NowAuto Group, Inc.
Form 10-K
October 07, 2010

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

FORM 10-K

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

For the fiscal year ended June 30, 2010
Commission file number 000-50709

NOWAUTO GROUP, INC.
(Exact name of small business issuer as specified in its charter)

Nevada 77-0594821
(State or other jurisdiction of (I.R.S. Employer
Incorporation or organization) Identification No.)

4240 East Elwood Street, Phoenix, Arizona 85040
(Address of principal executive offices) (Zip Code)
Registrant's Telephone Number: (480) 431-0015
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act

COMMON STOCK
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes x No

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. x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
¨ Yes x No

State the aggregate market value, based upon the closing bid price of the Common Stock as quoted on NASDAQ, of the voting stock held by non-affiliates of the registrant: $46,915 as of December 31, 2009.

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

As of September 28, 2010 there were 9,383,046 shares, net of treasury shares, of common stock outstanding.

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Special Note Regarding Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. Forward-looking statements are statements other than historical information or statements of current condition. Certain information included in this Annual Report on Form 10-K, and other materials filed or to be filed by us with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by us or our 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. We undertake 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. In light of these risks and uncertainties inherent in all such projected operational matters, the inclusion of forward-looking statements in this Form 10-K should not be regarded as a representation by us or any other person that any of our objectives or plans will be achieved or that any of our operating expectations will be realized. As a consequence, actual results may differ materially from those expressed in any forward-looking statements made by or on behalf of us 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.

Part I

Item 1 - Description of Business

History

NowAuto, Inc. 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 we increased our authorized common stock. On August 31, 2004 the name was changed to NowAuto, Inc.

NowAuto, Inc was purchased by Global-E Investments, Inc on July 22, 2005. Since Global-E was a non-operating company and the stockholders of NowAuto, Inc assumed majority control after the acquisition, the purchase was accounted for as a recapitalization in a reverse acquisition. This means that for legal purposes the continuing entity is Global-E Investments, Inc. but for historical accounting purposes the accounting records of NowAuto will be shown. Global-E Investments has since changed its name to NowAuto Group, Inc.

Business Model in Non-Prime Markets

We lease automobiles under sales type leases in the Buy Here/Pay Here (BH/PH) market to non-prime consumers. These consumers are individuals with challenged credit. While some consumers enter and exit this category, others stay there for life. They are there for one of three reasons:

1) They have suffered a catastrophic financial event. Usually, this includes a major illness, divorce, or a period of unemployment. In the current economy, that also includes mortgage foreclosure.

2) They fail to practice good financial judgment. This is usually due to lack of training or understanding of personal financial management.
3) They have no established credit.

The Buy Here/Pay Here (BHPH) industry has existed for many years. We believe that this market has been underserved or at least inappropriately served in the past. Many competitors use a business model that tends to take unfair advantage of customers. We attempt to use a model that partners with the customer in order to keep them in their vehicle, assists them with repairing damaged credit, or teaches them better fiscal habits. This is accomplished in two ways:

1) In the quarter ending June 30, 2008, we began reporting customer payment history to a major credit reporting service. This was an important step that required a great deal of preparation on our part. It was much anticipated by a number of existing customers and is expected to positively influence future sales.
2) A GPS unit is installed in every vehicle. This allows us to locate the vehicle should it become necessary and reduces insurance costs for the customer.

Lending Processes

We originate all our own leases and thus control the credit application process. To complete this process, the customer is required to provide proof of residence, employment, and insurance as well as a valid driver’s license, and 8 personal references. Approval is based on a scoring system that takes into account the length of residency and employment, occupation, and other factors. In some cases, certain events in the customer’s credit history may be a factor. The scoring system also takes into account the age and value of the vehicle to determine our risk in the deal. Company policy also requires a review of the customer’s total income to car payment ratio to ensure that the customer can afford the vehicle.

Once approved, the customer is expected to agree to an ACH payment or some other form of automatic electronic payment method. While some customers have difficulty with this type of payment method due in part to a lack of understanding, this generally improves payment collection. Customers are not required to remain on this type of payment, but our experience is that a request to come off this payment plan is usually a prelude to a troubled account.

Down payments are made in cash or, on rare occasions, with a trade in. Amounts are approximately 8% to 10% of the price of the vehicle depending on the perceived loan risk. Although approximately 60% of the down payment must be made upon taking possession of the vehicle, some customers are allowed up to 30 days to pay the remaining down payment. Terms are usually 24 to 36 months with either a monthly or semi monthly payment required. Interest rates range from 16.95% to 29.95%.

Monitoring and Managing Accounts

Communication is the key to our account maintenance and keeps us proactive rather than reactive. Through out the contract life, we advise our customers to keep in contact with their account manager. Each customer receives a welcoming letter and/or phone call. Our account managers are provided a certain amount of latitude in working with our customers including modifying payment dates or partial payments. The starter interrupt unit installed on each car requires each customer to call in once a month.

If an account falls behind, we will make every reasonable effort to the keep the customer in the car if they maintain communication, exhibit a willingness to cooperate, and have the ability to make at least partial payments. There are a series of steps that are considered before a decision to repossess is made. A collection manager is responsible for making the repossession decision. This means that some vehicles are picked up very quickly if the customer is uncooperative. Under Arizona law, customers have 10 days in which to redeem their vehicle. In order to do so, they must pay a repossession fee, which generally will reimburse our cost of repossession and then they must bring their account current again.

In the past year, we have experienced an increase in the number of vehicles that are voluntarily surrendered. It is believed that this is due to current economic conditions. The largest industry in the Phoenix area is construction, which has been deeply affected by the housing slump. As with delinquent accounts, we will make every reasonable effort to the keep the customer in the car.

The Executive Team takes a hands-on approach to monitoring accounts. They are committed to keeping customers in good cars. Status reports are generated and reviewed on a daily basis. Great effort is made to improve the accountability and ultimate success of the collection process.

Inventory

It is our experience that the success of a loan in this market is largely predicated on the condition of the vehicle as this directly affects their ability and motivation to make payments. This is as true at the end of the contract period as it is at the beginning. Therefore, great care and attention is given to repair and servicing of vehicles from the moment of acquisition to the end of the contract. Some inventory is purchased from wholesalers. These vehicles are purchased on terms similar to any other vendor. There is no flooring plan as we prefer to keep encumbrances to a minimum. For the past few months, there has been a restriction in the supply of inventory making it more difficult and costly to purchase inventory. Market supply is fed by the general public purchasing new cars and trading in their old ones. Since sale of new cars has struggled in the current economy, the supply of used cars has declined.

Inventory is also replenished through repossessions. These vehicles are inspected by our Service Department who are also responsible for any necessary repairs.

After a vehicle is sold, we will assist our customers with any repairs at the Service Department. We offer what we believe to be below market labor rates, as well as financing for more expensive repairs. Currently, we warranty the vehicle for 500 miles or 15 days as required by State law.

Employees

As of June 30, 2010, we had twenty five full time employees. Fifteen are operational including the Service Department, seven are administrative support including collections, and three are executives. Our relationship with employees is generally considered to be good. Turnover rates are within acceptable limits.

