SMART CHOICE AUTOMOTIVE GROUP INC
Form 10-Q
December 20, 2001

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

FORM 10-Q

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

For the fiscal quarter ended:	Commission file number:
OCTOBER 31, 2001	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.)

1555 SEMORAN BLVD., WINTER PARK, FLORIDA
(Address of principal executive offices)

32792
(Zip Code)

(407) 671-1200
(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 December 17, 2001
Common stock, par value $.01 per share	9,762,270

PART I

ITEM 1. FINANCIAL STATEMENTS

SMART CHOICE AUTOMOTIVE GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	October 31, 2001 (unaudited)	A
Assets:		
Cash and cash equivalents	$ 3,685,690	$
Other receivables	563,775	
Finance receivables, net	122,439,871	
Inventory	9,898,889	
Prepaid and other assets	770,283	
Deferred tax assets, net	3,373,921	
Property and equipment, net	9,489,301	
Goodwill, net		
	$ 150,221,730	$
Liabilities and stockholders' equity (deficit):		
Accounts payable and accrued liabilities	$ 7,389,436	$
Income taxes payable	1,139,810	
Revolving credit facilities	147,441,944	
Other borrowings	8,339,922	
Deferred sales tax	4,806,470	
Total liabilities	169,117,582	
Contingent redemption value of put options	453,371	
Commitments and contingencies		
Stockholders' equity (deficit):		
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 (accumulated deficit)	(33,279,678)	
Total stockholders' equity (deficit)	(19,349,223)	
	$ 150,221,730	$

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

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

	Three Months Ended October 31,		S
	2001	2000	2001
Revenues:			
Sales	$ 33,907,405	$ 49,696,443	$ 70,499
Interest income	8,801,037	9,525,288	18,448
Other	499,056	124,054	780
	43,207,498	59,345,785	89,728
Costs and expenses:			
Cost of sales	21,947,473	30,754,372	45,126
Selling, general and administrative	11,054,178	10,854,945	21,832
Provision for credit losses	9,987,918	11,446,207	21,040
Interest expense	3,430,371	4,539,025	7,130
Depreciation and amortization	430,352	394,943	845
Write-down of assets	16,232,861		16,232
	63,083,153	57,989,492	112,208
Income (loss) before taxes	(19,875,655)	1,356,293	(22,480
Provision for income taxes	13,237,947	524,396	12,360
Net income (loss)	$ (33,113,602)	$ 831,897	$ (34,840
Earnings (loss) per share:			
Basic	$ (3.39)	$ .08	$ (
Diluted	$ (3.39)	$ .08	$ (
Weighted average number of shares outstanding:			
Basic	9,762,270	9,814,000	9,762
Diluted	9,762,270	9,814,000	9,762

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

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

	Six Months End October 31,	
	2001	
Operating activities:		
Net income (loss)	$(34,840,975)	$
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	845,485	
Accretion of purchase discount	(256,644)	
Deferred income taxes	12,231,173	
Provision for credit losses	21,040,583	2
Write-down of assets	16,232,861	
Loss on sale of assets	45,242	
Changes in operating assets and liabilities:		
Other receivables	780,463	
Finance receivable originations	(65,980,838)	(9
Finance receivable collections	47,686,109	4
Inventory acquired in repossession	12,804,322	1
Inventory	(1,918,598)	(
Prepaids and other assets	(315,160)	
Accounts payable, accrued liabilities and deferred sales tax	(3,192,321)	
Net cash provided by (used in) operating activities	5,161,702	(1
Investing activities:		
Purchase of property and equipment	(436,805)	(
Sale of assets	170,000	
Net cash used in investing activities	(266,805)	(
Financing activities:		
Proceeds from revolving credit facilities, net		1
Repayments of other borrowings	(1,645,469)	
Net cash provided by (used in) financing activities	(1,645,469)	1
Increase (decrease) in cash and cash equivalents	3,249,428	(
Cash and cash equivalents at: Beginning of period	436,262	
End of period	$ 3,685,690	$

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

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

A - DESCRIPTION OF BUSINESS

Smart Choice Automotive Group, Inc. ("Smart Choice") and collectively with all of its subsidiaries (the "Company") is 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 October 31, 2001 the Florida Finance Group operated 13 used car dealerships in central Florida while 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 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, the closing of which is subject to certain conditions. If the sale of Paaco closes as expected, Smart Choice will no longer have any operations of substance, and it is anticipated that its remaining assets will be sold in an effort to repay its obligations to unsecured creditors to the extent possible.

