

NowAuto Group, Inc.
Form 10-Q
February 25, 2009

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:
December 31, 2008

Commission file number:
000-50709

NOWAUTO GROUP, INC.

(Exact name of registrant as specified in its charter)

Nevada

77-0594821

(State or other jurisdiction
of incorporation)

(I.R.S. Employer
Identification No.)

2090 East University, Suite 112, Tempe, Arizona 85281

(address of principal executive offices, including zip code)

(480) 990-0007

(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 December 31, 2008 |
|-------------------------------------------|----------------------------------|
| Common Stock, par value \$0.001 per share | 9,843,046 |

NowAuto Group, Inc
Consolidated Balance Sheets

| | December 31, 2008 (Unaudited) | June 30, 2008 (Audited) |
|-----------------------------------------------------------------------------------------|-------------------------------------|-------------------------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 47,353 | \$ 32,508 |
| Accounts Receivable - Net | 3,199,040 | 2,742,067 |
| Inventory | 384,832 | 665,338 |
| Prepaid Expenses | 21,164 | 44,071 |
| Total Current Assets | 3,652,389 | 3,483,984 |
| Long Term Notes Receivable | 3,973,257 | 3,375,008 |
| Equipment – Net | 68,382 | 84,293 |
| Goodwill | 716,179 | 716,179 |
| Total Assets | \$ 8,410,206 | \$ 7,659,464 |
| Liabilities and Stockholders' Equity (Deficit) | | |
| Current Liabilities | | |
| Accounts Payable | \$ 330,137 | \$ 431,307 |
| Taxes Payable | 413,195 | 8,877 |
| Line of Credit | 2,291,132 | 2,102,490 |
| Accrued Payroll | 69,112 | 50,604 |
| Deferred Revenue | 1,286,074 | 1,085,449 |
| Other Loans | 66,579 | 129,440 |
| Total Current Liabilities | 4,456,228 | 3,808,168 |
| Long Term Notes Payable | 6,520,915 | 5,355,922 |
| Commitment | 0 | 0 |
| Total Liabilities | 10,977,143 | 9,164,090 |
| Stockholders' Equity | | |
| Common Stock, authorized 1,000,000,000 shares \$0.001 par value; Issued and Outstanding | | |
| December 31, 2008 - 9,843,046 shares; | | |
| less 400,000 Treasury stock | | |
| June 30, 2008 - 9,843,046 shares; | | |
| less 400,000 Treasury stock | | |
| Treasury Stock | 9,842 | 9,842 |
| Treasury Stock | (17,500) | (6,500) |
| Paid in Capital | 4,565,631 | 4,565,631 |
| Retained Earnings/(Deficit) | (7,124,910) | (6,073,599) |
| Total Stockholder's Equity (Deficit) | (2,566,937) | (1,504,626) |

| | | |
|------------------------------------------------------|--------------|--------------|
| Total Liabilities and Stockholder's Equity (Deficit) | \$ 8,410,206 | \$ 7,659,464 |
|------------------------------------------------------|--------------|--------------|

