

COACH INDUSTRIES GROUP INC

Form 10KSB/A

March 13, 2006

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-KSB - Amendment 2

(Mark One)

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

For the fiscal year ended December 31, 2004

TRANSITION REPORT UNDER 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.

(Name of small business issuer in its charter)

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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)

Issuer's telephone number (954) 602-1400

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$0.001 par value

(Title of class)

Check whether the issuer (1) 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year. \$83.3 million

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) \$8.0 million, based on the average bid and ask price as of March 30, 2005.

(ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. 18,918,386 shares of common stock outstanding as of March 30, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference, briefly describe them and identify the part of the Form 10-KSB (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 (Securities Act). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1990).

The information set forth in our definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 (the Exchange Act) to be filed with the Securities and Exchange Commission is incorporated herein by reference in response to the Items in Part III.

Transitional Small Business Disclosure Format (Check one): Yes ; No

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

Table of Contents

COACH INDUSTRIES GROUP, INC.

Report on Form 10-KSB

For the Fiscal Year Ended December 31, 2004

TABLE OF CONTENTS

<u>Item No.</u>		<u>Page</u>
<u>PART I</u>		
Item 1.	<u>Description of Business.</u>	1
Item 2.	<u>Description of Property</u>	7
Item 3.	<u>Legal Proceedings</u>	8
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	8
<u>PART II</u>		
Item 5.	<u>Market for Common Equity and Related Stockholder Matters</u>	9
Item 6.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 7.	<u>Financial Statements</u>	F-1
Item 8.	<u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.</u>	31
Item 8A.	<u>Controls and Procedures</u>	31
Item 8B.	<u>Other Information</u>	31
<u>PART III</u>		
Item 9.	<u>Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.</u>	32
Item 10.	<u>Executive Compensation</u>	35
Item 11.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u>	37
Item 12.	<u>Certain Relationships and Related Transactions</u>	38
<u>PART IV</u>		
Item 13.	<u>Exhibits</u>	40
Item 14:	<u>Principal Accountant Fees And Services</u>	42

Table of Contents

EXPLANATORY NOTE

This Second Amendment to the Annual Report of Coach Industries Group, Inc. (the Registrant) filed on Form 10-KSB for the fiscal year ended December 31, 2004 (the Annual Report), with the Securities and Exchange Commission on March 31, 2005, is filed solely for the purpose of amending and restating the financial statements, specifically discussed in detail in Note 2. Except as described herein, no other changes have been made to the Annual Report.

In addition, we have included the information in Part III from of the Annual Report which was filed in Amendment No. 1 to our Annual Report on Form 10-KSB filed on with the SEC on May 2, 2005. We have not made any changes to the information included in Part III herein.

This Second Amendment to the Annual Report continues to speak as of the date of the Annual Report, and we have not updated the disclosures contained in this Second Amendment to the Annual Report to reflect any events that occurred at a date subsequent to the filing of the Annual Report. The filing of this Second Amendment to the Annual Report is not a representation that any statements contained in items of the Annual Report other than that information being amended are true or complete as of any date subsequent to the date of the Annual Report.

PART I

Item 1. Description of 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-KSB and the financial statements and related notes included in this report on Form 10-KSB 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, manufactures specialty vehicles for commercial fleet operators and offers an array of financial services and insurance products to commercial fleet operators and independent contractors in the courier industry.

Coach owns four wholly owned subsidiaries that operate in two business segments: financial services to commercial fleet operators and third party contract rights management for commercial fleet operators; and manufacturing specialty vehicles. Commercial Transportation Manufacturing Corporation (CTMC) and Springfield Coach Industries Corporation, Inc. (SCB) manufacture specialty vehicles, such as limousine buses, Lincoln Town Car limousines and Ford Excursion limousines. Coach Financial Services, Inc. (CFS) offers financial services to CDS, SCB and CTMC customers and other commercial fleet operators. Corporate Development Services, Inc. (CDS) provides the services of independent contractors, subcontractor settlement processing and specialty insurance products to commercial fleet operators.

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. We plan to leverage our manufacturing business segment to expand our financial services to commercial fleet operators, specifically the 7,000 courier companies and the 16,000 limousine operators, throughout the United States. Coach will also actively pursue acquisition candidates that can support the expansion of these products and financial services.

Manufacturing Segment

Coach manufactures specialty vehicles for commercial fleet operators through SCB and CTMC. CTMC is a New York corporation. Its sales office is located in Bohemia, New York. SCB is a Missouri corporation. Its principal executive offices are located in Springfield, Missouri.

SCB and CTMC are two of the nine limousine manufacturers in the limousine manufacturing industry operating under a Qualified Vehicle Modifier Agreement (QVM) and a Cadillac Master Coachbuilders Agreement (CMC). Securing a QVM or CMC with one of the major automobile manufacturers is a barrier to entering the specialty vehicle manufacturing industry due to the scrutiny and rigid manufacturing facility requirements imposed by the automobile manufacturer. Companies operating without CMC, QVM or similar agreements will not receive technological updates or support through service warranties from the manufacturers, nor will they be able to participate in special rebate and advertising programs.

Table of Contents

Commercial Transportation Manufacturing Corporation. CTMC's operation consists of manufacturing, selling and servicing specialty vehicles, limousine buses and to a lesser extent, Lincoln Town Cars. Its operations are currently housed in the Springfield facility, thus sharing resources and equipment as well as skilled labor. CTMC manufactures its vehicles pursuant to a QVM Agreement with Ford Motor Company.

Springfield Coach Industries Corporation, Inc. SCB manufactures its vehicles pursuant to a QVM Agreement with Ford Motor Company and a CMC Agreement with General Motors Corporation. SCB's operations consist of manufacturing, selling and servicing Lincoln Town Cars and Ford Excursions Limousines. The operations is housed in a 45,000 square foot manufacturing facility with approximately 60 employees involved in the direct manufacture of the modified chassis.

On August 20, 2004, the Company signed an agreement with Ford Motor Company for a \$2.0 million line of credit for the purchase of chassis inventory from Ford. In addition, the Company is negotiating with various lenders to provide floor plan financing for non-conforming chassis purchases and for vehicles that are built as showroom models. This will enable the sales force to present completed vehicles to their prospects in locations outside of the factory. On March 18, 2005, the Company terminated the line of credit with Ford and is currently floor planning chassis purchases through the Company.

After our acquisition of certain assets and liabilities of Springfield in December 2003, we determined that the production of the various vehicles needed to be segregated to eliminate any duplication of production processes at the CTMC and SCB facilities. CTMC personnel have extensive depth of knowledge in prototype development, modification and engineering of specialty vehicles, such as the buses and sports utility vehicles (SUV). As a result, in January 2004, the Company made a strategic decision for CTMC to focus on manufacturing specialty vehicles and limousine buses and for SCB to focus on manufacturing the Lincoln Town Car limousines and the Ford Excursion limousines. Based on these manufacturing changes identified by the Company and its focus on specialty vehicles, the Company plans on expending \$500,000 on research and development during the next twelve months, in addition to the \$829,840 already incurred for the year ended December 31, 2004. There can be no assurances that such expenditures will be made or whether such research and development will fall within the current budget or will ultimately result in an increase in revenues and profits.

During the third quarter of 2004, we 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 and \$684,000 settlement to the landlord, moving expenses and other charges. 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 sales office is still housed in this facility and the Company was obligated to the landlord on the CTMC facility through December 2007. The Company negotiated a settlement of the lease agreement with the landlord in the amount of \$684,000, which was paid in shares of Coach common stock totaling 556,098 shares and priced at \$1.23 at December 31, 2004. The Company is no longer obligated to the landlord on the original lease agreement and is occupying 3,500 square feet of the facility for use by the sales staff on a month to month basis for \$5,000 a month.

Financial Services Segment

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

Coach offers an array of financial services and insurance products to commercial fleet operators and independent contractors in the courier industry through CDS and CFS. CFS is a Florida corporation. Its principal executive offices are located in Cooper City, Florida. CDS is a New York corporation. Its principal executive offices are located in Glens Falls, New York.

Coach Financial Services, Inc. CFS offers financial services to CDS, SCB and CTMC customers and other commercial fleet operators. CFS targets small to mid-size businesses and professionals. In addition, the Company plans to offer an array of financial products, including financing for luxury limousines, commercial fleets and high-end automobiles and specialty lines of insurance products. CFS provides various leases, including commercial motor vehicle leases, equipment leases and retail installment loans to commercial customers who purchase vehicles from SCB or CTMC, CDS customers and other commercial fleet operators.

The Company received a secured guidance line of credit from New World Lease Funding in the amount of \$5.0 million to be used for funding leases for customers of CFS. The interest rate charged by New World Lease Funding is specific to the leases funded, on a lease- by-lease basis. 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 average interest charged on these leases is established by the lender on a monthly basis.

Table of Contents

The Company received a secured guidance line of credit from Sovereign Bank in the amount of \$4.5 million to be used for funding leases for customers of CFS. The interest rate charged by Sovereign Bank is specific to the leases funded, on a lease- by-lease basis. 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 average interest charged on these leases is established by the lender on a monthly basis.

Corporate Development Services, Inc. CDS provides the services of independent contractors, subcontractor settlement processing and specialty insurance products to commercial fleet operators. CDS is one of three entities providing independent contractors to the commercial fleet industry. CDS provides services that insulate the commercial fleet operator from workplace concerns relating to employment by creating an independent operator status for the individual drivers. CDS provides specialty insurance products to these drivers, as well as health benefits and other insurance products they require through various relationships with independent brokers. The Company currently provides its products to approximately 5,000 drivers and 250 courier companies.

The Company received an ACH (Automatic Clearing house) line of credit from North Fork Bank in the amount of \$1.5 million to be used to facilitate the direct deposit function for customers of CDS. The line of credit is collateralized by a Money Market Account held at the North Fork Bank.

Industries

Specialty Vehicle Manufacturing

The limousine industry consists of the manufacturing of modified chassis, both through manufacturer-supported programs, such as through QVM and CMC agreements, as well as non-conforming, non-manufacturer supported chassis modifications. The chassis is purchased from the manufacturer under a manufacturer-supported program and modified based on the specifications provided and monitored by the manufacturer. The modification manufacturer may provide some changes to the design and aesthetics of the product, but not the engineering of the product. The manufacturer closely monitors and reviews the performance of all those modification manufacturers in their programs. In addition, there are those vehicles that are not supported by the manufacturer. These vehicles are manufactured based on the customer specifications or the marketplace. These vehicles do not receive the same warranty from the manufacturer, thus require additional support by the modification manufacturer.

Once a vehicle is manufactured, it is typically sold to one of 16,000 limousine operators. These operators utilize these vehicles to provide livery service. The livery service industry provides drivers and short-term rentals for airport shuttle service, weddings, business travel, proms, funerals and various other special occasions.

Based on the Limousine and Chauffeured Transportation Industry statistics, the limousine manufacturing industry generates approximately \$400 million in annual revenues through the sale of luxury limousines, specialty vehicles and limousine buses to approximately 16,000 limousine operators located throughout the United States. These limousine operators are located in the following regions of the United States: 59% in the Northeast; 16% in the Southeast; 11% in the Midwest; and 14% in the West.

Courier Industry

The courier industry consists of approximately 7,200 same day, messenger and expedited courier companies according to US Census data with combined annual sales of approximately \$521 million, with about 562,000 couriers in the field. Approximately 400,000 of those couriers are independent contractors. The couriers utilize some form of transportation to provide their service: 3% by bicycle; 34% by small cars; 48% by pick-up trucks or vans; 13% by small or large trucks; and 1% by foot.

Financial Services

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 costs are higher than these other companies. We intend to offer our services primarily to businesses in our niche markets. These businesses are largely under-served by the financial community. 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.

Table of Contents

Products and Services

The Company's development of products and services is performed by its four subsidiaries. New products and services are evaluated and analyzed by management, with an additional focus on the business and financial impact to the overall company and its subsidiaries.

Manufacturing Products and Services

Lincoln Town Car. A Lincoln Town Car is modified into a luxury limousine through a thirteen step manufacturing process completed over a period of approximately eleven days. The Company maintains a 35 to 45 day inventory of Lincoln Town Car limousines and the Ford Excursion limousines to meet customer demand. The Lincoln Town Car market makes up approximately 90% of the modified limousine chassis market.

Specialty Vehicles. The Specialty vehicles and buses include various SUV's and buses, as well as other models that are made to order. The customer has many more options in this market however pricing is based on the time, materials manufacturing overhead plus profit margin. The specialty vehicles and buses manufactured at CTMC are primarily built to order. This is a small percentage of the limousine market, however we believe that we can sustain higher profit margins and significant customization is available based on the customers' specifications.

Financial Services and Products

We offer commercial vehicle lease, commercial vehicle loans, balloon notes, equipment leasing/financing, fleet refinancing and high line automobile lease/financing to the commercial fleet operators throughout the United States.

Our financial services products are funded to the commercial fleet operators for a period between twelve to seventy-two months, based on the year, make and model of the collateral. The rate of interest is between 6.9% and up to a rate of 18%, based on the applicable lending guidelines. The typical loan balance is between \$20,000 and \$50,000, however based on the collateral, the Company would lend up to \$2.0 million. Based on the credit score and classification the borrower is required to conform to a minimal credit application and documentation for those borrowers classified as A credit to a full documentation and review of the credit standing, collateral, source of proceeds and review of documentation for those borrowers falling into the C or D credit criteria. Also 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 the lending officer. The collateral typically is a vehicle that is the primary source of revenue for our borrowers, such as limousine operators and courier drivers.

In addition, the Company has established a loan and lease committee, which reviews all credits made during the period. Also, all loans or leases over \$100,000 requires that at least two members of the loan committee review the credit decision of the lending officer and that they review and approve the credit as well.

The Company intends to proceed on repossession on vehicles or collateral that is delinquent sixty days. All loans or leases considered delinquent 90 days or greater are considered non-interest earning assets or non-accrual. Any loan or lease on non-accrual will be evaluated on a loan-by-loan basis.

Competition

Limousine Manufacturing

SCB and CTMC are two of the nine major limousine manufacturers in the industry operating under a QVM agreement with Ford Motors and a CMC agreement with Cadillac. There are many companies in the marketplace that do not operate under the manufacturer sponsored programs, such as the QVM and CMC. Operating within QVM and CMC agreements 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 the Ford and Cadillac. Our competition offers 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 to these commercial fleet operator s financial solutions including automotive leases, contract settlement processing and insurance products. The subcontractor settlement processing to commercial fleet operators enables the Company to communicate our products and services to our clients on a weekly basis versus once every three to four years, when they are in the market for a new vehicle. We believe that due to our focused market niche, and our experience, both with the drivers and the collateral, we will be highly competitive within the marketplace.

Table of Contents

Subcontractor Settlement Processing

The Company is one of three entities providing independent contractors to the commercial fleet industry. CDS provides services that insulate the commercial fleet operator from workplace concerns relating to employment by creating and reinforcing an independent operator status for the individual drivers. The Company provides specialty insurance products to these drivers, as well as health benefits and other insurance products they require. 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 is the key to gaining market share in this industry.

