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STOCK REPORT - INITIATING COVERAGE

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Price: \$3.36
Symbol: RCAU.PK

Market Cap (mil) n/a

Trading Data

Fiscal Year-End	n/a
52-Week Range	1.10-4.69
Shares Out (mil)	n/a
Float (mil)	n/a
Price / Sales	n/a
Price / Book	n/a
Rev / Share	n/a
Ann Rev Grwth	n/a
Net Profit Margin	n/a
Dividend Yield	n/a
Total Cash	n/a
10 day Avg Share Vol	940,073
DJIA	12,919.40
S&P 500	1,480.93

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Rocket City Automotive Group (RCAU.PK)

Industry: Automobile Retail Services



COMPANY HIGHLIGHTS

- Rocket City owns eAutoDrop, IT Lagoon, but receiving the most press lately is CompleteAuto.
- Focusing operations around the eBay Motors solutions and software for auto retailers, RCAU has established a name for itself (and its trading symbol) as of late.
- As is obvious by reviewing the financial data to the left on this page, RCAU has not filed any financial statements and no figures are available directly from the company upon which to base investment decisions.
- Since its initial trading day on March 26, RCAU has seen its daily dollar volume fall from \$15 million on that date to about \$2 million traded yesterday.



COMPANY DESCRIPTION

CompleteAuto, a subsidiary of Rocket City Automotive Group, Inc is a preferred solution provider and offers proprietary software, personnel, and design solutions to hundreds of automotive dealerships around the country. CompleteAuto is a wholly owned subsidiary of RocketCity which was formed to acquire, manage, supervise, and operate corporations specializing in auction services, eCommerce, software development, and retail automotive operations. CompleteAuto and RocketCity believe there are enormous opportunities in the \$1 trillion dollar automotive retailing industry. The experienced management team will continue to execute strategic initiatives to maximize operations in this marketplace with their products and services.

The information and opinions in this report were prepared by Michael A. Willingham, a research analyst. Mr. Willingham is not affiliated with any NASD Broker/Dealer firms, although he has passed the NASD Series 86 & 87 Registered Research Analyst exams. Mr. Willingham has a background in professional money management and investment banking.



RCAU: Lots of Chatter for Having Been Publicly Traded for only One Month

Rocket City Automotive (RCAU) has been traded on the Pink Sheets market since March 26, 2007, on which date the stock traded over \$15 million of dollar volume. Creating a huge buzz around the stock and leaving many, including industry professionals, bickering over whether the company is “real” or not. The barrage of press releases issued by the company is paired with numerous promotional houses disclosing payment received from “ATN Enterprises”.

On the other hand, with so much news being disseminated from the company, some investors have had a hard time not buying into the RCAU idea. Recently the company has announced seemingly positive comments discussing a 75% reduction of insider-held outstanding shares, along with a recent press release on a finalized \$10 million funding. Announcements such as these mixed in with continually peppered news about expanded territories and ongoing expansions lead retail investors to believe something may take RCAU where they hope it will go.

It’s “hope” that investors need, mostly since definitive disclosure and documentation is not likely. RCAU has traded in the public market for less than one month and trades on the Pink Sheets exchange. With little to no reporting requirements, RCAU can trade while listed on the Pink Sheets while not being held to an expectation of transparency. This, of course, is to the detriment of the investors and traders who happen to own RCAU.

Of the other research notes on the street focused on RCAU, “Market Advisors Research” seems to be the most preposterous boasting a price target of \$7.25 with absolutely no valuation analysis or reasoning. To quote the report:

*“Our target price of \$7.25 is based on the current trading price of \$3.24.”
- Market Advisors Research*

This “research” company would be better served to disclose the details behind the valuation method in order to sidestep the heavy scrutiny brought on by the publication of this type of opinion. But alas, no analyst name or contact information is disclosed on the RCAU report, making it difficult to ever address the comments from the report itself. It was disclosed, however, that \$5,000 was paid by Dana LLP, Inc for the report.

Also putting out research on RCAU was Beacon Equity Research the day after the company began trading, denoting a “Speculative Buy” rating on the stock. In hindsight, Dr. Sula of Beacon made a good call upon publishing his report at \$1.80 per share, with the share price rising as high as \$4.69 (or 160% higher) in the four weeks since the completion of the research. The Beacon report should be congratulated for the way it steered clear of the temptation to forecast any price target at all and simply stick with the “Speculative Buy” rating seemingly based purely on the momentum opportunity presented in the stock. Whatever the reason, it seems to have worked out. Beacon disclosed \$7,000 compensation from ATN Enterprises for the completion of the report.

