

COACH INDUSTRIES GROUP INC

Form 10-K

March 17, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(mark one)

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from _____ to _____

Commission file number: 0-19471

COACH INDUSTRIES GROUP, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

91-1942841
(I.R.S. Employer
Identification No.)

12330 SW 53rd Street, Suite 703 Cooper City, Florida
(Address of principal executive offices)

33330
(Zip Code)

(954) 602-1400

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(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes 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. 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of June 30, 2005, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$6,900,00 based on the average bid and asked price as reported by the OTC Bulletin Board.

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

| Class | Outstanding at January 31, 2006 |
|--|---------------------------------|
| Common Stock, \$.001 par value per share | 29,038,323 shares |

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COACH INDUSTRIES GROUP, INC.

Report on Form 10-K

For the Fiscal Year Ended December 31, 2005

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and our other filings with the Securities and Exchange Commission contain forward-looking statements that involve risks and uncertainties. Our forward-looking statements relate to future events or our future performance and include, but are not limited to, statements concerning our future profitability, revenues, market growth, demand and pricing trends, competition in our industry, market acceptance, timing of any demand for next generation products, capital requirements and new product introductions. Other statements contained in our filings that are not historical facts are also forward-looking statements. We have tried, wherever possible, to identify forward-looking statements by terminology such as may, will, could, should, expects, anticipates, intends, plans, believes, seeks, estimates and

Forward-looking statements are not guarantees of future performance and are subject to various risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed in forward-looking statements. They can be affected by many factors, including, those listed in this Annual Report on Form 10-K under the caption *Management's Discussion and Analysis of Financial Condition and Results of Operations*. This section describes some of the additional uncertainties and factors that may affect our forward-looking statements. Forward-looking statements are based on the beliefs, estimates made by, and information presently available to senior management. We do not assume any duty to update our forward-looking statements.

WHERE YOU CAN FIND MORE INFORMATION

We file annual and quarterly reports with the U.S. Securities and Exchange Commission (SEC). In addition, we file additional reports for matters such as material developments or changes. Our executive officers, directors and beneficial owners of 10% or more of our common shares also file reports relative to the acquisition or disposition of our common shares or acquisition, disposition or exercise of our common shares purchase options or warrants. These filings are a matter of public record and any person may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a Web site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. You may obtain a copy of any of our public filings by contacting the Company or from the SEC as mentioned above.

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PART I

Item 1. Business.

This summary highlights important information about our company and business. Because it is a summary, it may not contain all of the information that is important to you. To understand this offering fully, you should read this entire report on Form 10-K and the financial statements and related notes included in this report on Form 10-K carefully. Unless the context requires otherwise, *we*, *us*, *our*, and the *company* and similar terms refer to Coach Industries Group, Inc., and our subsidiaries collectively, while the term *Coach* refers to Coach Industries Group, Inc. in its corporate capacity.

General

Coach is a holding company, which, through its subsidiaries, offers an array of financial services, insurance products and fleet management to commercial fleet operators. These services include finance and operating leases for vehicles, procurement and disposal of vehicles, and the supply of commercial fleet drivers for these operators. We also provide specialty insurance products for the commercial fleet drivers. Our long-term strategy is to expand our array of products and services to existing customers as well as other commercial fleet operators. Coach will also actively pursue acquisition candidates that can support the expansion of these products and services

Operating Segments:

Finance Leasing Operations

CFS and FleetPlan offer financial services to commercial fleet operators including customers of CDS and American-Springfield. CFS targets small to mid-size commercial fleet operators through the United States. FleetPlan, our newest acquisition, intends to target the daily rental business market.

Contractor Settlement Processing

CDS provides independent contractors, subcontractor settlement processing and specialty insurance products to commercial fleet operators. CDS provides commercial fleet operators with the services of independent contractors, which may help operators alleviate workplace concerns relating to directly employing commercial fleet operators. CDS provides health insurance and specialty insurance products to these commercial fleet drivers. The Company currently provides its products to approximately 7,000 commercial fleet drivers and 260 commercial fleet companies.

Manufacturing

SCB's operations consist of manufacturing, selling and servicing stretch sedans. The direct manufacture of the modified chassis is housed in a 45,000 square foot manufacturing facility. We are one of only ten limousine manufacturers operating under a Qualified Vehicle Modifier Agreement (QVM) with Ford Motor Company. Securing a QVM is a barrier to entering the specialty vehicle manufacturing industry due to the scrutiny and rigid manufacturing facility requirements imposed by the manufacturer.

Financial Services

We intend to expand our financial services business primarily to businesses in our niche markets with the acquisition of FleetPlan. These businesses are largely under-served by the financial community, which we acknowledge may be able to offer lower rates. We will offer various services to our drivers and purchasers of our vehicles that will differentiate us from our competition. By doing so, we believe that we can make our services less sensitive to rate and more focused on the service aspect of the business.

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Providing Independent Contractors to Courier Industry

The courier industry consists of approximately 7,200 same day, messenger and expedited courier companies according to 2005 US Census data. The industry has combined annual sales of approximately \$521 million, with about 562,000 couriers and approximately 400,000 of those couriers are independent contractors. 96% of couriers utilize a vehicle to provide service: 34% by small cars, 48% by pick-up trucks or vans and 13% by small or large trucks as reported by the 2005 US Census.

Specialty Vehicle Manufacturing

Production of limousines consists of manufacture of a modified chassis performed through either a manufacturer-supported program or otherwise. We participate in a manufacturer-supported program through a QVM agreement with Ford. We modify the chassis based on their specifications and are monitored by the manufacturer. We are permitted to provide changes to the design and aesthetics of the product, but not the engineering of the product. The manufacturer closely reviews the performance of all those modification manufacturers in their programs. Other companies produce non-conforming, non-manufacturer supported chassis modifications not associated with the original manufacturer.

Based on the Limousine and Chauffeured Transportation Industry 2005 statistics, the limousine manufacturing industry generates approximately \$400 million in annual revenue through the sale of luxury limousines, specialty vehicles and limousine buses to approximately 13,000 limousine operators located throughout the United States. However, the 2001 World Trade Center disaster sharply decreased product demand. The industry has been struggling to regain its prior production levels of 9,000 units per year. We do not expect the industry to reach pre-2001 levels of production.

Products and Services

The Company has one major customer, California Overnight that constituted 16.5 percent of its total revenues in fiscal 2005. The Company believes that its relationship with this customer is strong.

The Company's development of products and services is performed by its various subsidiaries. New products and services are continually evaluated and are considered only if there will be a positive impact on the business of the Company and its subsidiaries as a whole.

Financial Services and Products

We intend to offer commercial vehicle lease and fleet financing to the commercial fleet operators throughout the United States.

We acquired FleetPlan, L.L.C. in November 2005, which has relationships in both the daily rental business and with the manufacturers of both foreign and domestic vehicles. FleetPlan plans to secure allocations of vehicles under agreements with automobile manufacturers, whereby the manufacturer provides automobiles to FleetPlan for purchase and FleetPlan leases the vehicles to both franchised and independent daily rental operators nationwide. Typical lease terms are 6 to 12 months with an average term of 9 months. We intend to negotiate manufacturer repurchase agreements with a select group of automobile manufacturers enabling us sell the vehicles back to the manufacturer at the end of the lease term and eliminate much of risk of collateral value during the term. We are currently seeking financing to execute on this business plan for FleetPlan.

The Company existing subsidiary finances commercial fleet operators with the typical lease term to be from twelve to seventy-two months based on the collateral and credit worthiness of the commercial fleet operator. The rate of interest charged will be within applicable lending guidelines. The typical lease balance is between \$20,000 and \$50,000; however leases are grouped; the total package is be up to \$2 million for our typical lease customer.

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The borrower credit profile and classification determine the type documentation required to determine credit terms. Borrowers classified with A and B credit will be required to complete minimal credit application and documentation, compared to full documentation and review of the credit standing, collateral, source of proceeds and review of documentation for those borrowers with C or D credit criteria. The amount of borrowings and down payment on the loan or lease will have a bearing on the amount of documentation that is required by our lending officer. The collateral typically is a vehicle that is the primary source of revenue for our commercial fleet operators

Independent Contractor Services

CDS provides independent contractors to commercial fleet operators. This insulates the operators from employee related workplace concerns. The Company provides drivers with specialty insurance products, health benefits and other insurance products. CDS also provides consulting services to each commercial fleet operator. CDS educates both the fleet operator and the drivers on the business methods to stay within the required guidelines for an independent contractor.

CDS provides solutions to problems that are endemic to the courier industry on an individual level, as well as an association. Classification of drivers that service the courier business is an issue for the owner operator, whereby they may subject themselves to questions relating to the driver's status as an employee or independent contractor. The Company provides the support, education, products and insulation to enhance the independent contractor relationship. Courier companies face an industry risk of public agency investigation of the independent contractor status. CDS has extensive regulatory knowledge in its participating states which allows the Company to effectively assist the courier company client with addressing agency investigations in a more timely and cost efficient manner.

Manufactured Vehicles

The Company manufactures a modified chassis for limousines. A chassis is modified into a luxury limousine through a multiple step manufacturing process completed over a period of approximately two to three weeks, depending on the model. The Company maintains a finished goods inventory of 35 to 45 days to meet customer demand. The Lincoln Town Car market makes up approximately 90% of the modified limousine chassis market.

Competition

Lease Financing

The Company is one of many financial service providers offering vehicle lease products to business customers. The financial services business consists of savings and loans, banks, leasing companies, insurance companies, insurance brokers and other providers of financial services. The industry is highly competitive and the rates charged by the competition may be lower than those rates that we may be able to charge because our cost of funds and overhead are higher than those other companies. Legal and regulatory developments have made it easier for new and sometimes unregulated entities to compete with us. Consolidation among financial service providers has resulted in fewer large national and regional banking and financial institutions holding a large accumulation of assets. These institutions may have significantly greater resources, a wider geographic presence or greater accessibility. Competition could decrease the number and size of loans that we make and the interest rates and fees that we receive on these loans.

FleetPlan is entering the daily rental financing business and will provide vehicles to franchise and independent daily rental car companies. These companies include licensees of Dollar/Thrifty Group, Hertz, Avis, Budget, and National/Alamo Rent-A-Car. These companies may either finance their fleets through the franchisor or through traditional financial sources such as local banks. In many instances, these companies either pay a premium for the relationship with the franchisor or they must utilize additional collateral in the financing of their fleets through traditional finance sources. The Company's relationships with the manufacturers will provide FleetPlan with a pricing advantage through volume purchases that the individual rental car companies would not receive due to the relatively small volume of orders that they place each model year.

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Subcontractor Settlement Processing

CDS is one of three entities providing independent contractors to the commercial fleet industry. The other two companies are the National Association of Independent Contractors (NICA) and Contractor Management Services (CMS). The differences between CDS, CMS and NICA are considerable in their scope of coverage and their approach to defense of the independent contractor classification. CDS maintains a three level protection platform for its clients by offering an Occupational Accident policy, a contingent contract liability policy and workers compensation policy. NICA offers only an Occupational Accident policy and performs the defense with in-house counsel. CMS offers an Occupational Accident policy as well as a workers comp policy and they also rely on in house counsel. CDS' additional layer of protection with the contingent liability policy pays for the legal defense of the case, using the best suited local counsel familiar with the court and will also pay up to statutory workers' compensation levels in the event of a settlement.

The software platform and the relationship with the insurance carrier are the key to the success of this business. The business is run on a low gross profit margin and automation through efficient systems and processing are the key to gaining market share in this industry. CDS has developed a very sophisticated software platform that allows real time management of the independent contractor database. Clients can also manage their driver force on line through a web interface. The system cross-references drivers by their social security number to provide consolidated earnings and premium reports. The system automatically calculates the premium to be submitted to the carrier as well as auto generating client invoices, which are immediately emailed out at the end of the check run.

Limousine Manufacturing

SCB and CTMC are one of the ten major limousine manufacturers in the industry operating under a QVM agreement with Ford Motor Company. There are many companies in the marketplace that do not operate under the manufacturer sponsored programs, such as the QVM. Operating within QVM agreement enables the Company to provide enhanced warranty coverage to the purchasers of our vehicles, through superior engineering design and by utilizing the resources provided by Ford. Other QVM and Non-QVM manufacturers may offer similar products to these limousine operators; however, our sales, design and engineering team have focused our products on specifications that commercial fleet operators demand. We intend to further differentiate ourselves by offering commercial fleet operators a broad array of financial solutions including automotive leases, contract settlement processing and insurance products.

Marketing

Financial Services - Lease Financing

The Company markets its lease financing and other financial services through American-Springfield and through a direct sales force. Our sales team targets fleet operators and independent dealers within the specific niches. The Company also sends out direct mail marketing pieces to select customers or contacts with products or services that we believe will result in a future sale of our products.

Lease Financing - Daily Rental

Once financing is obtained, the Company will market its lease of vehicles to the daily rental operators through relationships developed over the years, attendance at trade shows and through a direct sales force.

Contract Settlement Processing

The Company has access to 7,000 commercial fleet operators in the courier/delivery industry that have specific needs relating to insurance products and lease financing products. Since the subcontractor settlement processing to commercial fleet operators enables the Company to communicate our products and services to our

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clients on a weekly basis compared to once every three to four years, when they are in the market for a new vehicle, we believe we can be successful in cross marketing some of our other products. We believe that due to our focused market niche, and our exposure both to the drivers and the courier companies, we can become competitive within the marketplace.

Limousine and Specialty Vehicle Manufacturing

The Company, through American-Springfield, will sell and finance limousines manufactured by SCB. American-Springfield will market vehicles produced by SCB and used limousines through direct relationships, marketing to fleet operators and through advertising in industry publications. In addition, we intend to market our ability through CFS to finance these fleet vehicles.

We intend to utilize existing and new technologies to market all Company products, including loans and lease financing, financial services, subcontracting settlement processing and limousines and specialty vehicles.

Material Supply Agreements

The Company manufactures luxury limousines, specialty vehicles and limousine buses under a QVM with Ford Motor Company. These agreements are evaluated and renewed annually by Coach. With this QVM, the Company is able to utilize Ford for engineering expertise, warranty support, rebates for chassis purchases and marketing funds. The Company anticipates renewal of this agreement since its relations with Ford are good.

The Company is in the process of securing allocations of vehicles from both foreign and domestic automobile manufacturers for its proposed FleetPlan daily rental financing business. We anticipate receiving these allocations and securing manufacturer repurchase agreements by the end of the third quarter of 2006. If these agreements were not obtained, then the daily rental financing business as presented would not be practical.

Research and Development

Research and development expense was \$199,000, \$830,000 and zero for the three years ended December 31, 2005, December 31, 2004 and December 31, 2003. These expenses were almost entirely incurred in the production of specialty limousine products. We do not anticipate incurring significant research and development expenses in fiscal 2006.

Seasonality

The specialty vehicle business is seasonal; most purchases are made during the second quarter because of upcoming Prom and Wedding seasons and the fourth quarter coinciding with the timing of the new model year. The courier business is not seasonal. The financial services business will track our other business units. The daily rental business is expected to be busier during the third and fourth quarter when new models are introduced and during the summer and winter when the rental business is busier.

Employees

As of December 31, 2005, we had 60 full-time employees, 41 manufacturing personnel in our limousine subsidiary and 19 managerial, sales, marketing or administrative positions. Our limousine subsidiary outsources its sales and marketing function. We have 21 persons performing services for our CDS subsidiary that are employed through a professional employment organization. We believe that our employee relations are good. None of our employees are represented by a collective bargaining unit.

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Government Regulation

Highway Safety

Our QVM Agreement with Ford Motor Company requires that we maintain and adhere to strict engineering and manufacturing standards set by the National Highway Traffic and Safety Agency (NHTSA) for manufactured vehicles. The NHTSA, under the U.S. Department of Transportation, was established by the Highway Safety Act of 1970, as the successor to the National Highway Safety Bureau, to carry out safety programs under the National Traffic and Motor Vehicle Safety Act of 1966 and the Highway Safety Act of 1966. We purchase our vehicles directly from the original manufacturers, such as Ford Motor Company, General Motors Company and Daimler-Chrysler, and then modify the vehicles based on our customer s requirements or the specific product lines. As such, we are not subject to the same regulations as other automotive manufacturers.

Environmental

Our manufacturing facility is subject to a host of Federal and state environmental and employee regulations. We believe that we are in material compliance with such regulations.

Lending Regulations

We are subject to state law limitations on the interest rate we can charge its consumer customers. Interest rates charged to businesses in the states we lend in are not subject to the same limitations. The Company intends to provide leases and loans principally to businesses and in states where usury restrictions are not applicable to businesses.

Our commercial financing, lending and leasing activities are not subject to the same degree of regulation as consumer financing, although states regulate motor vehicle transactions, impose licensing, documentation and lien perfection requirements, and may limit what we can charge. Failure to comply could result in loss of principal and interest or finance charges, penalties and restrictions on future business activities.

Subsidiaries

We have five wholly owned operating subsidiaries:

- (1) Springfield Coach Industries Corporation, Inc. (a Missouri corporation). Springfield Coach Industries Corporation, Inc. owns a 51% interest in American-Springfield, LLC, a Florida Corporation.
- (2) Commercial Transportation Manufacturing Corporation (a New York corporation).
- (3) Coach Financial Services, Inc. (a Florida corporation).
- (4) Corporate Development Services, Inc. (a New York corporation), and its wholly owned subsidiaries:
 - (a) Subcontracting Concepts, Inc. (a New York corporation).
 - (b) Subcontracting Concepts, Inc. (a Connecticut corporation).
 - (c) SCI Two-Wheel, Inc. (a Georgia corporation).

(5) FleetPlan Daily Rental, Inc. (a Florida Corporation), and its wholly owned subsidiaries:

(a) FleetPlan LT (a Delaware statutory Trust)

(b) FleetPlan OT (a Delaware statutory Trust)

History

Coach was incorporated in the State of Nevada in October 1998. Its principal executive offices are located at 12330 SW 53rd Street, Suite 703, Cooper City, FL 33330. Our telephone number is (954) 602-1400. Our website address is www.cigi.cc. Information found on our website is not a part of this report.

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Coach is a holding company, which was formed through several acquisitions as follows:

Limousine Manufacture. On September 1, 2003, Coach acquired Commercial Transportation Manufacturing Corporation (CTMC), a limousine manufacturer. CTMC currently operates in Springfield, Missouri. On December 31, 2003, Coach, through Springfield Coach Industries Group, Inc., acquired certain assets and liabilities from Springfield Coach Builders, Inc. (SCB). Its principal executive offices are located in Springfield, Missouri. Effective December 31, 2005, the Company, through Springfield Coach Industries, Inc. (SCB) and American Dealerships Corporation for American-Springfield, LLC (American-Springfield) a Florida limited liability company. American-Springfield is the exclusive dealer for manufactured vehicles through Springfield Coach Industries, Inc.

Finance and Leasing. On July 9, 2004, Coach purchased all of the common stock of Go Commercial Leasing Corporation (Go Commercial) and merged Go Commercial into Coach Financial Services, Inc. (CFS). Its principal executive offices are located in Cooper City, Florida. Effective November 15, 2005, the Company acquired the assets of FleetPlan, L.L.C. (FleetPlan), which has the infrastructure to provide financial services to commercial fleet operators in the daily rental market.

Courier Services. Effective September 1, 2004, Coach acquired Corporate Development Services, Inc. (CDS), a contract settlement company. Its principal executive offices are located in Glens Falls, New York.

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Item 1A. Risk Factors.

We have a limited operating history with significant losses and expect losses to continue for the foreseeable future.

We have yet to establish any history of profitable operations. We have incurred annual operating losses of \$1.7 million, during the year ended December 31, 2003, \$6.5 million for the year ended December 31, 2004 and \$5.0 million for the year ended December 31, 2005. As a result, at December 31, 2005, we had an accumulated deficit of \$12.5 million. Our profitability will require the successful manufacture and sale by our subsidiaries of our limousine and luxury car products and sale of financial services, including our loans and leases and the settlement of independent contractor payments. No assurances can be given when this will occur or that we will ever be profitable.

We will require additional financing to sustain our operations and without it we may not be able to continue operations. Our inability to raise additional working capital, or to raise it on terms which are acceptable to us, or to raise it in a timely manner would negatively impact our ability to fund our operations, to generate revenues, and to otherwise execute our business plan, leading to the reduction or suspension of our operations and ultimately our going out of business.

At December 31, 2005, we had operating cash flow deficit of \$1.4 million; however, we had an operating cash flow deficit of \$3.4 million for the year ended December 31, 2004, and an operating cash flow deficit of \$740,000, for the year ended December 31, 2003.

We received \$6,000,000 from Laurus Master Fund, Ltd in October 2004 pursuant to a convertible note and refinanced in 2005 to increase our line to \$7,000,000. Assuming renewal of our existing credit lines, we currently have sufficient financial resources to fund our existing operations and those of our subsidiaries. However, we will need significant additional funds to establish our daily rental car financing business, and although we are seeking funding, such additional funds may not be available when required or on terms acceptable to us. We have been engaged in discussions and paid various fees to Dresdner Bank in connection with a securitization of future daily rental business assets, but cannot assume you that this or any other financing will be obtained for that business. If we are unable to renew existing financing or obtain additional financing, our business prospects, operating results and financial condition may be materially and adversely affected to such an extent that we are forced to restructure, sell some of our assets or curtail our operations.

Delinquencies and credit losses affect our financial performance and results of operations.

In addition to general economic and other conditions affecting the industries and geographic regions in which our obligors operate, major factors affecting our ability to maintain profitability include risks associated with:

the effectiveness of our underwriting procedures;

the creditworthiness and integrity of the obligors of our finance receivables;

the adequacy of the documentation relating to such receivables and collateral;

disputes and litigation with such obligors or with their other creditors;

the ability to repossess and remarket collateral supporting our loans and leases upon a default;

the ability to enforce our lien position in the event of the bankruptcy of such obligors or otherwise; and

the value of leased assets and pledged collateral securing our receivables.

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We provide an allowance for credit losses on finance receivables. The allowance for credit losses on finance receivables is estimated by management based on total finance receivables, charge-offs, if any, non-accrual/delinquent finance receivables and management's current assessment of the risks inherent in the our finance receivables from national and regional economic conditions, industry conditions, concentrations, the financial condition of counterparties (includes the obligor/lessee and other parties we may have recourse to such as equipment vendors/manufacturers and owners/affiliates of the obligor/lessee), equipment collateral values and other factors. Although management periodically reviews our allowance for credit losses, we cannot be certain that our allowance for credit losses will be adequate to cover actual losses because of the risks described above.

We lend to privately owned small and medium-sized companies, which can be higher risk borrowers.

We provide financings primarily to small and medium-sized, privately owned businesses. Compared to larger, publicly owned firms, these companies generally have more limited access to capital and higher funding costs, may be in a weaker financial position and may need more capital to expand or compete. Accordingly, receivables from these types of customers may entail higher risks. In addition, we make our lending decisions based on information about the borrowers provided to us by the borrower and third parties, any inaccurate information may result in the Company lending to customers whom it may not ordinarily may lend to and result in the loss of some or the entire principal of a particular receivable.

An economic downturn could result in lower demand for our services and negatively affect our receivables.

An economic downturn could result in a decline in the demand for some of the types of equipment, which we finance with a corresponding decline in originations of related finance receivables. In addition, a downturn could result in an increase in defaults by obligors and guarantors of our finance receivables and a decrease in the value of collateral, which we realize upon disposition following such a default. If an economic downturn were to occur, our ability to maintain and grow our portfolio could be materially adversely affected.

Economic difficulties within a particular industry could impair our profitability and asset quality.

Defaults by our customers may be correlated with economic conditions affecting particular industries. As a result, if any particular industry were to experience economic difficulties, the overall timing and amount of collections from customers operating in those industries may differ from what we expect. Our finance receivables at December 31, 2005, were primarily concentrated in the limousine and livery industry. We could be negatively affected by adverse economic conditions affecting this industry.

Any future change in the Internal Revenue Service guidelines for independent contractors could have a negative affect on CDS' business.

CDS provides the services of independent contractors to commercial fleet operators, which allows commercial fleet operators to save administrative resources and time and expenses, such as tax, insurance and administrative expenses, by hiring independent contractors rather than employees. CDS' business model takes advantage of specific guidelines established by the Internal Revenue Services (the IRS) to determine whether persons providing service to a company are categorized as independent contractors or employees. Future IRS changes to current guidelines may render the CDS business model inefficient, expensive or not as attractive to commercial fleet operators and have a negative affect on our revenues.

Fluctuations in the price of fuel impacts couriers and limousine operators in the short-term.

Limousine operators and couriers are sensitive to the price of fuel. Short-term fluctuations in the price of fuel could impact their profitability in the short-term. Over a longer-term period, the increased cost of fuel is ultimately passed through to their customers. However, if the short term effects of rising fuel prices cause limousine operators or couriers to contract or halt their business growth our future revenues for those segments may be adversely affected.

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Legal proceedings and related costs could negatively affect our financial results.

As a lender we are at risk of governmental proceedings and litigation, including class action lawsuits, challenging our contracts, rates, disclosures, and collections or other practices, under state and federal statutes and other laws.

In recent years, a number of judicial decisions, not involving us, have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed lender liability. Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders. We may be subject to allegations of lender liability. We cannot assure you that these claims will not arise or that we will not be subject to significant liability if a claim of this type did arise.

Increases in the Federal funds rate may decrease our profitability in our lease finance business.

The Company uses lines of credit with a fixed interest rate to finance leases to its clients. Therefore, the Company is able to lock the interest rate spread at the time of funding, rather than at a variable rate of interest. We currently charge our clients between 6.9% and 18%, based on the applicable lending guidelines. Any future increase in the Federal funds rate may reduce the interest rate spread that we may earn from our borrowers, because although we theoretically can pass the increased interest cost to our borrowers, their sensitivity to fluctuations in the interest rate would likely prohibit us from passing on our increased costs of borrowing. We have several lines of credit: a \$5.0 million line of credit with DaimlerChrysler, in addition to the outstanding Term Note held by Laurus totaling \$7.0 million. Increases in the Federal funds rate may increase the cost of our borrowing under these lines of credits and the Note, which may not be passed on to our clients and have a negative effect on our business.

Increased safety, emissions or other regulation resulting in higher costs or sales restrictions, could adversely affect our net profits in our specialty division.

The worldwide automotive industry is affected significantly by a substantial amount of costly governmental regulation. Governmental regulation has arisen primarily out of concern for the environment, for greater vehicle safety, and for improved fuel economy. Many state governments also regulate and impose import requirements in addition to the Federal requirements. The costs of complying with these requirements can be substantial. As a result, our costs to purchase the cars and buses, which we modify may increase and reduce our net profits.

Failure to obtain supplier agreements and financing for daily rental financing business and financing for the daily rental business.

The Company has entered the daily rental business through the acquisition of FleetPlan. The business model for the daily rental business requires an allocation of cars from the major manufacturers, like Daimler Chrysler, Hyundai, Kia, Toyota and other similar manufacturers on terms that we require. We need manufacturers to provide the Company with a repurchase agreement for the vehicles, whereby they will repurchase the vehicles from us within twelve months or guarantee the residual value. If we are unable to receive adequate allocations of vehicles or obtain favorable business terms, our business model will fall short of our expectations.

The Company will need significant financing to support the daily rental business. We are currently seeking a line of credit of \$100 million to support the business model for the daily rental business. If we are unable to secure the line of credit, the Company will be unable to support the business model.

We will face intense competition from competitors that have greater financial, technical and marketing resources. These competitive forces may impact our projected growth and ability to generate revenues and profits, which would have a negative impact on our business and the value of your investment.

Our business is highly competitive. We likely will face competition from other limousine and specialty vehicle manufacturers and companies offering financial products and insurance products and services, many of

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which can be expected to have longer operating histories, greater name recognition, larger installed customer bases and significantly more financial resources, research and development facilities and manufacturing and marketing experience than us. There can be no assurance that developments by our current or potential competitors will not render our proposed products or services obsolete.

We will also compete with banks, manufacturer-owned and independent finance and leasing companies, as well as other financial institutions. These competitors may have sources of funds available at a lower cost than those available to us, thereby enabling them to provide financing at rates lower than we may be willing to provide. In addition, these competitors may be better positioned than we are to market their services and financing programs to vendors and users of equipment because of their ability to offer additional services and products, and more favorable rates and terms. These factors could adversely affect our ability to maintain or grow our portfolio.

We plan to grow rapidly, which will place strains on our management team and other company resource to both implement more sophisticated managerial, operational and financial systems, procedures and controls and to train and manage the personnel necessary to implement those functions. Our inability to manage our growth could impede our ability to generate revenues and profits and to otherwise implement our business plan and growth strategies, which would have a negative impact on our business.

We will need to devote substantial resources to expanding our array of products, especially focusing on our financial services and insurance products, and our marketing, sales, administrative, operational, financial and other systems and resources to implement our longer-term business plan and growth strategies. In addition, we may incur substantial expenses identifying and investigating strategic partners and acquisition candidates.

This expansion and these expanded relationships will require us to significantly improve and replace our existing managerial, operational and financial systems, procedures and controls, to improve the coordination between our various corporate functions, and to manage, train, motivate and maintain a growing employee base. Our performance and profitability will depend on the ability of our officers and key employees to: manage our business and our subsidiaries as a cohesive enterprise; manage expansion through the timely implementation and maintenance of appropriate administrative, operational, financial and management information systems, controls and procedures; add internal capacity, facilities and third-party sourcing arrangements as and when needed; maintain service quality controls; and attract, train, retain, motivate and manage effectively our employees. The time and costs to effectuate these steps may place a significant strain on our management personnel, systems and resources, particularly given the limited amount of financial resources and skilled employees that may be available at the time. We may not be able to integrate and manage successfully new systems, controls and procedures for our business, or even if we successfully integrate our systems, controls, procedures, facilities and personnel, such improvements may not be adequate to support our projected future operations. We may never recoup expenditures incurred during this expansion. Any failure to implement and maintain such changes could have a material adverse effect on our business, financial condition and results of operations.

We may undertake acquisitions to expand our business that may pose risks to our business and dilute the ownership of our existing stockholders.

As part of our growth and product diversification strategy, we will continue to evaluate opportunities to acquire other businesses that would complement our current offerings, expand the breadth of markets we can address or enhance our services and products. Acquisitions that we may potentially make in the future entail a number of risks that could materially and adversely affect our business, operating and financial results, including:

problems integrating the acquired operations, technologies or products with our existing business and products;

diversion of management's time and attention from our core business;

need for financial resources above our planned investment levels;

difficulties in retaining business relationships with suppliers and customers of the acquired company;

risks associated with entering markets in which we lack prior experience;

potential loss of key employees of the acquired company; and

potential requirements to amortize intangible assets.

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Future acquisitions also could cause us to incur debt or contingent liabilities or cause us to issue equity securities that would reduce the ownership percentages of existing stockholders.

We are dependent for our success on a few key executive officers. Our inability to retain those officers would impede our business plan and growth strategies, which would have a negative impact on our business and the value of your investment.

Our success depends to a critical extent on the continued efforts of services of our Chief Executive Officer, Francis O. Donnell and to a lesser extent our Chief Financial Officer Susan Weisman. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of limited working capital. We can give you no assurance that we can find satisfactory replacements for these key executive officers at all, or on terms that are not unduly expensive or burdensome to our company. We do not currently carry a key-man life insurance policy on any of our executives, which would assist us in recouping our costs in the event of the loss of those officers.

Our inability to hire qualified personnel could impede our ability to generate revenues and profits and to otherwise implement our business plan and growth strategies, which would have a negative impact on our business.

