

NowAuto Group, Inc.
Form 10-K
October 13, 2006

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

FORM 10-K

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

For the fiscal year ended:
June 30, 2006

Commission file number:
000-50709

NOWAUTO GROUP, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction
of incorporation)

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

2090 East University, Suite 112, Tempe, Arizona 85281
(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 x NO o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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
Common Stock, par value \$0.001

June 30, 2006
per share 9,843,046

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

Assets

June 30,
2006June 30,
2005

Current Assets

Cash	27,433	736,910
Accounts Receivable - Net	1,582,495	48,300
Inventory	624,898	336,386
Other Current Assets	95,646	6,029

	2,330,472	1,127,625
--	-----------	-----------

Equipment - Net	40,733	3,920
-----------------	--------	-------

Long Term Portion of Notes Receivable	2,592,988	
---------------------------------------	-----------	--

Goodwill	1,022,147	1,628,482
----------	-----------	-----------

	5,986,340	2,760,027
--	-----------	-----------

Liabilities and Stockholders' Equity

Liabilities

Accounts Payable	406,002	329,425
Taxes Payable	391,757	117,680
Line of Credit	2,480,571	
Accrued Payroll Payable	56,303	17,455
Repossession Accrual		118,616
Other Loans	146,554	99,565

Total Liabilities	3,481,186	682,741
-------------------	-----------	---------

Stockholders' Equity

Common Stock, authorized 100,000,000 shares, \$0.001 par value; Issued and outstanding June 30, 2006 - 9,863,045 shares June 30, 2005 - 8,157,661 shares	1,005,500	8,157
--	-----------	-------

Paid in Capital	3,569,974	3,523,117
-----------------	-----------	-----------

Retained Earnings/(Deficit)	(2,070,319)	(1,453,988)
-----------------------------	-------------	-------------

Total Stockholder's Equity	2,505,154	2,077,286
----------------------------	-----------	-----------

5,986,340

2,760,027

NowAuto Group, Inc

Consolidated Condensed Statements of Operations

	Year Ended June 30, 2006	Year Ended June 30, 2005
Income		
Vehicle & Finance Income	11,683,864.65	2,092,912
Cost of Goods Sold	8,039,314.50	1,960,587
Gross Profit/Loss	3,644,550.15	132,325
Expenses		
General and Administrative Stock for Services Write off of Reserves	3,191,063.35	1,582,313
	213,887.00	
Profit before Income Taxes	239,599.80	(1,449,988)
Impairment of Goodwill	686,867.64	
Provision for Income Tax		
Net Income (Loss)	(447,267.84)	(1,449,988)
Basic and Diluted		
Earnings per Share before Impairment	0.02	
Net (Loss) per Common Share	(0.05)	(0.15)

NowAuto Group, Inc

Consolidated Stockholders' Equity

	Shares	Amount	Paid in Capital	Subscriptions Receivable	Accumulated Deficit (Restated)	Total Equity
Balance June 30, 2003	319,878	320	(320)			0
Common Shares Issued to Founders	13,333,333	13,333	(9,333)			4,000
Common Shares Subscribed	1,333,333	1,333	998,667	(1,000,000)		0
Net (Loss)					(178,405)	(178,405)
Balance June 30, 2004	14,986,544	14,986	989,014	(1,000,000)	(178,405)	(174,405)
Cash received on Subscriptions Receivable with additional Shares Issued	3,666,667	3,667	(3,667)	1,000,000		1,000,000
Common shares issued for cash	1,900,001	1,900	1,548,174			1,550,074
Common shares issued for acquisition	322,042	322	300,105			300,427
Common shares canceled	(13,333,333)	(13,333)	9,333			(4,000)
Common shares for service	615,741	616	680,157			680,773
Net (Loss)					(1,449,988)	(1,449,988)
Balance June 30, 2005	8,157,662	8,157	3,523,116	0	(1,628,393)	1,902,880
Stock Scribed				1,005,500		1,005,500
Purchase of Global-E Investments	1,550,000	1,550	(1,550)			0
Stock for services	70,000	70	30,130			30,200
Common shares issued for cash	65,384		8,500			8,500
Net (Loss)			1,005,500	(1,005,500)	(441,926)	(441,926)
Balance, June 30, 2006	9,843,046	9,777	4,565,696	0	(2,070,319)	2,505,154

