

NowAuto Group, Inc.  
Form 10-Q  
November 16, 2007

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

FORM 10-Q

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

For the fiscal quarter ended:  
September 30, 2007

Commission file number:  
000-50709

NOWAUTO GROUP, INC.

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(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction  
of incorporation)

77-0594821  
(I.R.S. Employer  
Identification No.)

2090 East University, Suite 112, Tempe, Arizona 85281

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(address of principal executive offices, including zip code)

(480) 990-0007

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(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports 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  NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  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 September 30, 2007 |
|---|-----------------------------------|
| Common Stock, par value \$0.001 per share | 9,843,046                         |

**NowAuto Group, Inc**  
**Consolidated Condensed Balance Sheets**

Assets

|  | September 30,<br>2007<br>Unaudited | June 30,<br>2007<br>Audited |
|--|------------------------------------|-----------------------------|
|--|------------------------------------|-----------------------------|

Current Assets

|                            |           |           |
|----------------------------|-----------|-----------|
| Cash                       | 29,323    | 37,454    |
| Accounts Receivable - Net  | 2,337,621 | 2,325,893 |
| Inventory                  | 653,051   | 530,056   |
| Prepaid Expenses           | 63,067    | 71,233    |
|                            | 3,083,061 | 2,964,635 |
| Long Term Notes Receivable | 3,091,665 | 3,119,020 |
| Equipment - Net            | 88,792    | 89,528    |
| Goodwill                   | 714,179   | 714,179   |
|                            | 6,977,698 | 6,887,363 |

Liabilities and Stockholders' Equity

Current Liabilities

|                           |           |           |
|---------------------------|-----------|-----------|
| Accounts Payable          | 314,243   | 327,848   |
| Taxes Payable             | 44,853    | 149,474   |
| Line of Credit            | 1,897,712 | 1,897,744 |
| Accrued Payroll           | 35,167    | 49,282    |
| Deferred Revenue          | 409,898   | 80,593    |
| Other Loans               | 223,195   | 285,795   |
| Total Current Liabilities | 2,925,067 | 2,790,737 |

Long Term Notes Payable

|            |         |         |
|------------|---------|---------|
| Commitment | 137,859 | 137,859 |
|------------|---------|---------|

Total Liabilities

|  |           |           |
|--|-----------|-----------|
|  | 7,250,383 | 6,668,612 |
|--|-----------|-----------|

Stockholders' Equity

Common Stock, authorized

100,000,000 shares, \$0.001 par value;

Issued and outstanding

June 30, 2006 - 8,157,661 shares;

|                                   |       |       |
|-----------------------------------|-------|-------|
| June 30, 2007 - 9,843,046 shares; | 9,843 | 9,843 |
|-----------------------------------|-------|-------|

Paid in Capital

|  |           |           |
|--|-----------|-----------|
|  | 4,565,631 | 4,565,631 |
|--|-----------|-----------|

Retained Earnings/(Deficit)

|  |             |             |
|--|-------------|-------------|
|  | (4,848,159) | (4,356,721) |
|--|-------------|-------------|

|                            |           |           |
|----------------------------|-----------|-----------|
| Total Stockholder's Equity | (272,685) | 218,752   |
|                            | 6,977,698 | 6,887,363 |

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**NowAuto Group, Inc**

## Consolidated Condensed Statements of Operations

|                             | Three Months<br>Ended<br>September 30,<br>2007<br>Unaudited | Three Months<br>Ended<br>September 30,<br>2006<br>Unaudited |
|-----------------------------|---|---|
| Income                      |   |   |
| Vehicle & Finance Income    | 1,086,539   | 1,729,130   |
| Cost of Goods Sold          | 583,500   | 945,858   |
| Gross Profit/Loss           | 503,039   | 783,271   |
| Gross Margin                | 46.3%   | 45.3%   |
| Expenses                    |   |   |
| Selling and Financing Costs | 536,210   | 196,834   |
| General and Administrative  | 458,266   | 439,566   |
| Write off of Reserves       |   |   |
| Impairment of Goodwill      | 0   | 0   |
| Profit before Income Taxes  | (491,439)   | 146,871   |
| Provision for Income Tax    |   |   |
| NOL Carry Forward           |   |   |
| Net Income (Loss)           | (491,439)   | 146,871   |
| Earnings Per Share          | (0.05)  | 0.02  |
| Shares O/S                  | 9,843,046   | 9,789,677   |

