ACACIA AUTOMOTIVE INC
Form 10-K
May 27, 2010

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

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
[Fee Required]
For the fiscal year ended December 31, 2009

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
[No Fee Required]
For the transition period from _____________to ______________

Commission file number: 1-14088

Acacia Automotive, Inc.
(Exact name of registrant as specified in its charter)

Texas	75-2095676
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

3512 East Silver Springs Boulevard - #243 Ocala, FL 34470
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (352) 427-6848

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

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

Title of each class	Name of each exchange on which registered

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

Common Stock
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No x

Indicate by check mark if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of Form 10-K or any amendment to this Form 10-K. Yes o No x

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

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

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

State issuer's revenues for its most recent fiscal year. $1,411,425

State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked price, as of a specified date within 60 days prior to the date of filing. $2,769,449 as of last sale at market close on April 5, 2010.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 12,082,524 as of December 31, 2009, and May 15, 2010.

Table of Contents

TABLE OF CONTENTS

		PAGE
PART I.		
Item 1.	Description of Business	3
Item 1A.	Risk Factors	7
Item 1B.	Unresolved Staff Comments	12
Item 2.	Description of Property	12
Item 3.	Legal Proceedings	12
Item 4.	Submission of Matters to a Vote of Security Holders	12
PART II.		
Item 5.	Market for Common Equity and Related Stockholder Matters	13
Item 6.	Selected Financial Data	14
Item 7.	Management's Discussion and Analysis or Plan of Operations	15
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	21
Item 8.	Financial Statements and Supplementary Data	21
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	21
Item 9A (T).	Controls and Procedures	21
Item 9B.	Other Information	23
PART III.		
Item 10.	Directors, Executive Officers, and Corporate Governance	23
Item 11.	Executive Compensation	26
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	28
Item 13.	Certain Relationships and Related Transactions	30
Item 14.	Principle Accountant Fees and Services	31
Item 15.	Exhibits, Financial Statement Schedule and Reports on Form 8-K	31
	SIGNATURES	32

Table of Contents

Item 1. Description of Business

Background

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

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

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

Post Bankruptcy Restructuring

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

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

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

Contemplated Business

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

Table of Contents

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

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

On December 26, 2009, the registrant completed the acquisition of certain assets of Chattanooga Auto Auction Limited Liability Company for a cash payment. Acacia Chattanooga Vehicle Auction, Inc., a subsidiary of Acacia Automotive, Inc., operates this auction from a leased facility in Chattanooga, Tennessee.

History of Augusta Auto Auction

Augusta Auto Auction, Inc. (the “Augusta Auction”) is an automotive auction located in North Augusta, South Carolina, part of the Augusta, Georgia, metropolitan area, and is located three miles from the center of that city. The auction was originally formed and operated for many years in its present location as Hilltop Auto Auction. In 2002 the group from which the registrant purchased the auction formed Augusta Auto Auction, Inc. after acquiring it from the owners of Hilltop Auto Auction. The auction consists of a leased premises of approximately five acres, as well as additional rented property directly across the street. The main facility consists of a two-lane auction arena housed within one of two administration buildings that total some 4,900 square feet, three smaller outbuildings consisting of two storage buildings, and a security building also utilized for vehicle check-in and check-out. The additional rented property provides several additional acres of parking and an indoor storage facility of some 1,800 square feet.

Acacia Automotive formed a new South Carolina corporate subsidiary in July of 2007 that acquired the assets of Augusta Auto Auction. The new corporation is named Acacia Augusta Vehicle Auction, Inc., and does business as Augusta Auto Auction, Inc.

History of Chattanooga Auto Auction

Chattanooga Auto Auction (the “Chattanooga Auction”) is an automotive auction located in Chattanooga, Tennessee, and is located approximately ten miles from the center of that city. The auction was originally formed January 24, 1996, as Chattanooga Auto Auction Limited Liability Company and thereafter continued to operate in its present location until its assets were acquired by the Company on December 26, 2009. The property consists of approximately 56 acres, mostly paved, with a two-lane test-driving track and several buildings. The auction arena consists of eight lanes attached to a 25,730 square foot office complex. The property includes a three lane, 14,800 square foot reconditioning center, a 4,500 square foot vehicle check-in center, and a 3,130 square foot five-bay structure intended for use as a mechanical repair center.

