and the Academy Complaint was deemed the operative complaint.

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

NOTE 6 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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. An initial hearing on the proposed settlement was held on May 14, 2003. The New York Supreme Court is reviewing, among other considerations, the terms of the proposed settlement and the objections raised by certain shareholders. A motion to dismiss the Delaware Consolidated Derivative Action was also filed in 2002 which was denied by the Delaware court in January 2003.

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

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

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

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

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 the first half of 2004.

NOTE 6 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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. TIG filed a motion for summary judgment on the same grounds, arguing that it has no liability to NAC under such insurance policy. NAC filed a 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. NAC 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 July 31, 2003, NAC had accrued $452,000 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 2.
NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

National Auto Credit, Inc. (the "Company" or "NAC") began operations in 1969 and was incorporated in Delaware in 1971. NAC has recently consummated a series of acquisitions transforming its operations into a multi-dimensional corporate communication and entertainment company.

Acquisitions

In July 2003, NAC consummated a Stock Purchase Agreement whereby NAC acquired all outstanding capital stock of The Campus Group, which provides satellite videoconferencing, multi-media production services and corporate meeting services, from Mr. Steven Campus and certain family trusts for an aggregate purchase price of $15.5 million. The Campus Group, headquartered in Tuckahoe, New York, specializes in the full service design, creative development, production, post production editing and transmission, via broadcast satellite videoconferencing, webcasting and traditional on-site presentations, of corporate communication, education and training video and other services for use at corporate events.

In exchange for the acquisition of all of the outstanding capital stock of The Campus Group, NAC (i) paid $2.8 million at closing from NAC's available cash balances, (ii) issued to Mr. Campus and certain family trusts promissory notes of $9.9 million, and (iii) issued to a family trust a convertible promissory note of $2.8 million. The Campus Group revenues for the years ended December 31, 2002 and 2001 were $10.7 million and $12.7 million, respectively. The Campus Group realized net income of $1.2 million and $2.3 million for those years, respectively. For financial reporting purposes, the effective date of the transaction is July 31, 2003.

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, now known as OMI Business Communications, Inc. ("OMI"), from Mr. 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 $26,000 (ii) assumed $814,000 in bank debt and capital lease obligations to financial institutions and (iii) issued a promissory notes payable to Mr. Thompson in the amount of $153,000, payable in monthly installments of principal and interest over a 36 month period. In addition to the initial payments, NAC agreed to a contingent payment to Mr. Thompson of $150,000 based upon OMI's financial performance during the three-year period ending January 31, 2006. OMI's revenues for the years ended December 31, 2002 and 2001 were $2.5 million and $3.5 million, respectively. OMI incurred net losses of $343,000 and $27,000 for those years, respectively. For financial reporting purposes, the effective

date of the merger is April 1, 2003.

Discontinued Operations

Through and including December 31, 2001, NAC's operations were conducted principally through three operating segments, (i) the e-commerce segment designed 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 its e-commerce services. 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 its e-commerce segment would achieve positive cash flows.

As a consequence of NAC's strategic review and determination, effective December 31, 2001, NAC discontinued its e-commerce operations. As a further consequence of NAC's decision to discontinue its 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.

Other

Throughout the six months ended July 31, 2003 and as of September 18, 2003, NAC's external sources of financing are comprised of its cash flows from its investment in marketable securities, distributions from AFC, and since their respective acquisitions the cash flows from the operations of OMI and The Campus Group, and NAC has operated principally on its existing cash balances. NAC continues to pursue its plan of examining new business opportunities, which may be pursued through the investment in, or acquisition of existing operating businesses or other means. At July 31, 2003, NAC has cash and marketable securities of $2.8 million, which together with any cash flow derived from its investment in AFC and proceeds from the collection of its $2.1 million federal income tax refund, 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.

CRITICAL ACCOUNTING POLICIES

NAC's consolidated financial statements are prepared in accordance with generally accepted accounting principles, which require NAC to make estimates

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

Revenues

NAC recognizes revenue from video production, video editing, meeting services and broadcast satellite or webcast services when the video is complete and delivered or all technical services have been rendered. NAC does not have licensing or other arrangements that result in additional revenues following the delivery of the video or a broadcast. Costs accumulated in the production of the video, meeting services or broadcasts are deferred until the sale and delivery are complete. Deferred production costs are included in deferred production costs, a component of other current assets at July 31, 2003.