NowAuto Group, Inc  
Consolidated Stockholders' Equity

|                                     | Shares    | Amount | Paid in<br>Capital | Subscriptions<br>Receivable | Accumulated<br>Deficit | Total<br>Equity |
|-------------------------------------|-----------|--------|--------------------|-----------------------------|------------------------|-----------------|
| Balance June 30, 2005               | 8,157,662 | 8,157  | 3,523,116          | 0                           | (1,628,393)            | 1,902,880       |
| Stock Scribed                       |           |        |                    | 1,005,500                   |                        | 1,005,500       |
| Purchase of Global-E<br>Investments | 1,550,000 | 1,550  | (1,550)            |                             |                        | 0               |
| Stock for services                  | 50,000    | 50     | 24,950             |                             |                        | 25,000          |
| Stock for services                  | 20,000    | 20     | 5,180              |                             |                        | 5,200           |
| Common shares issued<br>for cash    | 26,923    |        | 3,500              |                             |                        | 3,500           |
| Common shares issued<br>for cash    | 38,461    |        | 5,000              |                             |                        | 5,000           |
| Net (Loss)                          |           |        | 1,005,500          | (1,005,500)                 | (441,926)              | (441,926)       |
| Balance, June 30, 2006              | 9,843,046 | 9,777  | 4,565,696          | 0                           | (2,070,319)            | 2,505,154       |
| Net Income (Loss)                   |           |        |                    |                             | (2,286,402)            | (2,286,402)     |
| Balance June 30, 2007               | 9,843,046 | 9,777  | 4,565,696          | 0                           | (4,356,721)            | 218,752         |
| Net Income (Loss)                   |           |        |                    |                             | (491,438)              | (491,438)       |
| Balance September 30,<br>2007       | 9,843,046 | 9,777  | 4,565,696          | 0                           | (4,848,159)            | (272,685)       |

NowAuto Group, Inc  
Consolidated Statements of Cash Flows

|   | Three Months<br>Ended<br>September 30,<br>2007<br>Unaudited | Three Months<br>Ended<br>September 30,<br>2006<br>Unaudited |
|---|---|---|
| <b>Operating Activities</b>   |   |   |
| Net Income (Loss)   | (491,439)   | 146,871   |
| <b>Adjustments to reconcile Net Income(Loss) to Net Cash<br/>used in Operating Activities</b> |   |   |
| <b>Significant Non-Cash Transactions</b>  |   |   |
| Depreciation/Amortization Expense   | 2,681   | 6,627   |
| <b>Changes in assets and liabilities</b>  |   |   |
| (Increase)/Decrease in Receivables  | (14,827)  | (579,685)   |
| (Increase)/Decrease in Inventory  | (122,465)   | (222,334)   |
| (Increase)/Decrease in Other Current Assets   | 8,166   | (16,017)  |
| (Decrease)/Increase in Accounts Payable   | (11,037)  | (138,942)   |
| (Decrease)/Increase in Other Liabilities  | 147,936   | (77,017)  |
| Net Cash (Used) by Operating Activities   | (480,985)   | (880,497)   |
| <b>Investing Activities</b>   |   |   |
| (Increase)/Decrease in Purchase of Fixed Assets   | (1,945)   | (59,343)  |
| (Increase)/Decrease in Long Term Notes Receivable   | 27,355  | (105,483)   |
| Disposal of Assets  |   | 93,650  |
| (Increase)/Decrease in Impairment of Goodwill   |   |   |
|   | 25,410  | (71,176)  |
| <b>Financing Activities</b>   |   |   |
| (Decrease)/Increase in Bank loan  | 447,442   | 955,066   |
|   | 447,442   | 955,066   |
| Net Increase/(Decrease) in Cash   | (8,132)   | 3,393   |
| Cash, Beginning of Period   | 37,454  | 27,433  |
|   | 29,322  | 30,826  |
| <b>Supplemental Information:</b>  |   |   |
| Period interest   | 216,071   | 79,445  |

|                   |   |   |
|-------------------|---|---|
| Income Taxes paid | 0 | 0 |
|-------------------|---|---|

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## **Note 1. ORGANIZATION AND BUSINESS**

NowAuto, Inc. (the Company) was organized in the state of Nevada on August 19, 1998 under the name WH Holdings, Inc. On June 8, 2004 the name was changed to Automotive Capital Group, Inc and the Company increased its authorized common stock. On August 31, 2004 the name was changed to NowAuto, Inc.

The Company focuses mainly on the "Buy Here/Pay Here" segment of the used car market. The Company primarily sells 1999 and newer model year used vehicles. Many of the Company's customers have limited financial resources and would not qualify for conventional financing as a result of limited credit histories or past credit problems. As of December 31, 2006, the Company had four operating lots located in metropolitan Phoenix and Tucson, Arizona. The Company also has a wholly owned subsidiary, Navicom GPS, Inc., which markets GPS tracking units.