Acacia Automotive formed a new Tennessee corporate subsidiary in August of 2009 which acquired the assets of Chattanooga Auto Auction Limited Liability Company in December of 2009. The new corporation is named Acacia Chattanooga Vehicle Auction, Inc. and does business as Chattanooga Auto Auction, Inc.

4

Business of the Auctions

The Auctions primarily sell whole car vehicles for automotive dealers and commercial concerns, and to a lesser extent, salvage units. Whole car units are usually units in reasonable repair and operating condition, while salvage units are generally, but not always, inoperative and often have been damaged or devalued as a result of exposure to water, fire, collision, theft or otherwise. The Chattanooga Auction also sells vehicles and equipment under a contract with the U.S. Government's General Services Administration (GSA), primarily offering off-lease vehicles and other units for the GSA and other governmental agencies, and the Augusta Auction sells vehicles and equipment under a contract with the United States Marshals Service. Dealers and other qualified buyers attend the weekly auctions and bid on offered units. The highest bidder owns the vehicle, subject to any limiting reserve prices established by the owner/seller of the unit(s). In most cases, the buyers and sellers of the units pick up and deliver them to the Auction property, but the Auction does provide transport services, generally for a fee. Both the Company's auctions also hold a Friday night auction that is open to public bidders in addition to dealers, and occasionally holds special sales at other times.

The Auctions generate revenues from fees for services, including buyer fees, seller fees, transportation fees, title fees, draft and floor plan fees, reconditioning fees, and more. Augusta Auto Auction primarily relies upon the efforts of its management for sales and marketing, but anticipates adding additional personnel in the future to increase the scope of those operations. Chattanooga Auto Auction, the larger of the two, has a separate sales and marketing staff, while both auctions also market their activities through their employees and commercial media.

Industry

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

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

Table of Contents

Competition

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

The industry served by the Company is highly competitive across the entire United States and Canada. It is anticipated that any of our acquisition targets would potentially compete with a variety of knowledgeable and experienced companies. The main competitors the Company would expect to face throughout the United States are: (1) Manheim Auto Auctions: Manheim, a subsidiary of Cox Enterprises, operates approximately 135 locations throughout the world, with more than 75 whole car auto auctions and many salvage or specialty auctions in the United States. Manheim owns several of the country's largest auction facilities, and our management considers them to be very competitive and the leader in technological processes and Internet marketing capabilities. (2) ADESA Auto Auctions: ADESA, traded on the NYSE under the symbol KAR prior to being acquired by an investor group led by Kelso and Company in April of 2007 and thereby being taken private, is the second-largest auto auction company in North America with approximately 62 whole car auctions and many salvage auctions. They operate some 48 whole car auctions in the United States and 14 in Canada. KAR Auction Services, the parent of Adesa Auctions, went public again in December of 2009, marking the third time the auction entity has found itself in the public sector. The company's stock trades on the New York Stock Exchange under the symbol KAR. Acacia's Management believes that ADESA's technological processes and Internet marketing capabilities, while lagging those of Manheim, are nonetheless formidable. (3) Auction Broadcasting Company (ABC): ABC owns and operates approximately ten auto auctions nationally. While not nearly so large in their technological processes and Internet marketing capabilities as Manheim or ADESA, ABC has worked to develop a diverse model from its competitors. (4) Independent auto auctions: There are hundreds of independent auto auctions operating in the United States. Acacia actually sees these independent auctions as targets for future acquisitions, and enjoys a friendly relationship in most instances. (5) "Mobile" auctions: There are several companies that operate "mobile" auctions. Their plans primarily entail engaging larger dealerships to periodically host "on-site" auctions that utilize these companies' auctioneering and administrative services. Management does not believe these smaller independent mobile auctions are a substantial threat to our operations and will not likely become so under their present or anticipated business models.

