SMART CHOICE AUTOMOTIVE GROUP INC
Form 10-Q
March 18, 2002

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

FORM 10-Q

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

For the fiscal quarter ended: JANUARY 31, 2002

Commission file number: 1-14082

SMART CHOICE AUTOMOTIVE GROUP, INC.
(Exact name of registrant as specified in its charter)

FLORIDA	59-1469577
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

P.O. BOX 5020, WINTER PARK, FLORIDA
(Address of principal executive offices)

32793
(Zip Code)

(321) 383-4209
(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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Each Class	Outstanding at March 12, 2002
Common stock, par value $.01 per share	8,590,547

PART I

ITEM 1. FINANCIAL STATEMENTS SMART CHOICE AUTOMOTIVE GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	January 31, 2002 (unaudited)	A
Assets:		
Cash and cash equivalents	$ 192,364	$
Prepaid and other assets	128,553	
Florida Finance Group assets held for sale	3,736,639	
Paaco assets held for sale	97,103,697	
	$101,161,253	$
Liabilities and stockholders' equity:		
Accounts payable and accrued liabilities	$ 447,772	$
Other borrowings	1,599,563	
Florida Finance Group liabilities	2,932,178	
Paaco liabilities	74,385,722	
Total liabilities	79,365,235	
Contingent redemption value of put options	453,371	
Stockholders' equity:		
Preferred stock, par value $.01 per share, 2,000,000 shares authorized; none issued or outstanding		
Common stock, par value $.01 per share, 50,000,000 shares authorized; 9,762,270 issued and outstanding	97,623	
Additional paid-in capital	13,832,832	
Retained earnings	7,412,192	
Total stockholders' equity	21,342,647	
	$101,161,253	$

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

CONSOLIDATED STATEMENTS OF OPERATIONS SMART CHOICE AUTOMOTIVE GROUP, INC.
(UNAUDITED)

	Three Months Ended January 31,		
	2002	2001	200
Costs and expenses:			

Selling, general and administrative	$ 176,082	$ 189,538	$ 629
(Loss) from continuing operations	(176,082)	(189,538)	(629
Discontinued operations:			
Income (loss) net of taxes	40,867,952	(537,813)	6,479
Net income (loss)	40,691,870	(727,351)	5,850
Basic earnings (loss) per share:			
Continuing operations	$ (.02)	$ (.02)	$
Discontinued operations	4.19	(.05)	
Total	$ 4.17	$ (.07)	$
Diluted earnings (loss) per share:			
Continuing operations	$ (.02)	$ (.02)	$
Discontinued operations	4.19	(.05)	
Total	$ 4.17	$ (.07)	$
Weighted average number of shares outstanding:			
Basic	9,762,270	9,794,103	9,762
Diluted	9,762,270	9,794,103	9,762

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

3

CONSOLIDATED STATEMENTS OF CASH FLOWS SMART CHOICE AUTOMOTIVE GROUP, INC.
(UNAUDITED)

	N
	200
Operating activities:	
Net income	$ 5,850,
Add: Income from discontinued operations	(6,479,
Loss from continuing operations	(629,
Adjustments to reconcile (loss) from continuing operations to net cash Provided by (used in) operating activities: Changes in operating assets and liabilities:	
Prepaids and other assets	242,
Accounts payable and accrued liabilities	(1,847,
Net cash used in operating activities	(2,234,

Financing activities:	
Repayments of other borrowings	(282,
Net cash used in financing activities	(282,
Cash used in continuing operations	(2,517,
Cash provided by (used in) discontinued operations	6,557,
Increase (decrease) in cash and cash equivalents	4,040,
Cash and cash equivalents at: Beginning of period	436,
End of period	4,476,
Less: Cash and cash equivalents of discontinued operations	(4,284,
Cash and cash equivalents of continuing operations	$ 192,

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED) SMART CHOICE AUTOMOTIVE GROUP, INC.

A - DESCRIPTION OF BUSINESS

Smart Choice Automotive Group, Inc. ("Smart Choice") and collectively with all of its subsidiaries (the "Company") was in the business of selling and financing used automobiles and trucks principally to consumers with limited or damaged credit histories. Smart Choice's Florida-based subsidiaries are referred to as the "Florida Finance Group" or "FFG". Smart Choice's Texas-based subsidiaries, which include Paaco Automotive Group, L.P. and Premium Auto Acceptance Corporation, are referred to as "Paaco". As of January 31, Paaco operated 13 used car dealerships in Texas (principally in the cities of Dallas and Houston).