Regulation

The BH/PH industry is subject to regulation and licensing from various federal, state, and local governments. Under various state laws, the Company's dealerships must obtain a license in order to operate or relocate. These laws also regulate advertising and sales practices. The Company's financing activities are subject to federal truth-in-lending and equal credit opportunity regulations as well as state and local motor vehicle finance laws, installment finance laws, usury laws and other installment sales laws. Among other things, these laws require that the Company limit or prescribe terms of the contracts it originates, require specified disclosures to customers, restrict collections practices, limit the Company's right to repossess and sell collateral, and prohibit discrimination against customers on the basis of certain characteristics including age, race, gender and marital status. Management believes the Company is in compliance, in all material respects, with all applicable federal, state and local laws. The Company's entrance into jurisdictions with more stringent regulatory requirements could have a material adverse effect on the Company's used vehicle sales and finance business.

Item 1A - Risk Factors

The Company is subject to various risks, including but not limited to, the risks described below. The Company's business, operating results, and financial condition could be materially and adversely affected by any of these risks. Additional risks not presently known to the Company or that the Company currently deems immaterial may also impair our business and operations.

Risks Related to the Used Automotive Retail and Finance Industry

The Company may have a higher risk of delinquency and default than traditional lessors/lenders because it deals with credit-impaired lessees.

Substantially all of the Company's contracts are made to individuals with challenged credit. Leases made to buyers who are restricted in their ability to obtain financing from traditional lessors/lenders generally entail a higher risk of delinquency, default and repossession, and higher losses than leases made to buyers with better credit. Delinquency interrupts lease payments, and a default can ultimately lead to a loss if the net realizable value of the automobile securing the lease is insufficient to cover the outstanding lease payments or the vehicle cannot be recovered. The Company's profitability depends, in part, upon its ability to properly evaluate the creditworthiness of non-prime consumers and efficiently service such leases. Although the Company believes that its underwriting criteria and collection methods enable it to manage the higher risks inherent in leases made to non-prime consumers, no assurance can be given that such criteria or methods will afford adequate protection against such risks. If the Company experiences higher losses than anticipated, its financial condition, results of operations and business prospects could be materially and adversely affected.

A reduction in the availability or access to sources of inventory could adversely affect the Company's business by increasing the costs of vehicles purchased.

The Company acquires vehicles primarily through wholesales, auctions, repossessions, and individuals. There can be no assurance that sufficient inventory will continue to be available to the Company or will be available at comparable costs that will be marketable. Any reduction in the availability of inventory or increases in the cost of vehicles could adversely affect our profit percentages as the Company focuses on keeping payments affordable to our customer base. The Company might have to absorb cost increases. The overall new car sales volumes in the United States have decreased dramatically in the last year and this could potentially have a significant negative effect on the supply of cars available to the Company in future periods.

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The used automotive retail industry is highly competitive and fragmented, which could result in increased cost to the Company for vehicles and adverse price competition.

The Company competes principally with other independent BH/PH dealers, and to a lesser degree with (i) the used vehicle retail operations of franchised automobile dealerships, (ii) independent used vehicle dealers, and (iii) individuals who sell used vehicles in private transactions. The Company competes for both the purchase and resale of used vehicles. The Company's competitors may sell the same or similar makes of vehicles that NowAuto Group offers in the same or similar markets at competitive prices. Increased competition in the market, including new entrants to the market, could result in increased wholesale costs for used vehicles and lower-than-expected vehicle sales and margins. Further, if any of the Company's competitors seek to gain or retain market share by reducing prices for used vehicles, the Company would likely reduce its prices in order to remain competitive, which may result in a decrease in its sales and profitability and require a change in its operating strategies.

The used automotive retail industry operates in a highly regulated environment with significant attendant compliance costs and penalties for non-compliance.

The used automotive retail industry is subject to a wide range of federal, state, and local laws and regulations, such as local licensing requirements and laws regarding advertising, vehicle sales, financing, and employment practices. Facilities and operations are also subject to federal, state, and local laws and regulations relating to environmental protection and human health and safety. The violation of these laws and regulations could result in administrative, civil, or criminal penalties against the Company, or in a cease and desist order, which would cause us to incur costs in complying with these laws and regulations. Further, over the past several years, private plaintiffs and federal, state, and local regulatory and law enforcement authorities have increased their scrutiny of advertising, sales, and finance and insurance activities in the sale of motor vehicles.

The severe downturn in recent global economic and United States market conditions could have an adverse affect on the used automotive retail industry in the future and may have even greater consequences for the non-prime segment of the industry.

In the normal course of business, the used automotive retail industry is subject to changes in regional U.S. economic conditions, including, but not limited to, interest rates, gasoline prices, inflation, personal discretionary spending levels, and consumer sentiment about the economy in general. The recent severe downturn and disruptions in global economic and market conditions have adversely affected consumer demand and/or increased the Company's costs, resulting in lower profitability for the Company. Due to the Company's focus on non-prime borrowers, its actual rate of delinquencies, repossessions and credit losses on loans could be higher under adverse economic conditions than those experienced in the automotive retail finance industry in general. The Company is unable to predict with certainty the future impact that the most recent global economic conditions will have on consumer demand in our markets or on the Company's costs and delinquencies.

The recent volatility and disruption of the capital and credit markets, and adverse changes in the global economy, could have a negative impact on the Company's ability to access the credit markets in the future and/or obtain credit on favorable terms.

Recently, the capital and credit markets have become increasingly tight as a result of adverse economic conditions that have caused the failure and near failure of a number of large financial services companies. While currently these conditions have not impaired the Company's ability to access the credit markets and finance its operations, there can be no assurance that there will not be a further deterioration in the financial markets. If the capital and credit markets continue to experience crisis and the availability of funds remains low, it is possible that the Company's ability to access the capital and credit markets may be limited or available on less favorable terms at a time when the Company would like, or need, to do so. This could have an impact on the Company's ability to refinance maturing debt or react to changing economic and business conditions. In addition, if current global economic conditions persist for an extended period of time or worsen substantially, the Company's business may suffer in a manner which could cause the Company to fail to satisfy its financial obligations and restrictive covenants under its credit facilities.

Risks Related to the Company

The Company's business is geographically concentrated; therefore, the Company's results of operations may be adversely affected by unfavorable conditions in its local markets.

The Company's performance is subject to local economic, competitive, and other conditions prevailing in the area of operations. The Company provides financing in connection with the sale or lease of substantially all of its vehicles. The Company's current results of operations depend substantially on general economic conditions and consumer spending habits in these local markets. Any decline in the general economic conditions or decreased consumer spending in these markets may have a negative effect on the Company's results of operations.

The Company's business is dependent upon the efficient operation of its information systems.

The Company relies on its information system to mange its sales, inventory, consumer financing, and customer information effectively. The failure of the Company's information system to perform as designed, or the failure to maintain and continually enhance or protect the integrity of these systems, could disrupt the Company's business, impact sales and profitability, or expose the company to customer or third-party claims.

Changes in the availability of cost of capital and working capital financing could adversely affect the Company's growth and business strategies.

