

COACH INDUSTRIES GROUP INC

Form SB-2/A

February 04, 2005

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As filed with the Securities and Exchange Commission on February 4, 2005

Commission File No. 333 122135

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

to

FORM SB-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

COACH INDUSTRIES GROUP, INC.

(Name of small business issuer in its charter)

Nevada
(State or jurisdiction of
incorporation or organization)

3711
(Primary Standard Industrial
Classification Code Number)

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

Francis O Donnell
Chief Executive Officer

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12330 SW 53rd Street

Suite 703

Cooper City, FL 33330

(954) 602-1400

(Address and telephone number of principal executive offices)

(Name, address, including zip code, and telephone number, including area code, of agent for service of process)

Copies to:

Mark Y. Abdou, Esq.

Richardson & Patel LLP

10900 Wilshire Boulevard, Suite 500

Los Angeles, California 90024

Telephone (310) 208-1182

Approximate date of proposed sale to public: From time to time after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common shares	700,000	\$1.08	\$756,000	\$88.98 ⁽¹⁾
Common Shares underlying Convertible Note ⁽²⁾	2,849,072	\$1.08	\$3,076,997.76	\$362.16 ⁽³⁾
Common Shares underlying Convertible Note ⁽²⁾	885,053	\$1.09	\$964,707.77	\$113.55
Common Shares underlying Convertible Note ⁽²⁾	1,697,821	\$1.21	\$2,054,363.41	\$241.80
Common shares underlying Warrant	495,867	\$1.51	\$748,759.17	\$88.13 ⁽⁴⁾
Common shares underlying Warrant	495,867	\$1.82	\$902,477.94	\$106.22 ⁽⁴⁾
Common shares underlying Warrant	495,867	\$2.12	\$1,051,238.04	\$123.73 ⁽⁴⁾
Total	7,619,547			\$1,124.57 ⁽⁵⁾

- (1) Calculated in accordance with Rule 457(c) under the Securities Act on the basis of the average of the high and low prices of the common stock on January 14, 2005, as quoted on the OTC Bulletin Board.
- (2) Includes shares of our common stock that we estimate in good faith are issuable to Laurus Master Fund, Ltd. pursuant obligations under the Convertible Note, dated September 29, 2004
- (3) Calculated in accordance with Rule 457(g) under the Securities Act on the basis of the average of the high and low prices of the common stock on January 14, 2005, as quoted on the OTC Bulletin Board.
- (4) Calculated in accordance with Rule 457(g) under the Securities Act on the basis of the three fixed priced warrants, each to purchase up to 495,867 shares of common stock at \$1.51 per share, \$1.82 per share and \$2.12 per share, respectively.
- (5) Registration fee previously submitted in connection with the Registrant's filing of the initial Registration Statement filed on January 19, 2005.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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Prospectus

7,619,547 Shares of Common Stock

This prospectus relates to the sale of up to 7,619,547 shares of our common stock by the selling security holders. Up to 6,031,946 shares of our common stock and up to 1,487,601 shares of common stock issuable upon exercise of warrants are being offered by Laurus Master Fund, Ltd. (Laurus), a selling security holder under this prospectus. Up to 100,000 shares of our common stock are being offered by other selling security holders. The prices at which the selling security holders may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions. We will not receive proceeds from the sale of our shares by the selling security holders.

Our common stock is quoted on the OTC Bulletin Board under the symbol CIGI. On January 14, 2005, the last reported sale price for our common stock as reported on the OTC Bulletin Board was \$1.06 per share.

You should rely only on the information contained in this prospectus to make your investment decision. We have not authorized anyone to provide you with different information. The selling security holders are not offering these securities in any state where the offer is not permitted.

Investing in our common stock involves certain risks. See Risk Factors beginning on page 4 for a discussion of these risks.

Pursuant to registration rights granted to Laurus, we are obligated to register the shares of common stock issued upon conversion of a secured convertible term note and shares issuable upon exercise of warrants held by Laurus.

Any broker-dealer executing sell orders on behalf of a selling security holder may be deemed to be an underwriter within the meaning of the Securities Act of 1933. Commissions received by any broker-dealer may be deemed to be underwriting commissions under the Securities Act of 1933.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of the common shares offered for sale under this prospectus or the merits of that offering, or has determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is February 4, 2005

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SUMMARY INFORMATION

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 prospectus and the financial statements and related notes included in this prospectus carefully, including the Risk Factors section. Unless the context requires otherwise, *we*, *us*, *our*, and *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.

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 require a 30,000 square foot manufacturing facility. 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.