Lease Financing

The Company is one of many financial service providers offering lease products to business customers. The competition consists of banks, savings and loans, finance companies, consumer product companies and independent brokers. Some of our competitors may have more financial resources and offer better pricing than us. 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 for loans comes principally from other banks, savings institutions and other lenders. This competition could decrease the number and size of loans that we make and the interest rates and fees that we receive on these loans.

Marketing

Limousine and Specialty Vehicle Manufacturing

The specialty manufacturing business has slowed down since the attack on the World Trade Centers on September 11, 2001 (9/11) from a peak of production of 9,000 units produced to 1,800 units produced during 2001. The industry is slowly recovering, but management does not expect the industry to reach the same production levels in the near future. Management anticipates current production for the limousine manufacturing business to be approximately 3,000 units for 2004. The Company anticipates the industry production level to increase, however it is not anticipated that the production will ever reach the 9,000 unit level.

The Company markets its specialty vehicles through tradeshows, print advertising and direct marketing to limousine operators. The Company is focusing on certain custom niches within its geographical markets and believes that opportunities for growth remain strong for modified limousine chassis. The Company has an innovative sales and service team focused on building lasting relationships with its customers. This is accomplished by delivering vehicles and services that management believes will inspire customer loyalty and enthusiasm.

The Company typically attends two tradeshows annually to exhibit their products and services, as well as to stay abreast of current trends in the marketplace. In addition to tradeshows, our sales team typically attends local limousine operator association meetings on a monthly basis. This enables the sales team to stay in front of the operators on an on-going basis. The Company and its sales team actively call the operators in their sales market to maintain a personal relationship with the operators. The Company 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.

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

The Company has implemented a new software package that enables management to track the sales calls by region, salesperson and operator. This provides a tool for management to assess the sales process as well as the individual performance of the sales staff. We intend to continue to refine the process through further implementation of this software package. This software package will be utilized by our sales force to sell all the products that the Company has to offer, including loans and lease financing, financial services, subcontracting settlement processing and limousines and specialty vehicles.

In addition, the Company places print advertisement in various trade publications, which are supported by QVM and CMC agreements. The Company believes that maintaining a presence in the limousine community provides the recognition necessary to further their other forms of advertising and marketing.

Financial Services - Loan and Lease Financing. The Company markets its lease financing and other financial services through both the sales force for the limousine operators as well as through a directed sales force, specific to the industry that targets fleet operators and independent dealers within the specific niches that we intend to target. The Company also sends out direct mail marketing pieces to select customers or contacts with products or services that they believe will result in a future sale of our products.

Financial Services - Subcontractor Settlement Processing. With the acquisition of CDS, the Company anticipates access to 5,000 courier drivers that we believe have specific needs that we intend to address immediately. 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 are 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. We believe that the key to the success of this acquisition is to further provide the couriers with leases, cars and additional insurance products and services.

Table of Contents

In addition, Company will continue to meet with local and national limousine associations to present them with CDS's business solutions. The Company intends to market to the limousine industry the subcontractor settlement processing, insurance products and to expand and implement products and services offerings to this market segment.

Source and Availability of Raw Material for Production

The Company's two major suppliers are Ford Motor Company and General Motors Corporation, which provide the chassis for the Lincoln Town Car and the Cadillac products that the Company then manufactures into a modified vehicle under a QVM agreement with Ford and a CMC agreement with General Motors Corporation. The Company believes that its relationship with these major suppliers is in good standing at this time and that the supply of chassis inventory is adequate to meet our operating needs.

Agreements with Major Suppliers

The Company manufactures luxury limousines, specialty vehicles and limousine buses under a QVM with Ford Motor Company and a CMC with General Motors Corporation. These agreements are evaluated and renewed annually by Coach. The Company is able to utilize the expertise of the supplier for engineering expertise, warranty support, rebates for chassis purchases and a source of marketing funds.

Research and Development

The Company did not have any research and development expenses for the year ended December 31, 2003. Research and development was \$829,840 for the year ended December 31, 2004. After our acquisition of Springfield in December 2003, we determined that the production of the various vehicles needed to be segregated as to eliminate any duplication of production processes at the CTMC and SCB facilities. CTMC personnel have extensive depth of knowledge in prototype development, modification and engineering of specialty vehicles, such as the buses and SUV's. As a result, in January 2004, the Company made a strategic decision for CTMC to focus on manufacturing specialty vehicles and limousine buses and for SCB to focus on manufacturing the Lincoln Town Car limousines and the Ford Excursion limousines. Based on these manufacturing changes identified by the Company, their focus on specialty vehicles, the Company plans on expending \$500,000 on research and development during the next twelve months. There can be no assurances that such expenditures will be made or whether such research and development will fall within the current budget or will ultimately result in an increase in revenues and profits.

Seasonality

The specialty vehicle business is seasonal, whereby most purchases are made during the second and fourth quarters of the fiscal year. The plants close for a week in the summer and a week in December. The Company plans on diversifying its business to mitigate some of the seasonality of the current operations. Seasonality for the limousine business tracks the hotel and leisure industry. More specifically the limousine business also tracks the prom and holiday season which begins in March and runs through June and the second season corresponds with the new model year in September and October making the second and fourth quarters higher than the first and third quarter of the year.

Subsidiaries

We own four wholly owned operating subsidiaries: (1) Springfield Coach Industries Corporation, Inc., a Missouri corporation; (2) Commercial Transportation Manufacturing Corporation, a New York corporation; (3) Coach Financial Services, Inc., a Florida corporation; and (4) Corporate Development Services, Inc. and its three subsidiaries; Subcontracting Concepts, Inc., a New York Corporation , SCI Two-Wheel, Inc and .Subcontracting Concepts, Inc., a Connecticut Corporation.

Employees

As of December 31, 2004, we had 82 full-time employees, 57 of which are in manufacturing personnel and the remainder of which serve in a managerial, sales, marketing or administrative capacity. We currently outsource our sales and marketing function. We have 18 employees relating to the acquisition of CDS 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.

Table of Contents

Government Regulation

Our Cadillac Master CoachBuilder Agreement with General Motors Corporation and the Quality Vehicle Modifier Agreement with Ford Motor Company require 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 National Highway Traffic Safety Administration (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 Corporation 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.

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.

Coach owns 100% of four subsidiaries. On September 1, 2003, Coach acquired CTMC through a reverse merger. Coach issued approximately 3 million shares of common stock to CTMC in a stock for stock exchange. CTMC is a New York corporation. Its sales offices are located in Bohemia, New York.

On December 31, 2003, Coach, through SCB, its newly formed wholly owned subsidiary, acquired certain assets and liabilities from Springfield Coach Builders, Inc. 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 payments of \$156,500 paid in April 2004. SCB is a Missouri corporation. Its principal executive offices are located in Springfield, Missouri.

On July 9, 2004, Coach, through CFS, its newly formed wholly owned subsidiary, entered into an agreement to purchase all of the common stock of Go Commercial Leasing Corporation (Go Commercial) and merged Go Commercial into CFS. We issued 423,529 shares of common stock, valued at \$720,000, to the shareholders of CDS. CFS is a Florida corporation. Its principal executive offices are located in Cooper City, Florida.

On August 6, 2004, Coach signed a letter of intent to acquire CDS, whereby the Company issued to the shareholder of CDS a combination of stock and cash. The acquisition was completed on August 31, 2004 and is reflected in our financial statements as of September 1, 2004. The Company paid \$4.8 million for CDS through the issuance of 3.2 million shares of common stock valued at \$1.19, of which 504,202 shares of common stock are held in escrow. In addition, Coach paid \$500,000 in cash and issued a promissory note in the amount of \$460,000 to the shareholders of CDS. The Company has required that CDS provide to them a signed agreement with their insurance carrier, for at least a term of two years. Upon signing of that agreement, the Company issued to the shareholders additional consideration of \$1.2 million in the same proportionate allocation of notes and common stock. CDS is a New York corporation. Its principal executive offices are located in Glens Falls, New York.

Item 2. Description of Property

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

In August 2003, Coach Company relocated its corporate offices to Coral Springs, Florida. Coach leased approximately 1,000 square feet of office space on a month-to-month basis from Francis O. Donnell, our Chief Executive Officer. The Company did not pay rent for this office space. 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 for 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. Prior to the relocation to Cooper City, Florida, the Company was housed in temporary office space at 12555 Orange Drive, Davie, Florida from August 2004 through January 2005 at a monthly rent is approximately \$3,000 per month.

CTMC leases approximately 30,000 square feet of space located in Bohemia, New York, pursuant to a lease agreement, which expires in December 2007. Our annual rent under the lease is \$288,000, for the remainder of the term. CTMC uses the space as its executive offices and manufacturing plant. The lease is non-cancelable. The lease term, as amended, expires in December 2007 with payments commencing in July 2003. 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. SCB lease approximately 45,000 square feet of space located in Springfield, Missouri, from an unrelated third party, 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 under the lease is \$132,000 per year for years 2004, 2005 and 2006.

CDS leases approximately 7,000 square feet of office space located in Glens Falls, New York from an unrelated third party, pursuant to a lease, which expires in December 2008. CDS uses the space as its executive office space and operations center. Annual rent for the space is \$74,000. CDS has 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.

Table of Contents

It is management's opinion that our insurance policies cover all insurance requirements of our landlords. We own or lease the basic tools, machinery and equipment necessary to conduct our business. We believe that the above facilities are generally adequate for present operations.

Item 3. Legal Proceedings

We are not a party to any pending material legal proceedings and are not aware of any threatened or contemplated proceeding by any governmental authority against the Company or its subsidiaries. Notwithstanding, from time to time, the Company may become subject to legal proceedings and claims in the ordinary course of business, including employment-related and trade related claims.

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

On November 15, 2004 the Company held its Annual Meeting for the election of (i) directors, (ii) ratification of accountants and (iii) the approval of the 2004 Stock Option Plan.

Election of directors for each individual nominee:

<i>Francis O. Donnell.</i>	For: 10,655,576; Withhold Authority: 262
<i>John Gore.</i>	For: 10,655,576; Withhold Authority: 262
<i>Susan Weisman.</i>	For: 10,595,576; Withhold Authority: 60,242
<i>Joseph I. Emas.</i>	For: 10,655,576; Withhold Authority: 262

Ratification of the appointment of Jewett, Schwartz & Associates, as the Company's independent certified public accountants for the fiscal year ending December 31, 2004.

For: 10,550,996; Against: 0, Abstain: 0

Ratification to the Company's 2004 Stock Option Plan.

For: 10,460,734; Against: 55,314; Abstain: 200,000.

Table of Contents**PART II****Item 5. Market for Common Equity and Related Stockholder Matters****Market Information**

Our common shares are currently quoted on the OTC Bulletin Board under the symbol CIGI. Prior to August 2003, our common shares were quoted on the OTC Bulletin Board under the symbol SHND. The following table sets forth the quarterly high and low bid prices for our common shares on the OTC Bulletin Board for the periods indicated, as adjusted to reflect the 1:67 reverse stock split on December 30, 2002 and the 1:4 reverse stock split on August 25, 2003. 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 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
Fiscal Year 2003:		
<i>December 31, 2003</i>	\$ 1.84	\$ 1.10
<i>September 30, 2003</i>	2.04	1.00
<i>June 30, 2003</i>	2.68	1.12
<i>March 31, 2003</i>	2.60	0.80
Fiscal Year 2002		
<i>December 31, 2002</i>	\$ 2.68	\$ 0.40
<i>September 30, 2002</i>	2.68	.01
<i>June 30, 2002</i>	9.40	1.36
<i>March 31, 2002</i>	14.20	5.64

 Holders

We have approximately 400 record holders of our common stock as of December 31, 2004, according to a shareholders list provided by our transfer agent as of that date and our records relating to issuable shares.

Dividend Policy

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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. Any future determination to pay cash dividends will be at the discretion of our board of directors, and will be dependent upon our financial condition, results of operations, capital requirements and other factors as our board may deem relevant at that time.

Securities Authorized for Issuance Under Equity Compensation Plans

Our board of directors adopted the 2004 Stock Option Plan (the 2004 Plan), which was approved by our shareholders on November 15, 2004. The purposes of the 2004 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 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.

Table of Contents

The 2004 Plan provides for the granting of (i) options to purchase Common Stock that qualify as incentive stock options (Incentive Stock Options) within the meaning of Section 422 of the Internal Revenue Code (the Code), (ii) options to purchase Common Stock that do not qualify as Incentive Stock Options (Nonqualified Options) and (iii) restricted stock. The total number of shares of Common Stock with respect to which awards may be granted under the 2004 Plan shall be three million (3,000,000) shares of common stock. As of December 31, 2004, the Board has approved and allocated the issuance of all 3,000,000 shares of common stock under the 2004 Plan. The Board has approved the Company to issue options to purchase all 3,000,000 shares of common stock reserved under the 2004 Plan.

Stand-Alone Grants

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. The options will vest one year after their issuance. Other than the foregoing, we do not currently have any outstanding stock options or stock appreciation rights. However, in the future our board of directors may grant additional common share purchase options or warrants to selected directors, officers, employees, consultants and advisors in payment of goods or services provided by such persons on a stand-alone basis outside of any formal stock plans. The terms of these grants may be individually negotiated.

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, during the period covered by this annual report. Except as stated below, no underwriting discounts or commissions were payable 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).

For the year ended December 31, 2004, the Company issued 9,700,000 shares of common stock as follows:

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.

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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.

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.

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.

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. These shares were registered under Form SB-2, effective February 4, 2005.

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 a consulting agreement.

Table of Contents

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, to Kramer Weisman and Associates, LLC. 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.

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.

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.

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 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.

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.

For the year ended December 31, 2003, the Company issued 7,700,000 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.

Table of Contents

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.

For the year ended December 31, 2002, the Company issued 254,850 shares of its common stock as follows:

During 2002, the Company issued 1,492 restricted shares of common stock, two members of the Board of Directors for services rendered to the company.

During 2002, the Company issued 16,418 restricted shares of common stock to officers of the company in lieu of cash compensation.

During 2002, the Company issued 1,120 restricted shares of common stock to officers and consultants in lieu of cash compensation for various services rendered.

During 2002, the Company issued 223,880 restricted shares of common stock to treasury and as collateral for Notes payable to two executive officers representing accrued and unpaid wages.

During 2002, the Company issued 11,940 restricted shares of common stock, to a law firm in settlement of in indebtedness arising from the provision of legal services rendered.

