American Racing Capital, Inc.
Form 10QSB
November 13, 2007

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 QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

Commission File Number 0-29057

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

For the transition period from __________________**TO** __________________

AMERICAN RACING CAPITAL, INC.

(Exact name of registrant as specified in charter)

NEVADA	**87-0631750**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. No.)
P.O. Box 22002	
San Diego, California	**92192**
(Address of principal executive offices)	(Zip)
Issuer’s telephone number, including area code	**(800) 914-3177**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the past twelve 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 by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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

Check whether the registrant filed all documents and reports required to be filed by Sections 12, 13 or 15(d)of the Exchange Act subsequent to the distribution of securities under a plan confirmed by a court. oYes o No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: **AS OF SEPTEMBER 30, 2007 -58,682,203 SHARES OF THE ISSUER'S COMMON STOCK, $0.001 PAR VALUE PER SHARE.**

Transitional Small Business Disclosure Format: Yes o No x

PART I
FINANCIAL INFORMATION

INTRODUCTORY NOTE

FORWARD-LOOKING STATEMENTS

This Form 10-QSB contains “forward-looking statements” relating to American Racing Capital, Inc. (“ARC”) which represent ARC’s current expectations or beliefs including, but not limited to, statements concerning ARC’s operations, performance, financial condition and growth. For this purpose, any statements contained in this Form 10-QSB that are not statements of historical fact are forward-looking statements. Without limiting the generality of the foregoing, words such as “may”, “anticipation”, “intend”, “could”, “estimate”, or “continue” or the negative or other comparable termino are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, such as losses, dependence on management, variability of quarterly results, and the ability of ARC to continue its growth strategy, certain of which are beyond ARC’s control. Should one or more of these risks or uncertainties materialize or should the underlying assumptions prove incorrect, actual outcomes and results could differ materially from those indicated in the forward-looking statements.

Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

ITEM 1. FINANCIAL STATEMENTS

AMERICAN RACING CAPITAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2007
(Unaudited)

ASSETS		
CURRENT ASSETS		
Cash	$	126,305
Prepaid expenses		2,135
Accounts receivable		-
Total Current Assets		128,440
PROPERTY AND EQUIPMENT, net		15,316
OTHER ASSETS		
Goodwill		2,262,589
TOTAL ASSETS	$	2,406,345
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$	1,760,461
Convertible debt payable, net		513,223
Interest payable on convertible debt		70,680
Total Current Liabilities		2,344,364
TOTAL LIABILITIES		2,344,364
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock 10,000,000 shares authorized at $0.001 par value; 1,000,000 shares issued and outstanding		1,000
Common stock 500,000,000 shares authorized at $0.001 par value; 58,682,203 shares issued and outstanding		58,682
Additional paid in capital		11,494,485
Accumulated deficit		(11,492,186)
Total Stockholders' Equity (Deficit)		61,981
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$	2,406,345

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

AMERICAN RACING CAPITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(Unaudited)

		September 30, 2007		September 30, 2006
SALES	$	277,621	$	5,375
COST OF SALES		330,108		-
Gross Profit		(52,487)		5,375
EXPENSES				
Consulting and professional fees		86,964		5,997,869
Administrative		486,323		86,779
TOTAL EXPENSES		573,287		6,084,648
Loss from operations		(625,774)		(6,079,273)
OTHER INCOME (EXPENSE)				
Interest expense		(410,751)		(81,944)
Equity loss		-		-
TOTAL OTHER (EXPENSE)		(410,751)		(81,944)
Net loss	$	(1,036,525)	$	(6,161,217)
NET LOSS PER COMMON SHARE				
Basic and diluted	$	(0.02)	$	(0.38)
WEIGHTED AVERAGE OUTSTANDING SHARES				
Basic and diluted		46,278,801		16,391,398

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

AMERICAN RACING CAPITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(Unaudited)