As discussed in Note B, the Company has disposed of all of its operations.

B - SETTLEMENT AGREEMENT WITH FINOVA

On November 8, 2001, Smart Choice, the Florida Finance Group and Paaco, entered into a forbearance agreement with Finova that resulted in the foreclosure of the Florida Finance Group's receivables and inventory, and the probable sale of Paaco to Finova.

Pursuant to the forbearance agreement, on November 9, 2001, the collateral for the Florida Finance Group's credit facility was sold at a public foreclosure sale to Finova for $55 million. Prior to the foreclosure sale, the Florida Finance Group owed Finova $88.4 million. Thus, after applying the proceeds from the foreclosure sale, the Florida Finance Group owes Finova $33.4 million (the "Deficiency").

Further, as part of the forbearance agreement, Smart Choice granted Finova (i) an option to purchase Paaco (the "Paaco Option") for an amount equal to the Deficiency, subject to shareholder approval and an appraisal indicating the value of Paaco is not greater than the Deficiency, and (ii) an option to purchase up to 100% of Smart Choice's remaining shares of authorized but unissued common stock (approximately 39 million shares) (the "Smart Choice Stock Option") at a price of $0.30 per share. The Smart Choice Stock Option will terminate upon the closing of the exercise of the Paaco Option.

On December 12, 2001 Finova exercised its option to purchase Paaco subject to certain conditions. Finova subsequently assigned its option to purchase Paaco to Motive Group, L.P., a Texas limited partnership. On March 8, 2002 Motive Group, L.P. exercised its option and purchased Paaco. Under the purchase agreement, Motive Group, L.P. will assume all debt of Paaco. Smart Choice will no longer have any operations of substance and its remaining assets will be sold in an effort to repay its obligations to unsecured creditors to the extent possible. Smart Choice's remaining assets consist of certain improved and unimproved real estate in Titusville, Florida, including a 35,000 square-foot office facility, and certain other current and fixed assets.

C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended January 31, 2002 are not necessarily indicative of the results that may be expected for the year ended April 30, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended April 30, 2001.

Discontinued operations

As a result of the Finova agreement and the lack of other available capital, on November 9, 2001 the Florida Finance Group began to wind-down its operations. The Florida Finance Group has been accounted for as a discontinued operation. Prior year amounts have been restated to conform to the fiscal 2002 presentation for comparative purposes.

As a result of the exercise of the Paaco option on March 8, 2002, Paaco has also been accounted for a discontinued operation. Prior year amounts have been restated to conform to the fiscal 2002 presentation for comparative purposes. Paaco and Florida Finance Group comprise all the operations of Smart Choice and therefore no continuing operations are reported for the period included herein. It is not anticipated that Smart Choice will have any future operations.

Reclassifications

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the fiscal 2002 presentation.

D - FINANCE RECEIVABLES

As discussed in Note B, on November 9, 2001, the collateral for the Florida Finance Group's credit facility with Finova, which consisted principally of receivables and inventory, was sold at a public foreclosure sale to Finova for $55 million. In addition, Paaco was sold March 8, 2002 pursuant to assignment by Finova of its Paaco option. All financed receivables for Florida Finance Group and Paaco are included in assets held for sale on the accompanying balance sheet.

E - DEBT

A summary of debt as of January 31, 2002 and April 30, 2001 is as follows:

					Other Borrowings
Borrower	Lender	Facility Amount	Interest Rate	Maturity	January
Smart Choice	High Capital et al	N/A	10.0%	Nov 2001	72
Florida Fin. Grp	Individuals	N/A	Various	Various	40
Various	Various	N/A	Various	Various	47
					$1,59

F - DISCONTINUED OPERATIONS

Since January 2001 Florida Finance Group has been over-advanced on their revolving credit facility with Finova. On November 8, 2001, Florida Finance Group and Paaco entered into an agreement with Finova that resulted in the foreclosure of Florida Finance Group's receivables and inventory. The Florida Finance Group ceased operations in November 2001 and Paaco was sold March 11, 2002. Smart Choice's remaining assets consist principally of a 35,000 square foot office building and certain other current and fixed assets. The building and other fixed assets will be sold or conveyed by Smart Choice in an effort to realized the maximum value for these assets and repay its obligations to unsecured creditors to the extent possible.

