

ACACIA AUTOMOTIVE INC  
Form 10-K  
April 15, 2008

---

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

\_\_\_\_\_  
FORM 10-K  
\_\_\_\_\_

(MARK ONE)

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

[Fee Required]

For the fiscal year ended December 31, 2007

OR

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

[No Fee Required]

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-14088

Acacia Automotive, Inc.

(Exact name of registrant as specified in its charter)

Texas

(State of incorporation)

75-2095676

(IRS Employer Identification No.)

The Gardner Building – Suite 104, 5414 Maryland  
Way, Brentwood, TN

(Address of principal executive offices)

37027

(Zip Code)

(352) 427-6848

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

---

Table of Contents

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
---------------------	---

\_\_\_\_\_

\_\_\_\_\_

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

Common Stock

Title of each class

Indicate by check and mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 there is no disclosure of delinquent filers in pursuant to Item 405 of Regulation S-K is not contained in this form, 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 Form 10-K or any amendment to this Form 10-K. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>

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

**APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

State issuer's revenues for its most recent fiscal year. \$423,405

State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked price, as of a specified date within 60 days prior to the date of filing \$12,117,499 As of March 24, 2008.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 11,997,524

---

Table of Contents

TABLE OF CONTENTS		PAGE
PART I.		
Item 1.	<u>Description of Business</u>	4
Item 1A.	<u>Risk Factors</u>	7
Item 1B.	<u>Unresolved Staff Comments</u>	11
Item 2.	<u>Description of Property</u>	11
Item 3.	<u>Legal Proceedings</u>	11
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	11
PART II.		
Item 5.	<u>Market for Common Equity and Related Stockholder Matters</u>	12
Item 6.	<u>Selected Financial Data</u>	13
Item 7.	<u>Management's Discussion and Analysis or Plan of Operations</u>	13
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	19
Item 8.	<u>Financial Statements and Supplementary Data</u>	19
Item 9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	19
Item 9A (T).	<u>Controls and Procedures</u>	19
Item 9B.	<u>Other Information</u>	21
PART III.		
Item 10.	<u>Directors, Executive Officers, and Corporate Governance</u>	21
Item 11.	<u>Executive Compensation</u>	24
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	25
Item 13.	<u>Certain Relationships and Related Transactions</u>	26
Item 14.	<u>Principle Accountant Fees and Services</u>	26
Item 15.	<u>Exhibits, Financial Statement Schedule and Reports on Form 8-K</u>	27
	<u>SIGNATURES</u>	28

---

Table of Contents

Item 1. Description of Business

Background

Acacia Automotive, Inc. was originally formed in 1984 and, when named Gibbs Construction, Inc. grew to a full service, national commercial construction company, completing an initial public offering of its Common Stock to the public in January, 1996. In April, 2000, Gibbs Construction, Inc. filed for protection under Chapter 11 of the United States Bankruptcy Code following the filing for similar protection of the Company's largest client and which followed the incursion of significant losses on several projects.

Prior to filing for protection under the United States Bankruptcy Code in April 2000, Gibbs Construction, Inc. had 4,060,000 shares of Common Stock issued and outstanding. The bankruptcy reorganization proceeding placed the existing assets of Gibbs Construction, Inc. in a liquidating trust, issued 501,000 shares of Common Stock to the trust, and agreed to issue 1,000,000 shares of preferred stock to a creditor. Thacker Asset Management, LLC ("TAM") agreed to sell to the Company certain existing contracts, furniture, fixtures and equipment in exchange for 4,000,000 shares of Common Stock. Following these transactions, there were 8,561,000 shares of the Company's Common Stock issued and outstanding.

TAM's operations were not successful, and all operating activities ceased in 2002. On June 26, 2006, the bankruptcy trustee requested and received an Order for Final Decree. On October 5, 2006, the 501,000 shares of common stock issued to the Trust were abandoned, returned to the Company, and thereupon cancelled leaving 8,060,000 shares issued and outstanding.