On July 21, 2005 the Company was purchased by Global-E Investments, Inc. Since Global-E was a non-operating company, this purchase was accounted for as a recapitalization stock exchange reverse acquisition. This means that for legal purposes the continuing entity is Global-E Investments, Inc. and for historically accounting purposes the accounting records of Now Auto will be shown. Global-E Investments has changed its name to NowAuto Group, Inc.

## **Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### Principles of Consolidation

The consolidated financial statements include the accounts of NowAuto Group, Inc. and its subsidiary. All significant inter-company accounts and transactions have been eliminated. The Company operates on a June 30 fiscal year.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

### Concentration of Risk

The Company provides financing in connection with the sale of substantially all of its vehicles. Periodically, the Company maintains cash in financial institutions in excess of the amounts insured by the federal government.

### Cash Equivalents

The Company considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

The Company originates installment sale contracts from the sale of used vehicles at its dealerships. Finance receivables are collateralized by vehicles sold and consist of contractually scheduled payments from installment contracts.

### Used Car Inventory

Inventory consists of used vehicles and is valued at the lower of cost or market on a specific identification basis. Vehicle reconditioning costs are capitalized as a component of inventory. Repossessed vehicles are recorded at fair



value, which approximates wholesale value. The cost of used vehicles sold is determined using the specific identification method.

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Equipment

Property and equipment are stated at cost. Expenditures for additions, renewals and improvements are capitalized. Costs of repairs and maintenance are expensed as incurred. Leasehold improvements are amortized over the shorter of the estimated life of the improvement or the lease period. The lease period includes the primary lease term plus any extensions that are reasonably assured. Depreciation is computed principally using the straight-line method generally over the following estimated useful lives:

|                                   |         |
|-----------------------------------|---------|
| Furniture, fixtures and equipment | 3 to 7  |
| Leasehold improvements            | 5 to 15 |
|                                   | years   |

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying values of the impaired assets exceed the fair value of such assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Sales Tax

The Company pays sales taxes to local and state governmental agencies on vehicles sold and leased. For sales contracts, calculations for sales taxes are made on an accrual basis. Vehicle repossessions are allowed as a deduction from taxable sales in the month of repossession. Customers often make their down payments in periodic increments over a period of four to six weeks. The Company does not report the sale for sales tax purposes until the down payments are fully paid. This is congruent with industry standard and complies with state tax codes. For lease agreements, sales tax is paid when funds are received from the customer. Therefore, leases are reported for sales tax purposes in the period the lease is signed. There is no allowable deduction for vehicle repossessions. The Company is current with its filings of reports. The Company does owe back sales taxes. Arrangements have been made with all taxing authorities and the Company is in full compliance with all of them.

Income Taxes

Income taxes are accounted for under the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates expected to apply in the years in which these temporary differences are expected to be recovered or settled.

Revenue Recognition

Revenues from the sale of used vehicles are recognized when the sales contract is signed, the customer has taken possession of the vehicle and, if applicable, financing has been approved.

Revenue from GPS units devices is recognized when a unit has been ordered and shipped. Revenue from access time purchased is recognized ratably over the term of the access contracts. Access terms can vary from one month to 36 months. A Deferred Revenue account is set up for any access time paid for but not yet earned.

Advertising Costs

Advertising costs are expensed as incurred and consist principally of radio, television and print media marketing costs. Advertising costs amounted to \$78,104 and \$15,856 for the quarters ended September 30, 2006 and 2007, respectively.

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Earnings per Share

Basic earnings per share are computed by dividing net income by the average number of common shares outstanding during the period. Diluted earnings per share takes into consideration the potentially dilutive effect of common stock equivalents, such as outstanding stock options and warrants, which if exercised or converted into common stock would then share in the earnings of the Company. In computing diluted earnings per share, the Company utilizes the treasury stock method and anti-dilutive securities are excluded.

Stock Option Plans

As of September 30, 2007 the Company had no employee stock ownership plan.

Repossession Accrual

The repossession accrual represents the amount of the loss expected to be experienced upon repossession of cars adjusted by the actual loss experienced. The Company believes that it is more profitable to keep the customer in the vehicle. Great effort was made to accomplish this goal. The company is currently reviewing these efforts for their effectiveness and revising the approach to be more proactive rather than reactive.

