COACH INDUSTRIES GROUP INC
Form 10QSB
August 16, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB

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

For the Quarter ended June 30, 2004

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

For the transition period from _________to___________

Commission file number: 0-19471

COACH INDUSTRIES GROUP, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Nevada | 91-1942841 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

9600 W. Sample Road, Suite 505, Coral Springs, Florida 33065

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (305) 531-1174

Copies of all communications, including all communications sent to the agent for service, should be sent to:

Joseph I. Emas, Attorney at Law
1224 Washington Avenue
Miami Beach, Florida 33139
Telephone: 305.531.1174

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 [X] No [ ]

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

| TITLE | SHARES OUTSTANDING AS OF August 2, 2004 |
|---|---|
| Common Stock, $0.001 par value | 11,321,445 |

COACH INDUSTRIES GROUP, INC.

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COACH INDUSTRIES GROUP, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

| | June 30, 2004 (Unaudited) | December 31, 2003 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents .......................... | $ 945 | $ 91,565 |
| Accounts receivable, net ........................... | 417,980 | 12,939 |
| Supply inventory ................................... | 2,717,046 | 1,310,483 |
| Due from related party accounts receivable .......... | 736,341 | 31,593 |
| Prepaid expenses and other current assets ........... | 237,950 | 57,680 |
| Total current assets ....................... | 4,110,262 | 1,504,260 |
| PROPERTY AND EQUIPMENT, net .......................... | 776,768 | 901,865 |
| GOODWILL ............................................. | 2,186,595 | 2,186,595 |
| | $ 7,073,625 | $ 4,592,720 |

| | | |
|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | $ 1,184,514 | $ 367,670 |
| Related party accounts payable | -- | 305,739 |
| Deferred rent | 100,800 | 115,200 |
| Warranty reserve | 31,872 | 20,535 |
| Customer deposits | 101,500 | 230,273 |
| Accrued wages | 193,570 | 32,921 |
| Note payable - related parties | 1,043,797 | 613,659 |
| Line of credit | 346,352 | -- |
| Total current liabilities | 3,002,405 | 1,685,997 |
| OTHER LIABILITIES: | | |
| Convertible notes payable - related party | 1,100,580 | -- |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Common stock $0.001 par value; 50,000,000 shares authorized; 11,171,445 and 9,785,531 shares issued and outstanding, respectively | 11,171 | 9,785 |
| Additional paid in capital | 6,940,685 | 5,360,228 |
| Restricted stock - unearned compensation | (474,583) | -- |
| Accumulated deficit | (2,786,633) | (1,743,290) |
| Treasury stock, 1.6 million shares at cost | (720,000) | (720,000) |
| Total shareholders' equity | 2,970,640 | 2,906,723 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 7,073,625 | $ 4,592,720 |

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



COACH INDUSTRIES GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

| | For the Three Months Ended June 30, (Unaudited) | | For the Six Months Ended June 30, (Unaudited) | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| REVENUES | $ 4,947,847 | $ 208,377 | $ 9,131,811 | $ 208,377 |
| COST OF GOODS SOLD | 4,395,559 | 197,934 | 7,679,874 | 197,934 |
| GROSS PROFIT | 552,288 | 10,443 | 1,451,937 | 10,443 |
| OPERATING EXPENSES: | | | | |

| | | | | |
|---|---|---|---|---|
| General and Administrative | 462,950 | 141,970 | 888,135 | 141,970 |
| Research and development ... | -- | -- | 747,665 | -- |
| Amortization of deferred compensation ............... | 383,917 | -- | 383,917 | -- |
| Sales and marketing ...... | 93,328 | 78,487 | 281,205 | 78,487 |
| Rent .................... | 43,033 | 133,000 | 141,315 | 133,000 |
| Interest expense .......... | 33,454 | -- | 52,352 | -- |
| Total operating expenses .. | 1,016,682 | 353,457 | 2,494,589 | 353,457 |
| Loss before income taxes ... | (464,394) | (343,014) | (1,042,652) | (343,457) |
| Income taxes .............. | -- | -- | -- | -- |
| NET LOSS .................. | $ (464,394) | $ (343,014) | $(1,042,652) | $ (343,014) |
| Basic and diluted net (loss) per share: | | | | |
| Net loss per share ........ | $ (0.07) | $ (0.32) | $ (0.13) | $ (0.36) |
| Basic and diluted weighted average common shares outstanding ............... | 8,185,531 | 1,088,159 | 8,185,531 | 960,110 |