Table of Contents

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with, and is qualified in its entirety by, our consolidated financial statements and the notes thereto and other financial information included elsewhere in this Annual Report on Form 10-KSB. This Annual Report, including the following Management's Discussion and Analysis, and other reports filed by the Registrant from time to time with the Securities and Exchange Commission (collectively the Filings) contain forward-looking statements which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe to be appropriate in the circumstances. You can generally identify forward-looking statements through words and phrases such as seek, anticipate, believe, estimate, expect, intend, plan, budget, project, may be, may continue, may likely result, and similar expressions. When reading any forward-looking statement you should remain mindful that all forward-looking statements are inherently uncertain as they are based on current expectations and assumptions concerning future events or future performance of our company, and are subject to risks, uncertainties, assumptions and other factors relating to our industry and results of operations, including but not limited to the following factors:

Changes in existing product liability, tort or warranty laws or the introduction of new laws, regulations or policies that could affect our business practices: these laws, regulations or policies could impact our industry as a whole, or could impact only those portions in which we are currently active.

Changes in environmental regulations: these regulations could have a negative impact on our earnings; for example, laws mandating greater fuel efficiency could increase our research and development costs.

Changes in economic conditions, including changes in interest rates, financial market performance and our industry: these types of changes can impact the economy in general, resulting in a downward trend that impacts not only our business, but all companies with which we compete; or, the changes can impact only those parts of the economy upon which we rely in a unique fashion, including, hotels, restaurants and business travel.

Changes in relationships with major customers and/or suppliers: an adverse change in our relationships with major customers and/or suppliers would have a negative impact on our earnings and financial position.

Armed conflicts and other military actions: the considerable political and economic uncertainties resulting from these events, could adversely affect our order intake and sales, particularly in the limousine market.

Factors that we have discussed in previous public reports and other documents filed with the Securities and Exchange Commission.

Should one or more of these 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.

Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our company and our business made in our Filings. You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking statement contained in this report to reflect new events or circumstances unless and to the extent required by applicable law.

Coach Industries Group, Inc. Overview and Business Strategy

Coach is a holding company, which, through its subsidiaries, manufactures specialty vehicles for commercial fleet operators and offers an array of financial services and insurance products to commercial fleet operators and independent contractors in the courier industry. Our long-term strategy is to offer and expand our array of specialty vehicles and limousines and to offer financial services to existing customers as well as other commercial fleet operators. We plan to leverage our manufacturing business segment to expand our financial services to commercial fleet operators, specifically the 7,000 courier companies and the 16,000 limousine operators, throughout the United States. Coach will actively pursue acquisition candidates that can support the expansion of these products and financial services. We currently have four wholly owned subsidiaries.

In September 2003, Coach acquired Commercial Transportation Manufacturing Corporation (CTMC) through a reverse merger. CTMC is a New York corporation. Its principal executive offices are located in Bohemia, New York. CTMC focuses on manufacturing specialty vehicles and limousine buses.

In December 2003, the Company formed Springfield Coach Industries Corporation, Inc. (SCB), by acquiring certain assets and assuming certain liabilities from Springfield Coach Builders, Inc. (Springfield). SCB is a Missouri corporation. Its principal executive offices are located in Springfield, Missouri. SCB focuses on manufacturing Lincoln Town Car limousines and Ford Excursion limousines.

Table of Contents

On July 1, 2004, we formed Coach Financial Services, Inc. (CFS). CFS provides financial services to purchasers of our various automotive products and also to other limousine operators. On July 9, 2004, we entered into an agreement to purchase all of the common stock of Go Commercial Leasing Corporation (Go Commercial) and merged Go Commercial into CFS. This acquisition will enable us to offer an array of financial products, including financing for luxury limousines, commercial fleets and high-end automobiles as well as other financial services, such as specialty lines of insurance products. CFS intends to provide various leases, including commercial motor vehicle leases, equipment leases and retail installment loans to customers who purchase vehicles from Coach as well as other operators purchasing vehicles from competitors.

CFS acquired a \$1.5 million lease portfolio under management and a \$4.5 million secured guidance line of credit to be utilized to fund its leases. CFS intends to provide closed-end leases to purchasers of limousines manufactured by the Company. CFS also intends to market its leases through dealers with established relationships with management. CFS will require additional borrowing facilities for its operations, based on the production requirements of its portfolio. We are in the process of negotiating these credit facilities with various lenders.

Annually, the limousine manufacturing industry generates approximately \$400 million in revenues through the sale of luxury limousines, specialty vehicles and limousine buses to approximately 16,000 limousine operators located throughout the United States. These limousine operators are located in the following regions of the United States: 59% in the Northeast, 16% in the Southeast, 11% in the Midwest and 14% in the West. The Company's facilities are strategically located to economically service the limousine market. SCB, because of its Midwest location, provides the Company with the opportunity to economically support customers located in the Midwestern, Southeastern and Western region of the United States. SCB's Midwestern location also provides the Company significant operating expense advantages due to lower labor and occupancy costs. CTMC's New York presence allows the Company to support the lucrative Northeastern market. CTMC personnel have extensive depth of knowledge in prototype development, modification and engineering of specialty vehicles, such as the buses and SUV's. In January 2004, the Company made a strategic decision to focus SCB on manufacturing the Lincoln Town Car limousines, which represent approximately ninety percent (90%) of the market, and the Ford Excursion limousines and for CTMC to focus on specialty vehicles and limousine buses.

After our acquisition of certain assets and liabilities of Springfield in December 2003, we determined that the production of the various vehicles needed to be segregated as to eliminate any duplication of production processes at the CTMC and SCB facilities. CTMC personnel have extensive depth of knowledge in prototype development, modification and engineering of specialty vehicles, such as the buses and SUV's. As a result, in January 2004, the Company made a strategic decision for CTMC to focus on manufacturing specialty vehicles and limousine buses and for SCB to focus on manufacturing the Lincoln Town Car limousines and the Ford Excursion limousines. Based on these manufacturing changes identified by the Company and their focus on specialty vehicles, the Company plans on expending \$500,000 on research and development during the next twelve months in addition to the \$829,840 already incurred for the year ended December 31, 2004. There can be no assurances that such expenditures will be made or whether such research and development will fall within the current budget or will ultimately result in an increase in revenues and profits.

The business strategy of the Company is to further diversify product lines and develop innovative design, engineering and manufacturing expertise in order to be the premiere luxury limousine manufacturer in the marketplace. The Company sells its custom limousine chassis to limousine operators throughout the United States. The Company markets its limousines through tradeshows, print advertising and direct marketing to limousine operators. The Company is focusing on certain custom niches within its geographical markets and believes that opportunities for growth remain strong for modified limousine chassis. The Company's two major suppliers are Ford Motor Company and General Motors Corporation, which provide the chassis for the Lincoln Town Car and the Cadillac products that the Company then manufactures into a modified vehicle under the QVM and CMC agreements. The Company believes that their relationship with these major suppliers is in good standing at this time and that the supply of chassis inventory is adequate to meet our operating needs.

The Company believes that it can best carry out its long-term business plan and obtain optimal financial flexibility by using a combination of borrowings under the Company's credit facilities, as well as internally and externally generated equity capital, as sources of expansion capital. We believe this gives us a competitive advantage from other manufacturers in our industry who do not have access to these capital markets.

The Company has signed an agreement with Ford Motor Company for a \$2.0 million line of credit for the purchase of chassis inventory. We believe that the line of credit with the supplier will be adequate to meet the funding requirements for the manufacturing facilities. In addition, the Company is negotiating with various lenders to provide floor plan financing for non-conforming chassis purchases and for vehicles that are built as showroom models. This will enable the sales force to present completed vehicles to their prospects in locations outside of the factory. In addition, Company has established a \$1.6 million floor plan line of credit with a local dealership in New York. The dealership funds the purchase of chassis inventory, interest free for 90 days. The balance outstanding, from Ford Motor Company and local dealership at December 31, 2004 was \$1.1 million. Effective March 18, 2005, the Company has terminated the line of credit with Ford and the floor plan is financed currently by the Company.

Table of Contents

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 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.

The Company has incurred losses from operations for the period from January 8, 2003 (inception) through December 31, 2003 of \$1.7 million and a net loss of \$6.2 million for the year ended December 31, 2004. The Company has acquired certain assets and liabilities of Springfield effective December 31, 2003. 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 and cash generated from operations will be sufficient to meet its presently anticipated working capital and capital expenditure requirements for the next twelve months. 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.

The Company has signed an agreement with Ford Motor Company for a \$2.0 million line of credit for the purchase of chassis inventory from Ford. We believe that the line of credit with the supplier will be adequate to meet the funding requirements for the manufacturing facilities however effective March 18, 2005, the Company terminated the agreement with Ford and the floor plan is currently provided by the Company. The termination of the agreement provided the Company with access to an additional \$500,000 which was utilized to collateralize the line of credit with Ford Motor Credit Corporation, as well as provide the plant with the flexibility that they needed to purchase chassis other than Ford products, such as the Chrysler 300, in addition to allowing the sales force to have showroom models. In addition, Company has established a \$1.6 million floor plan line of credit with a local automotive dealership located in New York. The dealership funds the purchase of chassis inventory that is purchased from the dealership, interest free for 90 days.

The Company received a secured guidance line of credit from Sovereign Bank in the amount of \$4.5 million to be used for funding leases for customers of CFS. The interest rate charged by Sovereign Bank is specific to the leases funded, on a lease- by-lease basis. 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 average interest charged on these leases is established by the lender on a monthly basis.

The Company has a secured guidance line of credit from New World Lease Funding in the amount of \$5.0 million, which it utilizes for funding leases for customers of CFS. The interest rate charged by New World Funding is specific to the leases funded, on a lease- by-lease basis. 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 average interest charged by New World Lease Funding is established by the lender on a monthly basis.

The Company received an ACH line of credit from North Fork Bank in the amount of \$1.5 million to be used to facilitate the direct deposit function for customers of CDS. The line of credit is collateralized by a Money Market Account held at the Bank.

In addition, 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

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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:

<u>Conversion Rate</u>	<u>Amount Outstanding</u>	<u>Number of Shares Issuable Upon Conversion</u>
\$0.97	\$ 2,000,000	2,061,856
\$1.21	868,015	717,368
	<u>2,868,015</u>	<u>2,779,224</u>
Total Unrestricted Balance as of December 31, 2004 of Convertible Debentures:		
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
	<u>2,831,985</u>	<u>2,444,431</u>
Total Restricted Cash	2,831,985	2,444,431
	<u>\$ 5,700,000</u>	<u>5,223,655</u>
Total Convertible Notes	\$ 5,700,000	5,223,655

Table of Contents

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

For the year ended	Funded	Restricted Cash	Total
December 31,	Balance	Released in 2005	Convertible 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

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:

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

<u>Date of Draw</u>	<u>Debt</u>	<u>Warrants</u>	<u>Additional Paid in Capital</u>	<u>Total Draw</u>	<u>Effective Interest Rate</u>
9/29/04	\$ 821,798	\$ 313,000	\$ 465,202	\$ 1,600,000	49%
10/22/04	465,158		13,430	478,588	11%
11/3/04			300,000	300,000	NA
11/10/04	105,517			105,517	10%
11/16/04	683,910			683,910	10%
	<u>2,076,383</u>	<u>313,000</u>	<u>778,632</u>	<u>3,168,015</u>	
Conversion			(300,000)	(300,000)	
Accretion	65,617	(26,083)	(39,534)		
Total	<u>\$ 2,142,000</u>	<u>\$ 286,917</u>	<u>\$ 439,098</u>	<u>\$ 2,868,015</u>	<u>114%</u>
Allocated to Restricted	\$ 2,831,985	0	0	2,831,985	9%
Total	<u>\$ 4,973,985</u>	<u>\$ 286,917</u>	<u>\$ 439,098</u>	<u>\$ 5,700,000</u>	

Table of Contents

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 cash and cash equivalent, as the Company has drawn those funds from the restricted account in the first quarter of 2005.

The Company, through SCB, acquired certain assets and liabilities of Springfield Coach Builders, Inc., effective December 31, 2003 and at that time determined that the production of the various vehicles needed to be segregated to eliminate any duplication of production processes at both facilities. CTMC personnel have extensive depth of knowledge in prototype development, modification and engineering of specialty vehicles, such as the buses and the SUV's. In January 2004, the Company made a strategic decision to focus SCB on manufacturing the Lincoln Town Car limousines and the Ford Excursion limousines and for CTMC to focus on specialty vehicles and limousine buses. The Company intends to expend 500,000 on research and development during the next twelve months. The Company has expended approximately \$829,000 on research and development for the year ended December 31, 2004.

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 and \$684,000 was for settlement of the lease obligation. 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 first 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.

As of August 26, 2003, the Company reserved 1.6 million shares, valued at \$0.45 cents per share, for the purpose of using as agreed consideration for a potential transaction. The shares shall vest on the effective date of the aforementioned potential transaction. CFS will provide financial services to purchasers of our various automotive products and also to other limousine operators. On July 9, 2004, we entered into an agreement to purchase all of the common stock of Go Commercial Leasing Corporation (Go Commercial) and merged Go Commercial into CFS. The deal is valued at \$720,000. This acquisition enables us to offer an array of financial products, including financing for luxury limousines, commercial fleets and high-end automobiles as well as other financial services, such as specialty lines of insurance products. CFS provides various leases, including commercial motor vehicle leases, equipment leases and retail installment loans to commercial customers who purchase vehicles from Coach as well as other operators purchasing vehicles from competitors. CFS primarily lends to small to mid-size business and professionals.

On August 6, 2004, Coach signed a letter of intent to acquire Corporate Development Services, Inc., located in Glens Falls, New York, and its affiliated companies, whereby the Company will issue a combination of stock and cash. The acquisition was completed on August 31, 2004 and is reflected in our financial statements as of September 1, 2004. CDS is one of three entities providing independent contractors to the commercial fleet industry. CDS provides services that insulate the commercial fleet operator from workplace concerns relating to employment by creating an independent operator status for the individual drivers. The Company provides specialty insurance products to these drivers, as well as health benefits and other insurance products they require through various relationships with independent brokers.

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

Current Assets

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.

Table of Contents

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 related parties 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.

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.

Table of Contents

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.

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, no advance payments were received by the Company. 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.

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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:

<u>Conversion Rate</u>	<u>Amount Outstanding</u>	<u>Number of Shares Issuable Upon Conversion</u>
\$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

Table of Contents

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

For the year ended		Restricted Cash	Total Convertible
December 31,	Funded Balance	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
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 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	Total Draw
--------------	------	----------	------------

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

			<u>Additional Paid in Capital</u>		<u>Effective Interest Rate</u>
9/29/04	\$ 821,798	\$ 313,000	\$ 465,202	\$ 1,600,000	49%
10/22/04	465,158		13,430	478,588	11%
11/3/04			300,000	300,000	NA
11/10/04	105,517			105,517	10%
11/16/04	683,910			683,910	10%
	<u>2,076,383</u>	<u>313,000</u>	<u>778,632</u>	<u>3,168,015</u>	
Conversion			(300,000)	(300,000)	
Accretion	65,617	(26,083)	(39,534)		
Total	<u>\$ 2,142,000</u>	<u>\$ 286,917</u>	<u>\$ 439,098</u>	<u>\$ 2,868,015</u>	114%
Allocated to Restricted	<u>\$ 2,831,985</u>	<u>0</u>	<u>0</u>	<u>2,831,985</u>	9%
Total	<u>\$ 4,973,985</u>	<u>\$ 286,917</u>	<u>\$ 439,098</u>	<u>\$ 5,700,000</u>	

Table of Contents

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 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, 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.