We currently have a management and executive team comprised of five employees. Although we believe that our management team will be able to handle most of our additional management, administrative, research and development, sales and marketing, and manufacturing requirements in the short term, as we ramp up our sales and operations, we will nevertheless be required over the longer-term to hire highly skilled managerial, sales and marketing and administrative personnel to fully implement our business plan and growth strategies. We cannot assure you that we will be able to engage the services of such qualified personnel at competitive prices or at all, particularly given the risks of employment attributable to our limited financial resources and lack of an established track record.

Should one or more of the foregoing risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

In July 2004, Coach signed a lease agreement with Cooper City Commerce Center, Inc. for approximately 6,500 square feet of mixed use office space in Cooper City, Florida, to house the corporate offices, the Florida sales offices and CFS operations. Our annual rent is \$84,000, plus applicable taxes and common area expenses, such payments commencing in February 2005. The lease term expires October 2009.

SCB lease approximately 45,000 square feet of space located in Springfield, Missouri, pursuant to a lease, which expires in December 2006. SCB uses the space as its executive office, manufacturing facility and approximately 16,000 square feet as a warehouse facility. Annual rent is \$132,000.

CDS leases approximately 7,000 square feet of office space located in Glens Falls, New York pursuant to a lease, which expires in December 2008. CDS uses the space as its executive office space and operations center.

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Annual rent for the space is \$74,000. CDS has an option to renew the lease for an additional five years. The space has been subleased to an affiliated company for the same period at our cost.

Item 3. Legal Proceedings.

On November 8, 2005, Universal Express, Inc. filed suit in the Supreme Court of the State of New York against CDS Merger Sub, Inc., Corporate Development Services, Inc., Subcontracting Contractors, Inc., a New York Corporation, Subcontracting Concepts, Inc., a Connecticut Corporation, SCI-Two Wheel, Inc., a Georgia Corporation, Coach Industries Group, Inc., Robert Lefebvre, Carmen B. Lefebvre, Mark Lefebvre, Scott Lefebvre, Edmund Lefebvre, Paul Gapp and Robert R. Slack. Universal Express seeks \$160 million in damages for the defendants' alleged failure to provide them with notice, which would have allowed for a right of first refusal with regard to the stock purchase. The Company has filed a motion to dismiss, as it is its belief that the suit is frivolous.

Other than the foregoing neither Coach nor its subsidiaries is a party to any material pending legal proceedings or is aware of any contemplated proceedings by a governmental agency.

Item 4. Submission of Matters to a Vote of Security Holders.

None

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Our common shares are currently quoted on the OTC Bulletin Board under the symbol CIGI. The following table sets forth the quarterly high and low bid prices for our common shares on the OTC Bulletin Board for the last two completed fiscal years. The prices set forth below represent inter-dealer quotations, without retail markup, markdown or commission and may not be reflective of actual transactions.

| Period | Bid Price | |
|---------------------------|-----------|---------|
| | High | Low |
| Fiscal Year 2005: | | |
| <i>December 31, 2005</i> | \$ 0.58 | \$ 0.31 |
| <i>September 30, 2005</i> | 0.72 | 0.43 |
| <i>June 30, 2005</i> | 1.09 | 0.55 |
| <i>March 31, 2005</i> | 1.23 | 0.78 |
| Fiscal Year 2004: | | |
| <i>December 31, 2004</i> | \$ 1.37 | \$ 1.03 |
| <i>September 30, 2004</i> | 1.70 | 1.10 |
| <i>June 30, 2004</i> | 2.15 | 1.15 |
| <i>March 31, 2004</i> | 2.00 | 1.50 |

Holders

We have approximately 300 record holders of our common stock as of March 1, 2006. This number does not include stockholders for whom shares were held in a nominee or street name.

Dividend Policy

We have never paid any cash dividends on our common shares, and we do not anticipate that we will pay any dividends with respect to those securities in the foreseeable future. Our current business plan is to retain any future earnings to finance the expansion development of our business.

Equity Compensation Plan Information

| Category | Number of Securities | | Weighted Average Exercise Price Of Outstanding Options and Warrants | Number of Securities available For future Plan Issuance |
|--|---|----|---|---|
| | to be issued upon exercises of outstanding options and warrants | | | |
| Equity compensation plans approved by shareholders | 4,328,462 | \$ | 0.65 | 671,538 |
| Equity compensation plans not approved by shareholders | 5,494,550 | \$ | 0.75 | 1,250,000 |
| Total | 9,823,012 | \$ | .070 | 1,921,538 |

2005 Stock Option Plan

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Our board of directors adopted the 2005 Stock Option Plan (the 2005 Plan). The purposes of the 2005 Plan are (i) to promote the long-term interests of the Company and its stockholders by strengthening the Company's ability to attract, motivate and retain key personnel and (ii) to provide additional incentive for those persons through stock ownership and other incentives to improve operations, increase profits and strengthen the mutuality of interest between those persons and the Company. The Company believes that the granting of stock options and other awards

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will serve as partial consideration for and give well-qualified employees, non-employee directors and others an additional inducement to remain in the service of the Company and provide them with an increased incentive to work for the Company's success.

The 2005 Plan provides for the granting of (i) options to purchase Common Stock that qualify as incentive stock options (ii) options to purchase Nonqualified Options and (iii) restricted stock. The total number of shares of common stock with respect to which awards may be granted under the 2005 Plan shall be three million (3,000,000). As of December 31, 2005, the Board has approved and allocated the issuance of all 3,000,000 shares of common stock under the 2005 Plan. The Board intends to seek stockholder approval of the 2005 Stock Option Plan at its next annual stockholders' meeting.

Non-Plan Grants

During 2005, our Board of Directors approved the issuance of options to purchase up to 135,750 shares of common stock with an average exercise price of \$0.32 per share to each of our Chief Executive Officer, Frank O. Donnell, Susan Weisman and Robert Lefebvre. In addition, in 2005, the Board of Directors approved the issuance to Frank O. Donnell of options to purchase up to 187,500 shares of common stock with an average exercise price of \$0.54 per share as compensation for his personal guarantee of Company indebtedness.

During 2004, our Board of Directors approved the issuance of options to purchase up to 891,600 shares of common stock with an average exercise price of \$1.10 per share to each of our Chief Executive Officer, Frank O. Donnell, Susan Weisman and John Gore in connection with their respective employment agreements. All of Mr. Gore's options were cancelled upon termination of his employment effective May 31, 2005. In addition, in 2004, the Board of Directors approved the issuance to various employees of options to purchase up to 300,000 shares of common stock with an average exercise price of \$0.91 per share.

Recent Sales of Unregistered Securities

We have sold or issued the following securities not registered under the Securities Act by reason of the exemption afforded under Section 4(2) of the Securities Act of 1933, within the last quarter. Except as stated below, no underwriting discounts or commissions were paid with respect to any of the following transactions. The offer and sale of the following securities was exempt from the registration requirements of the Securities Act under Rule 506 insofar as (1) except as stated below, each of the investors was accredited within the meaning of Rule 501(a); (2) the transfer of the securities were restricted by the company in accordance with Rule 502(d); (3) there were no more than 35 non-accredited investors in any transaction within the meaning of Rule 506(b), after taking into consideration all prior investors under Section 4(2) of the Securities Act within the twelve months preceding the transaction; and (4) none of the offers and sales were effected through any general solicitation or general advertising within the meaning of Rule 502(c).

On December 2, 2005, the Company issued 6,666,667 shares of common stock valued at \$2,000,000 and 3,333,334 warrants to purchase the Company's common stock for \$0.50 and 3,333,334 warrants to purchase the Company's common stock for \$0.75. The Company received \$1.7 million, net of issuance costs of \$270,000. The Company is required to register these shares and warrants within 120 days of issuance. In addition, the Company issued 166,667 warrants to purchase common stock for \$0.50 and 166,667 warrants to purchase common stock for \$0.75 as payment to the underwriter valued at \$29,400.

On November 15, 2005, the Company issued 1,246,883 shares of common stock valued at \$500,000 pursuant to the acquisition of all of the assets of FleetPlan, L.L.C.

On October 31, 2005, the Company extinguished the convertible debentures with Laurus Master Funds Ltd. and entered into a new note for \$7.0 million, whereby the Company canceled approximately 5.1 million shares of registered securities, the Company received an additional \$1.3 million, repriced the original 1.5 million of warrants to purchase common stock to \$.01 for 750,000 warrants and \$0.50 for 737,601 warrants. In addition, the Company issued 762,399 additional warrants at \$0.50 and an additional stock of 985,389 shares of common stock valued at \$404,009 to Laurus Master Funds, LTD. The Company is required to register the new issuance of warrants. In addition, the Company settled with DelMar Consulting for their services related to the Laurus financing for 120,000 shares of common stock valued at \$49,200. This amount was included in the loss on extinguishment of \$1.9 million.

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During 2005, the Company issued 601,472 and 146,181 shares of common stock in exchange for the extinguishment of accrued liabilities owed to its Chief Executive Officer, Francis O. Donnell and its Chief Financial Officer, Susan Weisman for \$322,413 and \$72,038 of accrued wages and interest.

During 2005, the Company issued 630,000 shares of common stock to various consultants for consulting contracts ranging from 12 to 36 months amounting to \$258,000.

On May 31, 2005, the Company issued to the officer 600,000 shares of restricted common stock valued at \$396,000 as partial consideration for entering into a non-compete agreement pursuant to a settlement agreement with John Gore. In addition, on September 12, 2005, the Company issued Mr. Gore 341,500 shares of restricted common stock valued at \$156,500 for his personal guarantee of lease obligations to various financial institutions.

Item 6. Selected Financial Data.

| | At or for the Year Ended | At or for the Year Ended | For the period from January 8, 2003 (inception) through December 31, 2003 or At |
|-----------------------|--------------------------|--------------------------|---|
| | December 31, 2005 | December 31, 2004 | December 31, 2003 |
| Revenues | \$ 256,165,770 | \$ 83,595,584 | \$ 1,068,487 |
| Loss from operations | \$ (5,013,045) | \$ (6,502,818) | \$ (1,743,290) |
| Loss per share | \$ (0.25) | \$ (0.41) | \$ (0.79) |
| Total Assets | \$ 23,084,160 | \$ 19,521,824 | \$ 4,592,720 |
| Long-term obligations | \$ 9,965,019 | \$ 3,337,582 | \$ |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations, and in future filings by the company with the Securities and Exchange Commission, in the company's press releases and in oral statements made with the approval of an authorized executive officer which are not historical nor current facts are forward-looking statements and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. Without limiting the generality of the foregoing, words such as may, will, expect, believe, anticipate, intend, could, estimate, or continue or other variations thereof or comparable terminology are intended to identify forward-looking statements. The foregoing list should not be construed as exhaustive and the company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. You are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The following important factors, among others, in some cases have affected and in the future could affect the our actual results and could cause the our actual financial performance to differ materially from that expressed in any forward-looking statement: (i) the extremely competitive conditions that currently exist in the market for companies similar to us; (ii) lack of resources to maintain the company's good standing status and requisite filings with the Securities and Exchange Commission; (iii) history of operating losses and accumulated deficit; (iv) possible need for additional financing; (v) competition; (vi) dependence on management; (vii) risks related to proprietary rights; (viii) government regulation; and (ix) other factors discussed in this report and the Company's other filings with the Securities and Exchange Commission. The following discussion should be read in conjunction with our financial statements and their explanatory notes included in the report.

Liquidity and Capital Resources

The Company has historically satisfied its operating cash requirements primarily through private placements of restricted stock, the issuance of debt securities, issuance of restricted common stock to satisfy balances currently outstanding, the issuance of convertible debt and warrants, operating cash flow and cash funding from related parties, as required.

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The Company has incurred losses from operations for years ended December 31, 2005 and 2004 of \$5.0 million and \$6.2 million, respectively. The Company anticipates that its cash requirements will continue to increase as it continues to expend substantial resources to build its infrastructure, develop its business plan and establish its sales and marketing network operations, customer support and administrative organizations. The Company currently anticipates that its available cash resources, the available capital that the outstanding warrants and options will generate and cash generated from operations will be sufficient to meet its presently anticipated working capital and capital expenditure requirements for the next twelve months. The daily rental business model for FleetPlan will require additional capital or financing to support the business model. The Company is seeking financing arrangement to fund this business over the next twelve months, including discussions and payment of fees to Dresdner Bank in connection with a securitization of the future assets of the daily rental business. We cannot give any assurances that this or other financing of the daily rental business will be available. If the Company is unable to maintain profitability, or seeks further expansion, additional funding will become necessary. There can be no assurances that the Company can realize sufficient revenues to satisfy its business plan and further, there can be no assurance that alternative sources of financing can be procured on behalf of the Company.

On December 2, 2005, the Company issued 6,666,667 shares of common stock valued at \$2,000,000 and 3,333,334 warrants to purchase the Company's common stock for \$0.50 and 3,333,334 warrants to purchase the Company's common stock for \$0.75. The Company received \$1.7 million, net of issuance costs of \$230,000. The Company is required to register these shares and warrants within 120 days of issuance. In addition, the Company issued 166,667 warrants to purchase shares of common stock at \$0.50 and 166,667 warrants to purchase shares of common stock at \$0.75 valued at \$29,400.

On November 15, 2005, the Company acquired all the assets of FleetPlan, L.L.C. for a total of \$1.56 million, which included \$329,000 of cash, a Note in the amount of \$725,000, bearing interest at 12% and issued 1,246,883 shares of common stock valued at \$500,000 pursuant to the acquisition of all of the assets of FleetPlan, L.L.C.

On September 29, 2004, the Company entered into a Convertible Note with Laurus Master Funds, Ltd. totaling \$6.0 million. On October 31, 2005, the Company extinguished the convertible debentures with Laurus Master Funds Ltd. and entered into a new note for \$7.0 million, whereby the Company canceled approximately 5.1 million shares of registered securities, the Company received an additional \$1.3 million from Laurus, repriced warrants the original 1.5 million warrants to \$0.01 for 750,000 warrants and \$0.50 for 737,601 warrants. In addition, the Company issued 762,399 additional warrants at \$0.50 and additional stock of 985,389 shares of common stock valued at \$404,009 to Laurus Master Funds, LTD. The Company is required to register the new issuance of common stock warrants. In addition, the Company settled with DelMar Consulting for their services related to the Laurus financing for 120,000 shares of common stock valued at \$49,200. This amount was included in the loss on extinguishment. The Company recognized a loss on extinguishment of \$1.9 million.

The Company issued 601,472 and 146,181 shares of common stock in exchange for the extinguishment of accrued liabilities owed to its Chief Executive Officer, Francis O'Donnell and its Chief Financial Officer, Susan Weisman for \$322,413 and \$72,038 of accrued wages and interest.

The Company issued 630,000 shares of common stock to various consultants for consulting contracts ranging from 12 to 36 months amounting to \$258,000.

During May 2005, the Company settled certain obligations with an officer and director and his related companies. All obligations owed to the executive and settlements of related obligations owed by various entities of the officer were considered settled as a result of the agreement. Included was a charge-off of \$429,000 of a receivable owed to the Company from a related entity of the officer, offset by a reduction of a liability due to the officer of \$485,000 for compensation for his personal guarantees. These balances were offset at year-end and as part of the agreement; all balances due between the related entities and the Company were considered settled.

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The above referenced settlement includes the cancellation of 556,098 shares of common stock issued to a related entity of the officer valued at \$684,000 in exchange for a payable to the related party of the officer in the amount of \$250,000 due in installments over a 12 month period. The Company paid to the related party of the officer \$62,500 on July 28, 2005; a subsequent payment of \$62,500 was remitted to the related party of the officer on October 31, 2005. The balance of the payments is due to the related party of the director in equal installments of \$62,500 on January 31, 2006 and April 30, 2006. The balance of the liability to this related entity at December 31, 2005 was \$125,000 and is included in related party payables. The Company recognized a gain on settlement of this obligation amounting to \$434,000 for the year ended December 31, 2005.

This officer and director resigned effective May 31, 2005 and entered into a non-compete agreement, whereby the officer cannot compete with the Company for a period of three years. The Company issued to the officer 600,000 shares of restricted common stock valued at \$396,000 and paid \$55,000 to the director in consideration for the non-compete agreement discussed above. The cost of this agreement will be amortized over the term of the non-compete agreement. The unamortized portion of the non-compete agreement at December 31, 2005 is \$363,000. In addition, this former officer and director was issued 341,500 shares of restricted common stock for his personal guarantee of lease obligations to various financial institutions. The stock is valued at \$147,000 and is being amortized over the remaining term of the lease obligation.

The Company issued 400,000 shares of common stock to Laurus Master Funds, Ltd. upon conversion of \$200,000 of Convertible Notes. The Company recognized a loss related to the conversion of \$188,000.

The Company issued 50,000 shares to Richardson and Patel for legal services rendered valued at \$44,000.

In October 2005, the Company repaid the Convertible Note of \$4.9 million and refinanced the agreement with a Term Note of \$7.0 million. The Company recognized a loss on extinguishment of Convertible Notes amounting to approximately \$1.9 million; approximately \$1.1 million relates to the prepayment penalty associated with the original Convertible Note. The prepayment penalty was paid in cash of \$735,000 and paid 985,389 shares of restricted common stock valued at \$404,000. The remainder of the extinguishment loss relates to discounts associated with the original debentures and loan issuance costs. The Company received additional funds of \$1.3 million relating to the refinancing which will be utilized for acquisitions and additional working capital. The terms of the new agreement are as follows:

Maturity of Term Note October 31, 2009;

Interest Rate Prime plus 1.5 percent, currently 8.5%;

Debt issuance costs relating to amended and restated warrants of \$220,000 based on a black-scholes pricing model at the date of closing;

Issuance of new warrants with an exercise price of \$0.50 valued at \$150,000 based on a black scholes pricing model at the date of closing;

Laurus is contractually restricted from selling any shares of common stock until February 1, 2006.

The Company will de-register approximately 5.1 million shares of registered common stock originally registered in the Registration Statement filed and declared effective on February 4, 2004.

During June 2005, the Company obtained lines of credit with Daimler Chrysler Services North America, LLC (Daimler Chrysler) up to \$3.5 million; \$1.0 million to fund the purchase of chassis for the manufacturing facility and \$2.5 million for the acquisition of leases secured by commercial vehicles. Effective July 2005, Daimler Chrysler agreed to increase the lease line to \$4.0 million and committed to support the Company's business plan. The body builder line of credit used to purchase chassis for the manufacturing facility is collateralized by the chassis and also a \$200,000 irrevocable letter of credit, which will secure up to \$1.0 million in body builder availability. At December 31, 2005 the balance of the line of credit to Daimler Chrysler was \$1.6 million for the lease facility and \$829,000 for the body builder facility. The interest rates charged on both lines of credit are based on internal published rates at Daimler Chrysler.

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Effective December 31, 2005, the Company entered into a joint venture called American-Springfield, LLC (American-Springfield) between Springfield Coach Industries Group, Inc. and American Dealerships Corporation,

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whereby the American-Springfield, LLC is the exclusive dealer for all production of Springfield limousines. American-Springfield will support the sales and marketing of the Springfield limousine. The profits of the joint venture are to be shared 51% to the Company and 49% to American Dealerships Corporation. The agreement is for a 10-year period. All cars sold through the joint venture that require financing must first be submitted to Coach Financial Services. CFS has the right of first refusal for all vehicles financed through American-Springfield.

Financial Condition - December 31, 2005 compared to December 31, 2004

Current Assets

Cash and cash equivalents. Cash and cash equivalents decreased from \$3.5 million at December 31, 2004 to \$3.0 million at December 31, 2005. The cash balances at December 31, 2005 and 2004, specific to CDS were \$1.7 million and \$750,000, respectively. In addition, during 2004, the Company classified as cash and cash equivalents amounts placed in the restricted account amounting to 2.8 million for the Laurus transaction as the funds were released from restriction during the first quarter of 2005. During December of 2005, the Company received \$1.7 million from the issuance of 6.7 million shares of common stock and an additional \$1.3 million from Laurus as part of the extinguishment of the convertible debentures and issuance of the term note.

Restricted cash. Restricted cash decreased from \$500,000 at December 31, 2004 to \$247,000 at December 31, 2005. The balance primarily relates to the collateral related to the irrevocable letter of credit, which was collateral for the line of credit with Ford Motor Credit Corporation. The Company closed on the Laurus transaction on September 29, 2004. The \$500,000 related to the letter of credit was released and subsequently collateral for a line of credit with another financial institution. At December 31, 2005, the loan was repaid through the application of the underlying collateral. The Company has \$200,000 of collateral related to letters of credit with Daimler Chrysler. The letters of credit relate to their bodybuilder line outstanding at year-end. In addition, the Company has \$47,000 at its various lenders as additional collateral on leases that the Company has funded through these institutions.

Accounts receivable, net. Accounts receivable, net at December 31, 2005 was \$1.6 million compared to \$1.3 million at December 31, 2004. The increase reflects balances of \$118,000 relating to the manufacturing business and approximately \$1.4 million relating to independent contract settlement business.

Unbilled Revenue Unbilled revenue at December 31, 2004 was \$298,000 compared to zero at December 31, 2005. The timing of the contract settlement does have an impact on the unbilled revenue account. The settlement date and the payment date were both on Friday for 2005, compared to Thursday for 2004.

Supply inventory. Supply inventory consist of inventory specific to the manufacturing facilities. Supply inventory decreased from \$1.8 million at December 31, 2004 to \$1.4 million at December 31, 2005. The decrease is directly attributed to the inventory levels at SCB. The Company formed American-Springfield as an exclusive sales and marketing outlet for SCB. American-Springfield has determined that the product offerings of SCB were too extensive and management is reviewing the product mix. During the last few weeks of the year, SCB focused on eliminating its current inventory to clear the production line for the new models and product mix.

Total current assets. Total current assets decreased from \$7.7 million at December 31, 2004 to \$6.9 million at December 31, 2005. The primary reasons for the decrease related to lower cash balances and supply inventory offset by higher accounts receivable balances related to CDS. CDS accounts receivable balances were higher for 2005 due to the timing of the contract settlement process.

Property and Equipment. Property and equipment increased from \$1.8 million at December 31, 2004 to \$2.5 million at December 31, 2005, related to the acquisition of FleetPlan effective November 15, 2005. The Company allocated \$300,000 from goodwill based on a report of an independent consultant (discussed below) relating to the daily rental finance platform.

Goodwill. At December 31, 2004, goodwill was \$6.2 million, compared to \$6.3 million at December 31, 2005. The Company acquired FleetPlan effective November 15, 2005 for \$1.6 million, broken down between the

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issuance of 1.2 million shares of common stock of \$500,000, cash of \$330,000, a note bearing interest at 12% for \$725,000 and costs associated with the acquisition of \$42,000. The Company hired an industry expert to value the intangible assets as of the date of the acquisition, and they attributed \$1.25 million to the titling trust and \$300,000 attributed to the daily rental finance platform.

Intangible assets, net. At December 31, 2004, intangible assets of \$1.2 million was specifically attributed the customer list relating to the acquisition of CDS. At December 31, 2005, the intangible assets of \$2.3 million is attributed to the CDS customer list as well as the titling trust of \$1.23 million.

Lease receivables, net. At December 31, 2005 the balance of lease receivables was approximately \$5.0 million net of an allowance for lease losses of approximately \$103,000. The total production for 2005 was \$4.3 million. At December 31, 2004 the balance of lease receivable was approximately \$2.2 million net of an allowance of \$105,000. At acquisition the Company acquired specific reserves to the portfolio of approximately \$166,000 and a general reserve of \$80,000. The Company recognized an additional provision for lease losses on new production of approximately \$25,000 for 2004 and \$51,000 for 2005, offset by a reduction in the reserve of \$57,000 related to the acquired portfolio. In addition, the Company charged off one lease for \$8,000.

Liabilities

Accrued wages. Accrued wages decreased from \$427,000 at December 31, 2004 to \$61,000 at December 31, 2005, primarily relating to the conversion of \$324,000 of accrued wages relating to 2004 by two officers during 2005.

Accounts payable and other accrued expenses. Accounts payable decreased from \$2.3 million at December 31, 2004 to \$1.2 million at December 31, 2005, the decrease is primarily relating to the operations of Coach, CDS, CTMC and SCB. Accounts payable and accrued expenses at December 31, 2005, associated for the individual entities is as follows: Coach, approximately \$177,000; CDS approximately \$437,000; CTMC, approximately \$94,000; SCB, approximately \$458,000 and CFS, approximately \$52,000.

Accrued Contract Settlement. Accrued contract settlement at December 31, 2004 was \$295,000 compared to \$1.9 million at December 31, 2005 specifically related to the acquisition of CDS. The increase of \$1.6 million relates to the timing of the payments.

Customer deposits. Customer deposits decreased from \$233,000 at December 31, 2004 to \$41,000 at December 31, 2005. At the end of 2005, the Company made changes to its business plan and entered into a joint venture to support the sales function for SCB. The Company was selling its inventory at year-end and planning the new models for production. The number of deposits on hand at the end of 2005 was minimal due to the changes in the product line.

Related party payable. Related party payable increased from \$95,450 at December 31, 2004 to \$376,000 at December 31, 2005. The amount outstanding at December 31, 2005 totaling \$251,000 related to amounts due to a company owned by an officer and director of the Company. This amount outstanding for 2005 was repaid in January 2006. In addition, the Company owes \$125,000 to a company affiliated with a former officer and director. See further discussion relating to the settlement in Liquidity and Capital Resources .

Notes payable-related parties. Notes payable-related parties decreased from \$900,000 at December 31, 2004, to \$650,000 at December 31, 2005. The \$900,000 of notes payable relates to the \$200,000 due to a former shareholder of CDS, upon acquisition and the \$700,000 relates to the notes established in accordance with the purchase agreement. The \$650,000 outstanding at December 31, 2005 relates to the acquisition of FleetPlan.

Lines of credit. The lines of credit decreased from \$1.1 million at December 31, 2004 to \$894,000 million at December 31, 2005, primarily related to a line of credit with Ford Motor Credit Corporation for 2004 and the line of credit with Daimler Chrysler for 2005.

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Convertible notes payable. On September 29, 2004, the Company entered into a Secured Convertible Term Note (the Convertible Note) with Laurus Master Fund, Ltd. (Laurus). The Convertible Note consists of a three-year, fixed price convertible note that bears an interest rate equal to the Prime Rate as published in the Wall Street Journal, plus 3.5 percent, at December 31, 2004 the interest rate was 8.75 percent. At December 31, 2004, the balance of the convertible notes payable for both restricted and funded balances was \$5.7 million. On October 31, 2005, the Company extinguished the convertible debentures with Laurus Master Funds Ltd. And entered into a new note for \$7.0 million, whereby the Company canceled approximately 5.1 million shares of registered securities, the Company received an additional \$1.3 million, paid termination fees of \$769,000, repriced warrants the original 1.5 million warrants to \$.01 for 750,000 warrants and \$0.50 for 737,601 warrants. In addition, the Company issued 762,399 additional warrants at \$0.50 and additional stock of 985,389 shares of common stock valued at \$404,009 to Laurus Master Funds, LTD. The Company is required to register the new issuance of warrants. In addition, the Company settled with DelMar Consulting for their services related to the Laurus financing for 120,000 shares of common stock valued at \$49,200. This amount was included in the loss on extinguishment of \$1.9 million for the year ended December 31, 2005.

Term note. On October 31, 2005, as discussed above, the Company entered into a \$7.0 million Term Note with Laurus Master Funds. The note bears interest at prime plus 1.5 percent, is due on October 31, 2009. The Company is required to begin principal repayment on April 1, 2006. The balance of the term note at December 31, 2005 was \$7.0 million.

Lease financing obligation. Lease financing obligation at December 31, 2004 was \$885,000 compared to \$4.4 million at December 31, 2005. The amount is outstanding with Daimler Chrysler, Sovereign Bank and New World Lease Funding for 2005 and only Sovereign Bank in 2004.

Warrant Liability

The Company has warrant liabilities established for the Laurus warrants that are not registered and the issuance of common stock and related warrants on December 2, 2005. The following table summarizes the warrant liability, the warrants outstanding relating to this liability and the related adjustment to valuation at December 31, 2005:

| Description | Exercise | |
|---|----------|------------|
| | Price | Value |
| Laurus Warrants | \$ 1.58 | \$ 103,400 |
| Laurus Warrants | 1.82 | 104,400 |
| Laurus Warrants | 2.12 | 105,200 |
| Warrant Value at issuance | | 313,000 |
| Adjustment 12/31/04 | | (144,920) |
| Value at 12/31/04 | | 168,080 |
| Warrant Adjustment at 2/4/05 | | 79,080 |
| Warrant Value at Registration | | 247,160 |
| Reclassification to APIC | | (247,160) |
| Laurus Warrants at Issuance | \$ 0.50 | 109,095 |
| Warrant at Issuance | \$ 0.50 | 304,738 |
| Warrant at issuance | \$ 0.75 | 313,088 |
| | | 726,921 |
| Warrant Adjustment at December 31, 2005 | | (151,923) |
| Warrant Liability at December 31, 2005 | | \$ 574,998 |

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The warrants were valued using a Black Scholes model, volatility between 100 to 105 percent, term of between 180 days to one year with an interest free rate of 2.50 percent with market values of \$0.37 for December 31, 2005.

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Warranty reserve. The Company provides warranties to its new car customers for the earlier of three years or fifty thousand miles, only on parts and labor performed by the Company. Warranty reserve was \$117,000 and \$149,000 as of December 31, 2005 and 2004, respectively. Warranty expense for the years ended December 31, 2005 and 2004 were \$179,000 and \$201,000, respectively and charges to the warranty reserve was \$11,000 and \$73,000 for the year-end December 31, 2005 and 2004, respectively.

Financial Condition - December 31, 2004 compared to December 31, 2003

Cash and cash equivalents. Cash and cash equivalents increased from \$91,565 at December 31, 2003 to \$3.5 million at December 31, 2004, the increase is primarily due to the acquisition of CDS, effective August 31, 2004 and the Laurus transaction. The cash balances at December 31, 2004, specific to CDS were \$750,000. The amount classified as short-term pertains to the short-term debt repayment required by the transaction, as well as cash funded from the restricted account for collateral in the subsequent period.

Restricted cash. Restricted cash increased from zero at December 31, 2003 to \$500,000 at December 31, 2004. The balance primarily relates to the collateral related to the irrevocable letter of credit, which is collateral for the line of credit with Ford Motor Credit Corporation. The Company closed on the Laurus transaction on September 29, 2004. The amount classified as short-term pertains to the short-term debt repayment required by the transaction, as well as cash funded from the restricted account for collateral in the subsequent period.

Accounts receivable, net. Accounts receivable, net at December 31, 2004 was \$1.3 million compared to \$12,939 at December 31, 2003. The increase reflects balances of \$280,000 relating to the manufacturing business and \$810,000 relating to the acquisition of CDS on August 31, 2004.

Unbilled Revenue Unbilled revenue at December 31, 2004 was \$298,000 specifically related to the CDS acquisition as of August 31, 2004.

Supply inventory. Supply inventory consist of inventory specific to the manufacturing facilities. Supply inventory increased from \$1.3 million at December 31, 2003 to \$1.8 million at December 31, 2004. The increase is directly attributed to the inventory levels at SCB. The Company at December 31, 2004 had back orders on its vehicles of 34 limousines and specialty vehicles.