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

NowAuto Group, Inc
Consolidated Statements of Operations

| | 3 Months Ended Dec 31, 2008 Unaudited | 3 Months Ended Dec 31, 2007 Unaudited | 6 months Ended Dec 31, 2008 Unaudited | 6 months Ended Dec 31, 2007 Unaudited |
|-------------------------------------------------|---------------------------------------------------|---------------------------------------------------|---------------------------------------------------|---------------------------------------------------|
| Income | | | | |
| Vehicle & Finance Income | \$ 1,448,379 | \$ 1,063,650 | \$ 2,554,605 | \$ 2,150,189 |
| Cost of Goods Sold | 847,005 | 487,529 | 1,571,258 | 1,071,029 |
| Gross Profit/Loss | 601,374 | 576,121 | 983,347 | 1,079,160 |
| Gross Margin | 41.5% | 54.2% | 38.5% | 50.2% |
| Expenses | | | | |
| Selling and Financing Costs | 525,790 | 412,734 | 997,682 | 948,945 |
| General and Administrative | 314,717 | 245,747 | 592,946 | 487,942 |
| Loss before Interest and Tax | (239,135) | (82,361) | (607,282) | (357,728) |
| Interest | (221,352) | (229,068) | (444,029) | (445,139) |
| Provision for Income Tax | 0 | 0 | 0 | 0 |
| Net Loss | \$ (460,487) | \$ (311,429) | \$ (1,051,311) | \$ (802,867) |
| Earnings Per Share | (0.05) | (0.03) | (0.11) | (0.08) |
| Weighted Average Number of Common Shares O/S | \$ 9,843,046 | \$ 9,843,046 | \$ 9,843,046 | \$ 9,843,046 |

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

NowAuto Group, Inc
Consolidated Stockholders' Equity

| | Shares | Amount | Paid in Capital | Subscriptions Receivable | Treasury Stock | Accumulated Deficit | Total Equity |
|----------------------------------------|--------------|----------|--------------------|-----------------------------|-------------------|------------------------|-----------------|
| Balance June 30, 2005 | \$ 8,157,662 | \$ 8,157 | \$ 3,523,116 | \$ 0 | \$ 0 | \$ (1,628,393) | \$ 1,902,880 |
| Stock Subscribed | | | | 1,005,500 | | | 1,005,500 |
| Purchase of Global-E 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 for cash | 26,923 | 27 | 3,473 | | | | 3,500 |
| Common shares issued for cash | 38,461 | 38 | 4,962 | | | | 5,000 |
| Subscriptions received | | | 1,005,500 | (1,005,500) | | | |
| Net (Loss) | | | | | | (441,926) | (441,926) |
| Balance, June 30, 2006 | 9,843,046 | 9,842 | 4,565,631 | 0 | 0 | (2,070,319) | 2,505,154 |
| Net Loss | | | | | | (2,286,402) | (2,286,402) |
| Balance June 30, 2007 | 9,843,046 | 9,842 | 4,565,631 | 0 | 0 | (4,356,721) | 218,752 |
| Treasury Stock Receivable | | | | | (6,500) | | (6,500) |
| Net Loss | | | | | | (1,716,878) | (1,716,878) |
| Balance June 30, 2008 | 9,843,046 | 9,842 | 4,565,631 | 0 | (6,500) | (6,073,599) | (1,504,626) |
| Treasury Stock Receivable | | | | | (11,000) | | (11,000) |
| Net Loss | | | | | | (1,051,311) | (1,051,311) |
| Balance December 31, 2008 | \$ 9,843,046 | \$ 9,842 | \$ 4,565,631 | \$ 0 | \$ (17,500) | \$ (7,124,910) | \$ (2,566,937) |