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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.

Coach is a Nevada corporation. Our principal executive offices are located at 12330 SW 53rd Street, Suite 703, Cooper City, FL 33330. Our telephone number is (954) 602-1400.

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The Offering

On September 29, 2004, the Company entered into a Securities Purchase Agreement (Purchase Agreement) with Laurus Master Fund, Ltd. (Laurus), pursuant to which we issued to Laurus a Secured Convertible Term Note for \$6 million (the Convertible Note). The principal under the Convertible Note together with any accrued and unpaid interest is due on or before September 29, 2007 (the Maturity Date). The principal under the Convertible Note bears an interest rate equal to the prime rate as published in the Wall Street Journal plus 3.5 percent, currently 8.50 percent, with a floor of 8.0% (except if adjusted as specified below). The Convertible Note allows the outstanding principal and accrued interest to be converted into common stock at a fixed conversion prices As of January 14, 2005, we have received \$4,908,015, which is convertible into an aggregate of up to 5,002,793 shares of common stock, including (i) 600,000 shares of common stock that Laurus converted at the rate of \$0.50 per share; (ii) 2,309,278 shares of common stock which may be converted at the rate of \$0.97 per share; (ii) 717,368 shares of common stock which may be converted at the rate of \$1.21 per share; and (iii) 1,376,147 shares of common stock which may be converted at the rate of \$1.09 per share. The remainder of the balance under the Note of \$1,091,985, is held by the Company in a restricted account controlled by Laurus, and may be converted at the rate of \$1.33 per share into 821,041 shares of restricted common stock. The shares issuable upon conversion of the amount held in the restricted account are not being registered in this registration statement. 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.

As of December 31, 2004, 2005, we had 15,666,449 shares of common stock outstanding, including the 600,000 shares that we have issued to Laurus. The number of shares offered by this prospectus represents approximately 46.7% of the total common stock outstanding as of December 31, 2004 (the number of outstanding shares does not include the shares of common stock issuable upon conversion of debt under the Convertible Note or upon exercise of the warrants). The number of shares ultimately offered for sale by the selling security holders is dependent upon the number of shares converted by Laurus under the Convertible Note.

The common shares offered under this prospectus may be sold by the selling security holders on the public market, in negotiated transactions with a broker-dealer or market maker as principal or agent, or in privately negotiated transactions not involving a broker or dealer. Information regarding the selling security holders, the common shares they are offering to sell under this prospectus, and the times and manner in which they may offer and sell those shares is provided in the sections of this prospectus captioned Selling Security Holders and Plan of Distribution.

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NOTE RELATING TO STOCK SPLIT

On August 26, 2003, we affected a 1 for 4 stock split with respect to our common shares. Whenever we make any reference in this prospectus to the grant or issuance of common shares or options or warrants to purchase common shares, such reference shall, for comparison purposes, be made in reference to post-reverse numbers, unless we state otherwise.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. Such forward-looking statements include statements regarding, among other things, (a) our projected sales and profitability, (b) our growth strategies, (c) anticipated trends in our industry, (d) our future financing plans, and (e) our anticipated needs for working capital. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words may, will, should, expect, anticipate, estimate, believe, intend, or project, or negative of these words or other variations on these words or comparable terminology. This information may involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. These statements may be found under Management's Discussion and Analysis of Financial Condition and Results of Operations and Business, as well as in this prospectus generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under Risk Factors and matters described in this prospectus generally. This prospectus contains market data related to our business. This data has been included in articles published by independent industry sources. Although we believe these sources are reliable, we have not independently verified this market data. This market data includes projections that are based on a number of assumptions. If any one or more of these assumptions turns out to be incorrect, actual results may differ materially from the projections based on these assumptions. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur. In addition to the information expressly required to be included in this filing, we will provide such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading.

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 elsewhere in this prospectus as well as other public reports which may be filed with the United States Securities and Exchange Commission (the SEC). 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 prospectus to reflect new events or circumstances, unless and to the extent required by applicable law.

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RISK FACTORS

An investment in our common shares involves a high degree of risk and is subject to many uncertainties. These risks and uncertainties may adversely affect our business, operating results and financial condition. Our most significant risks and uncertainties are described below; however, they are not the only risks we face. If any of the following risks actually occur, our business, financial condition, or results or operations could be materially adversely affected, the trading of our common stock could decline, and you may lose all or part of your investment therein. You should acquire shares of our common stock only if you can afford to lose your entire investment. In order to attain an appreciation for these risks and uncertainties, you should read this prospectus in its entirety and consider all of the information and advisements contained in this prospectus, including the following risk factors and uncertainties.