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

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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.

Table of Contents

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.

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.

Financial Condition for the Year Ended December 31, 2003 compared to December 31, 2002

Assets

Cash and cash equivalents. Cash and cash equivalents increased from zero at December 31, 2002 to \$91,565 at December 31, 2003, an increase of \$91,565, primarily as a result of the Company acquiring CTMC effective September 1, 2003 through a reverse merger and SCB effective December 31, 2003.

Supply Inventory. Supply inventory increased from zero at December 31, 2002 to \$1.3 million at December 31, 2003, an increase of \$1.3 million, primarily as a result of the Company acquiring SCB, effective December 31, 2003 totaling \$946,567. In addition, CTMC acquired approximately \$133,000 of raw materials inventory effective December 31, 2003 as part of a settlement with a related party.

Total current assets. Total current assets increased from zero at December 31, 2002 to \$1.5 million at December 31, 2003, an increase of \$1.5 million, primarily related to the supply inventory discussed above.

Property and Equipment. Property and equipment increased from zero at December 31, 2002 to \$901,865 at December 31, 2003, an increase of \$901,865, related to the acquisition of SCB effective December 31, 2003. In addition, CTMC acquired approximately \$767,000 of property and equipment, effective December 31, 2003 as part of a settlement with a related party. No depreciation was taken relating to either of these transactions for the year-ended December 31, 2003.

Table of Contents

Liabilities

Accrued wages. Accrued wages decreased from zero at December 31, 2002 to \$32,921 at December 31, 2003, primarily relating to the operations of CTMC.

Accounts payable and other accrued expenses. Accounts payable increased from zero at December 31, 2002 to \$367,670 at December 31, 2003, an increase of \$367,670, relating to the operations of CTMC.

Related party payable. Related party payable increased from zero at December 31, 2002 to \$305,739, specifically relating to funding cash funding requirements of CTMC and SCB. In addition, professional fees were paid directly by a related party.

Notes payable-related parties. Notes payable-related parties increased from zero at December 31, 2002 to \$613,659 at December 31, 2003, an increase of \$613,659 primarily related to notes payable - related parties totaling \$613,659 pertaining to the acquisition of SCB effective December 31, 2003, specifically relating to the chassis inventory financed.

Total current liabilities. Total current liabilities increased from zero at December 31, 2002 to \$1.7 million at December 31, 2003, an increase of \$1.7 million, primarily as a result of the Company related to the acquisition of CTMC and SCB. In addition, the Company funded operations through increased accounts payable and related party accounts payable.

Management will try to maintain the Company in its current operating form through the issuance of common stock to consultants for the Company's ongoing administrative and reporting duties.

In addition, the Company has secured lines of credit for funding floor plan liabilities. CTMC secured a line of credit totaling \$1.6 million for the purchase of chassis inventory from a local dealership. The line of credit was utilized by CTMC to fund the purchase of chassis for production.

Results of Operations for the year ended December 31, 2003 compared to December 31, 2002

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, thus, and no activity has been presented for the three months ended March 31, 2003.

Gross Revenues. Gross revenues were \$1.1 million for the year ended December 31, 2003, primarily as a result of the Company acquiring CTMC through a reverse merger effective September 1, 2003 and the gross revenues for the period reflect revenues from inception January 8,

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

2003 through December 31, 2003 for CTMC.

Costs of Goods Sold. Costs of goods sold increased was \$1.4 million for the year ended December 31, 2003, as a result of the Company acquiring CTMC through a reverse merger effective September 1, 2003 and the costs of goods sold for the period reflect costs from inception January 8, 2003 through December 31, 2003.

Operating expenses. Operating expenses were \$1.4 million for the year ended December 31, 2003 relating to expenses associated with Coach from September 1, 2003 and CTMC from January 8, 2003 (inception).

General and administrative expenses were \$463,099 for the year ended December 31, 2003, as a result of the Company acquiring CTMC effective September 1, 2003 through a reverse merger and the general and administrative expenses for the period reflect expenses from January 8, 2003 through December 31, 2003 for CTMC and Coach from September 1, 2003 through December 31, 2003. Depreciation and amortization expense reflected amortization of deferred rent of \$9,600 for the year ended December 31, 2003. 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. 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.

Net (Loss). Net loss was \$1.7 million for the year ended December 31, 2003, primarily due to the operations of CTMC for the period from January 8, 2003 (inception) through December 31, 2003 and the amortization of deferred compensation of approximately \$550,000 for Coach.

Table of Contents**Commitments**

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.

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 December 31, 2006. The lease agreement has five two year renewal options. Current and future minimum rental payments under the lease for the years ended are as follows:

	<u>2004</u>	<u>2003</u>
2005	\$	\$ 132,000
2005	132,000	132,000
2006	77,000	77,000
	<u>\$ 269,000</u>	<u>\$ 341,000</u>

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,	
	<u></u>
2005	\$ 77,000
2006	84,000
2007	84,000
2008	84,000
2009	70,000
	<u>\$ 399,000</u>

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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,	2004	2003
2004	\$	\$ 74,617
2005	74,617	74,617
2006	74,617	74,617
2007	74,617	74,617
2008	68,399	68,397
	<u>\$ 292,250</u>	<u>\$ 366,867</u>

Table of Contents

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

Principles of Consolidation

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 CTMC did not commence operations until April 1, 2003.

On July 6, 2004, the Company acquired Go Commercial and their financial condition and results of operations are included in the Company's financial statements from date of acquisition. The Company acquired CDS effective August 31, 2004. 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.

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 conditions are used.

Cash and Cash Equivalents

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2004 and 2003, 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.

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.

Table of Contents

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 as agreed to by the Company and the lessee of the equipment 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 uncollectible, 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 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.

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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:

<u>Classification</u>	<u>Amount</u>	<u>Reserve Percentage</u>	<u>Percentage of Reserve</u>
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
	<u>\$ 2,307,847</u>		<u>\$ 105,059</u>

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.

Table of Contents***Stock-Based Compensation Plans***

During the year ended December 31, 2004, 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.

	<u>2004</u>	<u>2003</u>
Pro forma net income		
Net loss, as reported	\$ (6,502,818)	\$ (1,743,290)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related income tax effects	(263,330)	(-0-)
Pro forma net loss	<u>\$ (6,766,148)</u>	<u>\$ (1,743,290)</u>
Loss per share:		
Basic as reported	<u>\$ (0.41)</u>	<u>\$ (0.79)</u>
Basic pro forma	<u>\$ (0.43)</u>	<u>\$ (0.79)</u>

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.

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.

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, 2004, the balances at various financial institutions over the FDIC insured balances are \$3.2 million cash balances at December 31, 2004.

Table of Contents

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.

Deferred Revenue

Deferred revenues at December 31, 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 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, 2004 was \$8,701. No amortization of software development costs was recorded for 2003.

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, 2004 and 2003, 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, 2004 and 2003 were approximately \$65,000, and \$6,600, 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.

Table of Contents

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 \$148,755 and \$20,535 as of December 31, 2004 and 2003, respectively. Warranty expense for the years ended December 31, 2004 and 2003 was \$200,995 and \$20,535, respectively and charges to the warranty reserve was \$72,775 for the year end December 31, 2004.

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.

At December 31, 2004 and 2003, the Company had not recognized an impairment loss in connection with this goodwill.

The Company, after careful consideration and review, has elected to change the accounting treatment of the transaction between the Company and CTMC (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,

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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 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 by the same amount.

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.

Stock Split

On August 26, 2003 prior to the reverse merger, the Company affected a 1-for-4 stock split of each outstanding share of common stock. All share data has been restated to reflect the stock split.

Table of Contents

Recent Accounting Pronouncements

In December 2004, the FASB revised Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation. This statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and the related implementation guidance. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It also addresses transactions in which an entity incurs liabilities in exchange for goods and 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. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. For public entities that are not small business issuers, the implementation of this Statement is required as of the beginning of the first interim or annual reporting period after June 15, 2005. For public entities that are small business issuers, like Coach, the implementation of this Statement, is required as of the beginning of the first interim or annual reporting period after December 15, 2005. Management is required to implement this Statements beginning in fiscal year beginning on January 1, 2006 and they are currently evaluating the impact of implementation of this Statement on the Company.

The Emerging Issues Task Force (EITF) reached a consensus on EITF 03-1 *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The EITF provides guidance on the meaning of other-than-temporary impairment and its application to investments classified as either available for sale or held to maturity under FASB Statement No. 115 and investments accounted for under the cost method of accounting. The guidance of EITF 03-01 requires that the Company make evidence-based judgments about the recovery of the unrealized loss (impairment), if any, on each security considering the severity and duration of the impairment and the Company's ability and intent to hold the securities until the forecasted recovery. In September 2004 the FASB issued a FSP that delayed the effective date for the measurement and recognition guidance for the meaning of other-than-temporary impairment. The disclosure requirements were not deferred. At December 31, 2004, the securities portfolios were evaluated for other-than-temporary declines in value based on existing guidance contained in FASB No. 115, SAB Topic 5-M and FASB Staff Implementation Guide to FASB No. 115 resulting in no other-than-temporary impairment of the securities portfolios.

In December 2003, the American Institute of Certified Public Accountants (AICPA) Accounting Standards Executive Committee (AcSEC) issued Statement of Position 03-3 (SOP). The SOP addresses accounting for loans and debt securities acquired in purchase business combinations or purchased subsequent to origination with evidence of deterioration in credit quality since origination. The SOP prohibits the creation of valuation allowances in the initial accounting of all loans acquired that meet the criteria of the SOP. The SOP does not apply to originated loans. The SOP limits the yield that may be accreted to the excess of the purchaser's estimate of undiscounted expected principal, interest and other cash flows over the purchaser's initial investment. The SOP requires excess contractual cash flows over cash flows expected to be collected to not be recognized as an adjustment of yield, loss accrual or valuation allowance. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairments. The SOP is effective for loans and securities acquired in fiscal years beginning after December 15, 2004 with early adoption encouraged. Upon adoption as of January 1, 2005, the SOP did not have an impact on the Company's financial statements.

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 conditions are used.

Table of Contents

Item 7. Financial Statements

Index to Financial Statements

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

Table of Contents

Report of Independent Registered Public Accounting Firm

To The Shareholders and Board of Directors 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, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year ended December 31, 2004 and for the period from January 8, 2003 (inception) through December 31, 2003. 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, 2004 and 2003, and the results of their operations and their cash flows for the year ended December 31, 2004 and for the period from January 8, 2003 (inception) through December 31, 2003 in conformity with accounting principles generally accepted in the United States.

JEWETT, SCHWARTZ & ASSOCIATES

Hollywood, Florida

March 29, 2005 except for Note 2 as to

which date is February 2, 2006

Table of Contents**COACH INDUSTRIES GROUP, INC.****CONSOLIDATED BALANCE SHEETS****(AS RESTATED)****DECEMBER 31,**

	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,545,995	\$ 91,565
Restricted cash	500,000	
Accounts receivable, net	1,094,196	12,939
Unbilled revenues	298,290	
Supply inventory	1,836,535	1,310,483
Due from related party	188,862	31,593
Prepaid expenses and other current assets	247,922	57,680
	<u>7,711,800</u>	<u>1,504,260</u>
PROPERTY AND EQUIPMENT, net	1,968,927	901,865
LEASE RECEIVABLES, NET	2,202,788	
DEFERRED LOAN COSTS, net	270,728	
INTANGIBLE- CUSTOMER LIST, net	1,160,000	
GOODWILL	6,207,581	2,186,595
	<u>\$ 19,521,824</u>	<u>\$ 4,592,720</u>
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 2,292,355	\$ 367,670
Accrued interest payable	90,682	
Related party payable	95,450	305,739
Accrued contract settlement	294,561	
Current portion of long-term debt - funded	982,949	
Current portion of long-term debt - restricted	653,451	
Warrant liability	168,080	
Deferred rent		115,200
Warranty reserve	148,755	20,535
Customer deposits	233,345	230,273
Accrued wages	427,205	32,921
Note payable related parties	900,000	613,659
Lines of credit	1,054,909	
	<u>7,341,742</u>	<u>1,685,997</u>
OTHER LIABILITIES:		
Convertible notes payable- long term - funded	1,159,048	
Convertible notes payable long-term - restricted	2,178,534	

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

Lease financing obligation	884,851	
COMMITMENTS AND CONTINGENCIES SHAREHOLDERS EQUITY:		
Common stock \$0.001 par value; 50,000,000 shares authorized; 18,982,785 and 9,785,531 shares issued and outstanding, respectively	18,982	9,785
Additional paid-in capital	16,735,617	5,360,228
Restricted stock unearned compensation	(550,842)	
Accumulated deficit	(8,246,108)	(1,743,290)
Treasury stock, 1,176,471 shares at cost		(720,000)
	<u> </u>	<u> </u>
Total shareholders equity	7,957,649	2,906,723
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 19,521,824	\$ 4,592,720
	<u> </u>	<u> </u>

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

Table of Contents

COACH INDUSTRIES GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(AS RESTATED)

For the year ended December 31, 2004 and

for the Period from Inception (January 8, 2003) through December 31, 2003

	For the Year Ended December 31, 2004	For the Period From Inception (January 8, 2003 through December 31, 2003
	<u> </u>	<u> </u>
REVENUES	\$ 83,595,584	\$ 1,068,487
COST OF GOODS SOLD	80,016,021	1,411,058
	<u> </u>	<u> </u>
GROSS PROFIT (LOSS)	3,579,563	(342,571)
	<u> </u>	<u> </u>
OPERATING EXPENSES:		
General and Administrative	4,990,340	463,099
Provision for lease losses and uncollectible accounts receivable	55,263	
Interest expense	370,480	
Loss on conversion of debt	469,500	
Gain on mark to market of warrant liability	(144,920)	
Interest income	(14,496)	
Research and development	829,840	
Sales and marketing	549,317	47,999
Rent	232,954	259,200
Amortization of intangible assets	106,667	
Other		80,055
Loss on relocation of CTMC	1,328,436	
Amortization of deferred Compensation	1,309,000	550,366
	<u> </u>	<u> </u>
Total operating expenses	10,082,381	1,400,719
	<u> </u>	<u> </u>
Loss before income taxes	(6,502,818)	(1,743,290)
	<u> </u>	<u> </u>
Income taxes		
	<u> </u>	<u> </u>
NET LOSS	\$ (6,502,818)	\$ (1,743,290)
	<u> </u>	<u> </u>
Basic and diluted net income (loss) per share :		
Net loss per share	\$ (0.41)	\$ (0.79)
	<u> </u>	<u> </u>
Basic and diluted weighted average common shares outstanding	15,877,662	2,219,699



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

F-4

Table of Contents

COACH INDUSTRIES GROUP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(AS RESTATED)