The Company attempts to generate cash from income from continuing operations. The cash is primarily used to fund finance receivables growth, which have historically grown slightly faster than revenues. To the extent finance receivables growth exceeds income from continuing operations, generally the Company increases its borrowings under its revolving credit facilities to provide the cash necessary to finance operations. On a long-term basis, the Company expects its principal sources of liquidity to consist of income from continuing operations and borrowings under revolving credit facilities and/or fixed interest term loans. Any adverse changes in the Company's ability to borrow under revolving credit facilities or any increase in the cost of such borrowings, would likely have a negative impact on the Company's ability to finance receivables growth which would adversely affect the Company's growth and business strategies.

The Company's growth is dependent upon the availability of suitable lot sites.

The Company leases all of the properties where its stores are located. If and when the Company decides to open new stores, or relocate existing ones, the inability to acquire suitable real estate, either through lease or purchase, at favorable terms could limit the expansion of the Company's store base and could have a material adverse effect on the Company's expansion strategy and future operating results.

The Company's business is subject to seasonal fluctuations

Our vehicle sales and finance business is seasonal in nature. The period November through mid January is historically the slowest period for vehicle sales. Many of our operating expenses such as administrative personnel, rent and insurance are fixed and cannot be reduced during periods of decreased sales. Conversely, the period late January through May is historically the busiest time for vehicle sales as many of our customers use income tax refunds as a down payment on the purchase of a vehicle. The hot summer months are also quite slow.

The Company's Leverage

We are highly leveraged. Our debt is collateralized by our finance contracts and automobile inventory. Our substantial leverage could have adverse consequences, including (i) limiting our ability to obtain additional financing, (ii) requiring us to use substantial portions of operating cash flow to meet interest and principal repayment obligations, (iii) exposing us to interest rate fluctuations due to floating interest rates on certain borrowings, (iv) increasing our vulnerability to changes in general economic conditions and competitive pressures, and (v) limiting our ability to capitalize on potential growth opportunities.

We must Maintain Confidentiality

We receive highly confidential information from customers that is stored in our files and on our computer systems. Our security procedures may fail to adequately protect information that we are obligated to keep confidential. Any breach of security relating to customers' confidential information could result in legal liability for us and a harmful reduction in the use of our website by our customers.

Performance Dependent on Executive Officers

Our performance is highly dependent on the continued services of our executive officers and other key personnel, the loss of any of whom could materially affect our business, results of operations and financial condition.

Dilution of Shareholder Ownership Interest

Holders of our common stock have no preemptive rights with respect to future issuances of common stock and accordingly, may not be able to maintain their current percentage ownership interest in us. Our articles of incorporation and applicable provisions of Nevada law provide that, under certain circumstance, we may issue authorized capital at the approval of our board of directors, and no shareholder vote or other form of shareholder approval is required to issue such capital. Consequently, we may issue shares of common stock in connection with future financings or acquisitions and any future such issuances will significantly dilute all current shareholders' ownership percentage in us.

Section 404 of the Sarbanes-Oxley Act of 2002

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on the market's perception of our business and our ability to raise capital. We are continually in the process of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404, which will require annual management assessments of the effectiveness of our internal controls over financial reporting. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented, or amended from time to time we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. While we continue to dedicate resources and management time to ensuring that we have effective controls over financial reporting, failure to achieve and maintain an effective internal control environment could have a material adverse effect on the market's perception of our business and our ability to raise capital.

Penny Stock Rules

Trading in our securities will be subject to the "penny stock" rules for the foreseeable future. The Securities and Exchange Commission has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than $5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser's written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker/dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from recommending transactions in our securities, which could severely limit the liquidity of our common stock and consequently adversely affect the market price.

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 through June 30, 2010. 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.

Since our initial loss, great efforts have been made to improve our profitability. Margins on cars sold have increased. Costs, especially overhead, have been reduced. Head count is kept to a minimum. Accountability has been greatly enhanced by development of qualified accounting staff and the implementation of an Enterprise-wide and fully integrated software system. The Company continues to develop the Financing function whose focus includes, but is not limited to, improved stability scoring and credit approval process, improvement of the total portfolio aging, and reduction of account losses. Subsequent to the date of this report, the corporate office and Service Department relocated to the same facility. This new facility greatly enhances the Service Department's efficiency and capacity and gives upper management closer oversight of operations.

Management's plans for dealing with adverse effects of conditions or events:

1. Plans for disposal of assets or increase in equity ownership.

The Company has no current plans to either dispose of assets or increase equity ownership. Access to capital markets is strained under current conditions. Assets of the Company are largely inventory, accounts receivable and lease receivables. These assets are currently pledged as collateral for the Company's line of credit and therefore will not be sold. The Company and its lender have modified loan arrangements as a result of current economic conditions and, although no assurance can be made, believes that additional modifications could be executed if the need arose; however, management has no current plans to further modify or restructure its debt nor has management been informed by its lender that modifications will be available. Lastly, the Company has made every effort to minimize its expenditures and expects to continue this practice.

There have been several inquiries into the sale of the Company's public "shell." Management has welcomed such inquiries; however, as of this date, no company has passed the Company's due diligence requirements. There is no way of determining if sale of the shell could occur, particularly under current market conditions.

2. Considerations.

(a) The Company's primary assets are inventory (vehicles) and accounts receivable, all of which are pledged as collateral for the Company's line of credit. Both the Company and its lender have repeatedly declined to sell the accounts receivable to a third party because most third party purchasers acquire only the top category of accounts, leaving only the lowest value of accounts for the Company. Furthermore, the size of the Company's accounts receivable balance is too small to attract institutional investor interest.

As mentioned in item 1, the asset that has been marketed – albeit on a limited basis – is the public company "shell." It is impossible for management to measure the marketability or value of the shell at this time.

The Company is unaware of any other restrictions on its assets other than the collateral pledged to the Company's lender.

(b) Management sees no other restrictions or other considerations that could adversely affect its existing debt other than the compliance issues stated in Note 6. Alternative forms of borrowing, e.g., subordinated debt, factoring, sale-leaseback are either unacceptable to management or unavailable.

There are no restrictions under the Company's current borrowing that restrict the Company from other borrowings in the future. However, there are limited institutions serving the Company's market and most are currently in no position to expand beyond already existing borrowers. The Company receives regular inquiries from institutional lenders; however, terms and structure vary and generally are not as favorable as the Company's current line of credit.

(c) The Company does not incur R&D expenditures. Resources are leased rather than purchased. The Company maintains tight controls over expenditures, even using just-in-time inventory management. The Company has heretofore refused to obtain "flooring" financing for inventory, believing that incurring debt for additional inventory is an unwise practice and has caused many independent dealerships to fail. The Company also recycles its inventory as a means to keep expenditures down.

(d) Access to the equity capital markets is not currently feasible for most micro and sub-micro cap stocks. Management's approach has been to grow through operating capital and borrowing rather than to seek additional equity capital.