Risks Relating to our Business

We have a limited operating history with significant losses and expect losses to continue for the foreseeable future. Should we continue to incur losses for a significant amount of time, the value of your investment in the common shares could be adversely affected and you could even lose your entire investment.

We have yet to establish any history of profitable operations. We have incurred annual operating losses of \$1.7 million, during the year ended December 31, 2003 and \$2.8 million for the nine months ended September 30, 2004. As a result, at September 30, 2004, we had an accumulated deficit of \$4.5 million. Our revenues have not been sufficient to sustain our operations. Our profitability will require the successful manufacture and sale by our subsidiaries of our limousine and luxury car products and sale of financial services, including our loans and leases and the settlement of independent contractor payments. No assurances can be given when this will occur or that we will ever be profitable.

We will require additional financing to sustain our operations and without it we may not be able to continue operations. Our inability to raise additional working capital at all or to raise it in a timely manner would negatively impact our ability to fund our operations, to generate revenues, and to otherwise execute our business plan, leading to the reduction or suspension of our operations and ultimately our going out of business. Should this occur, the value of your investment in the common shares could be adversely affected, and you could even lose your entire investment.

Although we received \$6,000,000 from Laurus Master Fund, Ltd. pursuant to a convertible note, we still may not have enough funding to continue our operations. If we are unable to obtain additional financing, our business prospects, operating results and financial condition may be materially and adversely affected to such an extent that we are forced to restructure, sell some of our assets or curtail our operations, any of which would have a detrimental effect on the value of our common stock.

At September 30, 2004, we had positive working capital of \$1.5 million however, we had an operating cash flow deficit of \$2.4 million for the nine months ended September 30, 2004, and an operating cash flow deficit of \$740,246, for the year ended December 31, 2003. We currently have sufficient financial resources to fund our operations and those of our subsidiaries. However, we will need additional funds to continue these operations, and such additional funds may not be available when required.

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If an event of default occurs under the Convertible Note issued to Laurus, it could have a material adverse effect on our cash flow and cause us to curtail our operations or sell some of our assets to repay the Convertible Note.

On September 29, 2004, we issued a \$6,000,000 Convertible Note to Laurus. The Convertible Note provides for the following events of default.

failure to pay interest and principal payments when due;

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

we make an assignment for the benefit of our creditors, 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;

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.

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 Note will increase by 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 cash required to pay those amounts will most likely come out of our working capital. Since we rely on our working capital for our day-to-day operations, a default on the Note could have a serious and adverse effect on our business, operating results and financial condition to such an extent that we are forced to restructure, sell some of our assets or curtail our operations, any of which would have a detrimental effect on the value of our common stock.

Our results of operations may highly fluctuate from quarter to quarter as we continue to grow, therefore you cannot use these results to predict how we may perform in the future.

As a result of our limited operating history, we do not have historical financial data for a significant number of periods in which to base our planned operating expenses. Our expense levels are based in part on our projections as to future revenues that are expected to increase. It is anticipated that as we mature, our sales and operating results may fluctuate from quarter to quarter and from year to year due to a combination of factors, including, among others:

general domestic and international legal, economic, political and market conditions;

demand for our products and services;

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number, timing and significance of product enhancements and new product introductions by us and our competitors;

volume, timing of, and ability to fulfill orders from operators;

changes in the level of operating expenses;

expenses incurred in connection with our plans to fund greater levels of sales and marketing activities and operations and develop new distribution channels and services;

product defects and other product or service quality problems;

manufacturing delays;

increases in our costs of borrowing;

seasonal variations in the sale of our products; and

pricing changes in the industry.

Any unfavorable changes in these or other factors could have a material adverse effect on our business, financial condition and results of operation.

We may not recover amounts that we lend, which may have a negative affect on our results of operations.

We have not suffered charge-offs on our receivables since our inception, however we are a relatively new enterprise and we do not anticipate significant defaults in our infancy stages. A charge-off occurs when all or part of the principal of a particular transaction is no longer recoverable and will not be repaid. A significant increase in charge-offs could have a material adverse effect on our ability to fund our business and on our net earnings and assets.

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

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

the effectiveness of our underwriting procedures;

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

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

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

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

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

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

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

We lend to privately owned small and medium-sized companies, which could present a greater risk of loss than larger companies.

