SMART CHOICE AUTOMOTIVE GROUP INC
Form 10-Q
March 19, 2001

U.S. 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 January 31, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to ___________________

Commission file number 1-14082

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.)

5200 S. WASHINGTON AVENUE, TITUSVILLE, FLORIDA 32780

(Address of principal executive offices)
(Zip Code)

(321) 269-0834

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,
if changed since last report)

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 report(s), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

As of March 19, 2001, 9,794,103 shares of the Registrant's Common Stock were issued and outstanding.

PART I. FINANCIAL STATEMENTS

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS.

Smart Choice Automotive Group, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands)

	JANUARY 31, 2001 (unaudited)	APRIL 30, 200
Assets		
Cash and cash equivalents	$ 452	$ 1,883
Other receivables	1,444	1,029
Finance receivables, net	148,372	132,855
Inventories	11,577	12,190
Property and equipment, net	13,200	11,487
Goodwill, net	5,850	6,034
Prepaid and other assets	793	577
Due from parent	--	528
Deferred tax asset, net	12,382	12,382
	$194,070	$178,965
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	$ 11,533	$ 13,857
Revolving credit facility	147,442	130,367
Other borrowings	10,200	10,773
Income taxes payable	1,731	3,133
Sales taxes payable	5,029	4,207
Total liabilities	175,935	162,337
Contingent redemption value of common stock put options	533	533
Stockholders' equity:		
Series E convertible preferred stock $.01 par value; 2,000,000 shares authorized; 1,469,551 shares issued and outstanding at April 30, 2000	--	15
Common stock, $.01 par value; 50,000,000 shares authorized; 9,794,103 shares issued and outstanding (2,446,353 shares issued and outstanding at April 30, 2000)	98	24
Additional paid-in capital	13,832	13,891
Retained earnings	3,672	2,165
Total stockholders' equity	17,602	16,095

	$194,070	$178,965
	========	========

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

2

Smart Choice Automotive Group, Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	THREE MONTHS ENDED JANUARY 31,		NINE MONTHS JANUARY 3
	2001	2000	2001
Sales of used cars	$ 40,400	$ 27,287	$ 134,704
Less: Cost of used cars sold	25,684	17,649	83,398
Provision for credit losses	9,469	5,445	31,507
	5,247	4,193	19,799
Interest income			
Interest income	9,395	6,832	28,293
Portfolio interest expense	4,651	2,960	13,388
	4,744	3,872	14,905
Income before operating expenses	9,991	8,065	34,704
Operating expenses			
Selling, general and administrative	10,642	6,615	31,249
Depreciation and amortization	484	302	1,258
Other (income) expense	22	(176)	(234)
	11,148	6,741	32,273
Income (loss) before income taxes	(1,157)	1,324	2,431
Income tax expense (benefit)	(429)	513	924
Net income (loss)	$ (728)	$ 811	$ 1,507
Net income (loss) per common share			
Basic	$ (0.17)	$ 113.22	$ 0.49
Diluted	$ (0.17)	$ 0.11	$ 0.15
Weighted average shares			
Basic	4,283	7	3,059
Diluted	4,283	7,355	9,800

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

Smart Choice Automotive Group, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	NINE MONTHS ENDED JANUARY 31,	
	2001	2000
Operating activities		
Net income	$ 1,507	$ 1,251
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	31,507	11,099
Depreciation and amortization	1,258	467
Accretion of purchase discount	(725)	(253)
Deferred warranty contracts earned	(413)	(42)
Changes in assets and liabilities		
Inventories (net of reposessions)	20,331	3,659
Other receivables	(416)	409
Prepaids and other assets	(215)	232
Accounts payable and accrued liabilities	(1,088)	(2,505)
Income tax payable/receivable	(874)	848
Net cash provided by operating activities	50,872	15,165
Investing activities		
Finance receivable originations	(129,125)	(43,635)
Collections of finance receivables	63,108	21,178
Net cash acquired in acquisition of Smart Choice	--	4,513
Purchases of property and equipment	(2,787)	(1,653)
Net cash used in investing activities	(68,804)	(19,597)
Financing activities		
Increase in checks outstanding in excess of bank balance	--	(110)
Proceeds from revolving credit facility, net	17,075	5,210
Net payments/advances on other borrowings	(574)	(442)
Net cash provided by financing activities	16,501	4,658
Net increase (decrease) in cash and cash equivalents	(1,431)	226
Cash and cash equivalents at beginning of period	1,883	63

Cash and cash equivalents at end of period	$ 452	$ 289
	=========	=========

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

4

Smart Choice Automotive Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1 - ACCOUNTING POLICIES

Effective December 1, 1999, Smart Choice Automotive Group, Inc. ("Smart Choice" or the "Company") acquired the stock of Paaco Automotive Group, Inc. and Premium Auto Acceptance Corporation (collectively, "PAACO") in a reverse acquisition in which PAACO 's stockholders acquired voting control of Smart Choice. The acquisition was accomplished through the contribution of all of the outstanding stock of PAACO by Crown Group, Inc. ("Crown"), an 85% majority stockholder, along with all the shares of the minority stockholders, in exchange for 1,203,016 shares of Smart Choice Series E convertible preferred stock. Additionally, Crown purchased 150,000 shares of Smart Choice Series E convertible preferred stock for $3 million in cash and acquired Smart Choice debt with a face value of approximately $4.5 million for $2.3 million in cash. The debt was converted by Crown into 116,535 shares of Smart Choice Series E convertible preferred stock. Upon completing the transaction, Crown, the former majority stockholder in PAACO, controlled approximately 70% of the voting rights of the Company.