Post Bankruptcy Restructuring

On August 15, 2006, Steven L. Sample acquired for \$50,000, 4,000,000 shares, or 46.7%, of the 8,561,000 issued and outstanding shares of Common Stock of the registrant from TAM and its associates. Mr. Sample also paid several costs, of the company such as the costs associated with completing the bankruptcy proceedings and arranging for the Company's SEC filings to be brought current and costs associated with recapitalizing the company. These costs totaled \$138,862. In connection with the payment of these costs, the registrant agreed to effect a one for eight reverse stock split, to issue to Mr. Sample an additional 8,117,500 shares of Common Stock and 500,000 shares of preferred stock. For the assistance of Harry K. Myers, Jr., a principal of Baker #1, Ltd., the entity owning Thacker Asset Management, LLC, the registrant agreed to issue to him 25,000 shares of preferred stock and 450,000 shares of Common Stock.

To fulfill its obligations under this agreement and further restructure the Company, the registrant's board of directors recommended that its stockholders amend the corporate charter to effect a one for eight reverse stock split, to increase the number of authorized shares of Common Stock to 150,000,000 and to create and establish a series of preferred stock. On February 1, 2007, the Company's shareholders approved these actions and also approved changing the Company's name to Acacia Automotive, Inc. These amendments to the Company's charter were effective February 20, 2007

Immediately following the approval of these amendments, the Company adopted a stock option plan, which was ratified by the Company's stockholders in November 2007, reserving 1,000,000 shares thereunder. In February 2007 the directors granted pursuant to the plan 500,000 restricted shares to Mr. Moorby, the Company's president, and options to two officers of the Company for another 15,000 shares. With these grants, the exercise of warrants to purchase 250,000 shares of Common Stock, the exchange of the preferred stock issued to a creditor in the bankruptcy proceeding for 100,000 shares of Common Stock, and the payment of 10,000 shares of Common Stock to a consultant, there were 11,997,524 shares of Common Stock issued and outstanding on March 31, 2008.

### Contemplated Business

The Company's prime objective is to acquire going and functioning profitable automotive auctions with a trailing record of financial success, focusing on whole vehicle automobiles and light trucks. Whole vehicle refers to vehicles that are generally in good repair, are roadworthy and operate under their own power as opposed to salvage units, that is, damaged vehicles that are considered total losses for insurance or business purposes. In addition, the Company believes that if the acquired auction or auctions do not service the boat, recreational or motor home segments or the medium and heavy duty truck and equipment segments, it will seek to add one or more of those services to the auction's activities, assuming the local market will support such additional services.

4

---

## Table of Contents

The Company considers its first acquisition of an automobile auction as indicative of the basis of services rendered by the Company. The Company will have to raise cash to acquire additional automobile auctions, probably through the sale of Common Stock.

On July 10, 2007, the registrant completed the acquisition of all of the assets of Augusta Auto Auction, Inc. which conducted its business under the name Augusta Auto Auction and previously Hilltop Auto Auction. The registrant issued 500,000 shares of its Common Stock and a warrant to purchase 50,000 shares of Common Stock for the assets. The warrant has a term of five years and an exercise price of \$1.00. In addition, the registrant issued to two individuals a warrant to purchase 75,000 shares of Common Stock in consideration for entering into a non-compete agreement. Of the 75,000 warrants issued to each of those individuals for non-compete agreements, they were given the right to purchase 25,000 shares of Common stock each at \$1.00, \$2.00 and \$4.00 respectively for an average aggregate price of \$2.33 per share within five years of issuance.

The Company has signed a letter of Intent to acquire a profitable automobile auction in the southeastern United States, but cannot disclose the nature or location of that entity until final funding for the acquisition is complete and the definitive agreement has been executed.

### History of Augusta Auto Auction

Augusta Auto Auction, Inc. (the "Auction") is an automotive auction located in North Augusta, South Carolina, part of the Augusta, Georgia, metropolitan area, and is located three miles from the center of that city. The auction was originally formed and operated for many years in its present location as Hilltop Auto Auction. In 2002 the group from which the registrant purchased the auction formed Augusta Auto Auction, Inc. after acquiring it from the owners of Hilltop Auto Auction.

Acacia Automotive formed a new South Carolina corporate subsidiary in July of 2007 which acquired the assets of Augusta Auto Auction. The new corporation is named Acacia Augusta Vehicle Auction, Inc. d/b/a Augusta Auto Auction, Inc.