NowAuto Group, Inc

Consolidated Condensed Stockholders' Equity

	Year ended June 30, 2006	Year ended June 30, 2005
Operating Activities		
Net Income	(441,926)	(1,449,988)
Significant Non-Cash Transactions		
Goodwill Purchase		300,426
Shares cancelled		1,764,018
Common stock for services	30,200	(4,000)
Depreciation/Amortization Expense	49,613	571
Changes in assets and liabilities		
(Increase)/Decrease in Receivables	(4,227,953)	(150,435)
(Increase)/Decrease in Inventory	(288,512)	(336,386)
(Increase)/Decrease in Other Current Assets	(89,617)	373,153
(Decrease)/Increase in Accounts Payable	76,577	118,264
(Decrease)/Increase in Other Liabilities	342,067	
Net Cash (Used) by Operating Activities	(4,107,626)	2,065,611
Investing Activities		
Purchase of Fixed Assets	(121,568)	(4,491)
Write off Reserves	213,887	
Impairment of Goodwill	686,868	(1,627,035)
Purchase of Goodwill		
	779,186	(1,631,526)
Financing Activities		
Proceeds from sale of stock		2,021,779
Proceeds from Shareholders loans		99,565
Stock Subscriptions Sold/Paid	1,005,500	
Common Stock sold		
Bank loan	2,055,389	
	3,060,889	2,121,344
Net Increase/(Decrease) in Cash	(709,477)	732,288
Cash, Beginning of Period	736,910	

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

	27,433	732,288
Significan Non-cash transactions		
Purchase of Navicom, see notes		
Merger with Global-E Investments see notes		
Stock for Services, 50,000 shares @ \$0.05	25,000	
Stock for Services, 20,000 shares @ \$0.26	5,200	
Supplemental Information:		
Period interest	79,455	
Income Taxes paid		

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 June 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 will be shown. Global-E Investments has changed its name to NowAuto Group, Inc.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Use of Estimates

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

Concentration of Risk

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

Cash Equivalents

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

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

Used Car Inventory

Inventory consists of used vehicles and is valued at the lower of cost or market on a specific identification basis. Vehicle reconditioning costs are capitalized as a component of inventory. Repossessed vehicles are recorded at fair value, which approximates wholesale value. The cost of used vehicles sold is determined using the specific identification method.

GPS Devices Inventory

The Company purchases all of its GPS devices for sale. These devices are stated at cost.

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. 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. The Company is current with its filings of reports. The Company does owe back sales taxes. Arrangements have been made with all taxing authorities and the company is in full compliance with all of them.

Income Taxes

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

Revenue Recognition

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

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

Advertising Costs

Advertising costs are expensed as incurred and consist principally of radio, television and print media marketing costs. Advertising costs amounted to \$268,024 and \$68,647 for the fiscal years ended June 30, 2006 and 2005, 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 June 30, 2006 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 car. Great effort has been made to accomplish this goal and the need for repossession accruals is reduced.

Note 3. FINANCE AND ACCOUNTS RECEIVABLES - NET

Financed Contract Receivable-net

The Company originates installment sale contracts from the sale of used vehicles at its lots. These installment sale contracts typically a) include interest rates of 29.99% per annum, b) are collateralized by the vehicle sold and c) provide for payments over a period of 36 months. Currently the Company sells a portion of its contracts to third party finance companies. At June 30, 2005, the Company was not holding any of its own contracts. As of June 30, 2006 the Company was holding financed contracts. These are shown below.

Financed Contracts Receivable	\$ 3,557,142
Allowance for doubtful accounts	(100,000)
Financed Contracts-net	\$ 3,457,142

Accounts Receivable - Net

The Company's subsidiary Navicom maintains a trade accounts receivable and allowance for doubtful accounts as follows:

	June 30, 2006	June 30, 2005
Accounts Receivable	\$ 432,071	\$ 341,913
Less: Allowance for Doubtful Accounts	(7,690)	(13,677)
Net Accounts Receivable	\$ 424,381	\$ 328,236
Total Receivables net	\$ 3,989,213	

Note 4. PROPERTY AND EQUIPMENT

A summary of equipment and accumulated depreciation as follows:

	June 30, 2006	June 30, 2005
Furniture, fixtures and Equipment	\$ 27,104	\$ 4,491
Leasehold improvements	2,624	0
Computers & Software	9,396	
Less accumulated depreciation	(4,747)	(571)
Net Equipment	\$ 34,377	\$ 3,920

Note 5. GOODWILL (Including Recent Purchases)