B - SETTLEMENT AGREEMENT WITH FINOVA

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 owed 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 sale of Paaco. 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. Stemming from these events, the Company determined that certain of its assets were impaired, and as of October 31, 2001 wrote-down the value of Smart Choice and Florida Finance Group finance receivables, property and equipment and goodwill by an aggregate $16.2 million, and deferred tax assets by $13.7 million. On December 12, 2001 Finova exercised its option to purchase Paaco subject to certain conditions. If the sale of Paaco is closed as expected, Smart Choice's remaining assets would 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. Assuming the sale of Paaco, management presently anticipates that Smart Choice's remaining assets will likely be sold by Smart Choice in an effort to realize the maximum value for these assets and repay its obligations to unsecured creditors to the extent possible.

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 six month period ended October 31, 2001 are not indicative of the results that will be reported for the year ended April 30, 2002 as the Company is in the process of winding-down its Florida Finance Group operation and is expected to sell Paaco to Finova. 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.

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. Presented below is a reconciliation of reported net income (loss) and per share amounts to adjusted net income (loss) and per share amounts for the three and six months ended October 31, 2001 and 2000 to adjust for the amortization of intangible assets for periods prior to the adoption of SFAS 142 on May 1, 2001 (in thousands, except per share amounts). The reconciliation presents the Company's results of operations for periods prior to the adoption of SFAS 142 on a basis comparable with periods since the adoption of SFAS 142 as discussed in Note B, goodwill was written-off as of October 31, 2001.

	Net Income (Loss)				Diluted
	Three Months Ended October 31,		Six Months Ended October 31,		Three Months October 31
	2001	2000	2001	2000	2001
As reported	$(33,114)	$ 832	$(34,841)	$ 2,235	$ (3.39)
Add back goodwill amort.		61		123	
As adjusted	$(33,114)	$ 893	$(34,841)	$ 2,358	$ (3.39)

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 financial position or results of operations of the Company.

Reclassifications

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

D - FINANCE RECEIVABLES

The components of finance receivables as of October 31, 2001 and April 30, 2001 are as follows:

	October 31, 2001	Ap
Finance receivables	$ 187,461,456	$

Unearned finance charges	(19,327,228)	
Allowance for credit losses	(33,450,154)	
Valuation allowance - Florida Finance Group	(11,922,721)	
Purchase discounts	(321,482)	
	$ 122,439,871	$

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. As a result, a finance receivable valuation allowance of $11,922,721 was established as of October 31, 2001 to adjust such receivables to their net realizable value.

Changes in the finance receivables allowance for credit losses for the six months ended October 31, 2001 and 2000 are as follows:

	Six Months Ended October 31, 2001	2000
Balance at beginning of period	$ 36,991,295	$ 32,290,918
Provision for credit losses	21,040,583	22,038,412
Net charge-offs	(24,581,724)	(19,887,537)
Balance at end of period	$ 33,450,154	$ 34,441,793

E - PROPERTY AND EQUIPMENT

A summary of property and equipment as of October 31, 2001 and April 30, 2001 is as follows:

	October 31, 2001	April 3 2001
Land and buildings	$ 6,798,635	$ 6,811
Furniture, fixtures and equipment	3,532,479	5,053
Leasehold improvements	1,649,493	2,977
Less accumulated depreciation and amortization	(2,491,306)	(2,655
	$ 9,489,301	$ 12,186

For the six months ended October 31, 2001 and 2000 depreciation and amortization of property and equipment amounted to $845,485 and $650,883, respectively.

F - DEBT

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

Revolving Credit Facilities

Borrower	Lender	Facility Amount	Interest Rate	Maturity	October
Florida Fin. Grp	Finova	$ 98 million	Prime + 2.25%	Nov 2001	$
Paaco	Finova	$ 62 million	Prime + 2.00%	Nov 2001	
					$ 1

Other Borrowings

Borrower	Lender	Facility Amount	Interest Rate	Maturity	October
Smart Choice	Huntington	N/A	Prime + .75%	Oct 2001	$
Smart Choice	High Capital et al	N/A	10.0%	Nov 2001	
Florida Fin. Grp	Individuals	N/A	Various	Various	
Florida Fin. Grp	Leasing companies	N/A	Various	Various	
Paaco	Crown Group	N/A	8.50%	Mar 2002	
Paaco	Individual	N/A	9.50%	May 2002	
Paaco	Washington Mutual	N/A	8.50%	May 2003	
Paaco	Heller Financial	N/A	Prime + 2.25%	Dec 2015	
Various	Various	N/A	Various	Various	
					$

As discussed in Note B, as of October 31, 2001 the Florida Finance Group and Paaco were in violation of certain provisions of their loan agreements with Finova. As a result, and taking into consideration certain other conditions, on November 8, 2001 Smart Choice, Paaco and the Florida Finance Group entered into a forbearance agreement with Finova. 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 owed Finova

$33.4 million.