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

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

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

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

Defaults by our customers may be correlated with economic conditions affecting particular industries or geographic locations. As a result, if any particular industry or geographic region were to experience economic difficulties, the overall timing and amount of collections from customers operating in those industries or geographic regions may differ from what we expect. Our finance receivables at September 30, 2004, were primarily concentrated in the limousine industry in the Northeast. We could be negatively affected by adverse economic conditions affecting any of these industries or regions.

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

CDS provides the services of independent contractors to commercial fleet operators, which allows commercial fleet operators to save administrative resources and time and expenses, such as tax, insurance and administrative expenses, by hiring independent contractors rather than employees. CDS business model takes advantage of specific guidelines established

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by the Internal Revenue Services (the IRS) to determine whether persons providing service to a company are categorized as independent contractors or employees. Certain IRS changes to current guidelines may render the CDS business model inefficient, expensive or not as attractive to commercial fleet operators and have a negative affect on our revenues. Should this occur, the value of your investment in the common shares could be adversely affected.

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

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

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

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

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

Increases in the Federal funds rate will increase the rate at which we can borrow money from lenders in connection with our line of credits for lease financing and other services.

The lease finance business is subject to fluctuation in interest rates. Our borrowers are sensitive to fluctuations in the interest rate, or cost of funds, whereby the cost of the vehicle financed may become cost prohibitive in a rising rate environment. The Company uses lines of credit with a fixed interest rate to finance leases to its clients. Therefore, the Company is able to lock the interest rate spread at the time of funding, rather than at a variable rate of interest. We currently charge our clients between 6.9% and 18%, based on the applicable lending guidelines. An increase in the Federal funds rate may reduce the interest rate spread that we may earn from our borrowers, because our borrowers are sensitive to fluctuations in the interest rate which may prohibit us from passing on our increased costs of borrowing. We have several lines of credit: a \$2.0 million line of credit with Ford Motor Company; a \$1.6 million floor plan line of credit with a local automotive dealership located in New York; a \$4.5 million line of credit with Sovereign Bank; and a \$5.0 million line of credit with New World Funding, in addition to the outstanding Convertible Note held by Laurus. Increases in the Federal funds rate may increase the cost of our borrowing under these lines of credits and the Note, which may not be passed on to our clients and have a negative effect on our business.

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

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

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Our limousines and specialty vehicles could contain defects resulting in product recalls, warranty claims or litigation, which could materially adversely affect our future sales and profitability. In addition, we may be subject to future product liability claims that may be costly to defend, require us to pay money to claimants and divert our managerial and financial resources, which could have a negative impact on our business and the value of your investment.

Our limousines and specialty vehicles could contain unforeseen defects. Government safety standards require that defects related to motor vehicle safety be remedied through safety recall campaigns. The automobile manufacturers, such as Ford or General Motors Corporation, are also obligated to recall vehicles if it determines that they do not comply with a safety standard. Should we or the government safety regulators determine that either a safety defect or a noncompliance exists with respect to certain of our vehicles, the costs of such recall campaigns could be substantial. Although we have not experienced any product recalls, a product recall could delay or halt production of the affected product until we are able to address the reasons for any defects. Recalls or other defects would be costly and could require substantial expenditures.

These defects could also result in warranty claims. We presently provide warranty coverage for defects identified during the modification process in materials and workmanship on all vehicles. This warranty coverage extends for 36 months or 50,000 miles (whichever occurs first) and covers components of the vehicle relating to the modification. As a result of these warranties and the increased concern for customer satisfaction, costs for warranty repairs, and customer satisfaction actions can be substantial. Estimated warranty costs for each vehicle sold by us are accrued at the time of sale. Such accruals, however, are subject to adjustment from time to time depending on actual experience.

Moreover, these defects could also result in governmental investigations, legal proceedings or claims being instituted or asserted against our subsidiaries and us. These risks and damages may be especially high in the event a product defect or failure causes bodily harm or death. Although we maintain product liability insurance against any such claims, there can be no assurance that such insurance will be sufficient to cover all potential liabilities, or that we will be able to continue to obtain insurance coverage in an amount that we believe to be adequate. If there is a successful suit against us, lack of insufficiency of insurance coverage would have a material adverse effect on our business, financial condition and results of operations.

Recalls or litigation, even if unsuccessful or without merit, may also have a material negative effect on our brand image and public perception of the affected product. This could materially adversely affect our future sales.

Our operations could be negatively affected by increased costs relating to accidents or equipment misuse.

Use of some of the equipment that we lease to our customers involves inherent risks from accidents or misuse which could result in property damage, personal injury or other losses. Although we typically require lessees to maintain insurance against such claims, in the event of an accident or the misuse of such equipment, the aggrieved party could attempt to hold us liable for damages.