On the other side of the coin is StockLemon aka Citron Research, who admitted during an interview on MN1.com he was short RCAU shares at the time. As would be the expected argument from someone with a short interest, Andrew from StockLemon questioned the sustainability of the elevated price per share and was adamant that the current trading range does not accurately reflect a commensurate market capitalization for such a company. In response to this, RCAU has since announced a reduction in the outstanding shares owned by insiders in an attempt to counteract the effect of this comment. In published comments, StockLemon is also very condemning of the fact RCAU has not filed a 15c2-11 with the NASD, and also makes note of the negative \$10,692 RCAU cash position at December 31, 2006.

The Lemon also claimed “stock fraud” on RCAU after the company announced in a press release their \$150 million revenue estimate for the two years ended 2008. Clearly more concerned with the fundamentals of such a company, not to mention his existing short position, Andrew from StockLemon was more apt to discuss the negative characteristics and why the company doesn’t have long-term prospects to maintain this price level based on his findings.



So now, who do you believe?

- ❖ The guys who put out research notes to the positive side...
 - ✓ who happen to have been paid to complete their research and give no verifiable reasoning for their disposition?
- ❖ Or the guys who say the company doesn't have a chance and the price should fall like a rock...
 - ✓ who happen to hold a short position in RCAU?

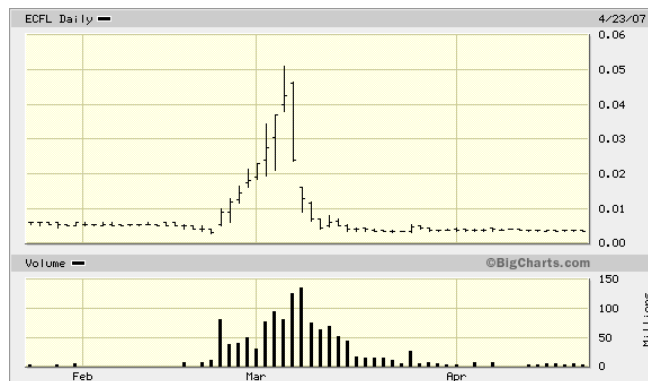
In stocks such as this, I like to rely on purely technical analysis and focus on the quantitative metrics, rather than trying to discern if the company will actually trade at a reasonable P/E multiple someday. Given this, a few rules are worth noting:

1. There is no use in putting a price target on the stock, as no one can tell where the market forces can take the price and no way to determine when the ride is over.
2. If you are already long the shares, watch the downside risk potential by playing your position by monitoring the trading for a reasonable exit point – use trailing stops when possible.
3. If you are contemplating taking a long position, watch the trading very closely to attain an advantageous entry point into the stock, thereby necessitating your consideration of point #2 above.
4. If considering a short position in the stock, ensure you have a liquid cash position to cover if squeezed at any time.

Why exactly do I mention these rules for trading RCAU? Without much verifiable information from the corporation, traders and speculators are left with limited information with which to make decisions. I've watched penny stocks on aggregate, many of which are in this exact position of trading at seemingly inflated current prices but with the opportunity to possibly trade higher based on factors entirely unknown and entirely impossible to know. How can you as a trader know if one of the insiders who holds large blocks of freely traded shares will lay into the bids tomorrow or lay off and let it rise... you don't! And in the absence of clear cut reasons to hold the position for the longer term, traders must look to profit in the short run.

In examining the RCAU situation with the operations of CompleteAuto in the online auto industry and the shares trading a very unusually high dollar volume at potentially over-inflated prices, I'm reminded of another stock I've watched closely in the recent past. In late February and early March of this year Ecarfly (ECFL) shares soared 1600% over a period of eight trading days before giving back 92% over the following 4 days.

Beyond the business and trading similarities between ECFL and RCAU, an examination of internet domain research at Whois.net yielded some interesting similarities. Shown as the founder of CompleteAuto, Joerg Dobisch shows as registrant for www.RocketCityAuto.com, and J Dobisch Consultants shows as registrant for www.CompleteAuto.com. If this person is the founder of CompleteAuto, neither of these entries is overly surprising. But when researching www.Ecarfly.com, I felt eerily validated to find the e-mail contact for ECFL CEO Desmond Milligan listed as jdobisch@jdobisch.com. Are these entities even loosely connected? You decide as I leave you with a historical chart of the ECFL trading pattern I described above.



Sources

Thomson, EDGAR Online, Pink Sheets, Yahoo Finance, www.MN1.com, MarketWire, BusinessWire, Beacon Equity Research, Market Advisors Research, Citron Research, BigCharts.com

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