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. However, the Company does not presently expect that Finova will seek to foreclose upon its collateral (principally receivables and inventory), but rather will allow Paaco to operate at or near its present borrowing level.

In addition, at October 31, 2001, Smart Choice and the Florida Finance Group were in violation of the terms of certain agreements with respect to their other borrowings.

G - EARNINGS (LOSS) PER SHARE

A summary reconciliation of basic earnings (loss) per share to diluted earnings (loss) per share for the six months ended October 31, 2001 and 2000 is as follows:

	Three Months Ended October 31,		Six Months En October 31,	
	2001	2000	2001	
Net income (loss)	$(33,113,602)	$ 831,897	$(34,840,975)	$
Average shares outstanding-basic	9,762,270	9,814,000	9,762,270	
Dilutive options	--	--	--	
Average shares outstanding-diluted	9,762,270	9,814,000	9,762,270	
Earnings (loss) per share:				
Basic	$ (3.39)	$ .08	$ (3.57)	$
Diluted	$ (3.39)	$ .08	$ (3.57)	$
Antidilutive securities not included:				
Options and warrants	426,021	404,686	426,021	

H - COMMITMENTS AND CONTINGENCIES

Smart Choice Class Action Lawsuit

In March 1999 certain shareholders of Smart Choice filed two putative class action lawsuits against Smart Choice and certain of Smart Choice's officers and directors in the United States District Court for the Middle District of Florida (collectively, the "Securities Actions"). The Securities Actions purport to be brought by plaintiffs in their individual capacity and on behalf of the class of persons who purchased or otherwise acquired Smart Choice publicly traded securities between April 15, 1998 and February 26, 1999. These lawsuits were filed following Smart Choice's announcement on February 26, 1999 that a preliminary determination had been reached that the net income it had announced on February 10, 1999 for the fiscal year ended December 31, 1998 was likely overstated in a material, undetermined amount. Each of the complaints assert claims for violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 of the Securities and Exchange Commission as well as a claim for the violation of Section 20(a) of the Exchange Act. The plaintiffs allege that the defendants prepared and issued deceptive and materially false and misleading statements to the public, which caused the plaintiffs to purchase Smart Choice securities at artificially inflated prices. In April 2001 Smart Choice and the plaintiffs' representatives executed an agreement requiring Smart Choice to pay $2.5 million in full settlement of the above described actions. All of the $2.5 million settlement amount was funded by Smart Choice's insurance carrier. In September 2001, the settlement agreement was approved by the Court, the funds were disbursed and the lawsuits were dismissed with prejudice.

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

Supplemental cash flow disclosures for the six months ended October 31, 2001 and 2000 are as follows:

	Six Months Ended October 31, 2001	Six Months Ended October 31, 2000
Interest paid	$ 6,727,530	$ 8,534,840
Income taxes paid (refunded)	(362,143)	2,070,000

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J - BUSINESS SEGMENTS

Operating results and other financial data are presented for the two business segments of the Company (the Florida Finance Group and Paaco) for the three and six months ended October 31, 2001 and 2000. These segments are categorized by legal entity and geographical location, which is how management organizes the segments for making operating decisions and assessing performance. Smart Choice's corporate operations, which are based in Florida, are included in the Florida Finance Group's operations. Each of the Florida Finance Group and Paaco sell and finance used vehicles. The Florida Finance Group operates in central Florida and Paaco operates in Texas (principally in the cities of Dallas and Houston). As discussed in Note B, on November 9, 2001 the Florida Finance Group began to wind-down its operations. The Company's business segment data is as follows (in thousands):