NAC recognizes revenue from designing and developing websites when the customer accepts the completed project. Deposits and other prepayments are recorded as deferred revenue, a component of other liabilities at July 31, 2003. These contracts are limited to the design and development of websites. Clients have the option to engage NAC to maintain and upgrade their websites. These contracts are separate from the website development and design agreements, and the related revenue is recognized over the term of the contracts, which is generally up to one year.

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

Cost of Revenues

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

Accounts Receivable

NAC extends credit to clients in the normal course of business. NAC

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

Valuation of Long-lived Assets and Goodwill

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

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

Self-Insurance Claims

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

Income Taxes

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

RESULTS FROM OPERATIONS FOR THE THREE MONTHS ENDED JULY 31, 2003
AS COMPARED TO THE THREE MONTHS ENDED JULY 31, 2002

General: As a consequence of the acquisition of The Campus Group effective July 31, 2003, there are no results from the operations of The Campus Group recorded by NAC until August 1, 2003. As a consequence of the acquisition of OMI effective April 1, 2003, the results of operations for the three months ended July 31, 2003 include the operating results of OMI for the entire period.

Revenues and Costs of Revenues: Revenues and the related cost of revenues for the three months ended July 31, 2003 are comprised principally of revenues and related costs derived from OMI's operations, acquired effective April 1, 2003. The gross margin of OMI for the three months ended July 31, 2003 was 32.5% which is comparable to the gross margins of OMI for the comparable period prior to NAC's acquisition.

Selling, General and Administrative: Selling, general and administrative expenses include costs of three months of OMI's operations and NAC's executive, accounting and legal personnel, occupancy, legal, professional, insurance and other general corporate overhead costs. General and administrative expenses increased $593,000 to $1.4 million for the three months ended July 31, 2003 from $842,000 for the three months ended July 31, 2002. The increase in general and administrative costs for the three months ended July 31, 2003, was primarily due to the combined effects of an increase of $478,000 in expenses associated with OMI, acquired April 1, 2003 and an increase of $56,000 in professional services.

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 $16,000 for the three months ended July 31, 2003 as compared to $40,000 for the three months ended July 31, 2002. The decrease was primarily due to the decrease in the weighted average investment balances for the three months ended July 31, 2003. In addition, during the three months ended July 31, 2003, NAC realized additional interest income of approximately $451,000 as a result of a final determination of refund by the Internal Revenue Service relating to certain NAC claims for a federal income tax refund and NAC's resultant receipt

of a refund of $3.5 million plus interest.

Income from AFC Investment: NAC accounts for its investment in AFC using the equity method. For the three months ended July 31, 2003 and 2002, NAC recorded income of $73,000 and $9,000, respectively, representing NAC's share of AFC's net income for the three months ended June 30, 2003 and 2002, respectively.

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

	Three Months Ended June 30,	
	2003	2002
Revenues	$ 1,588	$ 1,182
Film rental	418	257
Operating costs	775	690
Depreciation and amortization	218	176
General and administrative expenses	31	42
	1,442	1,165
Net income	$ 146	$ 17
NAC's proportionate share of net income	$ 73	$ 9

AFC's revenues increased $406,000 for the three months ended June 30, 2003 as compared to the three months ended June 30, 2002, principally as a result of a 29.3% increase in attendance and a 1.3% increase in average ticket prices. The attendance, and at times the ticket prices, at AFC will vary depending on audience interest in, and the popularity of the films it exhibits and other factors. Film rental, as a percentage of revenue, increased 4.6% to 26.3% from 21.7% for the three months ended June 30, 2003 and 2002, respectively. Film rental expense generally is a factor of a fixed percentage rental rate per film multiplied by the number of tickets sold. AFC experiences fluctuations in film rental expense, as a percentage of revenue, depending upon the rental rate per film and the popularity of the film. Operating costs, as a percent of revenue, decreased 9.6% to 48.8% for the three months ended June 30, 2003 as compared to 58.4% for the three months ended June 30, 2002 due principally to an increase in revenues. The nature of AFC's operating costs tend to generally be more fixed overhead-related costs and advertising expenses.

Income Taxes: Due to net operating losses and the availability of net operating loss carryforwards, NAC's effective income tax rate was zero for the

three month periods ended July 31, 2003 and July 31, 2002. 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.