During the fiscal year ending June 30, 2005, the Company purchased the rights to three used car lots and its subsidiary Navicom Corporation. Details of these purchases are in a subsequent note. The company performed an analysis of its booked Goodwill compared to the present value of projected future profits for the next five years. Based on that analysis the recorded Goodwill will hold its value. The recorded Goodwill on June 30, 2006 was as follows:

Year Ending June 30,	2006	2005
Navicom purchase	\$ 214,401	\$ 214,401
Mesa Lot Purchase	498,028	498,028
Tucson Lot Purchase	164,318	164,318
Sunburst Lot Purchase	4,000	751,735
Total	\$ 880,747	\$ 1,628,482

In the above figures the purchase of the Sunburst lot is included in the Goodwill amount as of June 30, 2005.

On July 7, 2005 the depreciable portion of the purchase price listed above, \$350,000, was reallocated to equipment and furniture.

Impairment

The company has selected the final quarter as its period to evaluate the goodwill for impairment on an annual basis. Certain significant events have occurred that focused attention on Sunburst goodwill.

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

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

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

In June of 2006, the landlord of the Sunburst lot announced that he had an offer to sell the land. In view of the events discussed above, the company decided to decline to exercise its lease option to stay. Therefore, the under-performing Sunburst auction was closed down. Certain fixed assets that could not be legally or practically removed were abandoned. The lot was moved to a new location. These events resulted in a write off of fixed assets for \$231,518 to impairment and a reduction of overhead of \$338,364 per year. However, the company believes that the new location will be as productive in financed sales as the old lot had been.

Note 6. INCOME TAXES

The provision for income taxes for the fiscal quarters ended June 30, 2006 and 2005 were as follows below. A valuation account has been set up in the amount of the deferred asset.

Quarter ended March 31,	2006	2005
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 and as of June 30, 2004 had 44,959,633 common shares issued and outstanding that includes 4,000,000 shares issued for \$1,000,000 subscriptions receivable for a 504 offering. On August 31, 2004 the name was changed to NowAuto, Inc.

During the twelve months ended June 30, 2005 the Company issued an additional 1,000,000 common shares in receipt of \$1,000,000 cash payment for the subscriptions receivable executed during the prior period 504 offering.

During the period ended June 30, 2005 the Company issued an additional ,000,000 shares for \$1,000,000 cash in a second 504 offering.

On October 19, 2004 the Company issued 430,126 shares valued at \$86,025 to assume a 100% interest in a used auto dealership and the receipt of a non complete agreement.

On September 3, 2004, 2005 the company issued 536,002 common shares valued at \$214,401 to purchase its wholly owned subsidiary Navicom Corporation.

In November, 2004 the Company authorized issue of 1,500,000 common shares valued at \$330,000 to its CEO for professional services.

On February 4, 2005 the Company issued 500,000 restricted common shares in a private placement for \$450,075 cash.

On February 16, 2005 Company issued 50,000 common shares to the founder for services and the surrender of 40,000,000 shares that where immediately cancelled.

On May 6, 2005 the Company issued 297,223 shares for services rendered to the company valued at \$350,723.

On June 21, 2005 the Company issued 200,000 common shares in a private placement for \$100,000 cash.

During the quarter ended September 30, 2005 the Company received \$1,005,500 as stock subscriptions through private placements.

On November 1, 2005 the Company authorized the 50,000 shares of restricted common sock for consulting services. For the quarter ended March 31, 2006 the Company authorized 20,000 shares of restricted common stock for consulting services.

NOTE 8. COMPANY ACQUISITIONS

Navicom Corporation

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

Assets

Cash	\$	1,689
Accounts Receivable		26,223
Furniture & Fixtures		1,551
Total Assets	\$	29,463

Liabilities and Stockholders Equity

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

NowAuto Mesa Car Lot

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

NowAuto Tucson Car Lot

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

Sunburst Lot

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

Equipment & fixtures	\$	250,000
Leasehold Improvement		100,000
No Compete Covenant		5,000
Goodwill		375,000
Escrow Costs		1,735
Total Investment	\$	751,735

Note 9. SEGMENT REPORTING

The Company has two segments, its cars sales and its GPS unit sales (Navicom). Following is an analysis of these segments for the three months ended June 30, 2006.