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



COACH INDUSTRIES GROUP, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, (Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:

| | 2004 | 2003 |
|---|---|---|
| Net loss ......................................... | $(1,042,652) | $ (343,014) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization .................. | 93,087 | -- |

| | | |
|---|---|---|
| Amortization of deferred compensation | 383,917 | -- |
| Warranty expense | 31,436 | -- |
| Charges to warranty reserve | (20,099) | -- |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (405,041) | (90,609) |
| Related party accounts, net | (274,610) | (7,818) |
| Inventory | (1,406,563) | (488,376) |
| Prepaid expenses and other | (180,270) | (89,140) |
| Accounts payable and accrued expenses | 977,498 | 553,607 |
| Customer deposits | (128,773) | (12,500) |
| Net cash used in operating Activities | (1,972,073) | (477,850) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Reimbursement of leasehold improvements | 93,000 | -- |
| Acquisition of fixed assets | (75,390) | (1,150) |
| Net cash provided by investing activities | 17,610 | (1,150) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repurchase of common stock | (95,000) | -- |
| Cash contribution | -- | 479,000 |
| Proceeds from convertible debt - related party | 1,612,491 | -- |
| Borrowings from line of credit | 346,352 | -- |
| Net cash provided by financing Activities | 1,863,843 | 479,000 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (90,620) | -- |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 91,565 | -- |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 945 | $ -- |

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

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COACH INDUSTRIES GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2004 and 2003

1. Background

Overview

Coach Industries Group, Inc. ("Coach" or the "Company") is a holding company which manufactures luxury limousines, specialty vehicles and limousine buses and sells financial services and products related to its business through its various operating subsidiaries. We currently have three subsidiaries. Commercial Transportation Manufacturing Corporation ("CTMC") focuses on manufacturing specialty vehicles and limousine buses. Springfield Coach Industries Corporation, Inc. ("SCB"), SCB focuses on manufacturing Lincoln Town Car limousines and Ford Excursion limousines and Coach Financial Services ("CFS"), CFS provides financial services to the transportation industry, through lease financing and providing other financial products to the industry.

History

On June 1, 2000, pursuant to an Agreement and Plan of Business Combination, dated as of April 14, 2000, PAN International Gaming, Inc., a Nevada corporation ("PAN"), purchased all of the issued and outstanding capital stock of SearchHound.com 2000, Ltd., a Nevada corporation, from their 22 record holders for an aggregate of 50,373 shares of its common stock, which was approximately 71% of the issued and outstanding shares of PAN International Gaming, Inc. The amount of consideration paid and received was negotiated by the parties to the Plan of Business Combination. On June 6, 2000, after the merger, PAN changed its name to SearchHound.com, Inc. ("Searchhound")

Pursuant to a Stock Purchase Agreement, dated as of May 4, 2000, effective July 11, 2000, Searchhound purchased all of the issued and outstanding capital stock of SoloSearch.com, Inc., a Missouri corporation ("SoloSearch"), from Cohen Capital Technologies, L.L.C., a Missouri limited liability company, Kirk C. Reivich, an individual, and October Capital, L.L.C., a Missouri limited liability company, for an aggregate of 18,097 shares of common stock and an aggregate of $300,000 in cash. The foregoing transaction resulted in the issuance of 20.3% of the issued and outstanding shares of PAN. The amount of consideration paid and received was negotiated by the parties to the Stock Purchase Agreement.

Prior to June 1, 2000, SearchHound was not engaged in substantial operating activities and there were no revenues or business operations. In 2002, Searchound's Board of Directors changed its strategy due to poor operating conditions and operating results in its primary businesses coupled with difficulties in raising capital through debt and equity sources. The Board of Directors adopted the new strategy during 2002, which committed to the disposal of all of its current assets and businesses and to seek a merger or acquisition candidate with better financial resources. By early 2003, the Board of Directors of Searchhound had successfully disposed of all of the assets and all of the liabilities of the company.

On August 22, 2003, the Company held its Annual Meeting of Shareholders, whereby the shareholders voted to amend the Articles of Incorporation to change the name of the company from Searchound.com to Coach Industries Group, Inc.