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

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

Table of Contents

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

Employees

As of December 31, 2009, the company had two officer employees, Steven L. Sample, its Chairman, President and Chief Executive Officer, and David Bynum, its Vice President and Chief Operating Officer, as well as two other part-time persons. Additionally, the Augusta Auction also employs approximately 25 full and part-time persons, and the Chattanooga Auction employs approximately 55 full and part-time persons. The registrant plans to increase the number of employees, both part time and full time, as it expands its operations.

A given automobile auction will employ both full and part-time personnel and the number of employees may vary from as few as 10 to as many as 500 or many more. The approximate size of our target auctions may more likely lie within the range of 50 to 200 employees each.

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

Governmental Regulation

The Company, as with most companies operating vehicle auctions, is subject to various permits and licenses. These include vehicle dealer licenses, auctioneer licenses, business permits and licenses, sales tax permits, and others. The registrant’s auctions believe they have obtained all permits necessary to function under the current state and federal regulations.

Available Information

Our Web address is www.acacia.bz. Our electronic filings with the Securities and Exchange Commission (“SEC”) (including all Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and if applicable, amendments to those reports) are available free of charge on the Web site as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. In addition, information regarding our board of directors is available on our Web site. The information posted on our Web site is not incorporated into this Annual Report.

Any materials that we file with the SEC may be read and copied at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet Web site that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is www.sec.gov.

Item 1A. Risk Factors

Our auditors have issued a going concern opinion with respect to our consolidated financial statements although our financial statements are prepared using generally accepted accounting principles applicable to a going concern.

We have incurred significant losses since July 2007, losses that have continued since that time through fiscal 2009. These continuing losses raise substantial doubt about our ability to continue as a going concern and our auditor's opinion with respect to our financial statements contain a going concern opinion. The accompanying audited consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result from the outcome of this uncertainty.

The financial statements in our filings on Form 10-Q for the quarters ending in fiscal 2009 and the third quarter of fiscal 2008 were not reviewed by our independent auditor.

Our financial statements for fiscal 2008 and 2009 were audited, but our quarterly results for the first three fiscal quarters in fiscal 2009 and the third fiscal quarter in 2008 were not reviewed by our independent auditor. Although we believe those quarterly financial statements to be accurate in all material respects, there is an increased potential that quarterly financial information may have some inaccuracies.

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

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

Table of Contents

We plan to grow through acquisitions, and investors have little current basis to evaluate the possible merits or risks of the target businesses' operations or our ability to identify and integrate acquired operations into our company. To the extent we complete a business combination with a financially unstable company or an entity in its development stage, we may be affected by numerous risks inherent in the business operations of those entities. Although our management will endeavor to evaluate the risks inherent in a particular target business, we cannot assure you that we will properly ascertain or assess all of the significant risk factors.

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

We plan to grow through acquisitions

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

- adverse short-term effects on our reported operating results,
- diversion of management's attention,
- dependence on retaining, hiring and training key personnel,
- risks associated with unanticipated problems or legal liabilities,
- amortization of acquired intangible assets, some or all of which could reflect poorly on our operating results and financial reports,
- implementation or remediation of controls, procedures and policies appropriate for a public company at companies that prior to the acquisition lacked these controls, procedures and policies; and,
- incursion of debt to make acquisitions or for other operating uses.

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

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

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

Table of Contents

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

Possible Need for Additional Financing

The Company intends to fund its operations and other capital needs for the next six months from revenues generated from operations and from lines of credit associated with its auction operations, but there can be no assurance that such funds will be sufficient to meet the obligations of our business. The Company may require additional amounts of capital for its future expansion and working capital, possibly from private placements or borrowing, but there can be no assurance that such financing will be available, or that such financing will be available on acceptable terms.

Dependence on David Bynum and Steve Sample

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

Technological Change

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

Competition

The industry served by the Company is highly competitive across the entire United States and Canada. We currently or potentially compete with a variety of companies. Our first two acquisitions, servicing the Augusta, Georgia, and Chattanooga, Tennessee areas, were acquired July 10, 2007, and December 26, 2009, respectively. We anticipate that the Company’s other early acquisitions will be in the eastern or central United States, but there is no assurance the Company will be able to adhere to that plan. See “Item 1- Business – Competition.”