Total current assets. Total current assets increased from \$1.5 million at December 31, 2003 to \$7.7 million at December 31, 2004, primarily as a result of the Company acquiring CDS effective August 31, 2004, closing the Laurus transaction for \$6.0 million and the increase in accounts receivable, net primarily relating to the operations of CDS and SCB. Accounts receivable other increased from \$31,593 at December 31, 2003 to \$188,862 at December 31, 2004. The increase relates to balances due from affiliates of the former companies. Prepaid expenses and other current assets increased from \$57,680 at December 31, 2003 to \$247,923 at December 31, 2004. The increase relates to rental and security deposits placed on corporate offices of approximately \$67,000 and costs associates with capital transactions \$67,500.

Property and Equipment. Property and equipment increased from \$901,865 at December 31, 2003 to \$2.0 million at December 31, 2004, related to the acquisition of CDS effective September 1, 2004. The Company allocated \$1.4 million from goodwill based on a report of an independent consultant (discussed below) relating to the contract settlement platform.

Goodwill. At December 31, 2003 goodwill was \$2.2 million, specifically related to the acquisition of certain assets and liabilities of Springfield, effective December 31, 2003. The acquisition was valued at \$2.82 million based on 2 million shares of common stock, at \$1.33 per share, the closing market price on November 6, 2003 plus cash proceeds of \$156,500 paid in April 2004. Management believes that the acquisition of certain assets and liabilities of Springfield enabled the Company's entrée into the Midwestern and Western United States Markets through the Company's existing sales force, engineering expertise and management. The Company was able to assume the existing lease for the manufacturing facility in Springfield, Missouri, which increased our manufacturing capacity and reduced the cost of distribution in those markets.

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At December 31, 2004, goodwill was \$6.2 million, including the acquisition of certain assets and certain liabilities of Springfield discussed above, the acquisition of Go Commercial, effective July 9, 2004 and the acquisition of CDS effective August 31, 2004. The acquisition of Go Commercial was valued at \$720,000 or \$1.70 a share and 423,529 shares of common stock were issued out of treasury stock on that date. The Company recorded goodwill on the transaction of approximately \$797,000.

The CDS acquisition was valued at \$6.0 million, a combination of cash, notes and common stock. Approximately 4.0 million shares of common stock were issued to each of the shareholders of CDS. Goodwill on the transaction was valued at \$3.0 million. The Company hired an industry expert to value the intangible assets as of the date of the acquisition, September 1, 2004 and they attributed \$1.4 million to the independent contractor settlement platform and \$1.2 million attributed to the customer list of CDS.

Lease receivables, net. At December 31, 2004 the balance of lease receivables was approximately \$2.2 million net of an allowance for lease losses of approximately \$105,000. At acquisition the Company acquired specific reserves to the portfolio of approximately \$166,000 and a general reserve of \$80,000. The Company recognized an additional provision for lease losses on new production of approximately \$25,000.

Liabilities

Accrued wages. Accrued wages increased from \$32,921 at December 31, 2003 to \$427,205 at December 31, 2004; the increase is primarily due to the accrued wages relating to the operations of CTMC, SCB and Coach. Accrued wages included approximately \$324,000 of accrued wages for officers and directors of Coach. In an effort to better utilize corporate resources, a significant portion of these accrued and unpaid wages are anticipated to be converted into common stock at the discretion of the Executive, based on a fixed conversion price of \$0.92, which represents a 15% discount to the closing bid price of the Company's common stock. The restricted common stock is not registered under the Securities Act of 1933, nor were the holders afforded any registration rights. During 2004 one executive and director converted \$714,000 of accrued wages into 777,058 shares of common stock related to compensation pertaining to personal guarantees. Also, one executive and director offset \$429,000 of accrued wages relating to personal guarantees against a liability owed by a company owned and controlled by him for the year ended December 31, 2004.

Accounts payable and other accrued expenses. Accounts payable increased from \$367,670 at December 31, 2003 to \$2.3 million at December 31, 2004, the increase is primarily relating to the operations of Coach, CDS, CTMC and SCB. Accounts payable and accrued expenses at December 31, 2004, associated for the individual entities is as follows; Coach, approximately \$301,000; CDS approximately \$710,000; CTMC, approximately \$237,000; and SCB, approximately \$600,000.

Accrued Contract Settlement. Accrued contract settlement at December 31, 2004 was \$295,000 specifically related to the acquisition of CDS.

Customer deposits. Customer deposits increased from \$230,273 at December 31, 2003 to \$233,345 at December 31, 2004.

Related party payable. Related party payable decreased from \$305,739 at December 31, 2003 to \$95,450 at December 31, 2004. The decrease relates primarily due to expenses paid for by an officer of the Company, offset by the reclassification \$305,739 to convertible debt.

Notes payable-related parties. Notes payable-related parties increased from \$613,659 at December 31, 2003, to \$900,000 at December 31, 2004. The \$900,000 of notes payable relates to the \$200,000 due to a former shareholder of CDS, upon acquisition and the \$700,000 relates to the notes established in accordance with the purchase agreement. The 2003 balance relates to the acquisition of certain assets and liabilities of Springfield Coach Builders, Inc. The notes payable related parties was funding the purchase of chassis for SCB. These balances were transferred and/or repaid on the floor plan line of credit to Ford Motor Credit Corporation.

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Lines of credit. The lines of credit increased from zero at December 31, 2003 to \$1.1 million at December 31, 2004, primarily related to a line of credit with Ford Motor Credit Corporation for the purchase of chassis for production and the reclassification discussed above.

Deferred Revenues. Deferred revenues at December 31, 2004 were zero based on the timing of the year-end payments and also that the billing and payment cycle ended on the date of payment; the Company received no advance payments. Typically the courier operator will fund in anticipation of those balances due to the drivers on the stipulated payment date.

Related party payable convertible. The Company has related party payables - convertible at December 31, 2004 and December 31, 2003 to a related party of zero. Approximately \$1.3 million was converted during the three months ended September 30, 2004 into 1.3 million shares of common stock and warrants to purchase up to (i) 433,194 shares of common stock at \$1.51 per share, (ii) 433,194 shares of common stock at \$1.82 per share, and (iii) 433,194 shares of common stock at \$2.12 per share. The conversion price is based on the lowest stock price during the second quarter, or 85% of the five-day average prior to conversion. These balances outstanding were for funding operating shortfalls as well as expenses associated with Coach. In an effort to conserve cash resources the outstanding balances were transferred to convertible debt as of September 30, 2004. During the three months ended June 30, 2004, \$817,650 of these notes was converted into 711,000 shares of common stock as well as an equivalent amount of warrants, with an exercise price of \$2.50 per share.

The Company recognized a loss of \$169,500 for the year ended December 31, 2004 related to the conversion of related party payables convertible, and the related issuance of warrants discussed above.

Convertible notes payable. On September 29, 2004, the Company entered into a Secured Convertible Term Note (the Convertible Note) with Laurus Master Fund, Ltd. (Laurus). The Convertible Note consists of a three-year, fixed price convertible note that bears an interest rate equal to the Prime Rate as published in the Wall Street Journal, plus 3.5 percent, at December 31, 2004 the interest rate was 8.75 percent.

The Laurus Master Fund, LLC Obligation outstanding as of December 31, 2004 was as follows:

| | Amount | Number of Shares Issuable Upon Conversion |
|--|---------------------|---|
| Conversion Rate | Outstanding | Conversion |
| \$0.97 | \$ 2,000,000 | 2,061,856 |
| \$1.21 | 868,015 | 717,368 |
| Total Unrestricted Balance as of December 31, 2004 of Convertible Debentures: | 2,868,015 | 2,779,224 |
| Restricted Balance as of December 31, 2004: | | |
| \$0.97 | 240,000 | 247,243 |
| \$1.09 | 1,500,000 | 1,376,147 |
| \$1.33 | 1,091,985 | 821,041 |
| Total Restricted Cash | 2,831,985 | 2,444,431 |
| Total Convertible Notes | \$ 5,700,000 | 5,223,655 |

The repayment of the Laurus Transaction over the next five years ended December 31, are as follows:

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| | Restricted | | |
|--|----------------|----------------|-------------------|
| | Funded | Cash Released | Total Convertible |
| For the year ended December 31, | Balance | in 2005 | Notes |
| 2005 | \$ 982,949 | \$ 653,451 | \$ 1,636,400 |
| 2006 | 1,042,915 | 1,029,813 | 2,072,728 |
| 2007 | 842,151 | 1,148,721 | 1,990,872 |
| Total | \$ 2,868,015 | \$ 2,831,985 | \$ 5,700,000 |

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The Company issued to Laurus warrants to purchase shares of common stock in connection with the above Convertible Notes. The Company issued the following warrants with the value of the warrants:

| Number of Warrants | Exercise Price | Value of Warrants |
|--------------------|----------------|-------------------|
| 495,867 | \$ 1.51 | \$ 103,400 |
| 495,867 | \$ 1.82 | 104,400 |
| 495,867 | \$ 2.12 | 105,200 |

1,487,601 \$ 313,000

The Laurus transaction provided for 1.5 million warrants valued as freestanding instruments that meet the definition of a derivative under SFAS 133. We measured and recognized the warrants as a liability at their fair value, as determined using the Black-Scholes option-pricing model, prior to the registration of shares underlying the warrants. We subsequently valued the warrants at December 31, 2004 for an adjustment to the market value to \$168,000, and a gain of \$145,000. The warrants will be valued quarterly, and upon registration of the underlying common stock through an effective Registration Statement. We allocated the \$1.6 million of proceeds received from the first borrowing as: a \$313,000 liability for the warrants (at fair value), \$465,000 of additional paid-in capital for the benefit on conversion, and \$822,000 liability for the convertible debt (net of debt discount). The \$465,000 of additional paid-in capital reflects the value of Laurus' option to convert the initial \$1.6 million of debt at prices beneficial to Laurus as compared to the market price of our common stock (the beneficial conversion option). The beneficial conversion option on the initial \$1.6 million of debt was determined by comparing the \$1.3 million of proceeds not allocated to the detached warrants to the 1,649,485 shares into which the \$1.6 million of debt was convertible. Effectively, the initial debt was convertible to common stock at \$0.78 per share, which was less than \$1.06 market price of our stock on the date of issuance, resulting in \$465,000 value for the beneficial conversion option. The proceeds of subsequent borrowings under the agreement were allocated between additional paid-in capital (for beneficial conversion options present on the date of borrowing, if any) and a liability for the debt (discounted to the extent value was assigned to a beneficial conversion option). We accreted the recorded debt balances up to its face amounts over the term of the borrowings using the effective interest method, which results in additional interest expense and effective interest rates on the borrowings greater than the stated interest rates and at the time of conversion additional interest expense is recorded for the unamortized discount on such debt.

Our effective interest rates, debt, conversion prices and beneficial conversion on the various tranches of borrowings for the Laurus transaction are at December 31, 2004:

| Date of Draw | Debt | Warrants | Additional | | Effective |
|-------------------------|---------------------|-------------------|-------------------|---------------------|-------------|
| | | | Capital | Total Draw | |
| | | | Paid in | | Interest |
| | | | | | Rate |
| 9/29/04 | \$ 821,798 | \$ 313,000 | \$ 465,202 | \$ 1,600,000 | 49% |
| 10/22/04 | 465,157 | | 13,430 | 478,587 | 11% |
| 11/3/04 | | | 300,000 | 300,000 | NA |
| 11/10/04 | 105,517 | | | 105,516 | 10% |
| 11/16/04 | 683,910 | | | 683,910 | 10% |
| | 2,076,382 | 313,000 | 778,632 | 3,168,015 | |
| Conversion | | | (300,000) | (300,000) | |
| Accretion | 65,618 | (26,083) | (39,535) | | |
| Total | \$ 2,142,000 | \$ 286,917 | \$ 439,097 | \$ 2,868,015 | 114% |
| Allocated to Restricted | 2,831,985 | 0 | 0 | 2,831,985 | 9% |
| Total | \$ 4,973,985 | \$ 286,917 | \$ 439,197 | \$ 5,700,000 | |

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The Company holds the balance at December 31, 2004 under the Note of \$2,831,985 in a restricted account controlled by Laurus. The amounts included in the restricted account are considered as a cash and cash equivalent, as the Company has drawn those funds from the restricted account in the first quarter of 2005.

Lease financing obligation. Lease financing obligation at December 31, 2004 was \$885,000. This balance relates to the amount funded by, or pending funding in relationship to the portfolio acquired from Go Commercial acquired in July 2004. Sovereign Bank also provided an additional secured guidance line of credit to the Company for \$4.5 million. The interest rate is determined on a lease-by-lease basis and interest rate includes a component for servicing for the portfolio. The leases typically have terms between 36 and 60 months and do not have a significant payment due at the end of the lease. The leases typically have terms between 36 and 60 months and do not have a significant payment due at the end of the lease. The average interest charged on these leases is between 6.25 percent and 6.75 percent.

Warranty reserve. The Company provides warranties to its new car customers of the earlier of three years or fifty thousand miles, only on parts and labor performed by the Company. Warranty reserve was \$148,755 and \$20,535 as of December 31, 2004 and 2003, respectively. Warranty expense for the years ended December 31, 2004 and 2003 were \$200,995 and \$20,535, respectively and charges to the warranty reserve was \$72,775 for the year-end December 31, 2004. The warranty reserve during 2003 was related to CTMC.

Results of Operations For the Years Ended December 31, 2005 compared to December 31, 2004

Gross revenues. Gross revenues were \$256.2 million for the year ended December 31, 2005 compared to \$83.6 million for the year ended December 31, 2004. Revenue attributed to CDS for the period from September 1, 2004 through December 31, 2004 was approximately \$68.4 million and \$243.0 million for the year ended December 31, 2005. Revenues relating to the manufacturing facilities were \$9.5 million for 2005 compared to \$14.5 million for the same period in 2004. Revenues relating to the lease finance operations were \$3.6 million for 2005 compared to \$630,000 for 2004. Revenues were lower during 2005 compared to 2004 primarily due to the Company slowing its sales effort to address warranty issues identified by the reorganized Management team as a result of vehicles manufactured in late 2004 and early 2005. Effective May 31, 2005, the reorganized Management team installed processes that enhance the manufacturing process and strengthen the quality control process. In addition, the Company has entered into a Joint Venture agreement effective December 31, 2005 to support the sales effort at the plant and also to focus on captive manufacturing lease financing. Revenues for CFS were also adversely impacted by the managed slow down in the sales process at the manufacturing facility, for the second half of 2005. CFS began operations July 2004.

Costs of goods sold. Cost of goods sold were \$251.8 million for the year ended December 31, 2005 compared to \$80.0 million for the same period of 2004. Cost of Goods Sold attributed to CDS for the period from September 1, 2004 through December 31, 2004 was approximately \$67.5 million and \$240 million for the year ended December 31, 2005. The cost of goods sold relates to SCB and CTMC, or \$8.6 million compared to \$12.1 million for the same period in 2004. The lower costs are directly associated with the reduced volume discussed above. The lower volume impacted the costs of goods sold through lost efficiency at the plant. During the summer, the Company reduced the labor force at the plant from a high of 75 employees down to 41 employees, most of them associated with the direct manufacturing of the vehicles.

Operating expenses. Operating expenses were \$9.4 million for the year ended December 31, 2005 compared to \$10.1 million for the year ended December 31, 2004 specifically related to the operations as described below.

General and administrative expenses were \$4.0 million for the year ended December 31, 2005 compared to \$5.0 million for the year ended December 31, 2004. Included in the general and administrative expenses for 2004 is \$1.2 million of compensation to two executives and directors for their personal guarantees on approximately \$12 million of indebtedness of the Company.

Amortization of intangible assets amounted to \$551,000 for the year ended December 31, 2005 compared to \$107,000 for the same period in 2004. The Company hired an industry expert to value the intangible assets as of the date of the acquisition, September 1, 2004 and they attributed \$1.4 million to the independent contractor

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settlement platform and \$1.2 million attributed to the customer list of CDS. The Company hired an independent industry expert to value the intangible assets for the acquisition of FleetPlan. At the date of acquisition, November 15, 2005, the value of the daily rental finance platform was \$300,000 and the titling trust was \$1.25 million. It is anticipated that these assets will be placed in service in the second quarter of 2006. Amortization of deferred compensation was \$228,000 for the year ended December 31, 2005 compared to \$1.3 million for the same period in 2004. The Company issued stock for past and future consulting services. The Company issued 1.3 million shares of restricted common stock, with a value of \$1.9 million to these consultants, of which approximately \$104,000 is to be earned over a period of up to one year for the year ended December 31, 2004. The Company issued 1,230,000 shares of restricted common stock, with a value of \$645,000 to these consultants, of which approximately \$524,000 is to be earned over a period of up to three years for the year ended December 31, 2005.

Sales and marketing expenses for the year ended December 31, 2005 were \$957,000 compared to \$549,000 for the same period in 2004. The sales and marketing expenses include commission, advertising and marketing expenses primarily for the CDS, CFS and the manufacturing facilities.

On October 31, 2005, the Company extinguished the convertible debentures with Laurus Master Funds Ltd. And entered into a new note for \$7.0 million, whereby the Company canceled approximately 5.1 million shares of registered securities, the Company received an additional \$1.3 million, paid termination fees of \$769,000, repriced warrants the original 1.5 million warrants to \$.01 for 750,000 warrants and \$0.50 for 737,601 warrants. In addition, the Company issued 762,399 additional warrants at \$0.50 and additional stock of 985,389 shares of common stock valued at \$404,009 to Laurus Master Funds, LTD. The Company is required to register the new issuance of warrants. In addition, the Company settled with DelMar Consulting for their services related to the Laurus financing for 120,000 shares of common stock valued at \$49,200. This amount was included in the loss on extinguishment of \$1.9 million for the year ended December 31, 2005.

During 2004 the Company relocated the CTMC facility at a cost of \$1.3 million, of which \$491,000 related to the disposal of leasehold improvements and inventory that was considered obsolete or too costly to move to the new location. The Company negotiated a settlement of the lease agreement with the landlord and paid the landlord \$684,000 in common stock totaling 556,098 shares for this obligation.

During 2004 one executive and director converted \$714,000 of accrued wages into 777,058 shares of common stock related to compensation related to personal guarantees. Also, one executive and director offset \$429,000 of accrued wages relating to personal guarantees against a liability owed by a company owned and controlled by him for the year ended December 31, 2004.

During May 2005, the Company settled certain obligations with an officer and director and his related companies. All obligations owed to the executive and settlements of related obligations owed by various entities of the officer were considered settled as a result of the agreement. Included was a charge-off of \$429,000 of a receivable owed to the Company from a related entity of the officer, offset by a reduction of a liability due to the officer of \$485,000 for compensation for his personal guarantees. These balances were offset at year-end and as part of the agreement; all balances due between the related entities and the Company were considered settled.

The above referenced settlement includes the cancellation of 556,098 shares of common stock issued to a related entity of the officer valued at \$684,000 in exchange for a payable to the related party of the officer in the amount of \$250,000 due in installments over a 12 month period. The Company paid to the related party of the officer \$62,500 on July 28, 2005; a subsequent payment of \$62,500 was remitted to the related party of the officer on October 31, 2005. The balance of the payments is due to the related party of the director in equal installments of \$62,500 on January 31, 2006 and April 30, 2006. The balance of the liability to this related entity at September 30, 2005 was \$187,500 and is included in related party payables. The Company recognized a gain on settlement of this obligation amounting to \$434,000 for the year ended December 31, 2005.

This officer and director resigned effective May 31, 2005 and entered into a non-compete agreement, whereby the officer cannot compete with the Company for a period of three years. The Company issued to the officer 600,000 shares of restricted common stock valued at \$396,000 and paid \$55,000 to the director in consideration for the non-compete agreement discussed above. The cost of this agreement will be amortized over the term of the non-compete agreement. The unamortized portion of the non-compete agreement at December 31, 2005

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is \$377,000. In addition, this former officer and director was issued 341,500 shares of restricted common stock for his personal guarantee of lease obligations to various financial institutions. The stock is valued at \$156,500 and is being amortized over the remaining term of the lease obligation.

Rent expense for the year ended December 31, 2005 was \$333,000 compared to \$233,000 for the year ended December 2004. Rent expense is specifically attributed to the plant facilities in Springfield, Missouri and the corporate offices for CFS, CDS and the Company.

Interest expense for the year ended December 31, 2005 was \$1.0 million compared to 370,000 for the same period in 2004. Interest expense for the years ended December 31, 2005 and 2004, respectively, associated with the Laurus transaction was \$798,000 and \$232,000, inclusive of interest paid and accrued amortization expense on warrants, deferred loan costs and discounts associated with the conversion of the debt. The balance of the interest expense is directly attributed to the line of credit and floor plan facilities due a related party. The interest represents interest paid on these facilities for limousine chassis, held over 90 days.

During 2005 the Company recognized a loss of \$188,000 upon the conversion of \$200,000 of convertible notes at \$0.50. The Company recognized losses from conversion of convertible debt related party of \$169,500 and convertible debt related to the Laurus transaction of \$300,000, for the year ended December 31, 2004, respectively.

The Company recognized a gain on mark to market of the warrant liability associated with the Laurus transaction of \$145,000 and \$73,000 for the year ended December 31, 2005 and 2004, respectively.

Net Loss. Net loss was \$5.0 million for the year ended December 31, 2005 compared to a loss of \$6.5 million for the same period in 2004. The net loss for 2005 specifically is attributed to the \$1.9 million loss on extinguishment of convertible debt related to the Laurus transaction. In addition, the Company incurred interest expense primarily associated with the Laurus transaction was \$1.0 million, in addition to \$188,000 associated with the cost of the conversion of convertible notes. Amortization expense associated with the CDS acquisition was \$551,000 for the year ended December 31, 2005 was an increase of \$444,000 compared to 2004.

Results of Operations For the Year Ended December 31, 2004 compared to December 31, 2003

Effective September 1, 2003, the Company has restated its consolidated balance sheet, consolidated statement of operations and consolidated statement of cash flows in conjunction with the reverse merger with CTMC. The accompanying financial statements include the accounts of the Company from September 1, 2003, and its wholly owned subsidiaries CTMC from January 8, 2003 (inception) and SCB, effective December 31, 2003. CTMC was formed on January 8, 2003 (inception), however they did not commence operations until April 1, 2003.

Gross revenues. Gross revenues were \$83.6 million for the year ended December 31, 2004 compared to \$1.1 million for the year ended December 31, 2003 the increase is directly related to the Company's acquisition of CDS effective August 31, 2004. Revenue attributed to CDS for the period from September 1, 2004 through December 31, 2004 was approximately \$68.4 million. The balance of the revenue primarily relates to SCB and CTMC, or \$14.5 million compared to \$1.1 million for the same period in 2003, which was for CTMC operations only.

Costs of goods sold. Costs of goods sold were \$80.0 million for the year ended December 31, 2004 compared to \$1.4 million for the same period of 2003, primarily as a result of the Company's acquisition of CDS effective August 31, 2004. Cost of Goods Sold attributed to CDS for the period from September 1, 2004 through December 31, 2004 was approximately \$67.5 million. The balance of the costs primarily relates to SCB and CTMC, or \$11.9 million compared to \$1.4 million for the same period in 2003, which was for CTMC operations only.

Operating expenses. Operating expenses were \$10.0 million for the year ended December 31, 2004 compared to \$1.4 million for the year ended December 31, 2003 specifically related to the operations of CTMC, CDS, SCB and Coach as described below.

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General and administrative expenses were \$5.0 million for the year ended December 31, 2004 compared to \$463,099 for the year ended December 31, 2003; the increase is primarily due to the operations of CTMC, CDS, SCB and Coach. The general and administrative expenses for 2003 only reflect CTMC for the period, as they began operations during 2003 and the operations are reflected through the reverse merger. Included in the general and administrative expenses for 2004 is \$1.2 million of compensation to two executives and directors for their personal guarantees on approximately \$12 million of indebtedness of the Company.

Amortization of intangible assets amounted to \$107,000 for the year ended December 31, 2004 compared to zero for the same period in 2003. The Company hired an industry expert to value the intangible assets as of the date of the acquisition, September 1, 2004 and they attributed \$1.4 million to the independent contractor settlement platform and \$1.2 million attributed to the customer list of CDS.

Amortization of deferred compensation was \$1.3 million for the year ended December 31, 2004 compared to \$550,366 for the same period in 2003. The Company issued stock for past and future consulting services. The Company issued 1.3 million shares of restricted common stock, with a value of \$1.9 million to these consultants, of which approximately \$104,000 is to be earned over a period of up to one year.

Sales and marketing expenses for the year ended December 31, 2004 were \$549,317 compared to \$47,999 for the same period in 2003. The 2004 period reflect the operations of CTMC, CDS, CFS and SCB. The sales and marketing expenses include commission, advertising and marketing expenses primarily for the CDS and the manufacturing facilities.

During the third quarter of 2004, Coach assessed the labor market and the cost structure of the manufacturing plant in Bohemia, New York and determined that it was necessary to relocate the manufacturing facility to Springfield, Missouri to eliminate redundant back-office activities at SCB and CTMC and to take advantage of the lower cost structure and abundant labor market, in Springfield. The Springfield, Missouri area has three limousine manufacturing companies, thus providing a cost effective labor market, rich with the skills that are required to manufacture quality products. The cost of relocating the CTMC facility was \$1.3 million, of which \$491,000 related to the disposal of leasehold improvements and inventory that was considered obsolete or too costly to move to the new location. The overhead reduction that will be attained on an annual basis for administrative salaries and related overhead is approximately \$300,000 and the reduction in overhead expense is anticipated to be between \$150,000 and \$300,000, for a total annual savings of between \$450,000 and \$600,000. We anticipate that the manufacturing facility will be fully operational in Springfield by the second quarter of 2005 and expects to see benefits relating to this relocation in both manufacturing facilities. The Company will continue to maintain a significant sales presence in the New York area. The Company negotiated a settlement of the lease agreement with the landlord and paid the landlord \$684,000 in common stock totaling 556,098 shares for this obligation. The sales office is occupying 3,500 square feet of this facility for \$5,000 a month, on a month-by-month basis.

Rent expense for the year ended December 31, 2004 was \$232,954 compared to \$259,200 for the year ended December 2003. Rent expense is specifically attributed to the plant facilities in Springfield, Missouri and Bohemia, New York.

Interest expense for the year ended December 31, 2004 was \$370,480 compared to zero for the same period in 2003. Interest expense associated with the Laurus transaction is \$232,000, inclusive of interest paid and accrued amortization expense on warrants, deferred loan costs and discounts associated with the conversion of the debt. The balance of the interest expense is directly attributed to the line of credit and floor plan facilities due a related party. The interest represents interest paid on these facilities for limousine chassis, held over 90 days. Also included in interest expense is the related amortization of deferred loan costs and warrant costs.

The Company recognized losses from conversion of convertible debt related party of \$169,500 and convertible debt related to the Laurus transaction of \$300,000, for the year ended December 31, 2004, respectively.

The Company recognized a gain on mark to market of the warrant liability associated with the Laurus transaction of \$145,000 for the year ended December 31, 2004.

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Net Loss. Net loss was \$6.5 million for the year ended December 31, 2004 compared to a loss of \$1.7 million for the same period in 2003, primarily due to amortization of deferred compensation, loss on relocation of the CTMC facility, losses related to conversion of debt and higher general and administrative overhead, including the compensation of \$1.2 million for personal guarantees.

Commitments

Minimum future rental payments under the initial lease for each of the five years in the aggregate are as follows:

| Year Ended December 31, | 2005 | 2004 |
|-------------------------|------------|------------|
| 2005 | \$ | 283,617 |
| 2006 | 235,617 | 235,617 |
| 2007 | 158,617 | 158,617 |
| 2008 | 152,399 | 152,399 |
| 2009 | 84,000 | 84,000 |
| 2010 | 70,000 | 70,000 |
| | \$ 700,633 | \$ 984,250 |

Coach's other commitments are either contingent upon a future event or terminable on less than thirty (30) days notice.

Other Matters

Coach carries liability and casualty insurance for owned or leased tangible assets and directors' and officers' liability insurance plans.

Summary of Significant Accounting Policies***Restatement of Financial Statements***

The Company, after careful consideration and review, has elected to change the accounting treatment of the transaction between the Company and Commercial Transportation Manufacturing, Inc. (the Transaction) and accordingly restate the financial statements. Originally, the Transaction was accounted for as a business combination that resulted in recording goodwill, an intangible asset, of approximately \$490,000. After further investigation and consideration, the Company has concluded that the accounting treatment of this Transaction as a reverse merger more accurately reflects the nature of this transaction. The primary factor influencing the accounting treatment change for this Transaction is that the Company, Coach Industries Group, Inc. had no operations prior to the Transaction. The accounting impact of treating this Transaction as a reverse merger instead of a business combination is an elimination of approximately \$490,000 of goodwill and a reduction of Additional Paid in Capital and the accumulated deficit by the same amount.

The restatement was recorded as follows:

| Accounts | As Reported | Restated | Net Change |
|--|--------------|--------------|--------------|
| Good will | \$ 2,678,896 | \$ 2,186,595 | \$ (492,301) |
| Capital Stock | 9,785 | 9,785 | 0 |
| Additional Paid in Capital | 5,675,277 | 5,360,228 | (315,049) |
| Restricted Stock — unearned compensation | 0 | 0 | 0 |
| Accumulated deficit | (1,566,037) | (1,743,290) | (177,253) |
| Revenues | 471,762 | 1,068,487 | 596,725 |
| Cost of Goods Sold | 647,574 | 1,411,058 | 763,484 |
| Gross Loss | (175,812) | (342,571) | (166,759) |
| Total Operating Expenses (1) | 1,525,325 | 1,400,719 | 124,606 |
| Loss from continuing operations | (1,701,137) | (1,743,290) | (42,153) |

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| | | | |
|---------------------------------|-------------|-------------|-----------|
| Gain on discontinued operations | 135,100 | | (135,100) |
| Net Loss | (1,566,037) | (1,743,290) | (177,253) |

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Total operating expenses as reported includes \$810,000 relating to amortization of deferred compensation and \$94,118 relating to the loss on reduction of trade payables. The amount of operating expenses as restated does not include any expense or income attributed to these captions included in expense for the same period.

For the year ended December 31, 2004, the Company reviewed the generally accepted accounting principals for the beneficial conversion feature (BCF), as it relates to EITF 98-5 and EITF 00-27 and recorded adjustments for the initial transaction with Laurus Master Funds, LLC. The Company also was required to record a liability for the warrants related to EITF -00-19 based on the terms of the registration rights agreement. The impact of the change in accounting policy was to record a decrease of \$731,000 to additional paid in capital and a debt discount as it relates to the beneficial conversion feature of \$641,130 and a warrant liability of \$972,300. In accordance with EITF Issue 98-5, as amended by EITF 00-27, we must evaluate the potential effect of any beneficial conversion terms related to convertible instruments such as convertible debt or convertible preferred stock. The Company has issued several debentures and a beneficial conversion may exist if the holder, upon conversion, may receive instruments that exceed the value of the convertible instrument. Valuation of the benefit is determined based upon various factors including the valuation of equity instruments, such as warrants, that may have been issued with the convertible instruments, conversion terms, value of the instruments to which the convertible instrument is convertible, etc. Accordingly, the value of the beneficial feature is considered an estimate due to the partially subjective nature of valuation techniques.

The Beneficial Conversion Feature relates to the Laurus Transaction and the related party convertible debt.