3. Other Considerations

While the Company is relatively new, it has managed to continue operations when many in its market have closed down or reduced their market exposure. Virtually the entire reason behind the losses has been the charge-off of defaulted loans. The Company has taken considerable steps to improve, i.e., reduce defaulted loans, including tighter credit requirements, hiring of more experienced collection staff, and improved IT systems. While management expects to continue to see a challenging market for the sub- and below sub-prime auto finance markets, management believes that it has captured market share, improved collections, and created programs that emphasize maintaining contracts rather than simply charging them off. Management believes the effective control of bad debt expense will determine its profitability far more than any other single or combination of actions.

Item 2 - Description of Properties

Our corporate office at 4240 E. Elwood Street, Phoenix, AZ is leased and consists of approximately 4,860 sq ft. All administrative staff are located here. The current lease has an $8,000 monthly payment and expires on November 30, 2012.

We currently operate 2 lots located in the Phoenix area. All the properties are leased. This allows a certain flexibility when local markets change or relocate. A summary of the 2 properties is listed below.

Ø 3301 E Van Buren, Phoenix, AZ has a capacity of up to 90 cars. Monthly rents are $3,000 and the lease expires on November 30, 2010
Ø 9810 N Cave Creek Rd, Phoenix, AZ has a capacity of up to 30 cars. Monthly rents are $3,366 and lease will renew on April 30, 2011.

Item 3 - Legal Proceedings

In the normal course of business we may become a defendant in various types of litigation. We know of no pending or threatened legal proceedings to which we are or will be a party that, if successful, might result in a material adverse change in our business, properties or financial condition.

Item 4 - (Removed and Reserved)

Part II

Item 5 - Market for Common Equity, Dividends, Related Stockholder Matters and Small Business issuer Purchases of Equity Securities

Market Information

Our stock first began trading in July of 2004 on the Pink Sheets under the symbol NWAU.PK. As a result of the merger in 2005 (see Item 1), our stock began trading on the OTC Bulletin Board under the symbol NAUG.BB. The reported high and low bid prices listed below are for the common stock reported for NAUG.BB for the periods indicated.

	High	Low
Fiscal 2010		
Fourth Quarter	$ 0.0230	$ 0.0230
Third Quarter	$ 0.0050	$ 0.0010
Second Quarter	$ 0.0230	$ 0.0016
First Quarter	$ 0.0220	$ 0.0120
Fiscal 2009		
Fourth Quarter	$ 0.0275	$ 0.004
Third Quarter	$ 0.0275	$ 0.005
Second Quarter	$ 0.0120	$ 0.010
First Quarter	$ 0.0350	$ 0.030

Holders

As of June 30, 2010, we had approximately 1,250 (unaudited) beneficial owners of record of our common stock.

Dividends

We have never paid dividends on our common stock. We anticipate that all of our future earnings will be retained for the development of our business and do not expect to pay any cash dividends in the foreseeable future. Any actual payment of future dividends will be at the discretion of our Board of Directors and will be based on our future earnings, financial condition, capital requirements and other relevant factors.

Item 6 – Selected Financial Data

Not applicable

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

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 Annual Report on Form 10-K, and other materials filed or to be filed by us with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by us or our 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. We undertake 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 our 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 us 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.

Business 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. We generally sell 2000 and newer model-year used vehicles and provide financing for substantially all of our customers through sale-type leases. Many of our 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 June 30, 2010, we had two stores, both 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 sell used vehicles, or independent used vehicle dealerships. We operate in the "Buy Here/Pay Here" (BH/PH) segment of the independent used vehicle sales and finance market. BH/PH dealers sell and finance used vehicles to individuals with limited credit histories or past credit problems. They 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 we finance are generally higher than those offered to individuals who purchase from other new or used vehicle dealers or who have better credit histories.

Our primary focus is on sales and collections. We are responsible for our own collections through our internal collection department, with the supervisory involvement of the corporate office. In the past six months we have implemented new contract terms including lower interest rates and shorter payback periods. While in the short term these measures contributed to lower credit losses, we believe that our loan portfolio will reflect higher quality loans that result in lower credit losses in the future. In addition, credit losses are impacted, to some degree, by economic conditions in the market in which we operate. In recent months, significant contraction in the local economy, particularly the construction industry, combined with the resulting increase in unemployment have had a negative effect on our market and business. While we believe that the most significant factor affecting credit losses is the proper execution of our business practices, we also believe that current economic conditions have had a negative impact on both sales and collection results.

Hiring, training and retaining qualified personnel are critical to our success. The number of trained managers we have at our disposal will limit the rate at which we add new stores and increase our loan portfolio. Excessive turnover, particularly at the manager level, could impact our ability to add new stores or acquire additional loans. We have added resources to train and develop personnel in the past and we expect to continue to make such investments in the future.

Fiscal Year Ended June 30, 2010 vs. Fiscal Year Ended June 30, 2009

Total revenues for the year ended June 30, 2010 were $5,106,575 versus revenue of $5,411,708 for the year ended June 30, 2009, a decrease of $305,133 or 6%. Influenced by a declining economy, sales-type lease activity decreased by 9% of total revenue. Finance income increased by approximately $156,000 or approximately 3% of total revenue.

Our gross profit as a percentage of total revenues during the year ended June 30, 2010 was 57.7% versus 45.4% for the year ended June 30, 2009. During the year ended June 30, 2009, the Company installed a new enterprise-wide, fully integrated system that captures reconditioning costs more accurately and thus allows recuperation of those costs in the selling price of the vehicle. This system was in place for the entire fiscal year of 2010.

Total operating expenses were approximately $3,802,000 for both of the years ended June 30, 2010 and 2009. While these expenses remained consistent, they increased by approximately 4% as a percentage of total revenue in 2010 versus 2009. Total operating expenses for the quarter ended June 30, 2010 decreased from the prior year's quarter by $395,842. We will continue to monitor these costs to determine areas where they may be reduced.

The cost of delinquent accounts during the year ended June 30, 2010, net of the credit discussed in Note 6, remained approximately constant with the prior amount of $1,445,000, 28% of revenue for 2010 and 27% of revenue for 2009. This is higher than normal for the industry due to high unemployment and a decline in the industrial base for the Phoenix area. While we believe that proper execution of our business practices is the most significant factor affecting credit losses, we also believe that the general economic conditions, including but not limited to, rising unemployment and the troubled credit market adversely affected collections. While a number of changes have been made to our collection process, we expect that current economic conditions may continue for the near future and that higher than normal losses may be experienced. We will continue to monitor this situation and adjust our allowance for bad debt as is deemed necessary.

Interest expense has increased substantially as a result of an increase in our line of credit financing.

Financial Condition

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

	June 30, 2010	June 30, 2009
Investments in sales-type leases	4,085,136	3,578,362
Inventory	118,365	148,295
Accounts Payable	253,553	267,787
Line of credit	12,327,572	9,996,319

Inventory decreases are due to constrictions in supply. The decrease in Accounts Payable is due to improved controls on cash. The increase in accounts receivable are due to the increased activity in sales-type leases. The increase in the Line of Credit reflects the draws made during the year.

Liquidity and Capital Resources

The Company’s liabilities exceeded its assets by $8,412,871 at June 30, 2010. At June 30, 2009 the Company's assets exceeded liabilities by $6,518,584. The deterioration in our financial condition at June 30, 2010 versus June 30, 2009 resulted primarily from our Net Loss during the twelve-month period.