General

Through our subsidiaries, we manufacture luxury limousines, specialty vehicles and limousine buses and sell financial products including financing for luxury limousines, commercial fleets and high-end automobiles and we intend to begin offering an array of financial services, such as specialty lines of insurance products. Coach's principal executive offices are located in Coral Springs, Florida. We are one of seven limousine manufacturers in the limousine manufacturing industry operating under agreements with Ford Motor Company and General Motors Corporation. The Company's long-term strategy is to offer an array of specialty vehicles and limousines and to expand our financial services to existing customers, other limousine operators and others outside of the limousine business. The Company will actively pursue acquisition candidates that can support the expansion of these products and financial services.

On September 1, 2003, we acquired CTMC through a reverse merger. Coach issued 3 million shares of common stock to CTMC in a stock for stock exchange. CTMC's principal executive offices are located in Bohemia, New York. CTMC's operation consists of manufacturing, selling and servicing specialty vehicles, limousine buses and to a lesser extent, Lincoln Town Cars. The operation is housed in a

30,000 square foot manufacturing facility with approximately 27 employees involved in the direct manufacture of the various modified chassis. CTMC manufactures its vehicles pursuant to a Quality Vehicle Modifier Agreement with Ford Motor Company.



On December 31, 2003, Coach, through SCB, newly formed wholly owned subsidiary, acquired certain assets and liabilities from Springfield Coach Builders, Inc. ("Springfield"). The acquisition was valued at $2.66 million based on 2 million shares of common stock, at $1.33 per share, the closing market price on November 6, 2003. SCB's executive offices are located in Springfield, Missouri.

After our acquisition of Springfield, we determined that the production of the various vehicles previously manufactured by Springfield and CTMC needed to be segregated to eliminate any duplication of production processes at the CTMC and SCB facilities. CTMC personnel have extensive depth of knowledge in prototype development, modification and engineering of specialty vehicles, such as the Chrysler Sprinter and the General Motors' Hummer H2. Accordingly, since January 2004, SCB manufactures the Lincoln Town Car limousines, which represent approximately ninety percent (90%) of the limousine market and the Ford Excursion limousines. CTMC manufactures our specialty vehicles and limousine buses.

SCB manufactures its vehicles pursuant to a Quality Vehicle Modifier Agreement with Ford Motor Company and a Cadillac Master CoachBuilder Agreement with General Motors Corporation. SCB, because of its Midwest location, provides us with the opportunity to economically support customers located in the Midwestern, Southeastern and Western region of the United States. SCB's Midwestern location also provides the Company significant operating expense advantages due to lower labor and occupancy costs. SCB's operations consists of manufacturing, selling and servicing Lincoln Town Cars and Ford Excursions Limousines The operations is housed in a 45,000 square foot manufacturing facility with 38 employees involved in the direct manufacture of the modified chassis.Management believes that the acquisition of Springfield enabled the Company's to use its existing sales force, engineering expertise and management to enter the Midwestern and Western United States limousine markets. Coach was able to assume the existing lease for the manufacturing facility in Springfield, Missouri, which increased its manufacturing capacity and reduced the cost of distribution in those markets.

2. Summary of Significant Accounting Policies

Principles of Consolidation

Effective September 1, 2003, the Company has restated its consolidated balance sheet, consolidated statement of operations and consolidated statement of cash flows in conjunction with the reverse merger with CTMC. The accompanying financial statements include the accounts of the Company from September 1, 2003, and its wholly owned subsidiaries CTMC from January 8, 2003 (inception) and SCB, effective December 31, 2003. CTMC was formed on January 8, 2003 (inception), however they did not commence operations until April 1, 2003, thus, no activity has been presented for the three months ended March 31, 2003.

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

Restatement of Financial Statements

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

Interim Financial Statements

The interim financial statements presented herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The interim financial statements should be read in conjunction with the Company's annual financial statements, notes and accounting policies included in the Company's annual report on Form 10-KSB for the year ended December 31, 2003 as filed with the SEC. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary to provide a fair presentation of financial position as of June 30, 2004 and the related operating results and cash flows for the interim period presented have been made. The results of operations, for the period presented are not necessarily indicative of the results to be expected for the year.

3. RELATED PARTY TRANSACTIONS

The Company has related party payables at December 31, 2003 to a related party of $305,739. This balance, as well as additional cash funding during the period were reclassified to convertible debt - related party as of June 30, 2004.

As of June 30, 2004, the Company has a receivable of approximately $425,000 due from a related party for salaries, rent, materials and reimbursement of leasehold improvements.