In addition, the Company has reviewed the valuation of the warrants issued in the Laurus transaction and the related party convertible debt. The financial statements have been restated to reflect the accounting policy change for the beneficial conversion feature recorded in the Laurus transaction and the valuation of the warrants. The change in the warrant valuation also causes a recalculation of the beneficial conversion feature and the related amortization. See Note 16 for further disclosure.

| | | | | | | | | | | | |
|---------------|---------------|-------------|-----------|-------------|-----------|-------------|-----------|-----------|---------|-----------|---------|
| able notes | | | | | | | | | | | |
| long term | | | | | | | | | | | |
| d | | | | | | | | | | 2,178,534 | 2,1 |
| ancing | | | | | | | | | | | |
| on | 884,851 | | | 884,851 | | 884,851 | | | | | 8 |
| EMENTS | | | | | | | | | | | |
| AGENCIES | | | | | | | | | | | |
| HOLDERS | | | | | | | | | | | |
| 7: | | | | | | | | | | | |
| n stock | | | | | | | | | | | |
| ar value; | | | | | | | | | | | |
| 00 shares | | | | | | | | | | | |
| ed; | | | | | | | | | | | |
| '85 and | | | | | | | | | | | |
| 1 shares | | | | | | | | | | | |
| nd | | | | | | | | | | | |
| ing, | | | | | | | | | | | |
| vely | 18,982 | | | 18,982 | | 18,982 | | | | | |
| nal paid-in | | | | | | | | | | | |
| | 17,159,784 | (972,300) | 641,130 | 16,428,614 | (162,497) | 16,266,117 | 300,000 | 169,500 | | | 16,7 |
| | | (400,000) | | | | | | | | | |
| ed stock | | | | | | | | | | | |
| l | | | | | | | | | | | |
| sation | (550,842) | | | (550,842) | | (550,842) | | | | | (5 |
| lated deficit | (7,905,822) | 49,911 | (134,484) | (7,990,395) | 68,867 | (7,921,528) | (300,000) | (169,500) | 144,920 | | (8,2 |
| y stock, | | | | | | | | | | | |
| '1 shares at | | | | | | | | | | | |
| areholders | | | | | | | | | | | |
| | 8,722,102 | (1,322,389) | 506,646 | 7,906,359 | (93,630) | 7,812,729 | | | 144,900 | | 7,9 |
| ITIES AND | | | | | | | | | | | |
| HOLDERS | | | | | | | | | | | |
| 7 | \$ 19,521,824 | | | 19,521,824 | | 19,521,824 | | | | | \$ 19,5 |

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The following table provides the reversal of the original transaction recorded by the Company for the Laurus transaction, the recording of the beneficial conversion feature as it relates to the transaction and the related amortization. The table then revalues the warrants and recalculates the beneficial conversion feature as it relates to the Laurus transaction and the related amortization as well as the conversion of debt and the valuation of the warrant liability. The restatement for the Statement of Condition for the year ended December 31, 2004 was recorded as follows:

| | December 31, | | | | | | | | | |
|---|---------------|-------------|-----------------------------|-----------------|--------------|------------|------------|------------|--------------|---------------|
| | 2004 - | | | | | | | | | |
| | (1) | | December 31, | (3) | Adjusted for | | (5) | | December 31, | |
| | 2004 - | Reversal of | (2) | 2004 - Adjusted | Valuation | Warrant | (4) | ELM | (6) | |
| | Originally | BCF | Record | for BCF | of | Valuation | Laurus | Street | Market | |
| | Presented | Original | BCF - Laurus Transaction | Change | Warrants | Change | Conversion | Conversion | Valuation | |
| | | | | | | | | | | |
| REVENUES | \$ 83,595,584 | \$ | | 83,595,584 | | 83,595,584 | | \$ | \$ | \$ 83,595,584 |
| COST OF GOODS SOLD | 80,016,021 | | | 80,016,021 | | 80,016,021 | | | | 80,016,021 |
| GROSS PROFIT (LOSS) | 3,579,563 | | | 3,579,563 | | 3,579,563 | | | | 3,579,563 |
| OPERATING EXPENSES: | | | | | | | | | | |
| General and Administrative | 4,990,340 | | | 4,990,340 | | 4,990,340 | | | | 4,990,340 |
| Provision for lease losses and uncollectible accounts receivables | 55,263 | | | 55,263 | | 55,263 | | | | 55,263 |
| Mark to Market - Warrant Liability | | | | | | | | | (144,920) | (144,920) |
| Loss on Conversion of convertible debt | | | | | | | 300,000 | 169,500 | | 469,500 |
| Interest expense | 354,774 | (49,911) | 134,484 | 439,347 | (68,867) | 370,480 | | | | 370,480 |
| Interest income | (14,496) | | | (14,496) | | (14,496) | | | | (14,496) |
| Research and development | 829,840 | | | 829,840 | | 829,840 | | | | 829,840 |
| Sales and marketing | 549,317 | | | 549,317 | | 549,317 | | | | 549,317 |
| Rent | 232,954 | | | 232,954 | | 232,954 | | | | 232,954 |
| Amortization of intangible assets | 106,667 | | | 106,667 | | 106,667 | | | | 106,667 |
| Other | | | | | | | | | | |
| Loss on relocation of CTMC | 1,328,436 | | | 1,328,436 | | 1,328,436 | | | | 1,328,436 |

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| | | | | | | | | | | |
|--|----------------|-----------|-----------|-------------|----------|-------------|-----------|--------------|------------|----------------|
| Amortization of deferred Compensation | 1,309,000 | | | 1,309,000 | | 1,309,000 | | | | 1,309,000 |
| Total operating expenses | 9,742,095 | (49,911) | 134,484 | 9,826,668 | (68,867) | 9,757,801 | 300,000 | 169,500 | (144,920) | 10,082,381 |
| Loss before income taxes | (6,162,532) | 49,911 | (134,484) | (6,247,105) | 68,867 | (6,178,238) | (300,000) | (169,500) | 144,920 | (6,502,818) |
| Income taxes | | | | | | | | | | |
| NET LOSS | \$ (6,162,532) | \$ 49,911 | (134,484) | (6,247,105) | 68,867 | (6,178,238) | (300,000) | \$ (169,500) | \$ 144,920 | \$ (6,502,818) |
| Basic and diluted net (loss) per share | \$ (0.39) | \$ 0.00 | (0.01) | (0.39) | 0.00 | (0.39) | (0.02) | \$ (0.01) | \$ 0.01 | \$ (0.41) |

- (1) Reversal of BCF Original The Company originally recorded the Laurus transaction by first valuing the warrants using a Black Scholes Model and based on the original assumptions utilized valued the warrants at \$972,300. The Company also identified as part of the Laurus transaction a discount associated with the beneficial conversion of the Convertible Notes a beneficial conversion feature of \$400,000. The discount associated with the original transaction was recorded based on a discount to market of twenty percent for \$2.0 million of convertible debentures. The amortization of the warrants and beneficial conversion feature recorded by the Company for these both the warrants and the beneficial conversion was \$49,911. The Company amortized the warrants based on the contractual term of 84 months and the discount associated with the convertible debentures based on 36 months.

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- (2) Record BCF Laurus Transaction Upon review of the generally accepted accounting principals for the beneficial conversion feature, as it relates to EITF 98-5 and EITF 00-27 and recorded adjustments for the initial transaction with Laurus Master Funds, LLC. The impact of the change in accounting policy, was to record the warrants at the valuation of \$972,300, which in accordance with EITF 00-19, the Company was required to record a liability until such time as the warrants were registered, a discount related to the beneficial conversion of \$641,130. As part of the beneficial conversion, the Company was required to issue 1.6 million shares of common stock, thus at a discount to market of \$0.38. Since the discount would have been greater than the amount owed to Laurus, the Company recorded \$627,700 related to the first draw of \$1.6 million. In addition, the Company recorded \$14,130 relating to the issuance of \$100,000 at a discount to market price of \$0.13. Additional paid in capital was increased by \$641,130 warrant liability was established at \$972,300 and an offsetting reduction in the debt outstanding for the transaction. The amortization related to the warrants and the beneficial conversion feature was \$134,484 for the year ended December 31, 2004, which was based on a 36-month amortization period.
- (3) Valuation of Warrants - The Company identified inconsistencies in the assumptions used in valuing the warrants related to the Laurus transaction. The Company revalued the warrants from \$972,300 to \$313,000, a net change of \$659,300. The valuation was performed using the Black Scholes model with the assumption utilized as follows:

| Description | Volatility | Interest Rate | Duration | Market Value |
|-------------|--------------------|---------------------|------------------------------------|------------------------|
| Original | .75 ^(a) | 3.85 ^(b) | 7 Years Contractual ^(c) | \$ 1.21 ^(d) |
| New | .56 ^(a) | 2.50 ^(b) | 3 Years ^(c) | \$ 1.06 ^(d) |

- (a) The assumption change for volatility was based on the short history of the Company and the fact that taking month-end volatility was not appropriate or indicative of the volatility for the Company. We shortened the timeframe to three months and took weekly pricing into the formula. By shortening the timeframe to three months and taking weekly pricing, the volatility was more in line with the trends that the Company was experiencing and more accurately reflecting the expected future volatility of our stock.
- (b) The risk-free interest rate changed based on the change in the assumptions for the duration of the warrants from 7 years down to between two and three years in both calculations.
- (c) The Company reviewed the assumptions that were made in our internal projections for that timeframe and based on those assumptions; the warrants that were issued would have been well above the strike price in a 12 to 24 month period. Even though the contractual agreements were for 7 years, the model duration was shortened to a period less than the contractual term to reflect the estimated economic life of the warrant. The change in the duration of the warrants was appropriate based on how we believed at the time the warrants would be liquidated based on the relationship with Laurus and their investment strategy. Laurus was required to abide by the conversion guidelines set forth in the secured convertible term note.
- (d) The market value that was utilized in the original assumptions, which were the contractual values prior to consummation of the transaction. The market value utilized for the new assumptions were the 5 trading days prior to the closing and 5 days subsequent to the closing of the transaction, discounted by 5% for the holding period that reflected the period from which we closed to the period to which we would have the securities registered.

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Based on the above review of the warrant valuation, the Company recorded the warrants at \$313,000, recalculated the beneficial conversion feature at \$478,633, and reversed the original assumptions. The net impact of the change in the accounting for the beneficial conversion feature and the warrant valuation is as follows:

| | | |
|---|------------|--|
| Warrant Liability | \$ 659,300 | See discussion above on the valuation assumptions attributed to the warrants |
| Beneficial Conversion | \$ 162,497 | See discussion relating to the calculation of the beneficial conversion, change in assumptions |
| Additional Paid in Capital | \$ 162,497 | See above |
| Reduction in Amortization For warrants and beneficial Feature | \$ 68,867 | Based on the amortization of the beneficial conversion feature before and after the warrant valuation and the new beneficial conversion features |

- (4) Laurus Conversion The Company converted \$300,000 of convertible notes related to the Laurus transaction at \$0.50. The Company recognized a loss upon conversion of this note amounting to \$300,000 based on the calculation of the beneficial conversion feature discussed in more detail above.
- (5) ELM Street Conversion The Company converted \$2.1 million of related party debt convertible during the year ended December 31, 2004. At the same time the Company issued warrants to purchase common stock totaling 2.1 million with exercise prices between \$1.58 and \$2.50. The Company converted \$2.1 million of related party debt convertible and issued 2.0 million warrants to purchase common stock at exercise prices ranging from \$1.58 to \$2.50. Upon conversion, the Company recognized a loss of \$169,500. The warrants were valued using a Black-Scholes Model with volatility ranging from 56% to 68%, risk free interest rate of two percent, an estimated duration of one year and market values at the time of conversion between \$1.00 and \$1.30.
- (6) See discussion above for valuation of warrants for the Laurus transaction. A liability was established in accordance with EITF 00-19. The Laurus transaction provided for 1.5 million warrants valued as freestanding instruments that meet the definition of a derivative under SFAS 133. We measured and recognized the warrants as a liability at their fair value, as determined using the Black-Scholes option-pricing model, prior to the registration of shares underlying the warrants. We subsequently valued the warrants at December 31, 2004 for an adjustment to the market value to \$168,000, and a gain of \$145,000. The warrants will be valued quarterly, and upon registration of the underlying common stock through an effective Registration Statement.
- (7) Reclassification December 31, 2004 The Company reclassified long-term debt related to the Laurus transaction for both funded and restricted balances at year-end. The ending balances as restated are based on the five-year repayment schedule in Note 16 of the financial statements.

Principles of Consolidation and Financial Statement Presentation

The financial condition and results of operations are included in the consolidated financial statements from acquisition date.

All significant inter-company balances and transactions have been eliminated.

Certain amounts from prior years have been reclassified to conform to revised presentation for 2005.

Use of Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. When preparing our financial statements, we make estimates and judgments that affect the reported amounts on our balance sheets and income statements, and our related disclosure about contingent assets and liabilities. We continually evaluate our estimates, including those related to revenue, allowance for doubtful accounts, reserves for income taxes, and litigation. We base our estimates on historical

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experience and on various other assumptions, which we believe to be reasonable in order to form the basis for making judgments about the carrying values of assets and liabilities that are not readily ascertained from other sources. Actual results may deviate from these estimates if alternative assumptions or condition are used.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2005 and 2004, cash and cash equivalents include cash on hand and cash in the bank.

Revenue Recognition

Subcontract Settlement Processing

The Company records revenue in accordance with EITF 99-19 Reporting Revenues Gross as a Principal versus Net as an Agent . The Company recognizes revenue as services are provided. The Company's revenues consist of fees paid by its clients under Contract Management Agreements, for the provision of drivers, vehicles and processing services. In addition, the Company's revenues consist of fees for administrative services provided to independent contractors under separate contractual arrangements with these independent contractors.

In consideration for payment of such service fees, the Company agrees to pay the following direct costs associated with the independent contractors: (i) operators (drivers); (ii) vehicles; (iii) occupational and accidental insurance; and (iv) management services. The Company is the primary obligor in these arrangements, establishes the price of services, has discretion in supplier selection, determines service specifications and has credit risk for services provided.

The Company accounts for fees and the related direct costs using the accrual method. Under the accrual method, fees relating to independent contractors with earned but unpaid settlements at the end of each period are recognized as unbilled revenues and the related direct costs for such services are accrued as a liability during the period in which contract settlements are earned by the independent contractor.

Manufacturing

Revenues are reported at the time the custom re-fabrication or modification is complete and delivered to the customer. Customer deposits for partial payment of vehicles are deferred and treated as current liabilities until the vehicle is completed and recognized as revenue. Repairs and other services are recorded when the service is performed. Inventory is relieved upon delivery of the vehicle.

Sales-type leases

Sales type leases require the lessee to assume responsibility at the end of the lease term for substantially all the difference between the market value of the equipment as agreed to by the Company and the lessee and the value determined by a formula in the lease agreement. At the inception of the lease the Company records the present value of the lease payments, including the residual values as sales values at inception of the lease and charges to income the vehicle costs and related direct lease costs. The remaining unearned income is amortized to income over the lease term.

Direct-financing leases

Revenue from direct-financing lease is recognized by amortizing the excess of aggregate rentals receivable over the cost of the related vehicles during the term of the lease by the interest method and is included in interest income. All future lease payments, net of unearned income and an allowance for lease losses are included in the net investment in direct-financing leases.

Table of Contents**Initial direct costs**

Initial direct costs relating to direct financing leases are included as a component of the net investment in direct-financing leases and are amortized over the term of the prospective leases using the interest method.

Allowance for Lease Losses

The allowance for lease losses reflects management's estimate of probable incurred credit losses in the lease portfolios. Leases are charged off against the allowance when management believes the uncollectibility of the lease balance is confirmed. Recoveries are credited to the allowance.

The allowance consists of two components. The first component of the allowance is for high-balance non-homogenous leases that are individually evaluated for impairment. A lease is impaired when collection of principal and interest based on the contractual terms of the lease is not likely to occur. The process for identifying leases to be evaluated individually for impairment is based on management's identification of classified leases. Once an individual lease is found to be impaired, a valuation allowance is assigned to the lease based on one of the following three methods: (1) present value of expected future cash flows, (2) fair value of collateral less costs to sell, or (3) observable market price. Non-homogenous leases that are not impaired are assigned an allowance based on historical data by product. The second component of the allowance is for homogenous leases in which groups of leases with common characteristics are evaluated to estimate the inherent losses in the portfolio. Homogenous leases have certain characteristics that are common to the entire portfolio so as to form a basis for predicting losses on historical data and delinquency trends as it relates to the group. The methodology utilized in establishing the allowance for homogenous loans includes consideration of trends in industries, analysis of historical losses, delinquency trends, and credit scores. Management believes the allowance for lease losses is adequate and that it has a sound basis for estimating the adequacy of the allowance for lease losses. Actual losses incurred in the future are highly dependent upon future events, including the economies of the geographic areas in which the Company holds leases.

Non-performing Leases

A lease is generally placed on non-accrual status at the earlier of (i) the lease becoming past due 90 days as to either principal or interest or (ii) when the borrower has entered bankruptcy proceedings and the lease is delinquent. Exceptions to placing 90-day past due leases on non-accrual may be made if there exists an abundance of collateral and the lease is in the process of collection. Leases are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. When a lease is placed on non-accrual status, interest accrued but not received is reversed against interest income. A non-accrual lease may be restored to accrual status when delinquent loan payments are collected and the lease is expected to perform in the future according to its contractual terms. Interest income on performing impaired leases is recognized on an accrual basis.

Stock-Based Compensation Plans

During the three years ended December 31, 2005, the Company maintained both qualifying and non-qualifying stock-based compensation plans for its employees and directors. The Company accounts for these plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25 and related interpretations. No compensation is recognized in connection with option grants that had an exercise price equal to the market value of the underlying common stock on the date of grant. The tax benefit recognized upon the exercise of certain options is recorded as a component of additional paid-in-capital.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

| | 2005 | 2004 | 2003 |
|---|----------------|----------------|----------------|
| Pro forma net income | | | |
| Net loss, as reported | \$ (5,013,045) | \$ (6,502,818) | \$ (1,743,290) |
| Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of related income tax effect | (606,000) | (263,330) | |
| Pro forma net loss | \$ (5,619,045) | \$ (6,766,148) | \$ (1,743,290) |

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| | | | | | | |
|-------------------|----|--------|----|--------|----|--------|
| Loss per share: | | | | | | |
| Basic as reported | \$ | (0.23) | \$ | (0.41) | \$ | (0.79) |
| Basic pro forma | \$ | (0.26) | \$ | (0.42) | \$ | (0.79) |

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Property and Equipment, net

Property and equipment, net are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated economic lives of the assets, which are typically three to seven years.

Included in property and equipment, net are internally generated software costs and the contract settlement management platform allocated from goodwill as part of the CDS acquisition. The useful lives attributed to these assets are seven years.

Expenditures and major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Revenue Recognition Subcontractor Settlement

Customers are generally billed weekly on the day prior to the couriers being paid by the Company. The Company is a third party administrator specializing in the brokerage of transportation services, including vehicles and drivers for its subscribing courier operators. The Company provides vehicles, manpower and the necessary management associated equipment and subcontractors.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments and accounts receivable. The Company maintains cash balances at various financial institutions with balances insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At December 31, 2005, the balances at various financial institutions over the FDIC insured balances are \$2.4 million.

Concentrations of credit with respect to accounts receivable are limited because of the Company's policy to require deposits from some customers and the number of customers comprising the client base and their dispersion across geographical locations. The Company has one major customer that comprises approximately 18% of its revenue base. Its relationship with this customer is in good standing and the Company believes that there is no imminent threat to this relationship.

Deferred Revenue

Deferred revenues at December 31, 2005 and 2004 were zero. This balance relates to the acquisition of CDS effective August 31, 2004. The deferred revenues are funded by the courier operators in anticipation of those balances due to the drivers on the stipulated payment date. On December 31, 2004 no advance payments were made by the courier operators, based on the timing of the payments, which were due on Friday, December 31, 2004 and paid on Friday December 31, 2004.

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Supply Inventory

Supply inventory includes the cost of the unmodified vehicle chassis, direct manufacturing labor and parts related to vehicles in the process of being modified and remanufactured. Shipping and handling costs are included in inventory.

All inventories are valued at the lower of cost or market. The cost of new and used vehicles is determined using the specific identification method. The cost of new parts is valued using the first in first out basis.

The Company performs periodic inventory procedures and at times identifies supply inventory that is considered excess inventory or obsolete. The Company writes the obsolete and excessive inventory down to the lower of cost or market and the amount is included in general and administrative expenses for the period. During the year ended December 31, 2004, the Company recorded \$20,000 of expenses related to obsolete inventory with zero recorded for the same period in 2003.

Software Development Costs

SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed, requires capitalization of software development costs incurred subsequent to establishment of technological feasibility and prior to the availability of the product for general release to customers. Systematic amortization of capitalized costs begins when a product is available for general release to customers and is computed on a product-by-product basis at a rate not less than straight-line basis over the product's remaining estimated economic life. Amortization of software development costs for the year ended December 31, 2005 and 2004 was \$140,000 and \$8,701, respectively.

Management continually evaluates the net realizable value of software costs capitalized by comparing estimated future gross revenues reduced by the estimated future costs of completing, disposing and maintaining the software. These costs also include the costs of performing maintenance and customer support required by the Company.

Impairment of Long-lived Assets

The Company reviews long-lived assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered. At December 31, 2005 and 2004, the Company believes that there has been no impairment of its long-lived assets other than those identified as part of the relocation of CTMC during 2004.

Advertising

The Company expenses advertising production costs as they are incurred. Advertising costs for the years ended December 31, 2005 and 2004 were approximately \$176,000 and \$65,000, respectively.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, accounts receivable; due from related parties, prepaid expenses, other assets, and accounts payable and other current liabilities carrying amounts approximate fair value.

Warrant Liability The Company values its warrants using a black scholes pricing model. If the shares of common stock underlying the warrants are required to be registered, the Company records a warrant liability at the time of issuance. The warrants will be valued on a quarterly basis up until the warrants are registered with the Securities and Exchange Commission. Upon registration the warrants liability is reclassified to additional paid in capital.

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Warranty Reserve

The Company provides warranties to its new car customers for the earlier of three years or fifty thousand miles, only on parts and labor performed by the Company. The Company provides warranties to its new car customers of the earlier of three years or fifty thousand miles, only on parts and labor performed by the Company. Warranty reserve was \$116,392 and \$148,755 as of December 31, 2005 and 2004, respectively. Warranty expense for the years ended December 31, 2005 and 2004 were \$178,746 and \$200,995, respectively and charges to the warranty reserve was \$205,993 and \$72,775 for the year-end December 31, 2005 and 2004, respectively.

Beneficial Conversion Feature in Debentures

In accordance with EITF Issue 98-5, as amended by EITF 00-27, we must evaluate the potential effect of any beneficial conversion terms related to convertible instruments such as convertible debt or convertible preferred stock. The Company has issued several debentures and a beneficial conversion may exist if the holder, upon conversion, may receive instruments that exceed the value of the convertible instrument. Valuation of the benefit is determined based upon various factors including the valuation of equity instruments, such as warrants, that may have been issued with the convertible instruments, conversion terms, value of the instruments to which the convertible instrument is convertible, etc. Accordingly, the ultimate value of the beneficial feature is considered an estimate due to the partially subjective nature of valuation techniques.

Income Taxes

Deferred income taxes arise from timing differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. A deferred tax asset valuation allowance is recorded when it is more likely than not that deferred tax assets will not be realized. It is more likely that the deferred tax asset will not be recognized. The deferred tax asset as of December 31, 2003 was restated as part of a reverse merger and presented as a \$0 balance.

Utilization of the net operating loss carry-forwards may be subject to a substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code. The annual limitation may result in the expiration of net operating loss carry-forwards before utilization.

Goodwill and Other Intangibles

The Company adopted SFAS No.142, Goodwill and Other Intangible Assets, on January 1, 2002. As of the adoption date, the Company no longer amortizes goodwill over its useful life. Instead, goodwill is tested for impairment annually. The impairment test consists of two steps. In the first step, the Company determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. If the fair value of the reporting unit is greater than its carrying value, the test is completed and goodwill assigned to the reporting unit is not impaired. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired, and the Company must perform the second step of the impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No.141, to its carrying amount. The Company will recognize a goodwill impairment charge if the carrying amount of the goodwill assigned to the reporting unit is greater than the implied fair value of the goodwill. The Company hired an industry expert to value the intangible assets as of the date of the acquisition, September 1, 2004 and they attributed \$1.2 million to the independent contractor settlement platform, which is included in property, plant and equipment on the statement of financial condition as of December 31, 2004 and \$1.2 million attributed to the customer list of CDS. The remaining balance of \$3.1 million is considered goodwill attributed to the acquisition of CDS. The Company has established an anticipated useful life for the customer list of ten years and seven years for the independent contractor settlement platform. The amortization attributed to the allocated intangibles for the year ended December 31, 2004 was \$106,667.

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At December 31, 2005 and 2004, the Company had not recognized an impairment loss in connection with this goodwill.

Earnings (Loss) Per Common Share

Basic earnings (loss) per share exclude dilution and are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflect the potential dilution that could occur if convertible securities or options to issue common shares of the Company or its subsidiaries were exercised. In calculating diluted earnings (loss) per share, interest expense net of taxes on convertible securities is added back to net income (loss) and equity in earnings of subsidiaries is adjusted for the effect of subsidiary stock options outstanding, if dilutive. The resulting net income amount is divided by the weighted average number of common shares outstanding, when dilutive. The options and restricted stock are included in the weighted average number of common shares outstanding based on the treasury stock method, if dilutive.

Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS 151, *Inventory Costs*. SFAS 151 amends the accounting for abnormal amounts of idle facility expense, freight handling costs, and wasted material (spoilage) UNDER THE GUIDANCE IN ARB 43, Chapter 4, *Inventory Pricing* Paragraph 5 of ARB 42, Chapter 4, previously stated that "...under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal a 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. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company intends to implement the above effective January 1, 2006.

In December 2004, the FASB issued SFAS 152, *Accounting for Real Estate Time-Sharing Transactions*. The FASB issued this Statement as a result of the guidance provided in AICPA Statement of Position (SOP) 04-2, *Accounting for Real Estate Time-Sharing Transactions*. SOP 04-2 applies to all real estate time-sharing transactions. Among other items, the SOP provides guidance on the recording of credit losses and the treatment of selling costs, but does not change the revenue recognition guidance in SFAS 66, *Accounting for Sales of Real Estate*, for real estate time-sharing transactions. SFAS 152 amends Statement 66 to reference the guidance provided in SOP 04-2. SFAS 152 also amends SFAS 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, to state that SOP 04-2 provides the relevant guidance on accounting for incidental operations and costs related to the sale of real estate time-sharing transactions. SFAS 152 is effective for years beginning after June 15, 2005, with restatements of previously issued financial statements prohibited. The Company is not impacted by this pronouncement.

In December 2004, the FASB issued SFAS 153, *Exchanges of Nonmonetary Assets*, an amendment to Opinion No. 29, *Accounting for Nonmonetary Transactions*. Statement 153 eliminates certain differences in the guidance in Opinion No. 29 as compared to the guidance contained in standards issued by the International Accounting Standards Board. The amendment to Opinion No. 29 eliminates the fair value exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Such an exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary asset exchanges occurring in periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in periods beginning after December 16, 2004. The Company is in the process of reviewing this pronouncement and will implement this pronouncement effective January 1, 2006, where applicable.

In December 2004, the FASB issued a revision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123R). SFAS 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS 123R establishes

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standards for the accounting for transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS 123 as originally issued and EITF Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. SFAS 123R is effective for the first interim or annual reporting period of the company's first fiscal year that begins on or after June 15, 2005. The new standard will require us to recognize compensation costs in our financial statements in an amount equal to the fair value of share-based payments granted to employees and directors. We are currently evaluating how we will adopt the standard and evaluating the effect that the adoption of SFAS 123(R) will have on our financial position and results of operations and earnings per share.

The Company has requested the Compensation Committee to review the impact of this pronouncement and to review the costs of stock options, restricted stock and other incentive-equity based programs to align management and its employees with the shareholders' interests. The Company will implement this pronouncement effective January 1, 2006.

In March 2005, the U.S. Securities and Exchange Commission, or SEC, released Staff Accounting Bulletin 107, Share-Based Payments, (SAB 107). The interpretations in SAB 107 express views of the SEC staff, or staff, regarding the interaction between SFAS 123R and certain SEC rules and regulations, and provide the staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with non-employees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123R, the modification of employee share options prior to adoption of SFAS 123R and disclosures in Management's Discussion and Analysis subsequent to adoption of SFAS 123R. SAB 107 requires stock-based compensation be classified in the same expense lines as cash compensation is reported for the same employees. The Company and management are reviewing SAB 107 in conjunction with its review of SFAS 123R.

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47 ACCOUNTING FOR CONDITIONAL ASSET RETIREMENT OBLIGATIONS AN INTERPRETATION OF FASB STATEMENT NO. 143 (FIN No. 47). FIN No. 47 clarifies the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and/or method of settlement are conditional on a future event. FIN No. 47 is effective no later than December 31, 2005. FIN No. 47 did not impact the Company for the year ended December 31, 2005.

In May 2005, the FASB issued SFAS No. 154, ACCOUNTING CHANGES AND ERROR CORRECTIONS, A REPLACEMENT OF APB NO. 20 AND FASB STATEMENT NO. 3 (SFAS No. 154). SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB Opinion No. 20 Accounting Changes, previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 was utilized for the restatement of the beneficial conversion feature for the year ended December 31, 2004.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources and would be considered material to investors. Certain officers and directors of the Company have provided personal guarantees to our various lenders as required for the extension of credit to the Company.

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Accounting Policies Subject to Estimation and Judgment

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. When preparing our financial statements, we make estimates and judgments that affect the reported amounts on our balance sheets and income statements, and our related disclosure about contingent assets and liabilities. We continually evaluate our estimates, including those related to revenue, allowance for doubtful accounts, reserves for income taxes, and litigation. We base our estimates on historical experience and on various other assumptions, which we believe to be reasonable in order to form the basis for making judgments about the carrying values of assets and liabilities that are not readily ascertained from other sources. Actual results may deviate from these estimates if alternative assumptions or condition are used.

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Item 7. Financial Statements

Index to Financial Statements

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| <u>Report of Independent Registered Certified Public Accounting Firm</u> | F-2 |
| <u>Consolidated balance sheets at December 31, 2005 and 2004</u> | F-3 |
| <u>Consolidated statements of operations for the period from January 8, 2003 (inception) through December 31, 2003 and for the years ended December 31, 2005 and 2004</u> | F-4 |
| <u>Consolidated statements of shareholders' equity for the period from January 8, 2003 (inception) through December 31, 2003 and for the years ended December 31, 2005 and 2004</u> | F-5 |
| <u>Consolidated statements of cash flows for the period from January 8, 2003 (inception) through December 31, 2003 and for the years ended December 31, 2005 and 2004</u> | F-6 |
| <u>Notes to consolidated financial statements for the period from January 8, 2003 (inception) through December 31, 2003 and for the years ended December 31, 2005 and 2004</u> | F-7 |

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Report of Independent Registered Public Accounting Firm

To The Board of Directors and Shareholders of Coach Industries Group, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Coach Industries Group, Inc. (a Nevada corporation) as of December 31, 2005 and 2004, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the for the period from January 8, 2003 (inception) through December 31, 2003 and for the years ended December 31, 2005 and 2004. These consolidated 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 audits to obtain reasonable assurance about whether the consolidated 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 consolidated 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 Coach Industries Group, Inc. and its subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the period from January 8, 2003 (inception) through December 31, 2003 and for the years ended December 31, 2005 and 2004 in conformity with accounting principles generally accepted in the United States of America.