Cash and cash equivalents at June 30, 2010 was approximately $54,000 versus cash of $41,000 at June 30, 2009. Our investment in sales-type leases increased by approximately $506,000 in 2010 versus 2009. As our contract terms range from 24 to 36 months, we will be collecting on our investment in these leases over the next several years. Inventory of vehicles in 2010 was approximately $118,000 versus $148,000 in 2009, a decrease of $30,000. This decrease occurred because of constrictions in supply.

Net cash used in investing activities during the current year was approximately $18,000, compared to net cash used in investing activities in fiscal 2009 of ($35,000), a $17,000 decrease. The current year decrease was due to reduction of leasehold improvements.

Net cash provided by financing activities during fiscal year ended June 30, 2010 was approximately $1,640,000 versus $1,635,000 for the fiscal year ended June 30, 2009. Almost all of this activity can be traced to the net activity in relation to the revolving credit agreement.

At June 30, 2010, the Company had a $12,327,572 line of credit balance under a $13 million line of credit agreement with a privately held, independent finance company. Interest rate on the line of credit agreement is at prime plus 6% (9.25% at June 30, 2010). The line of credit agreement has two covenants (see Note 6 to the accompanying financial statements), neither of which the Company is in compliance with as of June 30, 2010. However, management believes they have a positive relationship with the independent finance company and does not expect any collection activity as a result of these defaults. The original line of credit with the lender at its inception in 2006 was $3,000,000 and the lender has periodically and consistently increased the limit as the need arose.

Considering the Company’s working capital position at year end and the projected cash requirements to fund operations, management estimates that the year-end cash balance of $54,551 will not be adequate to meet cash requirements and that additional draws will need to be made against the line of credit. Subsequent to June 30, 2010, the Company has been allowed to take additional draws under the revolving credit agreement to fund operations. However, we can not assure that additional draws will be available.

Although management cannot assure that future operations will be profitable, or that additional debt and/or equity financing will be available, we believe our cash balances at year end, together with additional debt financing, may provide adequate capital resources to maintain operations for the next year. If additional working capital is required during fiscal 2010 and not obtained through additional debt, equity capital or operations, it could adversely affect future operations. Management has historically been successful in obtaining financing and has demonstrated the ability to implement a number of cost-cutting initiatives to reduce working capital needs. Accordingly, the consolidated financial statements contained in Item 8 of this Form 10-K have been prepared assuming the Company will continue to operate and do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. As a result, the Company's independent registered public accountants have issued a going concern opinion on the consolidated financial statements of the Company for the fiscal year ended June 30, 2010.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us 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 our estimates. We believe the most significant estimates made in the preparation of the accompanying consolidated financial statements relates to the determination of our allowance for doubtful accounts, which is discussed below, as well as our revenue recognition policy as it relates to sales-type leases, and the carrying value of our inventory.

We maintain an allowance for doubtful accounts on an aggregate basis at a level we considers sufficient to cover estimated losses in the collection of our finance receivables. This reserve is currently accrued at 33% of lease and recontract revenue. The rate is periodically reviewed by management and changed to reflect 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, we believe that we have given appropriate consideration to all factors and have made reasonable assumptions in determining the allowance for doubtful accounts.

The SEC suggests that all registrants list their most "critical accounting policies" in Management's Discussion and Analysis. A critical accounting policy is one which is both important to the portrayal of the Company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management has identified the critical accounting policies presented above as those accounting policies that affect its more significant judgments and estimates in the preparation of its consolidate financial statements. The Company's Board of Directors has reviewed and approved the critical accounting policies identified. For a more complete discussion of this subject, see the notes to the financials.

Off-Balance Sheet Arrangements

As of June 30, 2010, we did not have any relationship with unconsolidated entities or financial partnerships, which other companies have established for the purpose of facilitating off-balance sheet arrangements as defined in Item 303(c)(2) of SEC Regulation S-B. Therefore, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Recent Accounting Pronouncements

Recent accounting pronouncements are more fully addressed in Note 9 to the accompanying financial statements.

Item 7A – Quantitative And Qualitative Disclosures about Market Risk – Not Applicable

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
NowAuto Group, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of NowAuto Group, Inc. and Subsidiary as of June 30, 2010 and 2009 and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NowAuto Group, Inc. and Subsidiary at June 30, 2010 and 2009, and the results of its operations, changes in stockholders' deficit, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 10 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Certified Public Accountants

Phoenix, Arizona
October 1, 2010

Item 8 – Financial Statements

NowAuto Group, Inc
Consolidated Balance Sheets

		June 30, 2010	June 30, 2009
Assets			
Assets			
Cash and Cash Equivalents	$	54,551	40,610
Investment in sales-type leases, net		4,085,136	3,578,326
Inventory		118,365	148,295
Prepaid Expenses		26,194	20,763
Equipment - net		53,094	69,882
Total Assets	$	4,337,340	3,857,876
Liabilities and Stockholders' Deficit			
Liabilities			
Accounts Payable	$	253,553	267,787
Line of Credit		12,327,572	9,996,319
Accrued Payroll		129,523	84,370
Other Liabilities		39,563	27,984
Total Liabilities		12,750,211	10,376,460
Stockholders' Deficit			
Common Stock, authorized 1,000,000,000 shares $0.001 par value; Issued and Outstanding June 30, 2010 and June 30, 2009 - 9,843,046 shares issued; 9,383,046 shares outstanding		9,843	9,843
Paid in Capital		4,649,931	4,649,931
Accumulated Deficit		(13,045,146)	(11,150,859)
		(8,385,372)	(6,491,085)
Less: treasury stock, 460,000 shares at cost as of June 30, 2010 and June 30, 2009, respectively		(27,499)	(27,499)
Total Stockholders' Deficit		(8,412,871)	(6,518,584)
Total Liabilities and Stockholders' Deficit	$	4,337,340	3,857,876

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

NowAuto Group, Inc
Consolidated Statements of Operations

	Year Ended June 30, 2010	Year Ended June 30, 2009
Income		
Sales-type leases and other	$ 3,939,781	$ 4,399,879
Finance Income	1,166,794	1,011,829
Total revenue	5,106,575	5,411,708
Cost of Goods Sold	2,158,007	2,952,747
Gross Profit	2,948,568	2,458,961
Gross Margin	57.7%	45.4%
Expenses		
Selling and Financing Costs	2,127,149	2,566,328
General and Administrative	1,674,796	1,235,971
	3,801,945	3,802,299
Loss from Operations	(853,377)	(1,343,338)
Interest Expense	1,040,910	888,193
Net Loss	$ (1,894,287)	$ (2,231,530)
Basic and Diluted Loss per Share	$ (0.20)	$ (0.24)
Weighted Average Number of Common Shares Outstanding	9,383,046	9,383,046