The Company has related party payables - convertible at June 30, 2004 and December 31, 2003 to a related party of $1.1 million and zero, respectively. These balances outstanding were for funding operating shortfalls as well as expenses associated with Coach. In an effort to conserve cash resources the outstanding balances were transferred to convertible debt as of June 30, 2004. During the three months ended June 30, 2004, $817,650 of these notes were converted into 711,000 shares of common stock as well as an equivalent amount of warrants, with an exercise price of $2.50 per share. The remaining balance of the convertible notes will be converted into common stock and warrants during the third quarter of 2004. The conversion price is based on the lowest stock price during the second quarter, or 85% of the five day average prior to conversion.

4. Floor Plan Lines of Credit

On June 1, 2004, the Company signed an agreement with Ford Motor Company, whereby, pending certain additional authorizations, the Company would receive a $2.0 million floor plan line of credit, solely for the purchase of chassis inventory.

4. Equity

On May 19, 2004, the Company entered into a Purchase Agreement, with Fusion Capital pursuant to which Fusion Capital has agreed to purchase, subject to Coach's rights to reduce or suspend these purchases and terminate the agreement with Fusion Capital at any time, on each trading day, $12,500 of our common stock up to an aggregate purchase amount up to $6.0 million. The $6.0 million of common stock is to be purchased over a twenty four (24) month period, subject to a three (3) month extension or earlier termination at the discretion of the Company The Company issued Fusion Capital 244,900 commitment shares, valued $389,342, pursuant to this agreement. These shares are recorded as restricted stock on the Statement of Financial Condition.



5. Subsequent Event

As of August 26, 2003, the Company reserved 1.6 million shares, valued at $0.45 cents per share, for the purpose of using as agreed consideration for a potential transaction. The shares shall vest on the effective date of the aforementioned potential transaction. The shares are issued and classified as treasury stock as of June 30, 2004 and December 31, 2003. On May 7, 2004, the Company signed a letter of intent to acquire all the common stock of Go Commercial Leasing Corporation. The deal is valued at $720,000. Effective July 9, 2004, the Company consummated this transaction and issued 423,529 common shares valued at $1.70, the stated market value on the date of close.

On July 8, 2004, the Company announced the formation of CFS which is intended to provide financial services to the luxury limousine industry and the high-end automobile industry at that time. Go Commercial was merged into CFS through a reverse merger, in a stock for stock exchange.

On August 6, 2004, the company signed a letter of intent to acquire Corporate Development Services, Inc., and its affiliated companies, whereby the company will issue a combination of stock and cash . The final terms of the agreement are contingent upon various factors, including completion of due diligence. The acquisition is anticipated to close during the third quarter.

On August 7, 2004, the Company signed an agreement with GE Commercial Distribution Finance Corporation, whereby pending certain additional authorizations, the Company would receive a $2.0 million floor plan line of credit, solely for the purchase of chassis inventory.



Forward-Looking Statements

The following discussion contains, in addition to historical information, forward-looking statements regarding Coach Industries, Group, Inc. (the "Company", "CIGI" or "Coach"), that involve risks and uncertainties. The Company's actual results could differ materially. For this purpose, any statements contained in this Report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. Factors that could cause or contribute to such difference include, but not limited to, history of operating losses and accumulated deficit; possible need for additional financing; competition; dependence on management; risks related to proprietary rights; government regulation; and other factors discussed in this report and the Company's other filings with the Securities and Exchange Commission.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Summary Overview and Overall Business Strategy

Coach Industries Group, Inc. Overview and Business Strategy

Coach is a holding company which, through its subsidiaries, manufactures luxury limousines, specialty vehicles and limousine buses and sells financial services and products related to its business through its various operating subsidiaries. The Company's long-term strategy is to offer and expand our array of specialty vehicles and limousines and to offer financial services to existing customers as well as other limousine operators. The Company will actively pursue acquisition candidates that can support the expansion of these products and financial services. We currently have three subsidiaries.