	Three Months Ended October 31, 2001	Three Months End
	Florida	Flo

	Paaco	Fin. Grp.	Consol	Paaco	Fin
Revenues:					
Sales and other	$ 24,217	$ 10,190	$ 34,407	$ 26,152	$
Interest income	4,611	4,190	8,801	3,977	
Total	28,828	14,380	43,208	30,129	
Costs and expenses:					
Cost of sales	15,550	6,397	21,947	17,053	
Selling, gen. and admin	7,091	3,964	11,055	5,725	
Prov. for credit losses	3,511	6,477	9,988	3,694	
Interest expense	1,385	2,045	3,430	1,941	
Depreciation and amort.	215	215	430	134	
Write-down of assets		16,233	16,233		
Total	27,752	35,331	63,083	28,547	
Income (loss) before taxes	$ 1,076	$ (20,951)	$ (19,875)	$ 1,582	$
Capital expenditures	$ 47	$ 120	$ 167	$ 354	$
Total assets	$ 89,132	$ 61,090	$ 150,222	$ 90,219	$ 1

	Six Months Ended October 31, 2001			Six Months Ended	
	Paaco	Florida Fin. Grp.	Consol	Paaco	Flo Fin
Revenues:					
Sales and other	$ 49,584	$ 21,696	$ 71,280	$ 51,248	$
Interest income	9,359	9,089	18,448	7,804	
Total	58,943	30,785	89,728	59,052	
Costs and expenses:					
Cost of sales	31,822	13,305	45,127	32,490	
Selling, gen. and admin	13,819	8,014	21,833	11,000	
Prov. for credit losses	7,331	13,709	21,040	8,442	
Interest expense	2,887	4,243	7,130	3,676	
Depreciation and amort.	417	428	845	260	
Write-down of assets			16,233	16,233	
Total	56,276	55,932	112,208	55,868	
Income (loss) before taxes	$ 2,667	$ (25,147)	$ (22,480)	$ 3,184	$
Capital expenditures	$ 156	$ 281	$ 437	$ 879	$

Total assets	$ 89,132	$ 61,090	$ 150,222	$ 90,219	$ 1

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, forward-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") is 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 October 31, 2001 the Florida Finance Group operated 13 used car dealerships in central Florida while Paaco operated 12 used car dealerships in Texas (principally in the cities of Dallas and Houston).

As discussed in Note B to the accompanying consolidated financial statements, 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, the closing of which is subject to certain conditions. If the sale of Paaco closes as expected, Smart Choice will no longer have any operations of substance, and it is anticipated that its remaining assets will be sold in an effort to repay its obligations to unsecured creditors to the extent possible.

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Operating results and other financial data are presented for the two business segments of the Company (the Florida Finance Group and Paaco) for the three and six months ended October 31, 2001 and 2000. These segments are categorized by legal entity and geographical location, which is how management organizes the segments for making operating decisions and assessing performance. Smart Choice's corporate operations, which are based in Florida, are included in the Florida Finance Group's operations. Each of the Florida Finance Group and Paaco sell and finance used vehicles. The Florida Finance Group operates in central Florida and Paaco operates in Texas (principally in the cities of Dallas and Houston). The Company's business segment data is as follows (in thousands):

CONSOLIDATED
(In Thousands)

	Revenues				Pretax I	
	Three Months Ended October 31,		Six Months Ended October 31,		Three Months Ended October 31,	
	2001	2000	2001	2000	2001	2000
Paaco	$ 28,828	$ 30,129	$ 58,943	$ 59,052	$ 1,076	$ 1,582
FFG	14,380	29,217	30,785	53,687	(20,951)	(226)
Consolidated	$ 43,208	$ 59,346	$ 89,728	$112,739	$(19,875)	$ 1,356

THREE MONTHS ENDED OCTOBER 31, 2001 VS. THREE MONTHS ENDED OCTOBER 31, 2000

Revenues decreased $16.1 million, or 27.2%, for the three months ended October 31, 2001 as compared to the same period in the prior fiscal year. The decrease was principally the result of (i) a 39.0% decrease in the number of vehicles sold, and (ii) a 32.6% decrease in the average sales price per retail vehicle sold at the Florida Finance Group. Beginning in March 2001 the Florida Finance Group changed its underwriting practices in an effort to reduce credit losses. The changes in its underwriting practices resulted in fewer individuals being approved for credit, which resulted in a lower number of vehicles sold.