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

NowAuto Group, Inc
Consolidated Statements of Cash Flows

| | 6 Months Ended December 31, 2008 (Unaudited) | 6 Months Ended December 31, 2007 (Unaudited) |
|----------------------------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|
| Operating Activities | | |
| Net Income (Loss) | \$ (1,051,310) | \$ (804,367) |
| Adjustments to reconcile Net Loss to Net Cash used in Operating Activities | | |
| Depreciation/Amortization Expense | 5,951 | 5,362 |
| (Increase)/Decrease in Receivables | (1,099,880) | (74,717) |
| (Increase)/Decrease in Inventory | 301,506 | (232,373) |
| (Increase)/Decrease in Other Current Assets | 38,062 | 8,879 |
| (Decrease)/Increase in Accounts Payable | 267,344 | 28,196 |
| (Decrease)/Increase in Other Liabilities | 0 | 348,832 |
| Net Cash Provided by Operating Activities | (487,017) | 84,179 |
| Net cash provided by operating activities | (1,538,328) | (720,188) |
| Investing Activities | | |
| (Increase)/Decrease in Purchase of Fixed Assets | 0 | (3,677) |
| (Increase)/Decrease in Long Term Notes Receivable | 0 | 18,442 |
| Disposal of Assets | 9,961 | 0 |
| Net Cash provided by (used in) Investing Activities | 9,961 | 14,765 |
| Financing Activities | | |
| (Decrease)/Increase in Deferred Revenue | 200,625 | 0 |
| Proceeds from issuance of debt | 1,353,635 | 767,210 |
| (Decrease)/Increase in Commitment | 0 | (86,859) |
| (Decrease)/Increase in Treasury Stock | (11,000) | 0 |
| Net cash provided by Financing Activities | 1,543,260 | 680,351 |
| Net Increase/(Decrease) in Cash | 14,893 | (25,072) |
| Cash, Beginning of Period | 32,461 | 66,786 |
| Cash, End of Period | \$ 47,354 | \$ 41,714 |
| Supplemental Information: | | |
| Period interest | 222,677 | 229,068 |
| Income Taxes paid | 0 | 0 |

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

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 September 30, 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 are 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.

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 years |
| 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 of 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.

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 \$14,274 and \$22,053 for the three months ended December 31, 2007 and 2008, respectively.

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 December 31, 2008 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 up to 29.99% per annum, b) are collateralized by the vehicle sold and c) provide for payments over a period of 39 months. As of December 31, 2008 the Company was holding financed contracts. These are shown below.

| | December 31, 2008 | June 30, 2008 |
|---------------------------------|----------------------|------------------|
| Financed Contracts Receivable | \$ 6,398,813 | \$ 5,267,915 |
| Allowance for doubtful accounts | (77,226) | (33,491) |
| Financed Contracts-net | \$ 6,322,356 | \$ 5,234,424 |

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 to 39 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.

Edgar Filing: NowAuto Group, Inc. - Form 10-Q

In the past, sales tax was not booked until payment was received and thus the tax was due. As a result of the conversion into different software during the three months ending December 31, 2009, sales tax is now recognized in a different manor. The full amount of the tax is recorded as a payable with a corresponding increase to Lease Receivables. This also means that Lease Receivables reflects the total payments to be paid thru out the lease period as stated on the lease contract.

Note 4. PROPERTY AND EQUIPMENT

A summary of equipment and accumulated depreciation as follows:

| | December 31, 2008 | June 30, 2008 |
|-----------------------------------|----------------------|------------------|
| Furniture, fixtures and Equipment | \$ 30,620 | \$ 41,622 |
| Leasehold improvements | 26,693 | 58,235 |
| Computers & Software | 44,427 | 18,100 |
| Less accumulated depreciation | (33,358) | (33,664) |
| Net Equipment | \$ 68,382 | \$ 84,293 |

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. 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 December 31, 2008 was as follows:

| Quarter Ending December 31, | 2008 | 2007 |
|--------------------------------|------------|------------|
| | \$ 716,179 | \$ 716,179 |

Note 6. INCOME TAXES

The provision for income taxes for the fiscal quarters ended December 31, 2008 and 2007 were as follows below. A valuation account has been set up in the amount of the deferred asset.

| Quarter ended December 31, | 2007 | 2008 |
|--------------------------------------------------------------------|------|------|
| Provision for income taxes: | | |
| Current taxes payable | \$ 0 | \$ 0 |
| Change in the deferred tax asset (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.

No shares have been issued since June 30, 2006.

Note 8. 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 9. STOCK OPTIONS AND WARRANTS

Currently the Company has no outstanding options or warrants.

Note 10. 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 December 31, 2008, the aggregate rentals due under such leases, including renewal options that are reasonably assured, are as follows:

| | |
|------|------------|
| 2008 | \$ 182,741 |
| 2009 | \$ 155,192 |
| 2010 | \$ 155,192 |
| 2011 | \$ 155,192 |
| 2012 | \$ 155,192 |

Note 11. 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 \$128,000. The other officer currently receives salary of less than \$100,000.