### Business of the Auction

The Auction sells whole car and salvage vehicles for automotive dealers and commercial concerns. It also has the contract to sell vehicles and equipment for the U.S. Marshals Service in the South Carolina area, primarily offering confiscated vehicles and other units for them. Dealers and other qualified buyers attend the weekly auctions and bid on offered units. The highest bidder owns the vehicle, subject to any limiting reserve prices established by the owner/seller of the unit(s). In most cases, the buyers and sellers of the units pick up and deliver them to the Auction property, but the Auction does provide some transport services, generally for a fee.

The Auction generates revenues from fees for its services, including buyer fees, seller fees, transportation fees, title fees, draft and floor plan fees, reconditioning fees, and more. Augusta Auto Auction relies upon the efforts of its management for sales and marketing, but anticipates adding additional personnel in the future to increase the scope of those operations.

The Auction markets its activities through its employees.

### Industry

Automotive auctions are the hub of a massive redistribution system for used vehicles and equipment. These auctions enable commercial and institutional customers and selling dealers to easily dispose of their used vehicles to

franchised, independent, and wholesale used vehicle and equipment dealers. The auction's responsibility is to maximize the selling price obtained for clients' used vehicles and equipment, efficiently transfer the physical and administrative ownership of the units (including the preparation and transfer of certificates of title and other evidence of ownership), and transfer funds resulting from the buy/sell transactions as quickly as possible from the buyers to the sellers. The auction promotes its services to a large number of dealers seeking to restock their inventories for resale opportunities. Auctions are traditionally held weekly, if not more frequently, at the various locations to accommodate the needs of buyers and sellers in diverse segments of the industry. During the process, auctions do not generally take title to or ownership of the vehicles consigned for sale, but instead facilitate the transfer of vehicle ownership directly from seller to buyer, and in so doing they generate fees from the buyer and from the seller. In addition to these "buy/sell" fees, the auctions can generate substantial revenues by providing other services to clients, including: vehicle appearance reconditioning (detailing) services; paint and body repair; paintless dent repair (PDR); glass repair and replacement; key replacement; upholstery repair; minor mechanical repair; title services; sales of tires, batteries and accessories (TBA); marshaling (controlled storage) and inspection services, inbound and outbound transportation and delivery services, and more. In most instances, customers may also purchase each of these value-added services separately and directly from the auction in addition to having these services performed to units enrolled in the normal vehicle auction process.

## Table of Contents

The total number of vehicles offered for sale, and the total number of vehicles sold allow for determination of the total and per unit costs incurred and fees generated by the process. An important measure to the results of the used vehicle auction process is the conversion percentage, which represents the number of vehicles sold as a percentage of the vehicles offered for sale. In general, a high sales volume and conversion percentage efficiency at an auction converts to increased fees, lower costs, and greater profit opportunities. Auto auctions can also provide additional services to their clients, often including: (1) in-house services such as processing, advertising and marketing of the vehicles to be offered for sale; registration of new dealers and clients; processing of sale proceeds and other funds; handling arbitration disputes from the auction sale/purchase process; preparation of and transmittal of vehicle condition reports; security services for client inventories; creation and distribution of sales and marketing reports; as well as the actual sale of vehicles by licensed auctioneers; (2) internet-based solutions, including on-line bulletin board auctions and on-line live auctions that are simulcast in real-time in cooperation with the actual physical auctions; and, (3) title processing and other paperwork administration and ancillary services.

## Competition

The Company anticipates competing principally by service. Management of the Company believes that service is one keystone upon which auto auctions are routinely measured, and has identified and made the practical execution of a high level of service to its clients an integral part of its business and operating plans.