Smart Choice reported a pretax loss of $19.9 million for the three months ended October 31, 2001 as compared to $1.4 million pretax income for the same period in the prior fiscal year. The $21.2 million decrease is principally the result of a $16.2 million write-down of assets and higher costs and expenses as a percentage of sales at the Florida Finance Group. The $16.2 million write-down pertains to certain Smart Choice and Florida Finance Group assets (finance receivables, property and equipment and goodwill) that were deemed to be impaired in connection with the foreclosure by Finova of certain Florida Finance Group assets and the winding-down of the Florida Finance Group's operations (see Note B to the accompanying consolidated financial statements). In addition, the Florida Finance Group's provision for credit loss and selling, general and administrative expenses have not decreased proportionately with its 50.8% decrease in revenues.

SIX MONTHS ENDED OCTOBER 31, 2001 VS. SIX MONTHS ENDED OCTOBER 31, 2000

Revenues decreased $23.0 million, or 20.4%, for the six months ended October 31, 2001 as compared to the same period in the prior fiscal year. The decrease was principally the result of (i) a 32.9% decrease in the number of vehicles sold, and (ii) a 26.3% decrease in the average sales price per retail vehicle sold at the Florida Finance Group. Beginning in March 2001 the Florida Finance Group changed its underwriting practices in an effort to reduce credit losses. The changes in its underwriting practices resulted in fewer individuals being approved for credit, which resulted in a lower number of vehicles sold.

Smart Choice reported a pretax loss of $22.5 million for the six months ended October 31, 2001 as compared to $3.6 million pretax income for the same period in the prior fiscal year. The $26.1 million decrease is principally the result of a $16.2 million write-down of assets and higher costs and expenses as a percentage of sales at the Florida Finance Group. The $16.2 million write-down pertains to certain Smart Choice and Florida Finance Group assets (finance receivables, property and equipment and goodwill) that were deemed to be impaired in connection with the foreclosure by Finova of certain Florida Finance Group assets and the winding-down of the Florida Finance Group's operations (see Note B to the accompanying consolidated financial statements). In addition, the Florida Finance Group's provision for credit loss and selling, general and administrative expenses have not decreased proportionately with its 42.7% decrease in revenues.

PAACO
(Dollars in Thousands)

	Three Months Ended October 31,		% Change	As a % of Sales and	
	2001	2000	2001 vs 2000	Three Months Ended October 31, 2001	2
Revenues:					
Sales and other	$ 24,217	$ 26,152	(7.4)%	100.0%	
Interest income	4,611	3,977	15.9	19.0	
Total	28,828	30,129	(4.3)	119.0	
Costs and expenses:					
Cost of sales	15,550	17,053	(8.8)	64.2	
Selling, gen and admin	7,091	5,725	23.9	29.3	
Prov. for credit losses	3,511	3,694	(5.0)	14.5	

Interest expense	1,385	1,941	(28.6)	5.7
Depreciation and amort.	215	134	60.4	.9
Total	27,752	28,547	(2.8)	114.6
Pretax income	$ 1,076	$ 1,582	(32.0)	4.4

THREE MONTHS ENDED OCTOBER 31, 2001 VS. THREE MONTHS ENDED OCTOBER 31, 2000

Revenues decreased $1.3 million, or 4.3%, for the three months ended October 31, 2001 as compared to the same period in the prior fiscal year. The decrease was principally the result of (i) a lower level of vehicle sales, partially offset by (ii) higher interest income. Unit sales decreased by 12.4% while the average price per vehicle sold increased by 5.0%. The decrease in unit sales was partially the result of decreasing the average number of stores in operation to 12 in the current fiscal period from 13 in the prior fiscal period. Interest income increased by 15.9% as a result of (i) a 7.8% increase in the average finance receivables balances outstanding, and (ii) a 7.5% increase in the average interest rate charged on Paaco's installment loans. Pretax income decreased $.5 million, or 32.0%, for the three months ended October 31, 2001 as compared to the same period in the prior fiscal year. The decrease was principally the result of (i) higher selling, general and administrative expenses ($1.3 million), partially offset by (ii) lower interest expense ($.6 million) as a result of a reduction in interest rates. Selling, general and administrative expenses increased as a result of higher payroll, employee benefit and service contract costs.