**Note 3. FINANCE AND ACCOUNTS RECEIVABLES - NET**Financed Contract Receivable-net

The Company originates installment sale contracts from the sale of used vehicles at its lots. These installment sale contracts typically a) include interest rates of 29.99% per annum, b) are collateralized by the vehicle sold and c) provide for payments over a period of 36 months. At June 30, 2005, the Company was not holding any of its own contracts. As of September 30, 2007 the Company was holding financed contracts. These are shown below.

|                                 | September 30,<br>2006 | September 30,<br>2007 |
|---------------------------------|-----------------------|-----------------------|
| Financed Contracts Receivable   | \$ 4,153,493          | \$ 4,560,667          |
| Allowance for doubtful accounts | (47,213)              | (33,493)              |
| Financed Contracts-net          | \$ 4,106,280          | \$ 4,427,174          |

During the Quarter ending June 30, 2007, the Company began leasing as well as selling vehicles. This has two immediate advantages. First, all sales tax on sale contracts is due and payable when the down payment is fully satisfied even though the cash flow generated from the sale is spread over approximately 36 months. Sales tax on leases is due only on monies received spreading the obligation evenly with the cash flow. Secondly, the vehicle is titled differently making it a little easier should the Company need to retake possession of the vehicle.

Accounting for leases is different though the results are very similar to sale contracts. The principle balance of sales contracts is recorded as Notes Receivable. The agreed sale price of the vehicle is the revenue recognized. According to Generally Accepted Accounting Principles (GAAP) as stated in SFAS No. 13, the Company recognizes its leases as sales-type capital leases. In this case, the total remaining payments plus residual value is recorded as Notes Receivable. Interest is recorded as Deferred Revenue and recognized as appropriate during the lease period. The present value of the annuity due on the monthly payment is the recognized revenue. This amount tends to be lower than the sales price. The cost of the vehicle minus the present value of the residual value is recognized as the cost of

sales. These differences will initially have a negative affect on gross margin. In the long term, it will increase the amount of interest income.

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**Note 4. PROPERTY AND EQUIPMENT**

A summary of equipment and accumulated depreciation as follows:

|                                   | September 30,<br>2006 | September 30,<br>2007 |
|-----------------------------------|-----------------------|-----------------------|
| Furniture, fixtures and Equipment | \$ 39,416             | \$ 39,713             |
| Leasehold improvements            | 55,884                | 56,989                |
| Computers & Software              | 12,292                | 17,712                |
| Less accumulated depreciation     | (13,769)              | (25,620)              |
| Net Equipment                     | \$ 93,823             | \$ 88,792             |

**Note 5. GOODWILL**

During the fiscal year ending June 30, 2005, the Company purchased the rights to three used car lots and its subsidiary Navicom Corporation. Details of these purchases are in a subsequent note. The Company performed an analysis of its booked Goodwill compared to the present value of projected future profits for the next five years. Based on that analysis the recorded Goodwill will hold its value. The recorded Goodwill on June 30, 2007 was as follows:

| <u>Quarter Ending September 30,</u> | 2007       | 2006       |
|-------------------------------------|------------|------------|
|                                     | \$ 714,179 | \$ 928,497 |

Impairment

In the quarter ending June 30, 2007, the Company decided to merge the Tucson lot with the Phoenix operations. This was the result of three things:

1. The Company has never been able to secure an adequate source of inventory in the Tucson area thus creating supply challenges. Inventory had to be acquired in Phoenix and transported to Tucson. The time, effort, and cost of doing this became a burden to the Company
2. Retaining qualified staff proved problematic resulting in higher than acceptable turnover especially at the management level.
3. Profits were unpredictable.

This created an impairment of goodwill in the amount of \$221,543.

**Note 6. INCOME TAXES**

The provision for income taxes for the fiscal quarters ended December 31, 2006 and 2005 were as follows below. A valuation account has been set up in the amount of the deferred asset.

| <u>Quarter ended September 30,</u>                                 | 2006 | 2007 |
|--|------|------|
| Provision for income taxes:  |      |      |
| Current taxes payable  | \$ 0 | \$ 0 |
| Change in the deferred tax asset<br>(net of the valuation account) | 0    | 0    |
| Total  | \$ 0 | \$ 0 |



**Note 7. STOCKHOLDERS' EQUITY**Common Stock

NowAuto, Inc. (the Company) was organized in the state of Nevada on August 19, 1998 under the name WH Holdings, Inc. On June 8, 2004 the name was changed to Automotive Capital Group, Inc and the Company increased its authorized common stock to 100,000,000 shares with a par value of \$0.001. On August 31, 2004 the name was changed to NowAuto, Inc.

On June 30, 2004, the Company had 14,984,544 shares outstanding. During the twelve months ended June 30, 2005 the Company issued an additional 21,490,995 issued for the purchase of new lots and services rendered. 13,333,333 shares were cancelled. In the period ending June 30, 2006 1,685,384 shares were issued for capital purchases and services rendered. No shares have been issued since that date.