	Cars	GPS Units	Total
Sales	\$ 2,651,686	\$ 74,902	\$ 2,726,588
Costs of Goods Sold	1,551,166	85,218	1,636,384
Gross Profit	\$ 1,100,520	\$ (10,316)	\$ 1,090,204

Note 10. STOCK OPTIONS AND WARRANTS

Currently the Company has no outstanding options or warrants.

Note 11. COMMITMENTS AND CONTINGENCIES

Facility Leases

The Company leases certain car lots and office facilities under various operating leases. Lot leases are generally for periods from one to three years and may contain multiple renewal options. As of June 30, 2006, the aggregate rentals due under such leases, including renewal options that are reasonably assured, are as follows:

2006	\$ 237,679
2007	253,983
2008	253,983
2009	253,983
2010	253,983

Note 12. RELATED PARTY TRANSACTIONS

Shareholders have advanced the Company funds to cover operational expenses. These were demand notes and currently carried no interest. At December 31, 2005, \$350,000 was converted to a note payable with 6% interest. This note is secured by the assets of the corporation. The total notes payable to Company shareholders are \$164,955.98 at March 31, 2006 and \$99,565 at June 30, 2005. These notes have now been fully satisfied through transfer of customer's contracts.

Beginning during the quarter the Company began utilizing a flooring company which previously has been utilized for purchase of contracts. This finance company is owned by the same shareholder that has loaned funds to the Company as mentioned in the previous paragraph.

Note 13. THE EFFECT OF RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

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

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

Statement No. 152 Accounting for Real Estate Time-Sharing Transactions (an amendment of FASB Statements No. 66 and 67)

This Statement amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions.

This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, states that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs are subject to the guidance in SOP 04-2.

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

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

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

This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed.

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

Note 14. GOING CONCERN

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

Management has made efforts to improve the profitability of the Company by increasing the margins on cars sold. They have also hired new finance and accounting personnel to better track the Company's profitability and negotiate selling contracts. Investor funds have been solicited to maintain cash flows until the Company becomes profitable. The quarter ended December 31, 2005 reflected a substantial net loss. The Company did report a profit for the year ended June 30, 2006; however, the Company needs to attract equity investors to continue in existence. No assurance can be made that these investors will be forthcoming.

Note 15. 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. The other officers currently receive salaries of less than \$100,000.

Note 16. Contract Financing

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto appearing elsewhere in this report.

Forward-looking Information

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward-looking statements. Certain information included in this Quarterly Report on Form 10-QSB contains, and other materials filed or to be filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company or its management) contain or will contain, forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words "believe," "expect," "anticipate," "estimate," "project" and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. The Company undertakes no obligation to publicly update or revise any forward-looking statements. Such forward-looking statements are based upon management's current plans or expectations and are subject to a number of uncertainties and risks that could significantly affect current plans, anticipated actions and the Company's future financial conditions and results. As a consequence, actual results may differ materially from those expressed in any forward-looking statements made by or on behalf of the Company as a result of various factors. Any forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

Overview

Since 2004, NowAuto Group, Inc., a Nevada corporation (the "Company") is a publicly held retailer focused on the "Buy Here/Pay Here" segment of the used vehicle market. The Company generally sells 1999 and newer model-year used vehicles and provides financing for substantially all of its customers. Many of the Company's customers have limited financial resources and would not qualify for conventional financing as a result of limited credit histories or past credit problems. As of June 30, 2006 the Company has four 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 collections. The Company is responsible for its own collections through its internal collection department with supervisory involvement of the corporate office. For the three months ended June 30, 2006 estimated credit losses as a percentage of contracts were 14%. The Company intends to increase the focus of store management on credit quality and on collections. In addition to the experience of store management and the seasoning of the customer base, credit losses are also impacted, to some degree, by economic conditions in the markets in which the Company serves. In recent months, energy costs have risen at a rate much faster than the general rate of inflation. While the Company believes the most significant factor affecting credit losses is the proper execution (or lack thereof) of its business practices, the Company also believes that higher energy and fuel costs have a negative impact on collection results.

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

The Company also offers GPS tracking services through its NaviCom GPS, Inc. subsidiary that allows users, including vehicle dealers and others, to locate, track and monitor motor vehicles and other personal property. Originally organized as a reseller of GPS products for the Company's Buy Here/Pay Here operations and a small group of external customers, NaviCom GPS, Inc. specializes in tracking and monitoring solutions for fleet management, law enforcement and finance applications as well as tracking vehicles.