The industry served by the Company is highly competitive across the entire United States and Canada. It is anticipated that any of our acquisition targets would potentially compete with a variety of knowledgeable and experienced companies. The main competitors the Company would expect to face throughout the United States are: (1) Manheim Auto Auctions: Manheim, a subsidiary of Cox Enterprises, has approximately 90 auto auctions throughout the United States and others in Canada and elsewhere around the globe. Manheim owns several of the country's largest auction facilities, and our management considers them to be very competitive and the leader in technological processes and Internet marketing capabilities. (2) ADESA Auto Auctions: ADESA, traded on the NYSE under the symbol KAR prior to being acquired by an investor group led by Kelso and Company in April of 2007 and thereby being taken private, is the second-largest auto auction company in North America with approximately 58 whole car auctions. They operate some 44 auctions in the United States and 14 in Canada. Acacia's Management believes that ADESA's technological processes and Internet marketing capabilities, while lagging those of Manheim, are nonetheless formidable. (3) Auction Broadcasting Company (ABC): ABC owns and operates approximately seven auctions nationally. While not nearly so large in their technological processes and Internet marketing capabilities as Manheim or ADESA, ABC has worked to develop a diverse model from its competitors. Acacia's management does not believe that ABC is seeking to gain a substantially greater position in the traditional auction arena marketplace than it presently holds, (4) independent auto auctions: There are hundreds of independent auto auctions operating in the United States. Acacia actually sees these independent auctions as targets for future acquisitions, and enjoys a friendly relationship in most instances. (5) "mobile" auctions: There are several companies that operate "mobile" auctions. Their plans primarily entail engaging larger dealerships to host periodically "on-site" auctions that utilize these companies' auctioneering and administrative services. Management does not believe these smaller independent mobile auctions are a substantial threat to our operations and will not likely become so under their present business models.

There are at least eleven auto auctions in operation in Georgia, and there are another six or more in South Carolina. The two largest whole-car national automobile auction companies, Mannheim Auto Auctions and ADESA, have a total of three auctions in Georgia, all near Atlanta, Georgia. While ADESA does not have an auction in South Carolina, Mannheim has one auction in Darlington, South Carolina. Auction Broadcasting Corporation also has an auction near Atlanta, Georgia but none in South Carolina. In addition to those auction companies' operations, there are several other independent auto auctions operating in Georgia, some specializing in sales of damaged or "salvage" units and perhaps one or more mobile auctions that will host on-site auctions at dealerships.

All our competitors will be seeking the same or similar clients as those targeted by our planned operations in every state in which we may seek to operate, many of which presently have significantly greater financial, technical, marketing and other resources than our Company. Our Company expects that it will face additional competition from existing competitors and new market entrants in the future. The principal competitive factors in our markets will emanate from the larger national companies and will include: (i) brand name recognition of competitors; (ii) larger, more modern, and better-equipped facilities; (iii) superior Internet system engineering and technological expertise; (iv) more extensive staffs of experienced management and support personnel; (v) broader geographic presence; (vi) greater financial resources; (vii) introductions of new and enhanced services and products; and, (viii) greater variety of services offered. We will have no control over how successful our competitors are in addressing these factors. Increased competition can result in price reductions, reduced gross margins and loss of market share, any of which could harm our net revenue and results of operations. The Company will rely upon its ability to offer the same or similar services as the competition, but with a higher level of service and customer satisfaction.

The prices to be charged by any auction the Company may acquire will generally be reflective of the competitive pricing in its local marketplace. Some of these local markets may face competitive pressures from national automobile auction chains such as ADESA and Manheim which have size, financial and market strengths the Company lacks.

## Table of Contents

### Employees

The company currently has two officer employees, Steven L. Sample, its Chairman and Chief Executive Officer, and Tony Moorby, its President and Chief Operating Officer. The Augusta auction employs eight full time and 17 part time people. The registrant plans to increase the number of employees, both part time and full time, as it expands its operations.

A given automobile auction will employ both full and part-time personnel and the number of employees may vary from as few as 10 to as many as 300 or more. The approximate size of our target auctions may more likely lie within the range of 50 to 100 employees.

The parent company, upon any successful course of acquiring auctions, would need to expand its staff to implement the controls necessary to manage a larger organization. This would likely result in the need for a Chief Financial Officer, as well other officers and managers and basic support personnel The Company will undertake to operate with the smallest corporate management staff possible so as to maintain the lowest overhead possible while still effecting sufficient management processes to properly guide the company.

### Governmental Regulation

The Company, as with most companies operating vehicle auctions, is subject to various permits and licenses. These include vehicle dealer licenses, auctioneer licenses, business permits and licenses, sales tax permits, and others. The registrant's auction has obtained all permits necessary to function under the current South Carolina regulations

### Item 1A. Risk Factors

Because We Have Limited Operating History, it is Difficult to Evaluate Our Business.