For financial reporting purposes, PAACO is deemed to be the acquiring entity. The acquisition has been reflected in the accompanying consolidated financial statements as (a) a recapitalization of PAACO whereby the issued and outstanding stock of PAACO was converted into 1,203,016 shares of Series E convertible preferred stock and (b) the issuance of the securities discussed in the preceding paragraph by PAACO in exchange for all of the outstanding equity securities of Smart Choice.

Effective January 9, 2001 Crown and minority holders of Smart Choice Series E convertible preferred stock converted their shares of Smart Choice Series E convertible preferred stock into 7,347,750 shares of common stock. This conversion represented all outstanding shares or Smart Choice Series E convertible preferred stock.

The following unaudited pro forma condensed results of operations of Smart Choice for the nine months and three months ended January 31, 2001 and 2000, give effect to the acquisition of Smart Choice as if it had occurred on May 1, 1999. The unaudited pro forma results of operations are not necessarily indicative of future results or the results that would have occurred had the acquisition taken place on the dates indicated.

	THREE MONTHS ENDED JANUARY 31, 2000	NINE MONTHS ENDED JANUARY 31, 2000
Revenue	$ 40,919	$ 126,366
Net (loss)	(4,234)	(10,054)
(Loss) per share		
Basic and diluted	$ (1.73)	$ (4.11)

The accompanying consolidated financial statements include the results of PAACO for all periods and the results of Smart Choice from the date of acquisition.

NOTE 2 - BASIS OF PRESENTATION

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 generally accepted accounting principles 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, 2001 are not necessarily indicative of the results that may be expected for the year ended April 30, 2001. For further

information, refer to consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended April 30, 2000.

NOTE 3 - FINANCE RECEIVABLES

A summary of finance receivables, net, is as follows (in thousands):

	JANUARY 31, 2001	APRIL 30, 2000
Contractual payments	$ 214,865	$ 199,629
Unearned finance charges	(30,547)	(33,021)
Principal balances	184,318	166,608
Allowance for credit losses	(35,150)	(32,291)
Finance receivable discount	(796)	(1,462)
Finance receivables, net	$ 148,372	$ 132,855

Contractual payment balances increased from April 30, 2000 due to higher sales levels during the nine-month period, partially offset by runoff of older loans. Unearned finance charges decreased during the same period due to our change in policy made during the fourth quarter of the year ended April 30, 2000 to reduce the average term of new loans.

NOTE 4 - DEBT

A summary of our indebtedness at January 31, 2001 and April 30, 2000 is as follows (in thousands):

	JANUARY 31, 2001	APRIL 30, 2000
Revolving credit facility	$147,442	$130,367
Subordinated notes payable	2,576	3,000
Mortgages and other notes payable	6,302	6,843

Other borrowings	1,322	930
	10,200	10,773
Total	$157,642	$141,140

In December 1999, as a result of the acquisition of Smart Choice, our revolving credit facility was amended to provide for borrowings of up to $160 million, up to $60 million for PAACO and up to $100 million for Smart Choice. During the second quarter the revolving credit facility was further amended to provide up to $62 million for PAACO and decrease Smart Choice borrowing capacity to $98 million. Crown guarantees the obligation for up to $5 million. The revolving facility matures in November 2004 and accrues interest on borrowings at prime plus 2.25% (11.75% at January 31, 2001).

The advance rates on eligible finance receivables declines from 85% to 70% for First Choice and 72.5% to 67.5% for PAACO over the term of the credit facility. Concurrent with the decrease in the advance rate, the interest rate will decrease to prime plus 1.75%.

Based upon the eligible collateral on hand at January 31, 2001, Paaco and Smart Choice were collectively over advanced on their senior credit facilities with Finova Capital Corporation ("Finova") by approximately $4.9 million. Paaco and Smart Choice presently expect to come back into compliance with the terms of their credit facilities in April 2001. However, in July 2001 the Smart Choice credit facility requires a step-down in the finance receivable advance rate from 85.0% to 77.0%. Absent funding from an outside source, Smart Choice does not expect it will be able to meet this step-down. In February 2001, Smart Choice and

Paaco provided Finova with their most recent financial projections and requested that the scheduled finance receivable advance rate step-downs over the next three years be modified to conform to those projections.

Presently, it is the Company's expectation that Finova will either modify the scheduled finance receivable advance rate step-downs to conform to the financial projections of Smart Choice and Paaco, or provide Smart Choice and Paaco with a forbearance letter covering some period of time. However, the Company cannot predict with certainty the actions of Finova; and, under the terms of the credit facilities, Finova has the right to accelerate the maturity of the loans demanding immediate repayment, and call on Crown's guarantee of $5 million.