RESULTS FROM OPERATIONS FOR THE SIX MONTHS ENDED JULY 31, 2003
AS COMPARED TO THE SIX MONTHS ENDED JULY 31, 2002

General: As a consequence of the acquisition of The Campus Group effective July 31, 2003, there are no results from the operations of The Campus Group recorded by NAC until August 1, 2003. As a consequence of the acquisition of OMI effective April 1, 2003, the results of operations for the six months ended July 31, 2003 include the operating results of OMI only for the four month period commencing April 1, 2003

Revenues and Costs of Revenues: Revenues and the related cost of revenues for the six months ended July 31, 2003 are comprised principally of revenues and related costs derived from OMI's operations, acquired effective April 1, 2003. Pro forma revenues, combining the revenues of NAC, OMI and The Campus Group, for the six months ended July 31, 2003 were $6.0 million as compared to pro forma revenues of $7.9 million for the six months ended July 31, 2002. The decline in pro forma revenues for Fiscal 2004 of $1.9 million was principal due to the nature and timing of completion of the client programs actually scheduled for and completed during the period compared to the comparable period in Fiscal 2003. The gross margin for the four month period subsequent to NAC's acquisition of OMI was 35.4% which is comparable to the gross margins of OMI prior to NAC's acquisition.

Selling, General and Administrative: Selling, general and administrative expenses include costs of four months of OMI's operations and NAC's executive, accounting and legal personnel, occupancy, legal, professional, insurance and other general corporate overhead costs. General and administrative expenses increased $675,000 to $2.4 million for the six months ended July 31, 2003 from $1.7 million for the six months ended July 31, 2002. The increase in general and administrative costs for the six months ended July 31, 2003, was primarily due to $614,000 in expenses associated with OMI, acquired April 1, 2003 and an increase in expenses for professional services.

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 $36,000 for the six months ended July 31, 2003 as compared to $85,000 for the six months ended July 31, 2002. The decrease was primarily due to the decrease in the weighted average investment balances for the six months ended July 31, 2003. In addition, during the six months ended July 31, 2003, NAC realized additional interest income of approximately $451,000 as a result of a final determination of refund by the Internal Revenue Service relating to certain NAC claims for a federal income tax refund and NAC's resultant receipt of a refund of $3.5 million plus interest.

Income from AFC Investment: NAC accounts for its investment in AFC using the equity method. For the six months ended July 31, 2003 and 2002, NAC recorded income of $192,000 and $102,000, respectively, representing NAC's share

of AFC's net income for the six months ended June 30, 2003 and 2002, respectively.

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):

	Six Months Ended June 30,	
	2003	2002
Revenues	$ 3,191	$ 2,809
Film rental	810	735
Operating costs	1,511	1,436
Depreciation and amortization	423	349
General and administrative expenses	62	85
	2,806	2,605
Net income	$ 385	$ 204
NAC's proportionate share of net income	$ 192	$ 102

AFC's revenues increased $382,000 for the six months ended June 30, 2003 as compared to the six months ended June 30, 2002, principally as a result of a 9.2% increase in attendance and an increase of 1.3% increase in average ticket prices. The attendance, and at times the ticket prices, at AFC will vary depending on audience interest in, and the popularity of the films it exhibits and other factors. Film rental, as a percentage of revenue, decreased 0.8% to 25.4% from 26.2% for the six months ended June 30, 2003 and 2002, respectively. Film rental expense generally is a factor of a fixed percentage rental rate per film multiplied by the number of tickets sold. AFC experiences fluctuations in film rental expense, as a percentage of revenue, depending upon the rental rate per film and the popularity of the film. Operating costs, as a percent of revenue, was 47.4% for the six months ended June 30, 2003 as compared to 51.1% for the six months ended June 30, 2002 due principally to an increase in revenues. The nature of AFC's operating costs tend to generally be more fixed overhead-related costs and advertising expenses.

Income Taxes: Due to net operating losses and the availability of net operating loss carryforwards, NAC's effective income tax rate was zero for the six-month period ended July 31, 2003 and July 31, 2002. NAC has provided a full valuation allowance against its net operating loss carryforward and other net deferred tax asset items due to the uncertainty of their future realization.

DISCONTINUED OPERATIONS

For the three months ended July 31, 2003 and July 31, 2003, NAC incurred a loss from discontinued operations of $6,000 and $36,000, respectively. For the six months ended July 31, 2003, NAC incurred a $12,000 loss from discontinued operations. For the six months ended July 31, 2002, NAC realized income from discontinued operations of $146,000 comprised principally of proceeds derived from a favorable insurance settlement during the period.