For the year ended December 31, 2004 and

for the Period from Inception (January 8, 2003) through December 31, 2003

	Common Stock		Additional Paid In Capital	Accumulated Deficit	Treasury Stock	Accumulated	Unearned	Restricted Stock Grants	Total
	Shares	Amount				Other Comprehensive Income	Compensation		
BALANCE, December 31, 2002	0	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
	3,943,738	3,943	3,842,668						3,846,611

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

Conversion of common stock								
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			478,633					478,633
Acquisition of CDS	4,033,616	4,034	4,795,966					4,800,000
Conversion of convertible debt			469,500					469,500
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

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

F-5

Table of Contents**COACH INDUSTRIES GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(AS RESTATED)****For the Year Ended December 31, 2003**

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (6,502,818)	\$ (1,743,290)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	284,129	(9,600)
Amortization of deferred compensation	1,309,000	550,366
Loss on conversion of convertible debt	469,500	
Gain on mark to market on warrant liability	(144,920)	
Warranty Expense	200,995	20,535
Warranty charges	(72,775)	
Provision for lease losses and uncollectible Receivables	55,263	
Charge-offs lease receivables	(166,497)	
Charges relating to relocations of CTMC	1,328,436	
Changes in operating assets and liabilities:		
Accounts receivable	(414,407)	(12,939)
Unbilled revenues	969,785	
Inventory	(656,971)	(230,117)
Funding lease receivables	(1,257,308)	
Repayment of lease receivables	417,957	
Prepaid expenses and other	(140,810)	(57,680)
Deferred Rent		124,800
Accounts payable and accrued expenses	1,356,400	394,406
Accrued Wages	1,109,177	
Accrued Interest	90,682	
Accrued contract settlement	(1,220,979)	
Advanced payments contract settlement	(185,600)	
Customer deposits	(63,594)	223,273
	<u>(3,235,355)</u>	<u>(740,246)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(196,415)	(1,877)
Investment of restricted cash	(500,000)	
Usage of restricted cash	74,657	
Capitalization of CTMC		580,500
Cash received from business acquisitions, net	718,156	24,042
	<u>96,398</u>	<u>602,665</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Funding deferred loan costs	(296,554)	
Borrowings of convertible debt	6,000,000	
Repayment of lease liability	(583,889)	
Borrowings line of credit	441,250	
Investment in common stock	25,000	

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

Repurchase of common stock	(95,000)	
Related party accounts payable, net	1,102,580	229,146
	<u> </u>	<u> </u>
Net cash provided from financing Activities	6,593,387	229,146
	<u> </u>	<u> </u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,454,430	91,565
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	91,565	
	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,545,995	\$ 91,565
	<u> </u>	<u> </u>

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

F-6

Table of Contents

COACH INDUSTRIES GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(AS RESTATED)

For the Years Ended December 31, 2004 and 2003

1. Background

The Company

Coach is a holding company, which, through its subsidiaries, manufactures specialty vehicles for commercial fleet operators and offers an array of financial services and insurance products to commercial fleet operators and independent contractors in the courier industry.

Coach owns four wholly owned subsidiaries that operate in two business segments: financial services to commercial fleet operators and subcontractor settlement processing for commercial fleet operators; and manufacturing specialty vehicles. Commercial Transportation Manufacturing Corporation (CTMC) and Springfield Coach Industries Corporation, Inc. (SCB) manufacture specialty vehicles, such as limousine buses, Lincoln Town Car limousines and Ford Excursion limousines. Coach Financial Services, Inc. (CFS) offers financial services to Corporate Development Services, Inc. (CDS), SCB and CTMC customers and other commercial fleet operators. CDS provides the services of independent contractors, subcontractor settlement processing and specialty insurance products to commercial fleet operators.

The Company's long-term strategy is to offer and expand its financial services to commercial fleet operators, specifically the 7,200 courier companies and the 14,000 limousine operators, throughout the United States. Coach will actively pursue acquisition candidates that can support the expansion of these products and financial services.

The Company manufactures specialty vehicles for commercial fleet operators through SCB and CTMC, two of the nine limousine manufacturers in the limousine manufacturing industry operating under Qualified Vehicle Modifier Agreements (QVM) and a Cadillac Master Coachbuilders Agreement (CMC). CTMC manufactures, sells and services specialty vehicles, limousine buses and to a lesser extent, Lincoln Town Cars. Its operations are currently housed in the Springfield facility, thus sharing resources and equipment as well as skilled labor. SCB manufactures sells and services Lincoln Town Cars and Ford Excursions Limousines. Its operations are housed in a 45,000 square foot manufacturing facility. The combined manufacturing facilities employ approximately 60 skilled laborers in the direct manufacturing of the modified chassis.

The Company offers an array of financial services and insurance products to commercial fleet operators and independent contractors in the courier industry through CDS and CFS. CFS offers financial services to CDS, SCB and CTMC customers and other commercial fleet operators. CFS targets small to mid-size business and professionals. In addition, the Company plans to offer an array of financial products, including financing for luxury limousines, commercial fleets and high-end automobiles and specialty lines of insurance products. CFS provides various leases, including commercial motor vehicle leases, equipment leases and retail installment loans to commercial customers who purchase vehicles from SCB or CTMC, CDS customers and other commercial fleet operators.

CDS provides the services of independent contractors, subcontractor settlement processing and specialty insurance products to commercial fleet operators. CDS is one of three entities providing the services of independent contractors to the commercial fleet industry. CDS provides services that insulate the commercial fleet operator from certain workplace concerns by creating an independent operator status for the individual drivers. CDS provides specialty insurance products to these drivers, as well as health benefits and other insurance products they require through various relationships with independent brokers. The Company currently provides its products to approximately 5,000 drivers and 250 courier companies.

F-7

Table of Contents**2. 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:

<u>Accounts</u>	<u>As Reported</u>	<u>Restated</u>	<u>Net Change</u>
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,

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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.

F-8

Table of Contents

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:

	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 2
LIABILITIES AND SHAREHOLDERS' EQUITY											
CURRENT LIABILITIES:											
Accounts payable											
Accrued expenses	\$ 2,292,355	\$		2,292,355		2,292,355					\$ 2,292,355
Accrued interest											
Accounts payable	90,682			90,682		90,682					90,682
Accounts payable	95,450			95,450		95,450					95,450
Accounts payable	294,561			294,561		294,561					294,561
Accounts payable	1,784,776			1,784,776		1,784,776				(801,827)	982,949
Accounts payable			972,300	972,300	(659,300)	313,000		(144,920)		653,451	653,451
Accounts payable	148,755			148,755		148,755					148,755
Accounts payable	233,345			233,345		233,345					233,345
Accounts payable	427,205			427,205		427,205					427,205
Accounts payable	900,000			900,000		900,000					900,000
Accounts payable	1,054,909			1,054,909		1,054,909					1,054,909
Accounts payable	7,322,038		972,300	8,294,338	(659,300)	7,635,038		(144,920)		(148,376)	7,341,762
LONG TERM LIABILITIES:											
Accounts payable	2,592,833	972,300	(972,300)	2,436,276	659,300	3,189,206				(2,030,158)	1,159,048
Accounts payable		400,000	(641,130)		162,497						
Accounts payable		(49,911)	134,484		(68,867)						
Accounts payable	884,851			884,851		884,851				2,178,534	2,178,534

financing											
tion											
COMMITMENTS											
CONTINGENCIES											
SHAREHOLDERS											
LIABILITY:											
Common stock											
1 par value;											
10,000 shares											
authorized;											
2,785 and											
531 shares											
issued and											
outstanding,											
18,982	18,982		18,982		18,982						18,982
Additional paid-in											
capital	17,159,784	(972,300)	641,130	16,428,614	(162,497)	16,266,117	300,000	169,500			16,735,964
		(400,000)									
Retained earnings											
Accumulated deficit	(550,842)			(550,842)		(550,842)					(550,842)
Accumulated deficit	(7,905,822)	49,911	(134,484)	(7,990,395)	68,867	(7,921,528)	(300,000)	(169,500)	144,920		(8,240,132)
Treasury stock,											
471 shares at											
Shareholders' equity	8,722,102	(1,322,389)	506,646	7,906,359	(93,630)	7,812,729		144,900			7,957,129
LIABILITIES AND											
SHAREHOLDERS											
EQUITY	\$ 19,521,824			19,521,824		19,521,824					\$ 19,521,824

Table of Contents

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:

	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	December 31, 2004 - Amendment 2
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
Amortization of deferred Compensation	1,309,000			1,309,000		1,309,000				1,309,000

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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 :										
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.

Table of Contents

- (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.____. 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.

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 Reduction in Amortization	\$162,497	See above
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

Table of Contents

- (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

On July 6, 2004, the Company acquired Go Commercial and their financial condition and results of operations are included in the Company's financial statements from date of acquisition. The Company acquired CDS effective August 31, 2004. 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.

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.

Table of Contents

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, 2004 and 2003, 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.

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 as agreed to by the Company and the lessee of the equipment 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 uncollectible, 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.

Table of Contents

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 year ended December 31, 2004, 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.

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

	<u>2004</u>	<u>2003</u>
Pro forma net income		
Net loss, as reported	\$ (6,502,818)	\$ (1,743,290)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related income tax effects	(263,330)	(-0-)
	<u> </u>	<u> </u>
Pro forma net loss	<u>\$ (6,766,148)</u>	<u>\$ (1,743,290)</u>
Loss per share:		
Basic as reported	<u>\$ (0.41)</u>	<u>\$ (0.79)</u>
Basic pro forma	<u>\$ (0.43)</u>	<u>\$ (0.79)</u>

F-14

Table of Contents

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.

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.

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, 2004, the balances at various financial institutions over the FDIC insured balances are \$3.2 million cash balances at December 31, 2004.

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

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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.

F-15

Table of Contents

Deferred Revenue

Deferred revenues at December 31, 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 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, 2004 was \$8,701. No amortization of software development costs was recorded for 2003.

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

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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, 2004 and 2003, 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, 2004 and 2003 were approximately \$65,000, and \$6,600, respectively.

F-16

Table of Contents

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.

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 \$148,755 and \$20,535 as of December 31, 2004 and 2003, respectively. Warranty expense for the years ended December 31, 2004 and 2003 was \$200,995 and \$20,535, respectively and charges to the warranty reserve was \$72,775 for the year end December 31, 2004.

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

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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, 2004 and 2003, the Company had not recognized an impairment loss in connection with this goodwill.

The Company, after careful consideration and review, has elected to change the accounting treatment of the transaction between the Company and CTMC (the Transaction) and accordingly restate the financial statements. Originally, the Transaction was accounted for as a business combination that resulted in

F-17

Table of Contents

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 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 by the same amount.

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.

Stock Split

On August 26, 2003 prior to the reverse merger, the Company affected a 1-for-4 stock split of each outstanding share of common stock. All share data has been restated to reflect the stock split.

Recent Accounting Pronouncements

In December 2004, the FASB revised Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation. This statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and the related implementation guidance. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It also addresses transactions in which an entity incurs liabilities in exchange for goods and 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. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. For public entities that are not small business issuers, the implementation of this Statement is required as of the beginning of the first interim or annual reporting period after June 15, 2005. For public entities that are small business issuers, like Coach, the implementation of this Statement, is required as of the beginning of the first interim or annual reporting period after December 15, 2005. Management is required to implement this Statements beginning in fiscal year beginning on January 1, 2006 and they are currently evaluating the impact of implementation of this Statement on the Company.

The Emerging Issues Task Force (EITF) reached a consensus on EITF 03-1 *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. The EITF provides guidance on the meaning of other-than-temporary impairment and its application to investments classified as either available for sale or held to maturity under FASB Statement No. 115 and investments accounted for under the cost method of accounting. The guidance of EITF 03-01 requires that the Company make evidence-based judgments about the recovery of the unrealized loss (impairment), if any, on each security considering the severity and duration of the impairment and the Company's ability and intent to hold the securities until the forecasted recovery. In September 2004 the FASB issued a FSP that delayed the effective date for the measurement and recognition guidance for the meaning of other-than-temporary impairment. The disclosure requirements were not deferred. At December 31, 2004, the securities portfolios were evaluated for other-than-temporary declines in value based on existing guidance contained in

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

FASB No. 115, SAB Topic 5-M and FASB Staff Implementation Guide to FASB No. 115 resulting in no other-than-temporary impairment of the securities portfolios.

F-18

Table of Contents

In December 2003, the American Institute of Certified Public Accountants (AICPA) Accounting Standards Executive Committee (AcSEC) issued Statement of Position 03-3 (SOP). The SOP addresses accounting for loans and debt securities acquired in purchase business combinations or purchased subsequent to origination with evidence of deterioration in credit quality since origination. The SOP prohibits the creation of valuation allowances in the initial accounting of all loans acquired that meet the criteria of the SOP. The SOP does not apply to originated loans. The SOP limits the yield that may be accreted to the excess of the purchaser's estimate of undiscounted expected principal, interest and other cash flows over the purchaser's initial investment. The SOP requires excess contractual cash flows over cash flows expected to be collected to not be recognized as an adjustment of yield, loss accrual or valuation allowance. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairments. The SOP is effective for loans and securities acquired in fiscal years beginning after December 15, 2004 with early adoption encouraged. Upon adoption as of January 1, 2005, the SOP did not have an impact on the Company's financial statements.

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.

3. CONCENTRATION OF CREDIT RISK

The amounts on deposit at December 31, 2003 did not exceed the \$100,000 federally insured limit for bank deposits. 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, 2004, the balances at various financial institutions over the FDIC insured balances are \$3.2 million 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,

	<u>2004</u>	<u>2003</u>
Vehicle Chassis	\$ 1,503,987	\$ 952,948

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

Parts	<u>332,548</u>	<u>357,535</u>
	<u>\$ 1,836,535</u>	<u>\$ 1,310,483</u>

F-19

Table of Contents**5. Lease Receivables**

The components of lease receivable, net at December 31, 2004 consist of:

Lease receivable	\$ 2,734,999
Unearned revenue	(427,152)
Allowance for lease losses	(105,059)
	<hr/>
Total lease receivable, Net	\$ 2,202,788
	<hr/>

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:

<u>Classification</u>	<u>Amount</u>	<u>Reserve Percentage</u>	<u>Percentage of Reserve</u>
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
	<hr/>		
	\$ 2,307,847		\$ 105,059
	<hr/>		<hr/>

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

The following is the five year lease payments due from lessors at December 31, 2004:

2005	\$ 1,080,835
2006	769,905
2007	571,678
2008	305,626
2009	6,954
	<hr/>
Total	\$ 2,734,999
	<hr/>

Allowance for Lease Losses for the year ended December 31, 2004:

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

Balance Beginning of the period:	\$ 0
Acquired allowance for lease losses	246,597
Leases charged to reserve	(166,497)
Provision for lease losses	24,959
	<hr/>
	\$ 105,059
	<hr/>

F-20

Table of Contents**6. PROPERTY AND EQUIPMENT**

The following is the property and equipment at December 31:

	<u>2004</u>	<u>2003</u>
Computer equipment and software	\$ 147,790	\$ 114,303
Furniture and fixtures	56,656	727
Plant equipment	282,594	519,249
Leasehold improvements	6,215	267,585
Independent contract settlement platform	1,400,000	
Internally generated software	241,563	
	<u>2,220,129</u>	<u>901,864</u>
Less Accumulated depreciation	(165,897)	
	<u>\$ 1,968,921</u>	<u>\$ 901,864</u>

Depreciation expenses for the year ended December 31, 2004 and 2003 were \$165,897 and zero, respectively.