The Company acquired a shell corporation that had no assets or liabilities after emerging in 2006 from six years in bankruptcy, and the Company began operating in July 2007 with the acquisition of one automobile auction. Because of our limited operating history, you have very little operating and financial data about us upon which to base an evaluation. You should consider our prospects in light of the risks, expenses and difficulties we may encounter, including those frequently encountered by new companies. If we are unable to execute our plans and grow our business, either as a result of the risks identified in this section or for any other reason, this failure would have a material adverse effect on our business, prospects, financial condition and results of operations.

We plan to grow through acquisitions, and investors have no current basis to evaluate the possible merits or risks of the target businesses' operations or our ability to identify and integrate acquired operations into our company. To the extent we complete a business combination with a financially unstable company or an entity in its development stage, we may be affected by numerous risks inherent in the business operations of those entities. Although our management will endeavor to evaluate the risks inherent in a particular target business, we cannot assure you that we will properly ascertain or assess all of the significant risk factors.

The purchase of our securities is a purchase of an interest in a high risk or in a new or "start-up" venture with all the unforeseen costs, expenses, problems, and difficulties to which such ventures are subject.

Table of Contents

We plan to grow through acquisitions

Because we intend to develop and expand our business through selective acquisitions of automobile auctions and other complementary businesses, there are significant risks that we may not be successful. We may not be able to identify, acquire or profitably manage additional companies or assets or successfully integrate such additional companies or assets without substantial costs, delays or other problems. In addition, companies we may acquire may not be profitable at the time of their acquisition or may not achieve levels of profitability that would justify our investment. Acquisitions may involve a number of special risks, including

- adverse short-term effects on our reported operating results,
- diversion of management's attention,
- dependence on retaining, hiring and training key personnel,
- risks associated with unanticipated problems or legal liabilities,

• amortization of acquired intangible assets, some or all of which could reflect poorly on our operating results and financial reports,

• implementation or remediation of controls, procedures and policies appropriate for a larger public company at companies that prior to the acquisition lacked these controls, procedures and policies; and,

- incursion of debt to make acquisitions or for other operating uses.

We will implement our acquisition strategy in what may be considered a mature industry

We believe the vehicle redistribution industry through auctions may be considered a mature industry in which single-digit or low double-digit growth may occur. Most growth for our Company would, accordingly, occur largely through acquisitions. To the extent that competitors are also seeking to grow through acquisitions, we could encounter competition for those acquisitions or a generally increasing price to acquire automobile auctions.

A primary part of the Company's strategy is to establish revenue through the acquisition of additional companies. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional companies or successfully integrate the operations of additional companies into those of the Company without encountering substantial costs, delays or other problems. In addition, there can be no assurance that companies acquired in the future will achieve or maintain profitability that justify liabilities that could materially adversely affect the Company's results of operations or financial condition. The Company may compete for acquisition and expansion opportunities with companies that have greater resources than the Company. There can be no assurance that suitable acquisition candidates will be available, that purchase terms or financing for acquisitions will be obtainable on terms acceptable to the Company, that acquisitions can be consummated or that acquired businesses can be integrated successfully and profitability into the Company's operations. Further, the Company's results of operations in fiscal quarters immediately following a material acquisition may be materially adversely affected while the Company integrates the acquired business into its existing operations.

The Company will attempt to acquire profitable business entities that are going and functioning concerns with a trailing history of profitability, but may acquire certain businesses that have either been unprofitable, have had inconsistent profitability prior to their acquisition, or that have had no operating history. An inability of the Company to improve the profitability of these acquired businesses could have a material adverse effect on the Company. Finally,

the Company's acquisition strategy places significant demands on the Company's resources and there can be no assurance that the Company's management and operational systems and structure can be expanded to effectively support the Company's acquisition strategy. If the Company is unable to successfully implement its acquisition strategy, this inability may have a material adverse effect on the Company's business, results of operations, or financial condition. The Company may face the opportunity to enhance shareholder value by being acquired by another company. Upon any acquisition of the Company, the Company would be subject to various risks, including the replacement of its management by persons currently unknown. There can also be no assurance that, if acquired, new management will be successfully integrated or can profitably manage the Company. In addition, any acquisition of the Company may involve immediate dilution to existing shareholders of the Company. In its present configuration, the Company cannot be forcibly acquired in a hostile takeover, and therefore the Company can review the ultimate impact on its shareholders prior to engaging in any such activities. No assurances can be given that the Company will be able to or desire to be acquired, or be able to acquire additional companies.