Table of Contents

Control

The Company is currently controlled by two of its officers and directors who currently own 54.25% of the Company's issued and outstanding common stock, David Bynum, the Company's Vice President and COO, and Steven L. Sample, the Company's CEO. Mr. Sample and Mr. Bynum will initially retain effective control over the Company's operations, including the election of a majority of its board of directors, the issuance of additional shares of equity securities, and other matters of corporate governance. Based upon the Company's current business plan, it is anticipated that Mr. Bynum and Mr. Sample will continue to have effective but not ultimate control of the Company well into future, perhaps even after some subsequent private offerings or a public offering.

Management of Growth

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

Risks Associated with Expansion

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

Product and Service Offerings

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

Government Regulation and Legal Uncertainties

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

Table of Contents

Check, Credit Card, and Other Fraud

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

Development of and Dependence on Key Personnel

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

Liability Claims

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

Risks of Low Priced Stocks

Although the Company is currently a public company, its trading is limited to the Pink Sheets. A trading market for the Company's Common Stock could develop further, but there can be no assurance that it will do so. The Securities and Exchange Commission (the "SEC" or "Commission") has adopted regulations which define a "penny stock" to be any equity security, such as those being offered by the Company herein, that has a market price (as therein defined) of less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to any transaction involving a penny stock by a retail customer, of a disclosure schedule prepared by the Securities and Exchange commission relating to the penny stock market. Disclosure is also required to be made about commissions payable to both the broker/dealer and the registered representative and current quotations for the securities. Accordingly, market makers may be less inclined to participate in marketing the Company's securities, which may have an adverse impact upon the liquidity of the Company's securities.

No Assurance of Payment of Dividends

Should the operations of the Company become profitable it is likely that the Company would retain much or all of its earnings in order to finance future growth and expansion. Therefore, the Company does not presently intend to pay dividends, and it is not likely that any dividends will be paid in the foreseeable future.

Potential Future Capital Needs

The Company may not be successful in generating sufficient cash from operations or in raising capital in sufficient amounts on acceptable terms. The failure to generate sufficient cash flows or to raise sufficient funds may require the Company to delay or abandon some or all of its development and expansion plans or otherwise forego market opportunities and may make it difficult for the Company to respond to competitive pressures, any of which could have a material adverse effect on the Company's business, results of operations, and financial condition. While the Company may seek to raise capital through the offering of Common stock in a private placement, there can be no assurance that the proceeds in any such Offering will be sufficient to permit the Company to implement its proposed business plan or that any assumptions relating to the implementation of such plan will prove to be accurate. To the extent that the proceeds of any such Offering are not sufficient to enable the Company to generate meaningful revenues or achieve profitable operations, the inability to obtain additional financing will have a material adverse effect on the Company. There can be no assurance that any such financing will be available to the Company on commercially reasonable terms, or at all.

Table of Contents

Item 1B. Unresolved Staff Comments

None and not applicable.

Item 2. Description of Properties

Augusta facility. In July 2008, the Company renewed a twelve-month lease on the location where the Augusta Auto Auction has operated for several years. The lease term can be further extended and currently has a monthly lease rate of $2,975. The facility consists of approximately five acres, houses two administrative buildings and a two-lane auction arena, and provides parking for several hundred vehicles. The compound is fenced and protected by an electrified security fence system as well as security systems in its buildings and auction arena. In addition to the main auction facility, the registrant also leases property that is used for additional vehicle storage (both indoor and outdoor) and customer parking for approximately 400 additional customer vehicles on sale days. The indoor storage areas and part of the outdoor storage areas are protected by an electrified security fence system as well as security systems in both areas. This property is located directly across the street from the main auction facility and is leased on a month-to month basis for approximately $1280 per month.