As a result of the foreclosure of Florida Finance Group's receivables and inventory and the agreement with Finova that the deficiency of approximately $33 million be satisfied by the sale of Paaco, Smart Choice recorded income from forgiveness of indebtedness from write off of the outstanding balance of the Finova loan of $88,394,135. This was partially offset by the effect of the foreclosure and other items resulting in a gain of $40,691,870 for the quarter ending January 31, 2002.

G - EARNINGS (LOSS) PER SHARE

A summary reconciliation of basic earnings (loss) per share to diluted earnings (loss) per share for the Nine Months Ended January 31, 2002 and 2001 is as follows:

	Three Months Ended January 31,		Nine M Jan
	2002	2001	2002
Net income (loss)	$40,691,870	$ (727,351)	$5,850,895
Average shares outstanding-basic	9,762,270	9,794,103	9,762,270
Dilutive options			
Average shares outstanding-diluted	9,762,270	9,794,103	9,762,270
Earnings (loss) per share:			
Basic	$ 4.17	$ (.07)	$ .60
Diluted	$ 4.17	$ (.07)	$ .60
Antidilutive securities not included:			
Options and warrants	426,021	404,686	426,021

H - COMMITMENTS AND CONTINGENCIES

Other Litigation

In the ordinary course of business, the Company has become a defendant in various other types of legal proceedings. The Company cannot determine at this time the amount of the ultimate exposure, if any, these ordinary course of business lawsuits may have on the Company.

I - SUPPLEMENTAL CASH FLOW INFORMATION

Cash flows from continuing operations represent cash used for expenses to wind down the operations of Florida Finance Group's operations and for repayment of certain other borrowings. Cash balances as of January 31, 2002 in the amount of $192,364 will be used to pay off accounts payable and accrued expenses to the extent possible. As of the filing date, March 15, 2002 two employees remain in Florida Finance Group to provide final reporting and negotiate creditor settlements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto appearing elsewhere in this report.

FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. Certain information included in this Quarterly Report on Form 10-Q contains, and other materials filed or to be

filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company or its management) contain or will contain, for--ward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words "believe," "expect," "anticipate," "estimate," "project" and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. The Company undertakes no obligation to publicly update or revise any forward-looking statements. Such forward-looking statements are based upon management's current plans or expectations and are subject to a number of uncertainties and risks that could significantly affect current plans, anticipated actions and the Company's future financial condition and results. As a consequence, actual results may differ materially from those expressed in any forward-looking statements made by or on behalf of the Company as a result of various factors. Uncertainties and risks related to such forward-looking statements include, but are not limited to, those relating to the sale of Paaco to Finova pursuant to the Paaco Option, the ability of Smart Choice to sell its remaining assets and repay unsecured creditors to the extent possible, continuation of Paaco's borrowings from Finova, changes in interest rates, competition, dependence on existing management, economic conditions (particularly in the State of Texas), changes in tax laws or the administration of such laws and changes in lending laws or regulations. Any forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

RESULTS OF OPERATIONS

Smart Choice Automotive Group, Inc. ("Smart Choice") and collectively with all of its subsidiaries (the "Company") was in the business of selling and financing used automobiles and trucks principally to consumers with limited or damaged credit histories. Smart Choice's Florida-based subsidiaries are referred to as the "Florida Finance Group" or "FFG". Smart Choice's Texas-based subsidiaries, which include Paaco Automotive Group, L.P. and Premium Auto Acceptance Corporation, are referred to as "Paaco". As of January 31, Paaco operated 12 used car dealerships in Texas (principally in the cities of Dallas and Houston).

As discussed in Note B, on November 9, 2001 the Company has closed Florida Finance Group and sold Paaco. As a result of the foreclosure of Florida Finance Group's receivables and inventory and the agreement with Finova that the deficiency of approximately $33 million be satisfied by the sale of Paaco, Smart Choice recorded income from forgiveness of indebtedness from write off of the outstanding balance of the Finova loan of $88,394,135. This was partially offset by the effect of the foreclosure and other items resulting in a gain of $40,691,870 for the quarter ending January 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES

As discussed in Note B, on November 9, 2001 the Company began to wind-down its Florida-based operations. Further, Smart Choice granted Finova Capital Corporation ("Finova"), the primary lender to its subsidiaries, an option to purchase Paaco. On December 12, 2001 Finova exercised its option to purchase Paaco. Finova subsequently assigned its option to purchase Paaco to Motive Group, L.P., a Texas limited partnership. On March 8, 2002 Motive Group, L.P. exercised its option and purchased Paaco. Under the purchase agreement, Motive Group, L.P. will assume all debt of Paaco.