	September 30, 2007	September 30, 2006
SALES	$ 277,621	$ 21,622
COST OF SALES	330,108	-
Gross Profit	(52,487)	21,622
EXPENSES		
Consulting and professional fees	4,775,050	5,999,632
Administrative	557,013	144,757
TOTAL EXPENSES	5,332,063	6,144,389
Loss from operations	(5,384,550)	(6,122,767)
OTHER INCOME (EXPENSE)		
Interest expense	(743,026)	(81,944)
Equity loss	(2,613)	-
TOTAL OTHER (EXPENSE)	(745,639)	(81,944)
Loss – before income taxes	(6,130,189)	(6,204,711)
Income Taxes	-	-
Net loss	$ (6,130,189)	$ (6,204,771)
NET LOSS PER COMMON SHARE		
Basic and diluted	$ (0.13)	$ (0.49)
WEIGHTED AVERAGE OUTSTANDING SHARES		
Basic and diluted	47,472,895	12,591,398

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

AMERICAN RACING CAPITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(Unaudited)

	September 30, 2007	September 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (6,130,189)	$ (6,204,711)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	-	788
Amortization of discount on convertible debt	510,050	69,444
Common stock and warrants issued for services	5,010,249	5,688,081
Equity loss	2,613	
Changes in operating assets and liabilities		
Accounts receivable	5,828	-
Prepaid expenses	3,327	(202,000)
Accounts payable and accrued expenses	(`157,290)	57,500
Net cash used in operating activities	(755,412)	(590,898)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in subsidiary	(250,000)	-
Net cash used in investing activities	(250,000)	-
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
Payments on notes payable-related parties	-	(6,350)
Cash in consolidated subsidiary	108,354	-
Proceeds from notes payable	1,200,000	977,050
Payments on notes payable	(200,000)	-
Net cash provided by financing activities	1,108,354	970,700
Net Increase (Decrease) in Cash	102,942	379,802
Cash at Beginning of Period	23,363	379
Cash at End of Period	$ 126,305	$ 380,181
Supplemental disclosure of cash flow information		
Common stock issued for services	$ 4,943,197	$ 84,489
Common stock issued for debt	$ 436,905	$ -
Cash paid for income taxes	$ -	$ -

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

AMERICAN RACING CAPITAL, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
September 30, 2007
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Securities and Exchange Commission requirements for interim financial statements. Therefore, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The financial statements should be read in conjunction with the Form 10-KSB for the year ended December 31, 2006 of American Racing Capital, Inc. and subsidiaries (the "Company" or "ARC").

The interim financial statements present the condensed balance sheet, statements of operations and cash flows of the Company. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

The interim financial information is unaudited. In the opinion of management, all adjustments necessary to present fairly the financial position of the Company as of September 30, 2007 and the results of operations and cash flows presented herein have been included in the financial statements. Interim results are not necessarily indicative of results of operations for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. GOING CONCERN

The Company's financial statements are prepared using generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has generated significant losses from operations.

In order to continue as a going concern and achieve a profitable level of operations, the Company will need, among other things, additional capital resources and developing a consistent source of revenues. Management's plans include raising additional operating funds from private placements of shares of its common stock.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plan described in the preceding paragraph and eventually attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Employee stock based compensation - In December 2004, the Financial Accounting Standards Board issued SFAS No. 153, "Accounting for Stock-Based Compensation". SFAS No. 153 amends the transition and disclosure provisions of SFAS No. 123. This statement supersedes APB Opinion No.25, Accounting for Stock Issued to employees, and its related implementation guidance. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). For stock options and warrants issued to non-employees, the Company applies Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, which requires the recognition of compensation cost based upon the fair value of stock options at the grant date using the Black-Scholes Option Pricing Model.

The Company issued no stock and granted no warrants or options to employees for compensation for the nine months ended September 30, 2007.