Chattanooga facility. On December 26, 2009, the Company entered into a multi-year lease on the location where the Chattanooga Auto Auction has operated since 1996. The lease rate is currently $21,000 per month through the end of 2010, after which the lease escalates to $25,000 per month until December 31, 2010, followed by additional increases of $5,000 per month each two years thereafter until its expiration at the end of 2019. The Company has an option to purchase the real estate and improvements on favorable terms for a period of at least three years from inception of the lease. The facility consists of approximately 56 acres, the majority of which is paved, and includes a two-lane test track and approximately 70,000 square feet of usable space under roof. The indoor and outdoor areas are protected by an electrified security fence system on the outer perimeter of the property as well as security systems in most indoor areas. The property is located in Chattanooga, Tennessee, near I-75, I-24, and I-59, and is approximately five minutes from Chattanooga Metropolitan Airport.

The Company also maintains administrative space in Ocala, Florida, at a cost of approximately $429 per month, which it may cancel at any time.

Item 3. Legal Proceedings

None.

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

Not Applicable

Table of Contents

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

There has been sporadic trading in our stock for the last three fiscal years. We are presently traded in the Pink Sheets under the symbol ACCA. The following table sets forth information as reported by the National Association of Securities Dealers Composite Feed or Other Qualified Interdealer Quotation Medium for the high and low bid and ask prices for each of the twelve quarters ending December 31, 2009, including the interim period in the first quarter of 2007 prior to the registrant's one for eight reverse stock split. The following prices reflect inter-dealer prices without retail markup, markdown or commissions and may not reflect actual transactions.

	Closing Bid		Closing Ask	
	High	Low	High	Low
Quarters ending in 2007				
Feb 20 (Closing numbers after one for eight reverse split)	$ 0.30	$ -	$ 1.01	$ -
March 31	1.50	0.30	2.00	0.75
June 30	1.80	0.54	2.00	0.58
September 30	2.00	0.60	2.05	0.85
December 31	$ 0.80	$ 0.08	$ 1.20	$ 0.75
Quarters ending in 2008				
March 31	$ 0.25	$ 0.10	$ 1.05	$ 1.01
June 30	0.20	0.18	1.01	0.70
September 30	0.25	0.20	0.95	0.55
December 31	$ 0.20	$ 0.10	$ 0.66	$ 0.50
Quarters ending in 2009				
March 31	$ 0.15	$ 0.15	$ .50	$ .50
June 30	0.15	0.05	.85	.16
September 30	0.10	0.01	2.00	.10
December 31	$ 0.15	$ 0.0003	$ .51	$ .10

As of March 31, 2010, the Company had 125 stockholders of record. We believe that we may also have 250 or more additional beneficial shareholders.

Holders of common stock are entitled to receive dividends as may be declared by our board of directors and, in the event of liquidation, to share pro rata in any distribution of assets after payment of liabilities. The board of directors has sole discretion to determine: (i) whether to declare a dividend; (ii) the dividend rate, if any, on the shares of any class of series of our capital stock, and if so, from which date or dates; and (iii) the relative rights of priority of payment of dividends, if any, between the various classes and series of our capital stock. We have not paid any dividends and do not have any current plans to pay any dividends.

Table of Contents

At its meeting of directors on February 1, 2007, the Company's board of directors approved its 2007 Stock Option Plan which was approved by our stockholders on November 2, 2007, reserving 1,000,000 shares to be issued thereunder. In subsequent resolutions, the directors granted restricted stock, warrants, and options for compensation summarized as follows:

SUMMARY OF EQUITY COMPENSATION PLANS

Plan Description	Number of Securities to be Issued Upon Exercise of Outstanding Options and Warrants	Weighted Average Exercise Price of Outstanding Options and Warrants	Number of Securities Remaining Available for Future Issuance
Equity Compensation Plans Not Approved by Shareholders*	475,000	$ 1.00	-
Equity Compensation Plans Approved by Security Holders**	590,000	0.39	1,355,700
Totals	1,065,000	$ 0.66	1,065,000

* Reflects shares exchanged for preferred stock of the Company of which 475,000 vested immediately and another 950,000 were tied to specific performance goals, goals that were not considered to have been met and are considered to have now lapsed.

** Reflects grants under the 2007 Acacia Automotive Stock Incentive Plan. Effective January 1, 2008, the number of shares available under Plan increased by 479,900 shares. Effective January 1, 2009, the number of shares available under the Plan increased by 482,500 shares, and effective January 1, 2010, the number of shares available under the Plan increased by 483,300 shares. The number of shares in the Plan increases annually by an amount equal to 4% of the number of shares outstanding at the end of the fiscal year.