Subordinated notes payable at January 31, 2001 represents $2.5 million payable to Crown. The subordinated notes payable bear interest at 8.5% per annum, and mature on March 26, 2002.

The mortgages payable consists of four notes, all collateralized by land and certain buildings, to two financial institutions and an individual. The two notes with one financial institution accrue interest at prime plus 2.25% and mature in December 2015. The other mortgage note payable to a financial institution accrues interest at 8.25% and matures in May 2003. The mortgage note payable to an individual accrues interest at 9.5% and matures in May 2001.

NOTE 5 - COMMON STOCK EQUIVALENTS

Net income (loss) per common share is based on the weighted average number of common shares and common stock equivalents outstanding for the three and nine-month periods ended January 31, 2001 and 2000 as follows (in thousands, except share and per share amounts):

	THREE MONTHS ENDED JANUARY 31, 2001	THREE MONTHS ENDED JANUARY 31, 2000	
Net income (loss)	$ (728)	$ 811	$
Basic earnings per share	$ (0.17)	$ 113.22	$
Diluted earnings per share	$ (0.17)	$ 0.11	$
Basic weighted average shares outstanding	4,283,291	7,163	3
Effect of dilutive securities:			
Preferred stock	--	7,347,750	6
Dilutive weighted average shares outstanding	4,283,291	7,354,913	9
Warrants not included in dilutive shares since antidilutive	82,084	--	
Common stock options not included in dilutive shares since antidilutive	556,219	--	

7

NOTE 6 - BUSINESS SEGMENTS

We sell and finance used vehicles in two major markets in the United States. The First Choice market is based in Florida and the PAACO market is based in Texas. Effective December 1, 1999, Smart Choice acquired the stock of PAACO in a reverse acquisition in which PAACO's stockholders acquired voting control of Smart Choice. For financial reporting and comparative purposes, PAACO is deemed to be the acquiring entity. Accordingly, the financial statements include the results of PAACO for all periods presented and the results of First Choice for December 1999 and January 2000 and the three and nine month period ending January 31, 2001. Our business segment data for the three months ended January 31, 2001 and 2000 is as follows (in thousands):

THREE MONTHS ENDED JANUARY 31,	PAACO	FIRST CHOICE	COMBINED
2001			
Sales of used cars	$ 23,726	$ 16,674	$ 40,400
Less: cost of cars sold	15,287	10,397	25,684

Provision for credit losses	2,255	7,214	9,469
	6,184	(937)	5,247
Net interest income	2,244	2,500	4,744
Income before operating expenses	8,428	1,563	9,991
Operating expenses:			
Selling, general and administrative	5,796	4,846	10,642
Depreciation and amortization	210	274	484
Other expense (income)	(16)	38	22
	5,990	5,158	11,148
Operating income (loss)	$ 2,438	$ (3,595)	$ (1,157)
Capital expenditures	$ 1,455	$ 478	$ 1,933
Total assets	$ 86,914	$ 107,156	$ 194,070
2000			
Sales of used cars	$ 17,864	$ 9,423	$ 27,287
Less: cost of cars sold	11,269	6,380	17,649
Provision for credit losses	3,100	2,345	5,445
	3,495	698	4,193
Net interest income	1,575	2,297	3,872
Income before operating expenses	5,070	2,995	8,065
Operating expenses:			
Selling, general and administrative	3,877	2,738	6,615
Depreciation and amortization	90	212	302
Other income	(90)	(86)	(176)
	3,877	2,864	6,741
Operating income	$ 1,193	$ 131	$ 1,324
Capital expenditures	$ 276	$ 184	$ 460
Total assets	$ 68,399	$ 96,133	$ 164,532

Our business segment data for the nine months ended January 31, 2001 and 2000 is as follows (in thousands):

NINE MONTHS ENDED JANUARY 31,	PAACO	FIRST CHOICE	COMBINED
2001			
Sales of used cars	$ 75,641	$ 59,063	$ 134,704
Less: cost of cars sold	48,594	34,804	83,398
Provision for credit losses	10,697	20,810	31,507
	16,350	3,449	19,799
Net interest income	6,372	8,533	14,905
Income before operating expenses	22,722	11,982	34,704
Operating expenses:			
Selling, general and administrative	16,796	14,453	31,249
Depreciation and amortization	470	788	1,258
Other income	(166)	(68)	(234)
	17,100	15,173	32,273
Operating income (loss)	$ 5,622	$ (3,191)	$ 2,431
Capital expenditures	$ 1,980	$ 807	$ 2,787
2000			
Sales of used cars	$ 54,186	$ 9,423	$ 63,609
Less: cost of cars sold	34,686	6,380	41,066
Provision for credit losses	8,754	2,345	11,099
	10,746	698	11,444
Net interest income	4,454	2,297	6,751
Income before operating expenses	15,200	2,995	18,195
Operating expenses:			
Selling, general and administrative	13,337	2,738	16,075
Depreciation and amortization	255	212	467
Other income	(304)	(86)	(390)
	13,288	2,864	16,152
Operating income	$ 1,912	$ 131	$ 2,043
Capital expenditures	$ 1,469	$ 184	$ 1,653

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

We operate one of the largest chains of buy here-pay here car dealerships in the United States. At January 31, 2001 we operated 25 dealerships located in major markets in Texas and Florida. We have one line of business: to sell and finance quality used vehicles to credit-impaired customers. In Texas, we operate thirteen lots under the name PAACO, and in Florida we operate twelve lots under the name First Choice.