## Table of Contents

### Possible Need for Additional Financing

The Company intends to fund its operations and other capital needs for the next six months from private placements, but there can be no assurance that such funds will be sufficient for the purposes of our business. The Company may require additional amounts of capital for its future expansion and working capital. The Company has made preliminary arrangements to obtain future additional financing, if required, but there can be no assurance that such financing will be available, or that such financing will be available on acceptable terms.

### Dependence on Tony Moorby and Steve Sample

Our future performance depends in significant part upon the continued service of our President and Chief Operating Officer, Tony Moorby, and our Chief Executive Officer, Steve “Junior” Sample. The loss of their services could have a material adverse effect on our business, prospects, financial condition and results of operations. The Company does not presently maintain key man life insurance on Mr. Moorby and Mr. Sample, but may obtain such insurance at the discretion of its board of directors for such term as it may deem suitable or desirable. Our future success also depends on our ability to attract and retain highly qualified technical, sales and managerial personnel. Although the Company feels that there is a sufficient pool of talent available, the competition for such personnel can be intense, and there can be no assurance that we can attract, assimilate or retain highly qualified technical, sales and managerial personnel for favorable compensations in the future.

### Technological Change

Technology, particularly the ability to use the Internet to view vehicles, to conduct Internet auctions, to allow customers to participate through the Internet in on-site auctions, and to allow several management functions for buyers and sellers for vehicle auctions is characterized by rapidly changing technology, evolving industry standards, frequent new product and service announcements, introductions and enhancements, and changing customer demands. Our future success will to some degree depend on our ability to adapt to rapidly changing technologies, our ability to adapt its solutions to meet evolving industry standards and our ability to improve continually the performance, features and reliability of its solutions. The failure of the Company to adapt successfully to such changes in a timely manner could have a material adverse effect on the Company's business, results of operations and financial condition. Furthermore, there can be no assurance that the Company will not experience difficulties that could delay or prevent the successful implementation of solutions, or that any new solutions or enhancements to existing solutions will adequately meet the requirements of its current and prospective customers and achieve any degree of significant market acceptance. If the Company is unable, for technological or other reasons, to develop and introduce new solutions or enhancements to existing solutions in a timely manner or in response to changing market conditions or customer requirements, or if its solutions or enhancements do not achieve a significant degree of market acceptance, the Company's business, results of operations and financial condition could be materially and adversely affected.

### Competition

The industry served by the Company is highly competitive across the entire United States and Canada. We currently or potentially compete with a variety of companies. Our first acquisition, servicing the Augusta, Georgia, area, was acquired July 10, 2007, and we anticipate that the Company's other early acquisitions will be in the eastern United States, but there is no assurance it will be able do so. See “Item 1- Business – Competition.”

### Control

The Company is currently controlled by two of its officers and directors. Tony Moorby, the Company's President and COO, and Steven L. Sample, the Company's CEO, currently own 59.8% of the Company's issued and outstanding

common stock. Mr. Sample and Mr. Moorby and will initially retain effective control over the Company's operations, including the election of a majority of its board of directors, the issuance of additional shares of equity securities, and other matters of corporate governance. Based upon the Company's current business plan, it is anticipated that Mr. Moorby and Mr. Sample will continue to have effective but not ultimate control of the Company well into future, perhaps even after some subsequent private offerings or a public offering.

#### Management of Growth

The Company has signed a Letter of Intent to acquire a profitable southeastern U.S. auto auction, and is currently seeking to identify and acquire additional going and functioning auto auctions. As a result, the Company must manage relationships with a growing number of third parties as it seeks to accommodate this goal. The Company's management, personnel, systems, procedures and controls may not be adequate to support the Company's future operations. The Company's ability to manage its growth effectively will require it to continue to expand its operating and financial procedures and controls, to replace or upgrade its operational, financial and management information systems and to attract, train, motivate, manage and retain key employees. If the Company's executives are unable to manage growth effectively, the Company's business, results of operations and financial condition could be materially adversely affected. If successful in acquiring additional auto auctions, the Company expects to inherit a substantial portion of the staff necessary to operate the new entities. We may find that some of the personnel and management of any acquisition target(s) may not be suitable for continued employment, while other suitable candidates may elect to discontinue their employment or affiliation with the Company for various reasons. This can create a burden on the Company's management as it seeks to fill key positions. Failure of the Company to do so in a timely manner can result in disruption of auction operations, loss of revenues, and a subsequent reduction in profits.