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

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

Annually, the limousine manufacturing industry generates approximately $400 million in revenues through the sale of luxury limousines, specialty vehicles and limousine buses to approximately 14,000 limousine operators located throughout the United States. These limousine operators are located in the following regions of the United States: 59% in the Northeast, 16% in the Southeast, 11% in the Midwest and 14% in the West. The Company's facilities are strategically located to economically service the limousine market. SCB, because of its Midwest location, provides the Company with the opportunity to economically support customers located in the Midwestern, Southeastern and Western region of the United States. SCB's Midwestern location also provides the Company significant operating expense advantages due to lower labor and occupancy costs. CTMC's New York presence allows the Company to support the lucrative Northeastern market. CTMC personnel have extensive depth of knowledge in prototype development, modification and engineering of specialty vehicles, such as the Chrysler Sprinter and the General Motors Hummer H2. In January 2004, the Company made a strategic decision to focus SCB on manufacturing the Lincoln Town Car limousines, which represent approximately ninety percent (90%) of the market, and the Ford Excursion limousines and for CTMC to focus on specialty vehicles and limousine buses.

After our acquisition of Springfield in December 2003, we determined that the production of the various vehicles needed to be segregated as to eliminate any duplication of production processes at the CTMC and SCB facilities. Based on the manufacturing changes described above and our focus on specialty vehicle sales and production, the Company plans on expending $1.25 million on research and development during the next twelve months, in addition to the $747,665 already incurred for the six months ended June 30, 2004.

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

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

The Company has signed agreements both with Ford Motor Company and GE Commercial Distribution Finance Corporations for $2.0 million lines of credit for the purchase of chassis inventory. The agreements have not been put in place at this time however, so the purchase of chassis inventory has been and will continue to be made through related party funding arrangements. We believe that the line of credit with the supplier will be adequate to meet the funding requirements for the manufacturing facilities. In addition, the Company is negotiating with various lenders to provide floor plan financing for non-conforming chassis purchases and for vehicles that are built as showroom models. This will enable the sales force to present completed vehicles to their prospects in locations outside of the factory. In addition, Company has established a $1.6 million floor plan line of credit with a local dealership in New York. The dealership funds the purchase of chassis inventory, interest free for 90 days. The balance outstanding at June 30, 2004 was $346,352. Currently all chassis outstanding on the line of credit are under 90 days, thus no interest has been accrued for these chassis.

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

The Company has incurred losses from operations for the period from January 8, 2003 (inception) through December 31, 2003 of $1.7 million and a net loss of $1.0 million for the six months ended June 30, 2004. The Company has acquired certain assets and liabilities of Springfield effective December 31, 2003. The Company anticipates that its cash requirements will continue to increase as it continues to expend substantial resources to build its infrastructure, develop its business plan and establish its sales and marketing network operations, customer support and administrative organizations. The Company currently anticipates that its available cash resources and cash generated from operations will be sufficient to meet its presently anticipated working capital and capital expenditure requirements for the next twelve months. If the Company is unable to maintain profitability, or seeks further expansion, additional funding will become necessary. There can be no assurances that the Company can realize sufficient revenues to satisfy its business plan and further, there can be no assurance that alternative sources of financing can be procured on behalf of the Company.

The Company acquired certain assets and liabilities of Springfield effective December 31, 2003 and at that time determined that the production of the various vehicles needed to be segregated to eliminate any duplication of production processes at both facilities. CTMC personnel have extensive depth of knowledge in prototype development, modification and engineering of specialty vehicles, such as the Chrysler Sprinter and the General Motors' Hummer H2. In January 2004, the Company made a strategic decision to focus SCB on manufacturing the Lincoln Town Car limousines and the Ford Excursion limousines and for CTMC to focus on specialty vehicles and limousine buses. Based on these manufacturing changes and focus CTMC on specialty vehicles, the Company, intends to expend $2.0 million on research and development during the next twelve months, of which $747,665 has been incurred for the six months ended June 30, 2004.

In addition, the Company may incur expenses during the next twelve months due to the conversion of payables into common stock, funded by related parties to assist the Company's working capital requirements. The related party payable will be converted for warrants and common stock based on the lowest stock price during the second quarter. See further discussion below. Effective December 31, 2003, the Company, through its wholly owned subsidiary, SCB, a Missouri corporation, consummated the acquisition of certain assets and liabilities of Springfield.



As of August 26, 2003, the Company reserved 1.6 million shares, valued at $0.45 cents per share, for the purpose of using as agreed consideration for a potential transaction. The shares shall vest on the effective date of the aforementioned potential transaction. The shares are issued and classified as treasury stock as of June 30, 2004 and December 31, 2003. On May 7, 2004, the Company signed a letter of intent to acquire all the common stock of Go Commercial Leasing Corporation. The deal is valued at $720,000. Effective July 9, 2004, the Company consummated this transaction and issued 423,529 common shares valued at $1.70, the stated market value on the date of close.