First Choice and PAACO participate in the sub-prime segment of the independent used car sales and finance market. This segment is serviced primarily by buy here-pay here dealerships. These dealerships sell and finance sales of used cars to credit-impaired borrowers. Buy here-pay here dealers typically offer their customers certain advantages over more traditional financing sources, such as:

(i) broader and more flexible underwriting guidelines;

(ii) flexible payment terms (including prorating customer payments due within one month into several smaller payments and scheduling payments to coincide with a customer's pay days); and

(iii) the ability to make payments in person, an important feature to many credit-impaired borrowers who may not have checking accounts or are otherwise unable to make payments by the due date through the mail.

Our operating strategy emphasizes the following points:

SELL RELIABLE, QUALITY CARS. We sell reliable, quality used cars. We believe that product failure is a leading cause of defaults on finance contracts in the self-financed used car industry. We utilize guidelines in purchasing, inspecting, reconditioning and servicing, to minimize defaults. At First Choice we include a 24,000 mile/24-month warranty with the sale of most used cars, and at PAACO we generally include a 6,000 mile/6-month warranty.

UTILIZE CENTRALIZED CREDIT APPROVAL WITH A BUY ROOM. We integrate the credit approval function and sales process for used cars with a buy room that ensures credit worthiness as well as proper deal structure such as overall gross profit, term and interest rate. The credit underwriting process strictly adheres to objective underwriting standards that have resulted in improved collection experience. We regularly review our collection results to assess the effectiveness of our underwriting standards.

APPLY RIGOROUS COLLECTION PRACTICES. We diligently and pro actively pursue the collection of our finance receivables while maintaining a professional, customer-friendly atmosphere. Our collection policy includes telephoning a borrower if the borrower's payment is one day late, and repossession procedures generally begin when the customer is one payment past due. As of January 31, 2001, 93.2% of our finance receivables at PAACO were not more than one payment past due and 95.0% of First Choice's finance receivables were not more than one payment past due.

MAXIMIZE RECOVERY ON REPOSSESSIONS. We believe that we generally experience lower losses on repossessions than other lenders in the self-financed used car industry due to:

(i) the quality of the cars we sell;

(ii) the timeliness of our repossessions ("zero tolerance" policy for nonpayment); and

(iii) our ability to re-market repossessions. We recondition and re-market a majority of our repossessions through our dealerships, rather than through auctions (where cars are generally sold at lower prices).

INCREASE OPERATING EFFICIENCY. An ongoing effort has been made to increase operating efficiency by combining administrative functions in order to reduce costs. We have consolidated functions such as accounting and treasury, insurance and employee benefits, and legal support. We believe we will continue to increase our operating efficiency in such areas as reconditioning, purchasing and transporting inventory.

EMPLOY INTEGRATED MANAGEMENT INFORMATION SYSTEMS. All of our used car dealerships are linked to an integrated computer-based management information system (the "MIS") that allows us to obtain "real time" information on our operations. We use the MIS to transmit data between our headquarters and our various stores, to evaluate store performance daily, monitor inventory, sales, costs, customer payments and facilitates the underwriting and collection of our finance contracts.

PROMOTE PAACO AND FIRST CHOICE BRANDS. We believe that our PAACO and First Choice brands are synonymous with quality cars and customer service. By seeking to maintain continuity in the appearance of our store locations, we expect to promote our name recognition. Further, we maintain a consistency between facilities and marketing materials through the use of standardized logos.

AVOID THIRD PARTY FINANCE RECEIVABLES. As part of our operating philosophy, we only originate and service finance receivables on used cars sold at our used car stores. We do not intend to purchase third party finance receivables or purchase other dealerships with existing finance receivables.

CONTROLLED GROWTH IN DEALERSHIP SITES. PAACO's business began in Texas in 1992 as a retail auto auction concern. PAACO entered the buy here-pay here market in 1993, grew modestly in the Dallas/Fort Worth area over the next few years, and entered the Houston area in 1999. Effective December 1, 1999, our Florida operations were acquired through the acquisition of PAACO by Smart Choice. In the coming year we anticipate that, as we focus on maintaining sales at or near our present monthly sales rate, we will not acquire any additional dealerships in the next twelve months, although PAACO and First Choice may each open a number of new lots.

In the following discussion and analysis, we explain the results of operations and general financial condition of Smart Choice and its subsidiaries. In particular we analyze and explain the changes in the results of operations for the three and nine-month periods ended January 31, 2001 and January 31, 2000.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JANUARY 31, 2001 TO THE THREE MONTHS ENDED JANUARY 31, 2000:

SALES OF USED CARS AND COST OF USED CARS SOLD

THREE MONTHS ENDED
JANUARY 31,

	2001	2000	PERCEN CHAN
(dollar amounts in thousands, except per car amounts)			
Number of used cars sold	3,409	2,457	38.
Sales of used cars	$40,400	$27,287	48.
Cost of used cars sold	25,684	17,649	45.
Gross margin	$14,716	$ 9,638	52.
Gross margin %	36.4%	35.3%	
Per car sold:			
Sales	$11,851	$11,106	6.
Cost of used cars sold	7,534	7,183	4.
Gross margin	$ 4,317	$ 3,923	10.