/s/ JEWETT, SCHWARTZ & ASSOCIATES

JEWETT, SCHWARTZ & ASSOCIATES

Hollywood, Florida

March 9, 2006

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COACH INDUSTRIES GROUP, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31,

| | 2005 | 2004 |
|--|---------------|---------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 3,046,069 | \$ 3,545,995 |
| Lease receivable - current | 1,559,635 | 912,335 |
| Accounts receivable, net | 1,582,335 | 1,094,196 |
| Unbilled revenues | | 298,290 |
| Supply inventory | 1,363,694 | 1,836,535 |
| Accounts receivable - other | 190,681 | 188,862 |
| Prepaid expenses and other current assets | 445,915 | 247,922 |
| Total current assets | 8,188,329 | 8,124,135 |
| PROPERTY AND EQUIPMENT, net | 2,231,347 | 1,968,927 |
| LEASE RECEIVABLES, NET | 3,443,793 | 1,290,453 |
| Restricted cash | 247,196 | 500,000 |
| DEFERRED LOAN COSTS, net | 379,313 | 270,728 |
| INTANGIBLES, net | 2,290,000 | 1,160,000 |
| GOODWILL | 6,304,182 | 6,207,581 |
| | \$ 23,084,160 | \$ 19,521,824 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 1,215,170 | \$ 2,292,355 |
| Accrued interest payable | 109,854 | 90,682 |
| Related party payable | 376,246 | 95,450 |
| Accrued contract settlement | 1,868,000 | 294,561 |
| Current portion of long-term debt - funded | 1,465,119 | 982,949 |
| Current portion of long-term debt - restricted | | 653,451 |
| Current portion lease liability | 1,354,167 | 369,145 |
| Warrant liability | 574,998 | 168,080 |
| Warranty reserve | 116,392 | 148,755 |
| Customer deposits | 41,000 | 233,345 |
| Accrued wages | 61,019 | 427,205 |
| Note payable - related parties | 650,000 | 900,000 |
| Lines of credit | 894,418 | 1,054,909 |
| Total current liabilities | 8,726,383 | 7,710,887 |
| OTHER LIABILITIES: | | |
| Convertible notes payable- long term - funded | | 1,159,048 |
| Convertible notes payable - long term - restricted | | 2,178,534 |
| Term note - long term | 5,534,881 | |
| Lease financing obligation | 3,075,971 | 515,706 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY: | | |
| | 29,038 | 18,982 |

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| | | |
|---|----------------------|----------------------|
| Common stock \$0.001 par value; 50,000,000 shares authorized; 29,038,308 and 18,982,785 shares issued and outstanding, respectively | | |
| Additional paid-in capital | 19,915,720 | 16,735,617 |
| Restricted stock unearned compensation | (938,680) | (550,842) |
| Accumulated deficit | (13,259,153) | (8,246,108) |
| Treasury stock, zero and 1,176,471 shares at cost | | |
| Total shareholders equity | 5,746,925 | 7,957,649 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 23,084,160 | \$ 19,521,824 |

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

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Table of Contents**COACH INDUSTRIES GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

| | For the Year Ended December 31, 2005 | For the Year Ended December 31, 2004 | For the Period from January 8, 2003 (Inception) Through December 31, 2003 |
|--|---|---|--|
| REVENUES | \$ 256,165,770 | \$ 83,595,584 | \$ 1,068,487 |
| COST OF GOODS SOLD | 251,790,682 | 80,016,021 | 1,411,058 |
| GROSS PROFIT (LOSS) | 4,375,088 | 3,579,563 | (342,571) |
| OPERATING EXPENSES: | | | |
| General and Administrative | 4,032,645 | 4,990,840 | 463,099 |
| Provision for lease losses and uncollectible accounts receivable | 17,881 | 55,263 | |
| Interest expense | 1,046,931 | 370,480 | |
| Interest expense on conversion of convertible notes | 188,000 | 469,000 | |
| Gain on market valuation attributed to warrant liability | (72,773) | (144,920) | |
| Interest income | (3,727) | (14,496) | |
| Research and development | 199,868 | 829,840 | |
| Sales and marketing | 956,679 | 549,317 | 47,999 |
| Rent | 333,161 | 232,954 | 259,200 |
| Amortization of intangible assets | 550,815 | 106,667 | |
| Loss on extinguishment of convertible notes | 1,895,077 | | |
| Loss on relocation of CTMC | (22,586) | 1,328,436 | |
| Amortization of deferred Compensation | 266,162 | 1,309,000 | 550,366 |
| Other | | | 80,055 |
| Total operating expenses | 9,388,133 | 10,082,381 | 1,400,719 |
| Loss before income taxes | (5,013,045) | (6,502,818) | (1,743,290) |
| Income taxes | | | |
| NET LOSS | \$ (5,013,045) | \$ (6,502,818) | \$ (1,743,290) |
| Basic and diluted net income (loss) per share : | | | |
| Net loss per share | \$ (0.25) | \$ (0.41) | \$ (0.79) |
| Basic and diluted weighted average common shares outstanding | 19,731,310 | 15,877,662 | 2,219,699 |

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

Table of Contents**COACH INDUSTRIES GROUP, INC.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

For the period from January 8, 2003 (inception) through December 31, 2003 and for the
years ended December 31, 2005 and December 31, 2004

| | Common Stock | | Additional Paid In Capital | Accumulated Deficit | Treasury Stock | Accumulated Other Comprehensive Income | Unearned Compensation Restricted Stock Grants | Total |
|---|-------------------|------------------|----------------------------------|------------------------|---------------------|---|--|---------------------|
| | Shares | Amount | | | | | | |
| BALANCE, December 31, 2002 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Issuance of common stock capitalization of CTMC | 1,450 | 0 | 580,500 | | | | | 580,500 |
| Recognition of unearned compensation restricted stock | | | 550,366 | | | | | 550,366 |
| Reclassification of common stock related to the reverse merger of Coach and CTMC | 3,184,081 | 3,185 | (3,185) | | | | | |
| Issuance of common stock upon reverse merger of CTMC | 3,000,000 | 3,000 | (3,000) | | | | | |
| Issuance of common stock into treasury for settlement of a pending acquisition | 1,600,000 | 1,600 | 718,400 | | (720,000) | | | |
| Issuance of common stock upon acquisition of SCB | 2,000,000 | 2,000 | 2,658,000 | | | | | 2,660,000 |
| Contribution of inventory and raw materials | | | 859,147 | | | | | 859,147 |
| Net loss | | | | (1,743,290) | | | | (1,743,290) |
| BALANCE, DECEMBER 31, 2003 | 9,785,531 | \$ 9,785 | \$ 5,360,228 | \$ (1,743,290) | \$ (720,000) | \$ | \$ | \$ 2,906,723 |
| Issuance of common stock out of treasury | | | | | 720,000 | | | 720,000 |
| Issuance of restricted stock for payment to consultants | 1,289,900 | 1,290 | 1,858,552 | | | | (1,859,842) | |
| Amortization of deferred compensation | | | | | | | 1,309,000 | 1,309,000 |
| Conversion of common stock | 3,943,738 | 3,943 | 4,312,169 | | | | | 4,316,112 |
| Issuance of common stock | 25,000 | 25 | 24,975 | | | | | 25,000 |
| Repurchase of common stock | (95,000) | (95) | (94,905) | | | | | (95,000) |
| Discount on Laurus transaction | | | 478,632 | | | | | 478,632 |
| Acquisition of CDS | 4,033,616 | 4,034 | 4,795,966 | | | | | 4,800,000 |
| Net loss | | | | (6,502,818) | | | | (6,502,818) |
| BALANCE, DECEMBER 31, 2004 | 18,982,785 | \$ 18,982 | \$ 16,735,617 | \$ (8,246,108) | \$ | \$ | \$ (550,842) | \$ 7,957,649 |

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| | | | | | | | |
|--|-------------|-----------|---------------|-----------------|-----------|----|---------------------------|
| Reversal of stock related to settlement with landlord | (556,098) | (556) | (683,444) | | | | (684,000) |
| Settlement with former officer and director | 941,500 | 942 | 545,318 | | (396,000) | | 150,260 |
| Issuance of common stock through conversion of accrued wages due to officers | 747,653 | 747 | 393,703 | | | | 394,450 |
| Issuance of restricted stock for payment to consultants | 800,000 | 800 | 350,400 | | (258,000) | | 93,200 |
| Amortization of deferred compensation | | | | | 266,162 | | 266,162 |
| Issuance of common stock for extinguishment of Laurus transaction | 985,389 | 985 | 403,024 | | | | 404,009 |
| Issuance of common stock | 6,666,667 | 6,667 | 1,763,333 | | | | 1,770,000 |
| Registration of warrants | | | 247,160 | | | | 247,160 |
| Warrants issued , unregistered | | | (726,920) | | | | (726,920) |
| Acquisition of FleetPlan | 1,246,883 | 1,247 | 498,753 | | | | 500,000 |
| Conversion of convertible notes | 400,000 | 400 | 199,600 | | | | 200,000 |
| Convertible note conversion | | | 188,000 | | | | 188,000 |
| Cancellation of treasury stock | (1,176,471) | (1,176) | 1,176 | | | | |
| Net loss | | | | (5,013,045) | | | (5,013,045) |
| Balance, December 31, 2005 | 29,038,308 | \$ 29,038 | \$ 19,915,720 | \$ (13,259,153) | \$ | \$ | \$ (938,680) \$ 5,746,925 |

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

Table of Contents**COACH INDUSTRIES GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | For the year ended December 31, 2005 | For the year ended December 31, 2004 | For the period from January 8, 2003 (inception) through December 31, 2003 |
|---|--|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | \$ (5,013,045) | \$ (6,502,818) | \$ (1,743,290) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 535,185 | 284,129 | (9,600) |
| Interest expense on conversion of convertible notes | 188,000 | 469,000 | |
| Loss on extinguishment of convertible notes | 1,895,077 | | |
| Gain on market valuation attributed to warrant liability | (79,212) | (144,920) | |
| Amortization of deferred compensation | 266,162 | 1,309,000 | 550,366 |
| Warranty Expense | 178,746 | 200,995 | 20,535 |
| Warranty charges | (211,109) | (72,775) | |
| Charge-off related party payable | 429,000 | | |
| Provision for lease losses receivables | (6,654) | 55,263 | |
| Net change accounts receivable related party and other | (430,819) | | |
| Charge-offs lease receivables | (8,000) | (166,497) | |
| Charges (recovery) relating to relocations of CTMC | (434,000) | 1,328,436 | |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (425,139) | (414,407) | (12,939) |
| Unbilled revenues | 298,290 | 969,785 | |
| Inventory | 472,841 | (656,971) | (230,117) |
| Funding lease receivables | (4,275,123) | (1,257,308) | |
| Repayment of lease receivables | 1,490,397 | 417,957 | |
| Funding lease obligations | 4,275,123 | 441,250 | |
| Repayment lease obligation | (729,836) | (583,889) | |
| Prepaid expenses and other | (3,732) | (140,810) | (57,680) |
| Deferred Rent | | | 124,800 |
| Accounts payable and accrued expenses | (1,160,242) | 2,556,259 | 394,406 |
| Accrued contract settlement | 1,573,439 | (1,220,979) | |
| Advanced payments contract settlement | | (185,600) | |
| Customer deposits | (192,345) | (63,094) | 223,273 |
| Net cash used in operating activities | (1,366,996) | (3,377,994) | (740,246) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Acquisition of property and equipment | (351,189) | (196,415) | (1,877) |
| Investment of restricted cash | (736,250) | (500,000) | |
| Usage of restricted cash | 500,000 | 74,657 | |
| Capitalization of CTMC | | | 580,500 |
| Cash(paid) received from business acquisitions, net | (330,000) | 718,156 | 24,042 |
| Net cash provided from investing activities | (917,439) | 96,398 | 602,665 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Funding deferred loan costs | (100,000) | (296,554) | |

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| | | | |
|---|---------------------|---------------------|------------------|
| Borrowings of convertible and term notes | 7,000,000 | 6,000,000 | |
| Repayment of convertible notes | (5,500,000) | | |
| Borrowings line of credit, net | (160,491) | | |
| Investment in common stock, net of costs | 1,770,000 | 25,000 | |
| Repurchase of common stock | | (95,000) | |
| Related party accounts payable, net | (1,225,000) | 1,102,580 | 229,146 |
| Net cash provided from financing Activities | 1,784,509 | 6,736,026 | 229,146 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | (499,926) | 3,454,430 | 91,565 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 3,545,995 | 91,565 | |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 3,046,069 | \$ 3,545,995 | \$ 91,565 |

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

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COACH INDUSTRIES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**For the period from January 8, 2003 (inception) through December 31, 2003 and for
the Years Ended December 31, 2005 and 2004**

1. Background

The Company

Coach is a holding company, which, through its subsidiaries, offers an array of financial services, insurance products and fleet management to commercial fleet operators. These services include finance and operating leases for vehicles, procurement and disposal of vehicles, and the provisioning of commercial fleet drivers for these operators. We also provide specialty insurance products for the commercial fleet drivers. The Company's long-term strategy is to offer and expand our array of products to existing customers as well as other commercial fleet operators. Coach will also actively pursue acquisition candidates that can support the expansion of these products and financial services

Finance Leasing Operations. CFS offers financial services to commercial fleet operators including customers of CDS and the AS. CFS targets small to mid-size Commercial fleet operators through the United States

Contractor Settlement Processing. CDS provisions independent contractors, subcontractor settlement processing and specialty insurance products to commercial fleet operators. Through its primary product offering CDS insulates the commercial fleet operator from workplace concerns relating to employment by creating a true independent operator status for the commercial fleet drivers. CDS provides specialty insurance products to these commercial fleet drivers, as well as health benefits and other insurance products through various relationships with independent insurance brokers. The Company currently provides its products to approximately 7,000 commercial fleet drivers and 260 commercial fleet companies.

Manufacturing. SCB and CTMC are one of the eight limousine manufacturers in the limousine manufacturing industry operating under a Qualified Vehicle Modifier Agreement (QVM). Securing a QVM with Ford Motor Company is a barrier to entering the specialty vehicle manufacturing industry due to the scrutiny and rigid manufacturing facility requirements imposed by the manufacturer. SCB's operations consist of manufacturing, selling and servicing stretch sedans. The operations is housed in a 45,000 square foot manufacturing facility with approximately 40 employees involved in the direct manufacture of the modified chassis.

Summary of Significant Accounting Policies

Restatement of Financial Statements

The Company, after careful consideration and review, has elected to change the accounting treatment of the transaction between the Company and Commercial Transportation Manufacturing, Inc. (the Transaction) and accordingly restate the financial statements. Originally, the Transaction was accounted for as a business combination that resulted in recording goodwill, an intangible asset, of approximately \$490,000. After further investigation and consideration, the Company has concluded that the accounting treatment of this Transaction as a reverse merger more accurately reflects the nature of this transaction. The primary factor influencing the accounting treatment change for this Transaction is that the Company, Coach Industries Group, Inc. had no operations prior to the Transaction. The accounting impact of treating this Transaction as a reverse merger instead of a business combination is an elimination of approximately \$490,000 of goodwill and a reduction of Additional Paid in Capital and the accumulated deficit by the same amount.

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The restatement was recorded as follows:

| Accounts | As Reported | Restated | Net Change |
|--|--------------|--------------|--------------|
| Good will | \$ 2,678,896 | \$ 2,186,595 | (\$ 492,301) |
| Capital Stock | 9,785 | 9,785 | 0 |
| Additional Paid in Capital | 5,675,277 | 5,360,228 | (315,049) |
| Restricted Stock unearned compensation | 0 | 0 | 0 |
| Accumulated deficit | (1,566,037) | (1,743,290) | (177,253) |
| Revenues | 471,762 | 1,068,487 | 596,725 |
| Cost of Goods Sold | 647,574 | 1,411,058 | 763,484 |
| Gross Loss | (175,812) | (342,571) | (166,759) |
| Total Operating Expenses (1) | 1,525,325 | 1,400,719 | (124,606) |
| Loss from continuing operations | (1,701,137) | (1,743,290) | (42,153) |
| Gain on discontinued operations | 135,100 | | (135,100) |
| Net Loss | (1,566,037) | (1,743,290) | (177,253) |

Total operating expenses as reported includes \$810,000 relating to amortization of deferred compensation and \$94,118 relating to the loss on reduction of trade payables. The amount of operating expenses as restated does not include any expense or income attributed to these captions included in expense for the same period.

For the year ended December 31, 2004, the Company reviewed the generally accepted accounting principals for the beneficial conversion feature (BCF), as it relates to EITF 98-5 and EITF 00-27 and recorded adjustments for the initial transaction with Laurus Master Funds, LLC. The Company also was required to record a liability for the warrants related to EITF -00-19 based on the terms of the registration rights agreement. The impact of the change in accounting policy was to record a decrease of \$731,000 to additional paid in capital and a debt discount as it relates to the beneficial conversion feature of \$641,130 and a warrant liability of \$972,300. In accordance with EITF Issue 98-5, as amended by EITF 00-27, we must evaluate the potential effect of any beneficial conversion terms related to convertible instruments such as convertible debt or convertible preferred stock. The Company has issued several debentures and a beneficial conversion may exist if the holder, upon conversion, may receive instruments that exceed the value of the convertible instrument. Valuation of the benefit is determined based upon various factors including the valuation of equity instruments, such as warrants, that may have been issued with the convertible instruments, conversion terms, value of the instruments to which the convertible instrument is convertible, etc. Accordingly, the value of the beneficial feature is considered an estimate due to the partially subjective nature of valuation techniques.

The Beneficial Conversion Feature relates to the Laurus Transaction and the related party convertible debt.

In addition, the Company has reviewed the valuation of the warrants issued in the Laurus transaction and the related party convertible debt. The financial statements have been restated to reflect the accounting policy change for the beneficial conversion feature recorded in the Laurus transaction and the valuation of the warrants. The change in the warrant valuation also causes a recalculation of the beneficial conversion feature and the related amortization. See Note 16 for further disclosure.

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The following table provides the reversal of the original transaction recorded by the Company for the Laurus transaction, the recording of the beneficial conversion feature as it relates to the transaction, the warrant liability and the related amortization. The table then revalues the warrants and recalculates the beneficial conversion feature as it relates to the Laurus transaction and the related amortization as well as the conversion of debt and the valuation of the warrant liability. The restatement for the Liabilities and Shareholders' Equity at December 31, 2004 was recorded as follows:

| | (1) December 31, 2004 - Originally Presented | (1) Reversal of BCF Original | (2) Record BCF - Laurus Transaction | December 31, 2004 - Adjusted for BCF Change | (3) Valuation of Warrants | December 31, 2004 - Adjusted for Warrant Valuation Change | (4) Laurus Conversion | (5) ELM Street Conversion | (6) Market Valuation | (7) Reclassification December 31, 2004 | December 2004 Amended |
|--|--|---------------------------------------|---|--|------------------------------------|--|--------------------------|---------------------------------|----------------------------|---|-----------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | | | | | |
| LIABILITIES: | | | | | | | | | | | |
| Accounts payable | | | | | | | | | | | |
| Accrued expenses | \$ 2,292,355 | \$ | | 2,292,355 | | 2,292,355 | | | | | \$ 2,292,355 |
| Accrued interest | 90,682 | | | 90,682 | | 90,682 | | | | | |
| Accounts payable - party | 95,450 | | | 95,450 | | 95,450 | | | | | |
| Accounts payable - contract | 294,561 | | | 294,561 | | 294,561 | | | | | |
| Accounts payable - portion of term debt | 1,784,776 | | | 1,784,776 | | 1,784,776 | | | | (801,827) | 982,949 |
| Accounts payable - portion of term debt | | | | | | | | | | 653,451 | 653,451 |
| Accounts payable - liability | | | 972,300 | 972,300 | (659,300) | 313,000 | | (144,920) | | | 168,080 |
| Accounts payable - warranty reserve | 148,755 | | | 148,755 | | 148,755 | | | | | 148,755 |
| Accounts payable - other deposits | 233,345 | | | 233,345 | | 233,345 | | | | | 233,345 |
| Accounts payable - wages | 427,205 | | | 427,205 | | 427,205 | | | | | 427,205 |
| Accounts payable - related | 900,000 | | | 900,000 | | 900,000 | | | | | 900,000 |
| Accounts payable - credit | 1,054,909 | | | 1,054,909 | | 1,054,909 | | | | | 1,054,909 |
| Accounts payable - current | 7,322,038 | | 972,300 | 8,294,338 | (659,300) | 7,635,038 | | (144,920) | | (148,376) | 7,486,662 |
| LIABILITIES: | | | | | | | | | | | |
| Accounts payable - convertible notes - long term - | 2,592,833 | 972,300 | (972,300) | 2,436,276 | 659,300 | 3,189,206 | | | | (2,030,158) | 1,159,048 |
| | | 400,000 | (641,130) | | | 162,497 | | | | | 162,497 |
| | | (49,911) | 134,484 | | | (68,867) | | | | | (68,867) |
| Accounts payable - convertible notes - long term - | | | | | | | | | | 2,178,534 | 2,178,534 |

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| | | | | | | | | | | |
|--------------------|---------------|-------------|-----------|-------------|-----------|-------------|-----------|-----------|---------|---------|
| Financing | | | | | | | | | | |
| on | 884,851 | | | 884,851 | | 884,851 | | | | 8 |
| INVESTMENTS | | | | | | | | | | |
| AGENCIES | | | | | | | | | | |
| HOLDERS | | | | | | | | | | |
| Y: | | | | | | | | | | |
| in stock | | | | | | | | | | |
| par value; | | | | | | | | | | |
| 100 shares | | | | | | | | | | |
| ed; | | | | | | | | | | |
| 785 and | | | | | | | | | | |
| 31 shares | | | | | | | | | | |
| and | | | | | | | | | | |
| ling, | | | | | | | | | | |
| ively | 18,982 | | | 18,982 | | 18,982 | | | | |
| nal paid-in | 17,159,784 | (972,300) | 641,130 | 16,428,614 | (162,497) | 16,266,117 | 300,000 | 169,500 | | 16,7 |
| | | (400,000) | | | | | | | | |
| ed stock | | | | | | | | | | |
| d | | | | | | | | | | |
| sation | (550,842) | | | (550,842) | | (550,842) | | | | (5 |
| lated deficit | (7,905,822) | 49,911 | (134,484) | (7,990,395) | 68,867 | (7,921,528) | (300,000) | (169,500) | 144,920 | (8,2 |
| y stock, | | | | | | | | | | |
| 71 shares at | | | | | | | | | | |
| areholders | 8,722,102 | (1,322,389) | 506,646 | 7,906,359 | (93,630) | 7,812,729 | | 144,900 | | 7,9 |
| ILITIES AND | | | | | | | | | | |
| HOLDERS | | | | | | | | | | |
| Y | \$ 19,521,824 | | | 19,521,824 | | 19,521,824 | | | | \$ 19,5 |

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The following table provides the reversal of the original transaction recorded by the Company for the Laurus transaction, the recording of the beneficial conversion feature as it relates to the transaction and the related amortization. The table then revalues the warrants and recalculates the beneficial conversion feature as it relates to the Laurus transaction and the related amortization as well as the conversion of debt and the valuation of the warrant liability. The restatement for the Statement of Condition for the year ended December 31, 2004 was recorded as follows:

| | (1) | (2) | | (3) | December 31, 2004 - Adjusted for Warrant Valuation Change | (4) | (5) | (6) | December 31, 2004 - Amendment 2 | |
|---|-----------------------------------|--------------------------------|--|---|--|----------------------|-----------------------------|---------------------|---------------------------------------|------------|
| | 2004 - Originally Presented | Reversal of BCF Original | Record BCF - Laurus Transaction | December 31, 2004 - Adjusted for BCF Change | Valuation of Warrants | Laurus Conversion | ELM Street Conversion | Market Valuation | | |
| REVENUES | \$ 83,595,584 | \$ | | 83,595,584 | | | | | \$ 83,595,584 | |
| COST OF GOODS SOLD | 80,016,021 | | | 80,016,021 | | | | | 80,016,021 | |
| GROSS PROFIT (LOSS) | 3,579,563 | | | 3,579,563 | | | | | 3,579,563 | |
| OPERATING EXPENSES: | | | | | | | | | | |
| General and Administrative | 4,990,340 | | | 4,990,340 | | | | | 4,990,340 | |
| Provision for lease losses and uncollectible accounts receivables | 55,263 | | | 55,263 | | | | | 55,263 | |
| Mark to Market - Warrant Liability | | | | | | | | (144,920) | (144,920) | |
| Loss on Conversion of convertible debt | | | | | | 300,000 | 169,500 | | 469,500 | |
| Interest expense | 354,774 | (49,911) | 134,484 | 439,347 | (68,867) | 370,480 | | | 370,480 | |
| Interest income | (14,496) | | | (14,496) | | (14,496) | | | (14,496) | |
| Research and development | 829,840 | | | 829,840 | | 829,840 | | | 829,840 | |
| Sales and marketing | 549,317 | | | 549,317 | | 549,317 | | | 549,317 | |
| Rent | 232,954 | | | 232,954 | | 232,954 | | | 232,954 | |
| Amortization of intangible assets | 106,667 | | | 106,667 | | 106,667 | | | 106,667 | |
| Other | | | | | | | | | | |
| Loss on relocation of CTMC | 1,328,436 | | | 1,328,436 | | 1,328,436 | | | 1,328,436 | |
| Amortization of deferred Compensation | 1,309,000 | | | 1,309,000 | | 1,309,000 | | | 1,309,000 | |
| | 9,742,095 | (49,911) | 134,484 | 9,826,668 | (68,867) | 9,757,801 | 300,000 | 169,500 | (144,920) | 10,082,381 |

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Total operating expenses

| | | | | | | | | | | |
|--------------------------|-------------|--------|-----------|-------------|--------|-------------|-----------|-----------|---------|-------------|
| Loss before income taxes | (6,162,532) | 49,911 | (134,484) | (6,247,105) | 68,867 | (6,178,238) | (300,000) | (169,500) | 144,920 | (6,502,818) |
|--------------------------|-------------|--------|-----------|-------------|--------|-------------|-----------|-----------|---------|-------------|

Income taxes

| | | | | | | | | | | |
|----------|----------------|-----------|-----------|-------------|--------|-------------|-----------|--------------|------------|----------------|
| NET LOSS | \$ (6,162,532) | \$ 49,911 | (134,484) | (6,247,105) | 68,867 | (6,178,238) | (300,000) | \$ (169,500) | \$ 144,920 | \$ (6,502,818) |
|----------|----------------|-----------|-----------|-------------|--------|-------------|-----------|--------------|------------|----------------|

Basic and diluted net (loss) per share

| | | | | | | | | | | |
|--------------------|-----------|---------|--------|--------|------|--------|--------|-----------|---------|-----------|
| Net loss per share | \$ (0.39) | \$ 0.00 | (0.01) | (0.39) | 0.00 | (0.39) | (0.02) | \$ (0.01) | \$ 0.01 | \$ (0.41) |
|--------------------|-----------|---------|--------|--------|------|--------|--------|-----------|---------|-----------|

-
- (1) Reversal of BCF Original The Company originally recorded the Laurus transaction by first valuing the warrants using a Black Scholes Model and based on the original assumptions utilized valued the warrants at \$972,300. The Company also identified as part of the Laurus transaction a discount associated with the beneficial conversion of the Convertible Notes a beneficial conversion feature of \$400,000. The discount associated with the original transaction was recorded based on a discount to market of twenty percent for \$2.0 million of convertible debentures. The amortization of the warrants and beneficial conversion feature recorded by the Company for these both the warrants and the beneficial conversion was \$49,911. The Company amortized the warrants based on the contractual term of 84 months and the discount associated with the convertible debentures based on 36 months.

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- (2) Record BCF Laurus Transaction Upon review of the generally accepted accounting principals for the beneficial conversion feature, as it relates to EITF 98-5 and EITF 00-27 and recorded adjustments for the initial transaction with Laurus Master Funds, LLC. The impact of the change in accounting policy, was to record the warrants at the valuation of \$972,300, which in accordance with EITF 00-19, the Company was required to record a liability until such time as the warrants were registered, a discount related to the beneficial conversion of \$641,130. As part of the beneficial conversion, the Company was required to issue 1.6 million shares of common stock, thus at a discount to market of \$0.38. Since the discount would have been greater than the amount owed to Laurus, the Company recorded \$627,700 related to the first draw of \$1.6 million. In addition, the Company recorded \$14,130 relating to the issuance of \$100,000 at a discount to market price of \$0.13. Additional paid in capital was increased by \$641,130 warrant liability was established at \$972,300 and an offsetting reduction in the debt outstanding for the transaction. The amortization related to the warrants and the beneficial conversion feature was \$134,484 for the year ended December 31, 2004, which was based on a 36 month amortization period.
- (3) Valuation of Warrants - The Company identified inconsistencies in the assumptions used in valuing the warrants related to the Laurus transaction. The Company revalued the warrants from \$972,300 to \$313,000, a net change of \$659,300. The valuation was performed using the Black Scholes model with the assumption utilized as follows:

| Description | Volatility | Interest Rate | Duration | Market Value |
|-------------|--------------------|---------------------|------------------------------------|------------------------|
| Original | .75 ^(a) | 3.85 ^(b) | 7 Years Contractual ^(c) | \$ 1.21 ^(d) |
| New | .56 ^(a) | 2.50 ^(b) | 3 Years ^(c) | \$ 1.06 ^(d) |

- (a) The assumption change for volatility was based on the short history of the Company and the fact that taking a month-end volatility was not appropriate or indicative of the volatility for the Company. We shortened the timeframe to three months and took weekly pricing into the formula. By shortening the timeframe to three months and taking weekly pricing, the volatility was more in line with the trends that the Company was experiencing and more accurately reflecting the expected future volatility of our stock.
- (b) The risk-free interest rate changed based on the change in the assumptions for the duration of the warrants from 7 years down to between two and three years in both calculations.
- (c) The Company reviewed the assumptions that were made in our internal projections for that timeframe and based on those assumptions; the warrants that were issued would have been well above the strike price in a 12 to 24 month period. Even though the contractual agreements were for 7 years, the model duration was shortened to a period less than the contractual term to reflect the estimated economic life of the warrant. The change in the duration of the warrants was appropriate based on how we believed at the time the warrants would be liquidated based on the relationship with Laurus and their investment strategy. Laurus was required to abide by the conversion guidelines set forth in the secured convertible term note.
- (d) The market value that was utilized in the original assumptions which were the contractual values prior to consummation of the transaction. The market value utilized for the new assumptions were the 5 trading days prior to the closing and 5 days subsequent to the closing of the transaction, discounted by 5% for the holding period that reflected the period from which we closed to the period to which we would have the securities registered.