	Six Months Ended October 31, 2001	Six Months Ended October 31, 2000	% Change 2001 vs 2000	As a % of Sales and Six Months Ended October 31, 2001
Revenues:				
Sales and other	$ 49,584	$ 51,248	(3.2)%	100.0%
Interest income	9,359	7,804	19.9	18.9
Total	58,943	59,052	(.2)	118.9
Costs and expenses:				
Cost of sales	31,822	32,490	(2.1)	64.2
Selling, gen and admin	13,819	11,000	25.6	27.9
Prov. for credit losses	7,331	8,442	(13.2)	14.8
Interest expense	2,887	3,676	(21.5)	5.8
Depreciation and amort.	417	260	60.4	.8
Total	56,276	55,868	.7	113.5
Pretax income	$ 2,667	$ 3,184	(16.2)	5.4

SIX MONTHS ENDED OCTOBER 31, 2001 VS. SIX MONTHS ENDED OCTOBER 31, 2000

Revenues were virtually unchanged for the six months ended October 31, 2001 as compared to the same period in the prior fiscal year. A $1.7 million decrease in vehicle sales was offset by a $1.6 million increase in interest income. Unit sales decreased by 10.2% while the average price per vehicle sold increased by 7.4%. The decrease in unit sales was partially the result of decreasing the average number of stores in operation to 12 in the current fiscal period from 12.5 in the prior fiscal period. Interest income increased by 19.9% as a result of (i) a 11.1% increase in the average finance receivables balances outstanding, and (ii) an 8.0% increase in the average interest rate charged on Paaco's installment loans.

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Pretax income decreased $.5 million, or 16.2%, for the six months ended October 31, 2001 as compared to the same period in the prior fiscal year. The decrease was principally the result of (i) higher selling, general and administrative expenses ($2.8 million), partially offset by (ii) a lower provision for credit losses ($1.1 million), and (iii) lower interest expense ($.8 million) as a result of a reduction in interest rates. Selling, general and administrative expenses increased as a result of higher payroll, employee benefit, insurance and service contract costs.

FLORIDA FINANCE GROUP
(Dollars in Thousands)

	Three Months Ended October 31,		% Change	As a % of Sales and
	2001	2000	2001 vs 2000	Three Months End October 31, 2001
Revenues:				
Sales and other	$ 10,190	$ 23,669	(56.9)%	100.0%
Interest income	4,190	5,548	(24.5)	41.1
Total	14,380	29,217	(50.8)	141.1
Costs and expenses:				
Cost of sales	6,397	13,702	(53.3)	62.8
Selling, gen and admin	3,964	5,130	(22.7)	38.9
Prov. for credit losses	6,477	7,752	(16.4)	63.6
Interest expense	2,045	2,598	(21.3)	20.1
Depreciation and amort.	215	261	(17.6)	2.1
Write-down of assets	16,233		NM	NM
Total	35,331	29,443	NM	NM
Pretax loss	$ (20,951)	$.(226)	NM	NM

NM - Not meaningful

THREE MONTHS ENDED OCTOBER 31, 2001 VS. THREE MONTHS ENDED OCTOBER 31, 2000

Revenues decreased $14.8 million, or 50.8%, for the three months ended October 31, 2001 as compared to the same period in the prior fiscal year. The decrease was principally the result of (i) a 39.0% decrease in the number of vehicles sold, and (ii) a 32.6% decrease in the average sales price per retail vehicle sold. Beginning in March 2001 the Florida Finance Group changed its underwriting practices in an effort to reduce credit losses. The changes in its underwriting practices resulted in fewer individuals being approved for credit, which resulted in a lower number of vehicles sold.

Pretax loss increased to $21.0 million for the three months ended October 31, 2001 from $.2 million for the same period in the prior fiscal year, an increase of $20.7 million. The increase was principally the result of (i) writing-down certain assets in the current fiscal period ($16.2 million), and (ii) higher cost of sales, provision for credit losses, and selling, general and administrative expenses as a percentage of sales and other in the current fiscal period as compared to the prior fiscal period ($5.4 million). The $16.2 write-down pertains to certain assets (finance receivables, property and equipment and goodwill) that were deemed to be impaired in connection with the foreclosure by Finova of certain Florida Finance Group assets and the winding-down of the Florida Finance Group's operations (see Note B to the accompanying consolidated financial statements).