Sales increased by $13.1 million, or 48.1%, for the three months ended January 31, 2001 compared to the same period in 2000. The increase in sales reflects the addition of 12 First Choice used car dealerships and increased sales per dealership at existing PAACO used car dealerships along with the addition of one lot at

PAACO. In addition, sales per car sold increased by $745 for the three months ended January 31, 2001 compared to the same period in 2000 due to an increase in sales of higher cost trucks and SUV's and our efforts to increase gross margins.

Cost of used cars sold increased by $8.0 million or 45.5%. The increase in cost of used cars sold is primarily due to the addition of First Choice used car dealerships acquired through merger in December 1999. Cost of used cars sold, as a percent of sales, was 63.6% for the three months ended January 31, 2001 compared to 64.7% for the same period in 2000. Cost per car sold was $7,534 for three months ended January 31, 2001 compared to $7,183 for three months ended January 31, 2000. This increase reflects higher average acquisition costs for trucks and SUV's that comprised a greater percentage of sales for the three months ended January 31, 2001 compared to the same period in 2000.

Gross margin was $14.7 million for the three months ended January 31, 2001 compared to $9.6 million for the same period in 2000, an increase of $5.1 million, or 52.7%. Gross margin was 36.4%, or $4,317 per car for the three months ended January 31, 2001 as compared to 35.3%, or $3,923 per car, for the same period in 2000. The increase in gross margin percentage for the three months ended January 31, 2001 as compared to the same period in 2000 reflects the sale of a greater proportion of higher cost, higher margin trucks and SUV's and our efforts to increase gross margins.

PROVISION FOR CREDIT LOSSES

The following is a summary of the provision for credit losses:

	THREE MONTHS ENDED JANUARY 31, 2001	THREE MONTHS ENDED JANUARY 31, 2000	PERCEN CHAN
Provision for credit losses (in thousands)	$ 9,469	$ 5,445	73.
Provision per loan originated	$ 2,778	$ 2,216	25.
Provision as a percentage of principal balances originated	23.4%	20.0%	

The provision for credit losses was $9.5 million for the three months ended January 31, 2001 compared to $5.4 million for the same period in 2000. The provision as a percent of principal balances originated was 23.4% for the three months ended January 31, 2001 and 20.0% for the same period in 2000. The increase in provision reflects the addition of 12 First Choice used car dealerships and management's expectations of future credit losses on current sales. Management believes along with increases in gross profit on each unit sold comes a corresponding increase in credit loss. This expectation is based on stable to declining repossession rates with lower net recovery rates for each vehicle repossessed. In addition, we recorded an additional provision for future potential credit losses as of January 31, 2001 in the amount of $1.4 million. As a result of our efforts to reduce the term on new loans during the first six months of the 2001 fiscal year we began to experience higher losses due to higher monthly payments. We have reviewed this policy and adopted new credit terms that we believe will result in lower credit losses in future periods. The additional provision recorded at January 31, 2001 reflects the expected increased losses on our loan portfolio as of that date.

12

NET INTEREST INCOME

	THREE MONTHS ENDED JANUARY 31, 2001	THREE MONTHS ENDED JANUARY 31, 2000	PERCEN CHAN
	($ in thousands)		
Interest income	$ 9,395	$ 6,832	37.
Portfolio interest expense	$ 4,651	$ 2,960	57.
Net interest income	$ 4,744	$ 3,872	22.
Average effective yield	20.2%	22.1%	-8.

Average borrowing cost	11.7%	11.3%	3.

Interest earned on financed receivables was $9.4 million for the three months ended January 31, 2001 compared to $6.8 million for the three months ended January 31, 2000 which reflects an increase of $2.6 million, or 37.5%. The increase is due primarily to the acquisition of First Choice's portfolio which had a higher yield than PAACO's, and to continued growth in financed used car sales.

Portfolio interest expense increased by $1.7 million, or 57.1%, to $4.7 million for the three months ended January 31, 2001 from $3.0 million for the same period in 2000. The increase is due to the acquisition of First Choice and an increase in the prime interest rate during the periods reported, which was partially offset by a lower overall cost of capital obtained in the revised credit facility.

INCOME BEFORE OPERATING EXPENSES

Our income before operating expenses was $10.0 million at January 31, 2001 compared to $8.1 million for the same period in 2000. The increase in income before operating expenses reflects the increase in sales of used cars and interest income and the addition of Smart Choice's operations December 1, 1999.