The Company has related party payables - convertible at June 30, 2004 and December 31, 2003 to a related party of $1.1 million and zero, respectively. These balances outstanding were for funding operating shortfalls as well as expenses associated with Coach. In an effort to conserve cash resources the outstanding balances were transferred to convertible debt as of June 30, 2004. During the three months ended June 30, 2004, $817,650 of these notes were converted into 711,000 shares of common stock as well as an equivalent amount of warrants, with a exercise price of $2.50 per share. The remaining balance of the convertible notes will be converted into common stock during the third quarter of 2004. The conversion price is based on the lowest stock price during the second quarter, or 85% of the five day average prior to conversion.

Financial Condition - June 30, 2004 compared to December 31, 2003

Current Assets

Cash and cash equivalents. Cash and cash equivalents decreased from $91,565 at December 31, 2003 to $945 at June 30, 2004, the decrease is primarily due to the operations of CTMC and SCB utilizing cash resources to fund operations.

Total current assets. Total current assets increased from $1.5 million at December 31, 2003 to $4.1 million at June 30, 2004, an increase of $3.4 million, primarily as a result of the Company acquiring CTMC through a reverse merger and the acquisition of certain assets and liabilities of Springfield. The Company has increased operations during the six months ended June 30, 2004, thus increasing accounts receivable, net to $417,980, accounts receivable - related parties to $736,341 and supply inventory to $2.7 million compared to December 31, 2003 of $12,939, $31,593 and $1.3 million, respectively. Revenues for the six months ended June 30, 2004 were $9.1 million compared to $1.1 million for the year ended December 31, 2003, thus increasing the receivable and inventory balances.

Goodwill. At December 31, 2003 and June 30, 2004, goodwill was $2.2 million, specifically related to the acquisition of certain assets and liabilities of Springfield, effective December 31, 2003. The acquisition was valued at $2.66 million based on 2 million shares of common stock, at $1.33 per share, the closing market price on November 6, 2003. Management believes that the acquisition of certain assets and liabilities of Springfield enabled the Company's entree into the Midwestern and Western United States Markets through the Company's existing sales force, engineering expertise and management. The Company was able to assume the existing lease for the manufacturing facility in Springfield, MO which increased our manufacturing capacity and reduced the cost of distribution in those markets.

Liabilities

Accrued wages. Accrued wages increased from $32,921 at December 31, 2003 to 193,570 at June 30, 2004, the increase is primarily due to the accrued wages relating to the operations of CTMC, SCB and Coach.

Accounts payable and other accrued expenses. Accounts payable increased from $367,670 at December 31, 2003 to $1.2 million at June 30, 2004, the increase is primarily relating to the operations of CTMC and SCB. Both of these companies were fully operational for the six months ended June 30, 2004.

Customer deposits. Customer deposits decreased from $230,273 at December 31, 2003 to $101,500 at June 30, 2004. The customer deposits reflected the full costs of those cars that were not delivered until January 2004, primarily at CTMC.

Related party payable. Related party payable decreased from $305,739 at December 31, 2003 to zero at June 30, 2004, a decrease of $305,739. The decrease related to the reclassification of this balance to - convertible debt.

Notes payable-related parties. Notes payable-related parties increased from $613,659 at December 31, 2003, to $1.0 million at June 30, 2004, the increase is, primarily relating to the acquisition of certain assets and liabilities of Springfield. The notes payable - related parties is funding the purchase of chassis for the business.

Line of credit. The line of credit increased from zero at December 31, 2003 to $346,352 at June 30, 2004, primarily related to a line of credit established by CTMC with a local dealership for the purchase of chassis for production.

Total current liabilities. Total current liabilities increased from $1.7 million at December 31, 2003 to $3.0 million at June 30, 2004,. The increase is primarily attributed to operations of both CTMC and SCB, offset by the reclassification of related party payables to a convertible status.

Related party payable - convertible. Related party payable - convertible increased from zero at December 31, 2003 to $1.1 million at June 30, 2004. The increase relates to the reclassification of the $305,739 outstanding at December 31, 2003 from related party payable to convertible debt. The additional increase in the balance relates to cash funding needs at CTMC and SCB as well as expenses funded by the related party for operating expenses of Coach, offset by the conversion discussed above.