In December 2009, the Company issued 20,000 shares of restricted Common stock to the principals of the former owners of the Chattanooga Auction for services rendered to the Company. The issuance of these shares was exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 4(2) thereof as a transaction not involving a public offering.

Item 6. Selected Financial Data

Not Applicable

Table of Contents

Item 7. Management's Discussion and Analysis or Plan of Operations

Forward-Looking Information

The Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of the Form 10-K contain forward-looking information. The forward-looking information involves risks and uncertainties that are based on current expectations, estimates, and projections about the Company's business, management's beliefs and assumptions made by management. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", and variations of such words and similar expressions are intended to identify such forward-looking information. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking information due to numerous factors, including, but not limited to, availability of financing for operations, successful performance of internal operations, impact of competition and other risks detailed below as well as those discussed elsewhere in this Form 10-K and from time to time in the Company's Securities and Exchange Commission filings and reports. In addition, general economic and market conditions and growth rates could affect such statements.

Executive Overview

With the acquisition of the Augusta Auto Auction on July 10, 2007, the Company commenced operations, ceased being a shell company, and conducted its first weekly auction on July 11th under Acacia’s management. The Company’s only operations in 2007 were those operations.

At the Augusta Auction, in the last half of 2007, the Company made substantial improvements to the physical space, upgraded computer hardware and computer communication infrastructure, and purchased new auction software. For several months the Company was engaged in evaluating personnel and developing the Augusta Auction’s market and operating efficiencies. The new software did not work as anticipated, harming our operation’s efficiency, alienating some customers and creating financial control issues. These problems continued into 2008 when, in July, we abandoned the newer software and upgraded the previous software system. Despite these operating difficulties, we continuously and significantly improved our operations and marketing.

With the acquisition of the Chattanooga Auto Auction on December 26, 2009, the Company commenced operation of its second auto auction, with its first weekly auction on December 29th as an Acacia Automotive company. The Company’s only operations in 2009 were those two operations, although the brevity of the Chattanooga operation yielded very little effect to the Company's consolidated operating results for the year.

Our original Management Agreement for the Chattanooga Auction effective September 1, 2009, contemplated sharing the profits during the period we managed the auction prior to its acquisition by us on December 26, 2009 , but there were no profits during this period. Our operating results, however, include the last five days of 2009, the time after we acquired the auction.

The Company's auctions sell vehicles and equipment for automotive dealers and commercial accounts. In Chattanooga, we perform similar services for the General Services Administration ("GSA") of the United States Government and in Augusta for the United States Marshals Service.

Generally, as an industry standard, the volume of vehicles sold at the vehicle auctions is highest in the first and second calendar quarters of each year and slightly lower in the third quarter. Fourth quarter sales are generally lower than all other quarters as used vehicle auction volumes tend to decline during prolonged periods of winter weather conditions combined with holiday disruptions. This seasonality could be affected, however, by the timing of auctions by special customers such as the United States Marshal Service, the GSA or others. While these standards are subject to short and medium-term variations, the Company's revenues therefore would generally be expected to be highest in the first or second calendar quarter, while the fourth calendar quarter have the lowest revenues with profitability affected by additional costs associated with the holidays and winter weather.

Table of Contents

Discussion Regarding the Auto Auction Industry

Sales of used vehicles totaled 8.9 million units worth $80.5 billion at National Auto Auction Association (NAAA) member auctions in North America in 2009, according to the trade organization’s 13th annual survey. The survey found that while the number of vehicles entering auctions decreased by 14.5% to 14.6 million, the decline in the actual sales of used vehicles was significantly lower due to the largest conversion rate in the history of the survey. These sales of 8.9 million units worth $80.5 billion was down only 5.9% and 3.1%, respectively. Survey data also revealed that the average NAAA auction member operates a 7-lane facility on 78 acres, employs 146 people with a payroll of $3.1 million, and contributes $32,400 annually to charity. None of these figures include the numerous auctions that are not members of the NAAA organization. Both the Company's auctions are NAAA members.