OPERATING EXPENSES

	THREE MONTHS ENDED JANUARY 31,		
	2001	2000	PERCEN CHAN
Operating expenses (in thousands)	$11,148	$ 6,741	65.
Per car sold	$ 3,270	$ 2,744	19.
As % of total revenue	22.4%	19.8%	

Operating expenses were $11.1 million for the three months ended January 31, 2001 compared to $6.7 million for the same period in 2000, reflecting an increase of $4.4 million or 65.4%. The increase is primarily due to the addition of First Choice's operations. Operating expenses were $3,270 per car sold for the three months ended January 31, 2001 compared to $2,744 per car sold in the same period in 2000. The increase reflects higher overhead costs as a result of the merger with Smart Choice on December 1, 1999. We are continuing to focus on reducing overhead expenses. During the fourth quarter we will begin a restructuring of certain operations that we believe will result in significant reductions in overhead and improved operating efficiencies.

13

INTEREST EXPENSE

Our interest expense totaled $4.7 million for the three months ended January 31, 2001 versus $3.0 million for the three months ended January 31, 2000. The increase is a result of the merger with Smart Choice and an increase in borrowing under the Finova revolving credit facility.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED JANUARY 31, 2001 TO THE NINE MONTHS ENDED JANUARY 31, 2000:

SALES OF USED CARS AND COST OF USED CARS SOLD

	NINE MONTHS ENDED JANUARY 31,		PERCENTAGE CHANGE
	2001	2000	
(dollar amounts in thousands, except per car amounts)			
Number of used cars sold	11,326	5,453	107.7%
Sales of used cars	$134,704	$ 63,609	111.8%
Cost of used cars sold	83,398	41,066	103.1%
Gross margin	$ 51,306	$ 22,543	127.6%
Gross margin %	38.1%	35.4%	
Per car sold:			
Sales	$ 11,893	$ 11,665	2.0%
Cost of used cars sold	7,363	7,531	-2.2%
Gross margin	$ 4,530	$ 4,134	9.6%

We increased sales by $71.1 million or 111.8% for the nine months ended January 31, 2001 compared to the same period in 2000. The increase in sales reflects the addition of 12 First Choice used car dealerships and increased sales per dealership at existing PAACO used car dealerships. Sales per vehicle sold increased $228 reflecting the average higher sales price per vehicle as a result of our efforts to offset higher acquisition costs and improve gross margins.

Cost of used cars sold increased by $42.3 million or 103.1%. The increase in cost of used cars sold is primarily due to the addition of 12 First Choice used car dealerships and increased sales per dealership at existing PAACO used car dealerships. Cost of used cars sold, as a percent of sales, was 61.9% for the nine months ended January 31, 2001 compared to 64.6% for the same period in 2000. Cost per car sold was $7,363 for nine months ended January 31, 2001 compared to $7,531 for nine months ended January 31, 2000. The decrease reflects the lower average cost per car purchased by First Choice as compared to PAACO and management's efforts in lowering reconditioning and acquisition costs at PAACO. The decrease does not fully reflect the impact of increased purchasing of higher cost trucks and SUV's as discussed under the Comparison of results of operations for the three months ended January 31, 2001 to the three months ended January 31, 2000.

Gross margin was $51.3 million for the nine months ended January 31, 2001 compared to $22.5 million for the same period in 2000, an increase of $28.8 million, or 127.6%. Gross margin was 38.1%, or $4,530 per car, for the nine months ended January 31, 2001, as compared to 35.4%, or $4,134 per car, for the same period in 2000. The increase in gross margin percentage reflects lower reconditioning and acquisition costs at PAACO along with a higher sales price per car at First Choice.

14

PROVISION FOR CREDIT LOSSES

The following is a summary of the provision for credit losses:

	NINE MONTHS ENDED JANUARY 31, 2001	NINE MONTHS ENDED JANUARY 31, 2000	PERCENTAGE CHANGE
Provision for credit losses (in thousands)	$ 31,507	$ 11,099	183.9%
Provision per loan originated	$ 2,782	$ 2,035	36.7%
Provision as a percentage of principal balances originated	23.4%	17.4%	

The provision for credit losses was $31.5 million for the nine months ended January 31, 2001 compared to $11.1 million for the same period in 2000. The provision as a percent of principal balances originated was 23.4% for the nine months ended January 31, 2001 and 17.4% for the same period in 2000. The increase in provision reflects the addition of 12 First Choice used car dealerships and management's expectations of future credit losses on current sales. This expectation is based on stable to declining repossession rates with lower net recovery rates for each vehicle repossessed. In addition, we recorded an additional provision for future potential credit losses as of January 31, 2001 in the amount of $1.4 million. As a result of our efforts to reduce the term on new loans during the first six months of the 2001 fiscal year we began to experience higher losses due to higher monthly payments. We have reviewed this policy and adopted new credit terms that we believe will result in lower credit losses in future periods. The additional provision recorded at January 31, 2001 reflects the expected increased future losses on our loan portfolio as of that date.

NET INTEREST INCOME

	NINE MONTHS ENDED JANUARY 31, 2001	NINE MONTHS ENDED JANUARY 31, 2000	PERCENTAGE CHANGE

	($ in thousands)		
Interest income	$ 28,293	$ 12,531	125.8%
Portfolio interest expense	$ 13,388	$ 5,780	131.6%
Net interest income	$ 14,905	$ 6,751	120.8%
Average effective yield	20.3%	22.1%	-8.3%
Average borrowing cost	11.2%	11.3%	-0.3%

Interest earned on financed receivables was $28.3 million for the nine months ended January 31, 2001 compared to $12.5 million for the nine months ended January 31, 2000 which reflects an increase of $15.8 million, or 125.8%. The increase is due primarily to the acquisition of First Choice's portfolio which had a higher yield than PAACO's and continued growth in financed used car sales.