Florida Finance Group has no further sources of income or cash flow. All future

operations and wind down activities will be funded from current cash balances. It is anticipated that current cash balances will be sufficient to fund a limited operation and settle outstanding non-secured creditor obligations to the extent possible.

SMART CHOICE / FLORIDA FINANCE GROUP

On November 8, 2001, Smart Choice, the Florida Finance Group and Paaco, entered into a forbearance agreement with Finova, the primary lender to Smart Choice's subsidiaries, that resulted in the foreclosure of the Florida Finance Group's receivables and inventory, and the probable sale of Paaco to Finova.

Prior to November 9, 2001, the Florida Finance Group sold and financed used cars and trucks in Florida. Paaco sells and finances used cars and trucks in Texas. The Florida Finance Group had, and Paaco continues to have, a revolving credit facility with Finova. Prior to November 9, 2001, the Florida Finance Group was over-advanced on its revolving credit facility ($25 million over-advanced at September 30, 2001), which constituted an event of default under the facility.

Pursuant to the forbearance agreement, on November 9, 2001, the collateral for the Florida Finance Group's credit facility with Finova, which consisted principally of receivables and inventory, was sold at a public foreclosure sale to Finova for $55 million. Prior to the foreclosure sale, the Florida Finance Group owed Finova $88.4 million. Thus, after applying the proceeds from the foreclosure sale, the Florida Finance Group owes Finova $33.4 million (the "Deficiency").

Further, as part of the forbearance agreement, Smart Choice granted Finova (i) an option to purchase Paaco (the "Paaco Option") for an amount equal to the Deficiency, subject to shareholder approval and an appraisal indicating the value of Paaco is not greater than the Deficiency, and (ii) an option to purchase up to 100% of Smart Choice's remaining shares of authorized but unissued common stock (approximately 39 million shares) (the "Smart Choice Stock Option") at a price of $0.30 per share.

As a result of the Finova agreement and the lack of other available capital, on November 9, 2001 the Florida Finance Group began to wind-down its operations. On December 12, 2001 Finova exercised its option to purchase Paaco subject to certain conditions. Finova subsequently assigned its option to purchase Paaco to Motive Group, L.P., a Texas limited partnership. On March 8, 2002 Motive Group, L.P. exercised its option and purchased Paaco. Under the purchase agreement, Motive Group, L.P. will assume all debt of Paaco.

As of January 31, 2002 Florida Finance Group had five employees remaining to perform final accounting and wind down activities. It is anticipated that two employees will remain with the company indefinitely to finalize creditor negotiations and other activities necessary to close the Company. It is expected that current cash balances will be sufficient to support a minimal operation and settle outstanding non-secured creditor obligations to the extent possible.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations", which eliminates the pooling method of accounting for business combinations initiated after June 30, 2001. In addition, SFAS 141 addresses the accounting for intangible assets and goodwill acquired in a business combination. This portion of SFAS 141 is effective for business combinations

completed after June 30, 2001. The Company adopted SFAS 141 effective May 1, 2001. Such adoption did not have any impact on the Company's financial position or results of operations.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Intangible Assets", which revises the accounting for purchased goodwill and intangible assets. Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized, but will be tested for impairment annually, and in the event of an impairment indicator. SFAS 142 is effective for fiscal years beginning after December 15, 2001, with earlier adoption permitted. The Company adopted SFAS 142 effective May 1, 2001. Such adoption did not have a material impact on the Company's financial position or results of operations.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment of Long-Lived Assets", which requires a single accounting model to be used for long-lived assets to be sold and broadens the presentation of discontinued operations to include a "component of an entity" (rather than a segment of a business). A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity that is classified as held for sale or has been disposed of is presented as a discontinued operation if the operations and cash flows of the component will be (or have been) eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations of the component. The Company adopted SFAS 144 effective August 1, 2001. Such adoption did not have any impact on the Company's financial position or results of operations.