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

NowAuto Group, Inc
Consolidated Changes in Stockholders' Deficit

	Shares	Amount	Paid in Capital	Treasury Stock	Accumulated Deficit	Total Deficit
Balance June 30, 2008	9,843,046	$ 9,843	$ 4,649,931	$ (12,500)	$ (8,919,328)	$ (4,272,054)
Stock repurchase, 60,000 shares				(14,999)		(14,999)
Net Loss					(2,231,531)	(2,231,531)
Balance June 30, 2009	9,843,046	9,843	4,649,931	(27,499)	(11,150,859)	(6,518,584)
Net Loss					(1,894,287)	(1,894,287)
Balance June 30, 2010	9,843,046	$ 9,843	$ 4,649,931	$ (27,499)	$ (13,045,146)	$ (8,412,871)

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

NowAuto Group, Inc
Consolidated Statements of Cash Flows

	Year Ended June 30, 2010	Year Ended June 30, 2009
Operating Activities		
Net Loss	$ (1,894,287)	$ (2,231,531)
Adjustments to reconcile Net Loss to Net Cash used in Operating Activities		
Significant Non-Cash Transactions		
Depreciation/Amortization Expense	19,985	9,737
Loss on disposal of fixed assets	14,691	39,933
Interest expense capitalized into principal	1,040,910	888,193
Provision for uncollectible receivables	(46,223)	373,704
Gain on Restructuring of Debt	(350,000)	
Changes in assets and liabilities		
Investment in sales-type leases	(460,587)	(834,540)
Inventory	29,930	266,220
Prepaid expenses	(5,431)	43,124
Accounts payable	(14,234)	(73,825)
Accrued Payroll	45,153	18,795
Other liabilities	11,579	(91,164)
	285,773	640,177
Net cash used in operating activities	(1,608,514)	(1,591,354)
Investing Activities		
Purchase of Fixed Assets	(17,888)	(35,259)
Net Cash used in Investing Activities	(17,888)	(35,259)
Financing Activities		
Proceeds from line of credit	5,055,575	4,318,633
Principal payments on line of credit	(3,415,232)	(2,668,919)
Purchase of Treasury Stock	-	(14,999)
Net cash provided by Financing Activities	1,640,343	1,634,715
Net Increase in Cash and Cash Equivalents	13,941	8,102
Cash and cash equivalents, Beginning of Period	40,610	32,508
Cash and cash equivalents, End of Period	$ 54,551	$ 40,610
Supplemental Information:		
Cash paid for interest	$ -	$ -
Income Taxes paid	$ -	$ -

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

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Notes to the Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies

Nature of Operations

NowAuto Group, Inc primarily leases vehicles in the Buy Here, Pay Here industry through the use of sales-type leases. Our customers are individuals with sub-prime credit histories. We currently operate primarily in the Phoenix, Arizona Metropolitan area.

Principles of Consolidation

The consolidated financial statements include the accounts of NowAuto Group, Inc. and our subsidiary, NavicomGPS, Inc. All significant inter-company accounts and transactions have been eliminated.

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. Material estimates that are susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for doubtful accounts, the realization of deferred financing revenue, residual value of leases, and the carrying value of inventory.

Residual Value

The estimate of Residual Value is a percent of the market value of the vehicle at the time of the lease. The percentage is based on the terms and therefore is intended to project the value of the vehicle at the end of the lease.

Concentration of Risk

We originate our contracts and provide financing in connection with the sale and/or lease of substantially all of our vehicles. Although we attempt to mitigate our exposure to credit risk through the use of employment checks, reference checks, proof of residence, and other procedures, failure of the customers to make scheduled payments under their lease contracts could have a material near term impact on our results of operations and financial condition. In addition, all of our financing is provided through our revolving credit agreement which is held by one privately controlled venture capital fund.

While we do have customers outside the Phoenix area, our customer base is concentrated in Phoenix. Therefore, economic factors influencing this area will also affect us.

Periodically, we maintain cash in financial institutions in excess of the amounts insured by the federal government. However, at June 30, 2010 and 2009 the Company did not have cash in excess of federally insured amounts.

Cash Equivalents

We consider all highly liquid instruments purchased with initial maturities of three months or less to be cash equivalents.

Fair Value

Fair Value of lease contracts and Notes Payable is based on the applicable effective interest rates.

Inventory

Inventory consists of used vehicles and is valued at the lower of cost or market on a specific identification basis. Vehicles purchased at auction, or wholesale, are typically recorded at their purchase price. Repossessed vehicles are recorded at the lesser of their original cash value or their fair value, which is determined based upon the approximate wholesale value. Vehicle reconditioning costs are capitalized as a component of inventory. 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
Computer Equipment	3 to 5 years
Leasehold improvements	Length of the lease, typically 1 – 3 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

We pay sales taxes to local and state governmental agencies on vehicles sold and leased. For lease agreements, sales tax is paid when funds are received from the customer. Therefore, a liability is recorded for sales tax purposes in the period the lease is paid, and remitted as they are collected. 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. We do not report the sales for tax purposes until the down payments are fully paid. This is compliant with industry standards and with most state and local tax codes.

Income Taxes

Income taxes are accounted for under the asset and 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. Deferred tax assets are reduced by a valuation allowance when in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of operations.

The Company’s policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

We have adopted the provisions of ASC 740. As of June 30, 2010, we had no liabilities, included on the consolidated balance sheets, associated with uncertain tax positions.

Revenue Recognition

Sales-type leases

The Company's financing agreements are classified as sales-type leases pursuant to the provisions of ASC 840, Accounting for Leases. As such, revenues representing the sales price of the vehicles are recognized as income upon inception of the lease, with the resulting gross profit from the sales included in operations. Lease terms are typically for a period of 24 to 36 months with either monthly or bi-monthly payments.

The portion of revenues representing the difference between the gross investment in the lease (the sum of the minimum lease payments and the guaranteed residual value) and the sum of the present value of the two components is recorded as deferred revenue and amortized over the lease term. This deferred revenue represents the effective interest rate on the sales-type lease and ranges from approximately 19% to 29% per annum.

For the years ended June 30, 2010 and 2009, amortization of deferred revenue totaled $1,166,794 and $1,011,829, respectively.

Taxes assessed by governmental authorities that are directly imposed on revenue-producing transactions between the Company and its customers (which may include, but are not limited to, sales, use, value added and some excise taxes) are excluded from revenues.

Lessees are responsible for all taxes, insurance, and maintenance costs.

Repossessions

If the lessee ceases making payments pursuant to the lease terms and the decision is made by the Company to repossess the vehicle the lease is considered terminated. In such an event, the remaining balance of the lease is removed from the Investment in Sales-Type Leases, the repossessed vehicle is recorded as inventory at the lower of its original cost or its fair value at wholesale, and any resulting adjustment is charged to operations during the period.

Advertising Costs

Advertising costs are expensed as incurred and consist principally of radio, television and print media marketing costs. Advertising costs amounted to $75,168 and $99,671 for the years ended June 30, 2010 and 2009, respectively.

Loss per Share

The loss per share ("EPS") is presented in accordance with the provisions of ASC 260. Basic EPS is calculated by dividing the income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Basic and diluted EPS were the same for fiscal 2010 and 2009, as the Company had losses from operations during both years and therefore the effect of all potential common stock equivalents is antidilutive (reduces loss per share). There were no warrants or options outstanding as of June 30, 2010 or June 30, 2009.