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4. SIGNIFICANT EVENTS

On July 25, 2006, the Company entered into a Securities Purchase Agreement with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (collectively, the "Investors"). Under the terms of the Securities Purchase Agreement, the Investors purchased an aggregate of (i) $2,000,000 in callable convertible secured notes (the "Notes") and (ii) warrants to purchase 10,000,000 shares of the Company's Common Stock (the "Warrants"). The Notes carry an interest rate of 6% per annum and a maturity date of July 25, 2009. Pursuant to the Securities Purchase Agreement, the Company must file a registration statement with the U.S. Securities and Exchange Commission within forty-five (45) days of the execution of the Securities Purchase Agreement. The notes are convertible into the Company's Common Stock at the Applicable Percentage of the average of the lowest three (3) trading prices for our shares of Common Stock during the twenty (20) trading day period prior to conversion. The "Applicable Percentage" means 50%; provided, however, that the Applicable Percentage shall be increased to (i) 55% in the event that a registration statement is filed within thirty days of the closing and (ii) 60% in the event that the registration statement becomes effective within one hundred and twenty days from the Closing. In addition, the Company has granted the investors a security interest in substantially all of its assets, as well as intellectual property and registration rights. In connection with the Securities Purchase Agreement, the Company issued to the Investors seven year warrants to purchase 10,000,000 shares of the Company's Common Stock at an exercise price of $0.30. The Company recorded an expense of $72,571 for the issuance of the warrants. The beneficial conversion feature attached to the convertible debt results in a discount of $2,000,000 which is being amortized over the 36 month term of the debt. The Company recorded amortization expense of $510,050 during the nine months ended September 30, 2007. The Company received the balance of $700,000 from the callable convertible secured notes during July 2007 upon the effectiveness of its form SB-2. Also during the three months ended September 30, 2007, $436,905 of the callable convertible secured notes were converted to 22,872,586 shares of the Company's common stock.

On June 10, 2007, the Company entered into a Securities Purchase Agreement. Under the terms of the Securities Purchase Agreement, the Investors purchased an aggregate of (i) $500,000 in callable convertible secured notes (the "Notes") and (ii) warrants to purchase 1,100,000 shares of the Company's Common Stock (the "Warrants") at an exercise price of $0.50. The Notes carry an interest rate of 12% per annum and a maturity date of December 11, 2007. The Company repaid $200,000 principal of the callable convertible secured notes during the three months ended September 30, 2007.

A summary of the convertible debt as of September 30, 2007 is as follows:

Convertible Debt Payable	$ 1,873,655
Discount	(1,360,432)
Net	$ 513,223

On November 21, 2006, the Company entered into a Shareholders' Agreement whereby it acquired 51% of the outstanding shares of Motorsports & Entertainment of Tennessee, Inc., a Nevada corporation. ('MET") MET in turn holds a 40% interest in LJ&J Enterprises of Tennessee, Inc., a Tennessee corporation. ("LJJ) In June 2007, the Company exercised its right to acquire up to 80% of LJJ upon payment of $700,000 by the paying the balance due of $250,000. Up to that point the investment was recorded using the equity method of accounting whereby the Company recorded a loss of $2,613 for the investment. Beginning on July 1, 2007, the Company reports the operations of MET and LJJ on a consolidated basis.

Item 2. Management’s Discussion and Analysis Or Plan Of Operation

Forward-Looking Statements and Associated Risks*. This Report contains forward-looking statements. Such forward-looking statements include statements regarding, among other things, (a)) our growth strategies, (b) anticipated trends in our industry, (c) our future financing plans, (d) our anticipated needs for working capital, (e) our lack of operational experience, and (f) the benefits related to ownership of our common stock. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words “may,” “should,” “expect,” “anticipate,” “estimate,” “believe,” “intend,” or “project” or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based largely on the Company’s expectations and are subject to a number of risks and uncertainties, including those described in “Business Risk Factors” of the Company’s Form 10-KSB for the year ended December 31, 2006. Actual results could differ materially from these forward-looking statements as a result of changes in trends in the economy and the industry, demand for the Company’s services,, competition, reductions in the availability of financing and availability of raw materials, and other factors. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this Report will in fact occur as projected. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.*

Overview

American Racing Capital, Inc. (the “Company”) was incorporated under the laws of the State of Nevada on September 8, 1998 as Mega Health Corporation. On June 23, 1999, the name of the corporation was changed to Altrimega Health Corporation (“Altrimega”). On July 25, 2002, the Company entered into a non-binding letter of intent with Creative Holdings, Inc., a South Carolina corporation “Creative Holdings”. Pursuant to that Letter of Intent and upon the consummation of a definitive agreement, Altrimega was to acquire Creative Holdings. A Merger Agreement “the Merger Agreement” was executed on August 15, 2002, between the Company, Altrimega Acquisition Company, a Nevada corporation, Creative Holdings and the shareholders of Creative Holdings. On September 2, 2002, the Company, Creative Holdings and the shareholders of Creative Holdings, Inc. amended the Merger Agreement and restructured the merger into a stock exchange transaction, whereby Creative Holdings would become a wholly-owned subsidiary of the Company. The share exchange was completed on October 17, 2002, at which time, Creative Holdings became a wholly owned subsidiary of the Company.