Note 12. CONTRACT FINANCING

During the quarter ended September 30, 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 13. TREASURY STOCK

In the quarter ending June 30, 2008 and September 30, 2008, the Company repurchased stock from a shareholder. These shares are still in transit and are therefore still reported as being outstanding.

Note 14. THE EFFECT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Below is a listing of the most recent accounting standards SFAS 160-162 and their effect on the Company.

Statement No. 160 - Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51
A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards. While the Company does present consolidated financial statements, there are currently no minority interests.

Statement No. 162 - The Hierarchy of Generally Accepted Accounting Principles

Prior to the issuance of Statement 162, GAAP hierarchy was defined in the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. SAS 69 has been criticized because it is directed to the auditor rather than the entity. Statement 162 addresses these issues by establishing that the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP.

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

Note 16. GOING CONCERN

The accompanying financial statements have been prepared assuming that we will continue as a going concern. We sustained a material loss in the year ended June 30, 2005. This loss continued December 31, 2008. This raised substantial doubt about our 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 our profitability by increasing the margins on cars sold. They have also hired new finance and accounting personnel to better track our profitability and negotiate selling contracts. Additionally, we may need to attract capital investors to continue in existence. No assurance can be made that these investors will be forthcoming.

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 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 December 31, 2008 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 and collections. The Company is responsible for its own collections through its internal collection department with supervisory involvement of the corporate office. In the past year 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. In addition, credit losses are also imparted, to some degree, by economic conditions in the markets in which the Company serves. In recent months, adverse economic conditions have had a negative impact on collection results. 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 current economic conditions have had a negative impact on its operations

and 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. 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 December 31, 2008 vs. Three Months Ended December 31, 2007

Revenue for the quarter ended December 31, 2008 was \$1,448,379 versus revenue of \$1,063,650 for the quarter ended December 31, 2007. The increase in revenue is attributed to a successful sales promotion that reduced the amount of the required down payment. There was no reduction in price or financing criteria.

The Company's gross profit as a percentage of sales during the quarter ending December 31, 2008 was 41.5% vs. 54.2% for the quarter ended December 31, 2007. Old inventory was liquidated at local auctions during the quarter and this has reduced margins. Interest earnings remain strong.

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. While the quarter ended December 31, 2008 showed an improvement in bad debt expense, the Company expects that current economic conditions will continue for the foreseeable future and higher than normal repossessions may be experienced.

General and administrative expenses as a percentage of sales were 45% for the three months ended December 31, 2008 versus 42% for the three months ended December 31, 2007. Interest expense has increased substantially as a result of line of credit financing (See Note 12) increasing administrative costs. 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.

| | December 2008 | June 2008 |
|----------------------------|---------------|-----------|
| Accounts Receivable (net) | 6,322,356 | 6,117,075 |
| Inventory | 384,832 | 665,338 |
| Equipment | 68,382 | 84,293 |
| Goodwill | 716,179 | 716,179 |
| Accounts Payable | 330,137 | 431,307 |
| Taxes Payable (see Note 3) | 413,195 | 0 |
| Deferred Revenue | 1,286,074 | 1,085,449 |

The increase in Taxes Payable and Accounts Receivable is due in part to a change in accounting procedure. (See Note 3). The decrease in Inventory is due to liquidation of bad inventory.

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 December 31, 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 September 30, 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.

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 September 30, 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-Q, 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 we made a number of improvements in the IT area including (i) hiring a seasoned chief accountant; (ii) installing new software programs specific to our business; and (iii) improving operational reporting procedures and controls. During the year ended June 30, 2008 we decided to convert to a more

robust system that will better support auto leasing and the expanding service shop department. This conversion was started in the three months ending September 30, 2008 and was nearly complete by the end of the quarter ending December 31, 2008. The final piece will be in place by the end of the three months ending March 31, 2009.

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
-