LIQUIDITY AND CAPITAL RESOURCES

As a consequence of NAC's acquisition of The Campus Group effective July 31, 2003, NAC issued to Mr. Campus and certain family trusts promissory notes of $9.9 million and issued to a family trust a convertible promissory note of $2.8 million. Of the $9.9 million in promissory notes issued by NAC, $6.5 million of the promissory notes ("Base Notes") bear interest at 5% per annum and are repayable in quarterly installments according to a formula based upon the future cash flows realized from The Campus Group over a period not to exceed seven years. The remaining $3.4 million in promissory notes ("Trailing Notes") issued by NAC bear interest at 5% per annum and are repayable in quarterly installments, commencing upon the retirement of the Base Notes, according to a formula based upon the future cash flows realized from The Campus Group over a period not to exceed three years subsequent to the retirement of the Base Notes. The $2.8 million convertible promissory note (i) bears interest at 5% per annum, payable quarterly in cash or accumulating as principal at the election of NAC, (ii) requires principal payments commence upon the retirement of the $9.9 million of promissory notes and is then repayable in quarterly installments according to a formula based upon the future cash flows realized from The Campus Group over a period not to exceed three years and (iii) is convertible at the option of the holder into shares of NAC common stock at a base conversion price of $1.50 per share. The holder may not convert the convertible promissory note into NAC common stock prior to repayment of the promissory notes. The promissory notes are secured by the capital stock of the companies comprising The Campus Group.

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

During 2001, OMI obtained a $300,000 bank term loan (the "Term Loan") to finance certain capital expenditures. The Term Loan is payable in monthly installments of $6,000, comprised of principal and interest, over a five year term, expiring in July 2006. The Term Loan bears interest at the rate of 8.25% per annum. In addition, during 2001 OMI obtained a $100,000 revolving credit facility (the "Credit Facility") with a bank which must be renewed annually. The Credit Facility bears interest at 2.5% per annum above the bank's prime rate. The Term Loan and the Credit Facility are collateralized by substantially all of OMI's assets and the personal guarantee of Mr. Thompson. Pursuant to the terms of the Merger Agreement, NAC is seeking to obtain releases of Mr. Thompson's

personal guarantees from each financial institution. At July 31, 2003, OMI had $188,000 outstanding under the terms of the Term Loan.

On April 25, 2002, OMI obtained a $402,000 loan guaranteed by the U.S. Small Business Administration (the "SBA Loan") to finance losses incurred as a result of the September 11, 2001 terrorist attacks in New York City. At July 31, 2003, the SBA Loan of $402,000 is repayable in monthly installments of $3,309 beginning in May 2004, with the last payment due in April 2017. The SBA Loan bears no interest through May 2004 and at the rate of 4% per annum thereafter.

At July 31, 2003, the $126,000 promissory note payable to Mr. Thompson is payable in monthly installments of principal and interest over a 36 month period expiring April 2006. The promissory note bears interest at 5% per annum.

OMI leases computer equipment under several different capital leases with finance institutions with various payments terms, expiration dates and imputed annual rates of interest. At July 31, 2003, amounts outstanding under the capital leases were $115,000.

For the six months ended July 31, 2003, NAC generated cash flows of $3.0 million for operating activities principally as a result of the net proceeds of $3.5 million, plus accrued interest, as a result of a final determination of refund by the Internal Revenue Service relating to certain NAC claims for a federal income tax refund. On July 31, 2003, NAC used a portion of its cash resources, $2.8 million, and issued $12.7 million in promissory notes and convertible note to consummate its acquisition of The Campus Group. NAC also funded $861,000 of transaction costs related to the acquisition of The Campus Group from its cash resources. For the six months ended July 31, 2002, NAC used cash flows of $2.3 million for operating activities as NAC's payments for operating and general and administrative expenses exceeded the cash flows from its investments in marketable securities. NAC funded the negative operating cash flows from its existing cash balances.

NAC believes that the available cash and cash equivalents and marketable securities totaling $2.8 million at July 31, 2003, the investment income therefrom, the collection of the federal income tax refund of $2.1 million and any cash distributions from its investment in AFC and cash flow from The Campus Group and OMI's operations will be sufficient to pay operating expenses, existing liabilities, fund existing debt repayments and fund its activities through the next twelve months as NAC explores new strategic business alternatives. As discussed in Note 6 of Notes to Condensed Consolidated Financial Statements, NAC is presently a defendant or nominal defendant in various derivative shareholder complaints and various litigation matters relating to NAC's discontinued auto finance and auto rental businesses. Although NAC intends to vigorously defend each of the claims, no prediction can be made with respect to their ultimate outcomes. Accordingly, no provision for any loss or settlement that may occur has been recorded in the consolidated financial statements. An adverse outcome could have a material adverse effect on NAC's liquidity, financial condition or results of operations. Additionally, as previously discussed, NAC's lack of external financing sources may limit its ability to pursue strategic business alternatives being considered by NAC's Board of Directors. Such limitations may have an adverse impact on NAC's

financial position, results of operations and liquidity.