A recession could materially adversely affect our future sales and profitability.

Our specialty vehicle sales are partially dependent on discretionary consumer spending, which may be affected by general economic conditions. A recessionary environment could result in a decrease in consumer spending in general, which could result in decreased spending in our markets, directly or in the overall market for specialty vehicles, either of which could have a material adverse effect on our business, operating results and financial condition. Additionally, factors that influence the general economic climate, such as consumer confidence levels, interest

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rates, employment trends and fuel availability and prices could also result in decreased spending in our markets. Because in the short term most of our operating expenses are relatively fixed, we may be unable to adjust spending sufficiently in a timely manner to compensate in the event of any unexpected sales shortfall. If we fail to make these adjustments quickly, our operating results and financial condition could be materially adversely affected.

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

Our business is highly competitive. We likely will face competition from other limousine and specialty vehicle manufacturers and companies offering financial products and insurance products and services, many of which can be expected to have longer operating histories, greater name recognition, larger installed customer bases and significantly more financial resources, research and development facilities and manufacturing and marketing experience than us. There can be no assurance that developments by our current or potential competitors will not render our proposed products or services obsolete.

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

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

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

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

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

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

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

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

need for financial resources above our planned investment levels;

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

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

potential loss of key employees of the acquired company; and

potential requirements to amortize intangible assets.

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

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

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

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

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

Risks Relating to an Investment in Our Securities

Our Chief Executive Officer and Director owns or controls a majority of our outstanding common shares, which may limit the ability of yourself or other shareholders, whether acting singly or together, to propose or direct the management or overall direction of our company. Additionally, this concentration of ownership could discourage or prevent a potential takeover of our company that might otherwise result in you receiving a premium over the market price for your common shares.

Currently, Francis O Donnell, our Chief Executive Officer and Director, beneficially owns or controls approximately 46.2% of our outstanding common shares. As a result, Mr. O Donnell will have the ability to control substantially all matters submitted to our shareholders for approval and to control our management and affairs, including extraordinary transactions such as mergers and other changes of corporate control, and going private transactions.

The application of the penny stock rules could adversely affect the market price of our common shares and increase your transaction costs to sell those shares.

As long as the trading price of our common shares is below \$5 per share, the open-market trading of our common shares will be subject to the penny stock rules. The penny stock rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser's written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer must deliver, before the transaction, a disclosure schedule prescribed by the Securities and Exchange Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable

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to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on broker-dealers may restrict the ability or decrease the willingness of broker-dealers to sell the common shares, and may result in decreased liquidity for our common shares and increased transaction costs for sales and purchases of our common shares as compared to other securities.

Our common shares are thinly traded, so you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.

Our common shares have historically been sporadically or thinly-traded on the OTC Bulletin Board, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current trading levels will be sustained.

The conversion of debt into our common stock by Laurus under the Convertible Note could cause our common stock price to decline due to the additional shares available in the market, particularly in light of the relatively thin trading volume of our common stock.

The market price of our common stock could decline and the voting power and value of your investment would be subject to continual dilution if Laurus converts its debt into common stock and resells those shares into the market. Under the Convertible Note, Laurus can convert the outstanding principal and accrued interest into common stock at a fixed conversion prices. As of January 14, 2005, we have received \$4,908,015, which is convertible into an aggregate of up to 5,002,793 shares of common stock, including (i) 600,000 shares of common stock that Laurus converted at the rate of \$0.50 per share; (ii) 2,309,278 shares of common stock which may be converted at the rate of \$0.97 per share; (iii) 717,368 shares of common stock which may be converted at the rate of \$1.21 per share; and (iv) 1,376,147 shares of common stock which may be converted at the rate of \$1.09 per share. The remainder of the balance under the Note of \$1,091,985, is held by the Company in a restricted account controlled by Laurus, and may be converted at the rate of \$1.33 per share into 821,041 shares of restricted common stock. The shares issuable upon conversion of the amount held in the restricted account are not being registered in this registration statement.

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 to 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, Laurus together with its affiliates could in the aggregate sell more than 4.99% of our outstanding common shares. Consequently, the 4.99% limitation will not necessarily prevent substantial dilution of the voting power and value of your investment.

All shares in this offering will be freely tradable once sold pursuant to the terms outlined in the Plan of Distribution in this prospectus. Laurus may sell none, some or all of the common shares issued upon conversion of the Convertible Note at any time. Depending upon market liquidity at the time, a sale of shares under this offering at any given