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Based on the above review of the warrant valuation, the Company recorded the warrants at \$313,000, recalculated the beneficial conversion feature at \$478,633, and reversed the original assumptions. The net impact of the change in the accounting for the beneficial conversion feature and the warrant valuation is as follows:

| | | |
|---|------------|--|
| Warrant Liability | \$ 659,300 | See discussion above on the valuation assumptions attributed to the warrants |
| Beneficial Conversion | \$ 162,497 | See discussion relating to the calculation of the beneficial conversion, change in assumptions |
| Additional Paid in Capital | \$ 162,497 | See above |
| Reduction in Amortization For warrants and beneficial Feature | \$ 68,867 | Based on the amortization of the beneficial conversion feature before and after the warrant valuation and the new beneficial conversion features |

- (4) **Laurus Conversion** The Company converted \$300,000 of convertible notes related to the Laurus transaction at \$0.50. The Company recognized a loss upon conversion of this note amounting to \$300,000 based on the calculation of the beneficial conversion feature discussed in more detail above.
- (5) **ELM Street Conversion** The Company converted \$2.1 million of related party debt convertible during the year ended December 31, 2004. At the same time the Company issued warrants to purchase common stock totaling 2.1 million with exercise prices between \$1.58 and \$2.50. The Company converted \$2.1 million of related party debt convertible and issued 2.0 million warrants to purchase common stock at exercise prices ranging from \$1.58 to \$2.50. Upon conversion, the Company recognized a loss of \$169,500. The warrants were valued using a Black-Scholes Model with volatility ranging from 56% to 68%, risk free interest rate of two percent, an estimated duration of one year and market values at the time of conversion between \$1.00 and \$1.30.
- (6) See discussion above for valuation of warrants for the Laurus transaction. A liability was established in accordance with EITF 00-19. The Laurus transaction provided for 1.5 million warrants valued as freestanding instruments that meet the definition of a derivative under SFAS 133. We measured and recognized the warrants as a liability at their fair value, as determined using the Black-Scholes option pricing model, prior to the registration of shares underlying the warrants. We subsequently valued the warrants at December 31, 2004 for an adjustment to the market value to \$168,000, and a gain of \$145,000. The warrants will be valued quarterly, and upon registration of the underlying common stock through an effective Registration Statement.
- (7) **Reclassification December 31, 2004** The Company reclassified long-term debt related to the Laurus transaction for both funded and restricted balances at year-end. The ending balances as restated are based on the five year repayment schedule in Note 16 of the financial statements.

Principles of Consolidation and financial statement presentation

The financial condition and results of operations are included in the consolidated financial statements from acquisition date. All significant inter-company balances and transactions have been eliminated.

Certain amounts from prior years have been reclassified to conform to revised presentation for 2005.

Use of Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. When preparing our financial statements, we make estimates and judgments that affect the reported amounts on our balance sheets and income statements, and our related disclosure about contingent assets and liabilities. We continually evaluate our estimates, including those related to revenue, allowance for doubtful accounts, reserves for income taxes, and litigation. We base our estimates on historical experience and on various other assumptions, which we believe to be reasonable in order to form the basis for making judgments about the carrying values of assets and liabilities that are not readily ascertained from other sources. Actual results may deviate from these estimates if alternative assumptions or condition are used.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2005 and 2004, cash and cash equivalents include cash on hand and cash in the bank.

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Revenue Recognition Subcontract Settlement Processing

The Company records revenue in accordance with EITF 99-19 Reporting Revenues Gross as a Principal versus Net as an Agent . The Company recognizes revenue as services are provided. The Company's revenues consist of fees paid by its clients under Contract Management Agreements, for the provision of drivers, vehicles and processing services. In addition, the Company's revenues consist of fees for administrative services provided to independent contractors under separate contractual arrangements with these independent contractors.

In consideration for payment of such service fees, the Company agrees to pay the following direct costs associated with the independent contractors: (i) operators (drivers); (ii) vehicles; (iii) occupational and accidental insurance; and (iv) management services. The Company is the primary obligor in these arrangements, establishes the price of services, has discretion in supplier selection, determines service specifications and has credit risk for services provided.

The Company accounts for fees and the related direct costs using the accrual method. Under the accrual method, fees relating to independent contractors with earned but unpaid settlements at the end of each period are recognized as unbilled revenues and the related direct costs for such services are accrued as a liability during the period in which contract settlements are earned by the independent contractor.

Revenue and Cost Recognition Manufacturing

Revenues are reported at the time the custom re-fabrication or modification is complete and delivered to the customer. Customer deposits for partial payment of vehicles are deferred and treated as current liabilities until the vehicle is completed and recognized as revenue. Repairs and other services are recorded when the service is performed. Inventory is relieved upon delivery of the vehicle.

Sales-type leases

Sales type leases require the lessee to assume responsibility at the end of the lease term for substantially all the difference between the market value of the equipment as agreed to by the Company and the lessee and the value determined by a formula in the lease agreement. At the inception of the lease the Company records the present value of the lease payments, including the residual values as sales values at inception of the lease and charges to income the vehicle costs and related direct lease costs. The remaining unearned income is amortized to income over the lease term.

Direct-financing leases

Revenue from direct-financing lease is recognized by amortizing the excess of aggregate rentals receivable over the cost of the related vehicles during the term of the lease by the interest method and is included in interest income. All future lease payments, net of unearned income and an allowance for lease losses are included in the net investment in direct-financing leases.

Initial direct costs

Initial direct costs relating to direct financing leases are included as a component of the net investment in direct-financing leases and are amortized over the term of the prospective leases using the interest method.

Allowance for Lease Losses

The allowance for lease losses reflects management's estimate of probable incurred credit losses in the lease portfolios. Leases are charged off against the allowance when management believes the uncollectibility of the lease balance is confirmed. Recoveries are credited to the allowance.

The allowance consists of two components. The first component of the allowance is for high-balance non-homogenous leases that are individually evaluated for impairment. A lease is impaired when collection of principal and interest based on the contractual terms of the lease is not likely to occur. The process for identifying leases to be evaluated individually for impairment is based on management's identification of classified leases. Once an individual lease is found to be impaired, a valuation allowance is assigned to the lease based on one of the following three methods: (1) present value of expected future cash flows, (2) fair value of collateral less costs to sell, or (3) observable market price. Non-homogenous leases that are not impaired are assigned an allowance based on

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historical data by product. The second component of the allowance is for homogenous leases in which groups of leases with common characteristics are evaluated to estimate the inherent losses in the portfolio. Homogenous leases have certain characteristics that are common to the entire portfolio so as to form a basis for predicting losses on historical data and delinquency trends as it relates to the group. The methodology utilized in establishing the allowance for homogenous loans includes consideration of trends in industries, analysis of historical losses, delinquency trends, and credit scores. Management believes the allowance for lease losses is adequate and that it has a sound basis for estimating the adequacy of the allowance for lease losses. Actual losses incurred in the future are highly dependent upon future events, including the economies of the geographic areas in which the Company holds leases.

Non-performing Leases

A lease is generally placed on non-accrual status at the earlier of (i) the lease becoming past due 90 days as to either principal or interest or (ii) when the borrower has entered bankruptcy proceedings and the lease is delinquent. Exceptions to placing 90-day past due leases on non-accrual may be made if there exists an abundance of collateral and the lease is in the process of collection. Leases are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. When a lease is placed on non-accrual status, interest accrued but not received is reversed against interest income. A non-accrual lease may be restored to accrual status when delinquent loan payments are collected and the lease is expected to perform in the future according to its contractual terms. Interest income on performing impaired leases is recognized on an accrual basis.

Stock-Based Compensation Plans

During the three years ended December 31, 2005, the Company maintained both qualifying and non-qualifying stock-based compensation plans for its employees and directors. The Company accounts for these plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25 and related interpretations. No compensation is recognized in connection with option grants that had an exercise price equal to the market value of the underlying common stock on the date of grant. The tax benefit recognized upon the exercise of certain options is recorded as a component of additional paid-in-capital.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

| | 2005 | 2004 | 2003 |
|---|----------------|----------------|----------------|
| Pro forma net income | | | |
| Net loss, as reported | \$ (5,013,045) | \$ (6,502,818) | \$ (1,743,290) |
| Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of related income tax effect | (606,000) | (263,330) | |
| Pro forma net loss | \$ (5,619,045) | \$ (6,766,148) | \$ (1,743,290) |
| Loss per share: | | | |
| Basic as reported | \$ (0.23) | \$ (0.41) | \$ (0.79) |
| Basic pro forma | \$ (0.26) | \$ (0.42) | \$ (0.79) |

Property and Equipment, net

Property and equipment, net are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated economic lives of the assets, which are typically three to seven years.

Included in property and equipment, net are internally generated software costs and the contract settlement management platform allocated from goodwill as part of the CDS acquisition. The useful lives attributed to these assets are seven years.

Expenditures and major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

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Revenue Recognition Subcontractor Settlement

Customers are generally billed weekly on the day prior to the couriers being paid by the Company. The Company is a third party administrator specializing in the brokerage of transportation services, including vehicles and drivers for its subscribing courier operators. The Company provides vehicles, manpower and the necessary management associated equipment and subcontractors.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments and accounts receivable. The Company maintains cash balances at various financial institutions with balances insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At December 31, 2005, the balances at various financial institutions over the FDIC insured balances are \$2.4 million.

Concentrations of credit with respect to accounts receivable are limited because of the Company's policy to require deposits from some customers and the number of customers comprising the client base and their dispersion across geographical locations. The Company has one major customer that comprises approximately 18% of its revenue base. Its relationship with this customer is in good standing and the Company believes that there is no imminent threat to this relationship.

Deferred Revenue

Deferred revenues at December 31, 2005 and 2004 were zero. This balance relates to the acquisition of CDS effective August 31, 2004. The deferred revenues are funded by the courier operators in anticipation of those balances due to the drivers on the stipulated payment date. On December 31, 2004 no advance payments were made by the courier operators, based on the timing of the payments, which were due on Friday, December 31, 2004 and paid on Friday December 31, 2004.

Supply Inventory

Supply inventory includes the cost of the unmodified vehicle chassis, direct manufacturing labor and parts related to vehicles in the process of being modified and remanufactured. Shipping and handling costs are included in inventory.

All inventories are valued at the lower of cost or market. The cost of new and used vehicles is determined using the specific identification method. The cost of new parts is valued using the first in first out basis.

The Company performs periodic inventory procedures and at times identifies supply inventory that is considered excess inventory or obsolete. The Company writes the obsolete and excessive inventory down to the lower of cost or market and the amount is included in general and administrative expenses for the period. During the year ended December 31, 2004, the Company recorded \$20,000 of expenses related to obsolete inventory with zero recorded for the same period in 2003.

Software Development Costs

SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed, requires capitalization of software development costs incurred subsequent to establishment of technological feasibility and prior to the availability of the product for general release to customers. Systematic amortization of capitalized costs begins when a product is available for general release to customers and is computed on a product-by-product basis at a rate not less than straight-line basis over the product's remaining estimated economic life. Amortization of software development costs for the year ended December 31, 2005 and 2004 was \$140,000 and \$8,701, respectively.

Management continually evaluates the net realizable value of software costs capitalized by comparing estimated future gross revenues reduced by the estimated future costs of completing, disposing and maintaining the software. These costs also include the costs of performing maintenance and customer support required by the Company.

Impairment of Long-lived Assets

The Company reviews long-lived assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered. At December 31, 2005 and 2004, the Company believes that there has been no impairment of its long-lived assets other than those identified as part of the relocation of CTMC during 2004.

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Advertising

The Company expenses advertising production costs as they are incurred. Advertising costs for the years ended December 31, 2005 and 2004 were approximately \$176,000 and \$65,000, respectively.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, accounts receivable; due from related parties, prepaid expenses, other assets, and accounts payable and other current liabilities carrying amounts approximate fair value.

Warrant Liability The Company values its warrants using a black scholes pricing model. If the shares of common stock underlying the warrants are required to be registered, the Company records a warrant liability at the time of issuance. The warrants will be valued on a quarterly basis up until the warrants are registered with the Securities and Exchange Commission. Upon registration the warrants liability is reclassified to additional paid in capital.

Warranty Reserve

The Company provides warranties to its new car customers for the earlier of three years or fifty thousand miles, only on parts and labor performed by the Company. The Company provides warranties to its new car customers of the earlier of three years or fifty thousand miles, only on parts and labor performed by the Company. Warranty reserve was \$116,392 and \$148,755 as of December 31, 2005 and 2004, respectively. Warranty expense for the years ended December 31, 2005 and 2004 were \$178,746 and \$200,995, respectively and charges to the warranty reserve was \$205,993 and \$72,775 for the year end December 31, 2005 and 2004, respectively.

Beneficial Conversion Feature in Debentures

In accordance with EITF Issue 98-5, as amended by EITF 00-27, we must evaluate the potential effect of any beneficial conversion terms related to convertible instruments such as convertible debt or convertible preferred stock. The Company has issued several debentures and a beneficial conversion may exist if the holder, upon conversion, may receive instruments that exceed the value of the convertible instrument. Valuation of the benefit is determined based upon various factors including the valuation of equity instruments, such as warrants, that may have been issued with the convertible instruments, conversion terms, value of the instruments to which the convertible instrument is convertible, etc. Accordingly, the ultimate value of the beneficial feature is considered an estimate due to the partially subjective nature of valuation techniques.

Income Taxes

Deferred income taxes arise from timing differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. A deferred tax asset valuation allowance is recorded when it is more likely than not that deferred tax assets will not be realized. It is more likely that the deferred tax asset will not be recognized. The deferred tax asset as of December 31, 2003 was restated as part of a reverse merger and presented as a \$0 balance.

Utilization of the net operating loss carry-forwards may be subject to a substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code. The annual limitation may result in the expiration of net operating loss carry-forwards before utilization.

Goodwill and Other Intangibles

The Company adopted SFAS No.142, Goodwill and Other Intangible Assets, on January 1, 2002. As of the adoption date, the Company no longer amortizes goodwill over its useful life. Instead, goodwill is tested for impairment annually. The impairment test consists of two steps. In the first step, the Company determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. If the fair value of the reporting unit is greater than its carrying value, the test is completed and goodwill assigned to the reporting unit is not impaired. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired, and the Company

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must perform the second step of the impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No.141, to its carrying amount. The Company will recognize a goodwill impairment charge if the carrying amount of the goodwill assigned to the reporting unit is greater than the implied fair value of the goodwill. The Company hired an industry expert to value the intangible assets as of the date of the acquisition, September 1, 2004 and they attributed \$1.2 million to the independent contractor settlement platform, which is included in property, plant and equipment on the statement of financial condition as of December 31, 2004 and \$1.2 million attributed to the customer list of CDS. The remaining balance of \$3.1 million is considered goodwill attributed to the acquisition of CDS. The Company has established an anticipated useful life for the customer list of ten years and seven years for the independent contractor settlement platform. The amortization attributed to the allocated intangibles for the year ended December 31, 2004 was \$106,667.

At December 31, 2005 and 2004, the Company had not recognized an impairment loss in connection with this goodwill.

Earnings (Loss) Per Common Share

Basic earnings (loss) per share exclude dilution and are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflect the potential dilution that could occur if convertible securities or options to issue common shares of the Company or its subsidiaries were exercised. In calculating diluted earnings (loss) per share, interest expense net of taxes on convertible securities is added back to net income (loss) and equity in earnings of subsidiaries is adjusted for the effect of subsidiary stock options outstanding, if dilutive. The resulting net income amount is divided by the weighted average number of common shares outstanding, when dilutive. The options and restricted stock are included in the weighted average number of common shares outstanding based on the treasury stock method, if dilutive.

Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS 151, *Inventory Costs*. SFAS 151 amends the accounting for abnormal amounts of idle facility expense, freight handling costs, and wasted material (spoilage) UNDER THE GUIDANCE IN ARB 43, Chapter 4, *Inventory Pricing* Paragraph 5 of ARB 42, Chapter 4, previously stated that "...under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling 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. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company intends to implement the above effective January 1, 2006.

In December 2004, the FASB issued SFAS 152, *Accounting for Real Estate Time-Sharing Transactions*. The FASB issued this Statement as a result of the guidance provided in AICPA Statement of Position (SOP) 04-2, *Accounting for Real Estate Time-Sharing Transactions*. SOP 04-2 applies to all real estate time-sharing transactions. Among other items, the SOP provides guidance on the recording of credit losses and the treatment of selling costs, but does not change the revenue recognition guidance in SFAS 66, *Accounting for Sales of Real Estate*, for real estate time-sharing transactions. SFAS 152 amends Statement 66 to reference the guidance provided in SOP 04-2. SFAS 152 also amends SFAS 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, to state that SOP 04-2 provides the relevant guidance on accounting for incidental operations and costs related to the sale of real estate time-sharing transactions. SFAS 152 is effective for years beginning after June 15, 2005, with restatements of previously issued financial statements prohibited. The Company is not impacted by this pronouncement.

In December 2004, the FASB issued SFAS 153, *Exchanges of Nonmonetary Assets*, an amendment to Opinion No. 29, *Accounting for Nonmonetary Transactions*. Statement 153 eliminates certain differences in the guidance in Opinion No. 29 as compared to the guidance contained in standards issued by the International Accounting Standards Board. The amendment to Opinion No. 29 eliminates the fair value exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Such an exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary asset exchanges occurring in periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in periods beginning after December 16, 2004. The Company is in the process of reviewing this pronouncement and will implement this pronouncement effective January 1, 2006, where applicable.

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In December 2004, the FASB issued a revision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123R). SFAS 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS 123 as originally issued and EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. SFAS 123R is effective for the first interim or annual reporting period of the company's first fiscal year that begins on or after June 15, 2005. The Company has requested the Compensation Committee to review the impact of this pronouncement and to review the costs of stock options, restricted stock and other incentive-equity based programs to align management and its employees with the shareholders' interests. The Company will implement this pronouncement effective January 1, 2006.

In March 2005, the U.S. Securities and Exchange Commission, or SEC, released Staff Accounting Bulletin 107, *Share-Based Payments*, (SAB 107). The interpretations in SAB 107 express views of the SEC staff, or staff, regarding the interaction between SFAS 123R and certain SEC rules and regulations, and provide the staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with non-employees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123R, the modification of employee share options prior to adoption of SFAS 123R and disclosures in Management's Discussion and Analysis subsequent to adoption of SFAS 123R. SAB 107 requires stock-based compensation be classified in the same expense lines as cash compensation is reported for the same employees. The Company and management is reviewing SAB 107 in conjunction with its review of SFAS 123R.

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47 *ACCOUNTING FOR CONDITIONAL ASSET RETIREMENT OBLIGATIONS - AN INTERPRETATION OF FASB STATEMENT NO. 143* (FIN No. 47). FIN No. 47 clarifies the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and/or method of settlement are conditional on a future event. FIN No. 47 is effective no later than December 31, 2005. FIN No. 47 did not impact the Company for the year ended December 31, 2005.

In May 2005, the FASB issued SFAS No. 154, *ACCOUNTING CHANGES AND ERROR CORRECTIONS, A REPLACEMENT OF APB NO. 20 AND FASB STATEMENT NO. 3* (SFAS No.154). SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. APB Opinion No. 20 *Accounting Changes*, previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 was utilized for the restatement of the beneficial conversion feature for the year ended December 31, 2004.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources and would be considered material to investors. Certain officers and directors of the Company have provided personal guarantees to our various lenders as required for the extension of credit to the Company.

Accounting Policies Subject to Estimation and Judgment

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. When preparing our financial statements, we make estimates and judgments that affect the reported amounts on our balance sheets and income statements, and our related disclosure about contingent assets and liabilities. We continually evaluate our estimates, including those related to revenue, allowance for doubtful accounts, reserves for income taxes, and litigation. We base our estimates on historical experience and on various other assumptions, which we believe to be reasonable in order to form the basis for making judgments about the carrying values of assets and liabilities that are not readily ascertained from other sources. Actual results may deviate from these estimates if alternative assumptions or condition are used.

Table of Contents**3. CONCENTRATION OF CREDIT RISK**

The Company maintains cash balances at various financial institutions with balances insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At December 31, 2005 and 2004, the balances at various financial institutions over the FDIC insured balances were \$2.4 million and \$3.2 million, respectively, relating to the cash and cash equivalent balances and restricted cash balances.

Concentrations of credit with respect to accounts receivable are limited because of the Company's policy to require deposits from some customers and the number of customers comprising the client base and their dispersion across geographical locations. The Independent Contractor Settlement Processing Segment specifically has one customer that comprises 18% of its revenues. The revenues attributed to this one customer are \$12.9 million for the year ended December 31, 2004. Its relationship with this customer is in good standing and the Company believes that there is no imminent threat to this relationship.

4. SUPPLY INVENTORY

Supply inventory consist of the following components as of December 31,

| | 2005 | 2004 |
|-----------------|--------------|--------------|
| Vehicle Chassis | \$ 892,018 | \$ 1,503,987 |
| Parts | 485,064 | 332,548 |
| | \$ 1,377,082 | \$ 1,836,535 |

5. Lease Receivables

The components of lease receivable, net at December 31, consist of:

| | 2005 | 2004 |
|-----------------------------|--------------|-----------|
| Lease receivable | \$ 5,956,386 | 2,734,999 |
| Unearned revenue | (861,813) | (427,152) |
| Allowance for lease losses | (90,405) | (105,059) |
| Total lease receivable, Net | \$ 5,004,168 | 2,202,788 |

The following is the five year lease payments due from lessors at December 31,

| | 2005 | 2004 |
|-------|--------------|--------------|
| 2005 | \$ | \$ 1,080,835 |
| 2006 | 1,824,094 | 769,905 |
| 2007 | 1,814,753 | 571,678 |
| 2008 | 1,665,113 | 305,626 |
| 2009 | 652,426 | 6,955 |
| Total | \$ 5,956,386 | \$ 2,734,999 |

Allowance for Lease Losses for the year ended December 31,

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| | 2005 | 2004 |
|--------------------------------------|------------|------------|
| Balance Beginning of the period: | \$ 105,059 | \$ 0 |
| Acquired allowance for lease losses | | 246,597 |
| Leases charged to reserve | (8,000) | (166,497) |
| Provision (benefit) for lease losses | (6,654) | 24,959 |
| | \$ 90,405 | \$ 105,059 |

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The Company had no non-performing assets as of December 31, 2005 and 2004. The allowance for lease losses is primarily attributed to the acquired portfolio. The following table provides detail on the credit quality of the portfolio as of December 31, 2005:

| Classification | Reserve | | Percentage of |
|--------------------|--------------|------------|---------------|
| | Amount | Percentage | Reserve |
| A | \$ 3,442,601 | 1% | \$ 34,500 |
| B | 1,005,026 | 2% | 20,100 |
| C | 430,163 | 3% | 12,900 |
| Acquired Portfolio | 229,736 | 10% | 22,943 |
| | \$ 5,107,526 | | \$ 103,358 |

The Company had no non-performing assets as of December 31, 2004. The allowance for lease losses is primarily attributed to the acquired portfolio. The following table provides detail on the credit quality of the portfolio as of December 31, 2004:

| Classification | Reserve | | Percentage of |
|--------------------|--------------|------------|---------------|
| | Amount | Percentage | Reserve |
| A | \$ 373,462 | 1% | \$ 3,700 |
| B | 597,540 | 2% | 6,000 |
| C | 541,596 | 3% | 15,700 |
| Acquired Portfolio | 795,249 | 10% | 79,659 |
| | \$ 2,307,847 | | \$ 105,059 |

The average interest rate on the portfolio is approximately 14.23 percent and 14.85 percent for the year ended December 31, 2005 and 2004, respectively.

6. PROPERTY AND EQUIPMENT

The following is a the property and equipment at December 31,

| | 2005 | 2004 |
|---------------------------------|--------------|--------------|
| Computer equipment and software | \$ 222,044 | \$ 147,790 |
| Furniture and fixtures | 232,773 | 56,656 |
| Plant equipment | 275,239 | 282,594 |
| Leasehold improvements | 41,982 | 6,215 |
| Servicing Platforms | 1,576,913 | 1,400,000 |
| Internally generated software | 464,545 | 241,563 |
| | 2,813,496 | 2,134,818 |
| Less Accumulated depreciation | (582,149) | (165,897) |
| | \$ 2,231,347 | \$ 1,968,921 |

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The Company acquired SCB and the fixed assets attributed to CTMC effective December 31, 2003. No depreciation expense was recorded for 2003 based on the date of acquisition and contribution. Depreciation and amortization expenses for the year ended December 31, 2005 and 2004 were \$484,538 and \$165,897, respectively.

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Table of Contents**7. DEBT AND NOTES PAYABLE OUTSTANDING**

| | | Maximum | Maturity | Interest | | Personal | Balance at | Balance at |
|-----|---|--------------|---|--|--|-----------|--------------|--------------|
| | Lender | Line | Date | Rate | Collateral | Guarantee | 12/31/05 | 12/31/04 |
| (A) | Ford Motor Credit | \$ 2,000,000 | Annual Review 180 days on an individual chassis basis | Interest free for the first 90 days and prime based rate on a chassis by chassis basis between 6.5% and 7.5% | Chassis and a irrevocable letter of credit collateralized by certificate of deposit for \$500,000 | Yes | 0 | \$ 1,054,909 |
| (B) | Sovereign Bank | \$ 4,500,000 | Line renewal in March 31, 2005, Various maturities based on the date of financing with the lessee | Interest rate charged on a monthly published rate per lease between 6.49% and 7.25% | Lease receivables | Yes | \$ 1,071,171 | \$ 884,851 |
| (C) | New World Lease Funding | \$ 5,000,000 | December 16, 2005 with annual renewal | Interest rate charged on a monthly stated rate 0% | Lease receivables | Yes | \$ 1,823,324 | \$ 0 |
| (D) | Laurus Master Funds Convertible Debt | \$ 6,000,000 | September 29, 2007 | Prime plus 3.50 percent | Blanket Lien on all Assets | No | \$ 0 | \$ 5,700,000 |
| (E) | Laurus Master Funds Term Note | \$ 7,000,000 | October 31, 2009 | Prime plus 1.50 percent | Blanket Lien on all Assets | No | \$ 7,000,000 | \$ 0 |
| (E) | Daimler Chrysler Services | \$ 3,500,000 | July 1, 2206 with annual renewal | 6.72% | Lease receivables, title to chassis on body builder line and letters of credit amounting to \$200,000 | Yes | \$ 2,430,061 | \$ 0 |

- (A) Effective March 18, 2005, the Company terminated the agreement with Ford and the floor plan is currently provided by the Company.
- (B) The interest paid on the lease includes a component for servicing the leases for the Company. The leases typically have terms between 36 and 60 months and do not have a significant payment due at the end of the lease. The balance due to Sovereign Bank at December 31, 2004 was \$884,851.
- (C) The interest paid on the lease includes a component for servicing the leases for the Company. The leases typically have terms between 36 and 60 months and do not have a significant payment due at the end of the lease. The balance due to New World Lease Funding at December 31, 2004 was zero.

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The repayment of the lease financing obligations is as follows:

| Fiscal Year Ended December 31, | Total Liabilities | Total Liabilities |
|--------------------------------|-------------------|-------------------|
| | 2005(\$) | 2004(\$) |
| 2005 | | 369,145 |
| 2006 | 1,354,167 | 126,531 |
| 2007 | 1,511,782 | 163,616 |
| 2008 | 1,362,312 | 133,091 |
| 2009 | 201,877 | 92,468 |
| | 4,430,138 | 884,851 |

- (D) Effective October 31, 2005, the Company extinguished the convertible debentures. The Laurus Master Fund, LLC Obligation outstanding as of December 31, 2004 was as follows:

| Conversion Rate | Amount | Number of |
|---|--------------|------------|
| | | Shares |
| | Outstanding | Issuable |
| | Upon | Conversion |
| \$0.97 | \$ 2,000,000 | 2,061,856 |
| \$1.21 | 868,015 | 717,368 |
| Total Unrestricted Balance as of December 31, 2004 of Convertible Debentures: | 2,868,015 | 2,779,224 |
| Restricted Balance as of December 31, 2004: | | |
| \$0.97 | 240,000 | 247,243 |
| \$1.09 | 1,500,000 | 1,376,147 |
| \$1.33 | 1,091,985 | 821,041 |
| Total Restricted Cash | 2,831,985 | 2,444,431 |
| Total Convertible Notes | \$ 5,700,000 | 5,223,655 |

The repayment of the Laurus Transaction over the next five years ended December 31, are as follows:

| For the year ended December 31, | Funded Balance | Restricted Cash | Total Convertible |
|---------------------------------|----------------|------------------|-------------------|
| | | Released in 2005 | Notes |
| 2005 | \$ 982,949 | \$ 653,451 | \$ 1,636,400 |
| 2006 | 1,042,915 | 1,029,813 | 2,072,728 |
| 2007 | 842,151 | 1,148,721 | 1,990,872 |

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Total \$ 2,868,015 \$ 2,831,985 \$ 5,700,000

The Company issued to Laurus warrants to purchase shares of common stock in connection with the above Convertible Notes. The Company issued the following warrants with the value of the warrants:

| Number of Warrants | Exercise Price | Value of Warrants |
|--------------------|----------------|-------------------|
| 495,867 | \$ 1.51 | \$ 103,400 |
| 495,867 | \$ 1.82 | 104,400 |
| 495,867 | \$ 2.12 | 105,200 |
| 1,487,601 | | \$ 313,000 |

The Laurus transaction provided for 1.5 million warrants valued as freestanding instruments that meet the definition of a derivative under SFAS 133. We measured and recognized the warrants as a liability at their fair value, as determined using the Black-Scholes option pricing model, prior to the registration of shares underlying the warrants. We subsequently valued the warrants at December 31, 2004 for an adjustment to the market value to \$168,000, and a gain of \$145,000. The warrants will be valued quarterly, and upon

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registration of the underlying common stock through an effective Registration Statement. We allocated the \$1.6 million of proceeds received from the first borrowing as: a \$313,000 liability for the warrants (at fair value), \$465,000 of additional paid-in capital for the benefit on conversion, and \$822,000 liability for the convertible debt (net of debt discount). The \$465,000 of additional paid-in capital reflects the value of Laurus' option to convert the initial \$1.6 million of debt at prices beneficial to Laurus as compared to the market price of our common stock (the beneficial conversion option). The beneficial conversion option on the initial \$1.6 million of debt was determined by comparing the \$1.3 million of proceeds not allocated to the detached warrants to the 1,649,485 shares into which the \$1.6 million of debt was convertible. Effectively, the initial debt was convertible to common stock at \$0.78 per share, which was less than \$1.06 market price of our stock on the date of issuance, resulting in \$465,000 value for the beneficial conversion option. The proceeds of subsequent borrowings under the agreement were allocated between additional paid-in capital (for beneficial conversion options present on the date of borrowing, if any) and a liability for the debt (discounted to the extent value was assigned to a beneficial conversion option). We accreted the recorded debt balances up to its face amounts over the term of the borrowings using the effective interest method, which results in additional interest expense and effective interest rates on the borrowings greater than the stated interest rates and at the time of conversion additional interest expense is recorded for the unamortized discount on such debt.

Our effective interest rates, debt, conversion prices and beneficial conversion on the various tranches of borrowings for the Laurus transaction are at December 31, 2004:

| Date of Draw | Debt | Warrants | Additional Paid | | Effective Interest Rate |
|-------------------------|---------------------|-------------------|-------------------|---------------------|-------------------------|
| | | | in Capital | Total Draw | |
| 9/29/04 | \$ 821,798 | \$ 313,000 | \$ 465,202 | \$ 1,600,000 | 49% |
| 10/22/04 | 465,157 | | 13,430 | 478,587 | 11% |
| 11/3/04 | | | 300,000 | 300,000 | NA |
| 11/10/04 | 105,517 | | | 105,516 | 10% |
| 11/16/04 | 683,910 | | | 683,910 | 10% |
| | 2,076,382 | 313,000 | 778,632 | 3,168,015 | |
| Conversion | | | (300,000) | (300,000) | |
| Accretion | 65,618 | (26,083) | (39,535) | | |
| Total | \$ 2,142,000 | \$ 286,917 | \$ 439,097 | \$ 2,868,015 | 114% |
| Allocated to Restricted | 2,831,985 | 0 | 0 | 2,831,985 | 9% |
| Total | \$ 4,973,985 | \$ 286,917 | \$ 439,197 | \$ 5,700,000 | |

The Company holds the balance at December 31, 2004 under the Note of \$2,831,985 in a restricted account controlled by Laurus. The amounts included in the restricted account are considered as a cash and cash equivalent, as the Company has drawn those funds from the restricted account in the first quarter of 2005.