Portfolio interest expense increased by $7.6 million or 131.6% to $13.4 million for the nine months ended January 31, 2001 from $5.8 million for the same period in 2000. The increase is due to the acquisition of First Choice and an increase in the prime interest rate during the periods reported, which was partially offset by a lower overall cost of capital obtained in the revised credit facility.

INCOME BEFORE OPERATING EXPENSES

Our income before operating expenses was $34.7 million at January 31, 2001 compared to $18.2 million for the same period in 2000. The increase in income before operating expenses reflects the increase in sales of used cars, interest income and the addition of Smart Choice's operations December 1, 1999.

15

OPERATING EXPENSES

	NINE MONTHS ENDED JANUARY 31,		
	2001	2000	PERCENTAGE CHANGE
Operating expenses (in thousands)	$ 32,273	$ 16,152	99.8%
Per car sold	$ 2,849	$ 2,962	-3.8%
As % of total revenue	19.8%	21.2%	

Operating expenses were $32.3 million for the nine months ended January 31, 2001 compared to $16.2 million for the same period in 2000, reflecting an increase of $16.1 million or 99.8%. The increase is primarily due to the addition of Smart Choice's operations. Operating expenses were $2,849 per car sold for the nine months ended January 31, 2001 compared to $2,962 per car sold in the same period in 2000. The decrease reflects our commitment to controlling operating expenses and the success of certain cost-cutting measures initiated in the third quarter of fiscal 2000 as well as high unit sales during the period. We continue to focus on reducing operating expenses and will be restructuring several operating areas during the fourth quarter to further reduce overhead and improve operating efficiencies.

FINANCIAL POSITION

	JANUARY 31, 2001	APRIL 30, 2000
Finance receivables, net	$ 148,372	$ 132,855
Inventory	11,577	12,190
Total assets	194,070	178,965
Total debt	157,642	141,140
Revolving credit facility	147,442	130,367
Other borrowings	10,200	10,773
Total liabilities	175,935	162,337
Total stockholders' equity	$ 17,602	$ 16,095

The increase in finance receivables, net was primarily due to increased used car sales and financing, partially offset by the principal balance runoff of loans originated in prior periods and higher allowance for credit losses. Used car sales totaled 11,326 for the nine months ended January 31, 2001 versus sales of 5,453 used cars during the same nine month period of the prior year.

The following table reflects activity in the allowance for credit losses for the three and nine-month periods ended January 31, 2001 and 2000 (in thousands):

	THREE MONTHS ENDED JANUARY 31,		NINE MONTHS JANUARY
	2001	2000	2001
Allowance activity:			
Balance, beginning of period	$ 34,442	$ 9,689	$ 32,291
Provision for credit losses	9,469	5,445	31,507
Acquisition of Smart Choice	--	21,047	--
Net charge offs	(8,761)	(6,042)	(28,648)
Balance, end of period	$ 35,150	$ 30,139	$ 35,150
Allowance as a percent of period end balances	19.2%	19.4%	

The allowance for credit losses is maintained at a level that in management's judgement is adequate to provide for estimated probable credit losses inherent in our retail portfolio. As discussed under Item 2, Provision for Credit Losses, we recorded an additional provision for future potential credit losses as of January 31, 2001 in the amount of $1.4 million. As a result of our efforts to reduce the term on new loans during the first six months of the 2001 fiscal year we began to experience higher losses due to higher monthly payments. We have reviewed this policy and adopted new credit terms that we believe will result in lower credit losses in future periods. The additional provision recorded at January 31, 2001 reflects the expected increased future losses on our loan portfolio as of that date.

The following table sets forth the principal balances delinquent as a percentage of total outstanding contract principal balances from dealership operations.

	JANUARY 31, 2001	APRIL 30, 2000
Days delinquent:		
Current	66.7%	71.4%
1-30 days	27.6%	25.2%
31-60 days	4.0%	2.0%
61-90 days	1.7%	1.4%
Total portfolio	100.0%	100.0%

Delinquencies have increased as of January 31, 2001 versus April 30, 2000. We have experienced higher calculated delinquency rates due to new credit terms adopted in the first quarter which now require bi-weekly payment schedules versus the old terms which required monthly payment schedules. We believe this to be within an acceptable range.

LIQUIDITY AND CAPITAL RESOURCES

In recent periods, our needs for additional capital resources have increased in connection with the growth of our business. We require capital for:

* increases in our loan portfolio
* working capital and general corporate purposes
* purchase of inventories
* the purchase of property and equipment

We fund our capital requirements primarily through:

* operating cash flow
* supplemental borrowings
* our revolving facility with Finova Capital Corp.

While to date we have met our liquidity requirements as needed, there can be no assurance that we will be able to continue to do so in the future.