**Note 8. COMPANY ACQUISITIONS**Navicom Corporation

On September 3, 2004 The Company issued 536,002 shares valued at \$214,401 to purchase Navicom Corporation. Listed below is the balance sheet of Navicom at the date of purchase:

Assets

|                      |           |               |
|----------------------|-----------|---------------|
| Cash                 | \$        | 1,689         |
| Accounts Receivable  |           | 26,223        |
| Furniture & Fixtures |           | 1,551         |
| <b>Total Assets</b>  | <b>\$</b> | <b>29,463</b> |

Liabilities and Stockholders Equity

|  |           |               |
|--|-----------|---------------|
| Accounts Payable                                 | \$        | 11,744        |
| Payroll  |           | 908           |
| Sales Tax Payable                                |           | 364           |
| Loan   |           | 15,000        |
| <b>Total Liabilities</b>                         |           | <b>28,016</b> |
| Net Equity                                       |           | 1,447         |
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$</b> | <b>29,463</b> |

NowAuto Mesa Car Lot

On October 18, 2004 the Company assumed the lease and lot operations of a used car lot located in Mesa, Arizona. The Company issued 430,126 shares of common stock valued at \$86,025 and \$412,003 accounts receivable in the form of auto financing contracts for a total purchase price of \$498,028.



*NowAuto Tucson Car Lot*

The Company assumed the lease of a used car lot located in Tucson, Arizona during May 2005. The Company issued \$164,318 worth of accounts receivable in the form of auto financing contracts for the purchase.

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Sunburst Lot

On January 17, 2005 the Company agreed to purchase the lot lease and name use (Sunburst) from Sunburst Car Company, Inc. The agreement was revised and finalized on March 30, 2005 and the Company paid \$751,735 cash as described below. The Company took possession of the lot on July 7, 2005.

|                         |                   |
|-------------------------|-------------------|
| Equipment & fixtures    | \$ 250,000        |
| Leasehold Improvement   | 100,000           |
| Non Compete Covenant    | 5,000             |
| Goodwill                | 375,000           |
| Escrow Costs            | 1,735             |
| <b>Total Investment</b> | <b>\$ 751,735</b> |

Certain significant events have since occurred that focused attention on Sunburst goodwill.

Sunburst's auction business was the key reason for its acquisition. It was expected to be a profitable alternative means of disposing of vehicles not eligible for finance (BHPH) sales. Since the acquisition of Sunburst, a number of events have converged which adversely affected the goodwill for the Sunburst lot, including but not limited to the following:

1. The auction proceeds did not achieve the expected results in terms of cash flow and profitability. While the Company devoted considerable capital and advertising to expand the auction, the results still failed to achieve the Company's expectation.
2. The Company determined that the Sunburst auction was becoming a drain on capital, advertising, and labor, thus inhibiting profitability and growth of its BHPH business.
3. The Sunburst staff inherited in the acquisition did not perform to expectations [NOTE: none of those employees are still with the Company]

As a result, the Company elected to change the way it disposes of vehicles not eligible for finance sales, focus on its core competency of BHPH sales and reduce redundant and burdensome cost. Therefore, goodwill for the Sunburst lot has been reduced by \$395,000 bringing its value to \$0.

In June of 2006, the landlord of the Sunburst lot announced that he had an offer to sell the land. In view of the events discussed above, the Company decided to decline to exercise its lease option to stay. Therefore, the under-performing Sunburst auction was closed down. Certain fixed assets for \$231,518 to impairment and a reduction of overhead of \$338,364 per year. However, the Company believes that the new location will be as productive in financed sales as the old lot had been.

**Note 9. NAVICOM**

The Company has two segments, its cars sales and its GPS unit sales (Navicom). Currently, Navicom is in the process of changing its product brand and business model. Great effort has been made to seek products with more cost effective feature sets that will better serve its customers. At this time, Navicom has minimal activity only serving NowAuto Group.

**Note 10. STOCK OPTIONS AND WARRANTS**

Currently the Company has no outstanding options or warrants.

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**Note 11. COMMITMENTS AND CONTINGENCIES**Facility Leases

The Company leases certain car lots and office facilities under various operating leases. Lot leases are generally for periods from one to three years and may contain multiple renewal options. As of September 30, 2007, the aggregate rentals due under such leases, including renewal options that are reasonably assured, are as follows:

|      |            |
|------|------------|
| 2006 | \$ 237,679 |
| 2007 | 257,010    |
| 2008 | 257,010    |
| 2009 | 257,010    |
| 2010 | 257,010    |

**Note 12. THE EFFECT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

Below is a listing of the most recent accounting standards SFAS 150-154 and their effect on the Company.