Interest Rate Adjustment

The interest rate may be adjusted on the last business day of each month if: (i) the -shares underlying the conversion of the Note and the warrant are registered for resale under the Securities Exchange Act of 1933, as amended (the Securities Act), (ii) our common stock is listed on the NasdaqSC Market, NasdaqNM System, or the American Stock Exchange and (iii) the average market price of our common stock for the five (5) consecutive trading days immediately preceding an adjustment date exceeds the then applicable conversion price by at least twenty five percent (25%), the interest rate for each day of the succeeding calendar month shall automatically be reduced by 2.0% for each incremental increase in the market price of the Common Stock by 25% above the applicable conversion price. The interest rate may be adjusted on the last business day of adjustment date exceeds the then applicable conversion price by at least twenty five percent (25%), the interest rate for each day of the succeeding calendar month shall automatically be reduced by 1.0% for each incremental increase in the market price of the Common Stock by 25% above the applicable conversion price. Notwithstanding the foregoing (and anything to the contrary contained in herein), in no event shall the Interest Rate be less than zero percent (0%).

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Interest and Principal Payments

The Company is required to make monthly interest payments to Laurus on the Unrestricted Funds, commencing November 1, 2004, and on the first day of each consecutive calendar month thereafter and on the Maturity Date. Accrued interest on the Restricted Funds is payable only on the Maturity Date or, in the event of the redemption or conversion, on such date. The Company shall commence making payments toward the principal amount of Unrestricted Funds on January 1, 2004. If and when Laurus transfers funds from the Restricted Account to the Company (Unrestricted Funds), the Company will commence making principal payments on such Unrestricted Funds 90 days following any such transfer.

Upon the Company registering the shares underlying the conversion of the Note and the warrant for resale under the Securities Act and subject to the 4.99% limitation and other limitations, Laurus shall convert the principal and interest payments for the Unrestricted Funds into common stock according to the following guidelines: (i) the average closing price of the common stock for the five (5) consecutive trading days immediately preceding such proposed conversion date is greater than or equal to 110% of the applicable conversion price and (ii) the amount to be paid in shares of Common Stock does not exceed twenty five percent (25%) of the aggregate dollar trading volume of the Common Stock for the immediately preceding ten (10) day trading period. If the conversion criteria are not met, Laurus will convert only such amounts as meets the conversion criteria and the remaining amounts will be paid by the Company in cash at the rate of 102% of the amount due.

Release of Restricted Funds

Upon the Company registering the shares underlying the conversion of the Note and the warrant for resale under the Securities Act, Laurus may release at its discretion, the Restricted Funds to the Company upon satisfaction of the following conditions: (i) as principal under the Convertible Note is converted into common stock, or (ii) upon Laurus securing a first priority lien on tangible, unencumbered assets to secure such Unrestricted Funds.

Redemption of Principal Amount

The Company may prepay the outstanding balance under the Convertible note by paying Laurus 125% of the Unrestricted Funds, together with accrued interest, and 105% of Restricted Funds, together with accrued interest.

Limitations on Conversion

Laurus may not convert debt under the Convertible Note if the amount that would be convertible into that number of shares of common stock would exceed the difference between 4.99% of our outstanding common stock and the number of shares of common stock beneficially owned by Laurus or issuable upon exercise in full of its Warrants. However, Laurus may void the 4.99% limitation upon 75 days prior notice to the Company or without any notice requirement upon an event of default under the terms of the Convertible Note. In addition, this 4.99% limitation does not prevent Laurus from converting debt into shares of our common stock and then reselling those shares at times when neither Laurus nor its affiliates beneficially own shares in excess of the 4.99% limitation. Therefore, by periodically selling our common shares into the market, avoiding the limitations imposed by the 4.99% limitation.

Events of Default

Upon the occurrence and continuance of an event of default under the Convertible Note, Laurus may demand immediate payment of 125% of the outstanding principal amount under the Convertible Note, plus accrued interest. In addition, the interest rate on the Convertible Note will increase to two percent (2%) per month, and all outstanding obligations under the Note, including unpaid interest at the higher interest will accrue from the date of default until the date the default is cured or waived. The following events will constitute an event of default under the Convertible Note:

failure to pay interest and principal payments when due;

a breach by us of any material covenant, representation, term or condition of the note or in any related agreement;

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an assignment for the benefit of our creditors is made by us, or a receiver or trustee is appointed for us;

any money judgment or similar final process filed against us for more than \$50,000, which remains unvacated, unbonded or unstayed for a period of 30 days;

any form of bankruptcy or insolvency proceeding is instituted by or against us, which is not vacated within 45 days;

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our common stock is suspended for five consecutive days or five days during any ten consecutive days from our principal trading market;

our failure to timely deliver shares of our common stock when due upon conversion of the note;

the occurrence and continuance of an event of default under any related agreement or the default under any other agreement of indebtedness; and

any change in the controlling ownership of us.

Costs in connection with Debt Financing

The Company paid Laurus Capital Management, LLC., the manager of Laurus, a closing payment of \$240,000. In addition, the Company paid Laurus \$39,500, as reimbursement for its expenses incurred in connection with the preparation and negotiation of the Purchase Agreement, Convertible Note and other agreements executed in connection therewith and expenses incurred in connection with their due diligence review of the Company and our subsidiaries.

Warrants

In connection with the Purchase Agreement, we issued to Laurus warrants, exercisable for a period of seven years, to purchase up to (i) 495,867 shares of common stock at \$1.51 per share, (ii) 495,867 shares of common stock at \$1.82 per share, and (iii) 495,867 shares of common stock at \$2.12 per share.

Restrictions on Future Financings

The Company has agreed not to issue any securities with a continuously variable or floating conversion feature, which are or could be (by conversion or registration) free-trading securities prior to the full repayment or conversion of the Convertible Note.

No Short-Selling by Laurus

Laurus has represented to the Company that neither it nor its affiliates or investment partners will engage in short sales of our common Stock during the term of the Convertible Note.

Right of First Opportunity

The Company granted Laurus a right of first opportunity to provide any additional financing to the Company or its subsidiaries on terms and conditions no less favorable than offered to a third party, other than with respect to certain indebtedness or equity financing (as specified in the Purchase Agreement, such as, (i) trade debt and debt incurred to finance the purchase of equipment (not in excess of five percent (5%) of the fair market value of the our assets) whether secured or unsecured other than unsecured indebtedness not to exceed an aggregate principal amount outstanding of \$200,000, indebtedness existing prior to the entering into the Purchase Agreement, and debt incurred in connection with the purchase of assets or equipment in the ordinary course of business, or any refinancings or replacements thereof on terms no less favorable to the Purchaser than the indebtedness being refinanced or replaced or (ii) equity issued as consideration for the purchase of assets or property, a business or another entity or other than issuances or sales to employees, officers, directors or consultants.

Registration Rights Granted to Laurus

The Company agreed to file a registration statement to register the resale of the shares issued to Laurus upon conversion of the debt under the Convertible Note and shares issuable upon exercise of the warrants issued pursuant to the Purchase Agreement.

(E)

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On October 31, 2005, as discussed above, the Company entered into a \$7.0 million Term Note with Laurus Master Funds. The note bears interest at prime plus 1.5 percent, is due on October 31, 2009. The Company is required to begin principal repayment on May 1, 2006. The balance of the term note at December 31, 2005 was \$7.0 million.

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The repayment of the Laurus Transaction over the next five years ended December 31, are as follows:

| For the year ended December 31, | |
|--|---------------------|
| 2006 | \$ 1,465,119 |
| 2007 | 1,953,492 |
| 2008 | 1,953,492 |
| 2009 | 1,627,897 |
| Total | \$ 7,000,000 |

- (F) During June 2005, the Company obtained lines of credit with Daimler Chrysler Services North America, LLC (Daimler Chrysler) up to \$3.5 million; \$1.0 million to fund the purchase of chassis for the manufacturing facility and \$2.5 million for the acquisition of leases secured by commercial vehicles. Effective July 2005, Daimler Chrysler agreed to increase the lease line to \$4.0 million and committed to support the Company's business plan. The body builder line of credit used to purchase chassis for the manufacturing facility is collateralized by the chassis and also a \$200,000 irrevocable letter of credit which will secure up to \$1.0 million in body builder availability. At December 31, 2005 the balance of the line of credit to Daimler Chrysler was \$1.5 million for the lease facility and \$829,000 for the body builder facility. The interest rates charged on both lines of credit are based on internal published rates at Daimler Chrysler. The effective interest rate charged on the facility for the year ended December 31, 2005 was 6.72%.

In addition, in December 2005, the Company paid to Dresdner Bank \$100,000 to structure up to a \$100 million securitization facility to support FleetPlan. The payment was made to begin the approval and due diligence process. There are not assurances that Dresdner Bank and the Company will consummate the facility.

7. RELATED PARTY TRANSACTIONS

The Company is a party to a non-cancelable operating lease pertaining to the office and plant facilities. The lease term, as amended, expires in December 2007 with payments commencing in July 2003. The lease is to a related party. The Company negotiated a settlement of the lease agreement with the landlord and paid the landlord \$684,000 in common stock totaling 556,098 shares for this obligation. The sales office is occupying 3,500 square feet of this facility for \$5,000 a month, on a month by month basis.

During 2004 one executive and director converted \$714,000 of accrued wages into 777,058 shares of common stock related to compensation related to personal guarantees. Also, one executive and director offset \$429,000 of accrued wages relating to personal guarantees against a liability owed by a company owned and controlled by him for the year ended December 31, 2004.

During May 2005, the Company settled certain obligations with an officer and director and his related companies. All obligations owed to the executive and settlements of related obligations owed by various entities of the officer were considered settled as a result of the agreement. Included was a charge-off of \$429,000 of a receivable owed to the Company from a related entity of the officer, offset by a reduction of a liability due to the officer of \$485,000 for compensation for his personal guarantees. These balances were offset at year-end and as part of the agreement; all balances due between the related entities and the Company were considered settled.

The above referenced settlement includes the cancellation of 556,098 shares of common stock issued to a related entity of the officer valued at \$684,000 in exchange for a payable to the related party of the officer in the amount of \$250,000 due in installments over a 12 month period. The Company paid to the related party of the officer \$62,500 on July 28, 2005; a subsequent payment of \$62,500 was remitted to the related party of the officer on October 31, 2005. The balance of the payments is due to the related party of the director in equal installments of \$62,500 on January 31, 2006 and April 30, 2006. The balance of the liability to this related entity at September 30, 2005 was \$187,500 and is included in related party payables. The Company recognized a gain on settlement of this obligation amounting to \$434,000 for the year ended December 31, 2005.

This officer and director resigned effective May 31, 2005 and entered into a non-compete agreement, whereby the officer cannot compete with the Company for a period of three years. The Company issued to the officer 600,000 shares of restricted common stock valued at \$396,000 and paid \$55,000 to the director in consideration for the non-compete agreement discussed above. The cost of this agreement will be amortized over the term of the non-compete agreement. The unamortized portion of the non-compete agreement at December 31, 2005 is \$377,000. In addition, this former officer and director was issued 341,500 shares of restricted common stock for his personal guarantee of lease obligations to various

financial institutions. The stock is valued at \$150,000 and is being amortized over the remaining term of the lease obligation.

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Approximately \$1.3 million of related party payable convertible was converted during the three months ended September 30, 2004 into 1.3 million shares of common stock and warrants to purchase up to (i) 433,194 shares of common stock at \$1.51 per share, (ii) 433,194 shares of common stock at \$1.82 per share, and (iii) 433,194 shares of common stock at \$2.12 per share. The conversion price is based on the lowest stock price during the second quarter, or 85% of the five day average prior to conversion. These balances outstanding were for funding operating shortfalls as well as expenses associated with Coach. In an effort to conserve cash resources the outstanding balances were transferred to convertible debt as of September 30, 2004. During the three months ended June 30, 2004, \$817,650 of these notes was converted into 711,000 shares of common stock as well as an equivalent amount of warrants, with an exercise price of \$2.50 per share.

The Company recognized a loss of \$169,500 for the year ended December 31, 2004 related to the conversion of related party payables convertible, and the related issuance of warrants discussed above. The warrants were valued using a Black-Scholes Model with volatility ranging from 56% to 68%, risk free interest rate of two percent, an estimated duration of one year and market values at the time of conversion between \$1.00 and \$1.30.

Notes payable - related parties totaled \$1,021,000 and \$900,000 at December 31, 2005 and 2004, respectively. The 2004 balance is related to amounts due to shareholders of CDS which were repaid during 2005. The 2005 balance relates to \$650,000 due to owners of FleetPlan, LLC, which bears interest at 12%, \$125,000 related to the settlement with the Bohemia property landlord, discussed above and \$251,000 due to an affiliated company of an officer and director.

The Company issued 601,472 and 146,181 shares of common stock in exchange for the extinguishment of accrued liabilities owed to its Chief Executive Officer, Francis O Donnell and its Chief Financial Officer, Susan Weisman for \$322,413 and \$72,038 of accrued wages and interest.

An officer and director of the Company is affiliated with a Company that CDS provides services to at a rate of \$9,000 a month for services rendered and approximately \$6,000 a month for check printing and mailing services. The affiliated Company is a Professional Employment Organization that utilizes the software platform developed for that industry. In addition, the 21 employees at CDS are employed by this professional employment organization.

An officer and director of the Company is affiliated with a Company that provides an exclusive brokerage services to CDS. This Company brokers the accident and occupational hazard insurance and contract liability program for CDS. The total premiums that this company brokered for CDS amounted to \$4.6 million for the year ended December 31, 2005 and \$1.3 million for the period from September 1, 2004 through December 31, 2004.

During the year ended December 31, 2003, the Company issued 1.8 million shares of common stock to various related parties for future consulting services. The Company recognized approximately \$550,000 of amortization of deferred compensation relating to this issuance. The total value of these agreements is \$810,000 to settle past services, as well as future services to the Company, which included approximately \$550,000 of deferred compensation for the year ended December 31, 2003 and approximately \$260,000, which was included in the retained deficit at the time of the reverse merger with CTMC, whereby the settlement of these liabilities were eliminated in the recapitalization. The \$260,000 represented services rendered prior to the reverse merger with CTMC. The shares of common stock were issued to these individuals with a three month restriction. The agreements are for consulting services for periods between 6 months to 2 years.

8. ACQUISITIONS

On November 15, 2005, the Company acquired all the assets of FleetPlan, LLC for a total of \$1.56 million, which included \$330,000 of cash, a Note in the amount of \$725,000, bearing interest at 12% and issued 1,246,883 shares of common stock valued at \$500,000 pursuant to the acquisition of all of the assets of FleetPlan LLC. The Company hired an independent accounting firm to value the assets acquired as part of the acquisition of FleetPlan. The valuation of the assets included the servicing platform at \$300,000 and the titling trust at \$1.25 million. The Company intends on placing these assets into service upon the initiation of the business model, projected to be by April 1, 2006. The estimated life of the servicing platform is seven years and the titling trust is estimated to be ten years. The acquired company did not have operations prior to acquisition. The assets acquired consisted of a business delivery platform and titling trust. The former owner is required to deliver by June 1, 2006 manufacturers repurchase agreements and franchisee agreements.

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The following is pro forma information for the year ended December 31, 2004 and 2003, as if the acquisition of CDS were consummated on January 1, 2003 and 2004, respectively. The pro forma information is not necessarily indicative of the combined financial position or results of operations, which would have been realized had the acquisition been consummated during the period for which the pro forma financial information is presented.

| | For the Year Ended | |
|---|---------------------------|------------------|
| | December 31, 2003 | |
| | Historical | Pro forma |
| Revenue | \$ 1,068,487 | \$ 156,195,639 |
| Net income (loss) | \$ (1,743,290) | \$ (1,526,176) |
| Basic and diluted net income (loss) per share | \$ (0.79) | \$ (0.24) |
| Basic and diluted weighted average shares outstanding | 2,219,699 | 6,253,315 |

| | For the Year Ended | |
|---|---------------------------|------------------|
| | December 31, 2004 | |
| | Historical | Pro forma |
| Revenue | \$ 83,595,584 | \$ 206,350,522 |
| Net income (loss) | \$ (6,502,818) | \$ (6,168,541) |
| Basic and diluted net income (loss) per share | \$ (0.41) | \$ (0.31) |
| Basic and diluted weighted average shares outstanding | 15,877,662 | 19,911,278 |

On September 1, 2003, the Company acquired, through a reverse merger CTMC, a New York corporation specializing in the manufacturing and selling of limousines, was merged. The Company issued a stock for stock exchange of 3 million shares of common stock.

Effective December 31, 2003 the Company acquired certain assets and liabilities from SCB. The acquisition is valued at \$2.66 million based on 2 million shares of common stock, valued at \$1.33 per share on November 6, 2003. Management believes that the acquisition of certain assets and liabilities of SCB enabled the entrée into the Midwestern and Western Markets through the Company's existing sales force, engineering expertise and management. The Company was able to assume the existing lease for the manufacturing facility in Springfield, which increased our manufacturing capacity and reduced our costs of our existing distribution in those markets.

The following is pro forma information for the year ended December 31, 2003, as if the reverse acquisition of Coach were consummated on January 1, 2003. The pro forma information is not necessarily indicative of the combined financial position or results of operations, which would have been realized had the acquisition been consummated during the period for which the pro forma financial information is presented.

| | For the Year Ended | |
|---|---------------------------|------------------|
| | December 31, 2003 | |
| | Historical | Pro forma |
| Revenue | \$ 1,068,487 | \$ 1,068,487 |
| Net income (loss) | \$ (1,743,290) | \$ (2,148,279) |
| Basic and diluted net income (loss) per share | \$ (0.79) | \$ (0.41) |
| Basic and diluted weighted average shares outstanding | 2,219,699 | 5,219,699 |

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The following table displays the net non-cash assets that were acquired during the year ended December 31, 2005, as a result of the business acquisitions:

| | FleetPlan |
|--|------------------|
| Non-cash assets (liabilities): | |
| Current assets | \$ |
| Property and equipment | 300,000 |
| Goodwill | 47,730 |
| Other | 1,250,000 |
| Current liabilities | (42,730) |
| Note payable | (725,000) |
| Net non-cash assets acquired | 830,000 |
| Less: common issued, | 500,000 |
| Cash paid for business acquisitions, net | \$ 330,000 |

The following table displays the net non-cash assets that were acquired during the year ended December 31, 2004, as a result of the business acquisitions:

| | CFS | CDS | Total |
|---|-------------|--------------|--------------|
| Non-cash assets (liabilities): | | | |
| Current assets | \$ | \$ 2,022,545 | \$ 2,022,545 |
| Property and equipment | | 223,015 | 223,015 |
| Goodwill | 797,184 | 5,667,302 | 6,464,486 |
| Lease receivables, net | 1,221,899 | | 1,221,899 |
| Other | 74,657 | | 74,657 |
| Current liabilities | | (3,831,019) | (3,831,019) |
| Lease financing obligation | (1,373,740) | | (1,373,740) |
| Net non-cash assets acquired | 720,000 | 4,081,844 | 4,801,844 |
| Less: common stock issued, | 720,000 | 3,640,000 | 4,360,000 |
| Less: notes and payables to shareholders issued | | 1,160,000 | 1,160,000 |
| Cash received from business acquisitions, net | \$ | \$ 718,156 | \$ 718,156 |

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As of December 31, non-cash transactions were as follows:

| | 2005 | 2004 | 2003 |
|---|-----------|-----------|---------|
| Non cash financing/investing activities: | | | |
| Conversion of debt | 200,000 | 3,842,668 | |
| Issuance of restricted stock related to deferred compensation | 258,000 | 1,858,552 | 550,366 |
| Issuance of treasury stock | | (720,000) | 720,000 |
| Offset receivable balance from related party against personal guarantee obligations | (429,000) | 429,000 | |
| Contributed inventory and property and equipment as contributed capital | | | 860,923 |
| Issuance of stock in settlement of the Laurus transaction | 404,009 | | |
| Accrued officers wages and interest converted into common stock | 394,786 | | |
| Inventory utilized to settle accounts payable liability | 63,000 | | |

Interest expense paid during the years ended December 31, 2005, 2004 and 2003 were \$530,000 (Laurus only), \$264,092 and zero, respectively. The Company has not paid any income taxes for the 2005 and 2004.

The following table displays the net non-cash assets that were acquired during the year ended December 31, 2003, as a result of the business acquisitions:

| | Coach | SCB | Total |
|---|-------|-------------|-------------|
| Non-cash assets (liabilities): | | | |
| Current assets | \$ | \$ 946,567 | \$ 946,567 |
| Property and equipment | | 174,741 | 174,741 |
| Goodwill | | 2,343,095 | 2,186,595 |
| Current liabilities | | (828,445) | (671,945) |
| Net non-cash assets acquired | | 2,635,958 | 2,635,958 |
| Less: common issued | | (2,660,000) | (2,660,000) |
| Cash received from business acquisitions, net | \$ | \$ (24,042) | \$ (24,042) |

10. Shareholders Equity**Stock Transactions:**

On December 2, 2005, the Company issued 6,666,667 shares of common stock valued at \$2,000,000 and 3,333,334 warrants to purchase the Company's common stock for \$0.50 and 3,333,334 warrants to purchase the Company's common stock for \$0.75. The Company received \$1.77 million, net of issuance costs of \$230,000. The Company is required to register these shares and warrants within 120 days of issuance. In addition, the Company issued 166,667 warrants to purchase shares of common stock at \$0.50 and 166,667 warrants to purchase shares of common stock at \$0.75 valued at \$29,400.

During May 2005, the Company settled certain obligations with an officer and director and his related companies. All obligations owed to the executive and settlements of related obligations owed by various entities of the officer were considered settled as a result of the agreement. Included was a charge-off of \$429,000 of a receivable owed to the Company from a related entity of the officer, offset by a reduction of a liability due to the officer of \$485,000 for compensation for his personal guarantees. These balances were offset at year-end and as part of the agreement; all balances due between the related entities and the Company were considered settled.

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The above referenced settlement includes the cancellation of 556,098 shares of common stock issued to a related entity of the officer valued at \$684,000 in exchange for a payable to the related party of the officer in the amount of \$250,000 due in installments over a 12 month period. The Company paid to the related party of the officer \$62,500 on July 28, 2005; a subsequent payment of \$62,500 was remitted to the related party of the officer on October 31, 2005. The balance of the payments is due to the related party of the director in equal installments of \$62,500 on January 31, 2006 and April 30, 2006. The balance of the liability to this related entity at December 31, 2005 was \$125,000 and is included in related party payables. The Company recognized a gain on settlement of this obligation amounting to \$434,000 for the year ended December 31, 2005.

This officer and director resigned effective May 31, 2005 and entered into a non-compete agreement, whereby the officer cannot compete with the Company for a period of three years. The Company issued to the officer 600,000 shares of restricted common stock valued at \$396,000 and paid \$55,000 to the director in consideration for the non-compete agreement discussed above. The cost of this agreement will be amortized over the term of the non-compete agreement. The unamortized portion of the non-compete agreement at December 31, 2005 is \$363,000. In addition, this former officer and director was issued 341,500 shares of restricted common stock for his personal guarantee of lease obligations to various financial institutions. The stock is valued at \$147,000 and is being amortized over the remaining term of the lease obligation.

For the year ended December 31, 2005 the Company issued 601,472 and 146,181 shares of common stock in exchange for the extinguishment of accrued liabilities owed to its Chief Executive Officer, Francis O. Donnell and its Chief Financial Officer, Susan Weisman for \$322,413 and \$72,038 of accrued wages and interest.

The Company issued 630,000 shares of common stock to various consultants for consulting contracts ranging from 12 to 36 months amounting to \$258,000 for the year ended December 31, 2005.

Effective December 31, 2004 we settled an obligation with FCW Realty a company controlled by an officer and director of the Company for \$684,000, which was paid in 556,098 shares of common stock. The Company is no longer obligated under the original lease agreement and is currently leasing a sales office in this facility on a month by month basis.

Effective December 31, 2004, the Company accrued an obligation to certain executives for their personal guarantees on approximately \$12 million of obligations of the Company. The Company accrued \$1.2 million in compensation to these executives for consideration of these personal guarantees. One executive officer and director converted his compensation of \$714,893 into 777,058 shares of common stock.

On September 29, 2004, we issued a convertible term note in the aggregate principal amount of \$6,000,000 to Laurus Master Fund, Ltd., pursuant to a Securities Purchase Agreement and ancillary agreements. The term of the note is three years and bears interest at the prime rate (as published in the Wall Street Journal) plus 3.5 percent. In connection with the agreement and the note, we issued to Laurus warrants, exercisable for a period of seven years, to purchase up to (i) 495,867 shares of common stock at \$1.51 per share, (ii) 495,867 shares of common stock at \$1.82 per share, and (iii) 495,867 shares of common stock at \$2.12 per share. During November 2004 Laurus Master Fund Ltd, converted \$300,000 of the convertible term notes into 600,000 shares of common stock. The Company recognized a loss on conversion of \$300,000 for the year ended December 31, 2004.

On August 6, 2004, we signed a Letter of Intent with the shareholders of CDS, pursuant to which on August 31, 2004, we agreed to issue 3,226,893 shares of restricted common stock to such shareholders as partial consideration for our acquisition of all of the common stock of CDS and its affiliates. This transaction was valued at \$1.19 per share. Effective December 24, 2004 we issued 806,724 shares of restricted common stock to such shareholders of CDS as additional consideration for our acquisition of CDS, pursuant to the agreement.

In August 2004, we issued 1,299,582 million shares of restricted common stock to Elm Street Partners, LLC, an affiliate of our Chief Executive Officer, in connection with its conversion of a convertible promissory note and issued warrants to purchase up to (i) 433,194 shares of common stock at \$1.51 per share, (ii) 433,194 shares of common stock at \$1.82 per share, and (iii) 433,194 shares of common stock at \$2.12 per share.

On July 9, 2004, we issued from treasury stock 423,529 shares of restricted common stock to various shareholders in consideration for all of the common stock of Go Commercial in connection with the merger of Go Commercial into CFS. This transaction was valued at \$720,000.

In July 2004 the Company issued 25,000 shares of common stock to a private investor for \$25,000.

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On June 28, 2004, we issued Elm Street Partners, LLC, a company controlled by Francis O Donnell, 336,000 shares of common stock, upon conversion of \$386,400 of convertible notes. Elm Street also received detachable warrants for the equivalent number of shares of common stock at a strike price of \$2.50, expiring in five years.

On May 11, 2004, we issued Elm Street Partners, LLC, a company controlled by Francis O Donnell, 375,000 shares of common stock, upon conversion of \$431,250 of convertible notes. Elm Street also received detachable warrants for the equivalent number of shares of common stock at a strike price of \$2.50, expiring in five years.

On May 11, 2004 we issued 505,000 shares of common stock to the various consultants for their investor relations services for the year ended December 2004 totaling \$858,500.

The following is a summary of all stock transactions with consultants for the year ended December 31, 2004:

| Description | Shares Issued | Amount |
|--|------------------|---------------------|
| On May 11, 2004 we issued 505,000 shares of common stock to the various consultants for their investor relations services for the year ended December 2004 totaling \$858,500. | 505,000 | \$ 858,500 |
| On May 19, 2004, we entered into a common stock purchase agreement with Fusion Capital Fund II, LLC, pursuant to which Fusion Capital agreed to purchase up to an aggregate of \$6 million in shares. As compensation to Fusion Capital in connection with its purchase commitment under the common stock purchase agreement, we issued 224,900 shares of common stock on June 28, 2004. This transaction was valued at \$1.58 per share. On May 11, 2004, the Company issued 20,000 shares of restricted common stock for expenses in connection with the acquisition of the equity line from Fusion Capital Fund II, LLC. This transaction was valued at \$1.70 per share. | 244,900 | 389,342 |
| On July 1, 2004, we issued 50,000 shares of restricted common stock to Richardson & Patel LLP in settlement of indebtedness arising from the provision of legal services rendered to the Company. | 50,000 | 57,500 |
| The Company issued to Kramer Weisman and Associates, LLC, an accounting and consulting firm controlled by Ms. Weisman's husband, Lester Weisman, 75,000 shares of common stock, valued at \$79,500. The shares are for services to be provided to the Company over twelve months and vest equally over the twelve months commencing August 31, 2004. | 75,000 | 79,500 |
| In September 2004, we issued 25,000 shares of common stock to Benchmark Consulting in settlement of indebtedness arising from the provision of services pursuant to consulting agreement. | 25,000 | 30,500 |
| On November 15, 2004, the Company issued 250,000 shares of common stock to Joseph I. Emas, our Chief Compliance and Ethics Officer, effective January 1, 2004. Mr. Emas, our general counsel, has been our Chief Ethics and Compliance Officer since January 1, 2004. | 250,000 | 287,500 |
| In December 2004, we entered into a consulting agreement with Capital Growth Advisors, whereby we issued 60,000 shares as a provision of the agreement. The shares are fully earned. | 60,000 | 69,000 |
| In November 2004, we entered into a consulting agreement with Alliance Advisors, whereby we issued 80,000 shares of common stock as a provision of the agreement. The shares are fully earned. | 80,000 | 88,000 |
| Total | 1,289,900 | \$ 1,859,842 |

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For the year ended December 31, 2003, the Company issued 7.7 million shares of its common stock as follows:

On August 26, 2003, the Company issued 3,000,000 restricted shares of common stock, valued at \$0.45 per share, to the shareholders of CTMC in connection with our acquisition of CTMC.

On August 26, 2003, the Company issued 433,333 restricted shares of common stock issued to Innovative Consulting Group, a company controlled by Francis O Donnell, in settlement of related party payable totaling \$65,000, accrued in connection with consulting and administrative expenses paid on behalf of the company.

On August 26, 2003, the Company issued 677,333 restricted shares of common stock issued to International Equities and Finance, LLC in settlement of \$101,000 in related party payables accrued in connection with consulting and administrative expenses paid on behalf of the company.

On August 26, 2003, the Company issued 1,600,000 restricted shares issued into treasury for the consideration for a potential transaction. This transaction related to the acquisition of Go Commercial Leasing and has been consummated on July 9, 2004. The transaction was adjusted based on the value of the acquisition. The company will issue to the owners of Go Commercial Leasing, 423,529 shares of restricted common stock from treasury for this transaction. The remaining shares in treasury will be canceled.

On September 15, 2003, the Company issued 100,000 restricted shares for consulting services, which were later cancelled effective December 31, 2003, in connection with non-performance of the contract.

On November 13, 2003, the Company issued 2,000,000 restricted shares, valued at \$1.33 per share, to the shareholders of Springfield Coach Industries Corporation, Inc. for the purchase of Springfield Coach Industries Corporation, Inc.

Treasury stock:

The Company reserved 1.6 million shares, valued at \$0.45 cents per share, for the purpose of using as agreed consideration the acquisition. The shares shall vest on the effective date of the aforementioned potential transaction. The shares were reserved in treasury stock amounting to \$720,000 as of January 1, 2004. During 2005, the remaining shares of 1.1 million shares were retired.