CASH FLOW FROM OPERATIONS, INVESTMENTS AND FINANCING

Net cash provided by operating activities increased by $35.7 million in the nine months ended January 31, 2001 to $50.9 million compared to cash generated of $15.2 million for the nine months ended January 31, 2000. The increase is due to the addition of First Choice lots and increased sales at PAACO lots.

Net cash used by investing activities increased by $49.2 million for the nine months ended January 31, 2001 to $68.8 million versus cash used of $19.6 million for the same period of the previous year. Net cash used by finance receivable originations increased by $85.5 million for the nine months ended January 31, 2001 compared to the same period in 2000. The increase is due to the addition of First Choice lots and increased sales at PAACO lots. Collections of financed receivables increased $41.9 million also due to the addition of First Choice lots and higher portfolio principal balances as a result of increased sales.

Financing activities generated an increase of $11.9 million for the nine months ended January 31, 2001 to $16.5 million as compared to $4.6 million generated in the same period of fiscal 2000. Proceeds from the Finova revolving credit facility generated $17.1 million that was used primarily to fund purchases of vehicles for resale.

FINANCING RESOURCES

Under the Finova Loan and Security Agreement (the "Finova Revolving Facility"), we may borrow the lesser of (i) the Revolving line of $160 million or (ii) the advance rate of the available balance of eligible finance contracts and inventory. The Finova Revolving Facility is collateralized by all of our finance receivables and used car inventory. The Finova Revolving Facility bears interest at the prime rate plus 2.25% (11.75% as of January 31, 2001). The interest rate declines to prime rate plus 2.00% and prime rate plus 1.75% as the advance rate declines through the life of the note. The Finova Revolving Facility matures on November 30, 2004, at which time its renewal will be subject to renegotiations. As of January 31, 2001, the principal amount outstanding under the Finova Revolving Facility was $147.4 million, up from a balance of $130.4 million as of April 30, 2000.

Based upon the eligible collateral on hand at January 31, 2001, Paaco and Smart Choice were collectively over advanced on their senior credit facilities with Finova Capital Corporation ("Finova") by approximately $4.9 million. Paaco and Smart Choice presently expect to come back into compliance with the terms of their credit facilities in April 2001. However, in July 2001 the Smart Choice credit facility requires a step-down in the finance receivable advance rate from 85.0% to 77.0%. Absent funding from an outside source, Smart Choice does not expect it will be able to meet this step-down. In February 2001, Smart Choice and Paaco provided Finova with their most recent financial projections and requested that the scheduled finance receivable advance rate step-downs over the next three years be modified to conform to those projections.

Presently, it is the Company's expectation that Finova will either modify the scheduled finance receivable advance rate step-downs to conform to the financial projections of Smart Choice and Paaco, or provide Smart Choice and Paaco with a forbearance letter covering some period of time. However, the Company cannot predict with certainty the actions of Finova; and, under the terms of the credit facilities, Finova has the right to accelerate the maturity of the loans demanding immediate repayment, and call on Crown's guarantee of $5 million.

WE MAKE FORWARD LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words "believe", "expect", "anticipate", "estimate", "project", and similar expressions identify forward-looking statements. These statements may include, but are not limited to, projections of revenues, income or loss, estimates of capital expenditures, plans for future operations, products or services, and financing needs or plans, as well as assumptions relating to these matters. Forward-looking statements speak only as of the date the statements were made. They are inherently subject to risks and uncertainties, some of which we cannot predict or quantify. Future events and actual results could differ materially from the forward-looking statements. You should keep in mind the risk factors and cautionary statements found throughout this Form 10-Q and contained in our other filings with the SEC. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or for any other reason.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to market risks associated with our financial instruments from changes in interest rates. We do not use financial instruments for trading purposes or to manage interest rate risks. Our earnings are impacted by our net interest income, which is the difference between the income earned on interest-bearing assets and the interest paid on interest-bearing liabilities. Increases in market interest rates could have an adverse effect on profitability. Financial instruments consist of fixed-rate finance receivables and fixed and variable rate notes payable and senior credit facilities. Our finance receivables generally bear interest at fixed rates ranging from 17% to 26%. These finance receivables have scheduled maturities from one to 42 months. The majority of our notes payable contain variable interest rates that fluctuate with market rates. Therefore, an increase in market interest rates would decrease our net interest income and profitability. At January 31, 2001, a one-percent increase in our borrowing costs on variable rate debt would decrease our pretax income by approximately $1.1 million over a period of nine months.

We believe that our market risk has not changed materially from April 30, 2000.

PART II. OTHER INFORMATION

ITEM 3. DEFAULTS UNDER SENIOR SECURITIES.

(a) The information set forth in Item 2 of this report under the caption "Financing resources" is incorporated by reference in response to this Item 3.

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

(a) Exhibits.
None

(b) Reports on Form 8-K. No report on Form 8-K was filed during the quarter ended January 31, 2001.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SMART CHOICE AUTOMOTIVE GROUP, INC.

Date: March 19, 2001 By: /s/ JAMES E. ERNST

James E. Ernst
President and Chief Executive Officer

Date: March 19, 2001 By: /s/ JOE CAVALIER

Joe Cavalier
Chief Financial Officer
(principal financial and accounting officer)