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.

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.

As of December 31, 2004 and 2003 the Company had receivable balances for approximately \$188,862 and \$31,593 due from related parties, respectively.

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. 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 to \$1.30.

Table of Contents

The Company maintained certain equipment used for manufacturing currently owned by a related party in anticipation of a pending purchase agreement for that equipment. Effective December 31, 2003, the Company acquired the equipment and inventory for \$859,147. The transaction was settled through an equity contribution from the related party.

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.

Related party accounts payables totaled zero and \$305,739 at December 31, 2004 and 2003, respectively, which were due for funding professional fees and cash flow requirements of CTMC and SCB.

Notes payable - related parties totaled \$900,000 and \$613,659 at December 31, 2004 and 2003, respectively. The 2004 balance is related to amounts due to shareholders of CDS. The 2003 balance was due to the former owner of SCB at December 31, 2003, specifically relating to chassis inventory purchased at acquisition.

8. ACQUISITIONS

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
_____	_____

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

Revenue	\$ 1,068,487	\$ 1,068,487
Net income (loss)	\$ (1,743,290)	\$ (2,148,279)
	<u> </u>	<u> </u>
Basic and diluted net income (loss) per share	\$ (0.79)	\$ (0.41)
	<u> </u>	<u> </u>
Basic and diluted weighted average shares outstanding	2,219,699	5,219,699
	<u> </u>	<u> </u>

F-22

Table of Contents

On August 6, 2004, Coach signed a letter of intent to acquire Corporate Development Services, Inc. (CDS), located in Glens Falls, New York, whereby the Company issued to the shareholders of CDS a combination of \$3.2 million shares of common stock, \$500,000 cash and \$460,000 notes payable. The acquisition was completed August 31, 2004 and is reflected in our financial statements for the period ended September 1, 2004. The Company paid \$4.8 million for CDS through the issuance of 3.2 million shares of common stock valued at \$1.19, of which 504,202 shares of common stock are held in escrow. The Company has required that CDS provide to them a signed agreement with their insurance carrier, for at least a term of two years. Upon signing of that agreement, the Company will issue to the shareholders additional consideration of \$1.2 million to be paid in \$240,000 cash and common stock amounting to \$960,000. The Company recorded goodwill of approximately \$5.6 million effective August 31, 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 \$1.2 million to the independent contractor settlement platform 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 a 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.

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

Table of Contents**9. SUPPLEMENTAL CASH FLOW INFORMATION**

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:

	<u>CFS</u>	<u>CDS</u>	<u>Total</u>
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
	<u> </u>	<u> </u>	<u> </u>
Cash received from business acquisitions, net	\$	\$ 718,156	\$ 718,156

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:

	<u>Coach</u>	<u>SCB</u>	<u>Total</u>
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)
	<u> </u>	<u> </u>	<u> </u>
Net non-cash assets acquired		2,635,958	2,635,958
Less: common issued		(2,660,000)	(2,660,000)
	<u> </u>	<u> </u>	<u> </u>
Cash received from business acquisitions, net	\$	\$ (24,042)	\$ (24,042)

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

	<u>2004</u>	<u>2003</u>
Non cash financing/investing activities:		

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

Contributed inventory and property and equipment as contributed capital	\$	\$ 860,923
Conversion of debt	3,842,668	
Issuance of restricted stock related to deferred compensation	1858,552	550,366
Issuance of treasury stock	(720,000)	720,000
Offset receivable balance from related party against personal guarantee obligations	429,000	

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

F-24

Table of Contents

10. Shareholders Equity

Stock Transactions:

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.

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.

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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.

F-25

Table of Contents

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:

<u>Description</u>	<u>Shares Issued</u>	<u>Amount</u>
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

Table of Contents

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:

As of August 26, 2003, the Company reserved 1.6 million shares, valued at \$0.45 cents per share, for the purpose of using as agreed consideration for a potential transaction. The shares shall vest on the effective date of the aforementioned potential transaction. The shares were has been reserved in treasury stock amounting to \$720,000 as of December 31, 2003.

Stock options:

The following is a summary of the Company's common stock option for the 2004 Stock Option Plan activity for the year ended December 31, 2004:

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

Outstanding at December 31, 2003	0
Exercised	0
Forfeited	0
Issued	3,000,000
	<hr/>
Outstanding at December 31, 2004	3,000,000
	<hr/>
Available for grant at December 31, 2004	0

For the Years Ended

	December 31,	
	2004	2003
	<hr/>	<hr/>
Weighted average exercise price of options outstanding	\$ 0.90	\$ 0
Weighted average exercise price of options exercised	\$ 0	\$ 0
Weighted average price of options forfeited	\$ 0	\$ 0

F-27

Table of Contents

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 Free Interest Rate	Expected Volatility	Expected Dividend Yield
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

The employee turnover factor was 0% for officer incentive and non-qualifying stock options during the year ended December 31, 2004 and 2003, respectively. The expected life for options issued during 2004 was 10 years.

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

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/04	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/04	Weighted-Average Exercise Price
\$ 0.90-0.98	3,000,000	9.71	0.9 2	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:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Value of Warrants</u>
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.

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.

NOTE 11 - INCOME TAXES

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

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Current:		
Federal	\$	\$
State		
Tax (benefit) from the change in valuation allowance	(2,387,654)	(674,714)

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

Benefit from operating loss carryforward	2,387,654	674,714
	<u> </u>	<u> </u>
Provision (benefit) for income taxes, net	\$	\$
	<u> </u>	<u> </u>

The difference between income tax expense computed by applying the federal statutory corporate tax rate and actual income tax expense is as follows:

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Statutory federal income tax rate	(35.0)%	(35.0)%
Decrease in valuation allowance	()%	()%
State income taxes and other	(3.74)%	(3.70)%
	<u> </u>	<u> </u>
Effective tax rate	(38.74)%	(38.70)%
	<u> </u>	<u> </u>

F-29

Table of Contents

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:

	December 31,	
	2004	2003
Deferred tax assets		
Current	\$	\$
Non-current		
Federal	2,175,886	610,152
State	249,768	99,327
	<u>2,387,654</u>	<u>674,714</u>
Less valuation allowance	(2,387,654)	(674,714)
Net deferred income tax asset	<u>\$</u>	<u>\$</u>

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

	2004		2003	
Income tax provision at expected federal income tax rate of 35%	\$ 2,156,886	35.00%	\$ 610,152	35.00%
Increase (decrease) resulting from:				
Goodwill	(19,000)			
Provision (benefit) for state taxes, net of federal benefit	249,768	3.74	99,327	3.70
Benefit for income taxes	<u>\$ 2,387,654</u>	<u>38.74%</u>	<u>\$ 674,714</u>	<u>38.70%</u>

The Company has a valuation allowance of \$3.1 million. 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.

Table of Contents

Since its formation the Company has incurred net operating losses. As of December 31, 2004 and 2003 the Company had net operating loss carryforwards 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, 2004 and 2003.

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

12. Notes Payable and Lines of Credit

The terms and conditions of its lines of credit are as follows at December 31, 2004:

	Lender	Maturity Date	Interest Rate	Collateral	Personal Guarantee	Balance December 31, 2004
(A)	Ford Motor Credit Corporation \$2.0 million Floor Plan	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	Chassis and a irrevocable letter of credit collateralized by certificate of deposit for \$500,000	Yes	\$ 1,054,909
(B)	Sovereign Bank - \$4.5 million Secured Guidance Line of Credit	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	Lease receivables	Yes	\$ 884,851
(C)	New World Lease Funding - \$5.0 million Secured Guidance Line of Credit	December 16, 2004	Interest rate charged on a monthly stated rate	Lease receivables	Yes	\$ 0
(D)	Laurus Master Funds, LLC - \$6.0 million Convertible Debentures	September 29, 2007	Prime plus 3.5 percent	Blanket Lien on all Assets	No	\$ 5,700,000

Table of Contents

13. 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.

F-32

Table of Contents

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

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

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, 2004:

	<u>Manufacturing</u>	<u>Lease Finance</u>	<u>Independent Contractor Settlement</u>	<u>Parent Company</u>	<u>Segment Total</u>
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

Table of Contents

14. Commitments and Contingencies

Effective December 31, 2003, the Company assumed an operating lease pertaining to the office and plant facilities in Springfield, Missouri. The lease term, expires in July 2006.

The minimum lease commitment, for the non-cancelable operating lease for the years ended is summarized as follows:

	<u>2004</u>	<u>2003</u>
2004	\$	\$ 132,000
2005	132,000	132,000
2006	77,000	77,000
	<u>\$ 209,000</u>	<u>\$ 341,000</u>

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

15. Subsequent Events

On January 19, 2005 the Company filed a Registration Statement on Form SB-2 with the Securities and Exchange Commission relating the Convertible Notes and related warrants issued to Laurus Master Funds, LLC. The Registration Statement went effective February 4, 2005.

During January 2005 the Company transferred \$2.8 million from restricted cash related to the Convertible Notes. The amount represents the balance of the restricted funds from the transaction. The funds were utilized to fund the final payment to CDS shareholders, to collateralize an ACH facility for CDS and to fund a floor plan line of credit for SCB.

NOTE 16 - Convertible Debentures

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

<u>Conversion Rate</u>	<u>Amount Outstanding</u>	<u>Number of Shares</u>
------------------------	-------------------------------	-----------------------------

		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

Table of Contents

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

For the year ended	Funded	Restricted	Total
December 31,	Balance	Cash Released in 2005	Convertible 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

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.

Table of Contents

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:

<u>Date of Draw</u>	<u>Debt</u>	<u>Warrants</u>	<u>Additional Paid in Capital</u>	<u>Total Draw</u>	<u>Effective Interest Rate</u>
9/29/04	\$ 821,798	\$ 313,000	\$ 465,202	\$ 1,600,000	49%
10/22/04	465,158		13,430	478,588	11%
11/3/04			300,000	300,000	NA
11/10/04	105,517			105,517	10%
11/16/04	683,910			683,910	10%
	<u>2,076,383</u>	<u>313,000</u>	<u>778,632</u>	<u>3,168,015</u>	
Conversion			(300,000)	(300,000)	
Accretion	65,617	(26,083)	(39,534)		
Total	<u>\$ 2,142,000</u>	<u>\$ 286,917</u>	<u>\$ 439,098</u>	<u>\$ 2,868,015</u>	<u>114%</u>
Allocated to Restricted	<u>\$ 2,831,985</u>	<u>0</u>	<u>0</u>	<u>2,831,985</u>	<u>9%</u>
Total	<u>\$ 4,973,985</u>	<u>\$ 286,917</u>	<u>\$ 439,098</u>	<u>\$ 5,700,000</u>	

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 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%).

Interest and Principal Payments

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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.

F-36

Table of Contents

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:

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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;

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;

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;

F-37

Table of Contents

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

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

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.

F-38

Table of Contents

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

There were no changes or disagreements with our Accountants during the last two years.

Item 8A. 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 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 8B. Other Information

None.

Table of Contents**PART III****Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.****Identity**

The following table identifies our current executive officers and directors and their respective offices held:

Name	Age	Position
Francis O Donnell	46	Chief Executive Officer and Chairman of the Board of Directors
Susan Weisman	44	Director and Chief Financial Officer
John Gore	50	Director and Chief Sales and Marketing Officer
Joseph I. Emas	50	Director and Chief Compliance and Ethics Officer
Robert Lefebvre	64	Director and President of Subcontracting Concepts, Inc.

Business Experience

All of our directors serve until their successors are elected and qualified by our shareholders, or until their earlier death, retirement, resignation or removal. The following is a brief description of the business experience of our executive officers, director and significant employees:

Francis O Donnell has served as Chief Executive Officer and Chairman of the Board of Directors of the Company since July 10, 2003. Mr. O Donnell is also the Managing Member of International Equities and Finance, LLC, a company specializing in recapitalizing and re-engineering entities and has held this position since February 2001. From November 1996 to February 2001, Mr. O Donnell was the President and Chief Executive Officer of Inorganic Recycling Corporation. From November 1993 to November 1996, Mr. O Donnell was a Group Director for Ryder Systems. From February 1991 to November 1993, Mr. O Donnell was the President and Chief Executive Officer of Business Telecom, Inc. From January 1987 to February 1991, Mr. O Donnell was the Vice President of Strategic Planning at MCI Telecommunications. Mr. O Donnell holds a Business and Mathematics degree from Rollins College, Winter Park, Florida and Masters in Business Administration (MBA) from Columbia University in New York.

Susan Weisman has served as Chief Financial Officer of the Company since June 1, 2004 and a member of the Board of Director from September 1, 2004. From May 2001 to May 2004, Ms. Weisman was with Kramer Weisman and Associates, LLP, an accounting and consulting firm providing SEC and various other management services. Ms. Weisman provided accounting, tax and consulting services to various clients (including Coach since September 2003) in the financial services, real estate, manufacturing and various other industries, focusing on publicly held reporting companies. From July 2000 through May 2001, Ms. Weisman was the Corporate Controller of Viasource Communications, Inc., a telecommunications company. Ms. Weisman was with BankAtlantic Bancorp, Inc. from September 1990 through May 2000 in various positions, leaving the company as their Chief Financial Officer. BankAtlantic Bancorp, Inc. is a \$5 billion NYSE listed financial institution located primarily in South Florida, with real estate holdings, as well as an investment-banking firm. Ms. Weisman holds an Accounting degree from Brooklyn College, Brooklyn, New York and is a Certified Public Accountant.

John Gore served as the Chief Sales and Marketing Officer since July 2004 and a member of the Board of Directors from September 1, 2004. Mr. Gore's 24 years of experience in the limousine manufacturing business as well as a provider of financial services to the limousine and transportation industry. From 1994 to 2003, Mr. Gore was the co-founder and Chief Executive Officer of United States Coach Works, Inc. (U.S. Coach Works). U.S. Coach Works was the second largest manufacturer of stretch limousines in the United States. In September 2003, NEWSDAY recognized U.S. Coach Works and one of the top 100 privately held companies on Long Island, with sales in excess of \$70 million. In addition, Mr. Gore founded Go Financial Group (GFG), a financial services company that provides financing within the transportation industry. From 1988 to 1994, Mr. Gore was a director and subsequently President of First Empire Banc Corp (FEBC), which provided commercial financing on a national basis. From 1984 to 1990, Mr. Gore was President of Southampton Coach Works, Inc., a manufacturer of limousines that was sold in 1990 and currently operates as Royale Limousine Manufacturers. Mr. Gore was the founding member and has held several directors, committee and officers' posts of the Limousine Industry Manufacturing Organization (LIMO). In 1990, Mr. Gore was elected to the post of Chairman of the limousine anti dumping organization and successfully defended the industry from foreign competition in the courts of the United States International Trade Commission.