Pursuant to the agreement (effective retroactively as of August 15, 2002), by and among the Company, Creative Holdings and the shareholders of Creative Holdings, the shareholders exchanged with and delivered to the Company 100% of the issued and outstanding capital stock of Creative Holdings in exchange for 20,000,000 shares of common stock of the Company and 1,000,000 shares of Series A Convertible Preferred Stock of the Company. Each share of Series A Convertible Preferred Stock was convertible into 300 shares of common stock of the Company. Between December 21, 2004 and January 5, 2005, the Company entered into releases with each holder of the Company’s 1,000,000 shares of Series A Preferred Stock, which resulted in the cancellation of all of the Company’s outstanding shares of Series A Preferred Stock.

On October 17, 2005, the Company entered into a Share Exchange Agreement, by and among the Company, American Racing Capital, Inc., a Nevada company (“ARCI”) and the shareholders of ARCI, pursuant to which, the ARCI shareholders exchanged with, and delivered to the Company all of the issued and outstanding common stock of ARCI in exchange for 150,000,000 shares of the Company’s common stock and 1,000,000 shares of Series A Preferred Stock, which can be converted at any time into three hundred (300) fully paid, nonassessable shares of the Company’s common stock. As a result of the Share Exchange Agreement, on October 19, 2005, ARCI became a wholly-owned subsidiary of the Company.

On October 18, 2005, the Company entered into a Share Exchange Agreement, by and among the Company, ARC Development Corporation, a Nevada corporation ("ARCD") and the shareholders of ARCD. Pursuant to the Share Exchange Agreement, the ARCD shareholders exchanged with, and delivered to, ARC the issued and outstanding common stock of ARCD in exchange for 235,000,000 shares of the Company's common stock, and 1,000,000 shares of Series A Preferred Stock, which can be converted at any time into three hundred (300) fully paid, nonassessable shares of the Company's common stock. As a result of the Share Exchange Agreement, on October 19, 2005, ARCD became a wholly-owned subsidiary of the Company.

As a result of the above described ARCI and ARCD share exchange transactions, in October 2005, the Company adopted a new strategy which seeks to integrate race track design and development operations with a professional racing team and a national driving school network to leverage the popularity and growth of the motor sports industry.

On March 20, 2006, the Board of Directors of the Company, in lieu of a special meeting and pursuant to unanimous written consent, approved a one for one hundred (1-for-100) reverse stock split (the "Reverse Stock Split") of the Company's issued and outstanding, which became effective on March 30, 2006 (the "Effective Date"). On the Effective Date, the Company's issued and outstanding Common Stock was reduced based on the 1-for-100 ratio and the new symbol for the Company was changed to 'ANRC'.

On October 27, 2006, the Company entered in a Settlement Agreement and General Release with D. Davy Jones whereby it returned the shares of its former subsidiaries FastOne, Inc. and Davy Jones Motorsports, Inc. to Mr. Jones for 1,500,000 shares of its common stock and 1,000,000 shares of its preferred stock. As additional consideration for termination of his employment contract, the Company agreed to pay Mr. Jones $240,000 over 24 months. The Company is currently in litigation with Mr. Jones regarding the payments due under the Settlement Agreement.

Critical Accounting Policies And Estimates

Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. At each balance sheet date, management evaluates its estimates. The Company based its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The estimates and critical accounting policies that are most important in fully understanding and evaluating our financial condition and results of operations include those listed below.

Revenue Recognition

The Company recognizes revenue when services have been provided and collection is reasonably assured.

Principles Of Consolidation

On October 17, 2005, the Company entered into a Share Exchange Agreement, by and among the Company, ARCI and the shareholders of ARCI, pursuant to which, the ARCI Shareholders exchanged with, and delivered to the Company all of the issued and outstanding common stock of ARCI in exchange for 150,000,000 shares of the Company's Common Stock and 1,000,000 shares of Series A Preferred Stock, which can be converted at any time into three hundred (300) fully paid, nonassessable shares of the Company's Common Stock. As a result of the Share Exchange Agreement, on October 19, 2005, ARCI became a wholly-owned subsidiary of the Company. The shareholders of Fast One, Inc., DJ Motorsports, Inc. and ARCI became the controlling shareholders of the Company. Accordingly, the financial statements of Fast One, Inc., DJ Motorsports, Inc. and ARCI are presented as the historical financial statements of the Company.