Statement No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (Issued 5/03)

This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity.

Statement No. 151 Inventory Costs-an amendment of ARB No. 43, Chapter 4 (Issued 11/04)

This statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that "...under some circumstances, items such as idle facility expense, excessive spoilage, double freight and re-handling costs may be so abnormal as to require treatment as current period charges...." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities.

Statement No. 153 Exchanges of Non-monetary Assets (an amendment of APB Opinion No. 29)

The guidance in APB Opinion No. 29, Accounting for Non-monetary Transactions, is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, includes certain exceptions to the principle. This Statement amends Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange.

Statement No. 154 - Accounting Changes and Error Corrections (a replacement of APB Opinion No. 20 and FASB Statement No. 3)

This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes

in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed.

The adoption of these new Statements is not expected to have a material effect on the Company's current financial position, results or operations, or cash flows.

SFAS No. 13 - Accounting for Leases is used to determine the method of accounting for leases. (See Note 3)

### **Note 13. GOING CONCERN**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company sustained a material loss in the year ended June 30, 2005. This loss continued through June 30, 2006. This raised substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from this uncertainty.

Management has made efforts to improve the profitability of the Company by increasing the margins on cars sold. They have also hired new finance and accounting personnel to better track the Company's profitability and negotiate selling contracts. Investor funds have been solicited to maintain cash flows until the Company becomes profitable.

The fiscal year ended June 30, 2007 reflects a substantial net loss. The Company did report a profit for the year ended June 30, 2006, before impairment of Goodwill. The Company needs to attract equity investors to continue in existence. No assurance can be made that these investors will be forthcoming.

### **Note 14. COMPENSATION OF OFFICERS**

Scott Miller, CEO entered into an agreement with the Company on January 20, 2005 for \$250,000 as a retention bonus. The Company has been unable to honor the full agreement. Currently, Mr. Miller receives a salary of \$130,000 per year. He drives a company-owned vehicle most of the time as does other Company management. Theodore Valenzuela serves as the COO. He receives an annual salary of \$140,000. The other officer currently receives salary of less than \$100,000.

### **Note 15. CONTRACT FINANCING**

During the quarter ended March 31, 2006 the Company initiated relations with a new finance company to finance installment contracts from customers. The monies advanced are based upon the contract price and vary per car. The individual car is used as collateral for the advanced funds. Substantially all of the installment contracts financed requires the Company's customers to make their monthly payments via ACH (automatic account withdrawal). The Company pays a variable interest rate over the Prime Rate for its financing. The finance company receives all of the payments from the customers, removes its portion (interest and principal) and then makes the remainder available for the Company to pull from when needed. The Company retains ownership of these contracts and is active in the collection of delinquent accounts from these contracts. The Company also has contracts, which it administers itself.

### **Note 16. FINANCIAL REPORTS**

The Statement of Operations has been changed to report selling and financing costs as a separate line item. In the past, only the selling costs have been broken out. It is believed that this gives the reader better information about the operations of the Company. Prior period statements are adjusted to reflect the change.

### **Note 17. PENDING LITIGATION**

A former employee has sued NavicomGPS, Inc, NowAuto.com, Inc, and NowAuto, Inc. claiming that he was owed a bonus and other compensation with treble damages. NowAuto Group, Inc was not named. The employee obtained a summary judgment against the debtor companies in the amount of \$137,858.83. The Company has chosen to vigorously fight the judgment and filed an appeal in May 2007. The opening brief was filed in August of 2007. No response has yet been filed. At this time, the parties have agreed to an arbitrated settlement and the Company believes that the settlement will be reached and will be considerably lower than the judgment amount. In October of 2007, an out of court settlement of \$71,000 with payments to begin in November of 2007 was agreed to by both parties.



## 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-QSB 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 conditions 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. 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.

### Overview

Since 2004, NowAuto Group, Inc., a Nevada corporation (the "Company") is a publicly held retailer focused on the "Buy Here/Pay Here" segment of the used vehicle market. The Company generally sells 1999 and newer model-year used vehicles and provides financing for substantially all of its customers. Many of the Company's customers have limited financial resources and would not qualify for conventional financing as a result of limited credit histories or past credit problems. As of September 30, 2007 the Company had three stores, all of which are located in the State of Arizona.