Table of Contents

Joseph I. Emas served as general counsel of the Company since July 2004 and as a director since November 2004. Mr. Emas is licensed to practice law in Florida, New Jersey and New York. Mr. Emas specializes in securities regulation, corporate finance, mergers and acquisitions and corporate law. Mr. Emas received his Honors BA at University of Toronto, Bachelor of Administrative Studies, with distinction, at York University in Toronto, his JD, cum laude from Nova Southeastern Shepard Broad Law School and his LL.M. in Securities Regulation at Georgetown University Law Center. Mr. Emas was an Adjunct Professor of Law at Nova Southeastern Shepard Broad Law School. Mr. Emas received the William Smith Award, Pro Bono Advocate for Children in 2000 and is the author of *Update of Juvenile Jurisdiction Florida Practice in Juvenile Law*. Mr. Emas has been a member of the Juvenile Court Rules Committee for the State of Florida since 1999. Mr. Emas, our initial securities regulation counsel, has been our Chief Ethics and Compliance Officer since January 1, 2004.

Robert L. Lefebvre served as a director since December 3, 2004. Mr. Lefebvre has served as the president of Subcontracting Concepts, Inc. (SCI) since 1996. Mr. Lefebvre began his career in 1958 while serving a five-year tour of duty in the US Air Force as a system analyst. While in the Air Force s Pacific Air Command, Mr. Lefebvre was part of a seven-member team whose responsibility was the conversion from punch card accounting systems to the newly developed computer. After his discharge in 1963, Mr. Lefebvre spent a number of years as a systems analyst at the Glens Falls Hospital. In 1970, capitalizing on changes in Medicare reimbursement policies that provided for direct reimbursement to hospital based physicians. He founded Regional Data Center (RDC) a company designed to manage the accounts receivables for the hospital-based physician. RDC grew very quickly to a company collecting over \$400 million per year from 29 offices in New York. Mr. Lefebvre then merged his company into Advacare, a national accounts receivable management firm and continued as Vice President until Advacare went public after which he entered retirement in 1991. After two years of retirement Mr. Lefebvre again became active in business by first founding a Professional Employment Organization called Total Benefit Management (TBM), which he still heads today.

Family Relationships

There are no family relationships between any two or more of our directors or executive officers. There is no arrangement or understanding between any of our directors or executive officers and any other person pursuant to which any director or officer was or is to be selected as a director or officer, and there is no arrangement, plan or understanding as to whether non-management shareholders will exercise their voting rights to continue to elect the current board of directors. There are also no arrangements, agreements or understandings to our knowledge between non-management shareholders that may directly or indirectly participate in or influence the management of our affairs.

Involvement in Certain Legal Proceedings

To the best of our knowledge, during the past five years, none of the following occurred with respect to a present or former director or executive officer of the Company: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the commodities futures trading commission to have violated a Federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company s directors and executive officers, and persons who beneficially own more than 10% of a registered class of the Company s equity securities, to file reports of beneficial ownership and changes in beneficial ownership of the Company s securities with the SEC on Form 3 (Initial Statement of Beneficial Ownership), Form 4 (Statement of Changes of Beneficial Ownership of Securities) and Form 5 (Annual Statement of Beneficial Ownership of Securities). Directors, executive officers and beneficial owners of more than 10% of the Company s Common Stock are required by SEC regulations to furnish the Company with

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

copies of all Section 16(a) forms that they file. Except as otherwise set forth herein, based solely on review of the copies of such forms furnished to the Company, or written representations that no reports were required, the Company believes that for the fiscal year ended December 31, 2004, beneficial owners complied with Section 16(a) filing requirements applicable to them, except that they have not filed Form 5 s, except that executives including John Gore and Robert Lefebvre are in the process of completing the appropriate forms but have not filed Form 5 s for fiscal year ended December 31, 2004.

Table of Contents

Board Committees and Independence

All of the directors serve until the next annual meeting of common shareholders and until their successors are elected and qualified by our common shareholders, or until their earlier death, retirement, resignation or removal. Officers will hold their positions at the pleasure of the board of directors, except for Francis O. Donnell, our Chief Executive Officer, who is currently employed under an employment agreement. Our Bylaws set the authorized number of directors at not less than one or more than nine, with the actual number fixed by our board of directors. Our Bylaws authorized the Board of Directors to designate from among its members one or more committees and alternate members thereof, as they deem desirable, each consisting of one or more members, with such powers and authority (to the extent permitted by law and these Bylaws) as may be provided in such resolution.

Our board of directors has established three committees to date, an Audit Committee, Finance Committee and a Compensation Committee. The principal functions of the Audit Committee are to recommend the annual appointment of the Company's auditors concerning the scope of the audit and the results of their examination, to review and approve any material accounting policy changes affecting the Company's operating results and to review the Company's internal control procedures. The principal functions of the Compensation Committee are to review and recommend compensation and benefits for the executives of the Company. The principal functions of the Finance Committee are to review and recommend financing and investment opportunities for the Company.

None of our current directors are deemed independent directors as that term is used by the national stock exchanges or have the requisite public company accounting background or experience to be considered an audit committee financial expert as that term is defined by the under Regulation S-B promulgated under the Securities Act of 1933, as amended. The entire Board of Directors will perform the function of the Audit Committee until we appoint directors to serve on the Audit Committee. Our business model is not complex and our accounting issues are straightforward. Responsibility for our operations is centralized within management, which is currently comprised of five people. We recognize that having a person who possesses all of the attributes of an audit committee financial expert would be a valuable addition to our Board of Directors, however, currently we are not able to adequately compensate such a person, therefore may find it difficult to attract such a candidate. Management wishes to expand the Board of Directors. In expanding our Board of Directors, we will seek individuals who would be able to guide our operations based on their business experience, both past and present, or their education, and whenever possible, persons who will also qualify as independent directors.

Changes in Control

We are not aware of any arrangements that may result in a change in control of the Company.

Code of Ethics

The Company has adopted a code of business conduct and ethics that applies to its directors, officers, and employees, including its principal executive officers, principal financial officer, principal accounting officer, controller or persons performing similar functions.

Table of Contents**Item 10. Executive Compensation****Summary Compensation Table**

The following table shows the compensation paid over the past three fiscal years with respect to our named executive officers as that term is defined by the under the Securities and Exchange Act of 1934.

Name and Principal Position	Year	Annual Compensation		Long Term Compensation				
		Salary	Bonus	Awards		Payouts		
				Other Annual Compensation	Restricted Stock Award(s)	Options/ SARs (#)	LTIP Payouts	All Other Compensation
Francis O. Donnell <i>Chief Executive Officer</i>	2004	\$ 7,000 ⁽¹⁾	714,894 ⁽²⁾					
	2003				965,450 ⁽³⁾			
	2002							
Susan Weisman <i>Chief Financial Officer</i>	2004	\$ 92,589 ⁽⁴⁾						
	2003							
	2002							
John H. Gore <i>Chief Sales and Marketing Officer</i>	2004	\$ 58,737 ⁽⁵⁾	429,532 ⁽⁶⁾					
	2003	\$ 91,755						
	2002							
Joseph I. Emas <i>Chief Compliance and Ethics Officer</i>	2004			20,000 ⁽⁷⁾				397,500 ⁽⁸⁾
	2003							
	2002							
Brad Cohen, <i>Former Chief Financial Officer</i>	2004							
	2003							
	2002	104,167 ⁽⁹⁾						9,800 ⁽¹⁰⁾
David Mullikan, <i>Former [CEO]</i>	2004							
	2003							
	2002	104,167 ⁽¹¹⁾						9,800 ⁽¹²⁾

(1) Mr. O. Donnell is still owed \$193,000 for accrued and unpaid wages from salary earned during 2004.

(2) During 2004, the Mr. O. Donnell received compensation for his personal guarantees totaling \$714,894, this amount was converted into 777,058 shares of common stock, effective December 31, 2004.

(3) Mr. O. Donnell received 1,405,000 shares of common stock on August 26, 2003 valued at \$0.45 a share, for past and future services to the Company. The value of the issuance of stock was \$632,250. In addition, companies that Mr. O. Donnell controls have settled outstanding liabilities with the Company through the issuance of an aggregate of 1.1 million shares of common stock, as of August 26, 2003, valued at \$0.45 per share reflecting a loss to the Company totaling \$333,200.

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

- (4) Ms. Weisman is still owed \$30,328 for accrued and unpaid wages from salary earned during 2004.
- (5) Mr. Gore is still owed \$31,684 for accrued and unpaid wages from salary earned during 2004.
- (6) Mr. Gore received compensation of \$485,610 for his personal guarantees. The Company offset \$429,532 against a liability owed by a company owned and controlled by him for the year ended December 31, 2004; the balance of \$56,078 is accrued and unpaid.
- (7) Mr. Emas is still owed \$10,000 for accrued and unpaid wages from salary earned during 2004.
- (8) Mr. Emas received 250,000 shares of common stock valued at \$297,500 as compensation for the year-ended December 31, 2004.
- (9) Effective January 1, 2002, the Company entered two separate lease agreements with officers and directors of the Company to lease space to be utilized for office purposes at a rate totaling \$5,134 per month. The initial term of the lease was one year with a two-year renewal option (at the Company's option) at a rate totaling \$10,000 per month. Rental expense totaled \$29,868 for the year ended December 31, 2002. The agreement between the Company and Brad Cohen was terminated effective with his resignation on May 31, 2002.
- (10) The Company issued 1,493 shares of common stock to Brad Cohen pursuant to his employment agreements.
- (11) Effective January 1, 2002, the Company entered two separate lease agreements with officers and directors of the Company to lease space to be utilized for office purposes at a rate totaling \$5,134 per month. The initial term of the lease was one year with a two-year renewal option (at the Company's option) at a rate totaling \$10,000 per month. Rental expense totaled \$29,868 for the year ended December 31, 2002. The agreement between the Company and Mr. Mullikin was terminated on January 3, 2003.
- (12) The Company issued 1,493 shares of common stock to David Mullikin pursuant to his employment agreements.

Table of Contents**Options and Stock Appreciation Rights Grant Table**

There were no grants of stock options to the Named Executive Officers during the fiscal year ended December 31, 2003.

The following is a table of Options and Stock Appreciation Rights Grant Table for the year ended December 31, 2004:

Category	Number of Securities to be issued upon exercises of outstanding options and warrants	Weighted Average Exercise Price Of Outstanding Options and Warrants	Number of Securities available For future Plan Issuance
Equity compensation plans Approved by shareholders	3,000,000	\$ 0.90	0
Equity compensation plans not approved by shareholders	300,000	\$ 0.90	0

Aggregated Option Exercises and Fiscal Year-End Option Value Table

We did not have any outstanding stock options or stock appreciation rights at end the fiscal year ended December 31, 2003.

The following is a table of Aggregated Option Exercises and Fiscal Year-End Option Value Table as of December 31, 2004:

Name	Shares Acquired On Exercise (#)	Value Realized	Value of In the Money Options	
			at	
			Number of Securities Underlying Unexercised Options At FY-End (#)Exercisable/Unexercisable	FY-End (\$)Exercisable/Unexercisable
Francis O Donnell			500,000/891,600	\$ 165,000/\$146,573
Susan Weisman			300,000/891,600	\$ 99,000/\$146,573
John Gore			500,000/891,600	\$ 165,000/\$146,573
Joseph I. Emas			200,000/0	\$ 66,000/\$0
Robert Lefebvre			300,000/0	\$ 75,000/\$0

Long-Term Incentive Plan Awards Table

We do not have any Long-Term Incentive Plans.

Compensation of Directors

We currently have five directors. Our current compensation policy for our directors is to compensate them through options to purchase common stock as consideration for their joining our board of directors and/or providing continued services as a director. We do not currently provide our directors with cash compensation, although we do reimburse their expenses. No additional amounts are payable to the Company's directors for committee participation or special assignments. There are no other arrangements pursuant to which any director was compensated during the Company's last completed fiscal year for any service provided as director. As of September 1, 2004, the Company had issued to five directors options to purchase up to 1.8 million shares of common stock with an exercise price of \$0.90 per share.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

Effective September 1, 2004, the company entered into an employment agreement with Francis O. Donnell, its Chief Executive Officer. Mr. O. Donnell's employment agreement provides for a term of five (5) years. Mr. O. Donnell is initially entitled to annual base compensation of \$200,000 per year, which shall be increased to \$250,000 per year in fiscal 2005 and to \$300,000 per year for the remainder of the term and options to purchase up to 500,000 shares of common stock. Mr. O. Donnell is entitled to a reimbursement of all reasonable business expenses. Mr. O. Donnell is entitled to a bonus at the end of each of the Company's fiscal year as determined by the Board of Directors. Mr. O. Donnell is entitled to a \$1,250 per month automobile allowance. Mr. O. Donnell is

Table of Contents

entitled to receive options at the discretion of the Company's Board of Directors. Mr. O'Donnell is also entitled to receive reimbursement for life and disability insurance, as well as costs associated with tax and estate planning. At December 31, 2004, Mr. O'Donnell has deferred approximately \$193,000 in cash compensation under his employment agreement due to the Company's cash position.

The employment agreement provides for early termination in the case of Mr. O'Donnell's death or permanent incapacity, Mr. O'Donnell's termination by the Company for cause as that term is defined in the agreement; or in the event of a change in control as that term is defined in the agreement. In the event of Mr. O'Donnell's termination of employment by the Company without cause, the Company shall pay him an amount equal to his remaining base salary due to the end of the term, plus any bonuses, incentives or stock bonuses due through the date of termination calculated on a pro rata basis and issue Mr. O'Donnell 500,000 shares of the Company's common stock. The Company will also continue all benefits throughout the term of the agreement. In the event of a change in control, then the Company will accelerate any remaining contract balance.

The employment agreement also contains provisions relating to Mr. O'Donnell's obligation to maintain the confidentiality of the Company's confidential information indefinitely and prohibit Mr. O'Donnell from soliciting the trade or business of, or trade, or conduct business with any customers or suppliers, or prospective customers or suppliers, of the Company during the term of the employment or for a period of two years following the termination of the employment agreement.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth certain information regarding beneficial ownership of the common stock as of December 3, 2004, by (i) each person who is known by the Company to own beneficially more than 5% of the any classes of outstanding Stock, (ii) each director of the Company, (iii) each of the Chief Executive Officers and the four (4) most highly compensated executive officers who earned in excess of \$100,000 for all services in all capacities (collectively, the Named Executive Officers) and (iv) all directors and executive officers of the Company as a group.

The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 and 13d-5 of the Exchange Act, and the information is not necessarily indicative of beneficial ownership for any other purpose. We believe that each individual or entity named has sole investment and voting power with respect to the securities indicated as beneficially owned by them, subject to community property laws, where applicable, except where otherwise noted. Unless otherwise stated, the address of each person is 12330 SW 53rd Street, Suite 703, Cooper City, FL 33330.