Results of Operations - For the Three Months Ended June 30, 2004 compared to June 30, 2003

Effective September 1, 2003, the Company has restated its consolidated balance sheet, consolidated statement of operations and consolidated statement of cash flows in conjunction with the reverse merger with CTMC. The accompanying financial statements include the accounts of the Company from September 1, 2003, and its wholly owned subsidiaries CTMC from January 8, 2003 (inception) and SCB, effective December 31, 2003. CTMC was formed on January 8, 2003 (inception), however they did not commence operations until April 1, 2003, thus, no activity has been presented for the three months ended March 31, 2003.

Gross revenues. Gross revenues were $4.9 million for the three month period ended June 30, 2004 compared to $208,377 for the three months ended June 30, 2003, the increase is directly related to the Company's acquisition of CTMC through a reverse merger effective September 1, 2003 and the Company acquiring certain assets and liabilities of Springfield effective December 31, 2003. Gross revenues for the period reflect revenues for both CTMC and SCB for the three months ended June 30, 2004.

Costs of goods sold. Costs of goods sold were $4.4 million for the three months ended June 30, 2004 compared to $197,934 for the three months ended June 30, 2003, primarily as a result of the Company acquiring CTMC through a reverse merger effective September 1, 2003 and acquiring certain assets and liabilities of Springfield effective December 31, 2003. The costs of goods sold for the three months ended June 30, 2004 reflect costs for both CTMC and SCB.

Operating expenses. Operating expenses were $1.0 million for the three months ended June 30, 2004 compared to $353,457 for the three months ended June 30, 2003 specifically related to the operations of CTMC, SCB and Coach as described below.

General and administrative expenses were $462,950 for the three months ended June 30, 2004 compared to $141,970 for the three months ended June 30, 2003, the increase is primarily due to the operations of CTMC, Coach and SCB. The general and administrative expenses for 2003, only reflect CTMC for the period, as they began operations during 2003 and the operations are reflected through the reverse merger.

Amortization of deferred compensation was $383,917 for the three months ended June 30, 2004 compared to zero for the same period in 2004. The Company issued stock for past and future consulting services. The Company issued 505,000 shares of restricted common stock, with a value of $858,500 to these consultants, to be earned over a period of up to one year. Sales and marketing expenses for the three months ended June 30, 2004 were $93,328 compared to $78,487 for the same period in 2003. The 2004 period reflect the operations of both CTMC and SCB.

Rent expense for the three months ended June 30, 2004 was $43,033 compared to $133,000 for the three months ended June 30, 2003. Rent expense is specifically attributed to the plant facilities in Springfield, Missouri and Bohemia, New York. During 2004, the Company subleased some of the office space and reflected a reduction in rent of $56,000.

Interest expense for the three months ended June 30, 2004 was $33,454 compared to zero for the same period in 2003. Interest expense is directly attributed to the line of credit and floor plan facilities due a related party. The interest represents interest paid on these facilities for limousine chassis, held over 90 days.

Net Loss. Net loss was $464,394 for the three months ended June 30, 2004 compared to $343,014 for the same period in 2003, primarily due to amortization of deferred compensation discussed above, offset by gross profit earned on the sale of modified chassis..



Results of Operations - For the Six Months Ended June 30, 2004 compared to June 30, 2003

Effective September 1, 2003, the Company has restated its consolidated balance sheet, consolidated statement of operations and consolidated statement of cash flows in conjunction with the reverse merger with CTMC. The accompanying financial statements include the accounts of the Company from September 1, 2003, and its wholly owned subsidiaries CTMC from January 8, 2003 (inception) and SCB, effective December 31, 2003. CTMC was formed on January 8, 2003 (inception), however they did not commence operations until April 1, 2003, thus, no activity has been presented for the three months ended March 31, 2003.

Gross revenues. Gross revenues were $9.1 million for the six month period ended June 30, 2004 compared to $208,377 for the six months ended June 30, 2003, the increase is directly related to the Company's acquisition of CTMC through a reverse merger effective September 1, 2003 and the Company acquiring certain assets and liabilities of Springfield effective December 31, 2003. Gross revenues for the period reflect revenues for both CTMC and SCB for the six months ended June 30, 2004.