The market for used vehicle sales in the United States is significant. Used vehicle retail sales typically occur through franchised new vehicle dealerships that sells used vehicles, or independent used vehicle dealerships. The Company operates in the "Buy Here/Pay Here" segment of the independent used vehicle sales and finance market. Buy Here/Pay Here dealers sell and finance used vehicles to individuals with limited credit histories or past credit problems. Buy Here/Pay Here dealers typically offer their customers certain advantages over more traditional financing sources, such as broader and more flexible credit terms, attractive payment terms, including scheduling payments on a weekly or bi-weekly basis to coincide with a customer's payday, and the ability to make payments in person, an important feature to individuals who may not have checking accounts. In turn, interest rates on vehicle loans provided by the Company are generally higher than those offered to individuals who purchase from other new or used vehicle dealers or who have better credit histories.

The Company's primary focus is on sales end collections. The Company is responsible for its own collections through its internal contracts department with supervisory involvement of the corporate office. For the twelve months ended June 30, 2007 estimated credit losses as a percentage of contracts were increased substantially over the prior year. In the past nine months the Company implemented new and stricter underwriting criteria at the store level. In addition the Company implemented stricter contract criteria which, in the short term, resulted in higher repossessions and charge-off accounts. While these measures contributed to higher credit losses, during/in the June 30, 2007 fiscal year, the Company believes that its loan portfolio will reflect higher quality loans that result in lower credit losses in the future. In addition, credit losses are also imparted, to some degree, by economic conditions in the markets in which the Company serves. In recent months, energy costs have risen at a rate much faster than the general rate of inflation.



While the Company believes that most significant factor affecting credit losses is the proper execution (or lack therefore) of its business practices, the Company also believes that higher energy and fuel costs have a negative impact on collection results.

Hiring, training and retaining qualified personnel are critical to the Company's success. The number of trained managers the Company has at its disposal will limit the rate at which the Company adds new stores. Excessive turnover, particularly at the store manager level, could impact the Company's ability to add new stores. During the twelve months ended June 30, 2006 the Company added resources to train and develop personnel. The Company expects to continue to invest in the development of its workforce.

The Company also offers GPS tracking services through its NaviCom GPS, Inc. subsidiary that allows users, including vehicle dealers and others, to locate, track and monitor motor vehicles and other personal property.

Three Months Ended September 30, 2007 vs. Three Months Ended September 30, 2006

Revenue for the quarter ended September 30, 2007 was \$1,086,539 versus revenue of \$1,729,130 for the quarter ended September 30, 2006. The decline in revenue was a result of lower sales volume.

The Company's gross profit as a percentage of sales during the quarter ending September 30, 2007 was 46.3% vs. 45.3% for the quarter ended September 30, 2006. The increase in gross profit margin was primarily due to the Company's focus on higher margin vehicle finance sales and finance income.

During the year ended June 30, 2007, the Company experienced higher than normal increase in bad debt expense due to higher than normal repossessions. While the Company believes that proper execution (or lack thereof) of its business practices is the most significant factor affecting credit losses, the Company also believes that general economic conditions, including but not limited to higher energy, fuel costs, and the troubled credit market adversely affected collection efforts and resulted in higher than normal vehicle repossessions during the year ended June 30, 2007. This trend continued during the quarter ended September 30, 2007 and is likely to continue in the foreseeable future. General and administrative expenses as a percentage of sales were 42% for the three months ended September 30, 2007 versus 29.7% for the three months ended September 30, 2006. Interest expense increased 63% as a result of line of credit financing (See Note 15) increasing administrative costs. Bad debt expense increased 459% over the prior year. Furthermore, because the Company now retains its own contracts, it created a collections department thereby increasing financing expenses. The Company has also become more cost-effective in other areas.

Financial Condition

The following sets forth the major balance sheet accounts of the Company as of the dates specified.

|                           | September<br>2006 | September<br>2007 |
|---------------------------|-------------------|-------------------|
| Accounts Receivable (net) | 4,860,651         | 5,429,286         |
| Inventory                 | 847,232           | 653,051           |
| Equipment                 | 93,823            | 88,792            |
| Goodwill                  | 928,497           | 714,179           |
| Accounts Payable          | 267,060           | 314,243           |
| Taxes Payable             | 326,964           | 44,853            |

As of June 30, 2005 the Company held no contracts. During the quarter ended September 30, 2005 management made the decision to begin its own financing. This accounts for the increase in accounts receivable. Inventory rose as a result of increased sales. The Company had no significant increase in equipment purchase for the quarter. The increase noted is actually a transfer of assets. The Sunburst lot was purchased on July 7, 2005. As of that date \$350,000 in fixed assets was transferred from other assets to equipment and depreciation was initiated. The increase in accounts

payable was a result of increased volume of business and strained cash flow.