Name of Beneficial Owner	Number of Shares of Common Stock ⁽¹⁾	Percent of Class
Francis O'Donnell, <i>Chief Executive Officer, Director</i>	9,187,817 ⁽²⁾	40.51%
Robert Lefebvre <i>Director</i>	1,594,117 ⁽⁶⁾	8.42%
John Gore <i>Chief Sales and Marketing Officer, Director</i>	915,039 ⁽⁴⁾	4.78%

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

Joseph I. Emas

<i>Chief Compliance and Ethics Officer, Director</i>	450,000 ⁽⁵⁾	2.39%
Susan Weisman		
<i>Chief Financial Officer, Director</i>	375,000 ⁽³⁾	1.98%
All Officers and Directors as a group (5 persons)	12,521,973	55.21%

(1) Calculated based on 18,982,785 shares of common stock outstanding as of December 31, 2004.

(2) Includes up to 500,000 shares of common stock, with an exercise price of \$0.90, issuable upon exercise of options issued pursuant to an employment agreement dated September 1, 2004 with Mr. O'Donnell; 2,035,582 shares of common stock and 2,035,582 warrants to purchase shares of common stock issuable upon conversion of promissory notes, with 711,000 warrants with an exercise price of \$2.50, 433,194 warrants with an exercise price of \$2.12, 433,194 warrants with an exercise price of \$1.82 and 433,194 warrants with an exercise price of \$1.58, all of which Francis O'Donnell may be deemed to

Table of Contents

- beneficially own under Rule 13d-3; 188,333 shares of common stock owned by Innovative Consulting LLC, all of which Francis O'Donnell may be deemed to beneficially own under Rule 13d-3; 60,533 shares of common stock owned by International Equities and Finance LLC, all of which Francis O'Donnell may be deemed to beneficially own under Rule 13d-3; 423,529 shares of common stock owned by Go Commercial Leasing Company, all of which Francis O'Donnell may be deemed to be beneficially own under Rule 13d-3; and 1,022,500 shares of common stock of which Francis O'Donnell retains voting control. Francis O'Donnell collectively maintains the voting rights for these shares of common stock. 1,800,000 shares owned by Springfield Coach Industries Corporation, Inc. all of which Elm Street Partners may be deemed to beneficially own under Rule 13d-3.
- (3) Includes up to 300,000 shares of common stock, with an exercise price of \$0.90, issuable upon exercise of options; and 75,000 shares of common stock owned by Kramer Weisman and Associates, LLP, an accounting and consulting firm controlled by Lester Weisman, the husband of Susan Weisman, which may be deemed beneficially owned by Susan Weisman under Rule 13d-3.
 - (4) Includes up to 500,000 shares of common stock, with an exercise price of \$0.90, issuable upon exercise of options; and 137,000 shares of common stock owned by Helen Gore, the wife of John Gore, and 278,039 shares issued to FCW Realty, a company controlled by the wife of John Gore, all of which may be deemed beneficially owned by John Gore under Rule 13d-3.
 - (5) Includes up to 200,000 shares of common stock, with an exercise price of \$0.90, issuable upon exercise of options.
 - (6) Includes up to 300,000 shares of common stock issuable upon exercise of options; 300,000 shares of common stock, with an exercise price of \$0.98, issuable upon exercise of options to purchase common stock; and 1,294,117 shares of common stock owned by Carmen Lefebvre, the wife of Robert Lefebvre, all of which may be deemed beneficially owned by Robert Lefebvre under Rule 13d-3.

Item 12. Certain Relationships and Related Transactions

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. Francis O'Donnell, Chief Executive Officer and director converted his compensation of \$714,893 into 777,058 shares of common stock.

The Company has a receivable of \$429,000 due from a company owned by J. Hayes Gore for salaries, rent, materials and reimbursement of leasehold improvements paid by the Company on their behalf. The Company believes that the terms of the transaction were no less favorable to the Company than could have been obtained in an arm's-length transaction. This balance was offset by a similar amount due to this executive for his compensation attributed to personal guarantees.

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.

During the year ended December 31, 2004, the Company paid Kramer Weisman and Associates, LLC, an accounting and consulting firm controlled by Ms. Weisman's husband, Lester Weisman, \$77,000, with an additional \$5,000 due and owing as of December 31, 2004, for consulting services provided to the Company. The Company also issued 75,000 shares of common stock, valued at \$79,500, to Kramer Weisman and Associates, LLC. 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. The Company believes that the terms of the transaction were no less favorable to the Company than could have been obtained in an arm's-length transaction.

The Company owed a related party accounts payable totaled \$305,739 and zero at December 31, 2004 and December 31, 2004, respectively. These amounts pertain to amounts funded by Elm Street Partners, a company controlled by Francis O'Donnell, for professional fees and cash flow requirements of Coach, CTMC and SCB. The Company believes that the terms of the transaction were no less favorable to the Company than could have been obtained in an arm's-length transaction. The Company converted the amount owed to Elm Street Partners, LLC as discussed below.

During the third quarter of 2004 Elm Street Partners, LLC, a company controlled by our Chairman and CEO, Francis O. Donnell, converted \$1.3 million 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 during 2004. In addition, 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 believes that the terms of the transaction were no less favorable to the Company than could have been obtained in an arm's-length transaction.

On December 31, 2003, the Company borrowed \$613,659 from John Baumgartner, the former owner of Springfield Coach Builders, Inc, to purchase chassis inventory as a part of its acquisition of Springfield Coach Industries Corporation, Inc. The Company does not owe Mr. Baumgartner any money as of December 31, 2004, relating to this transaction. As of December 31, 2004,

Table of Contents

Mr. Baumgartner owed the Company \$190,000 arising from sales transactions, reimbursement of management fees, and funding of used car sales. The Company believes that the terms of the transaction were no less favorable to the Company than could have been obtained in an arm's-length transaction.

Mr. Mullikin was a director and acting Chief Executive Officer of the Company prior to August 22, 2003. The net book value of the net assets sold approximated \$8,000 as of the date of sale. Pursuant to the asset sale agreement the Company agreed to transfer such assets in settlement of a portion of the then outstanding principal balance of \$179,359 together with all accrued but unpaid interest. The settlement of this note payable resulted in a gain of \$135,100 based upon the market value of the common stock at the date issued and was classified as gain on disposal of discontinued operations in the Statement of Operations for the year ended December 31, 2003, prior to the reverse merger with CTMC. The Company believes that the terms of the transaction were no less favorable to the Company than could have been obtained in an arm's-length transaction.

CTMC leases approximately 30,000 square feet of space located in Bohemia, New York, from FCW Realty, which is owned by our directors, John Gore, wife, pursuant to a lease agreement, which expires in December 2007. Our annual rent under the lease is \$288,000, for the remainder of the term. CTMC uses the space as its executive offices and manufacturing plant. The sales office is still housed in this facility and the Company is obligated to the landlord on the CTMC facility through the term of the lease. 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 pending finalization of the final closing documents. The Company has been advised by a related party that the settlement agreement may not be accepted by FCW. The sales office is occupying 3,500 square feet of this facility for \$5,000 a month, on a month-by-month basis. The Company believes that the terms of the transaction were no less favorable to the Company than could have been obtained in an arm's-length transaction.

During the year ended December 31, 2003, the Company issued 1,405,000 shares of common stock to Francis O. Donnell for consulting services provided to the Company. The total value of these agreements was \$632,250 to settle past services, as well as future services to the Company. The shares of common stock were issued with a three-month restriction. The agreements are for consulting services for 2 years.

On August 26, 2003, the Company issued Innovative Consulting Group, a company controlled by Francis O. Donnell, 433,333 shares of restricted common stock in settlement of an outstanding debt owed of \$65,000 arising out of the settlement of outstanding payable amount owed for operating expenses of the Company. On the same date, the Company issued International Equities and Finance, LLC, a company controlled by Francis O. Donnell, 677,333 shares of restricted common stock in settlement of an outstanding payable amount owed of \$101,600 arising out of the settlement of outstanding payable amounts owed for operating expenses of the Company. The Company believes that the terms of these transactions were no less favorable to the Company than could have been obtained in arm's-length transactions.

Table of Contents

PART IV

Item 13. Exhibits

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⁾
- 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⁾

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

10.23 Intercreditor Agreement dated January 12, 2005, among Subcontracting Concepts, Inc., North Fork Bank and Laurus Master Fund, Ltd. ⁽⁵⁾

Table of Contents

- 14.1 Code of Ethics (6)
- 21.1 List of Subsidiaries(6)
- 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.
- (6) Previously filed as an exhibit to our Annual Report on Form 10-KSB for the year ended December 31, 2004 filed with the Commission on March 30, 2005, and incorporated herein by this reference.

Reports on Form 8-K.

Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

On December 9, 2004 the Company filed a Form 8-K related to the appointment of Principal Officer and Director. On December 3, 2004, the directors unanimously appointed Robert L. Lefebvre as director to fill a vacancy on the Board of Directors. Mr. Lefebvre has also been appointed to serve as a member of the Compensation Committee. Pursuant to the Agreement and Plan of Merger, between the Registrant and Corporate Development Services, Inc., a copy of which was included with the Registrant's Form 8-K filed on October 27, 2004, the Registrant agreed to appoint Mr. Lefebvre as a director.

Acquisition or disposition of assets.

On October 27, 2004, the Company filed a Form 8-K, and subsequently amended on December 3, 2004 for the acquisition or disposition of assets relating to the agreement on October 21, 2004, in which we completed our acquisition of Corporate Development Services, Inc., a New York corporation (CDS), pursuant to an Agreement and Plan of Merger, the form of which is attached as Exhibit 2.1 hereto. At the effective time of the merger, Corporate Development Services, Inc. will be merged with and into our wholly owned subsidiary, CDS Merger Sub, Inc., a New York corporation, with CDS Merger Sub, Inc., being the surviving entity in the merger. CDS, founded in 2001, based in New York, provides contract labor, insurance products and management services for Commercial Fleet Operators throughout the United States.

Edgar Filing: COACH INDUSTRIES GROUP INC - Form 10KSB/A

The aggregate consideration to be paid to the holders of CDS Common Stock in connection with the Merger (the Merger Consideration) in exchange for all of the issued and outstanding shares of CDS Common Stock shall be equal to \$4,800,000 (the Merger Consideration), payable as follows: (i) \$500,000 in cash (the Cash Consideration); (ii) promissory notes in an aggregate principal amount of \$460,000, maturing January 15, 2005; and (iii) shares of our common stock, par value \$0.001 per share (the CIGI Common Stock), having an aggregate value based upon agreed criteria of \$3,840,000. The Merger Consideration may be decreased based on criteria disclosed in the Agreement and Plan of Merger. The parties have agreed that the Closing shall be deemed for financial reporting purposes to be effective as of September 1, 2004. The effective date of the transaction shall be contingent upon certain factors including, but not limited to, the filing in accordance with all applicable regulations of a Certificate of Merger with respect to the Merger (the Certificate of Merger) with the Secretary of State of the State of New York.

Unregistered Sales of Securities

Laurus Transaction.

On October 6, 2004 we filed a report on Form 8-K for unregistered sales of securities related to the Laurus agreement. On September 29, 2004, we entered into and closed a Securities Purchase Agreement and related agreements with Laurus Master Fund, Ltd., a

Table of Contents

Cayman Island company (Laurus). Under the agreement, we issued to Laurus a convertible term note in the aggregate principal amount of \$6,000,000. The term of the note is three years and bears interest at the rate of prime (as published in the Wall Street Journal) plus three and one half percent. The funds received from the note, after fees and costs will be used to purchase all the assets and equity of Corporate Development Services, Inc., anticipated to be up to \$1,200,000 with the remainder of the funds to be used for general corporate purposes.

In connection with the agreement and term note, we issued Laurus stock purchase warrants to acquire our common stock. The stock purchase warrant grants Laurus the right to acquire 1,487,601 shares of our common stock during a seven year term. The exercise prices of the warrant are \$1.51, \$1.82, and \$2.12, respectively, each for one third of our common stock covered under the warrant. On or before October 29, 2004, we are required to file a registration statement with the Securities and Exchange Commission covering the common stock issuable upon conversion of amounts due under the note, as well as the our common shares issuable upon exercise of the stock purchase warrants described above.

Item 14: Principal Accountant Fees And Services

The following table sets forth fees billed to us by our auditors during the fiscal years ended December 31, 2004 and December 31, 2003.

Fee Category	Fiscal Year Ended	
	December 31, 2004	December 31, 2003
(i) Audit Fees	\$ 56,000	\$ 27,000
(ii) Audit Related Fees	\$ 22,500	\$ 27,000
(iii) Tax Fees		
(iv) All Other Fees		
Total Fees	\$ 78,500	\$ 54,000

Audit Fees. Audit fees consist of fees billed for professional services rendered for the audit of the Company's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Jewett Schwartz & Associates, L.L.P. in connection with statutory and regulatory filings or engagements.

Audit-Related Fees. Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under Audit Fees.

Tax Fees. Tax fees consist of fees billed for professional services for tax compliance, tax advice and tax planning. The Company was not provided with any tax-related services in fiscal 2004 or 2003.

All Other Fees. All other fees consist of fees for products and services other than the services reported above.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Board of Directors has not appointed any directors to serve on its Audit Committee, and accordingly, the Company's entire Board of Directors will perform the function of the Audit Committee until directors are appointed to serve on the Audit Committee. The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Company's Board of Directors regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services

Table of Contents

performed to date. The Board of Directors may also pre-approve particular services on a case-by-case basis. Our Board of Directors considers that the work done for us in the year ended December 31, 2004, by Jewett Schwartz & Associates, L.L.P. is compatible with maintaining Jewett Schwartz & Associates, L.L.P.'s independence.

All of the work expended by Jewett Schwartz & Associates, L.L.P. on our December 31, 2004 audit was attributed to work performed by Jewett Schwartz & Associates, L.L.P.'s full-time, permanent employees.

Table of Contents

SIGNATURES

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

COACH INDUSTRIES GROUP, INC.

By: /S/ FRANCIS O DONNELL

Francis O Donnell

Chief Executive Officer (principal executive officer)
Date: February 21, 2006

By: /S/ SUSAN WEISMAN

Susan Weisman

Chief Financial Officer (principal financial officer)
Date: February 21, 2006

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Position</u>	<u>Date</u>
By: /S/ FRANCIS O DONNELL _____ Francis O Donnell	Director	February 21, 2006
By: /S/ SUSAN WEISMAN _____ Susan Weisman	Director	February 21, 2006
By: /S/ JOSEPH I. EMAS _____ Joseph I. Emas	Director	February 21, 2006
By: /S/ ROBERT LEFEVBRE _____ Robert Lefebvre	Director	February 21, 2006
By: /S/ PAMELA JARRATT _____ Pamela Jarratt	Director	February 21, 2006

Table of Contents

Exhibit Index

Exhibit No.	Description
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.