All intercompany transactions have been eliminated.

Results Of Operations

For The Three Months Ended September 30, 2007 Compared To The Three Months Period Ended September 30, 2006

Revenues

Revenue from continuing operations for the three months ended September 30, 2007, was $277,621 as compared to $5,375 in revenues for the comparable period ended September 30, 2006. The Company disposed of its ownership of Davy Jones Motorsports, Inc. and Fast One, Inc. on October 1, 2006 while it acquired a controlling interest in LJJ in June of 2007. Beginning with July 1, 2007, the Company consolidates its investment in LJ&J accordingly its revenues are now recognized in the financial statements.

Operating expenses. Operating expenses for the three months ended September 30, 2007 were $573,287, as compared to $6,084,648, for the three months ended September 30, 2006 a decrease of $5,511,361 or 91%. The decrease is primarily attributable to the Company reducing the number of shares of its common stock issued for services. Operating expenses for the three months ended June 30, 2006 consisted of $5,997,869 in consulting and professional fees paid in connection with acquisitions being considered compared to $86,964 in the comparable period in 2007.

Net (loss). The Company had a net loss of $1,036,525 for the three months ended September 30, 2007, as compared to a net loss of $6,161,217 for the three months ended September 30, 2006 a decrease of $5,124,692 or 83%. The decreased loss of was primarily attributable to the value of the shares of common stock and warrants issued to consultants during 2006.

For The Nine Months Ended September 30, 2007 Compared To The Nine Months Period Ended September 30, 2006

Revenues

Revenue from continuing operations for the nine months ended September 30, 2007, was $277,621 compared to $21,622 in revenues for the comparable period ended September 30, 2006. The Company disposed of its ownership of Davy Jones Motorsports, Inc. and Fast One, Inc. on October 1, 2006 while it acquired a controlling interest in LJJ in June of 2007. Beginning with July 1, 2007, the Company consolidates its investment in LJ&J accordingly its revenues are now recognized in the financial statements.

Operating expenses. Operating expenses from continuing operations for the nine months ended September 30, 2007 were $5,332,063, as compared to $6,144,389, for the nine months ended September 30, 2006 a decrease of $812,326 or 13%. This increase is primarily attributable to the Company issuing fewer shares of its common stock for services. Operating expenses for the nine months ended September 30, 2007 consisted of $4,775,050 in consulting and professional fees paid in connection with acquisitions being considered and $557,013 in general and administrative expense as compared to $5,999,632 and $144,757, respectively, in the comparable period ended September 30, 2006.

Net (loss). The Company had a net loss of $6,130,189 for the nine months ended September 30, 2007, as compared to a net loss of $6,204,711 for the nine months ended September 30, 2006 a decrease of $74,522 or 1%. The Company's operations include those of LJJ on a consolidated basis beginning July 1, 2007.

Liquidity And Capital Resources

Our financial statements have been prepared on a going concern basis that contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. We have incurred losses since inception. We incurred a net loss of $6,130,189 for the nine months ended September 30, 2007, and have an accumulated deficit of $11,492,186 at September 30, 2007. As of September 30, 2007, we had current assets of $128,440 and current liabilities of $2,344,364 resulting in a working capital deficit of $2,215,924.

For the nine months ended September 30, 2007, the Company used net cash in its operations of $755,412, $250,000 cash was used in investing activities to complete the acquisition of LJ&J and $1,200,000 cash was provided by financing activities through the issuance of convertible debt.

Included in the Company's liabilities, is $1,873,655 in convertible debt net of the discount for the beneficial conversion feature. In the third quarter of 2006, the Company secured funding through the issuance of notes and warrants. On July 25, 2006, the Company entered into a Securities Purchase Agreement with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (collectively, the "Investors"). Under the terms of the Securities Purchase Agreement, the Investors purchased an aggregate of (i) $2,000,000 in callable convertible secured notes (the "Notes") and (ii) warrants to purchase 10,000,0000 sha