Costs of goods sold. Costs of goods sold were $7.7 million for the six months ended June 30, 2004 compared to $197,934 for the six months ended June 30, 2003, primarily as a result of the Company acquiring CTMC through a reverse merger effective September 1, 2003 and acquiring certain assets and liabilities of Springfield effective December 31, 2003. The costs of goods sold for the six months ended June 30, 2004 reflect costs for both CTMC and SCB.

Operating expenses. Operating expenses were $2.5 million for the six months ended June 30, 2004 compared to $353,457 for the six months ended June 30, 2003 specifically related to the operations of CTMC, SCB and Coach as described below.

General and administrative expenses were $888,135 for the six months ended June 30, 2004 compared to $141,970 for the six months ended June 30, 2003, the increase is primarily due to the operations of CTMC, Coach and SCB. The general and administrative expenses for 2003, only reflect CTMC for the period, as they began operations during 2003 and the operations are reflected through the reverse merger.

Research and development expenses for the six months ended June 30, 2004 were $747,665. After the acquisition of certain assets and liabilities of Springfield on December 31, 2003, we determined that the production of the various vehicles needed to be segregated to eliminate any duplication of production processes at the SCB and CTMC facilities. CTMC personnel have extensive depth of knowledge in prototype development, modification and engineering of specialty vehicles, such as the Chrysler Sprinter and the General Motors' Hummer H2. Accordingly, in January 2004, the Company made a strategic decision for SCB to manufacture the Lincoln Town Car limousines and the Ford Excursion limousines and for CTMC to manufacture specialty vehicles and limousine buses.

Amortization of deferred compensation was $383,917 for the six months ended June 30, 2004 compared to zero for the same period in 2004. The Company issued stock for past and future consulting services. The Company issued 505,000 shares of restricted common stock, with a value of $858,500 to these consultants, to be earned over a period of up to one year.

Sales and marketing expenses for the six months ended June 30, 2004 were $281,205 compared to $78,487 for the same period in 2003. The 2004 period reflect the operations of both CTMC and SCB. In addition, both CTMC and SCB attended a tradeshow in February, the 2004 period reflects approximately $100,000 in expense, directly related to the tradeshow, The 2003 period reflect the attendance at the tradeshow for CTMC only.

Rent expense for the six months ended June 30, 2004 was $141,315 compared to $133,000 for the six months ended June 30, 2003. . Rent expense is specifically attributed to the plant facilities in Springfield, Missouri and Bohemia, New York. During 2004, the Company subleased some of the office space and reflected a reduction in rent of $56,000.

Interest expense for the six months ended June 30, 2004 was $52,352 compared to zero for the same period in 2003. Interest expense is directly attributed to the line of credit and floor plan facilities due a related party. The interest represents interest paid on these facilities for limousine chassis, held over 90 days.

Net Loss. Net loss was $1.0 million for the three months ended June 30, 2004 compared to $343,014 for the same period in 2003, primarily due to amortization of deferred compensation and research and development expense discussed above.

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ACCOUNTING POLICIES SUBJECT TO ESTIMATION AND JUDGMENT

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

ITEM 3. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. This evaluation was done under the supervision and with the participation of the Company's Principal Executive Officer and Principal Financial Officer. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective in gathering, analyzing and disclosing information needed to satisfy the Company's disclosure obligations under the Exchange Act.

CHANGES IN INTERNAL CONTROLS

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls since the most recent evaluation of such controls.



PART II OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None

Item 3. Defaults upon Senior Securities

None

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

None.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits:

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

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

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

32.2 Certification of Principal Financial and Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.

B. Reports on Form 8-K

On May 19, 2004, Coach Industries Group, Inc. and Fusion Capital Fund II, LLC, a Chicago-based institutional investor and entered into a $6.0 million Common Stock Purchase Agreement.

On June 2, 2004, Coach Industries Group, Inc. announced the appointment of Susan Weisman as Chief Financial Officer of the corporation effective June 1, 2004.

No other reports on Form 8-K were filed during the quarter ended June 30, 2004, for which this report is filed.

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SIGNATURES

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

Coach Industries Group, Inc.

August 16, 2004 /s/ Francis O'Donnell

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Francis O'Donnell,
Chief Executive Officer
(PRINCIPAL EXECUTIVE OFFICER)

August 16, 2004 /s/ Susan Weisman

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Susan Weisman,
Chief Accounting Officer
(PRINCIPAL ACCOUNTING OFFICER)

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