The Florida Finance Group believes that changes in the structure of its installment sales contracts and inventory mix beginning in May 2000 and continuing into February 2001 may have contributed to the increase in credit losses during the three months ended October 31, 2001. In particular, during the May 2000 to February 2001 period the Florida Finance Group sold a higher priced vehicle and shortened the term of its installment sales contracts. These actions increased the average monthly payment on its contracts to a level which may have made it difficult for certain customers to remain current in their payments. Many of the accounts charged-off and vehicles repossessed during the three months ended October 31, 2001 pertain to loans originated between May 2000 and February 2001. In an effort to reduce credit losses, in March 2001 the Florida Finance Group began selling lower priced vehicles and reduced the average interest rate charged on its loans, which has decreased the average monthly payment required on its contracts.

	Six Months Ended October 31, 2001	Six Months Ended October 31, 2000	% Change 2001 vs 2000	As a % of Sales an Six Months Ende October 31, 2001
Revenues:				
Sales and other	$ 21,696	$ 42,593	(49.1)%	100.0%
Interest income	9,089	11,094	(18.1)	41.9
Total	30,785	53,687	(42.7)	141.9
Costs and expenses:				
Cost of sales	13,305	24,453	(45.6)	61.3
Selling, gen and admin	8,014	9,659	(17.0)	36.9

Prov. for credit losses	13,709	13,596	.8	63.2	
Interest expense	4,243	5,061	(16.2)	19.6	
Depreciation and amort.	428	514	(16.7)	2.0	
Write-down of assets	16,233		NM	NM	
Total	55,932	53,283	NM	NM	
Pretax income (loss)	$ (25,147)	$ 404	NM	NM	

NM - Not meaningful

SIX MONTHS ENDED OCTOBER 31, 2001 VS. SIX MONTHS ENDED OCTOBER 31, 2000

Revenues decreased $22.9 million, or 42.7%, for the six months ended October 31, 2001 as compared to the same period in the prior fiscal year. The decrease was principally the result of (i) a 32.9% decrease in the number of vehicles sold, and (ii) a 26.3% decrease in the average sales price per retail vehicle sold. Beginning in March 2001 the Florida Finance Group changed its underwriting practices in an effort to reduce credit losses. The changes in its underwriting practices resulted in fewer individuals being approved for credit, which resulted in a lower number of vehicles sold.

The Florida Finance Group reported a pretax loss of $25.1 million for the six months ended October 31, 2001 as compared to $.4 million pretax income for the same period in the prior fiscal year. The $25.6 million decrease is principally the result of (i) writing-down certain assets in the current fiscal period ($16.2 million), and (ii) higher cost of sales, provision for credit losses, and selling, general and administrative expenses as a percentage of sales and other in the current fiscal period as compared to the prior fiscal period ($10.7 million). The $16.2 write-down pertains to certain assets (finance receivables, property and equipment and goodwill) that were deemed to be impaired in connection with the foreclosure by Finova of certain Florida Finance Group assets and the winding-down of the Florida Finance Group's operations (see Note B to the accompanying consolidated financial statements).

The Florida Finance Group believes that changes in the structure of its installment sales contracts and inventory mix beginning in May 2000 and continuing into February 2001 may have contributed to the increase in credit losses during the six months ended October 31, 2001. In particular, during the May 2000 to February 2001 period the Florida Finance Group sold a higher priced vehicle and shortened the term of its installment sales contracts. These actions increased the average monthly payment on its contracts to a level which may have made it difficult for certain customers to remain current in their payments. Many of the accounts charged-off and vehicles repossessed during the six months ended October 31, 2001 pertain to loans originated between May 2000 and February 2001. In an effort to reduce credit losses, in March 2001 the Florida Finance Group began selling lower priced vehicles and reduced the average interest rate charged on its loans, which has decreased the average monthly payment required on its contracts.

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LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $5.2 million for the six months ended October 31, 2001 as compared to a $15.0 million use of cash for the same period in the prior fiscal year. The $20.2 million increase was principally the result of (i) the net finance receivables portfolio increasing by $14.1 million in the prior fiscal period as compared to a decrease of $15.3 million in the current fiscal period, (ii) a $16.2 million write-down of assets and (iii) a $12.2 million decrease in deferred tax assets, partially offset by (iv) a $37.1 million decrease in net income. Net cash used in investing activities was $.3 million for the six months ended October 31, 2001 as compared to $1.4 million in the same period in the prior fiscal year. The $1.1 million decrease was principally the result of a decrease in the purchase of property and equipment. Net cash used by financing activities was $1.6 million for the six months ended October 31, 2001 as compared to a $15.1 million source of cash for the same period in the prior fiscal year. The $16.7 million decrease was principally the result of the prior period including an increase in borrowings from revolving credit facilities of $15.9 million.