Twelve Months Ended June 30, 2006 vs. Twelve Months Ended June 30, 2005

For the quarter ended June 30, 2005 the Company was just beginning and did not have any significant sales. As such, a comparison with the quarters would be ineffectual. The discussion below focuses on the twelve months ended June 30, 2006 vs. the twelve months ended June 30, 2005.

Revenue from financed vehicles generally fall in a price range of \$7,000 to \$9,000. Vehicle sales represented 78% of revenue for the period and NaviCom GPS, Inc. 2%.

The Company's gross profit as a percentage of sales during the twelve months ended June 30, 2006 was 31% vs. 6% for the period ended June 30, 2005.

General and administrative expenses as a percentage of sales were 27% for the twelve months ended June 30, 2006 and 75% for the period ended June 30, 2005. Regulatory oversight expenses may affect this as the Company grows.

Financial Condition

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

	6/30/06	6/30/05
Accounts Receivable (net)	4,175,483	48,300
Inventory	624,898	336,386
Equipment	40,733	3,920
Goodwill	928,747	1,628,482
Accounts Payable	406,001	329,425
Taxes Payable	391,757	117,980

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

Liquidity and Capital Resources

During the twelve months ended June 30, 2006 the Company had investment equity infusions to shore up the lack of cash flow. The Company has not had any investments since September 30, 2005. Since the middle of August 2005 the company has also kept most of its contracts as opposed to selling the contracts to third parties. This has put a severe strain on the cash flow of the Company and has made it difficult to pay normal overhead expenses on an ongoing basis. During the three month period ended March 31, 2006 the Company executed a finance agreement with an independent finance company to fund the Company's installment contracts. Without a source to finance or purchase the contracts the Company has only as its cash flow cash sales from its weekly auction 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, economic conditions and collections practices. The allowance for doubtful accounts is periodically reviewed by management with any changes reflected in current operations. Although it is at least reasonably possible that events or circumstances could occur in the future that are not presently foreseen which could cause actual credit losses to be materially different from the recorded allowance for credit losses, the Company believes that it has given appropriate consideration to all factors and has made reasonable assumptions in determining the allowance for doubtful accounts.

Recent Accounting Pronouncements

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

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

Seasonality

The Company's vehicle sales and finance business is seasonal in nature. The period October through December is historically the slowest period for vehicle sales. Many of the Company's operating expenses such as administrative personnel, rent and insurance are fixed and cannot be reduced during period of decreased sales. Conversely, the period January through May is historically the busiest time for vehicle sales as many of the Company's customers use income tax refunds as down payment on the purchase of a vehicle.

Item 3. Quantitative And Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

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

During the twelve months ended June 30, 2006 the Company made a number of improvements in the IT area including (i) hiring a seasoned chief accountant; (ii) installing new software programs specific to the Company's business; and (iii) improving operational reporting procedures and controls. While the Company's management believes improvements have been made, as of the end of June 30, 2006 this new system is not totally functional. The Company intends to be totally operational by the end of the June 30, 2007 quarter.

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

MOORE & ASSOCIATES, CHARTERED
ACCOUNTANTS AND ADVISORS
PCAOB REGISTERED

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use, in the statement on Form 10KSB of Now Auto Inc, of our report dated October 12, 2006 on our audit of the financial statements of Now Auto Inc as of June 30, 2006 and 2005, and the related statements of operations, stockholders' equity and cash flows for the years then ended, and the reference to us under the caption "Experts."

/s/ Moore & Associates, Chartered

Moore & Associates Chartered

Las Vegas, Nevada

October 12, 2006

2675 S. Jones Blvd. Suite 109, Las Vegas, NV 89146 (702)253-7511 Fax (702)253-7501

MOORE & ASSOCIATES, CHARTERED

ACCOUNTANTS AND ADVISORS

PCAOB REGISTERED

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Now Auto Inc.
Las Vegas, Nevada

We have audited the accompanying balance sheet of Now Auto Inc. as of June 30, 2006 and 2005, and the related statements of operations, stockholders' equity and cash flows for the years ended June 30, 2006 and 2005. 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 standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the financial position of Now Auto Inc as of June 30, 2006 and 2005 and the results of its operations and its cash flows for the years ended June 30, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 14 to the financial statements, the Company's recurring losses raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Moore & Associates Chartered
Las Vegas, Nevada
October 12, 2006

2675 S. Jones Blvd. Suite 109, Las Vegas, NV 89146 (702) 253-7511 Fax (702) 253-7501