Stock Option Plans

As of June 30, 2010 we had no employee stock ownership plan.

Allowance for Delinquent Leases

Provisions for losses on leases in default are charged to operations in amounts sufficient to maintain the allowance for delinquent leases at a level considered adequate to cover probable credit losses.

The Company established the allowance for delinquent leases based on the determination of the amount of probable credit losses inherent in the finance receivables as of the reporting date. The Company reviews charge-off experience factors, delinquency reports, historical collection rates, estimates of the value of the underlying collateral, economic trends, such as unemployment rates, industry standards and other information in order to make the necessary judgments as to probable credit losses. Assumptions regarding probable credit losses and loss confirmation periods are reviewed periodically and may be impacted by actual performance of finance receivables and changes in any of the factors discussed above.

Note 2. Non-Classified Balance Sheet

We are a finance company, originating and financing all of our own leasing contracts. These contracts are 24 to 36 months in length. Therefore, our balance sheet is presented on a non-classified basis.

Note 3. Investment in Sales-Type Leases – net

The Company's leasing operations consist principally of leasing vehicles under sales-type leases expiring in various years to 2013. Following is a summary of the components of the Company's net investment in sales-type leases at June 30, 2010 and 2009:

	2010	2009
Total Minimum Lease Payments to be Received	$ 6,584,183	$ 6,447,089
Residual Value	530,220	260,050
Lease Carrying Value	7,114,403	6,707,139
Less: Allowance for Uncollectible Amounts	(1,441,678)	(1,487,901)
Less: Unearned Income	(1,587,589)	(1,640,912)
Net Investment in Sales-Type Lease	$ 4,085,136	$ 3,578,326

A schedule of future minimum lease payments for each of the next three years is as follows for the years ended June 30, 2010 and 2009:

Years Ending June 30,	
2011	$ 3,106,335
2012	2,544,829
2013	933,019
	$ 6,584,183

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Note 4. Property and Equipment

A summary of equipment and accumulated depreciation as of June 30, 2010 and 2009 is as follows:

	2010	2009
Furniture, fixtures, and equipment	$ 58,643	$ 31,740
Leasehold improvements	3,448	27,323
Computers and miscellaneous	47,322	47,964
	109,413	107,027
Less: accumulated depreciation	(56,319)	(37,145)
Net equipment	$ 53,094	$ 69,882

Note 5. Income Taxes

The Company's income tax expense for the years ended June 30, 2010 and 2009 differed from statutory rates as follows:

	2010	2009
Combined federal and state effective tax rate	40%	40%
Statutory rate applied to loss before income taxes	$ (757,700)	$ (890,000)
Change in valuation allowance	757,700	890,000
Income tax expense	-	-

The significant components of the Company's deferred tax assets are as follows:

	2010	2009
Deferred tax assets		
Net operating losses carryforward	$ 4,014,700	$ 3,257,000
Less: valuation allowance	$ (4,014,700)	$ (3,257,000)
Deferred tax assets	$ -	$ -

At June 30, 2010 and 2009, the Company has incurred accumulated net operating losses totaling approximately $10,036,000 and $8,142,000 respectively, which are available to reduce federal and state taxable income in future years.

The losses expire as follows (in thousands):

Year of Expiry June 30, Federal	State		
2024		$	4
2025			1,285
2026	2011		303
2027	2012		2,214
2028	2013		2,102
2029	2014		2,231
2030	2015		1,894
		$	10,036

The amount taken into income as deferred tax assets must reflect that portion of the income tax loss carry forwards that is more-likely-than-not to be realized from future operations. The Company has chosen to provide an allowance of 100% against all available income tax loss carryforwards, regardless of their time of expiry.

Uncertain Tax Positions

The Company has adopted ASC 740. This prescribes a recognition threshold and measurement attribute for the recognition and measurement of tax positions taken or expected to be taken in income tax returns. ASC 740 also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, and accounting for interest and penalties associated with tax positions.

The Company files income tax returns in the U.S. federal jurisdiction. The Company’s tax returns are subject to examinations by U.S. federal and state tax authorities, until their respective statute of limitations has run. It is primarily subject to examinations by tax authorities for all taxation years commencing on or after 2003.

Management’s analysis of ASC 740 supports the conclusion that the Company does not have any accruals for uncertain tax positions as of June 30, 2010. As a result, tabular reconciliation of beginning and ending balances would not be meaningful. If interest and penalties were to be assessed, we would charge interest to interest expense, and penalties to other operating expense. It is not anticipated that unrecognized tax benefits would significantly increase or decrease within 12 months of the reporting date.

Note 6. Line of Credit

As of June 30, 2010 the Company had revolving credit agreement for approximately $13,000,000 with a private equity fund. The credit agreement is secured by the lease contracts it agrees to fund, as well as the underlying vehicle. The monies advanced under the line of credit are based upon the contract price and vary per contract, at the discretion of the lender. Substantially all the sales-type lease contracts financed require our customers to make their monthly payments directly to the finance company via ACH (automatic account withdrawal). The Company retains ownership of the contracts and is active in the collection of delinquent accounts from the contracts. The line of credit matures and renews annually on February 6th. At inception, March 31, 2006, our credit limit was $3,000,000. This limit has been expanded by the lender as to its current $13,000,000 limit. The interest rate is at the prime lending rate plus 6% (9.25% at June 30, 2010).

In light of the challenges in the current economy, the lender above recently granted a $350,000 forgiveness of debt. The credit was used to reduce our outstanding balance to $12,327,572 as of June 30, 2010. The credit was determined to meet the definition of a troubled debt restructuring pursuant to ASC 470-60. As such, the gain was determined to be $350,000, which was the amount of the credit issued on a line of credit. The per share effect of the credit was to reduce the loss per share by $0.04. As the credit was granted in acknowledgement of the current economy we recorded the credit as a reduction in our bad debt expense in the current financial statements. This was unsolicited by the Company.

The revolving credit agreement has two debt covenants. The Company must maintain a tangible net worth of at least $2,000,000 and a leverage ratio that total liabilities cannot exceed four times the tangible net worth. As of June 30, 2010 we are not in compliance with either of these covenants. However, we believe that we have a strong relationship with our lender and do no anticipate, without any assurance, that any collection actions are imminent.

Note 7. Stockholders' Equity

Common Stock

As of June 30, 2010 we have one class of stock authorized, which is our common stock. Our common stock has a par value of $0.001 and a total of 1,000,000,000 shares are authorized.

Currently we have no outstanding options or warrants, nor do we have any stock option plans.

Note 8. Commitments and Contingencies

Facility Leases

We lease certain car lots and office facilities under various non-cancelable operating leases. Lot leases are generally for periods from one to three years and may contain multiple renewal options. Rent costs for the year ended June 30, 2010 was $169,700 and $149,800 for the prior year. As of June 30, 2010, the aggregate rentals due under such leases, including renewal options that are reasonably assured, are as follows:

Years Ending June 30,		
2011	$	154,000
2012		131,000
2013		32,000

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Note 9. The Effect of Recently Issued Accounting Standards

Recent Accounting Pronouncements

There have been no accounting pronouncements or changes in accounting principles during the year ended June 30, 2010 that are of significance, or potential significance, to us.