Stock options:

The following is a summary of the Company's common stock option for the Company's Stock Option Plans activity:

| | 2003 Stock Option Plan | 2004 Stock Option Plan | 2005 Stock Option Plan |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Outstanding at December 31, 2003 | 0 | 0 | 0 |
| Exercised | 0 | 0 | 0 |
| Forfeited | 0 | 0 | 0 |
| Issued | 0 | 3,000,000 | 0 |
| Outstanding at December 31, 2004 | 0 | 3,000,000 | 0 |
| Exercised | 0 | 0 | 0 |
| Forfeited | (211,537) | (1,600,000) | 0 |
| Issued | 1,639,999 | 1,500,000 | 1,750,000 |
| Outstanding at December 31, 2005 | 1,428,462 | 2,900,000 | 1,750,000 |
| Available for grant at December 31, 2005 | 571,538 | 150,000 | 1,250,000 |
| Weighted average exercise price of options outstanding | \$ 0.42 | \$ 0.76 | \$ 0.42 |

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| | | | | | | |
|---|----|------|----|------|----|------|
| Weighted average exercised price of options exercised | \$ | 0.00 | \$ | 0.00 | \$ | 0.00 |
| Weighted average price of options Forfeited | \$ | 0.43 | \$ | 0.89 | \$ | 0.91 |

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| | December 31, | |
|--|---------------------|-------------|
| | 2005 | 2004 |
| Weighted average exercise price of options outstanding | \$ 0.67 | \$ 0.90 |
| Weighted average exercise price of options exercised | \$ 0.00 | \$ 0.00 |
| Weighted average price of options forfeited | \$ 0.94 | \$ 0.00 |

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The method used to calculate the fair value of the options granted was the Black-Scholes model with the following grant date fair values and assumptions:

| Year of Grant | Number of Options Granted | Grant Date | Weighted Average | | | |
|---------------|---------------------------|------------|------------------|--------------------|---------------------|-------------------------|
| | | | Exercise Price | Risk | | Expected Dividend Yield |
| | | | | Free Interest Rate | Expected Volatility | |
| 2004 | 1,500,000 | 8/31/04 | \$ 0.90 | 3.85% | 75% | 0.00% |
| 2004 | 700,000 | 9/1/04 | 0.98 | 3.85 | 75 | 0.00 |
| 2004 | 800,000 | 12/27/04 | 0.91 | 3.85 | 75 | 0.00 |
| 2005 | 225,000 | 5/31/05 | 0.66 | 4.00-03.93 | 97 | 0.00 |
| 2005 | 775,000 | 8/31/05 | 0.38 | 3.83-3.72 | 97 | 0.00 |
| 2005 | 2,840,000 | 9/30/05 | 0.43 | 3.83-3.72 | 97 | 0.00 |
| 2005 | 550,000 | 12/31/05 | 0.37 | 3.83-3.72 | 97 | 0.00 |

The employee turnover factor was 50% for non-executive incentive and non-qualifying stock options and zero for executive during the year ended December 31, 2005. The employee turnover factor for 2004 was zero. The expected life for options issued during was two and four years for 2005 and 10 years for 2004.

The following table summarizes information about fixed stock options outstanding at December 31, 2005:

| Range of Exercise Prices | Options Outstanding Weighted- | | | Options Exercisable | |
|--------------------------|-------------------------------|-------------------------------|---------------------------------|---------------------|---------------------------------|
| | Number Outstanding | Average Remaining Contractual | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price |
| | | at 12/31/05 | Life | Price | at 12/31/04 |
| \$ 0.31-1.43 | 8,696,412 | 9.76 | 0.67 | 8,696,412 | 0.67 |

The following table summarizes information about fixed stock options outstanding at December 31, 2004:

| Range of Exercise Prices | Options Outstanding Weighted- | | | Options Exercisable | |
|--------------------------|--------------------------------|------------------------------------|---------------------------------|--------------------------------|---------------------------------|
| | Number Outstanding at 12/31/04 | Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable at 12/31/04 | Weighted-Average Exercise Price |
| | | at 12/31/04 | Life | Price | at 12/31/04 |
| \$ 0.90- 0.98 | 3,000,000 | 9.71 | 0.92 | 3,000,000 | 0.92 |

Our Board of Directors approved during 2004, the issuance to our Chief Executive Officer, Frank O. Donnell, of options to purchase up to 891,600 shares of restricted common stock, and the issuance to Susan Weisman and John Gore of 891,600 shares of restricted common stock each upon finalization of their respective employment agreements. The Board of Directors has also approved the issuance to various employees of options to purchase up to 300,000 shares of restricted common stock. These shares have not been issued out of a stock option plan approved by the Company's shareholders.

Table of Contents**Warrants:**

The Company issued to Laurus warrants to purchase shares of common stock in connection with the above Convertible Notes. The Company issued the following warrants with the value of the warrants:

| Number of Warrants | Exercise Price | Value of Warrants |
|--------------------|----------------|-------------------|
| 495,867 | \$ 1.51 | \$ 103,400 |
| 495,867 | \$ 1.82 | 104,400 |
| 495,867 | \$ 2.12 | 105,200 |
| 1,487,601 | | \$ 313,000 |

The warrants were valued based on the market value on the date of issuance of \$1.06, an expected term of between two and three years and an anticipated volatility of 56% with a risk free rate of between 2 and 3 percent.

On October 31, 2005, the Company extinguished the Convertible Notes associated with the transaction and entered into a term note with Laurus. The above warrants were repriced as follows:

| Number of Warrants | Exercise Price | Value of Warrants |
|--------------------|----------------|-------------------|
| 495,867 | \$ 0.01 | 177,025 |
| 254,133 | \$ 0.01 | 90,975 |
| 241,734 | \$ 0.50 | 14,644 |
| 495,867 | \$ 0.50 | 29,731 |
| 1,487,601 | | \$ 312,375 |

The assumptions used in the repricing of the above warrants were duration between .5 and 1 year, market value of \$0.41, risk free interest rate of 2.50 percent and a projected volatility of 105 percent.

The Company has related party payables - convertible at December 31, 2004 and December 31, 2003 to a related party of \$30,000 and zero, respectively. Approximately \$1.3 million was converted during the three months ended September 30, 2004 into 1.3 million shares of common stock and warrants to purchase up to (i) 433,194 shares of common stock at \$1.51 per share, (ii) 433,194 shares of common stock at \$1.82 per share, and (iii) 433,194 shares of common stock at \$2.12 per share. The conversion price is based on the lowest stock price during the second quarter, or 85% of the five day average prior to conversion. These balances outstanding were for funding operating shortfalls as well as expenses associated with Coach. In an effort to conserve cash resources the outstanding balances were transferred to convertible debt as of September 30, 2004. During the three months ended June 30, 2004, \$817,650 of these notes was converted into 711,000 shares of common stock as well as an equivalent amount of warrants, with an exercise price of \$2.50 per share.

The Company converted \$2.1 million of related party debt convertible during the year ended December 31, 2004. At the same time the Company issued warrants to purchase common stock totaling 2.1 million with exercise prices between \$1.58 and \$2.50. The Company converted \$2.1 million of related party debt convertible and issued 2.0 million warrants to purchase common stock at exercise prices ranging from \$1.58 to \$2.50. Upon conversion, the Company recognized a loss of \$169,500. The warrants were valued using a Black-Scholes Model with volatility ranging from 56% to 68%, risk free interest rate of two percent, an estimated duration of one year and market values at the time of conversion between \$1.00 and \$1.30.

On December 2, 2005, the Company issued 6,666,667 shares of common stock valued at \$2,000,000 and 3,333,334 warrants to purchase the Company's common stock for \$0.50 and 3,333,334 warrants to purchase the Company's common stock for \$0.75. The Company received \$1.7 million, net of issuance costs of \$270,000. The Company is required to register these shares and warrants within 120 days of issuance.

Table of Contents**Warrant Liability**

The Company has warrant liabilities established for the Laurus warrants that are not registered and the issuance of common stock and related warrants on December 2, 2005. The following table summarizes the warrant liability, the warrants outstanding relating to this liability and the related adjustment to valuation at December 31, 2005:

| Description | Exercise Price | Value |
|---|----------------|------------|
| Laurus Warrants | \$ 1.58 | \$ 103,400 |
| Laurus Warrants | \$ 1.82 | 104,400 |
| Laurus Warrants | \$ 2.12 | 105,200 |
| Warrant Value at issuance | | 313,000 |
| Adjustment 12/31/04 | | (144,920) |
| Value at 12/31/04 | | 168,080 |
| Warrant Adjustment at 2/4/05 | | 79,080 |
| Warrant Value at Registration | | 247,160 |
| Reclassification to APIC | | (247,160) |
| Laurus Warrants at Issuance | \$ 0.50 | 109,095 |
| Warrant at Issuance | \$ 0.50 | 304,738 |
| Warrant at issuance | \$ 0.75 | 313,088 |
| | | 726,921 |
| Warrant Adjustment at December 31, 2005 | | (151,923) |
| Warrant Liability at December 31, 2005 | | \$ 574,998 |

The warrants were valued using a black scholes model, volatility between 100 to 105 percent, term of between 180 days to one year with an interest free rate of 2.50 percent with market values of \$0.37 for December 31, 2005.

11. Income Taxes

The benefit for income taxes from continued operations for the years ended December 31, 2005, 2004 and 2003 consist of the following:

Current:

| | 2005 | 2004 | 2003 |
|--|-------------|-------------|-----------|
| Federal | \$ | \$ | |
| State | | | |
| Tax (benefit) from the change in valuation allowance | (1,841,775) | (2,387,654) | (674,714) |
| Benefit from operating loss carryforward | 1,841,775 | 2,387,654 | 674,714 |

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| | | |
|---|----|----|
| Provision (benefit) for income taxes, net | \$ | \$ |
|---|----|----|

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The difference between income tax expense computed by applying the federal statutory corporate tax rate and actual income tax expense is as for the year ended December 31, is as follows:

| | 2005 | 2004 | 2003 |
|-----------------------------------|----------|----------|----------|
| Statutory federal income tax rate | (35.0)% | (35.0)% | (35.0)% |
| Decrease in valuation allowance | ()% | ()% | ()% |
| State income taxes and other | (1.70)% | (3.74)% | (3.70)% |
| Effective tax rate | (36.70)% | (38.74)% | (38.70)% |

Deferred income taxes result from temporary differences in the recognition of income and expenses for the financial reporting purposes and for tax purposes. The tax effect of these temporary differences representing deferred tax asset and liabilities result principally from the following at December 31,:

| | 2005 | 2004 |
|-------------------------------|-------------|-------------|
| Deferred tax assets | | |
| Current | \$ | \$ |
| Non-current | | |
| Federal | 1,707,553 | 2,175,886 |
| State | 134,222 | 249,768 |
| | 1,841,775 | 2,387,654 |
| Less valuation allowance | (1,841,775) | (2,387,654) |
| Net deferred income tax asset | \$ | \$ |

The Company's actual provision for income taxes differ from the Federal expected income tax provision as follows:

| | 2005 | | 2004 | |
|---|--------------|--------|--------------|--------|
| Income tax provision at expected federal income tax rate of 35% | \$ 1,754,566 | 35.00% | \$ 2,156,886 | 35.00% |
| Increase (decrease) resulting from: | | | | |
| Goodwill | (47,513) | (0.90) | (19,000) | |
| Provision (benefit) for state taxes, net of federal benefit | 134,322 | 2.60 | 249,768 | 3.74 |
| Benefit for income taxes | \$ 1,841,375 | 36.70% | \$ 2,387,654 | 38.74% |

The Company has a valuation allowance of \$4.9 million, \$3.1 million and \$675,000 at December 31, 2005, 2004 and 2003, respectively. It does not intend to reverse the valuation allowance at this time. The Company provides for income taxes in accordance with SFAS No. 109 using an asset and liability based approach. Deferred income tax assets and liabilities are recorded to reflect the tax consequences on future years of temporary differences of revenue and expense items for financial statement and income tax purposes.

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Since its formation the Company has incurred net operating losses. As of December 31, 2005 and 2003 the Company had net operating loss carry forwards available to offset future taxable income for federal and state income tax purposes.

SFAS No. 109 requires the Company to recognize income tax benefits for loss carryforwards that have not previously been recorded. The tax benefits recognized must be reduced by a valuation allowance if it is more likely than not that loss carryforwards will expire before the Company is able to realize their benefit, or that future deductibility is uncertain. For financial statement purposes, the deferred tax asset for loss carryforwards has been fully offset by a valuation allowance since it is uncertain whether any future benefit will be realized.

Income tax expense is \$0 for the years ended December 31, 2005, 2004 and 2003.

The Company files separate State income tax returns in each State jurisdiction.

12. Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Reportable segments consist of one or more operating segments with similar economic characteristics, products and services, production processes, type of customer, distribution system and regulatory environment. The information provided for Segment Reporting is based on internal reports utilized by management. Results of operations are reported through three reportable segments: manufacturing, the lease finance and independent contractor settlement. The Parent Company includes the operations of Coach.

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The following summarizes the aggregation of the Company's operating segments into reportable segments:

| | |
|---|---|
| <p>Reportable Segment Manufacturing Lease Finance Independent Contractor Settlement</p> | <p>Operating Segments Aggregated SCB and CTMC CFS and FleetPlan CDS</p> |
| <p>Parent Company</p> | <p>Coach Industries Group Inc.'s operations, costs of acquisitions, and financing activities</p> |

The accounting policies of the segments are generally the same as those described in the summary of significant accounting policies. Intersegment transactions consist of shared services such as risk management consulting and investment banking placement and advisory fees, which are eliminated in consolidation.

Depreciation and amortization consist of: depreciation on property and equipment, amortization of core deposit intangible assets, deferred compensation expenses and deferred offering costs.

The Company evaluates segment performance based on net segment income after tax. The table below is segment information for income from continuing operations for the ended December 31, 2005:

| | Independent | | | | | |
|--|----------------------|----------------------|-------------------|-----------------------|----------------|----------------|
| | Contractor | | | Parent Company | | Segment |
| | Manufacturing | Lease Finance | Settlement | Parent Company | Total | |
| Revenues | \$ 9,539,125 | \$ 3,617,987 | \$ 243,008,658 | \$ | \$ 256,165,770 | |
| Cost of Goods Sold | 8,648,438 | 3,140,621 | 240,001,623 | | 251,790,682 | |
| Gross Margin | 890,687 | 477,366 | 3,007,035 | | 4,375,088 | |
| General and Administrative Expenses | 2,086,056 | 308,001 | 2,338,946 | 4,655,130 | 9,388,133 | |
| Segments net income (loss) before income taxes | \$ (1,195,369) | \$ 169,365 | \$ 668,089 | \$ (4,655,130) | (5,013,045) | |
| Total assets | \$ 2,184,381 | \$ 6,926,914 | \$ 3,731,925 | \$ 10,040,962 | \$ 23,084,16 | |
| Goodwill | \$ 2,343,095 | \$ 870,654 | \$ 3,090,433 | \$ | \$ 6,304,182 | |
| Expenditures for segment assets | \$ | \$ 36,175 | \$ 162,159 | \$ 152,825 | \$ 351,159 | |
| Depreciation and amortization | \$ 89,458 | \$ 6,110 | \$ 425,571 | \$ 29,675 | \$ 550,815 | |

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The Company evaluates segment performance based on net segment income after tax. The table below is segment information for income from continuing operations for the ended December 31, 2004:

| | Manufacturing | Lease Finance | Independent Contractor Settlement | Parent Company | Segment Total |
|--|----------------------|----------------------|--|-----------------------|----------------------|
| Revenues | \$ 14,532,392 | \$ 629,591 | \$ 68,433,601 | \$ | \$ 83,595,584 |
| Cost of Goods Sold | 12,080,332 | 491,513 | 67,459,215 | (15,039) | 80,016,021 |
| Gross Margin | 2,452,060 | 138,078 | 974,386 | (15,039) | 3,579,563 |
| General and Administrative Expenses | 5,079,175 | 121,715 | 872,172 | 4,009,319 | 10,082,381 |
| Segments net income (loss) before income taxes | \$ (2,627,115) | \$ 16,363 | \$ 102,214 | \$ (3,994,280) | (6,502,818) |
| Total assets | \$ 3,248,466 | \$ 2,248,052 | \$ 3,891,053 | \$ 10,134,253 | \$ 19,521,824 |
| Goodwill | \$ 2,343,095 | \$ 797,184 | \$ 3,067,302 | \$ | \$ 6,207,581 |
| Expenditures for segment assets | \$ 134,235 | \$ 7,918 | \$ 19,810 | \$ 34,452 | \$ 196,415 |
| Depreciation and amortization | \$ 88,906 | \$ 1,119 | \$ 115,369 | \$ 63,029 | \$ 268,423 |

For the period from January 8, 2003 (inception) through December 31, 2003, the Company operated in the manufacturing sector only.

13. Commitments and Contingencies

Effective December 31, 2003, the Company acquired certain assets and assumed certain liabilities of Springfield Coach Industries Corporation, Inc. and assumed a lease agreement dated August 1, 2001, whereby the Company will occupy a manufacturing facility with approximately 45,000 square feet and a warehouse facility with approximately 16,000 square feet for \$11,000 a month, expiring on July 31, 2006. The lease agreement has five two year renewal options. The Company is evaluating its options relating to this lease and whether they will renew the lease or based on capacity requirements, move to a new facility. Current and future minimum rental payments under the lease for the years ended are as follows:

| | 2005 | 2004 |
|------|-------------|-------------|
| 2005 | | 132,000 |
| 2006 | 77,000 | 77,000 |
| | \$ 77,000 | \$ 209,000 |

In July 2004, Coach signed a lease agreement for office space in Cooper City, Florida, for approximately 6,500 square feet of mixed use office space to house the corporate offices, the Florida sales offices and for CFS operations. The monthly lease payment is \$7,000 plus applicable taxes and the company's share of common areas. The term of the lease is five years and is non-cancelable and begins in February 2005.

Minimum future rental payments under the initial lease for each of the five years in the aggregate are as follows:

| Year Ended December 31, | 2005 | 2004 |
|--------------------------------|-------------|-------------|
| 2005 | \$ | 77,000 |
| 2006 | 84,000 | 84,000 |
| 2007 | 84,000 | 84,000 |

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| | | |
|------|------------|---------|
| 2008 | 84,000 | 84,000 |
| 2009 | 70,000 | 70,000 |
| | \$ 322,000 | 399,000 |

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At December 1, 2003, the Company entered into a lease agreement for office space for a term of five years, with an option to renew the lease for an additional five years prior to the expiration of the initial lease. The space has been subleased to an affiliated company for the same period.

Minimum future rental payments under the initial lease for each of the five years in the aggregate are as follows:

| Year Ended December 31, | 2005 | 2004 |
|--------------------------------|-------------------|-------------------|
| 2005 | | 74,617 |
| 2006 | 74,617 | 74,617 |
| 2007 | 74,617 | 74,617 |
| 2008 | 68,399 | 68,399 |
| | \$ 217,633 | \$ 292,250 |

Coach's other commitments are either contingent upon a future event or terminable on less than thirty days (30) notice.

Rental expense under all operating leases totaled approximately \$333,161, \$232,954 and \$259,200 for the years ended December 31, 2005, 2004 and 2003, respectively that includes amortization of deferred rental expense of approximately \$0, \$21,600 and \$9,600 for the years ended December 31, 2005, 2004 and 2003, respectively.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Fluctuations. At December 31, 2005, we had borrowings of \$7.0 million subject to variable interest rates. We do not use derivatives to manage interest rate risk. Our interest rate exposure is linked to the prime rate. We believe that moderate changes in the prime rate would not materially affect our operating results or financial condition.

Interest Rate Management

As of the filing date of this document, we do not use any financial derivative instruments to hedge our interest rate exposures. However, we periodically review the need for such instruments and will enter into them when we believe it is in our best interest to manage our interest rate exposure.

The combined effect of a 1% increase in the applicable index rates would result in additional interest expense of approximately \$0.7 million annually, assuming no change in the level of borrowings.

Credit Risk

Our concentrations of credit risk consists of cash and cash equivalents, trade accounts receivable, lease receivable and a concentration of one customer in our contract management business. As part of our ongoing control procedures, we monitor concentrations of credit risk associated with financial institutions with which we conduct business. Credit risk with financial institutions is considered minimal as we utilize only high quality financial institutions. We conduct periodic credit evaluations of our customers' financial condition and require collateral as well as personal guarantees. Our customer base includes individual commercial fleet operators. We believe that the management of our credit risk related to trade and lease receivables relates to our industry experience with these commercial fleet operators and our ability to remarket the vehicles.

Item 8. Financial Statements and Supplementary Data

All information required by this item is listed in the Index to Financial Statements in Item 15 of Part IV.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. The evaluation was undertaken in consultation with our accounting personnel. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

While we believe our disclosure controls and procedures and our internal control over financial reporting are adequate, no system of controls can prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will

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be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with its policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors and Executive Officers of the Registrant.

Information regarding our executive officers and directors is incorporated by reference to the information set forth under the caption "Directors and Executive Officers" in an Amendment to Form 10-K or Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our year ended December 31, 2005.

We have a Code of Business Conduct and Ethics for all of our employees, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer. The purpose of the code is to ensure that our business is conducted in a consistently legal and ethical matter. We will provide a copy of our code free of charge to any person upon request by writing to us at our principal executive offices.

Item 11. Executive Compensation

Information regarding executive compensation is incorporated by reference to the information set forth under the caption "Executive Officer Compensation" in an Amendment to Form 10-K or Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our year ended December 31, 2005.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth under the caption "Voting Securities Of Principal Stockholders And Management" in an Amendment to Form 10-K or Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our year ended December 31, 2005.

Item 13. Certain Relationships and Related Transactions

Information regarding certain relationships and related transactions is incorporated by reference to the information set forth under the caption "Certain Transactions" in an Amendment to Form 10-K or Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our year ended December 31, 2005.

Item 14. Principal Accounting Fees and Disclosures

Information regarding accounting fees and disclosures is incorporated by reference to the information set forth under the caption "Fees Paid to Independent Auditors" in an Amendment to Form 10-K or Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our year ended December 31, 2005.

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

Index to Financial Statements (included under Item 8):

| Description | Page |
|---|-------------|
| <u>Report of Independent Registered Certified Public Accounting Firm</u> | F-2 |
| <u>Consolidated balance sheets at December 31, 2005 and 2004</u> | F-3 |
| <u>Consolidated statements of operations for the period from January 8, 2003 (inception) through December 31, 2003 and for the years ended December 31, 2005 and 2004</u> | F-4 |
| <u>Consolidated statements of shareholders' equity for the period from January 8, 2003 (inception) through December 31, 2003 and for the years ended December 31, 2005 and 2004</u> | F-5 |
| <u>Consolidated statements of cash flows for the period from January 8, 2003 (inception) through December 31, 2003 and for the years ended December 31, 2005 and 2004</u> | F-6 |
| <u>Notes to consolidated financial statements for the period from January 8, 2003 (inception) through December 31, 2003 and for the years ended December 31, 2005 and 2004</u> | F-7 |

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Exhibits

- 2.1 Agreement and Plan of Merger among the Registrant and CDS Merger Sub, Inc. and Corporate Development Services, Inc. and certain Shareholders thereof. ⁽¹⁾

- 3.1 Articles of Incorporation. ⁽²⁾

- 3.2 Bylaws. ⁽²⁾

- 10.1 Form of Cadillac Master CoachBuilder Agreement with General Motors Corporation. ⁽⁵⁾

- 10.2 Quality Vehicle Modifier Agreement between Commercial Transportation Manufacturing Corporation and Ford Motor Company, dated as of March 23, 2004. ⁽⁵⁾

- 10.3 Common Stock Purchase Agreement dated May 19, 2004, between the Registrant and Fusion Capital Fund II, LLC. ⁽³⁾

- 10.4 Registration Rights Agreement dated May 19, 2004, between the Registrant and Fusion Capital Fund II, LLC. ⁽³⁾

- 10.5 Securities Purchase Agreement dated September 29, 2004, between the Registrant and Laurus Master Fund, Ltd. ⁽⁴⁾

- 10.6 Secured Convertible Term Note of Coach Industries Group, Inc. dated September 29, 2004, in favor of Laurus Master Fund, Ltd. ⁽⁴⁾

- 10.7 Master Security Agreement dated September 29, 2004, among the Registrant, Coach Industries Group, Inc., and Laurus Master Fund, Ltd. ⁽⁴⁾

- 10.8 Common Stock Purchase Warrant of the Registrant dated September 29, 2004, Coach Industries Group, Inc. in favor of Laurus Master Fund, Ltd. ⁽⁴⁾

- 10.9 Registration Rights Agreement dated September 29, 2004, between the Registrant and Laurus Master Fund, Ltd. ⁽⁴⁾

- 10.10 Stock Pledge Agreement dated September 29, 2004, among the Registrant, Coach Industries Group, Inc and Laurus Master Fund, Ltd. ⁽⁴⁾

- 10.11 Subsidiary Guaranty dated September 29, 2004, Coach Industries Group, Inc in favor of Laurus Master Fund, Ltd. ⁽⁴⁾

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- 10.12 Funds Escrow Agreement dated September 29, 2004, between the Registrant and Laurus Master Fund, Ltd. ⁽⁴⁾
- 10.13 Escrow Agreement dated September 29, 2004, between the Registrant and Laurus Master Fund, Ltd. ⁽⁴⁾
- 10.14 Restricted Account Agreement dated September 29, 2004, between the Registrant and Laurus Master Fund, Ltd. ⁽⁵⁾
- 10.15 Letter Agreement dated September 29, 2004, between the Registrant and Laurus Master Fund, Ltd. ⁽⁵⁾
- 10.16 Amendment Agreement dated October 29, 2004, between the Registrant and Laurus Master Fund, Ltd. ⁽⁵⁾
- 10.17 Amendment Agreement dated January 5, 2005, between the Registrant and Laurus Master Fund, Ltd. ⁽⁵⁾
- 10.18 Employment Agreement dated September 1, 2004, between the Registrant and Francis J. O' Donnell. ⁽⁵⁾
- 10.19 Loan and Security Agreement dated July 12, 2004, between the Registrant and Sovereign Bank. ⁽⁵⁾
- 10.20 Assumption Agreement dated July 12, 2004, between the Registrant and Sovereign Bank. ⁽⁵⁾
- 10.21 Master Loan and Security Agreement dated August 20, 2004, between Springfield Coach Industries Corporation, Inc. and Ford Motor Credit Company. ⁽⁵⁾
- 10.22 Master Loan and Security Agreement dated December 16, 2004, between Coach Financial Services, Inc. and New World Lease Funding, LLC. ⁽⁵⁾
- 10.23 Intercreditor Agreement dated January 12, 2005, among Subcontracting Concepts, Inc., North Fork Bank and Laurus Master Fund, Ltd. ⁽⁵⁾

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- 10.24 Settlement Agreement and General Release, dated May 31, 2005, between Coach Industries Group, Inc. (and all affiliates) and John Gore (and all affiliates).⁽⁶⁾
- 10.25 Fleet Loan and Security Agreement, dated June 18, 2005, between Coach Financial Services, Inc. and DaimlerChrysler Services North America LLC.⁽⁷⁾
- 10.26 Bodybuilder Floorplan Financing Agreement, dated June 30, 2005, between Springfield Coach Industries Corp. and DaimlerChrysler Services North America LLC.⁽⁷⁾
- 10.27 Securities Purchase Agreement, dated October 31, 2005, by and between Coach Industries Group, Inc. and Laurus Master Fund, Ltd.⁽⁸⁾
- 10.28 Secured Term Note of Coach Industries Group, Inc., dated October 31, 2005, in favor of Laurus Master Fund, Ltd.⁽⁸⁾
- 10.29 Common Stock Purchase Warrant of Coach Industries Group, Inc., dated October 31, 2005, in favor of Laurus Master Fund, Ltd.⁽⁸⁾
- 10.30 Registration Rights Agreement, dated October 31, 2005, by and between Coach Industries Group, Inc. and Laurus Master Fund, Ltd.⁽⁸⁾
- 10.31 Reaffirmation and Ratification Agreement and Amendment dated October 31, 2005, by and between Coach Industries Group, Inc. and Laurus Master Fund, Ltd.⁽⁸⁾
- 10.32 Membership Interest Purchase Agreement, dated November 18, 2005, by and between Coach Industries Group, Inc. and BFT Funding Company No. 1, LLC.⁽⁹⁾
- 10.33 Promissory Note of Coach Industries Group, Inc., dated November 18, 2005, in favor of BFT Funding Company No. 1, LLC.⁽⁹⁾
- 10.34 *Form of Independent Director Consulting Agreement.
- 10.35 2004 Stock Option Plan⁽¹⁰⁾
- 10.36 *2005 Stock Option Plan
- 10.37 *Employment Agreement of Susan Weisman dated as of September 1, 2004.
- 10.38 *Form of Option Agreement

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14.1 Code of Ethics⁽¹¹⁾

21.1 *List of Subsidiaries.

23.1 *Consent of Registered Certified Public Accountants.

31.1 *Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.

31.2 *Certification of Principal Financial and Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.

32.1 *Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.

32.2 *Certification of Chief Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.

* Filed herewith

- (1) Previously filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on October 27, 2004, and incorporated herein by this reference.
- (2) Previously filed as an exhibit to our Registration Statement on form S-8 filed with the Commission on April 26, 2000, and incorporated herein by this reference.
- (3) Previously filed as an exhibit to our Current Report on Form 8-K filed with the Commission on June 3, 2004, and incorporated herein by this reference.
- (4) Previously filed as an exhibit to our Current Report on Form 8-K filed with the Commission on October 6, 2004, and incorporated herein by this reference.
- (5) Previously filed as an exhibit to our Registration Statement on form SB-2 filed with the Commission on January 19, 2005, and incorporated herein by this reference.

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- (6) Previously filed as an exhibit to our Current Report on Form 8-K filed with the Commission on June 17, 2005, and incorporated herein by this reference.
- (7) Previously filed as an exhibit to our Current Report on Form 8-K filed with the Commission on July 7, 2005, and incorporated herein by this reference.
- (8) Previously filed as an exhibit to our Current Report on Form 8-K filed with the Commission on November 10, 2005, and incorporated herein by this reference.
- (9) Previously filed as an exhibit to our Current Report on Form 8-K filed with the Commission on December 7, 2005, and incorporated herein by this reference.
- (10) Previously filed as an exhibit to our Proxy Statement filed September 16, 2004.
- (11) Previously filed as an exhibit to our Annual Report on Form 10-KSB filed with the Commission on March 25, 2004, and incorporated herein by this reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COACH INDUSTRIES GROUP, INC.

By: /S/ FRANCIS O DONNELL
Francis O Donnell

Chief Executive Officer (principal executive officer)
Date: March 16, 2006

By: /S/ SUSAN WEISMAN
Susan Weisman

Chief Financial Officer (principal accounting and financial officer)
Date: March 16, 2006

POWER OF ATTORNEY

KNOW ALL THESE PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Francis O Donnell, his attorney-in-fact, with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | Name | Position | Date |
|--|------|----------|----------------|
| By: /S/ FRANCIS O DONNELL Francis O Donnell | | Director | March 16, 2006 |
| By: /S/ SUSAN WEISMAN Susan Weisman | | Director | March 16, 2006 |
| By: /S/ JOSEPH I. EMAS Joseph I. Emas | | Director | March 16, 2006 |
| By: /S/ ROBERT LEFEBVRE Robert Lefebvre | | Director | March 16, 2006 |
| By: /S/ PAMELA JARRATT Pamela Jarratt | | Director | March 16, 2006 |
| By: /S/ STEVEN ROTHMAN Steven Rothman | | Director | March 16, 2006 |

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Exhibit Index

| Exhibit Number | Description |
|---------------------------|--|
| 10.34 | Form of Independent Director Consulting Agreement. |
| 10.36 | 2005 Stock Option Plan |
| 10.37 | Employment Agreement of Susan Weisman dated as of September 1, 2004. |
| 10.38 | Form of Option Agreement |
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| 32.1 | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act. |
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