NEW ACCOUNTING PRONOUNCEMENTS

In July, 2002 the FASB issued Statement of Financial Accounting Standards ("SFAS") No.146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 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 No. 146 replaces Issue 94-3 and is required to be applied prospectively to exit or disposal activities initiated after December 2002. SFAS No. 146 was adopted by NAC effective February 1, 2003. At the time of adoption, there was no material impact to NAC's financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation--Transition and Disclosure. SFAS No. 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 No. 148 are effective for financial statements for fiscal years ending after December 15, 2002. NAC is currently evaluating the impacts, if any, of SFAS No. 148.

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

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer measures certain financial instruments with characteristics of both liabilities and equity and classifies them in its balance sheet. It requires that an issuer classify a financial instrument that is within its scope, such as an issue of preferred or common

shares that are subject to redemption at specified times or at the option of the holder, as a liability when that financial instrument embodies an obligation of the issuer. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. NAC is currently evaluating the impact, if any, SFAS No. 150 will have on its consolidated financial statements.

OTHER

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

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

FORWARD-LOOKING STATEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

As of July 31, 2003, as a result of the acquisitions of The Campus Group and OMI, NAC has interest-bearing debt. The interest rate on each financial instrument, except for OMI's Credit Facility, is generally fixed in nature and accordingly do not create a market risk associated with increases in interest costs resulting from changes in market rates. The OMI Credit Facility charges interest at a variable rate of the institution's prime rate plus 2.5%. As of July 31, 2003 there are no amounts outstanding under the Credit Facility and therefore NAC's exposure to market risks, if any, is limited.

ITEM 4. CONTROLS AND PROCEDURES

In accordance with Item 307 of Regulation S-K promulgated under the Securities Act 1933, as amended, and within 90 days of the date of this Quarterly Report on Form 10-Q (the "Evaluation Date"), the Chief Executive Officer and the Chief Financial Officer of NAC (the "Certifying Officers") have conducted evaluations of NAC's disclosure controls and procedures. As defined under Sections 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Certifying Officers have reviewed NAC's disclosure controls and procedures and have concluded that (subject to the qualifications and disclosures set forth herein below) those disclosure controls and procedures are effective as of the date of this Quarterly Report on Form 10-Q. In compliance with Section 302 of the Sarbanes-Oxley Act of 2002, (18 U.S.C. 1350), each of the Certifying Officers executed an Officer's Certification included in this Quarterly Report on Form 10-Q.

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

PART II.
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Shareholder Complaints

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

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

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

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

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. An initial hearing on the proposed settlement was held on May 14, 2003. The New York Supreme Court is reviewing, among other considerations, the terms of the proposed settlement and the objections raised by certain shareholders. A motion to dismiss the Delaware Consolidated Derivative Action was also filed in 2002 which was denied by the Delaware court in January 2003.

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

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

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

NAC maintained and continues to maintain self-insurance for claims relating to bodily injury or property damage from accidents involving the vehicles rented to customers by its discontinued automobile rental operations. NAC was, when required by either governing state law or the terms of its rental agreement, self-insured for the first $1.0 million per occurrence, and for losses in excess of $5.0 million per occurrence, for bodily injury and property

damage resulting from accidents involving its rental vehicles. NAC was also self-insured, up to certain retained limits, for bodily injury and property damage resulting from accidents involving NAC vehicles operated by employees within the scope of their employment. In connection therewith, NAC established certain reserves in its financial statements for the estimated cost of satisfying those claims.

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 the first half of 2004.

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. TIG filed a motion for summary judgment on the same grounds, arguing that it has no liability to NAC under such insurance policy. NAC filed a 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. NAC 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 July 31, 2003 NAC had accrued $452,000 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 6. EXHIBITS AND REPORTS ON FORM 8-K

A) EXHIBITS

EXHIBIT NUMBER	TITLE OF EXHIBIT	PAGE NUMBER
31.1	Officer's Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)	36
31.2	Officer's Certification Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)	37
32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)	38
32.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)	39

B) REPORTS ON FORM 8-K

On August 14, 2003 NAC filed a Current Report on Form 8-K to report the acquisition of The Campus Group.

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: September 18, 2003

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