PART II

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

On November 8, 2001, Smart Choice, the Florida Finance Group and Paaco, entered into a forbearance agreement with Finova, the primary lender to Smart Choice's subsidiaries, that resulted in the foreclosure of the Florida Finance Group's receivables and inventory, and the probable sale of Paaco to Finova.

Prior to November 9, 2001, the Florida Finance Group sold and financed used cars and trucks in Florida. Paaco sells and finances used cars and trucks in Texas. The Florida Finance Group had, and Paaco continues to have, a revolving credit facility with Finova. Prior to November 9, 2001, the Florida Finance Group was over-advanced on its revolving credit facility ($25 million over-advance at September 30, 2001), which constituted an event of default under the facility.

Pursuant to the forbearance agreement, on November 9, 2001, the collateral for the Florida Finance Group's credit facility with Finova, which consisted principally of receivables and inventory, was sold at a public foreclosure sale to Finova for $55 million. Prior to the foreclosure sale, the Florida Finance Group owed Finova $88.4 million. Thus, after applying the proceeds from the foreclosure sale, the Florida Finance Group owes Finova $33.4 million (the "Deficiency").

Further, as part of the forbearance agreement, Smart Choice granted Finova (i) an option to purchase Paaco (the "Paaco Option") for an amount equal to the Deficiency, subject to shareholder approval and an appraisal indicating

the value of Paaco is not greater than the Deficiency, and (ii) an option to purchase up to 100% of Smart Choice's remaining shares of authorized but unissued common stock (approximately 39 million shares) (the "Smart Choice Stock Option") at a price of $0.30 per share. The Smart Choice Stock Option will terminate upon the closing of the exercise of the Paaco Option. Presently, Smart Choice has approximately 9.8 million shares of common stock outstanding. Both the Paaco Option and the Smart Choice Stock Option expire March 8, 2002.

As a result of the Finova agreement and the lack of other available capital, on November 9, 2001 the Florida Finance Group began to wind-down its operations. On December 12, 2001 Finova exercised its option to purchase Paaco subject to certain conditions.

As of January 31, 2002, Paaco was also in violation of certain provisions of its loan agreement with Finova. As a result of Paaco's loan covenant violations, on November 8, 2001 Finova accelerated the maturity of Paaco's revolving credit facility such that the entire balance is currently due and payable.

Finova subsequently assigned its option to purchase Paaco to Motive Group, L.P., a Texas limited partnership. On March 8, 2002 Motive Group, L.P. exercised its option and purchased Paaco. Under the purchase agreement, Motive Group, L.P. will assume all debt of Paaco.

ITEM 5. OTHER INFORMATION

CHANGE IN CONTROL

Effective March 11, 2002, Crown Group, Inc. ("Crown") sold to Ed Ernst, the Chief Executive Officer of Smart Choice, all of the 6,857,907 shares of common stock of Smart Choice held by Crown for an aggregate purchase price of $100.00. Prior to this transaction, Mr. Ernst did not own any securities of Smart Choice. As a result of the transaction, Mr. Ernst now owns 79.8% of the issued and outstanding shares of common stock of Smart Choice, based on the 8,890,547 shares issued and outstanding on March 12, 2002.

DISPOSITION OF ASSETS

The disposition by Smart Choice of its Texas-based subsidiaries is described in Item 2 of this Report, which is incorporated by reference in response to this Item.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits: The following exhibits are filed herein.

Exhibit 10.1
Sale and Purchase Agreement between Paaco Automotive Group, L.P., Premium Auto Acceptance Corporation, Paaco Holdings, L.L.C., Alouette Trucking, Inc., Smart Choice Automotive Group, Inc. and Motive Group, L.P.

Exhibit 10.2
Acknowledgement of Assignment of Option between Smart Choice Automotive Group, Inc., Finova Capital Corporation and Motive Group, L.P.

(b) Reports on Form 8-K:

During the fiscal quarter ended January 31, 2002, the Company filed a report on Form 8-K dated November 21, 2001 (event date November 9, 2001) respecting Florida Finance Group's sale of receivables and inventory at a public foreclosure sale.

SIGNATURES

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

SMART CHOICE AUTOMOTIVE GROUP, INC.

By: \s\ James Edward Ernst

James Edward Ernst
President and Chief Executive Officer
(Principal Executive Officer)

By: \s\ Larry Kiem

Larry Kiem
Controller
(Principal Financial and Accounting Officer)

Dated: March 15, 2002