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### Liquidity and Capital Resources

During the twelve months ended June 30, 2006 the Company had investment equity infusions to shore up the lack of cash flow. The Company has not had any investments since September 30, 2005. Since the middle of August 2005 the Company has also kept most of its contracts as opposed to selling the contracts to third parties. This has put a severe strain on the cash flow of the Company and has made it difficult to pay normal overhead expenses on an ongoing basis. During the three month period ended March 31, 2006 the Company executed a finance agreement with an independent finance company to fund the Company's installment contracts. Without a source to finance or purchase the contracts the Company has only as its cash flow cash sales and monthly payments from its contracts receivable portfolio. Currently, this cash flow stream is not adequate to meet weekly overhead cash needs.

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the Company's estimates. The Company believes the most significant estimate made in the preparation of the accompanying consolidated financial statements relates to the determination of its allowance for doubtful accounts, which is discussed below.

The Company maintains an allowance for doubtful accounts on an aggregate basis at a level it considers sufficient to cover estimated losses in the collection of its finance receivables. The allowance for doubtful accounts is based primarily upon recent historical credit loss experience, with consideration given to trends in the industry, delinquency levels, collateral values, and economic conditions and collections practices. The allowance for doubtful accounts is periodically reviewed by management with any changes reflected in current operations. Although it is at least reasonably possible that events or circumstances could occur in the future that are not presently foreseen which could cause actual credit losses to be materially different from the recorded allowance for credit losses, the Company believes that it has given appropriate consideration to all factors and has made reasonable assumptions in determining the allowance for doubtful accounts.

### Recent Accounting Pronouncements

In December 2004, The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards 123R, "Share-Based Payment" (SFAS 123R), which is a revision of SFAS 123. SFAS 123R supersedes APB Opinion No. 25. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123, except that SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statements based on fair values. Pro forma disclosure is no longer an alternative under SFAS 123R. SFAS 123R was originally issued with the implementation required for interim and annual periods beginning after June 15, 2005. On April 15, 2005 the Securities and Exchange Commission delayed the required effective date of SFAS 123R to the beginning of the first fiscal year that begins after June 15, 2005.

The Company has a policy of immediate compliance with all new accounting standards. It has complied with these new requirements since the beginning of its prior fiscal year, July 1, 2004.

### Seasonality

The Company's vehicle sales and finance business is seasonal in nature. The period October through December is historically the slowest period for vehicle sales. Many of the Company's operating expenses such as administrative

personnel, rent and insurance are fixed and cannot be reduced during period of decreased sales. Conversely, the period January through May is historically the busiest time for vehicle sales as many of the Company's customers use income tax refunds as down payment on the purchase of a vehicle.

### **Item 3. Quantitative And Qualitative Disclosures about Market Risk**

As of March 31, 2006 the Company had obtained long term institutional financing in the form of collateral debt, and as such the Company's earnings are impacted by interest paid. Interest rates charged by the Company on the vehicles financed by the Company are fixed and are within lending rate regulations in the State of Arizona.

The Company generally finances vehicles on behalf of high risk borrowers with poor credit histories. A portion of these loans become delinquent and require repossession of the vehicles. Charges in the company's delinquency expense caused by changes in economic conditions or other factors could increase the Company's bad debt charge-offs and provision for losses which would adversely affect profitability. Moreover, increased credit losses could substantially reduce the Company's working capital and limit operations.

### **Item 4. Controls and Procedures**

The Company's management has evaluated the effectiveness of the design and operation of its financial and operating controls and procedures as of the end of the period covered by this annual report on Form 10-K, and, based on their evaluation have concluded that these controls and procedures, while improved over last year, are not effective in part due to a weakness in the information technology ("IT") controls.

During the twelve months ended June 30, 2006 the Company made a number of improvements in the IT area including (i) hiring a seasoned chief accountant; (ii) installing new software programs specific to the Company's business; and (iii) improving operational reporting procedures and controls. During the three months ended September 30, 2007 the Company has continued to enhance and improve its business systems. While the Company's management believes improvements have been made, there is still work to be done to improve integration and control of data flow.

PART II

Other Information

Item 1. Legal Proceedings  
None

Item 6. Exhibits

|      |                                 |
|------|---------------------------------|
| 31.1 | Rule 13a-14(a) certification    |
| 31.2 | Rule 13a-14(a) certification    |
| 32.1 | Rule Section 1350 certification |

Exhibit Index

31.1. Rule 13a-14(a) certification  
31.2. Rule 13a-14(a) certification  
32.1. Rule Section 1350 certification