Car Park (Vehicles in Operation or VIO)

The Company continues to believe that auto auctions are largely recession-resistant because, in part, the industry is more dependent on the size of the U.S. “Car Park” (the number of vehicles in operation or "VIO") than it is upon manufacturing output, retail sales of motor vehicles, or other factors. While this has historically proven true, the recent periods of recession and economic downturn caused measurable weakness in the overall auto auction industry, even though the Company's auction operations in Augusta reflected sharply higher sales and revenues. The Company attributes this increase at its Augusta Auction to its skilled management and implementation of proven practices after assuming control of its auctions. Of the 249 million units in the car park in 2007, 46 million were sold in used vehicle transactions, and auto auctions sold over 10 million of those units. In 2008, the most recent year for which full statistics were available, there were 250 million units in operation, although the car park grew by only 1 million units in 2008 as compared to 5 million units in 2007. 2009 is expected to see a similar result to 2008 in the size of the car park due to some increases in sales offset by scrappage induced by the "Cash for Clunkers" program. Any change in the overall size of the car park in 2009 is anticipated to be insignificant.

Consolidated Operating Results in 2009 and 2008

In 2009 our loss declined to $274,834 from $910,497 a year earlier. While our revenues increased by about 41%, our costs declined in almost each category of expense, employee expense declining from $848,556 to $671,215, general and administrative expense declining from $701,118 to $651,574, and depreciation and amortization declining from $219,829 to $154,298.

The Augusta Auction's improving revenues, virtually all of our 2009 revenues, resulted largely from increased sales volumes at its traditional weekly dealer auction sale dates and from additional sales generated at a second weekly sale held at night. The public can participate in the night auctions that not only bring increased unit sales volumes, but also generate increased fees as the public is charged more than dealers to participate in the auction. We have also adjusted upward fees charged to dealers participating in the auction to conform the fees more to industry practices.

The following table sets forth certain information about the Augusta Auto Auction regarding units offered, that is, the number of units brought to the auto auction, entered into the system and offered for sale, the units actually sold, and the conversion rate, that is, the number of units actually sold as a percentage of the number of units brought through the auction for sale, as well as changes in total revenues comparing 2009 and 2008:

	Twelve Months	
2009 Units Offered vs. 2008	+32	%
2009 Units Sold vs. 2008	+25	%
2009 Conversion Rate	51	%

2008 Conversion Rate	54	%
2009 Total Revenues vs. 2008*	+41	%

* Includes all revenue streams for both years rather than buy and sell fee revenues only. Does not account for reclassification of certain income items from 2008, so that the prior year's presentation is comparative with the current year's presentation.

Table of Contents

Consolidated employee expense declined in 2009 principally because of the absorption of about $25,000 of Mr. Bynum's salary by the Chattanooga Auction during the interim period in which we managed that auction prior to its acquisition, and the departure of another senior executive. General and administrative expense declined about $50,000 reflecting decreased promotional fees and reduced expenditures for professionals. The $65,500 decline in depreciation and amortization costs reflects the conclusion of accruals in the second quarter of 2008 for a non-compete agreement executed in connection with the acquisition of the Augusta Auction. We will continue to accrue an annualized $37,500 per year in amortization expense through mid-year 2017 related to a customer list, also part of the purchase of that auction.

We lost approximately $20,000 on the Chattanooga Auction in 2009, becoming the owner of that auction on December 26. In the remaining days of that fiscal year, five days or about 3 1/2 business days, we held one auction resulting in revenues of about $20,000 for the period with about $40,000 of expense. While the Company feels it can be successful in Chattanooga, it also recognizes that its recent acquisition of the Chattanooga Auto Auction follows a history of large losses for several years at that location. Although the Company did not receive audited financial information on that entity, the available financial information reflects net losses in 2009 and 2008 of $1,846,140 and $2,864,351 respectively. The Company must reverse that trend of substantial losses to become profitable on a consolidated basis. Failure to do so could have a material adverse effect on our results of operations, business prospects, and financial condition.

Liquidity and Capital Resources