PAACO

Paaco's sources of liquidity principally include cash on hand ($1.9 million at October 31, 2001) and cash generated from operations. Paaco has a $62.0 million revolving credit facility with Finova, of which $59.1 million was outstanding at October 31, 2001. However, as of October 31, 2001, Paaco's revolving credit facility with Finova was in default, and, as a result, on November 8, 2001 Finova accelerated the maturity of the credit facility such that the entire balance is currently due and payable. However, the Company does not presently expect that Finova will seek to foreclose upon its collateral (principally receivables and inventory), but rather will allow Paaco to operate at or near its present borrowing level.

It is unlikely that Paaco could refinance such facility with a new lender since Paaco's advance rate (ie. 70% of eligible receivables and inventory) is believed to be above market. Accordingly, for the foreseeable future, Paaco's ability to expand its operations may be limited as a result of a shortage of additional capital. Consequently, Paaco anticipates operating its business at sales and asset levels consistent with its recent past, and not substantially expanding its operations.

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 owed 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 sale of Paaco. 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. Stemming from these events, the Company determined that certain of its assets were impaired, and as of October 31, 2001 wrote-down the value of Smart Choice and Florida Finance Group finance receivables, property and equipment and goodwill by an aggregate $16.2 million, and deferred tax assets by $13.7 million. On December 12, 2001 Finova exercised its option to purchase Paaco subject to certain conditions. If the sale of Paaco is closed as expected, Smart Choice's remaining assets would 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. Assuming the sale of Paaco, management presently anticipates that Smart Choice's remaining assets will likely be sold by Smart Choice in an effort to realize the maximum value for these assets and repay its obligations to unsecured creditors 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.

SEASONALITY

The Company's automobile sales and finance business is seasonal in nature. In such business, the Company's third fiscal quarter (November through January) is historically the slowest period for car and truck sales. Many of the Company's operating expenses such as administrative personnel, rent and insurance are fixed and cannot be reduced during periods of decreased sales. Conversely, the Company's fourth fiscal quarter (February through April) is historically the busiest time for car and truck sales as many of the Company's customers use income tax refunds as a down payment on the purchase of a vehicle.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk on its financial instruments from changes in interest rates. The Company does not use financial instruments for trading purposes or to manage interest rate risk. The Company's earnings are impacted by its net interest income, which is the difference between the income earned on interest-bearing assets and the interest paid on interest bearing notes payable. 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. The Company's finance receivables generally bear interest at fixed rates ranging from 12% to 26%. These finance receivables have remaining maturities from one to 36 months. At October 31, 2001 the majority of the Company's notes payable contained variable interest rates that fluctuate with market rates. Therefore, an increase in market interest rates would decrease the Company's net interest income and profitability.

The table below illustrates the impact which hypothetical changes in market interest rates could have on the Company's pretax earnings. The calculations assume (i) the increase or decrease in market interest rates remains in effect for twelve months, (ii) the amount of variable rate notes payable outstanding during the period decreases in direct proportion to decreases in finance receivables as a result of scheduled payments and anticipated charge-offs, and (iii) there is no change in prepayment rates as a result of the interest rate changes.

Change in Interest Rates	Change in Pretax Earnings (in thousands)
+2%	$ (768)
+1%	(384)
-1%	384
-2%	768

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 owed 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 sale of Paaco. 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. Stemming from these events, the Company determined that certain of its assets were impaired, and as of October 31, 2001 wrote-down the value of Smart Choice and Florida Finance Group finance receivables, property and equipment and goodwill by an aggregate $16.2 million, and deferred tax assets by $13.7 million. On December 12, 2001 Finova exercised its option to purchase Paaco subject to certain conditions. If the sale of Paaco is closed as expected, Smart Choice's remaining assets would 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. Assuming the sale of Paaco, management presently anticipates that Smart Choice's remaining assets will likely be sold by Smart Choice in an effort to realize the maximum value for these assets and repay its obligations to unsecured creditors to the extent possible.

As of October 31, 2001, 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. However, the Company does not presently expect that Finova will seek to foreclose upon its collateral (principally receivables and inventory), but rather will allow Paaco to operate at or near its present borrowing level.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

None.

(b) Reports on Form 8-K:

During the fiscal quarter ended October 31, 2001 no reports on Form 8-K were filed.

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: December 20, 2001