## Table of Contents

### Risks Associated with Expansion

The Company commenced auction operations first in one location and market, and plans to subsequently expand into other locations and markets. To date, the Company does not have experience in developing services on a regional or national scale. There can be no assurance that the Company will be able to deploy successfully its services in these markets. There are certain risks inherent in doing business in several diverse markets, such as; unexpected changes in regulatory requirements, potentially adverse tax consequences, local restrictions, controls relating to inter-company communications and technology, difficulties in staffing and managing distant operations, fluctuations in manpower availability, effects of local competition, weather and climactic trends, and customer preferences, any of which could have a material adverse effect on the success of the Company's operations and, consequently, on the Company's business, results of operations, and financial condition.

### Product and Service Offerings

The Company is primarily a service business. It is important to our future success to expand the breadth and depth of our service offerings to stay abreast of the competition and to enhance our potentials for growth of revenues and profits. Expansion of our service categories and service offerings in this manner will require significant additional expenditures and could strain our management, financial and operational resources. For example, we may find it prudent to build, outfit, and operate a body and paint shop at an auction facility that does not presently have one. We cannot be certain that we will be able to do so in a cost-effective or timely manner or that we will be able to offer certain services in demand by our customers, or to do so in a quality manner. Furthermore, any new service offering that is not favorably received by the Company's clients could damage our reputation. The lack of market acceptance of new services or our inability to generate satisfactory revenues from expanded service offerings to offset their costs could harm our business. If we do not successfully expand our sales and service operations, our revenues may fall below expectations. If we do not successfully expand our operations on an ongoing basis to accommodate increases in demand, we will not be able to fulfill our customers' needs in a timely manner, which would harm our business. Most of our service operations are anticipated to be handled at our facilities, but some services may be performed at offsite locations or by approved vendors or contractors. Any future expansion may cause disruptions in our business and may be insufficient to meet our ongoing requirements.

### Government Regulation and Legal Uncertainties

Any new legislation or regulation, or the application of laws or regulations from jurisdictions whose laws do not currently apply to the Company's business could have a material adverse effect on the Company's business, results of operations and financial condition.

### Check, Credit Card, and Other Fraud

Our business would be harmed if we experience significant check, credit card, or other fraud. If we fail to adequately control fraudulent transactions, our revenues and results of operations could be harmed. The Company's auction operations will subscribe to the services of Auction Insurance Agency as a protection against risks similar to these, but while the Company's exposure to loss in this event is thought to be limited by the purchase of insurance, losses could nonetheless occur. Any losses sustained as a result of fraud or fraudulent activity would adversely affect the Company's business and results of operations, and its financial condition could be materially adversely affected.

### Development of and Dependence on Key Personnel

The Company's success depends in significant part upon the hiring, development and retention of key senior management personnel. Our anticipated future operations will place a significant strain on our management systems

and resources. Our ability to implement successfully our business strategy requires an effective planning and management process. Competition for such personnel is intense, and the Company may not be able to attract and retain key personnel. The loss of the services of one or more of the Company's key employees or the Company's failure to attract additional qualified personnel could have a material adverse effect on the Company's business, results of operations and financial condition. The Company does not currently carry key man life insurance for any of its employees, but is subject to do so at the direction of its Board of Directors. Any cost of key man insurance would be borne by the Company.

#### Liability Claims

The Company may face costly liability claims by consumers. Any claim of liability by a client, employee, consumer or other entity against us, regardless of merit, could be costly financially and could divert the attention of our management. It could also create negative publicity, which would harm our business. Although we maintain liability insurance, it may not be sufficient to cover a claim if one is made.

Table of Contents

Risks of Low Priced Stocks

Although the Company is currently a public company, its trading is limited to the Pink Sheets. A trading market for the Company's Common Stock could develop further, but there can be no assurance that it will do so. The Securities and Exchange Commission (the "SEC" or "Commission") has adopted regulations which d