Note 10. 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 through June 30, 2010. This raises 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.

Since that initial loss, great efforts have been made to improve our profitability. Margins on cars sold have increased. Costs, especially overhead, have been reduced. Head count is kept to a minimum. Accountability has been greatly enhanced by development of qualified Accounting staff and the implementation of an Enterprise-wide and fully integrated software system. The Company has been and continues to develop the Financing function whose focus includes, but is not limited to improved stability scoring and credit approval process, improvement of the total portfolio aging, and reduction of account losses. In the year ended June 30 2010, the corporate office and Service Department relocated to the same facility. This new facility greatly enhances the Service Department's efficiency and capacity and gives upper management closer oversight of operations.

Note 11. Subsequent Events

Subsequent to the date of these financials statements, the Company made a loan to Chief Operations Officer Theodore Valenzuela for the purchase of a vehicle. The amount is $18,000. The interest rate is 12% and terms are 30 months. Anticipated interest revenue is $3,034.

Item 9 – Changes in and Disagreements with Accountants

There are no changes other than those previously announced. There are no disagreements.

Item 9A - Controls and Procedures

ITEM 9A (T). CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company carried out, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended). Based on their evaluation, the Company's Chief Executive Officer and its Chief Financial Officer concluded that, as of June 30, 2010, the Company's disclosure controls and procedures were not effective because of the material weaknesses identified as of such date discussed below. Notwithstanding, the existence of the material weaknesses described below, management has concluded that the consolidated financial statements in this Form 10-K fairly present, in all material respects, the Company's financial position, results of operations and cash flows for the periods and dates presented.

(b) MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

With the participation of the Company's Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting as of June 30, 2010, based on the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will occur and not be detected by management before the financial statements are published. In its assessment of the effectiveness in internal control over financial reporting as of June 30, 2010, the Company determined that there were control deficiencies that constituted material weakness, as described below.

The accounting department is an appropriate size for the Company and half of the staff have accounting degrees. However, the number of staff is not adequate to achieve division of duties as a control.

Due to this material weakness, management concluded that our internal control over financial reporting was not effective as of June 30, 2010.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Managements report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

The Company is in the process of developing and implementing a remediation plan to address the material weaknesses as described above.

The Company has taken the following actions to improve internal control over financial reporting:

During the remaining period through the year ending June 30, 2011, we will enhance our internal control design and documentation, and develop a plan for resolving this weakness.

In light of the aforementioned material weakness, management conducted a thorough review of all significant or non-routine adjustments for the year ended June 30, 2010. As a result of this review, management believes that there are no material inaccuracies or omissions of material fact and, to the best of its knowledge, believes that the consolidated financial statements for the year ended June 30, 2010 fairly present in all material respects the financial condition and results of operations for the Company in conformity with U.S. generally accepted accounting principles.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

Part III

Item 10 - Directors, Executive Officers, Promoters, Control Person and Corporate Governance: Compliance With Section 16(a) of The Exchange Act

Our executive officers are as follows:

Name	Age	Position with the Company
Scott Miller	50	Chief Executive Officer and Director
Theodore Valenzuela II	49	Chief Operations Officer
Faith Forbis	56	Chief Financial Officer

Scott Miller has been President and CEO of NowAuto since September 2004. Prior to joining NowAuto, Mr. Miller had over fifteen years of investment banking and business consulting experience.

Theodore Valenzuela II has been Vice President and COO of NowAuto since September of 2004. Prior to joining NowAuto, Mr. Valenzuela was the general manager for Western Skies, Inc. from 1994 to 2004.

Faith Forbis is a CPA with a Masters of Information Systems Management. She has several years experience in the accounting field and as a consultant for mid-range accounting and business systems.

Family Relationships

There are no family relationships among any of our officers or directors.

Involvement in certain legal proceeding

Other than as disclosed in this annual report under Item 3 – Legal Proceedings, none of our officers or director has been involved in a legal proceeding requiring disclosure in the last five years.

Board of Directors

Scott Miller serves as the only Director.

Committees

There are no committees of the Board of Directors.

Board meetings

The Board of Directors meets on an as needed basis. There were three meetings in the first quarter of this fiscal year concerning the changes in auditors as previously reported.

Section 16(a) Beneficial Ownership Reporting Compliance

Under federal securities laws, our directors, officers, and 10% shareholders are required to report to the SEC their beneficial ownership of common stock and any changes in that ownership. We believe that all filings were made timely during fiscal 2010.

Code of Ethics

The officers and managers have collectively created our Core Values. They are listed below:

- Ø Treat each co-worker with dignity, as an individual.
- Ø Respect and improve the lives of our customers.
- Ø Tolerate honest mistakes borne of well-meaning effort.
- Ø Promote opportunities from within to our co-workers.
- Ø Honesty, passion, and integrity in everything we do.
- Ø Lead the industry with innovative products and services.

Posters of these values are displayed in every place of business.

Item 11 – Executive Compensation

	Year	Salary	Bonus	Stock Awards	Option Awards
Scott Miller, CEO	2010	260,000	80,800	0	N/A
Theodore Valenzuela, COO	2010	128,000	70,294	0	N/A
Faith Forbis, CFO	2010	80,000	0	0	N/A

Director’s Compensation

Our director does not receive any compensation for service as a member of the board of directors.

Stock

The Company only offers non-optionable common stock. No dividends have ever been paid. There are no equity compensation plans. No one owns more than 5% of stock.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Title of Class	Name of Owner	Amount	Percent of Class
Common	Scott Miller	450,000	4.80%
Common	Theodore Valenzuela	19,444	0.21%
Common	Faith Forbis	200,000	2.13%
	Total	669,444	7.13%

No one, including officers and director owns more than a 5% share of common stock outstanding.

Item 13 - Certain Relationships and Related Transactions, and Director Independence

There are none.

Item 14 - Principal Accountant Fees and Services

The following table shows the aggregate fees billed to us for professional services by our independent registered public accounting firm during fiscal 2010 and 2009.

	Fiscal 2010	Fiscal 2009
Audit fees	$ 67,170	$ 30,500
Audit related fees	0	0
Tax fees	0	0
All other fees	0	0
Total fees	$ 67,170	$ 30,500

Audit fees – This category includes the aggregate fees billed for professional services rendered for the review and audits of our financial statements for fiscal year 2010 and 2009, for the reviews of the financial statements included in our quarterly reports on Form 10-Q during fiscal 2010 and 2009, and for services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for the relevant fiscal years.

Tax fees – this category includes the aggregate fees billed in each of the last two fiscal years for professional services rendered by the independent auditors for tax compliance, tax planning and tax advice.

All such services are preapproved by the Audit Committee or Director.

Part IV

Item 15 - Exhibits

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

SIGNATURES

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

	NOW AUTO GROUP, INC.	
Date: October 6, 2010	By:	/s/ Scott Miller,
		Scott Miller, Chief Executive Officer

	NOW AUTO GROUP, INC.	
Date: October 6, 2010	By:	/s/ Faith Forbis
		Faith Forbis Chief Financial Officer, Principle Accounting Officer